


CAPITA HARTSHEAD

Summary of AAF 01/06



Assurance Report on internal controls
for the year ended 31 March 2011

CAPITA HARTSHEAD



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*These sections are only available in the full version of the report, which can be requested via www.capitahartshead.co.uk.

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June 2011 commissioned and published by Capita Hartshead.

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1.0

Introduction

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year ended 31 March 2011

In order to provide a high level of service, it is key that Capita Hartshead establishes and maintains a strong control and compliance environment throughout the whole of the organisation.

To this end, business risks are identified and control procedures put in place. This, our fifth AAF 01/06 Report, details the methods we use to run our business and control our risks – the control environment, control objectives and control procedures are detailed in this report and available to all our clients and their auditors.

The technical release AAF 01/06, which discusses assurance reports on the internal controls of service organisations, issued by the Audit and Assurance Faculty of the Institute of Chartered Accountants in England and Wales, sets out the framework on which this report is based.

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2.0

Report by
directors

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As the directors of Capita Hartshead, a division of The Capita Group Plc (Capita), it is our responsibility to identify our control objectives and processes and how we meet each of these on an ongoing basis.


This report demonstrates what these controls are and how successful we are in meeting our objectives, as assessed by KPMG Audit Plc. It details the relevant control procedures together with the related control objectives which operated during the period 1 April 2010 to 31 March 2011. **We can confirm that:**

- (i) The report describes fairly the control procedures that relate to the control objectives which were in place as at 31 March 2011;
- (ii) The control procedures described are suitably designed to provide reasonable assurance that the specified control objectives would be achieved if the control procedures were complied with satisfactorily; and
- (iii) The control procedures described operate with sufficient effectiveness to provide reasonable assurance that the related control objectives were achieved during the specified period.

This report assesses the effectiveness of our control procedures against the Institute of Chartered Accountants in England and Wales Technical Release AAF 01/06 and the criteria for pensions administration and information technology set out therein with the exception of the following control objectives which are not applicable:

- (i) Scheme documents are complete, up-to-date and securely held – Capita Hartshead does not hold all original documents.
- (ii) Contributions are recorded in accordance with scheme rules and relevant legislation. Part of the control objective in relation to the 'relevant legislation' does not apply here because trustees and employers are responsible for ensuring that contributions are received in accordance with relevant legislation.

- (iii) Information technology – "Physical access to computer networks, equipment, storage media and program documentation is restricted to authorised individuals" and "Data and systems are backed up regularly, retained offsite and regularly tested for recoverability". These controls are handled by a managed service contract outside of Capita Hartshead.



Mike Addenbrooke
Managing Director

Signed on behalf of the Board of Directors
31 May 2011

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3.0

Structure
of Capita
Hartshead

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Directors responsible for controls detailed in this AAF 01/06 Report



Initially established to administer the Local Government Pension Scheme on behalf of the ten regional water authorities in 1974, Capita Hartshead became part of The Capita Group Plc (a FTSE 100 company) in 1997.

Since 1974, the company has significantly expanded the number and variety of schemes it administers, to include:

- Private sector schemes.
- Public sector schemes.
- Defined Benefit (DB), Defined Contribution (DC), Hybrid and CARE schemes.
- Industry-wide and centralised schemes.
- Life and pensions back-office administration.

35

This is the number of years we have been providing pensions administration and management services to both the private and public sectors. This wealth of experience, coupled with our innovative and professional approach to providing an excellent tailor-made service means we have become a trusted name in the industry.

550

This is the number of clients we have. We provide individually tailored services to our clients based on their specific needs. To help us do this, we have an internally developed and fully integrated administration software system, HartLink.

3.7 million

This is the number of member lives we look after on behalf of our clients. Each and every member is of equal importance to us.

98%

This is our client retention rate which is testament to the high level of service we provide, founded on the principles of flexibility and reliability.

