

April 2017

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

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CONSULTATION PAPER AND IMPACT ASSESSMENT

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

Objective

The Financial Reporting Council (FRC) proposes, subject to consultation, to issue a revised version of Practice Note 15: *The Audit of Occupational Pension Schemes in the United Kingdom* (PN 15). Practice Notes are intended to assist practitioners to comply with the requirements of standards, by providing additional contextual material on the application of standards in particular circumstances or in specialised sectors.

PN 15 was last updated in 2011 and needs to reflect revisions to UK auditing standards (ISAs (UK)), the emergence of master trusts as providers of pension schemes and other changes to the regulatory landscape.

A Practice Note provides guidance to support best practice. Although a Practice Note is not prescriptive, the FRC's Statement on the Scope and Authority of Audit and Assurance Pronouncements states that auditors should be aware of and consider Practice Notes applicable to the engagement. Auditors who do not consider and apply the guidance included in a relevant Practice Note should be prepared to explain how the engagement standards have been complied with. The FRC has completed an impact assessment for the proposed revised PN 15 and has not identified any additional costs or separately identifiable quantifiable benefits resulting from the revised guidance included in the exposure draft.

Invitation to comment

The FRC is requesting comments on this Consultation Paper by **5pm on Friday, 30 June 2017**. Comments are invited in writing on all aspects of the Consultation Paper. In particular, comments are sought in relation to questions 1-4 as discussed below.

Comments on the Consultation Paper should be sent to:

Keith Billing
Project Director
Financial Reporting Council
E-mail: AAT@frc.org.uk

Introduction

1. The FRC is committed to acting as a proportionate and principles-based regulator, and balances the need to minimise the impact of regulatory requirements on business, while working to support the delivery of high-quality audit and assurance work, to maintain investor and wider stakeholder confidence in audit.
2. In mid-2016, the FRC commenced a project to consider revisions to Practice Note 15: *The Audit of Occupational Pension Schemes in the United Kingdom* (PN 15), which was last updated in 2011. The main drivers for revising PN 15 are:
 - revisions to UK auditing standards (ISAs (UK));
 - changes to UK accounting standards (FRS 102) and the revision of the pension SORP;
 - continuing developments in regulatory codes and guidance issued by The Pensions Regulator (TPR);
 - changes in relevant legislation; and
 - the increase in master trusts in the pension sector.

How we revised the material

3. We established an expert working group to support the project to revise PN 15, including representation from audit firms, the pensions industry, and TPR. The guiding principles followed in reviewing and updating the guidance included:
 - updating the guidance to address the drivers for revision identified above;
 - taking out material that is a repeat of what is in the relevant ISA (UK) itself;
 - taking out material that an auditor would be able to find elsewhere, including in Regulations, TPR Codes and accounting standards or the pension SORP (in most cases replacing with a cross reference);

Main areas of change

4. The main areas of change we are proposing to PN 15 are:
 - Legislative and Regulatory Framework: updated and merged with the content of Appendix 1 and Appendix 2 to reduce repetition. This is now included in a new section entitled 'Occupational pension schemes – key characteristics';
 - ISA (UK) 200: additional content has been included in relation to auditor eligibility under legislation, including master trusts;
 - ISA (UK) 210: content has been reduced to focus on pension specific legal requirements on appointment and resignation of auditors. References to engagement letter wording and examples set out in extant Appendix 4 have been removed as it is considered not necessary to provide generic audit pro forma documents. Example pension specific appointment and resignation pro forma letters have been retained in new Appendix 1;
 - ISA (UK) 240: content has been reduced to focus on conditions or events that increase the risk of fraud rather than the types of fraud that may occur;

