



November 2017

Practice Note 15 (Revised)

The audit of occupational pension schemes in the United Kingdom

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PRACTICE NOTE 15 (REVISED)

THE AUDIT OF OCCUPATIONAL PENSION SCHEMES IN THE UNITED KINGDOM

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PREFACE

This Practice Note contains guidance on the application of auditing standards issued by the Financial Reporting Council (FRC) to the statutory audit of trust based occupational pension schemes established under the Pensions Acts in the United Kingdom. This guidance is also applicable to audits undertaken solely under the terms of a scheme's trust deed or other agreement requiring an auditor to provide a similar report, including requests from trustees where the scheme is otherwise exempt from audit or for financial statements prepared other than at the normal scheme year-end. Similar considerations apply to the audits of Common Investment Funds ("CIFs") which are usually set up under trust and require an audit under their trust deed.

Much of the guidance will also be of assistance to auditors of public sector pension schemes, although these schemes are subject to different financial reporting frameworks and different legislation.

This Practice Note is intended to assist auditors in applying the requirements of, and should be read in conjunction with, International Standards on Auditing (ISAs) (UK), which apply to all audits undertaken in the United Kingdom in respect of accounting periods commencing on or after 17 June 2016. This Practice Note sets out the special considerations relating to the audit of occupational pension schemes which arise from the individual ISAs (UK). **This Practice Note does not and is not intended to provide detailed guidance on the audits of occupational pension schemes, so where no special considerations arise from a particular ISA (UK), no material is included. This Practice Note does not contain commentary on all of the requirements included in the ISAs (UK) and reading it should not be seen as an alternative to reading the relevant ISAs (UK) in their entirety.**

This Practice Note has been prepared with advice and assistance from staff of The Pensions Regulator (TPR) and is based on the legislation and regulations in effect at 1 November 2017.

INTRODUCTION

1. Work-based pensions in the UK may be divided into two main types: contract based personal pension schemes and occupational trust based pension schemes.
2. Contract based personal pension schemes are individual arrangements made by individuals with the pension provider and need not have a link with an employer. These arrangements are subject to different legislation from trust based occupational pension schemes and generally are not subject to the pension scheme audit regime. These arrangements are open to all individuals whether or not they also contribute to an occupational pension scheme. They may accept contributions from the employer as well as the employee. Some employers set up group personal pension schemes, which are arrangements for the employees of a particular employer to participate in a personal pension scheme on a grouped basis.
3. Occupational trust based pension schemes are those run by employers for the benefit of their employees and, from an employee viewpoint must have a sponsoring employer(s) and are linked with employment. On leaving the service of the employer, active membership ceases, though the employee may leave the benefits accrued to date in the scheme. Most occupational pension schemes in the UK are required to produce annual financial statements and to appoint a scheme auditor to report on those financial statements and on the payment of contributions to the scheme. There are some exemptions from these requirements although where statutory provisions do not require an audit, a scheme's trust deed and rules may still require its financial statements to be audited.
4. Audits of occupational pension schemes may only be carried out by a registered auditor eligible for appointment as a statutory auditor under Part 42 of the Companies Act 2006 or other person approved by the Secretary of State for Work and Pensions. A registered auditor is required to comply with ISAs (UK) when conducting audits. This principle applies in the context of occupational pension schemes in the same way as to entities in any sector, irrespective of their size, but the way in which ISAs (UK) are applied needs to be adapted to suit the particular characteristics of the entity audited.

OCCUPATIONAL PENSION SCHEMES – KEY CHARACTERISTICS

Benefit structures

5. Occupational pension schemes have two main types of benefit structure:
 - defined benefit – normally a final salary or career average arrangement. Final salary benefits are calculated by reference to the member’s pensionable earnings usually for a period ending at or before normal pension date or leaving service and on pensionable service. Career average benefits are calculated for each year of service based on pensionable earnings for that year. Because of the uncertainties in determining the extent of future liabilities of such schemes, the trustees of such schemes are required to obtain regular actuarial assessments of the schemes’ liabilities and estimated future costs; and
 - defined contribution (or money purchase) – a pension scheme where the individual member’s benefit is determined by reference to contributions paid into the scheme in respect of that member, increased or decreased by an amount reflecting the investment return on those contributions. Because the scheme’s commitment to pay future pensions is determined by the extent of funds available, no actuarial valuation is normally required.
6. An occupational pension scheme can have both defined benefit and defined contribution sections, or its benefits may be calculated as the better of two alternatives on a defined benefit and a defined contribution basis. These types of scheme are generally both referred to as hybrid schemes.

Sponsoring, principal, participating and associated employers

7. Most occupational schemes in the UK are established by an employer for their employees. Where this is the case the employer is often referred to as the principal or sponsoring employer and has certain specified responsibilities set out under the scheme documentation. Where the employees of employers other than the sponsoring employer are allowed to be members of the pension scheme these other employers are referred to as participating employers. Associated employers are participating employers who are under common control.

Master trusts

8. Some occupational schemes in the UK are set up as master trusts. Under these arrangements the master trust is typically established by a *founder* and is open, normally by invitation, to non-associated participating employers and their employees. The Pensions Schemes Act 2017¹ defines a Master Trust as “an occupational pension scheme which:

1 The PSA 2017 provides for an authorisation and supervision regime for master trusts to be introduced, so that master trusts would have to demonstrate to The Pensions Regulator that they meet certain key criteria on establishment, and then continue to do so.

- (a) provides money purchase benefits (whether alone or in conjunction with other benefits);
- (b) is used, or intended to be used, by two or more employers;
- (c) is not used, or intended to be used, only by employers which are connected with each other; and
- (d) is not a relevant public service pension scheme.”

Governance and operational structures

9. Occupational pension schemes are usually established under trust as a separate legal entity from the employer. The main activities of an occupational pension scheme typically comprise the collection of contributions from the employer and members, the investment of those contributions and the payment of benefits to retiring or leaving members.
10. The trust is governed by trustees. They may be individual trustees or a corporate trustee with trustee directors. Trustees of occupational pension schemes – who do not necessarily have first-hand actuarial, accounting or other relevant experience – frequently rely on advice or services from experts in order to fulfil their responsibilities to safeguard the interests of scheme members. The Pensions Act 1995 (PA 95) also requires trustees to appoint professional advisers in certain areas (for example, the scheme auditor, scheme actuary and investment managers). Law and regulations applicable to professional advisers includes provisions relating to their appointment and removal or resignation, and also establish a duty to report breaches of the law to The Pensions Regulator (see paragraph 32).
11. Trustees will normally be supported by scheme management in governing the scheme. The sponsoring employer may provide trustee management and support services or they may be provided by third party providers, or in the case of master trusts, typically by the founder.
12. The employer will typically be responsible for the collection of contributions from members and remittance of member and employer contributions to a pension scheme. The trustees make arrangements for the receipt of pension contributions by the scheme administrator from the employer.
13. The scheme administrator will normally receive member and employer contributions, maintain member records and calculate and pay benefits on behalf of the trustees. Trustees of pension schemes may delegate aspects of administration (although not ultimate responsibility) to a third party, possibly the sponsoring employer.
14. Trustees will normally appoint third party investment managers to undertake the management of the funds available for investment but the trustees retain ultimate responsibility for the proper use of the scheme's funds. The investment policy is set out in

the trustees' Statement of Investment Principles. If the scheme invests in direct securities the trustees will also normally appoint a third-party custodian to hold the scheme investments on behalf of the trustees.

15. When trustees have appointed third party service organisations to undertake work on their behalf, including the employer, the scheme auditor considers the system of controls operated by the trustees over the service organisations (refer to ISA (UK) 402 for further guidance).
16. The Occupational Pension Schemes (Scheme Administration) Regulations 1996 No. 1715 ("the Administration Regulations") require sponsoring employers (and former sponsoring employers), their auditor or actuary to provide trustees with "such information as is reasonably required" for the trustees' professional advisers, including the scheme auditor, to carry out their duties. Trustees must provide similar information to their professional advisers and also make the scheme's books, accounts and records available.

Scheme actuary

17. For the majority of defined benefit schemes, trustees are specifically required by statute to appoint a scheme actuary to provide them with necessary valuations and advice. Further commentary concerning liaison with the scheme actuary is set out in a separate section of this Practice Note (see paragraphs 257 to 261).
18. Trustees or managers of defined contribution schemes are not required by statute to appoint a scheme actuary, although they may take actuarial advice to assess the potential level of benefits available and/or the potential level of contributions required to fund a particular level of benefits.

Legislative and regulatory framework

19. Occupational pension schemes operate within a complex framework involving both trust law and specific statutory provisions, set out primarily in Pension Schemes Act 1993 (PSA 1993), PA 1995 and Pensions Act 2004 (PA 2004) and The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 No.1975 (the "Audited Accounts Regulations") made under those Acts. To the extent necessary to carry out their audits, it is essential for auditors of occupational pension schemes to have a good understanding of current pensions legislation and associated regulations. In addition, the activities of occupational pension schemes are subject to HM Revenue & Customs (HMRC) regulations and financial services legislation. Scheme auditors need to be aware of the accounting and auditing implications of these requirements.

Auditor eligibility

20. The specific requirements for eligibility and ineligibility as scheme auditor are set out in Regulation 4 to the Occupational Pension Schemes (Scheme Administration)

Regulations 1996. Audits of occupational pension schemes may only be carried out by a registered auditor eligible for appointment as a statutory auditor under the Part 42 of the Companies Act 2006 or other person approved by the Secretary of State for Work and Pensions.

21. The auditor appointment is that of a firm (or a sole practitioner) and not an individual. No director, partner or employee of the audit firm may act as trustee of a scheme that is an audit client of the firm. Furthermore, a person cannot be appointed as auditor where:
 - that person is a member of the scheme;
 - that person is employed under contract of service by the trustees or managers of the scheme; or
 - that person is an employer in relation to the scheme.
22. In addition, a firm cannot audit a pension scheme if an audit partner of that firm is a director of a participating employer. However, this ineligibility rule does not apply in relation to a scheme which had at least 500 participating employers on the first day of its accounting period.
23. Any scheme auditor who acts as trustee of a scheme they audit is guilty of an offence.

Trust law and trustees

24. Occupational pension schemes constituted under trusts are subject to trust law. A trust is usually established by a legal document, the trust deed, which places the responsibility for the stewardship and custody of the assets on the trustees. The trustees are required to comply with the general requirements of the trust, the general law and legislation which almost entirely applies to pension scheme trusts, such as PSA 1993, PA 1995 and PA 2004 and related Regulations, some of whose provisions override those of the trust.
25. The general duties and powers of pension scheme trustees are essentially the same as those of other trustees. The principal elements of their responsibilities under trust law and statute are the proper management of funds provided by employees and their sponsoring employers during the course of their employment so as to provide pension benefits and, subsequently, the payment of these benefits to those entitled to them.
26. Trustees must act in the best interests of beneficiaries of the scheme, and ensure that no one who is not entitled receives any trust property. Where a trustee is also a director or employee of the sponsoring employer, he or she should set aside any other concerns, duties or responsibilities when acting in the capacity as a trustee.
27. There is a legal obligation for trustees not to delegate the performance of their duties and powers, however this is qualified in that trustees may be permitted to delegate matters either under statute or, if specifically authorised to do so, under the terms of their trust. As

statutory provisions are limited, many trust deeds include wide powers of delegation. Permission to delegate does not release trustees from responsibility. Given they are fiduciaries, trustees must take due care in selecting the delegate, in determining suitable guidelines for the performance of the matter delegated, and in monitoring the delegate's actual performance and compliance with the guidelines set.

28. Sections 241 to 243 of PA 2004 require schemes to make arrangements that provide for at least one third of trustees in an occupational pension scheme to be member nominated. If the trustee is a company, the arrangements must provide for at least one third of the directors to be member nominated. Schemes have to go through this process to appoint one third but could have less if there are insufficient nominations. TPR's Code of Practice 08 provides guidance for trustees in this area, including the expected frequency for re-running a nomination process to refill vacancies.
29. Master trusts must have at least three trustees. The majority of the trustees, including the chair of the trustees, must be *non-affiliated* i.e. must be independent of any undertaking which provides advisory, administration, investment or other resources to the master trust. Where there is a chair of the trustees at the time any other trustee is appointed, the chair must be consulted on the appointment. Refer to the Administration Regulations for further details.
30. A trustee may be removed by court order for misconduct or mismanagement. In accordance with the Pensions Act 1995, as amended, The Pensions Regulator (TPR) (see below) may prohibit a person from being a trustee of a particular trust scheme, a particular class of trust schemes or trust schemes in general. TPR may also suspend a trustee pending consideration being given to a prohibition order. Where TPR prohibits a trustee, TPR may appoint a replacement. TPR may also appoint a trustee where they are satisfied that this is reasonable in order to enable the trustees as a whole to have, or to exercise, the necessary knowledge and skill for the proper administration of the scheme, for the number of trustees to be sufficient for the proper administration of the scheme or otherwise to protect the interests of the generality of scheme members.

The Pensions Regulator

31. TPR is the body responsible for the regulation of work-based occupational pension schemes and is able to make use of a wide range of statutory powers. Codes of Practice and other TPR guidance are relevant to auditors of occupational pension schemes and can be found on TPR's website at www.thepensionsregulator.gov.uk.
32. A scheme auditor is required by section 70 of PA 2004 to consider reporting directly to TPR breaches of law which affect the pension scheme. The decision to report will depend whether there is reasonable cause to believe there has been a breach of the law and, if so, whether the breach is likely to be of "material significance" to TPR (see paragraphs 265 to 274). The scheme auditor is not required to put into place arrangements to detect matters to be reported under section 70 as the auditor's obligation is limited to reporting

those which come to its attention. Further guidance for scheme auditors on reporting is given in TPR's Code of Practice 01 'Reporting breaches of the law'.

33. The statutory duty to report matters of material significance to TPR applies to the scheme actuary, the trustees and all others who are involved in the administration of a scheme, as well as to the scheme auditor.

The Pension Protection Fund

34. The Pension Protection Fund (PPF) was established to pay compensation to members of eligible defined benefit pension schemes, when there is a qualifying insolvency event in relation to the employer and where there are insufficient assets in the pension scheme to cover Pension Protection Fund levels of compensation.
35. The PPF is a statutory fund run by the Board of the PPF, a statutory corporation established under the provisions of the Pensions Act 2004. Further information on the PPF is available on its website (www.pensionprotectionfund.org.uk).
36. When a pension scheme enters a PPF assessment period the trustees continue to govern the scheme and the statutory obligation to obtain audited financial statements remains. This applies through to the point that a scheme is admitted to the PPF.

Tax status

37. All schemes need to register with HMRC to become Registered Pension Schemes and therefore receive certain tax reliefs. However, Registered Pension Schemes remain subject to some taxes, including VAT and withholding taxes. Limitations on untaxed pension scheme benefits include:
- a maximum annual tax allowable contribution or inflow of value into a member's pension fund which is known as the *Annual Allowance*;
 - a maximum lifetime fund limit that can be accumulated which is known as the *Lifetime Allowance*;
 - a minimum age at which retirement benefits can be taken;
 - penalties apply where registered pension schemes make "unauthorised" payments (those that do not meet the conditions specified in the tax rules²). If a pension scheme continually makes unauthorised payments it may be deregistered; and
 - where benefits exceed tax free limits, tax is payable.
38. Details of the lifetime allowances and annual allowances and other limitations in place currently are available at the HMRC website (www.hmrc.gov.uk).