Sustained business growth, acquisition and the organisational changes within the wider Capita Group have continued to broaden Capita Hartshead's range of services, which include:

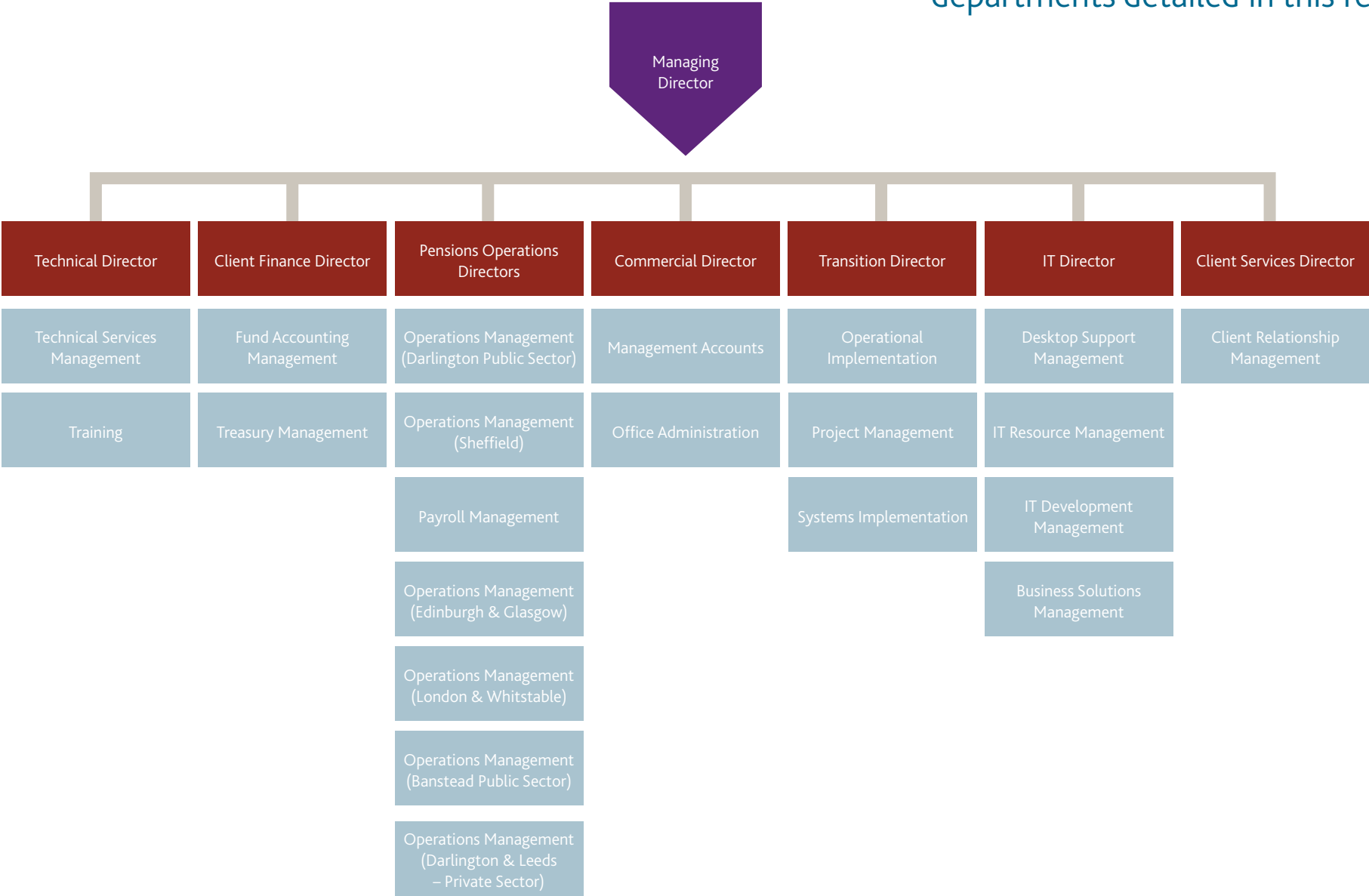
- Pensions administration.
- Full "bundled" consulting services.
- Actuarial services.
- Investment consulting.
- Pension and benefit consulting and advice.
- Management consulting.
- Scheme secretarial services.
- Transition management.
- Information technology services.
- Member engagement and scheme communications.

- Independent trustee reviews and trustee training.
- Risk management.
- Annuity broking.
- Group Personal Pension and Stakeholder arrangements.
- Pension scheme wind-up.
- Pension Protection Fund preparation and administration.

For the last eighteen years, Capita Hartshead has commissioned a national Annual Pension Scheme Administration Survey and the published results are a valued source of information for the industry.

