

Keith Billing
Project Director
Financial Reporting Council
8th Floor
125 London Wall
London
EC2Y 5AS

By email only to: AAT@frc.org.uk

30 June 2017

Dear Mr Billing

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

Thank you for the opportunity to respond to these proposals. We support the revision of Practice Note 15 and welcome the shorter, more focused and user friendly style. We would also encourage this approach to be taken for future revision of other practice notes. We also note the proposed withdrawal of Practice note 22 and the need for these proposed revisions to Practice Note 15 to be aligned with any future guidance to employer auditors, to consistently address where the risks lie when auditing Pension assets.

Our responses to the FRC's detailed questions are set out in appendix 1 to this letter and we have included some detailed drafting comments in appendix 2.

We would be happy to discuss our letter and the draft proposals with you. If you have any questions, please contact Mark Redfern (020 7007 7022 or mredfern@deloitte.co.uk).

Yours sincerely



Deloitte LLP

Appendix 1 – responses to consultation questions

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

Yes, we support the proposed revisions to the Practice Note.

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

Yes, we believe that overall, the guidance included is appropriate. We welcome the shorter more simplified approach.

We note that there is no effective date. As all of the references are to ISAs (UK), we suggest the practice note should say the effective date is periods commencing on or after 17 June 2016. If not, then it needs to say that for earlier periods references to a provision of ISAs (UK) should be to the equivalent provisions of ISAs (UK and Ireland).

We would welcome more clarity and guidance around the interaction between paragraphs 55 and 57 and how the exemption on providing a statement on contributions where the scheme has more than 20 employers interacts with an earmarked scheme where there is an exemption from the requirement to prepare financial statements.

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.

We feel that it is more useful to include the complete illustrative example of the statement of trustees' responsibilities rather than the proposed reduction to the illustrative extracts of the statement of trustees' responsibilities. There is a possibility that auditors may not include relevant aspects of the trustees' responsibilities, and thus the complete version should be retained in this revised practice note.

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

We suggest that the revised Practice Note includes more guidance on Master Trusts, given their increased prominence in the sector. A particular area to cover would include situations where the auditor faces problems with reporting on contributions in the statement about contributions in schemes with multiple participating employers, but less than the exemption limit of 20 employers. Further clarification could also be given about the impact of auto enrolment in Master Trusts. Any further guidance should be aligned to the requirements of the Pension Schemes Act 2017.

Appendix 2 – Detailed comments on the proposal to revise Practice Note 15: The Audit of occupational Pension Schemes in the United Kingdom

- Paragraph 19 – This paragraph should be updated to include the Pension Schemes Act 2017 and could be extended to include the need for auditors to understand other financial services and tax legislation.
- Paragraphs 20-23 – These paragraphs should be amended to say that as well as the statutory restrictions on independence the auditor must also comply with the FRC’s Ethical Standard.
- Paragraph 36 – We suggest adding that the scheme no longer needs audited accounts once it has transferred to the PPF.
- Paragraph 53 – “...or otherwise becoming aware that the other information is apparently misstated.” should be added at the end of this paragraph based on ISA (UK) 720.11(c).
- Paragraph 61 – We suggest concluding this paragraph at “extent of funds available”.
- Paragraph 89 – We suggest adding a reminder that if there are such circumstances that have not already been reported to TPR, auditors need to consider whether they need reporting. We feel it would be unusual to have such a circumstance that doesn’t need to be flagged to TPR.
- Paragraph 93 – We suggest this list is updated to include issues that have become more prominent since the last version of the Practice Note, for example cyber security and other technology related fraud risks.
- Paragraphs 96, 99, 145 and 165 – These paragraphs touch on the potential fraud risks around benefit payments and the higher risk around complex benefit structures. Whilst these risks may not be quantitatively material in any one period, they are areas that are prone to error or could be indicative of fraud, and could be qualitatively material or the cumulative effect of fraud or error in this area could become quantitatively material. We therefore suggest the inclusion of more guidance in this area, and examples of potential fraud scenarios to aid the auditor in identifying possible risks and responding appropriately.
- Paragraphs 97 and 98 – We suggest the order of these paragraphs is swapped. 98 seems to be the reasoning for rebuttal, whilst 97 is a reminder to document reasons for rebuttal.
- Paragraph 108 – This paragraph should be updated to include the full powers of the Ombudsman, as we understand them to be more than just recommendations.
- Paragraph 109 – The inconsistent capitalisation of anti-money laundering legislation needs to be resolved.
- Paragraph 119 – This paragraph should be part of paragraph 118. Paragraph 118 should probably also say “... is an implied or explicit term...” as many engagement letters specifically call out confidentiality.
- Paragraph 149 – This paragraph could be shortened as follows: “Where relevant, the scheme auditor’s plan also takes account of... payment of contributions.”
- Paragraph 177 – “Audit Faculty” should be “Audit and Assurance Faculty”.
- Paragraphs 178, 180 and 204 – We suggest amending the terminology used here to “service auditor’s report” and being consistent between the three paragraphs noted.
- Paragraphs 180 and 182 – We suggest more clarity and guidance is included on the interaction between these two paragraphs. Both appear to be talking about non-coterminous year ends but paragraph 182 seems more prescriptive than 180. As currently set out, it is not clear about planning procedures to be considered versus procedures performed later in the audit, as it would be beneficial for the auditor to consider the need for a bridging letter or alternative procedures at the planning stage of the audit. A potential solution would be to make the heading “Non-coterminous reporting periods” a sub heading of “Planning considerations”.
- Paragraphs 187 and 231 – There is inconsistency between these paragraphs in terms of the examples given of trustees’ experts versus auditors’ experts. This could give misleading guidance to an auditor about areas where trustees feel the need to engage an expert but potentially would not need the auditor to consider the need to engage their own expert and vice versa.
- Paragraph 201 – We suggest removing the date for PN 23, then if PN 23 changes (for example because of the IAASB’s proposal to revise ISA 540), it would not require future amendment to this Practice Note.
- Paragraph 241 – Paragraph 241 more logically belongs between paragraphs 243 and 244.
- Appendix 3 – We suggest reordering the contributions opinion in the way the financial statement opinion has been under ISA (UK) 700 (Revised).