2 See www.gov.uk/guidance/pension-schemes-and-unauthorised-payments

Scheme funding and actuarial matters for defined benefit schemes

39. PA 2004 sets out the framework for the legislation relating to the role of the actuary in relation to defined benefit schemes. Section 224, PA 2004 and the Occupational Pension Schemes (Scheme Funding) Regulations (SI 2005/3377), hereafter referred to as the Funding Regulations, require ongoing actuarial valuations to be undertaken normally every three years. The Funding Regulations specify the way in which the assets and liabilities of the scheme are to be determined, calculated and verified by the actuary. Asset values are to be those stated in the latest available audited financial statements.
40. PA 2004 and the Funding Regulations require the preparation of a schedule of contributions within 15 months after the effective date of an actuarial valuation showing:
- separately the rates of contributions payable towards the scheme by or on behalf of the employer and the active members of the scheme; and
 - the dates on or before which the contributions must be paid. Where additional contributions are required in order to give effect to a recovery plan, the rates and dates of those contributions must be shown separately from other contributions.
41. The schedule must be signed by the trustees or managers of the scheme and make provision for signature by the employer (unless the scheme rules provide otherwise) in order to signify agreement to matters included therein. The schedule must incorporate the actuary's certification, as set out in the Regulations.
42. The schedule must be reviewed by the trustees and where necessary revised from time to time in accordance with PA 2004 and the Funding Regulations.
43. Section 226 of PA 2004 requires that if an actuarial valuation shows that the scheme does not meet the statutory funding objective, a recovery plan must be put in place by the trustees. The recovery plan sets out how the statutory funding objective is to be met and over what period. When preparing the recovery plan the trustees must obtain the agreement of the employer, unless the rules of the scheme provide otherwise, and take actuarial advice. A copy of the recovery plan must be sent to TPR.

Annual report

44. Trustees of nearly all occupational pension schemes are required by Regulations made under PA 1995³ to make available to members an annual report within seven months of the scheme year end. The content of the annual report varies with the type of scheme but generally comprises the following:

3 The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations SI 2013 No.2734

- trustees' report, giving a review of the management of the scheme, membership statistics, investment performance developments and compliance matters during the period;
- for schemes with defined contribution arrangements, a statutory Chair's governance statement in respect of those arrangements;
- financial statements showing a true and fair view of the financial transactions of the scheme during the period and of the disposition of its assets and liabilities (other than liabilities to pay pensions and benefits after the end of the scheme year) at the end of the period;
- an independent auditor's report on the financial statements;
- for schemes with less than 20 participating employees at the start of the scheme year, an independent auditor's statement about contributions payable to the scheme (it is usual for a trustees' summary of contributions to be included that the auditor can report against);
- for defined benefit schemes a report on actuarial liabilities as required by FRS 102 to be provided alongside the financial statements; and
- for defined benefit schemes, the actuarial certification of the schedule of contributions.

Financial statements, books and records

45. The Audited Accounts Regulations require scheme trustees to obtain financial statements which:
- (a) contain specified information; and
 - (b) show a true and fair view of the financial transactions of the scheme during the scheme year and of the amount and disposition as at the end of the scheme year of its assets and of its liabilities, other than liabilities to pay pensions and benefits after the end of the scheme year.
46. The Audited Accounts Regulations require trustees to state whether the financial statements have been prepared in accordance with the relevant financial reporting framework applicable to pension schemes, which is currently FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland, the Statement of Recommended Practice "Financial Reports of Pension Schemes" ("the Pensions SORP")⁴, and applicable requirements of the Audited Accounts Regulations, and, if not, an indication of where there are any material departures from this framework.

4 Issued by the Pensions Research Accountants Group (PRAG) in accordance with the Financial Reporting Council's Policy and Code of Practice for SORPs.

47. FRS 102 applies to pension scheme financial reporting and in particular sets out specific accounting requirements for occupational pension schemes in its section dealing with Specialised Activities. Under FRS 102 the financial statements include liabilities other than the actuarial present value of promised retirement benefits which are required to be disclosed together with other actuarial information in a report alongside the financial statements.
48. The Pensions SORP provides further guidance on financial reporting for occupational pension schemes. Consequently, it is normally necessary to follow FRS 102 and the guidance in the Pensions SORP in order for pension scheme financial statements to show a true and fair view.
49. Section 49 of PA 1995 requires trustees to maintain books and records of the transactions of the scheme. The nature of the accounting books and records to be maintained are set out in the Scheme Administration Regulations and consist of particular items specified in the Regulations⁵. Further requirements relating to records of contributions for defined benefit schemes are set out in Funding Regulations.

Contents of the auditor's report on pension scheme financial statements

50. Under the Audited Accounts Regulations and FRS 102, occupational pension scheme financial statements exclude the actuarial present value of promised retirement benefits. Thus, the Audited Accounts Regulations do not require a scheme auditor to express an opinion as to whether the financial statements of a pension scheme show a true and fair view of its state of affairs but whether the financial statements obtained by the trustees show a true and fair view of the scheme's:
 - (a) financial transactions and assets; and
 - (b) liabilities, other than liabilities to pay pensions and benefits, after the end of the scheme year.
51. When forming an opinion on the view shown by an occupational pension scheme's financial statements which have been prepared in accordance with FRS 102 and the SORP, the scheme auditor is therefore not required to express an opinion as to the completeness and accuracy of the long-term liabilities to pay benefits as determined by the scheme actuary.
52. A scheme auditor's statutory responsibilities under PA 1995 do not require the auditor to undertake work to determine whether the trustees' report or other sections of the scheme's annual report, including the Report on Actuarial Liabilities, are properly prepared⁶.

5 These requirements are the minimum. Trustees are likely to require more detailed and historic records for the effective management of their scheme than the minimum set down in legislation.

6 However, a breach of requirements relating to the annual report may give rise to a statutory duty to report directly to The Pensions Regulator.

53. However, the auditor is subject to the requirements of ISA (UK) 720, including to consider whether other information included in the annual report, which contains or accompanies the financial statements and the auditor's report thereon, is materially inconsistent with the financial statements or the auditor's knowledge obtained in the audit.

Obtaining audited financial statements for purposes other than the annual report

54. Trustees may decide to obtain audited financial statements other than at the statutory accounting date for reasons other than the requirement to include them in the annual report, for example for the purposes of an actuarial valuation.

Reporting on contributions

55. The Audited Accounts Regulations require trustees to obtain from the scheme auditor a statement as to whether or not in the auditor's opinion contributions have in all material respects been paid at least in accordance with the payment schedule for defined contribution schemes or the schedule of contributions, as certified by the scheme actuary, for other schemes unless the scheme had at least 20 participating employers at the start of the scheme year (in such cases there is no requirement to obtain an auditor's statement⁷). The work undertaken by the scheme auditor in respect of contributions takes into account both the auditor's obligation to report its opinion on the financial statements and, separately, to report whether contributions have in all material respects been paid at least in accordance with the schedule of contributions or payment schedule. If a schedule of contributions or payment schedule is not in place the scheme auditor reports whether contributions have been paid in accordance with the scheme rules or contracts under which they were payable, and (where appropriate) recommendations of the scheme actuary.
56. The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 (the "Disclosure Regulations") require scheme trustees to explain in the annual report the reasons for any qualified or negative auditor's statement and to state how the situation has been or is likely to be resolved.

Earmarked schemes

57. An "earmarked scheme" is a scheme under which all the benefits other than death benefits are money purchase benefits and all are secured by one or more policies of insurance or annuity contracts, and such policies or contracts are specifically allocated to the provision of benefits for individual members or any other person who has a right to benefits under the scheme. The trustees of an earmarked scheme are normally required to appoint an auditor to issue a report about contributions, but the trustees are exempt from having to obtain audited financial statements unless the deed and rules specifically require them.

7 The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 No.1975 2(c), as amended.

Audit exemptions

58. Schemes which meet the relevant criteria⁸ are exempt from appointing a scheme auditor under PA 1995, including schemes with:

- fewer than 2 members;
- fewer than 12 members where all the members are trustees of the scheme; and either
 - the provisions of the scheme provide that all decisions which fall to be made by the trustees are made by unanimous agreement by the trustees who are members of the scheme; or
 - the scheme has a trustee who is independent in relation to the scheme for the purposes of section 23 of the 1995 Act (power to appoint independent trustees), and is recorded in the register maintained by TPR in accordance with regulations made under subsection (4) of that section.

59. This exemption therefore does not apply if, for example, there are deferred members who are not trustees. Even if the exemption applies, the scheme's trust deed and rules may still require an audit and HMRC and the scheme actuary may require scheme financial statements. Schemes which are exempt from the requirement to appoint an auditor are mostly also exempt from the requirement to prepare a payment schedule or schedule of contributions.

Auditing financial instruments

60. Occupational pension schemes typically invest in a range of investments which include financial instruments such as equities, bonds, derivatives (both exchange traded or over the counter) and pooled investment vehicles. These are reported at fair value under FRS 102 and are typically the most material item in the financial statements. The FRC has issued Practice Note 23 'Special considerations in auditing financial instruments' which is relevant to the audit of all entities which use financial instruments, including pension schemes of all sizes. The practice note provides background information to financial instruments and a discussion of audit considerations relating to financial instruments. Auditors of pension schemes should be aware of and consider the guidance in Practice Note 23 where it is applicable to the engagement.

Going concern

61. The principal liabilities of a defined benefit scheme consist of obligations to pay future pensions, the extent of which are assessed by the scheme actuary rather than the scheme auditor. Such liabilities do not arise in defined contribution schemes, as the benefits payable are determined by the extent of funds available.

⁸ Criteria for exemption from the requirements to appoint professional advisers (including an auditor) are set out in the The Occupational Pension Schemes (Scheme Administration) Regulations 1996, as amended.

62. The going concern basis is assumed in the preparation of the financial statements of pension schemes unless a decision has been made to wind up the scheme, an event triggering wind up has occurred, e.g. insolvency of the employer, or the scheme has entered the PPF assessment period and there is no realistic alternative to the eventual admission of the scheme and the transfer of its assets and liabilities to the PPF. The auditor's responsibilities in relation to the consideration of going concern are discussed further in the section on ISA (UK) 570 in this Practice Note.

ISA (UK) 200: OVERALL OBJECTIVES OF THE INDEPENDENT AUDITOR AND THE CONDUCT OF AN AUDIT IN ACCORDANCE WITH INTERNATIONAL STANDARDS ON AUDITING (UK)

63. ISA (UK) 200 deals with the independent auditor's overall responsibilities when conducting an audit of financial statements in accordance with ISAs (UK).
64. ISAs (UK) include a requirement for the auditor to comply with the FRC's Ethical Standard and relevant ethical guidance issued by the auditor's professional body in the conduct of any audit of financial statements, which apply equally to audits of pension schemes. A fundamental principle is that practitioners should not accept or perform work which they are not competent to undertake. Practitioners should not undertake the audit of occupational pension schemes unless they are satisfied that they have or can attain the necessary level of competence.
65. Before commencing the audit of an occupational pension scheme, a firm ensures that it has enough staff who have adequate knowledge and experience of such audits. Staff involved in an audit of an occupational pension scheme will have a broad understanding, commensurate with the individual's role and responsibilities in the audit process of:
- the type of scheme being audited (e.g. defined benefit, defined contribution or hybrid);
 - the status of the scheme (e.g. open, closed to new members, closed to future accrual);
 - key risks affecting the scheme;
 - the scheme's trust deed and rules;
 - pensions legislation and regulations;
 - relevant TPR Codes of Practice and guidance; and
 - the principles of FRS 102 and the Pensions SORP.
66. An audit firm must be eligible to act as a scheme auditor – see paragraphs 20 to 23.

ISA (UK) 210: AGREEING THE TERMS OF AUDIT ENGAGEMENTS

67. ISA (UK) 210 sets out the auditor's responsibilities when agreeing the terms of audit engagements. These include establishing that the 'preconditions for an audit' are present and that there is a common understanding between the auditor and management and, where appropriate, those charged with governance. For a pension scheme audit the terms of engagement are agreed with the trustees.
68. ISA (UK) 210 requires that an engagement letter be obtained for all audit appointments. This requirement supplements that included in PA 1995 whereby trustees are required to appoint the scheme's auditor.

The appointment of the scheme auditor

69. Section 47(1)(a) of PA 1995 requires the trustees or managers of most occupational pension schemes to appoint a scheme auditor.
70. To be effective, the appointment of a scheme auditor must be made in accordance with the Regulations⁹. The trustees or managers of the scheme forward a Notice of Appointment to the auditor specifying:
 - the date the appointment is due to take effect;
 - to whom the auditor is to report; and
 - from whom the auditor will take instructions.
71. The date the appointment is due to take effect ("the effective date") is at a future date. The date of appointment does not become effective until the auditor has acknowledged receipt of the Notice of Appointment. This being the case, a practical approach may be for the Notice of Appointment to specify the "effective date" as being the date of the auditor's acknowledgement of the appointment.
72. The name of the scheme and the year-end should be clear. If the appointment is in relation to a scheme year which has already ended the engagement terms should specify which scheme year(s) will be subject to audit.
73. In the case of an appointment covering a number of schemes, there should normally be separate Notices of Appointment for each or, if particular circumstances warrant it such as a common trustee body for a number of schemes, a schedule detailing the separate schemes.

9 The Occupational Pension Schemes (Scheme Administration) Regulations 1996, SI 1996 No. 1715, as amended.

74. For the appointment to be effective, PA 1995 and the Scheme Administration Regulations requires the auditor to acknowledge receipt of the Notice of Appointment within one month of its date of receipt. The appointment is not effective unless and until this acknowledgement is sent by the auditor within the one month period. If the auditor does not acknowledge appointment within one month, the Notice of Appointment ceases to be valid. The trustees or managers will then need to provide a new Notice of Appointment.
75. PA 1995 and the Scheme Administration Regulations also require the auditor to confirm in writing that he will notify the trustees or managers immediately he becomes aware of the existence of any conflict of interest to which the auditor is subject in relation to the scheme.
76. An example Notice of Appointment and an example letter of Acknowledgement of Appointment are set out in Appendix 1.
77. If the resignation, removal or death of a scheme auditor occurs, the Scheme Administration Regulations require that a new appointment be made within three months. Failure to appoint a new auditor within the three-month period may be a matter of material significance to TPR. If an auditor is requested to accept appointment after three months from the date when a previous auditor left office, or if there was no previous auditor appointed under PA 1995 and the scheme is not a new one, the breach will need to be noted and may need to be reported to TPR.
78. There is no legal time limit for the appointment of a scheme auditor for new schemes (or schemes which no longer qualify for an exemption) but from a practical perspective the appointment should be made in sufficient time¹⁰ to enable the trustees' duties relating to obtaining audited financial statements to be met.
79. Where there is no statutory requirement for a scheme auditor, the trustees may nevertheless appoint an auditor. A non-statutory auditor falls within the definition of the term "professional adviser" used in the Occupational Pension Schemes (Scheme Administration) Regulations, so the provisions relating to the appointment and removal of the scheme auditor (as discussed in paragraphs 69 to 78 above and 86 and 87 below) apply to the appointment of a non-statutory auditor, with the following differences:
 - the appointment is as "professional adviser" rather than "scheme auditor";
 - the eligibility and ineligibility rules in the Regulations do not apply to "professional adviser" appointments; and
 - the three month limit on vacancy in office does not apply.

10 Normally, appointments will take place as the scheme is established as one of a series of adviser and service provider appointments by the trustees.