The 2011 edition will be available at www.pensionsadminsurvey.co.uk from September 2011.

Organisational structure of departments detailed in this report



Management groups

The management and monitoring of our teams is paramount to the efficient running of the business so we have key management groups who are responsible for reviewing performance and ensuring that effective strategies are in place in order to achieve the broader business objectives. These key management groups are:

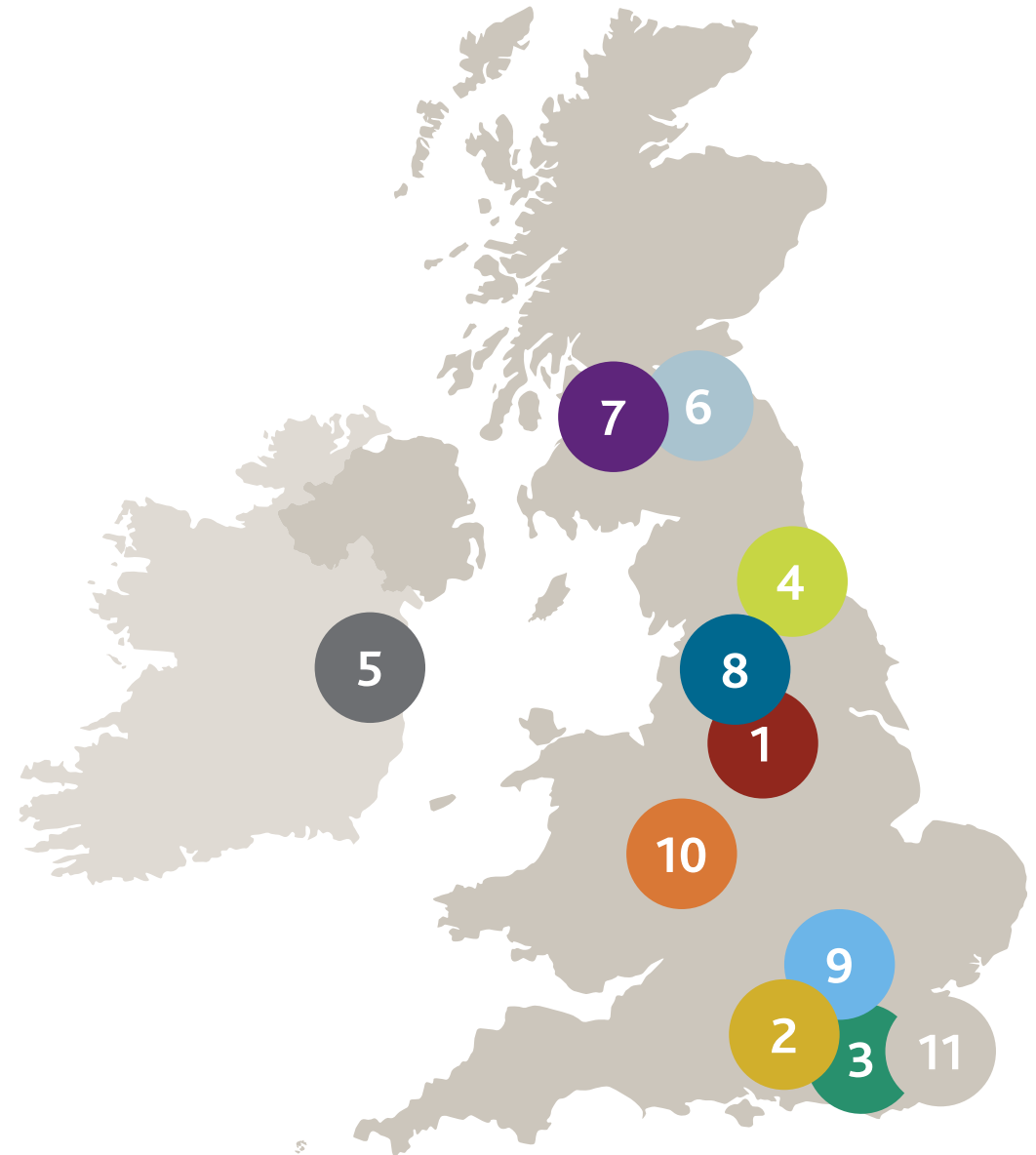
- Directors, through monthly Board Meetings.
- Senior Managers, through regular Operational Review Meetings.
- Departmental Managers, through regular Quality Meetings.
- IT User and Development Forums.

