

## PENSIONS RESEARCH ACCOUNTANTS GROUP

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Dear Keith,

### **Response to Exposure Draft Practice Note 15 (Revised): The Audit of Occupational Pension Schemes**

We welcome the opportunity to respond to the Exposure Draft Practice Note 15 (Revised): The Audit of Occupational Pension Schemes.

The Pension Research Accountants Group (PRAG) is an independent research and discussion group for the development and exchange of ideas in the pension field. Its efforts are concentrated mainly on areas of reporting and accounting by pension schemes, but it has also produced reports on other matters when appropriate. PRAG's members work for pension funds, administrators, audit firms and other pension related professions. It therefore represents a wide cross-section of pension expertise. PRAG is also the SORP making body which publishes the Financial Reports of Pension Schemes A Statement of Recommended Practice (2015) ('the SORP').

We set out below general observations as well as our response to the questions asked in the Exposure Draft.

#### **General observations**

General observations of the Exposure Draft are that we welcome the reduced number of pages. However the Exposure Draft does not have a consistent approach throughout, i.e. there are examples included for some matters but not for others, where it may be more helpful to do so. This raises the questions as to whether or not these are useful and should be included for all or whether they should be omitted from the Practice Note altogether.

PRAG would expect to see more references to source documents within the revised Practice Note, in particular, reference to the Audit and Accounts Regulations.

The PRAG Pensions Auditor Technical Discussion Group previously came under the umbrella of the ICAEW and in the past provided significant input into the previous

## PENSIONS RESEARCH ACCOUNTANTS GROUP

Practice Note. This did not occur on this occasion, however this group which includes representatives from many audit firms would be willing to fulfill such a role going forward if this was helpful. I would be happy to discuss how this could be achieved if necessary.

### **Detailed comments: Responses to specific questions**

***Question 1: Overall do you agree with the proposed revision to the Practice Note? If not please explain why.***

PRAG feels that this Exposure Draft does not sufficiently cover some of the areas expected, for example auto enrolment, master trusts, special purpose vehicles, investment risk disclosures, longevity swaps, buy ins and buy outs. Whilst the shorter document may be welcomed, the lack of guidance and examples in some areas is disappointing.

With the amount of changes made in the revised Practice Note, track changes would be helpful.

***Question 2: Is the included guidance appropriate? If you believe it should be amended please explain why and how.***

PRAG feels that the guidance given in the following areas is not helpful and should be amended or reviewed to provide more clarity and or guidance as follows:

- The definition of master trusts in paragraph 8 needs to be revisited.
- The approach to the Key Characteristics of an occupational scheme is not very clear or easy to follow. PRAG feels the approach adopted in the current Practice Note of including these as an Appendix is easier to follow and understand.
- In reference to Tax Status in paragraph 37, more guidance is required on what are 'unauthorised' payments. It may also be useful to refer to the originating source document.
- It would be clearer if paragraph 48, which refers to the requirement to comply with the SORP and FRS 102, also cross referenced to the Audit and Accounts Regulations.
- There is duplication in the guidance in the two bullet points in paragraph 54, relating to obtaining financial statements other than for the annual statutory audit. The guidance on pages 129 and 130 of the current Practice Note is clearer and easier to follow.
- With regard to the Statement about Contributions, more guidance is required in paragraph 55. Guidance would also be beneficial in this area on how to consider the number of days and the amount in the context of materiality.
- PRAG does not feel that there is enough guidance on Earmarked schemes. The definition is poor and relates to the policies. There is no guidance on what would change this, i.e. if there is

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## PENSIONS RESEARCH ACCOUNTANTS GROUP

a bank account then would this usually indicate that the scheme was not an earmarked scheme? Also how does this relate to certain master trusts?