The letter of engagement

80. The scheme auditor agrees the terms of the audit engagement with the trustees of the scheme and addresses the letter of engagement to the trustees.
81. The scheme auditor sets out the nature and scope of its audit obligations under PA 1995 so as to ensure that trustees are aware of the extent of those responsibilities. In particular, the auditor includes reference to its responsibility to report on the contributions payable to the scheme (if applicable) and to the statutory duty to report to TPR in certain circumstances, making it clear that the duty is to report matters if found, and does not involve undertaking additional work to identify reportable matters.
82. Under PA 1995, the scheme auditor does not have a right of access to information held by third parties. Consequently, it is necessary for the scheme auditor to request such information, through the trustees when necessary for the external audit. The scheme auditor therefore includes in the engagement letter a paragraph relating to access to third parties to whom the trustees delegate particular functions, and to their records relating to the pension scheme. The scheme auditor may require information from the:
- administrator;
 - investment manager(s);
 - custodian(s);
 - sponsoring employer – or employers where there is a multi-employer scheme – and the sponsoring employer’s auditor; and
 - scheme actuary.
83. When a pension scheme uses another organisation or the sponsoring employer to deal with the administration of contributions and benefits and to maintain membership and financial records, the trustees arrange for the scheme auditor to have direct access to the records and personnel of the relevant organisation acting as scheme administrator.
84. In view of the importance of the scheme actuary’s work to the information contained in the scheme’s annual report, it is normally appropriate for the scheme auditor to obtain the trustees’ agreement to direct dealings between the auditor and the scheme actuary, both in terms of ongoing liaison regarding the affairs of the scheme and also in respect of the scheme actuary’s and scheme auditor’s duty to report matters of material significance directly to TPR, and to document this agreement in the engagement letter.
85. Regulations made under PA 1995 and the Scheme Administration Regulations require the employer to notify the trustees, within one month, of the occurrence of any event relating to the employer which there is reasonable cause to believe will be of material significance to the trustees or the scheme’s professional advisers in the exercise of their functions. The scheme auditor may wish to include a term in the engagement letter

requiring the trustees to inform the scheme auditor of any matters which come to their attention which may be relevant to the audit.

Resignation or removal of the auditor

86. The Scheme Administration Regulations require a written notice of resignation by the scheme auditor which should contain either:
- a statement specifying the circumstances; or
 - a declaration of no circumstances.
87. The statement is made by the outgoing scheme auditor specifying any circumstances connected with their resignation which, in its opinion, significantly affect the interests of the members or prospective members of, or beneficiaries under, the scheme. Under the Disclosure Regulations, the annual report must include a copy of any statement made on resignation or removal in accordance with Regulations made under section 47(6) PA 1995. Where the auditor knows of no such circumstances, and hence makes a declaration to that effect, there is no requirement to include this declaration in the annual report, although it is often included for the avoidance of doubt. The trustees are required to provide a copy of the statement or declaration to the succeeding scheme auditor and the scheme actuary within 14 days. The scheme auditor reports a statement of circumstances to TPR if it is considered to be a matter of material significance to TPR (see paragraphs 265 to 274).

ISA (UK) 240: THE AUDITOR'S RESPONSIBILITIES RELATING TO FRAUD IN AN AUDIT OF FINANCIAL STATEMENTS

88. ISA (UK) 240 deals with the auditor's responsibilities relating to fraud in an audit of financial statements.
89. Auditors of pension schemes are aware that the potential for fraud exists in all schemes. Even if the auditor considers that the nature of pension schemes (not profit-making and not trading) reduces the risk of fraudulent financial reporting, the risk of misappropriation of assets remains. Professional scepticism therefore remains key.
90. The trustees of a pension scheme are responsible for ensuring that the assets and revenues of the scheme are adequately safeguarded against the effects of fraud through the implementation of appropriate controls. This legal responsibility remains with trustees even if they have delegated some or all of their executive functions to third parties.
91. Examples of conditions or events which may increase the risk of fraud include:
- failure by the trustees to establish and operate adequate internal control mechanisms, as required by legislation;
 - trustees or scheme management displaying a significant disregard for the various regulatory authorities;
 - trustees or scheme management having little or no involvement in the day-to-day administration of the scheme;
 - trustees or scheme management having ready access to the scheme's assets and an ability to override any internal controls;
 - trustees or scheme management failing to put in place arrangements to monitor activities undertaken by third parties, including the employer;
 - trustees or scheme management displaying a lack of candour in dealings with members, the scheme actuary or the scheme auditor on significant matters affecting scheme assets;
 - the sponsoring employer operating in an industry with increasing business failures, or itself having financial difficulties;
 - significant levels, or unusual types, of related party transactions (including employer-related investments) involving unaudited entities or entities audited by other firms; and
 - opaque investment arrangements where the flow of information to the trustees is restricted and therefore making it more difficult to control the investment and understand the position.

92. The audit planning process includes an assessment of the risk of material misstatements arising from fraud. Conditions or events which increase the risk of fraud include previous experience or incidents which call into question the competence or integrity of persons involved in the operation of the scheme.
93. The risk of material misstatements arising from fraud is normally most likely to arise in relation to investments as investment transactions and balances are normally much larger than transactions and balances with members.
94. In practice, investment related frauds are fairly uncommon. Although member related fraud is relatively more common, for example the continuing payment of benefits to a deceased pensioner, amounts involved are unlikely to be material to the pension scheme financial statements.
95. Under the requirements of ISA (UK) 240 (paragraph 47) if the auditor has concluded that the risk of material misstatement due to fraud related to revenue recognition is not applicable in the circumstances of the engagement, the auditor shall include in the audit documentation the reasons for that conclusion.
96. Revenue in a pension scheme generally comprises contributions and investment income. Pension schemes are not profit-making entities and pension scheme financial statements are not publicly available. Additionally, unlike sales revenue of a commercial entity, there is little scope to manipulate revenue of a pension scheme, for example, through false invoicing or misuse of credit notes. Given these facts, there is normally little incentive or opportunity for revenue to be fraudulently misstated and therefore limited risk of material misstatement arising due to fraud. However, the scheme auditor gives consideration to the risks arising in connection with the types of fraud that may occur in the context of an occupational pension scheme (see paragraph 91 above) and documents its conclusion and the reasoning behind it.
97. There has been increasing concerns over 'pension scams' whereby pension scheme members transfer out their benefits to unapproved or inappropriate arrangements. Trustees are required under guidance from TPR to put in place controls to check that transfers out are made to authorised pension schemes and in certain circumstances to check that the member has sought advice before making the transfer. If the auditor becomes aware of a possible scam during the course of their audit work they raise the matter with the trustees.

ISA (UK) 250: SECTION A – CONSIDERATION OF LAWS AND REGULATIONS IN AN AUDIT OF FINANCIAL STATEMENTS

98. ISA (UK) 250 Section A deals with the responsibilities of an auditor when considering laws and regulations in an audit of financial statements.
99. All staff involved in a pension scheme audit need a broad understanding of legislation and related Regulations, the trust deed and rules, FRS 102 and in particular the relevant part of FRS 102 relating to financial reporting for pension schemes under “Specialised Activities” and the Pensions SORP. This level of knowledge and understanding needs to be commensurate with roles and responsibilities in the audit.
100. An overview of the legislative and regulatory framework applicable to occupational pension schemes is given in the ‘Occupational Pension Schemes – key characteristics’ section of this Practice Note.
101. Users of the financial statements of a scheme reasonably expect that the transactions recorded within them are authorised by the governing document(s): hence, in order to show a true and fair view, due regard needs to be given to disclosure of any material non-compliance with the governing document(s).

Laws relating to the payment of contributions to the scheme

102. The trustees are required to obtain from the scheme auditor a statement as to whether the scheme has received contributions in accordance with legislative requirements (except for schemes with at least 20 participating employers at the start of the scheme financial year – see paragraph 55).
103. Further considerations relating to reporting on contributions are set out in paragraphs 218 to 256 below.

Laws and regulations where instances of non-compliance may have a material effect on the financial statements

104. In the context of pension schemes, instances of non-compliance with laws and regulations that may have a material effect on the financial statements for a particular scheme would include those where breaches would have consequences, such as:
 - action by the HMRC to rescind registered status (for example, as a result of a change to the constitution or the nature and value of benefits provided which do not comply with the legislation);
 - the penalty regime for breaches of the Finance Act 2004;
 - the penalty regime for breaches of data protection laws and regulations; or
 - action by TPR to remove or replace the scheme’s trustees. Action to remove trustees can be taken where, in TPR’s opinion, a trustee is not a fit and proper person.

105. The Pensions Ombudsman may also make determinations concerning remedial action necessary in particular cases, which may lead to investigation and action by TPR. The scheme auditor therefore includes a review of correspondence with that body, as well as correspondence with TPR and HMRC, as part of the procedures to assess the risk of non-compliance with laws and regulations which may have a material effect on the financial statements of a pension scheme.

Money laundering

106. When reporting to TPR, partners and staff in audit firms need to be alert to the dangers of tipping-off under the anti-money laundering legislation. Any knowledge or suspicions of involvement of a pension scheme's trustees in money laundering would normally be regarded as a matter of material significance to TPR and so give rise to a statutory duty to report to TPR in addition to making any necessary report required by legislation relating to money laundering offences. More guidance in relation to this legislation is given in ISA (UK) 250 Section A.

ISA (UK) 260: COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

107. ISA (UK) 260 deals with the responsibilities of the auditor when communicating with those charged with governance.
108. ISA (UK) 260 stresses that communication should be active, two-way communication between the auditor and those charged with governance. This is unlikely to be achieved if communication is only by way of written reports. Some trustee bodies of occupational pension schemes operate their relationship with the auditor through individuals such as a professional trustee or the secretary to the trustees in these circumstances. There may be a tiered approach to communication, with the detailed matters being communicated to an audit committee (or similar group) and less detailed matters being communicated with the trustee body. It may therefore be difficult to ensure that oral communication is transmitted to all trustees and written communication may also be necessary.
109. The scheme auditor notifies trustees of all breaches, discovered in the course of its work,¹¹ of duties relevant to the administration of the scheme imposed by any enactment or rule of law on the trustees or managers, the employer, any professional adviser or any prescribed person acting in connection with the scheme, regardless of whether the matter gave rise to a statutory duty to report to TPR. Such notification normally takes place in the course of assessing the consequences of each particular breach. However, the scheme auditor may also summarise such breaches in the auditor's report of audit matters to those charged with governance.

11 Subject to compliance with legislation relating to 'tipping off'.

ISA (UK) 265: COMMUNICATING DEFICIENCIES IN INTERNAL CONTROL TO THOSE CHARGED WITH GOVERNANCE AND MANAGEMENT

110. ISA (UK) 265 deals with the responsibilities of the auditor when communicating deficiencies in internal control to those charged with governance and management
111. Section 249A of PA 2004 states that schemes should have adequate internal control mechanisms in place. Therefore, trustees of an occupational pension scheme have a statutory obligation to establish and operate adequate internal controls. TPR's Code of Practice 09 on Internal Controls and supporting guidance provides guidelines on the standards of conduct and practice expected in this regard and sets out the processes and controls that TPR considers to be adequate for the purposes of satisfying the legal requirement.
112. When determining whether individual deficiencies in internal control that are identified during the audit merit the attention of the trustees, the auditor has regard to factors such as the following:
- the significance and nature of the risk(s) to the scheme's activities which are not addressed (adequately or at all) as a result of the deficiency;
 - the possible impact of the deficiency on the security of scheme assets;
 - the possible impact of the deficiency on the payment of members' benefits;
 - the extent to which the operation of controls is informal and undocumented, rather than formal and documented;
 - whether detective controls are in operation to compensate for deficiencies in preventative controls; and
 - whether aspects of the role of parties such as third-party service organisations compensate for deficiencies in controls operated by the trustees.
113. The auditor considers the impact, individually and in aggregate, of identified control deficiencies (including controls operated by third-party service organisations) when deciding whether to report them to the trustees. Where the effect and wider implications of a scheme not having in place adequate internal controls, either individually or in aggregate, are likely to be of material significance to TPR, the auditor makes a report to TPR.

ISA (UK) 300: PLANNING AN AUDIT OF FINANCIAL STATEMENTS

114. ISA (UK) 300 deals with the responsibilities of auditors in respect of planning an audit of financial statements.
115. When planning the work to be undertaken in respect of a pension scheme audit, it is important to identify those areas which are key to its operations as reflected in its financial statements. The key areas of most schemes' financial statements could include the following:
- contributions receivable;
 - benefits payable;
 - investment return; and
 - investment assets.
116. Where relevant, the scheme auditor's plan also takes account of the steps necessary to obtain sufficient appropriate evidence in order to discharge the auditor's statutory obligation to report on the payment of contributions where relevant.
117. Neither the scope of the audit, nor the scheme auditor's assessment of materiality for planning purposes, is affected by the duty to report matters that are likely to be of material significance to TPR.
118. When planning the work to be undertaken, the scheme auditor considers the other information available focussing on understanding investment arrangements, administration, scheme governance and the role of third parties. Possible sources of information include:
- discussions with trustees;
 - minutes of trustees' meetings;
 - membership records;
 - actuarial valuations; and
 - discussions with scheme management on changes to the scheme, for example in investment strategy, including de-risking initiatives.
119. When planning the audit of a pension scheme's financial statements, the scheme auditor also takes into account the importance of the work of third parties in the administration, investment and accounting on behalf of the trustees and the extent to which third parties provide these services. Where significant functions have been delegated to third parties, the scheme auditor reviews any such service level agreements with third parties as part of the planning process where they are relevant to the audit.

ISA (UK) 315: IDENTIFYING AND ASSESSING THE RISKS OF MATERIAL MISSTATEMENT THROUGH UNDERSTANDING THE ENTITY AND ITS ENVIRONMENT

120. ISA (UK) 315 sets out the responsibilities of an auditor in respect of identifying and assessing the risks of material misstatement.

Understanding the Pension Scheme and its environment, including its internal controls

121. This section focuses on the control environment and controls of the entity (i.e. the pension scheme) itself, rather than those service organisations which may be relevant to the audit.

Financial Reporting

122. The auditor obtains an understanding of the accounting framework under which the financial statements are prepared and their impact on the audit. Accounting principles for pension schemes include those set out in:

- specific legislation;
- FRS102 The Financial Reporting Standard applicable in the UK and Republic of Ireland;
- the Pensions SORP; and
- accounting and other recommendations issued by the PPF where relevant.

Legislative and regulatory requirements

123. Pension schemes operate within a framework of law and regulation which is complex and differs in a number of respects from that applicable to commercial enterprises. An overview of this framework is given in the Introduction to this Practice Note.

Financial and other risks

124. The auditor obtains an understanding of the pension scheme's objectives and strategies, and those related business risks that may result in risks of material misstatement. However, it is important to recognise that whilst trustees consider investment risks and other risks associated with the operation of a pension scheme, these are not necessarily the same as financial reporting risks. To avoid misunderstanding and confusion between the auditor and trustees, financial reporting risks are distinguished from other risks.

The nature of the scheme

125. The scheme auditor's understanding of the nature of the scheme usually includes obtaining and reviewing information and documentation in relation to:

(a) Scheme nature

- trust deed and rules and amendments thereto;
- the definition of pensionable earnings/pay, where not covered by the above;

- contribution rates;
- membership profile;
- type of scheme and type of benefits provided;
- scheme booklet; and
- documentation of the scheme's registered pension scheme status and related correspondence with HMRC.

(b) Scheme governance:

- membership of the trustee body and the governance framework;
- statutory chair's statement and supporting documentation (DC schemes);
- outsourcing arrangements and principal terms of contractual agreements with third-party service organisations;
- availability and use of relevant reports on the internal controls of service organisations including investment managers, custodians and administrators;
- correspondence with TPR/ the Pensions Ombudsman/the Pensions Advisory Service (TPAS);
- minutes of meetings of the trustee body and key sub-committees;
- internal dispute resolution procedure and any disputes in progress;
- arrangements for agreeing schedule of contributions or payment schedule with the sponsoring employer and taking actuarial advice where necessary; and
- annual scheme return.

(c) Information about sponsoring and participating employers:

- identity of the sponsoring and other participating employer(s);
- relevant covenants and funding arrangements;
- employer and HR payroll arrangements relevant to the remittance of scheme contributions; and
- arrangements for payment of additional voluntary contributions.

(d) Actuarial documentation (where relevant):

- letter of appointment;
- valuation reports and details of funding requirements;
- statement of funding principles;
- schedule of contributions;

- recovery plan;
- latest certificates; and
- annual summary funding statement.