Our offices

We have a total of 12 offices in the UK and Ireland, each with pensions administration capabilities, but some also have IT, technical, accounting and finance, payroll, implementation, consultancy, and audit teams. Our head office is in Sheffield where the business first started out in 1974. Sheffield supports our other offices to provide ancillary services to their own clients.

We have offices in:

1. Sheffield	7. Glasgow (x2)
2. Banstead	8. Leeds
3. Basingstoke	9. London
4. Darlington	10. Telford
5. Dublin	11. Whitstable
6. Edinburgh	



Summary of services

Pensions operations

Specialist teams at each office deal with DB, DC, CARE or Hybrid schemes, responsible for the day-to-day administration of the schemes.

All case work and procedures are underpinned by ISO-compliant work instructions and service level agreements to ensure the efficient running and timely completion of each project. Each operations team has a projects team which works on annual projects such as benefit statements, leaving the rest of the team free to handle other casework and member enquiries.

Finance

Led by fully qualified accountants, our finance team provides clients with a range of services, including quarterly, half-yearly and year-end accounts, daily treasury monitoring, monitoring the receipt and investment of contributions, investment monitoring and the preparation of self-assessment tax returns.

Technical services

Technical services support the operational, consultancy and actuarial business areas to ensure that Capita Hartshead operates within the boundaries of legislation. The teams send out regular updates to staff regarding changes in pensions legislation and also design and implement our in-house training.

Information technology

This department is responsible for the design, development, maintenance and support of all systems used by Capita Hartshead. HartLink has been developed in-house to ensure that we are always in control of development and change. It includes fully integrated workflow management, document management and letter generation as well as a wide range of real time internet self service facilities for members, employers and trustees.

The IT department is divided into five distinct teams:

- HartLink Development.
- Client Systems.
- Applications Development.
- Special Projects.
- Payroll & HartLink Support.

We outsource our infrastructure to Capita IT Services. As part of this service, all data systems are backed up on a daily basis and all backed up data is replicated on a continual basis to a separate disaster recovery site.

Transition department

This department is responsible for the implementation of all new clients into Capita Hartshead's business. Rigorous data analysis and extensive testing ensures that all member records are transferred efficiently, accurately and securely with an experienced Project Manager in charge of each project using PRINCE 2 (PProjects IN a Controlled Environment) methodology.

Pensions payroll

This department is responsible for all pension payments and carries out all necessary liaison with HM Revenue & Customs, as well as providing year-end documentation and managing all authorised money transfers. This means that clerical input from our clients can be kept to a minimum.

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Control
environment

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The directors of Capita Hartshead are committed to maintaining a strong control environment throughout the company.

Risk management

We seek to understand and manage the risks of our own operations, and also those of our clients, approaching each contract as an individual case. Such an important part of the business is given due attention and supported through an integrated risk management approach which uses The Capita Group plc risk management framework. The framework is based on four risk types: strategic, financial, operational and compliance.

A dedicated Risk Committee holds monthly meetings to review and challenge governance and risk-related items. The Risk Committee is made up of a sub-group of the Strategic Executive Board and Operational Board Directors who look at top risk reports, audits, Group policies, regulatory compliance, client cash flow and various Key Risk Indicators via the monthly "Risk Dashboard" and Treating Customers Fairly (TCF) reports.

Supported by the 'Operational Risk and Compliance' functions, the Risk Committee has responsibility for the following areas:

- Risk management and reporting.
- Anti-money laundering.
- Business continuity and disaster recovery.
- Conflicts of interest.
- Data protection and information security.
- Fraud prevention.
- Freedom of information.
- Investor in Customers.
- Investors in People.
- ISO 9001:2008 (quality management system).
- Preventative actions.
- Treating Customers Fairly (TCF).
- Whistle-blowing.

Continuous improvement and best practice

We are certified under BS EN ISO 9001, the International Standard for quality management systems, and as part of ISO 9001, we maintain a process of review and continual improvement so that our excellent service standards continue to be met.

Internal and external monitoring

Internal reviews of work practices and procedures are carried out on a continuing basis by Capita Group Business Assurance. It is their job to review the work being carried out and to make recommendations for improvement where appropriate.