- ISA (UK) 250 Section A: content has been reduced to remove material that is not pension scheme specific;
- ISA (UK) 250 Section B: content has been reduced to remove material that is not pension scheme specific. Also material has been removed which seeks to interpret TPR's views on what is reportable and instead draws the auditor's attention to the relevant comprehensive codes and guides issued by TPR;
- ISA (UK) 300: reduced content mainly in relation to the roles of third party service providers which is covered in other sections;
- ISA (UK) 315: reduced content mainly in relation to examples of controls that may be present. It is considered more appropriate to focus on the trustee responsibilities for establishing controls and situations that can give rise to risks rather than providing an incomplete list of possible controls that may be inappropriately used as a checklist. Similarly, the examples of risk scenarios have also been set at a higher level;
- ISA (UK) 330: this section has been deleted as it did not have pension specific content;
- ISA (UK) 402: reduced content mainly by deleting descriptions of third party activities already covered elsewhere;
- ISA (UK) 540: content reduced by deleting descriptions of investments which are contained elsewhere, for example in the pension SORP, and also deleting material repeated guidance in PN 23, *Special Considerations in Auditing Financial Instruments*;
- ISA (UK) 580: content has been reduced by deleting material that is not pension specific;
- ISA (UK) 600: this section has been deleted as it did not have content that was pension specific and repeated content elsewhere;
- ISA (UK) 700: content reduced mainly relating to the material on Summary financial information. This has been deleted as it is now rare for auditors to be asked to review summary financial information;
- ISA (UK) 720: content has been reduced to remove non-pension specific material and has been updated to include reference to FRS 102's requirement for a report on actuarial liabilities to be included alongside the financial statements;
- No significant changes have been made to ISAs (UK) 260, 265, 320, 500, 520, 550, 570 and 620
- The Auditor's Statement about Contributions: this section has been amended to bring it up to date and include references to the exemption from obtaining a statement on contributions where a scheme has more than 20 employers;
- Liaison with the scheme actuary: this section has been amended to bring it up to date;
- Appendix 1 - list of principal relevant legislation: this appendix has been deleted. References to significant relevant legislation are now in the section on Occupational pension schemes – key characteristics and background;
- Appendix 2 - the legal and regulatory framework: this appendix has been deleted. Relevant content has been included in the section on Occupational pension schemes – key characteristics and background;
- Appendix 3 - list of publications: this appendix has been deleted. References to specific publications have been removed as they can become out of date. Instead the

Occupational pension schemes – key characteristics and background section includes website references where auditors can find relevant information;

- Appendix 4 (now Appendix 1) - illustrative examples of appointment and resignation letters and paragraphs for engagement letters: the engagement letter pro forma wording has been deleted;
- Appendix 5 (now Appendix 2) - illustrative extracts from example of representation letter: content has been reduced by removing specific examples of representations;
- Appendix 6 (now Appendix 3) - illustrative examples of auditor's statements about contributions and other reporting situations: content has been reduced by removing the material on 'Other reporting situations' which comprised example audit report wording;
- Appendix 7 (now Appendix 4) - illustrative example statement of trustees' responsibilities: illustrative examples of statements of trustees' responsibilities for schedules of contributions and payment schedules have been retained. The wider example in relation to the trustees' responsibilities for the scheme financial statements has been removed as specific responsibilities could vary for particular schemes;
- Appendix 8 - impact of the scheme benefit structure on risk: this appendix has been deleted as it was not a comprehensive commentary on risks and repeated content from relevant ISA (UK) sections;
- Appendix 9 - non-statutory audit appointments: this appendix has been deleted as it mainly repeated content from relevant ISA (UK) sections;
- Appendix 10 (now Appendix 5) - definitions: retained and the definitions updated;
- Appendix 11 - Some significant topics relevant to audits of occupational pension schemes: this has been deleted. It provided an index to topics covered in the PN and such mapping is not considered necessary in the revised PN.

Overall this approach has resulted in a significant shortening of the Practice Note to 76 pages from 177, with an updated and increased focus of guidance on matters specific to the audit of occupational pension schemes and avoiding duplicating material that can be found elsewhere.

Impact Assessment

5. A Practice Note provides guidance to support best practice. Although a Practice Note is not prescriptive, the FRC's Statement on the Scope and Authority of Audit and Assurance Pronouncements states that auditors should be aware of and consider Practice Notes applicable to the engagement. Auditors who do not consider and apply the guidance included in a relevant Practice Note should be prepared to explain how the engagement standards have been complied with. The FRC has completed an impact assessment for the proposed revised PN 15 and has not identified any additional costs resulting from the revised guidance included in the exposure draft.

Consultation Questions

6. The FRC welcomes comments on all aspects of the revision of PN 15. However, we would specifically encourage views on the following questions:

- Q1 Overall do you agree with the proposed revisions to the Practice Note?; If not please explain why.
- Q2 Is the included guidance appropriate? If you believe it should be amended please explain why and how.
- 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.
- 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?

Financial Reporting Council
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Financial Reporting Council

8th Floor
125 London Wall
London
EC2Y 5AS

+44 (0)20 7492 2300

www.frc.org.uk