(e) Approach to scheme administration and finance:

- service level agreements;
- division of administrative and financial responsibilities;
- accounting and membership records;
- stewardship and financial reports provided to the trustees; and
- systems and controls documentation as applicable to the pension scheme.

(f) Investments:

- investment strategy and approach to implementation of that strategy;
- statement of investment principles;
- custody arrangements;
- investment management agreements and service agreements with custodians;
- reports provided to the trustees by the investment managers;
- nature of investments and extent of complex and opaque investment structures;
- asset-backed special purpose vehicles;
- common investment fund arrangements;
- employer-related investments;
- subsidiaries; and
- AVC arrangements.

(g) Other advisers:

- services provided by other advisers.

Trustees' financial governance and internal controls

126. There is a wide variation between schemes in terms of size, activity and organisation. Smaller schemes may be administered by the staff of the sponsoring employer or by third-party administrators or a combination of both. Larger schemes may employ their own professionally qualified, staff. However, the legal requirement to operate internal controls¹² and the responsibilities of trustees for ensuring that the scheme has adequate

12 Section 249A Pensions Act 2004.

internal controls and therefore is properly administered and its assets properly safeguarded apply irrespective of a scheme's size or administrative arrangements.

127. The attitude, role and involvement of each scheme's trustees are likely to be fundamental in determining the effectiveness of its control environment. TPR's Code of Practice 09 "Internal controls" and supporting guidance provides trustees with guidelines on their duty to establish and operate adequate internal controls.

128. Factors taken into account when considering the governance of the scheme by the trustees include:

- the skills and qualifications of individual trustees;
- training undertaken by trustees;
- the regularity and effectiveness of trustees' meetings;
- the trustees' approach to dealing with matters in between trustees' meetings;
- adequacy of minutes of trustees' meetings;
- arrangements to monitor adherence to the scheme's statements of investment and funding principles;
- compliance with industry guidelines (for example, TPR's Codes of Practice and guidance);
- the policy on dealing with trustees and other conflicts;
- the division of duties between trustees;
- the involvement of trustees in supervision and control procedures, including matters such as banking arrangements;
- the trustees' attitude towards third parties to whom they delegate the conduct of scheme activities;
- arrangements for trustees to monitor scheme income and expenditure; and
- the attitude of trustees to previously identified breaches or control deficiencies.

Use of service organisations

129. Paragraph A68 of ISA (UK) 315 makes it clear that a scheme's use of service organisations is relevant to the auditor's consideration of the controls that are relevant to the audit. The auditor's work at scheme entity level is designed to provide the auditor with a sufficient understanding of risk on which to base its planning of audit procedures (see the section on ISA (UK) 402 in this Practice Note).

Assessing the risks of material misstatement

130. The scheme auditor assesses risk and the adequacy of controls in relation to the circumstances of each scheme. Factors considered by the auditor in assessing whether there may be an increased level of risk of material misstatement at the financial statement level include:

- complex scheme structures;
- major changes in the scheme or the participating/sponsoring employers;
- inadequacy of general resources;
- informal arrangements for scheme governance; and
- experience from previous years' audits.

131. Factors considered by the auditor in assessing whether there may be an increased level of risk of material misstatement at the assertion level especially in a year where changes are made include:

- complex contribution arrangements;
- changes in contribution rates;
- complex benefit structures;
- membership profile;
- non-compliance with schedule of contributions or payment schedule; and
- complex, opaque or illiquid investments.

ISA (UK) 320: MATERIALITY IN PLANNING AND PERFORMING AN AUDIT

132. ISA (UK) 320 deals with the auditor's responsibility to apply the concept of materiality in planning and performing an audit of financial statements.

Financial statement audits

133. For the financial statement audit opinion, net earnings or level of working capital are not among the prime indicators for a pension scheme and therefore, when considering materiality, the focus is directed at scheme assets (mainly investments), contributions, benefits and / or returns on investments.

134. Materiality for pension schemes may vary with the nature of the scheme and needs to be assessed for each individual scheme rather than applying any general guidelines. It is also important to distinguish, especially for the benefit of the trustees, that materiality in relation to the audit of the pension scheme's financial statements will not necessarily coincide with the expectations of materiality of an individual member of the scheme in relation to his or her expected benefits. Even in the case of defined contribution arrangements, the scheme auditor's judgments about materiality are made in the context of the financial statements as a whole and the account balances and classes of transactions reported in those statements, rather than in the context of an individual member's designated assets, contributions or benefits.

Auditor's statement about contributions

135. In addition to an independent auditor's report on the financial statements, the scheme auditor may also be required to provide a statement about contributions, which may then require separate considerations about materiality.

136. The scheme auditor's statement about contributions requires assessment of whether specific conditions have been met. This narrower and more factual focus of the report entails close consideration of payment dates and amounts, and hence a different level of materiality to that used in relation to the scheme's financial statements may be appropriate. The auditor documents the approach and factors considered in the determination of the level of materiality for the statement of contributions separately even if it is the same as that used for the audit of the financial statements. Materiality for the purposes of the auditor's statement is typically considered by reference to those contributions which are subject to the requirements of the schedule and not all contributions.

Regulatory reporting

137. The scheme auditor has a duty under PA 1995, if the auditor becomes aware of breaches of law which it has reasonable grounds to believe are "of material significance" to the exercise of the functions of TPR, to report such matters to TPR. The meaning of the term "of material significance" differs from "materiality" in the context of forming an opinion as to whether financial statements show a true and fair view (see paragraphs 265 to 274 which address this in more detail).

ISA (UK) 402: AUDIT CONSIDERATIONS RELATING TO AN ENTITY USING A SERVICE ORGANISATION

138. ISA (UK) 402 deals with the auditor's responsibilities relating to an entity using a service organisation.

Use of service organisations by pension schemes

139. Third party organisations undertake a wide range of activities within the pensions sector. Many of these involve financial transactions and balances and are therefore relevant to the financial statements so may fall for consideration under ISA (UK) 402 as "service organisations". Consequently, the auditor of a pension scheme needs to consider the nature and extent of activity undertaken by service organisations to determine whether those activities are relevant to the audit, and what their effect is on audit risk.

140. Examples of activities that may be undertaken by service organisations include:

- maintenance of the scheme's accounting and/or membership records;
- collection and investment of contributions paid over by the employer;
- custody and management of the scheme's investment assets; and
- calculation and payment of benefits.

141. Use of a service organisation does not diminish the ultimate responsibility of the trustees for meeting their legal responsibilities, including those of safeguarding the assets, maintaining proper accounting records and preparing financial statements.

142. Information prepared on behalf of the trustees of a pension scheme by service organisations which is relevant to the audit of the financial statements (which may include investment managers, custodians and scheme administrators) should be considered as being "produced by the entity" and therefore the auditor is required to obtain audit evidence about the accuracy and completeness of that information (see also ISA (UK) 500).

Sources of audit evidence

143. In determining the nature of work and sources of evidence, there are some issues that apply to all service organisations used by trustees:

- (a) The trustees' own procedures for appointment and ongoing monitoring of a third-party service organisation;
- (b) The level of supervision that the trustees exercise over any third parties and their activities; and
- (c) The availability of internal control reports produced under either AAF 01/06 "Assurance reports on internal controls of service organisations made available to

third parties” (a Technical Release issued by the Audit and Assurance Faculty of the ICAEW) or other equivalent guidance.

144. If the auditor is able to obtain sufficient audit evidence that the trustees operate adequate controls over the service organisation, the auditor will not need to supplement that understanding and assessment by making further enquiries about the control arrangements of relevant service organisations. In gathering audit evidence, the auditor considers what information is supplied to the trustees by the organisation, how the trustees monitor activities and performance of the organisation and whether the trustees carry out reviews of available reports by a service auditor on internal control.
145. The auditor considers the information available from the trustees over the activities of the service organisation and determines whether that is sufficient based on the auditor’s assessment of risk. If not, the auditor considers carrying out audit procedures at the service organisation.

Planning considerations

146. At the time when the auditor is planning the audit and performing assessments of risk, the latest available report by a service auditor on internal control may not cover all or even any of the period whose financial statements are to be audited. Rather than disregard the service auditor’s report on internal control, it may assist the auditor in obtaining a preliminary understanding of the controls implemented at the service organisation, supplemented by considerations such as whether:
- the conclusions reported in the service auditor’s reports on internal control in recent years have presented fundamentally the same conclusions as the latest available report;
 - the service organisation has changed its systems since the period/date covered by the latest available service auditor’s report on internal control; and
 - the trustees are aware of any errors affecting the client scheme during the period to be audited that have arisen from the activities of the service organisation, either reported by the service organisation itself or detected by the trustees’ own control procedures.
147. The auditor then assesses the impact on the planned audit approach and makes adjustments to the audit work as necessary.
148. Where a report by a service auditor on internal control covers a periods which is not coterminous with the scheme reporting period, the scheme auditor considers alternative procedures to obtain evidence regarding the controls at the service organisation from the date of the service auditor’s report on internal control to the end of the scheme reporting period. Such procedures can include, but are not limited to, requesting a bridging letter from the service organisation, discussions with trustees and management on the quality

of the services received from the service organisation and/or review of performance reports and other information received from the service organisation.

Administration of contributions by the employer

149. It is the statutory duty of the employer and the employer's auditor to disclose on request to the trustees such information as is reasonably required for the performance of the duties of the trustees or their professional advisers, including their scheme auditor. The trustees in turn have a statutory duty to disclose such information to the scheme auditor as the auditor reasonably requires to perform the auditor's duties. If the scheme auditor requires the assistance of the employer's auditor in providing information or in carrying out certain audit procedures, for example the collection of contributions, it is appropriate for the initial request to be made to the employer through the trustees.
150. The scheme auditor specifies the procedures to be undertaken and provides these to the trustees. The trustees then pass these to the employer and the employer's auditor who is engaged by the employer to undertake the work on the understanding that the results will be passed to the scheme trustees for the purposes of the scheme audit. If the trustees wish to contract directly with the employer's auditor to undertake work on their behalf, the employer's auditor will need to be appointed as a professional adviser to the scheme under the Scheme Administration Regulations in the same way as the scheme auditor.
151. If the foregoing methods of obtaining audit evidence are not available the scheme auditor may need to consider whether this will result in a limitation to the scope of the audit which will affect the audit opinion on the financial statements and the auditor's statement about the payment of contributions where applicable.

ISA (UK) 500: AUDIT EVIDENCE

152. ISA (UK) 500 explains what constitutes audit evidence and deals with the auditor's responsibility to obtain sufficient appropriate evidence.
153. In preparing the financial statements, the trustees may use estimates which have been provided by experts engaged by the trustees or by the employer, e.g. actuaries, investment property valuers. Where the scheme auditor uses information provided by these experts as audit evidence as to the appropriate valuation of these assets held by the scheme, the reliability of such information is assessed with reference to the competence, capabilities and objectivity of the expert.
154. As well as being used in providing estimates for the valuation of assets, the scheme actuary will provide an actuarial valuation of the liability to pay pensions after the year-end. However, as this is not within the scope of the financial statements, this valuation will not be used in providing audit evidence in relation to scheme liabilities. Guidance on liaison with the actuary is provided in paragraphs 257 to 261 of this Practice Note.

ISA (UK) 520: ANALYTICAL PROCEDURES

155. ISA (UK) 520 sets the responsibilities for auditors when using analytical procedures as a basis for the identification and assessment of risks of material misstatement; to obtain relevant and reliable substantive audit evidence; and to assist the auditor when forming an overall conclusion as to whether the financial statements are consistent with the auditor's understanding of the entity.
156. Analytical review techniques are likely to be particularly useful in the audit of pension schemes, not only at the planning and overall review stages of the audit but also as substantive procedures to supplement other evidence concerning the operation of controls or accuracy of individual balances and transactions.
157. Although a pension scheme's income, resources and expenditure may fluctuate from year to year, for most transactions there are still ways in which the scheme auditor can establish whether the figures are internally consistent and reflect the pension scheme's operations during the year. Key techniques include comparison of information shown in the financial statements, for example:
- investment income and investment return can be compared with relevant published information;
 - monthly and annual patterns of contribution income can be compared to expected amounts using rates set out in the schedule of contributions or payment schedule. However, disaggregation may be required when differing rates of contribution are used for different categories of members;
 - monthly and annual patterns of pensions payments can be compared to movements in membership statistics and increases to benefits in payment;
 - membership statistics can be reconciled with information from the employer's payroll, and information about active pensioners and deferred members;
 - bench-marking reports on investment performance, can be compared to financial information shown in the financial statements to check for correlation;
 - non-financial information contained in documents issued by the scheme, such as summary reports, pensions newsletters, or in management information reports concerning scheme membership can be compared to financial information shown in the financial statements;
 - actual income and expenditure can be compared to budgets, prior years' figures and trends; and
 - actual expenditure can be compared to the scheme auditor's own expectation of expenditure that would be reasonable for the particular transaction under review, for example, average pension payment per pensioner.

Software based tools may be helpful in analysing information.

ISA (UK) 540: AUDITING ACCOUNTING ESTIMATES, INCLUDING FAIR VALUE ACCOUNTING ESTIMATES, AND RELATED DISCLOSURES

158. ISA (UK) 540 deals with the auditor's responsibilities relating to accounting estimates, including fair value accounting estimates, and related disclosures.
159. FRS 102 requires pension schemes to report investments at fair value in accordance with its fair value hierarchy. The fair value of annuities is deemed to be the present value of the related obligation. The Pensions SORP provides further guidance on valuing investments in accordance with FRS 102.
160. Pension schemes may invest in complex financial instruments or illiquid investments for which there may not be an exchange traded price and therefore fair value accounting estimates are made for inclusion in the financial statements.
161. These investments may include:
- non-exchange traded bonds including asset backed securities;
 - unquoted securities, including private equity;
 - infrastructure;
 - investment properties;
 - non-exchange traded pooled investment vehicles;
 - annuity / buy-ins;
 - with-profit insurance policies;
 - non-exchange traded derivatives, including options, interest and inflation swaps and forward foreign currency contracts;
 - special purpose vehicles such as Scottish Limited Partnerships used for supporting asset backed contribution arrangements;
 - longevity swaps; and
 - repurchase agreements and reverse repurchase agreements.

Estimation uncertainty

162. Fair value accounting estimates may involve varying degrees of estimation uncertainty. Some fair value accounting estimates involve low estimation uncertainty and may give rise to lower risks of material misstatement, for example, where the data used is readily available and is observable such as published interest rate data or exchange traded prices of securities. For other fair value estimates there may be relatively high estimation uncertainty, particularly where fair values are based on significant assumptions such as for derivative financial instruments not publically traded or where highly specialised entity

developed models are used for which assumptions or inputs are not observable in the market place, such as complex over-the-counter derivatives or private equity investments. Where there is a greater degree of uncertainty, there will be an increased risk of valuation misstatement and this will require a greater amount of auditor attention. Sensitivity analysis may be used to demonstrate how estimation uncertainty may affect the fair value accounting estimate.

Significant risks

163. As part of their risk assessment, the auditor obtains an understanding of the nature of the scheme investments, considers the associated risks and uses judgment to determine whether any accounting estimates identified as having high estimation uncertainty give rise to significant risks. As part of gaining an understanding, the auditor is mindful of the risk of material misstatement in valuation and may consider:

- the nature of the asset (including whether there actually is an asset that can be valued);
- how material is the instrument to the scheme;
- the contractual terms;
- the complexity of the arrangements;
- year on year movements/changes and variation in cash flows;
- the trustees' reasons for investing in this type of asset;
- the basis for valuation;
- the key models and assumptions involved; and
- who is providing the valuation and whether they have the required expertise.