External audit of the quality management system processes and procedures is undertaken by the independent ISO 9001 assessment body, British Standards Institute. Financial controls and procedures are also subject to regular review and testing via audits undertaken by external firms of accountants and registered auditors or internal auditors acting on behalf of certain clients.

Quality systems and documentation

Core business processes are controlled by detailed procedures in a Quality Procedures Manual and supporting documentation and service level agreements are agreed with trustees at the start of each contract. These are then set up and monitored using Capita Hartshead's CaseLink system. This system provides a range of information to ensure tight control of casework and accurate, timely responses.

Information technology

Across the business, each member of staff is given a unique password to access computers and systems, the security of which is ensured by a forced change of password by the system. Allocation of a user type to every computer user, or group of users, controls the level of access allowed to the various parts of the system and to individual records. This ensures access control over specific record types as well as restricting users' ability to view only, update or authorise changes to records.

Any changes to systems data are recorded on the system, along with details of the date, time and user who performed the change, leaving a full audit trail. All changes may be "replayed" on screen, showing exactly what has happened to each case and data record through its lifetime. It is a requirement that all changes must be checked and authorised by a senior user.

Capita Hartshead is registered under the Data Protection Act 1998 as a data controller for the purposes, amongst other things, of pensions administration.

Business continuity

Business Continuity Management ensures the development and maintenance of business continuity throughout Capita Hartshead. The Business Continuity Manager is responsible for the following key areas:

- Business continuity management process.
- Business impact analysis.
- Recovery strategies.
- Developing and implementing Continuity Plans.
- Testing, maintaining and reassessing Continuity Plans.
- Training and awareness programme.

Using this process means we can identify and reduce risks, limit the consequences of damaging incidents, and ensure the timely resumption of essential operations. Business Continuity Plans are tested annually and reviewed quarterly or whenever significant changes are made to the business processes or technical infrastructure.

All offices have access to the Capita Group network so that all employees can gain access to data, ensuring continuity of administration and payroll processing. The Capita Hartshead Business Continuity Management System has been formally assessed against the Business Continuity Standard BS 25999 with our offices in Darlington and Sheffield audited by the British Standards Institute and certified in December 2009.

Staff training and development

Our pensions administration staff are actively encouraged to obtain formal qualifications in the pensions field – this commitment to learning means that almost 550 staff hold formal qualifications with another 150 currently studying towards such qualifications. To support efforts in this area, we teamed up with the Pensions Management Institute in 2010 to create two new knowledge based qualifications for pension administrators. So far, seven Capita Hartshead employees have completed the five modules required to attain the Award in Pensions Essentials. A further 51 are studying to achieve this award. 37 employees have applied for the second-level Certificate in Pensions Essentials and one employee has already achieved this.

In addition, all members of staff are given individual objectives and training plans and their performance is reviewed annually against these objectives. All Capita Hartshead's offices are covered by the corporate Investors in People standard.

Our offices are registered QPA (Qualification in Pensions Administration) assessment sites and we have a number of staff who are qualified members of the Pensions Management Institute, Chartered Insurance Institute, Institute of Actuaries, Institute of Chartered Secretaries and Administrators, Association of Chartered Certified Accountants, Chartered Institute of Management Accountants, Institute of Chartered Accountants and Institute of Payroll and Pensions Management. This means we can keep up-to-date with the latest developments in the world of pensions.

Client liaison

The relationship we have with our clients is paramount to the success of projects, so a client manager is assigned to work with each client on a day-to-day basis. The client manager's responsibilities include:

- Maintenance and review of the key performance indicators specified within a contract.
- Discussing and actively seeking feedback on performance to enable effective monitoring of the quality of services being provided.
- Attending trustee meetings and presenting regular administration reports.
- Ensuring that all client-specific issues are communicated to the relevant operations team.
- Ensuring that all complaints and compliments from clients are fully documented, investigated, evaluated and monitored by the independent complaints team.
- Agreeing service improvements with clients and ensuring that clients obtain the full benefit from new services.

We also facilitate Client Forums where representatives from a number of clients across the business have the opportunity to share experiences and best practice, ensuring a more co-ordinated approach to client care across the business.

