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Private & confidential

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Contact Anne Rodriguez
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Dear Mr Billing

KPMG response to the consultation – Proposal to revise Practice Note 15: The Audit of Occupational Pension Schemes in the United Kingdom

We welcome the opportunity to comment on the FRC's consultation 'Proposal to revise Practice Note 15: The Audit of Occupational Pension Schemes in the United Kingdom'.

General comments:

In order to minimise divergent practices, it is helpful for the Practice Note (PN) to offer guidance concerning the practical application of the ISAs (UK) to pension schemes and their particular circumstances. We note that under ISA 570 the audit report is required to make explicit reference to the auditors' assessment of going concern for 12 months from the date of signing the audit report. This is a change to the current presentation of the audit report and it would be helpful for PN 15 to include this in its guidance.

Some particular aspects where we anticipate guidance may be helpful for auditors and trustees are:

- It would be helpful if the PN offered guidance to scheme auditors in determining the cut-off point in recognising the scheme as a going concern, i.e. when the trustees might have an 'intent' to wind up or 'no realistic alternative' but to do so. It could also provide guidance on the circumstances under which a material uncertainty over going concern may exist – these are required to be disclosed by the trustees in the financial statements and referred to by the auditor in the audit report. Given that the power to trigger wind up normally rests with the employer, we would suggest the PN provides guidance on what trustees and auditors need to consider at the time of signing the accounts when assessing whether they either intend to wind up the scheme, or have no realistic alternative but to do so.
- The employer may be making plans to close the scheme to future accrual in the next twelve months, but has not formally disclosed these plans to the trustees or notified its employees. Or it may have notified the trustees of this on an informal confidential basis, but not yet carried out the appropriate consultations with its employees. In this scenario, significant issues for the employer may be created if the trustees issue scheme financial statements

referring to the expected wind up. This may also conflict with completing pension scheme audited accounts with the 7 month statutory deadline.

- If the employer is in financial difficulties, but not yet insolvent, and is meeting its obligations to pay contributions to the scheme; and
- Scheme restructuring and mergers.

Response to consultation questions:

Q1 – Overall do you agree with the proposed revisions to the Practice Note? If not, please explain why.

Agree. The Practice Note is more concise and considers only those areas where application of the ISAs for pension schemes may differ from that for commercial entities.

Q2 – Is the included guidance appropriate? If you believe it should be amended please explain why and how.

Yes, subject to the comments made above in relation to ISA 570.

Q3 – Has any extant guidance been deleted that you believe should be retained? If yes, please explain why it should be retained and whether, and if so how, it should be updated.

No.

Q4 – Are there any other matters in relation to the audit of occupational pension scheme that you believe should be covered in the Practice Note and, if so, what do you believe the guidance should address?

We believe that reordering the statement on contributions to present the opinion section first would be more consistent with the format of the audit report under the new ISAs (UK). It would be helpful if the PN included examples drafted in compliance with this revised format.

If you have any queries in relation to this response, please contact Anne Rodriguez on 0207 311 6642.

Yours sincerely



Anne Rodriguez
Senior Manager