164. Paragraph 21 of ISA (UK) 330 "The Auditor's Responses to Assessed Risks" requires that if the auditor has determined that an assessed risk of material misstatement at the assertion level is a significant risk, the auditor shall perform substantive procedures that are specifically responsive to that risk. This may apply where significant investments are illiquid and difficult to value and the auditor pays particular attention to the basis adopted by the trustees for obtaining a market valuation. Where the trustees have sought the assistance of specialist valuers, the auditor has regard to the requirements of ISA (UK) 500 "Audit Evidence" when deciding how much direct testing to apply to the values reflected in the scheme's financial statements. Examples of accounting estimates for investment valuations in pension schemes that may have high estimation uncertainty include fair value accounting estimates for which a highly specialised entity-developed model is used or for which there are significant non-observable inputs.

165. Considerations regarding the assumptions used in accounting estimates are further discussed in paragraphs A31-A36 of ISA (UK) 540.

Management Bias

166. As part of their risk assessment and understanding of the scheme and the scheme investments, the scheme auditor also considers the degree to which assumptions may be biased by investment managers of the pension scheme. This bias may arise from a desire to meet trustees' expectations on the results for the year or to demonstrate growth in the value of assets. Paragraphs A124-A125 of ISA (UK) 540 include indicators of possible management bias.

Practice Note 23 Financial instruments

167. Practice Note 23 "Special considerations in auditing financial instruments" provides general guidance to the auditor when planning and performing audit procedures for financial statement assertions related to financial instruments. Financial instruments include equities, bonds, derivatives and pooled investment vehicles. Auditors of pension schemes that hold financial instruments should be familiar with PN 23 and have regard to its guidance when performing their audits.

168. It is the trustees' responsibility to ensure that financial instruments recorded in the financial statements are properly valued and presented. When considering the audit planning, the auditor obtains an understanding of the financial risks to which the use of complex financial instruments exposes the pension scheme and the requirements of the accounting framework and the approach adopted by the trustees.

Pooled investment vehicles

169. Pooled investment vehicles may include the various forms of pooled investments such as unit trusts, unitised or unit linked insurance policies, open-ended investment trusts and open-ended investment companies, shares in limited liability partnerships and hedge funds. Most pooled investment arrangements invested in by pension schemes are not exchange traded. The auditor therefore considers the nature of the pooled vehicle and the underlying investments in determining the risk of material misstatement arising from fair value estimation. Possible factors to consider include:

- whether the investment vehicle is appropriately classified in accordance with the applicable accounting framework;
- the frequency of pricing or determining the net asset value (NAV) of the fund i.e. daily, weekly, monthly or quarterly;
- whether the fund is open-ended or closed-ended;
- whether the fund manager trades at the unit prices or NAVs provided for financial reporting purposes;
- the nature of the investments held by the fund;
- whether the fund is regulated;
- whether the fund is audited;

- whether the fund produces an internal controls report; and
- is the scheme the sole investor in the fund.

170. Based on the auditor's assessment of the risk of material misstatement arising from fair value determination for the pooled vehicle, sources of evidence available to the auditor in respect of fair value accounting estimates may include:

- A report by a service auditor on internal control, such as AAF01/06/ ISAE 3402 reports, where available, which cover controls over the determination of fair values. The auditor reviews the scope and findings of these reports, in accordance with ISA (UK) 402 Audit Considerations Relating to an Entity Using a Service Organisation;
- Evidence of unit prices or NAVs for transactions between investors in the pooled investment vehicle and the pool manager at or around the financial reporting date;
- Audited financial statements for the pooled investment vehicle. The auditor confirms that audited financial statements show that the investments held by the fund are valued at market value or using fair value accounting estimates. It may also be useful to compare the initial unaudited and subsequent audited valuation to assess the robustness of the fair valuation framework. Where the financial year-end of the fund is not coterminous with the scheme year-end, the auditor considers further additional audit work to gain assurance over the movement in valuation from the date of the latest audited accounts to the scheme year-end date, if this movement could potentially be materially misstated. This additional work may include discussions with the pool manager on the approach taken to the valuation of the underlying investments and/or, for example:
 - a. analytical review of the fund return compared with published or benchmark indices for the fund strategy; or
 - b. obtaining additional more up-to-date supporting substantive evidence for the valuation. This may include reviewing the valuation of the underlying investments where the procedures above are not sufficient to reduce the audit risk to an acceptable level or where other sources of evidence are limited (for example, if the vehicle is unaudited).

Specialist pension investments

171. Pension schemes may invest in investments that are tailored to defined benefit pension schemes and are not generally found in the wider investing community. These include:

- buy-ins / annuity insurance policies;
- special purpose vehicles normally associated with asset backed contributions; and
- longevity swaps.

172. These arrangements are typically highly illiquid, valued using mainly non-market observable information and use complex valuation methodologies. Typically trustees will use an expert to provide a valuation of these types of investment for financial reporting purposes, for example the scheme actuary. The auditor may therefore require specialist skills or knowledge in order to assess or respond to the risks of material misstatement for estimates related to the fair value of these types of investment. In these circumstances if an auditor's expert is used ISA (UK) 620 "Using the Work of an Auditor's Expert" is applicable. Where the trustees have used an expert to value these types of investments, ISA (UK) 500 "Audit Evidence" covers how the auditor addresses information to be used as audit evidence that has been prepared using the work of a management's expert.

ISA (UK) 550: RELATED PARTIES

173. ISA (UK) 550 deals with the auditor's responsibility relating to related party relationships and transactions.
174. The related parties of pension schemes fall into two broad categories:
- employer-related; and
 - trustee-related.
175. The Pensions SORP recommends that for financial reporting purposes related parties should also be deemed to include other pension schemes for the benefit of employees of companies and businesses related to the employers, or for the benefit of the employees of any entity that is itself a related party of the reporting pension scheme.
176. The requirements set out in ISA (UK) 550 equally apply to the audit of pension schemes. The scheme auditor considers the possibility of related party transactions, for example, where a pension scheme contracts with the employer or related third parties for the use of a property or for the supply of goods or services to the scheme, even if these result in more favourable terms for the pension scheme than would otherwise be available.
177. The scheme auditor enquires as to the procedures that the trustees have in place to identify related parties and to authorise and record any related party transactions, including transactions with or loans to the sponsoring employer. The Pensions SORP provides guidance on the types of transaction that fall into the categories shown above and the form of disclosure recommended. The scheme auditor considers whether the trustees have made appropriate arrangements for identifying, authorising and recording such transactions in the circumstances of the particular scheme. Such arrangements might include a declaration of interest file and opportunities at trustees' meetings for trustees to declare interests. The scheme auditor also obtains written representations from the trustees concerning the completeness of information provided regarding the related party disclosures in the financial statements.
178. It is a general principle of trust law that trustees do not benefit from their trust. However, some individual trustees may be paid for their services and professional trustee organisations may be paid by a pension scheme. This apart, pension scheme trustees are prohibited from transacting directly with the pension scheme, although transactions between pension schemes and businesses in which any of the trustees have an indirect interest (for example, as a shareholder or a director) are not necessarily prohibited. The pension scheme trustee who is also a scheme member, is not necessarily prohibited from benefiting as a scheme member from decisions taken as a trustee.
179. In addition, employer-related investments are prohibited or restricted by the legislation.

180. Detailed guidance for trustees, employers and advisers on conflicts of interest is provided by TPR and is available on its website¹³.

13 This includes:

- www.thepensionsregulator.gov.uk/guidance/guidance-conflicts-of-interest.aspx
- www.thepensionsregulator.gov.uk/trustees/db-conflicts-of-interest.aspx
- www.thepensionsregulator.gov.uk/conflicts-of-interest.aspx

ISA (UK) 570: GOING CONCERN

181. ISA (UK) 570 deals with the auditor's responsibilities relating to going concern and the implications for the auditor's report.
182. FRS 102 requires trustees to prepare a statement of net assets available to meet benefits which excludes the obligations to meet promised pension benefits (for defined benefit schemes). A statement of the actuarial present value of such obligations and related specified disclosures is required to be disclosed in a separate report, which is not required to be audited (but which falls within the scope of ISA (UK) 720), alongside the financial statements.
183. The going concern basis is used in the preparation of the financial statements unless a decision has been made to wind up the scheme, an event triggering wind up has occurred, e.g. insolvency of the employer, or the scheme has entered the PPF assessment period and there is no realistic alternative to the eventual admission of the scheme and the transfer of its assets and liabilities to the PPF. The SORP explains that whilst the pension scheme is in the PPF assessment period and the outcome of the assessment is uncertain, the financial statements continue to be prepared on the going concern basis. Even when the going concern basis is not used, there may not be any impact on the valuation of scheme investments if the timescale of the wind up allows investments to be realised without incurring significant redemption penalties. The SORP states that the basis of preparation of the financial statements does not need to refer to the going concern concept unless the trustees or employer have taken a formal decision to wind up the scheme or there has been a cessation event.
184. Notwithstanding the considerations above relating to the requirement to use the going concern basis of preparation, the trustees of a pension scheme are required to comply with the requirements of FRS 102 (paragraphs 3.8 and 3.9) regarding the assessment and disclosure of material uncertainties relating to going concern. The Pensions SORP identifies that FRS 102 requires:
- when preparing financial statements, the management of an entity using the FRS shall make an assessment of the entity's ability to continue as a going concern ... In assessing whether the going concern basis of accounting is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the date when the financial statements are authorised for issue; and
 - when management is aware, in making its assessment, of material uncertainties related to events or conditions that cast significant doubt upon the entity's ability to continue as a going concern, the entity shall disclose those uncertainties.

185. Events or conditions that may give rise to a winding up of the scheme are likely to be relevant considerations in the trustees' assessment. For example, such events or conditions may give rise to a decision to wind up the scheme (for example, by the sponsoring employer or by the trustees), or may trigger a winding up of the scheme (for example, an event as set out in the trust deed and rules that trigger winding-up) or may otherwise have the potential to make winding up unavoidable. The nature and extent of the trustees' assessment will depend on the circumstances.
186. In making their assessment of the scheme's ability to continue as a going concern, the trustees of a defined benefit scheme do not necessarily need to prepare and review forecast financial information in order to confirm that their scheme will be able to meet promised benefits in full as they fall due. However, there may be circumstances where it is important to do so. For example, where a scheme is subject to an unexpectedly high number of early retirements, the trustees may need to prepare information (including forecast cash flows) to provide an assessment of whether there are sufficient liquid assets held by the scheme in order to meet pension payments as they fall due.
187. They may also need to do so as part of the trustees' assessment of the scheme's reliance on the continuation of financial support due under the employer covenant. Trustees also consider whether there are events or conditions that may cast significant doubt on the scheme's ability to continue as a going concern, for example circumstances that indicate that the scheme may be wound up (for example, because the scheme may need to enter a PPF assessment period, or it has and the outcome of the assessment is uncertain).
188. In applying the requirements of ISA (UK) 570, the scheme auditor's assessment of a scheme's ability to continue as a going concern takes account of the differences between a pension scheme and a commercial entity.
189. In accordance with ISA (UK) 200 (Revised June 2016), the auditor maintains professional scepticism throughout the audit, including when considering the scheme's ability to continue as a going concern. In the case of a pension scheme, the primary area for the attention of the scheme auditor will be whether circumstances have arisen that have triggered the wind up of the scheme or that provide evidence that a winding up of the scheme (either outside the PPF or on transfer of assets into the PPF) may occur. The pension scheme auditor's evaluation of the trustees' assessment of the scheme's ability to continue as a going concern includes making enquiries of the trustees as to whether circumstances have arisen that mean that the scheme must be wound up or that it may be appropriate to wind up the scheme and will include, where appropriate, evaluating the process of assessment followed by the trustees and reviewing the steps that the trustees have taken to confirm the scheme's ability to continue as a going concern. As TPR has the power to order a scheme to be wound up, the scheme auditor also considers the correspondence between the trustees and TPR in relation to considering whether TPR will wind-up the scheme.

190. Where the auditor identifies or is made aware of circumstances which indicate that it is likely that the scheme will be wound up or that it may be appropriate for it to be wound up, the auditor discusses the matter with the trustees and performs procedures as necessary to obtain sufficient appropriate audit evidence to conclude whether the trustees have properly assessed the risk and made appropriate adjustments to asset values (where the going concern basis is not applicable) and / or disclosures in the financial statements and annual report .
191. If events or conditions are identified that may cast significant doubt on the scheme's ability to continue as a going concern but, based on the audit evidence obtained the auditor concludes that no material uncertainty exists, ISA (UK) 570 requires the auditor to evaluate whether, in view of the requirements of the applicable financial reporting framework, including FRS 102, the financial statements provide adequate disclosures about those events or conditions.

ISA (UK) 580: WRITTEN REPRESENTATIONS

192. ISA (UK) 580 deals with the auditor's responsibility to obtain written representations from management and where applicable those charged with governance. Written representations on their own do not provide sufficient appropriate audit evidence about any of the matters with which they deal.
193. The body of trustees as a whole is responsible for the contents and presentation of the financial statements and the representation letter should therefore be approved by the trustee body.
194. Appendix 2 provides extracts of a representation letter which might be different to those included in the example representation letter included in ISA (UK) 580.
195. In most pension schemes, day-to-day management is delegated to a scheme management team or provided by a third-party service organisation. In these circumstances, the trustees may wish scheme management or the third-party service organisation to provide a representation to them in relation to some or all aspects of the preparation of the financial statements. This is a relationship matter for the trustees and should not impact on the nature or strength of the representations made by the trustees to the auditor.

ISA (UK) 620: USING THE WORK OF AN AUDITOR'S EXPERT

196. ISA (UK) 620 deals with the auditor's responsibilities relating to using the work of an individual or organisation in a field of expertise other than accounting or auditing.
197. Areas in which the scheme auditor may use the work of its own expert to provide audit evidence include fair value valuations of certain investments, for example, annuities, special purpose vehicles used for asset backed contributions, longevity swaps, unquoted investments, properties, certain derivatives and alternative investment categories. Practice Note 23, *Special considerations in auditing financial instruments*, provides guidance on using experts or specialists in audits involving financial instruments, particularly complex financial instruments.
198. The nature of the scheme auditor's statutory opinion excludes consideration of liabilities to pay pension and benefits after the end of the scheme year. As a result, the scheme auditor does not ordinarily rely on the work of the scheme actuary to provide audit evidence relating to such liabilities to support the auditor's report on a scheme's financial statements.
199. ISA (UK) 500 "Audit Evidence" covers how the auditor addresses information prepared using the work of a management's expert. Practice Note 23 also provides guidance on audit considerations in relation to the valuation of financial instruments when a management's expert is used by the audited entity.

ISA (UK) 700: FORMING AN OPINION AND REPORTING ON FINANCIAL STATEMENTS

200. ISA (UK) 700 deals with the auditor's responsibility to form an opinion on the financial statements and the form and content of the auditor's report.
201. The form and content of auditor's reports on the financial statements of occupational pension schemes follow the requirements established by ISA (UK) 700, supplemented by the particular detailed requirements of the Audited Accounts Regulations which are explained in the following paragraphs.

Addressee of the report

202. The Audited Accounts Regulations require trustees to obtain audited financial statements. Hence, the scheme auditor addresses its report on a scheme's financial statements to the trustees of the scheme and to other parties if required by the trust deed and rules.

Responsibilities of trustees for the financial statements

203. ISA (UK) 700 requires the auditor's report to include a section with a heading "Responsibilities of management for the Financial Statements". However, recognising that "management" may not always be the appropriate term, it requires that the term used is the most appropriate in the context of the relevant legal framework – for pension schemes this will be the trustees.
204. The responsibilities of the trustees may vary according to the constitution of the particular pension scheme, subject to overarching requirements which apply to all trustees by virtue of statute or the general law.