Disaster recovery

Our disaster recovery facilities are provided in three ways:

- All mid-range hardware is supported by a maintenance contract with a target replacement time of four hours.
- Resilience is provided by the clustering of two identical server machines at the same site, either of which is able to access the necessary data in the event of one failing.
- The clustered configuration is replicated at another one of Capita's data centres, to which all back-up media are reciprocally despatched within 24 hours. Either centre can, therefore, be operational within 24-48 hours of the other becoming inoperable.

Legislative compliance

The Technical department ensures members of staff are kept informed of all regulatory and legislative changes by issuing technical updates via email and on the intranet.

Group Compliance ensure that Capita Hartshead has in place the necessary controls, structures and procedures to meet the regulatory requirement of the Financial Services Authority (FSA) on our business operations.

New business implementation

Our processes cover the acquisition of new business, as well as the take-on of new clients and schemes. Thorough testing is carried out to control the migration of data from existing systems.

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Control objectives

Summary of control objectives

The following pages outline the control objectives covered in this report, divided into sections as follows:

Pensions administration:

- Accepting clients.
- Authorising and processing transactions.
- Maintaining financial and other records.
- Safeguarding assets.
- Monitoring compliance.
- Reporting to clients.

Information technology:

- Restricting access to systems and data.
- Providing integrity and resilience to the information processing environment, commensurate with the value of the information held, information processing performed and external threats.
- Maintaining and developing systems hardware and software.
- Recovering from processing interruptions.
- Monitoring compliance.

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Summary of control objectives

Pensions administration

Accepting clients

- Accounts are set up and administered in accordance with client agreements and applicable regulations.
- Complete and authorised client agreements are operational prior to initiating administration activity.
- Pension schemes taken on are properly established on the system in accordance with the scheme rules and individual elections authorising and processing transactions.

Authorising and processing transactions

- Contributions to DC plans, DB schemes, or both, and transfers of members' funds between investment options are processed accurately and in a timely manner.
- Benefits payable and transfer values are calculated in accordance with scheme rules and relevant legislation and are paid on a timely basis.

Maintaining financial and other records

- Member records consist of up-to-date and accurate information and are updated and reconciled regularly.
- Contributions and benefit payments are completely and accurately recorded in the proper period.
- Investment transactions, balances and related income are completely and accurately recorded in the proper period.

Safeguarding assets

- Member and scheme data is appropriately stored to ensure security and protection from unauthorised use.
- Cash is safeguarded and payments are suitably authorised and controlled.
- Access to premises is controlled.

Monitoring compliance

- Contributions are received in accordance with scheme rules.
- Services provided to pension schemes are in line with service level agreements.
- Transaction errors are rectified promptly and clients are treated fairly.
- Staff are appropriately trained in all the latest technical and legislative matters relating to pensions.

Reporting to clients

- Periodic reports to participants and scheme sponsors are accurate and complete and provided within required timescales.
- Annual report and accounts are prepared in accordance with applicable law and regulations.
- Regulatory reports are made if necessary.

Information technology

Restricting access to systems and data

- Logical access to computer systems, programs, master data, transaction data and parameters, including access by administrators to applications, databases, systems and networks, is restricted to authorised individuals via information security tools and techniques.
- Access to all interactive client websites developed in the year for certain schemes is restricted to appropriately authorised scheme members.
- Segregation of incompatible duties is defined, implemented and enforced by logical security controls in accordance with job roles.

Providing integrity and resilience to the information processing environment, commensurate with the value of the information held, information processing performed and external threats

- IT processing is authorised and scheduled appropriately and exceptions are identified and resolved in a timely manner.
- Data transmissions between the service organisation and its counterparties are complete, accurate, timely and secure.
- Appropriate measures are implemented to counter the threat from malicious electronic attack (e.g. firewalls, anti-virus software, etc).
- The physical IT equipment is maintained in a controlled environment.

Maintaining and developing systems hardware and software

- Development and implementation of new systems, applications and software, and changes to existing systems, applications and software, are authorised, tested, approved and implemented.
- Data migration or modification is authorised, tested and, once performed, reconciled back to the source data.

Recovering from processing interruptions

- IT hardware and software issues are monitored and resolved in a timely manner.
- Business and information systems recovery plans are documented, approved, tested and maintained.

Monitoring compliance

- Outsourced activities are properly managed and monitored.

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