- PRAG would expect more guidance in the Practice Note with regard to audit exemptions. The wording used in paragraphs 58 & 59 has come straight from the Regulations.
- ISA210 – Terms of audit engagement
  - PRAG would expect more guidance here to clarify the acceptance process for a non-statutory appointment. Paragraph 81 implies the need to follow the same process as a statutory audit.
  - PRAG would also expect to see guidance on the approach to engagement letters of a non-statutory audit appointment.
  - Some practical guidance in paragraphs 88 and 89 on when to resign might be useful i.e. on windup and what audit information is required in those circumstances i.e. final deed.
- ISA 240 - Fraud
  - With regard to conditions or events which may increase the risk of fraud, paragraph 93 is not a definitive list nor is it up to date. It does not make any reference to cyber security, scams or any liability to the trustees.
- ISA 250 – Section A – Laws and regulations
  - Paragraph 107, more guidance is required on how the points listed relate to errors in the financial statements. Guidance on who is liable for these penalties would be helpful.
  - PRAG would expect the guidance on money laundering to include reference to the internal procedures of the relevant auditor, rather than reporting direct to TPR, as stated in paragraph 109. The guidance here is very short and could be clearer if the last sentence was first.
- ISA 250 – Section B – Report to regulator
  - PRAG would like clarification that the procedures on reporting to TPR are correct. The guidance ought to reflect what auditors and other advisors are required to report on. The guidance in the revised Practice Note should be replaced with more helpful guidance. Examples could be given on more common issues reported.
  - An area where PRAG would expect guidance is in relation to the DC Chair's Governance Statement, as this is one area that the TPR want to know if there is non-compliance and will fine accordingly
- ISA 540 – Accounting estimates
  - With regard to the guidance on management bias, PRAG would expect more guidance on how to deal with possible scenarios i.e. special purpose vehicles.
  - It would also be helpful if there was more guidance on which parts of Practice Note 23 are most relevant to Pension Schemes.
- ISA 570 – Going Concern
  - There is a requirement for the auditor to make an assessment of going concern for twelve months from the date of signing the audit report. PRAG does not feel that the

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guidance here is very helpful and questions whether this approach is relevant to pension schemes. There needs to be more guidance to ensure consistency of approach by scheme auditors. The SORP sets out two scenarios where a scheme may not be a going concern which are reiterated in the Practice Note: when a wind up event is triggered; or a scheme enters the PPF assessment period. There is currently insufficient guidance on what would happen to trigger the wind up of a scheme and PRAG feels that this is essential. There is no reference as to whether employer events over the coming 12 months would impact on this assessment.

- The guidance may be more applicable to master trusts and there is no distinction of when it does and does not apply.
- ISA 720 – Other information
  - With regard to other information, PRAG would expect more guidance on other parts of the trustees report including investment performance and how these tie into accounts.
- In relation to the auditor’s Statement about Contributions, there is insufficient guidance on auto-enrolment and master trusts. It is not clear from the guidance that the Summary of Contributions is driven by the Practice Note.
- Paragraph 272 states that there cannot be a Payment Schedule and Schedule of Contributions. Guidance should be given on when this does occur.
- PRAG would expect more guidance in paragraph 276 on what is material and when it is appropriate to qualify, specifically in relation to number of days late and the amounts.
- The guidance does not clarify what the requirements or expectations are on reporting late contributions. PRAG would also expect guidance on what the situations are when reporting of late contributions are not required.
- In relation to the other representations made in the letter of representation as stated in the note within Appendix 2, PRAG would expect to see more guidance on other examples i.e. annuity policies, augmentation and going concern. The guidance on page 156 of current Practice Note covers a wider range of examples, and is more helpful guidance.
- Appendix 2 – This includes useful extracts but some guidance on the new format of the audit report would be beneficial.

***Question 3: 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.***

PRAG feel that the decision to remove the example audit reports is not helpful and is likely to result in inconsistencies within the profession. In particular with the introduction of the going concern considerations for pension schemes (also see comments earlier) it

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## PENSIONS RESEARCH ACCOUNTANTS GROUP

would be helpful to illustrate how this should be applied to pension schemes given their specific considerations.

Some of the other useful guidance has been omitted as noted above, that is beneficial to auditors of pension schemes.

*Question 4: 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.*

With the changes in the sector, PRAG would expect to see more guidance on master trusts. The guidance included in the Exposure Draft is short and legalistic.

We are unsure whether the FRC plan to publish responses but PRAG is happy for this response to be published if this is the case.

If you require any clarification on any of these points PRAG would be happy to assist.

Yours sincerely



**Shona Harvie**  
**PRAG Chair**