Requirements of the Pensions Act 1995

205. The Audited Accounts Regulations require the scheme auditor to state whether or not in the auditor's opinion the financial statements contain the information specified in the Regulations.
206. The Audited Accounts Regulations require trustees of a scheme to disclose in its financial statements whether those statements have been prepared following the financial reporting framework current at the end of the year, and, if not, to give details of any material departures. The key aspects of the current financial reporting framework for pension schemes include FRS 102 and the Pensions SORP.
207. FRS 102 contains specific requirements for pension scheme financial statements as set out in its 'Specialised Activities' section covering the form, disclosures and accounting policies for pension scheme financial statements. Adherence to FRS 102's requirements is generally considered necessary for pension scheme financial statements to show a true and fair view.

208. The Pensions SORP is issued by PRAG in accordance with the FRC's code of practice for the production and issue of SORPs. The Pensions SORP sets out guidance intended to represent best practice on the form and content of the financial statements of pension schemes prepared in accordance with financial reporting standards current at the time of its issue.
209. Although the Pensions SORP's guidance is not mandatory nor a primary accounting standard, the requirement to disclose non-compliance and the general status of a Pensions SORP issued in accordance with the FRC's code, has the effect of establishing a strong presumption that financial statements which meet the requirement under PA 1995 and the Regulations to show a true and fair view will normally follow the guidance contained in the Pensions SORP. This takes into account any amendment judged to be necessary as a result of changes in financial reporting standards since its issue, as the SORP cannot override accounting standards.

Other considerations

210. The trust deed establishing a scheme may establish additional requirements concerning the contents of its financial statements (but may not derogate from the statutory requirements). The scheme auditor therefore assesses whether any such requirements are met. In addition, where the scheme auditor becomes aware of information which indicates that a transaction or transactions undertaken by the scheme may have breached any terms of its trust deed, the auditor considers the implications for its reporting responsibilities.

Relationship with duty to report to TPR

211. When determining the nature of the auditor's report, the scheme auditor also assesses whether the evidence obtained over the audit as a whole indicates that a statutory duty to report direct to TPR exists in addition to any report already made in respect of particular matters encountered in the course of their work. In making this assessment, the scheme auditor takes into account the accumulated knowledge of the scheme and the attitude of the trustees towards regulatory requirements.
212. In addition, a decision by the scheme auditor either to issue a modified or qualified opinion on the financial statements of the scheme or to qualify the auditor's statement about contributions may be of material significance to TPR and, if so, is reported to TPR by the scheme auditor without waiting for the issue of the annual report and financial statements. The report should take account of the normal reporting guidelines referred to earlier in this Practice Note.

ISA (UK) 720: THE AUDITOR'S RESPONSIBILITIES RELATING TO OTHER INFORMATION

213. ISA (UK) 720 deals with the auditor's responsibilities relating to 'other information' included in the 'annual report' that contains or accompanies the financial statements and the auditor's report thereon.
214. The "other information" which may accompany the financial statements of a pension scheme and examples of areas of potential concern include:
- Trustees' report – membership statistics: are the changes in membership numbers consistent with the financial information?
 - Trustees' report – pension increases: is the rate of increase reflected in the benefit payments?
 - Trustees' report: is the asset total and investment income/return consistent with the amounts shown in the financial statements?
 - FRS 102 requires a Report on Actuarial Liabilities for defined benefit schemes to be reported alongside the financial statements. The SORP recommends this includes the scheme net assets at the date of the actuarial liabilities included in the report. Are the net assets included in the report consistent with the audited net assets at the relevant date?
 - Governance statement signed by the Chair for DC arrangements – is it consistent with the auditor's knowledge of the scheme?
215. There is a legal requirement to include the latest actuary's certificate as to the adequacy of contributions in the annual report which may be different from the certificate applicable to the financial year covered by the annual report.
216. The actuarial report is not required to be audited. However, if the auditor identifies that a material inconsistency appears to exist with the financial statements or the auditor's knowledge obtained in the audit (or becomes aware the other information appears to be materially misstated), the auditor may wish to liaise with the scheme actuary. Steps to be taken to facilitate necessary liaison with the scheme actuary are discussed in the section of this Practice Note "Liaison with the Scheme Actuary".
217. The trustees may also distribute other documents together with the financial statements such as personal benefit statements, scheme funding statements, new rules booklets or newsletters. The scheme auditor has no statutory responsibility to consider these documents. They will only be within the scope of ISA (UK) 720 if they are included in the scheme's annual report' as defined in ISA (UK) 720.

THE AUDITOR'S STATEMENT ABOUT CONTRIBUTIONS (THE STATEMENT)

Requirement to provide the statement

218. Under Regulation 2(1) (b) of the Audited Accounts Regulations the trustees of most occupational pension schemes are required to obtain, not more than seven months after the end of the scheme year, an auditor's statement about contributions under the scheme. Regulation 4 (as amended) sets out the form and content of the auditor's statement as follows:

- a statement as to whether or not in its opinion contributions have in all material respects been paid at least in accordance with the schedule of contributions or payment schedule ("the schedule"); and
- if the above statement is negative or qualified, a statement of the reasons.

219. If the trustees have not put in place a schedule the scheme auditor is required to make a statement as to whether or not contributions have been paid in accordance with the scheme rules or the contracts under which they were payable and, if applicable, the recommendations of the scheme actuary. If this statement is negative or qualified, a statement of the reasons must be given.

220. The statement is not an audit opinion. However, it is similar in that it expresses an opinion intended to convey reasonable assurance. It is normal practice for the scheme auditor to provide it at the same time as providing the audit opinion on the financial statements. The work to support the statement will draw on the auditor's work performed in relation to contributions as part of the audit of the scheme's financial statements. Accordingly, guidance to auditors on providing the statement is set out in this Practice Note. The auditor's statement about contributions is presented separately from the opinion on the financial statements.

221. There is no statutory requirement to obtain a statement from the auditor where a scheme has 20 or more participating employers at the start of the year. Such employers only need to be participating, they do not need to be non-associated or contributing to count towards the total.

Schedules of Contributions

222. Under section 227 of PA 2004 the trustees or managers of pension schemes subject to the Act's Scheme Specific Funding requirements must prepare and from time to time review and if necessary revise a schedule of contributions. The required contents of the schedule of contributions are set out in Regulation 10 of the Occupational Pension Schemes (Scheme Funding) Regulations 2005 and include the rates and due dates of all contributions (other than voluntary contributions)

223. The schedule must be signed by the trustees or managers of the scheme and make provision for signature by the employer (unless the scheme rules provide otherwise) in order to signify agreement to matters included therein. The schedule must incorporate the actuary's certification, as set out in the Regulations.

224. A schedule of contributions is only legally effective from the date of certification by the scheme actuary.

Payment Schedules

225. Under section 87 of PA 1995 the trustees of most defined contribution pension schemes must secure that a payment schedule is prepared, maintained and from time to time revised. It is notable that this requirement is worded slightly differently from that for a schedule of contributions. The required contents of a payment schedule include separate entries for the rates and due dates of contributions (other than voluntary contributions) payable towards the scheme by or on behalf of each employer. The content of the payment schedule should be as specified in the scheme documentation or, in the absence of this, as agreed between the trustees and the employer and if agreement cannot be reached with the employer the payment schedule should be prepared and put in place by the trustees without the employer's agreement.

Trustees' regulatory responsibilities

226. Schedules are part of a regulatory mechanism to make sure that the employer pays the right contributions on time. The relevant TPR Codes of Practice clarify that the trustees are responsible for monitoring that the contributions due to the scheme are in fact paid, taking action to address late or underpaid contributions and reporting to TPR where appropriate. Guidance on the approach to monitoring contributions, taking actions for late or underpaid contributions and reporting late contributions is set out in Code of Practice 03: Funding Defined Benefits (for schedules of contributions), Code of Practice 05: Reporting Late Payment of Contributions to Occupational Schemes (for payment schedules) and Code of Practice 13 Governance and administration of occupational trust-based schemes providing money purchase benefits.

227. The employer has responsibilities for complying with the schedule and legal requirements for calculation of contributions and for paying them over completely, accurately and on a timely basis.

Scope of schedules and reporting

228. It is not necessary for schedules to cover all contributions payable to a scheme. The auditor therefore identifies which contributions are covered by the schedule and which are not. It is also important for the readers of the auditor's statement about contributions to understand which contributions are covered by it and which are not. To assist in this the trustees prepare a Summary of Contributions paid to the scheme under the schedule and the scheme auditor refers to this in the auditor's statement. The trustees' Summary of Contributions is included in the annual report and it is helpful for it to include a

reconciliation of contributions under the schedule to total contributions reported in the financial statements. Normal reconciling items are, for example, additional voluntary contributions or special employer contributions not included in the schedule.

229. The schedule should provide sufficient clarity as to the amount and timing of contributions to enable the auditor to form an opinion whether they were paid in accordance with the schedule. The auditor evaluates the disclosure within the Summary of Contributions with particular focus on whether contributions covered by the schedule are clearly distinguished from those which are not covered by the schedule. AVCs and augmentations may not be included in the schedule in which case the auditor does not report on them. However, this is not always the case, and the auditor evaluates the wording of each relevant schedule to ascertain and document reasons why particular classes of contributions are or are not covered by the auditor's statement. As part of this evaluation the auditor considers whether contributions are required by the schedule or are merely referred to in the schedule.
230. Another potential area of complication is where the recognition point for income in the financial statements differs from the due date for payment, which may be after the year end or even after the deadline for obtaining the auditor's statement. Examples of these are:
- deficit funding contributions which may be recognised on receipt subject to conditions outlined in the SORP, which may be earlier than the strict due date; or
 - top-up payments (e.g. for expense contributions or for payroll-related contributions where estimates are paid over monthly with an annual adjustment).
231. Such timing differences may be shown as reconciling items between contributions covered by the schedule and contributions reported in the financial statements. In practice most Summaries of Contributions are prepared by trustees on the same basis of recognition as contributions reported in the financial statements, but it is recognised that a cash basis or due date basis may be more appropriate for some schemes. Where the trustees change basis from one year to the next, the auditor needs to ensure that contributions are not omitted or double-counted as a result of the change.
232. Where a schedule is not in place the auditor reports on whether contributions are paid in accordance with the trust deed and rules and, if applicable, the recommendations of the actuary. These requirements may not be included in the annual report and if so the auditor considers whether it would be useful for them to be included in the Summary of Contributions prepared by the trustees.

Effective date for schedules

233. A schedule of contributions is legally effective from the date of certification by the scheme actuary. Contributions received prior to the certification date need to be considered in

relation to the schedule of contributions applicable at that time or, if no schedule of contributions was in place, against the rules of the scheme and, where appropriate, the recommendations of the scheme actuary.

234. Revised schedules of contributions are sometimes drafted so that they are effectively backdated, e.g. to the beginning of the scheme year or the previous valuation date. As the revised schedule is only effective from the date of certification by the scheme actuary, the auditor reports on the schedule of contributions that is legally in force until the revised schedule is certified ignoring any changes to contributions brought about by the subsequent schedule. However, a schedule may specify that a catch-up payment be made by a date after the schedule is effective, for example an extra $x\%$ in respect of the previous 12 months payable no later than one month after certification. This catch-up payment is not backdating, and should therefore be considered in scope of the schedule and the auditor's statement thereon, even though it related to periods prior to the effective date and may in practice have been paid before the schedule is certified
235. Where contributions are increased on a back-dated basis, this will result in additional contributions being classified as "other contributions" in addition to those required by the schedule of contributions. As the statutory requirement is to report whether contributions have in all material respects been paid **at least** in accordance with the schedule, overpayment is not grounds for qualification of the opinion in the auditor's statement.
236. Where contributions are decreased on a back-dated basis, the auditor will need to consider qualifying the statement about contributions if contributions were effectively materially underpaid in the period immediately before the new schedule took legal effect.
237. In relation to payment schedules, there is no equivalent certification requirement to act as a legal trigger to make a payment schedule effective so the picture is not as clear as it is for a schedule of contributions. The law does not require a payment schedule to be physically signed by the trustees or employer, merely agreed between them, or failing agreement, put in place by the trustees. The auditor therefore satisfies itself about the date from which the payment schedule was "in place". In the absence of legal or other guidance the auditor should regard a payment schedule as being effective from the date it is used by the trustees to monitor the receipt of contributions to the scheme from the employer. It therefore follows that a payment schedule is not effective for periods prior to its preparation and use. A payment schedule can be amended by the trustees and the employer to refer to contribution arrangements that were omitted but the omitted arrangements will only be effective from the date they are included in the payment schedule. They cannot have retrospective effect.
238. Both types of schedule have a legal requirement for periodic review and updating. However, changes may occur in a scheme, such as commencement of auto-enrolment or creation of a new class of members, which may initially not be covered by the

schedule. New types of contributions of this nature are therefore in addition to those payable under the schedule and are not covered by the auditor's statement until the schedule is next revised to include them. The law does not allow for the reporting of some contributions against the schedule or schedules and others against the scheme rules (and recommendations of the actuary where relevant) for the same period of time.

Materiality

239. The scheme auditor provides statements in relation to contributions due under the schedule and therefore plans and carries out its work with a reasonable expectation of detecting errors which are material to contributions due under the schedule as a whole rather than, for example, at an individual member level. Therefore, the scheme auditor needs to consider materiality in relation to the statement about contributions when planning and performing its work.
240. The auditor provides statements as to whether contributions have in all material respects been paid at least in accordance with the schedule. As a result, the auditor considers whether any breaches of the schedule in relation to the timing and/or amount of contributions that the auditor has detected from its work require the auditor to qualify its statement. This is a matter of professional judgment and it is important that the auditor documents the considerations and conclusions on the identification of breaches of the schedule. In making this judgment, the auditor may consider the effect of late payment on the overall contributions required by the schedule to be paid to the scheme.
241. Having regard to the reporting requirements in deciding whether or not an exception is material in the context of reporting on contributions, the auditor only takes account of the facts and effects of the exception. The auditor does not take into account the reasons why the exception occurred. The reasons and surrounding circumstances, including action taken to resolve the issue are, however, relevant in deciding whether or not the matter is of significance for reporting to the Pensions Regulator.
242. In circumstances where a schedule is not in place or a schedule has ceased to have effect, for example, in the case of a schedule of contributions, because the scheme has commenced winding up, or been the subject of a scheme failure notice (triggering commencement of PPF assessment, which causes it to lapse), the Audited Accounts Regulations require the auditor to provide a statement as to whether or not contributions have been paid in accordance with the scheme rules and, if applicable, the recommendations of the scheme actuary. In such circumstances the reporting requirement does not include "in all material respects" which is part of the opinion when reporting against schedule requirements. However, the auditor's statement provides reasonable (not absolute) assurance and the auditor takes this into account when considering, for example, trivial exceptions, as qualifying for trivial breaches of the trust deed and rules may give an unrealistic impression of the precision under which the auditor's work has been performed.

243. Scheme rules do not normally specify the dates on or before which contributions are required to be paid to a scheme. There is a specific legal requirement for contributions deducted from members' pay (which does not include salary sacrifice contributions which are employer contributions) to be paid over by the 19th (or 22nd if paid by electronic means) of the month following deduction. For other types of contributions, in the absence of any specific indications, it may be appropriate to regard the requirements of the scheme rules as having been met if the correct amounts of contributions were paid before the summary of contributions is approved by the trustees.
244. There can be cases where late contributions are not required to be reported to TPR or members by the trustees or the auditor, because they are not judged to be of material significance to TPR (see paragraphs 265 to 274), but do represent a material breach of the schedule of contributions or payment schedule. Therefore, late contributions which are not required to be reported to TPR may nonetheless result in a qualified auditor's statement about contributions.

