



01 March 2010

Our ref: ICAEW Rep 18/10

Your ref:

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Dear Phil

### **Consultation on revised guidance on internal controls**

The Institute operates under a Royal Charter, working in the public interest. Its regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the Financial Reporting Council. As a world leading professional accountancy body, the Institute provides leadership and practical support to over 132,000 members in more than 160 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained. The Institute is a founding member of the Global Accounting Alliance with over 775,000 members worldwide.

The Institute of Chartered Accountants in England and Wales (ICAEW) is pleased to respond to your request for comments on the Consultation on revised guidance on internal controls.

The consultation paper explains that the feedback obtained from your workshop indicated that there was an appetite for more practical, less theoretical guidance. In particular the guidance should provide a little more clarity about the regulator's expectations. We are in favour of this, however we have a general concern that the document is overly prescriptive and the tone is such that it reads as requirements by the Regulator rather than guidance.

The guidance, in some areas, suggests a raising of the bar that might extend beyond current regulatory requirements. For example, paragraphs 147 onwards regarding defined contribution schemes might be interpreted as requiring schemes to do more than they already are doing or indeed should, in particular where to draw the line between providing information that members needed as a basis for decision

making, and giving investment advice. The guidance would benefit from explicit statement that trustees are not expected to provide investment advice.

We also have a concern that if the examples in the guidance are seen as setting an expectation for all schemes, member nominated trustees might consider the guidance unrealistic and in particular trustees of smaller pension schemes might be discouraged and resign, or not seek appointment in the first place.

Table 1 on page 15 suggests that trustees might "voluntarily disclose to members a statement on their assessment of key risks and internal control procedures, for example in their annual report and accounts". It is our view that if a statement is to be added to the trustees' report, this should be dealt with in disclosure regulations (with an associated impact assessment statement) and not in a paper providing "guidance" on how to apply existing regulatory disclosure requirements.

We disagree with the impact assessment statement. Given the degree of prescription, there will be an impact, especially for smaller schemes. For example, lay trustees of schemes who are already complying will almost certainly incur adviser costs, in order to interpret or comprehend the new guidance and make a judgement as to whether they are complying.

If the Regulator is to continue to claim "no significant additional costs" in the impact assessment statement, it should soften the tone where possible (for example, by including some of the statements from other guidance such as 'this is only guidance' in the Funding guidance), or add explanatory text to reassure trustees that these are examples, not requirements.

Finally, we would suggest more focus in the guidance on how schemes might use their risk register for monitoring risks and focusing on greater risks and thereby deciding which risks should be given priority.

Please contact me should you wish to discuss any of the points raised in the response.

Yours sincerely

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