Work to be performed

245. In order to report on contributions, the scheme auditor obtains either the schedule of contributions or the payment schedule, and undertakes procedures in order to obtain sufficient appropriate evidence to conclude on whether or not contributions payable to the scheme have been paid for the amounts, and at the times, set out in the applicable schedule. In doing this the scheme auditor has regard to both the amount of contributions received and the timing of those contributions.
246. The trustees have responsibility for designing and operating controls to check that the contributions which are due to the scheme are paid in accordance with the schedule or other relevant requirements. Where the auditor considers that effective controls are in place, the auditor may gain evidence to support its opinion by testing those controls. Additional guidance is provided in TPR Code of Practice 03 Funding Defined Benefits, Code of Practice 05 Reporting Late Payment of Contributions to Occupational Money Purchase Schemes and Code of Practice 13 Governance and administration of occupational trust-based schemes providing money purchase benefits.
247. Some issues that may require consideration in assessing whether contributions payable to the scheme have been paid for the amounts, and at the times, set out in the applicable schedule include:
- changes in the rates of contributions payable and the timing of the implementation of the change in the employer payroll and the amendment to the schedules;
 - changes in the definition of pensionable pay;
 - where calculations of contributions include rates that depend on the identity of the employing company within a group, member age and/or members' employment status. The auditor considers the procedures adopted by the trustees for ensuring

the correct allocation of members to age bands, employer groups or senior management/staff membership categories. In the case of contribution rates that are variable or discretionary, the auditor pays particular attention to the manner in which the trustees exercise their discretion or monitor the discretion of members to change rates as a basis for ensuring that contributions are received in accordance with the requirements of the schedule of contributions or payment schedule (as applicable);

- whether the schedule is sufficiently clear in its drafting to allow the auditor to properly assess whether contributions have been paid in accordance with its requirements;
- the trustees' systems of recording and monitoring contributions;
- any reports to TPR by the trustees of late or inaccurate contributions;
- whether there have been any member complaints about incorrect contributions, for example, in response to annual benefit statements issued to members;
- where contributions are payable on a contingent event, for example profit sharing; and
- where contributions are made with an asset other than cash.

248. As trustees have responsibility for operating controls and processes to enable them to monitor that contributions required to be paid have in fact been paid, the auditor may be able to gain sufficient evidence of the amount and timing of contributions from the trustees' own records, without the need to visit employer payrolls. However, where sufficient audit evidence is not available from the trustees' records the auditor may need to obtain evidence from employer payrolls. The scheme auditor does not have a legal right of access to the employer (although this can often be arranged by the trustees) but the employer (and its auditor) has a statutory duty to provide information to the trustees which the scheme auditor reasonably requires, and for the trustees to make such information available to the scheme auditor.

249. Employers may have a significant number of separate payroll sites, and contributions in respect of employees at different sites can rarely be regarded as a homogeneous population for sampling purposes. The auditor therefore needs to consider the nature of employer payroll arrangements when designing and performing procedures to obtain sufficient appropriate evidence.

Reporting

250. The statement about contributions is not the audit opinion on the financial statements and the work performed by the scheme auditor to provide the statement is different to that of the audit. It is therefore important that the reader of the statement does not confuse it with the audit opinion on the financial statements and, therefore, it is presented separately from the auditor's report on the financial statements.

251. Trustees are required by the Disclosure Regulations (SI 2013 No 2734) to give additional information in the annual report where contributions have not been paid in accordance with the schedule and the auditor should refer to this disclosure if it is necessary to explain the basis for a modified opinion in the statement.
252. When reporting, it is important that the auditor identifies which schedule(s) have been used as the basis for testing. For a schedule of contributions this is the date of certification by the actuary. Where payment schedules are dated or sequentially numbered, the date or number can be referred to. Where there is lack of clarity (e.g. the schedule is given a name other than its statutory name, or the schedule is undated/unnumbered) the trustees should clarify in a footnote to the summary of contributions which documents they regard as the applicable schedule for this purpose, or append the relevant schedule(s) to the summary of contributions, so that the auditor can refer to the trustees' description or appended document.
253. Care is needed when reporting on schemes with multiple concurrent schedules (such as multi-employer or sectionalised schemes). The opinion given by the auditor needs to refer clearly and unambiguously to the relevant schedules. This may be addressed by the trustees by including a table of applicable schedules as part of the summary of contributions.
254. An example auditor's statement about contributions is set out in Appendix 3.

Non-compliance with schedules

255. Legislation requires the scheme auditor to state whether or not contributions have (in all material respects) been paid at least in accordance with the relevant schedule. Therefore, in providing its statement, the scheme auditor considers whether or not contributions have been materially under-paid or paid late at any time during the period covered by the statement. If considered material, the auditor qualifies the auditor's statement although where the impact of the exceptions is considered both material and pervasive an adverse opinion on contributions may be more appropriate.
256. Legislation requires the auditor to report against a schedule if a schedule exists, and if it does not exist, the auditor reports against scheme rules or relevant contracts and, if applicable, recommendations of the actuary. The question arises as to how the auditor should respond in cases where a schedule exists but it is significantly deficient, for example it omits major categories of contributions received by the scheme which would normally be expected to be included in a schedule. Whilst in principle, the absence of expected content would typically lead to a disclaimer of opinion on contributions, the deficiencies may be such that the schedule does not actually meet the legal requirements for a schedule, in which case the auditor would revert to an opinion based on scheme rules. Concluding whether or not a schedule is legally effective is not a matter for the auditor, and trustees would normally be expected to take legal advice in case of doubt in this area. Failure to have a schedule in place where one is required

would be a breach of the law and the auditor would also need to consider whether this was of material significance for reporting to TPR.

LIAISON WITH THE SCHEME ACTUARY¹⁴

257. The other information contained in the annual report includes the Report on Actuarial Liabilities and the scheme actuary's certification of the schedule of contributions. This report and certificate are not within the scope of the financial statements or of the audit, so the scheme auditor has no responsibility for confirming the accuracy and appropriateness of underlying data used by the actuary.
258. ISA (UK) 720 requires the scheme auditor to consider whether other information included in the annual report, which contains or accompanies the financial statements and the auditor's report thereon, is materially inconsistent with the financial statements or the auditor's knowledge obtained in the audit. If the auditor identifies that a material inconsistency appears to exist (or becomes aware the other information appears to be materially misstated) the auditor is required, inter alia, to discuss that matter with management and, if necessary, perform procedures to conclude whether there is a material misstatement of the other information or the financial statements. In performing the procedures required by ISA (UK) 720, the auditor may wish to liaise with the scheme actuary.
259. The auditor and scheme actuary will ordinarily look to the scheme trustees (rather than each other) as the primary source of information in relation to their professional roles. However, reference to arrangements for direct communication between the scheme auditor and the scheme actuary is normally included in the engagement letters of both the scheme auditor and the actuary. Such access is relevant to a number of areas of the scheme auditor's responsibility not just the application of ISA (UK) 720, including:
- (a) in planning the timing of audit procedures in the context of the trustees' timetable for the annual report, the scheme auditor may wish to liaise with the scheme actuary to understand the nature and timing of any planned actuarial statements or certificates;
 - (b) in relation to the statement about contributions, the scheme auditor may require evidence to confirm that the correct schedule of contributions was being used by the scheme during its financial year, for example, where there is doubt about the effective date of a schedule;
 - (c) in relation to benefit payments during the scheme year, the scheme auditor may seek to understand the nature and extent of the scheme actuary's involvement in the determination of benefits payable; and
 - (d) when assessing whether a breach of legal duty discovered by the scheme auditor is likely to be of material significance to TPR, the scheme auditor may if appropriate wish to consult with the scheme actuary in order to assist in forming its opinion,

14 The ICAEW has issued more general guidance on this subject entitled: TECH 02/08: Actuaries' and Auditors' Inter-professional Communication – Pensions and Other Post-Retirement Benefits.

including understanding the content of any report to TPR already submitted by the scheme actuary.

260. The trustees' annual report must be available within seven months of the end of the scheme year. It should include the latest actuarial certificate of the adequacy of the schedule of contributions.
261. Further guidance relevant to liaison with the scheme actuary is set out in the section dealing with ISA (UK) 210 "Agreeing the Terms of Audit Engagements".

REPORTING MATTERS OF MATERIAL SIGNIFICANCE TO THE PENSIONS REGULATOR

The regulatory framework

262. Section 70(1) of PA 2004 imposes a reporting requirement on the following persons to report breaches of the law to TPR:

- a trustee or manager of an occupational or personal pension scheme;
- a person who “is otherwise involved in” the administration of such a scheme;
- the employer in relation to an occupational pension scheme;
- a professional adviser (including scheme auditor and actuary) in relation to such a scheme; and
- a person who is “otherwise involved” in advising trustees or managers of an occupational or personal pension scheme in relation to the scheme.

263. Section 70(2) requires that a written report must be made to TPR as soon as is practicable where a person has reasonable cause to believe that:

- a duty which is relevant to the administration of the scheme in question, and is imposed by or by virtue of an enactment or rule of law, has not been or is not being complied with; and
- the failure to comply is likely to be of material significance to the TPR in the exercise of any of its functions.

264. The obligation to report under section 70 of PA 2004 does not require the scheme auditor to undertake additional work directed at identifying matters to report over and above that which is necessary to fulfil the auditor’s obligations under the Audited Accounts Regulations to report on a scheme’s financial statements and on the payment of contributions. The scheme auditor is therefore not required to put into place arrangements to detect matters to be reported under section 70; the auditor’s obligation is limited to reporting those which come to its attention. This applies even where, as in the case of certain earmarked schemes, the scheme auditor is reporting only on contributions so that the focus of the auditor’s work is very narrow. Although the scope of the auditor’s work makes the discovery of reportable items less likely, the auditor of such a scheme may nevertheless find the guidance in this section of the Practice Note helpful in meeting the statutory duty under section 70.

Material significance

265. A scheme auditor conducting activities under PA 1995 needs to assess information of which it becomes aware in the course of its work which indicates that a breach of law may have taken place so as to determine whether, in the auditor’s opinion, that information may be relevant to TPR.

266. TPR's Code of Practice 01. 'Reporting breaches of the law', contains guidance on determining whether breaches would be of material significance to TPR. The examples are designed to aid the reporter by illustrating situations against which the actual breach can be compared, thus aiding the reporter in reaching an appropriate decision. Additional guidance is also provided in other TPR Codes of Practice, in particular Code of Practice 03 "Funding Defined Benefits" and Code of Practice 05 "Reporting Late Payment of Contributions to Occupational Money Purchase Schemes".
267. The determination of whether a matter is, or is likely to be, of material significance to TPR inevitably requires the scheme auditor to exercise judgment. In forming such judgments, the scheme auditor needs to consider not simply the facts of the matter but also the response by trustees to the breach and the wider implications of the breach. In addition, it is possible that a matter, which is not of material significance in isolation, may become so when other possible breaches are considered, together with other reported and unreported breaches of which the auditor is aware.
268. In forming an opinion as to whether a matter that has been identified is likely to be of material significance, the scheme auditor may wish to liaise with other professional advisers. This procedure helps to ensure that the cumulative effect of all breaches is considered and not only those identified by one professional adviser.
269. Whilst confidentiality is an implied or explicit term of scheme auditors' and actuaries' contracts in respect of pension schemes or other entities, section 70 (3) of PA 2004 states: "No duty to which a person is subject is to be regarded as contravened merely because of any information or opinion contained in a written report under this section".
270. Hence reporting to TPR under section 70 of PA 2004 does not contravene the duty of confidentiality, provided that the scheme auditor communicates in good faith matters which it has reasonable cause to believe amount to a relevant breach, and which in the auditor's view are likely to be of material significance to TPR in the exercise of its functions.
271. All breaches of law require careful assessment, irrespective of their apparent individual significance. Breaches which, of themselves, may not be significant, may be indicative of a general lack of compliance with legal requirements or of a more significant breach of duty which is likely to be of material significance to TPR. Where the scheme auditor concludes (after further enquiries, if appropriate) that this is the case, a duty to report arises. In addition the auditor carries forward a note of unreported and reported breaches from year to year in order to gauge the cumulative effect which might suggest a need to report to TPR.
272. The obligation to report as soon as reasonably practicable does not prevent investigation by the auditor taking place as part of the process of forming an opinion that a duty to

report arises. However, the more serious the nature of the breach, e.g. dishonesty, the more urgently investigation needs to take place.

273. In certain circumstances, joint reporting (e.g. a shared report between the trustees and auditor) of breaches to TPR may be appropriate. A number of difficulties, however, arise in practice, including:

- delays occurring due to the time taken to agree wording with all the signatories of the joint report; and
- the scheme auditor finding it difficult to associate itself with trustees' descriptions of action plans to avoid further breaches.

274. In the light of these practical difficulties, the FRC recommends that the scheme auditor does not delay reporting to TPR in order to participate in a joint report; rather the auditor reports to TPR directly once it has concluded that a breach of material significance has occurred.

Reporting of late scheme financial statements

275. One of the civil breaches of PA 1995 and the Scheme Administration Regulations is the failure by trustees or managers to obtain audited financial statements within seven months of the end of the scheme year. Although the obtaining of scheme financial statements is the responsibility of the trustees (who may decide to appoint an administrator or other appropriate person to assist them), an auditor who is aware of persistent or significant failures by trustees or managers to obtain audited financial statements within seven months of the end of the scheme year (for example, where the failures are as a result of poorly maintained records or inadequate administration systems), considers reporting this to TPR where this is likely to be of material significance to The Regulator.

Matters already reported to TPR

276. The requirement to report applies to all parties who are subject to the reporting duty who become aware of a breach that is likely to be of material significance to TPR and it is not automatically discharged by another party reporting the breach. Where a breach has already been reported to TPR, the scheme auditor's statutory duty to report should be considered in the light of the nature of the breach, any response by TPR and whether the report fully reflects the auditor's own concerns. TPR Code of Practice 01 indicates that once aware of a particular breach, TPR does not regard that breach as being of material significance for the purpose of making further reports under the requirement to report breaches of the law. An exception is where another reporter has additional or different information about that breach or the circumstances relating to it.

277. In order to document the background to a decision whether to make a report, a scheme auditor should obtain a copy of the report already made to TPR and of TPR's response.

Contents of a report to TPR

278. TPR Code of Practice 01 sets out the information the auditor should give in the report, including the name of the relevant employer.

Describing the context of a report

279. The description of the context in which the report is made sets out information relevant to a proper understanding of its subject matter, primarily concerning the way in which the matter was identified, and the extent to which it has been investigated and discussed with those responsible for stewardship of the scheme. Matters to which the pension scheme auditor may wish to refer include:

- the nature of the engagement from which the report derives. For example, it may be appropriate to distinguish between a report made in the course of the annual audit, and one which arises from the more limited engagement as the auditor of an earmarked scheme who is required to report only about the scheme's contributions;
- the applicable provisions of PA 1995 or PA 2004 and related Regulations and any interpretations of those provisions which have informed the scheme auditor's judgment;
- the extent to which the scheme auditor has investigated the circumstances giving rise to the matter reported, including (in the case of defined benefit schemes) whether the matter has been discussed with the scheme actuary or other third parties;
- whether or not the matter reported has been discussed with the trustees; and
- why the breach is thought to be of material significance.

280. It may be difficult for the auditor to confirm whether or not the trustees have taken steps to rectify a reported matter. In such circumstances, the auditor may decide to encourage the trustees to report the matter and describe their rectification process.

281. Where trustees themselves wish to make a submission to TPR as to the circumstances and steps being taken to address a reportable matter, the auditor may attach such a memorandum or report prepared by the trustees to the auditor's regulatory reports. Where such additional information is provided, the auditor refers to the additional information in the auditor's report to the TPR, and indicates whether or not the auditor has undertaken additional procedures to determine whether any remedial actions described have been taken.

Unreported breaches of legal duty

282. In circumstances where the auditor is uncertain whether the auditor may be required to make a report or not, the auditor considers taking legal advice.

283. Information about unreported breaches of legal duties relevant to scheme administration is assessed by a scheme's auditor in order to determine whether the cumulative effect is or is likely to be of material significance to TPR. Where there is evidence of persistent breaches, a duty to report normally arises.

284. The scheme auditor also takes steps to ensure that the scheme's trustees are made aware of breaches which have come to the auditor's attention in the course of its work, whether or not they have led to a duty to report to TPR, for example, by requesting that copies of any management letters dealing with such breaches are circulated to all the trustees.

Information received in a capacity other than as scheme auditor

285. Where an audit firm is appointed as scheme auditor and is also engaged to provide services to the scheme's employer, for example, as auditor to the employer, so long as the two engagements are separate (including the staff involved), then the audit firm in its capacity as employer auditor has no duty to consider reporting to TPR. However, if the employer is alerted to a breach by the employer audit engagement team, the employer has a duty to consider reporting it.

286. Similarly, if the audit firm provides services to other entities that provide services to the pension scheme, for example, investment managers, custodians and pensions administrators, then so long as the pension scheme audit engagement is separate from these other engagements, the audit firm in its capacity as provider of these other services has no duty to consider reporting to TPR.

Failure to fulfil the statutory duty to report matters of material significance

287. A scheme auditor who fails to report a breach to TPR whilst having reasonable grounds to believe that a breach of law had occurred and that breach was, or was likely to be, of material significance to TPR in the exercise of its functions, is in breach of both the statutory requirement to report and of ISAs (UK) with which registered auditors are required to comply.

288. Section 70 (4) of PA 2004 makes provision for TPR, under section 10 of PA 1995, to impose civil penalties for failure to comply with section 70 of PA 2004, as well as to refer the scheme auditor to its professional body. Within any legal restrictions which may operate, TPR may make available to those bodies all the information in its possession, including copies of correspondence between TPR and the scheme auditor concerned, relevant to such a case.

Non-statutory audit appointments

289. Certain occupational pension schemes (for example, certain small schemes) may be exempted from the statutory duty to appoint a scheme auditor but may nevertheless appoint an auditor to report on non-statutory financial statements. This may be required by their constitution or be considered prudent or otherwise appropriate by the trustees. In

such cases, the auditor would normally still fall to be treated as a “professional adviser” under Section 70 (1) of PA 2004 and would have a duty under section 70 to report to TPR.

ILLUSTRATIVE EXAMPLES OF APPOINTMENT AND RESIGNATION LETTERS

The illustrative examples of letters in this appendix have been drafted to apply to an occupational pension scheme that is subject to the requirement to obtain audited financial statements and a statement about contributions imposed under section 41 of PA 1995 and the Audited Accounts Regulations and to an “earmarked scheme” as defined by those regulations. They are not necessarily comprehensive or appropriate to be used in relation to every pension scheme, and must be tailored to specific circumstances – for example, to any special reporting requirements imposed by regulation on particular types of scheme or by the scheme documentation. Note also that certain categories of occupational pension scheme are exempt from individual provisions of the various regulations made under PA 1995. The provisions of the regulations described in the following letters therefore do not apply to all occupational pension schemes.

Examples

- 1 Example notice of appointment as scheme auditor to an occupational pension scheme under section 47 of PA 1995
- 2 Example acknowledgment of notice of appointment as scheme auditor
- 3 Example resignation letter as scheme auditor

1 Example notice of appointment as Scheme Auditor¹⁵ to an Occupational Pension Scheme under Section 47 of the Pensions Act 1995

This form of notice of appointment has been drafted to apply to an occupational pension scheme that is subject to the requirement to appoint an auditor under section 47 of PA 1995.

(To be typed on the scheme’s letterhead)

(Addressed to the auditor)

Date

Dear Sirs,

Notice of appointment as auditor to the (...) Pension Scheme

In accordance with section 47 of the Pensions Act 1995 and the Occupational Pension Schemes (Scheme Administration) Regulations 1996, we hereby give you written notice of your appointment as auditor to the (...) Pension Scheme.

15 If the audit appointment is of the ‘non-statutory’ type, then references to ‘auditor’ in the Notice should be changed to ‘Non-Statutory Auditor’.

Your appointment by us under the regulations is to take effect from (the date of your letter of acknowledgement). You will take instructions from and report to¹⁶ Your appointment is initially in respect of the financial statements to be prepared as at , the scheme's year-end. (The scheme's previous auditor was (name and address, if applicable) A copy of the previous auditor's statement/declaration on leaving office is attached, and we have authorised them to provide information to you as necessary and appropriate).

We confirm that, under section 27 of the Pensions Act 1995, no trustee of the scheme is connected with, or is an associate of, (firm's name), which would render (firm's name) ineligible to act as auditor to the Scheme.

Regulations require you to acknowledge receipt of this notice and accept appointment within one month.

Yours faithfully,

Signed for and on behalf of the Trustees of the (...) Pension Scheme.

2 Example acknowledgement of notice of appointment as Scheme Auditor to an Occupational Pension Scheme

(To be typed on the firm's letterhead)

The Trustees,
The (...) Pension Scheme
Date

Dear Sirs,

Acknowledgement of Appointment as Auditor of the (...) Pension Scheme

We write to acknowledge receipt of your Notice of Appointment dated

Our appointment as auditor of the scheme is effective from (the date of this letter Note this date cannot be retrospective). We understand that our appointment is initially in respect of the financial statements to be prepared as at , the scheme's year-end.

We confirm that we will notify you immediately we become aware of the existence of any conflict of interest to which we may become subject in relation to the scheme.

Yours faithfully,

¹⁶ Auditor's terms of engagement are normally determined by the trustees and the auditor's reports are normally addressed to the trustees although some trust deeds may require otherwise.

3 Example resignation letter as Scheme Auditor to an Occupational Pension Scheme

(To be typed on the firm's letterhead)

The Trustees
The (...) Pension Scheme
Date

Dear Sirs,

Notice of resignation as Auditor of the () Pension Scheme¹⁷

We acknowledge receipt of your letter dated informing us of your intention to appoint as auditor to the scheme.

We hereby give you formal notice of our resignation as auditor of the [NAME] scheme ("the Scheme") with effect from the date of this letter.

There are no circumstances connected with our resignation which we consider significantly affect the interests of the members or prospective members of, or beneficiaries under, the Scheme.

The Trustees are reminded of their responsibility to appoint a replacement auditor within three months from the date of resignation, as required by Regulation 5(8) of the Occupational Pension Schemes (Scheme Administration) Regulations 1996.

Yours faithfully,

17 A clean notice of resignation cannot be issued if the auditor is aware of matters which are likely to be of material significance to The Pensions Regulator (TPR). In such circumstances, the auditor must report the matter to TPR and refer to them in the notice of resignation. A copy of any statement made on the auditor's resignation or removal which is negative has to be included in the scheme's annual report.

ILLUSTRATIVE EXTRACTS FROM EXAMPLE OF REPRESENTATION LETTER

An illustrative management representation letter is provided in Appendix 2 of ISA (UK) 580 “Written Representations”. In the case of a pension scheme, such a representation from the trustees of a scheme to its scheme auditor is normally in the form of a letter, but it is not intended to be a standard letter, nor to imply that management representations must necessarily be in the form of a letter from the trustees. However, the auditor is required to request written representations. Representations by management vary from one entity to another and from one year to the next.

Although seeking representations from the trustees on a variety of matters may serve to focus their attention on those matters, and thus cause them to specifically address those matters in more detail than would otherwise be the case, a scheme auditor is aware of the limitations of management representations as audit evidence as set out in ISA (UK) 580.

The illustrative management representation letter in ISA (UK) 580 is applicable to pension scheme audits, although the auditor will consider the following amendments which may be appropriate:

1. The introduction will include the opinion required under the Audited Accounts Regulations and will also refer to the examination of the summary of contributions in addition to the audit of the financial statements.

This representation letter is provided in connection with your [audit of the Scheme’s financial statements/examination of the Scheme’s summary of contributions] for the year ended [date] for the purpose of expressing an opinion as to whether the financial statements show a true and fair view of the financial transactions of the scheme during the period from [date] to [date] and of the amount and disposition at the end of the scheme period of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the period, have been properly prepared in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) and contain the information specified in the Audited Accounts Regulations and making a statement about contributions.

2. Other additional paragraphs specific to pension schemes which the auditor may wish to include are:

We confirm that the scheme is a Registered Pension Scheme. We are not aware of any reason why the tax status of the scheme should change.

We have not made any reports to The Pensions Regulator nor are we aware of any such reports having been made by any of our advisers. We confirm that we are not aware of any late contributions or breaches of the [payment schedule/schedule of contributions] that have arisen which we considered did not require reporting. We also confirm that we are not aware of any other matters which have arisen that would require a report to The Pensions Regulator.

There have been no other communications with The Pensions Regulator or other regulatory bodies during the scheme year or subsequently concerning matters of non-compliance with any legal duty. [We have drawn to your attention all correspondence and notes of meetings with regulators.]

Except for (give details) we have not commissioned advisory reports which may affect the conduct of your work in relation to the Scheme's financial statements and [schedule of contributions] [payment schedule].

We confirm that, under section 27 of the Pensions Act 1995, no trustee of the scheme is connected with, or is an associate of (Scheme Auditor), which would render (Scheme Auditor) ineligible to act as auditor to the Scheme.

Note

Set out below are some additional issues which, depending on the particular circumstances, the materiality of the amounts concerned to the financial statements and the extent of other audit evidence obtained, may be the subject of representations from management:

- confirmation, if relevant, that the scheme falls within the definition of an earmarked scheme as set out in the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996;
- confirmation, if relevant, that the scheme had 20 or more participating employers at the start of the year (and therefore is not required to obtain an auditor's statement about contributions).

The auditor may identify other issues for which they wish to obtain written representations from management.

ILLUSTRATIVE EXAMPLES OF AUDITOR'S STATEMENTS ABOUT CONTRIBUTIONS

This appendix includes as example 1 an unmodified Auditor's Statement about Contributions and as example 2 a modified Auditor's Statement about Contributions.

Example 1: Unmodified Auditor's Statement about Contributions

The Statement about Contributions should be tailored to cover all contributions due under the schedule of contributions/payment schedule.

Independent Auditor's Statement about Contributions to the Trustees of the XYZ Pension Scheme

We have examined the summary of contributions to the XYZ Pension Scheme for [or "in respect of"] the scheme year ended [...] to which this statement is attached/ which is set out in the Trustees' Report on page x.

In our opinion contributions for the scheme year ended as reported in the summary of contributions and payable under the [schedule of contributions]/[payment schedule] have in all material respects been paid at least in accordance with the [schedule of contributions certified by the scheme actuary on []/ payment schedule [dated ...]].

Scope of work on Statement about Contributions

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the attached summary of contributions have in all material respects been paid at least in accordance with the [schedule of contributions/payment schedule]. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the scheme and the timing of those payments under the [schedule of contributions/payment schedule].

Respective responsibilities of trustees and the auditor

As explained more fully in the Statement of Trustees' Responsibilities, the scheme's trustees are responsible for [preparing, and from time to time reviewing and if necessary revising, a schedule of contributions]/ [securing that a payment schedule is prepared, maintained and from time to time revised and for monitoring whether contributions are made to the scheme by the employer in accordance with the [schedule of contributions/payment schedule/relevant requirements]].

It is our responsibility to provide a Statement about Contributions paid under the [schedule of contributions/payment schedule] and to report our opinion to you.

Statutory Auditor
Date

Address

Example 2: Modified Auditor's Statement about Contributions

Because schedules of contributions and payment schedules are specific in relation to dates and rates, it is sometimes necessary to modify the auditor's statement about contributions under the scheme. An appropriate example for a defined benefit scheme, which may be suitably adapted for a money purchase scheme with a payment schedule, is given below.

Defined benefit (final salary) scheme which has prepared a schedule of contributions. Non-compliance with schedule – Extract from an auditor's statement including a negative statement about contributions

Qualified statement about contributions payable under the [schedule of contributions]/[payment schedule]

In our opinion, except for the effects of the departure from the schedule of contributions, contributions for the scheme year ended ... as reported in the summary of contributions and payable under the [schedule of contributions]/[payment schedule] have in all material respects been paid at least in accordance with the schedule of contributions certified by the actuary on [date].

Basis for qualified statement about contributions

As explained on page [], [give brief details of the departure from the schedule including an indication of the frequency of late payments, and quantification of the amounts involved – e.g. “in relation to three months during the year contributions amounting in total to £X were paid [specify timing of payment] later than the due date set out in the schedule of contributions”.]

If the reason for the modified statement is both material and pervasive, for example, where no contributions have been paid at all or an incorrect rate has been used, the auditor makes an “adverse statement about contributions under the scheme” and the wording above will need to be modified accordingly, including changing the heading to refer to an adverse statement.

ILLUSTRATIVE STATEMENT OF TRUSTEES' RESPONSIBILITIES

Financial statements

The following illustrative wording may be used as the basis for preparing a statement for inclusion in a scheme's annual report. It should be modified if necessary to reflect specific responsibilities of the trustees.

The financial statements, which are prepared in accordance with UK Generally Accepted Accounting Practice, including the Financial Reporting Standard applicable in the UK (FRS 102) are the responsibility of the trustees. Pension scheme regulations require, and the trustees are responsible for ensuring, that those financial statements:

- show a true and fair view of the financial transactions of the scheme during the scheme year and of the amount and disposition at the end of the scheme year of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the scheme year; and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including making a statement whether the financial statements have been prepared in accordance with the relevant financial reporting framework applicable to occupational pension schemes.

The above points summarise the legal requirements and define the applicable financial reporting framework to be applied by those charged with governance. [Regs 3 and 3A of Audited Accounts Regulations]

Reference to the audited accounts regulations are replaced with: "specified in the Schedule to the Pension Protection Fund (Valuation) Regulations 2005" for audits of relevant accounts.

In discharging the above responsibilities, the trustees are responsible for selecting suitable accounting policies, to be applied consistently, making any estimates and judgments on a prudent and reasonable basis, and for the preparation of the financial statements on a going concern basis unless it is inappropriate to presume that the scheme will not be wound up.

The trustees are also responsible for making available certain other information about the scheme in the form of an annual report.

The trustees also have a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to them to safeguard the assets of the scheme and to prevent and detect fraud and other irregularities, including the maintenance of an appropriate system of internal control.

Defined benefit schemes

The trustees are responsible under pensions legislation for preparing, maintaining and from time to time reviewing and if necessary revising a schedule of contributions showing the rates of contributions payable towards the scheme by or on behalf of the employer and the active members of the scheme and the dates on or before which such contributions are to be paid. The trustees are also responsible for keeping records in respect of contributions received in respect of any active member of the scheme and for adopting risk-based processes to monitor whether contributions are made to the scheme by the employer in accordance with the schedule of contributions. Where breaches of the schedule occur, the trustees are required by the Pensions Acts 1995 and 2004 to consider making reports to The Pensions Regulator and the members.

Money purchase schemes

The trustees are responsible under pensions legislation for securing that a payment schedule is prepared, maintained and from time to time revised showing the rates of contributions payable towards the scheme by or on behalf of the employer and the active members of the scheme and the dates on or before which such contributions are to be paid. The trustees are also responsible for keeping records in respect of contributions received in respect of any active member of the scheme and for adopting risk-based processes to monitor whether contributions are made to the Scheme by the employer in accordance with the payment schedule. Where breaches of the schedule occur, the trustees are required by the Pensions Acts 1995 and 2004 to consider making reports to The Pensions Regulator and the members.

Note: further reporting about contributions

In addition to the statutory requirements, the trust deed and rules of many schemes require the auditor to report on whether contributions have been paid to the scheme in accordance with the rules of the scheme and with the recommendations of the actuary, where one is appointed. In such cases, to make it clear that compliance with the rules and recommendations is in the first instance a matter for the trustees, references to the “schedule of contributions” or “payment schedule” in the paragraphs set out above will need to be extended to include “the scheme rules and recommendations of the actuary” (if appointed).

DEFINITIONS

Terms and abbreviations in this Practice Note for frequently used terms are as follows:

Assurance reports on internal controls of service organisations made available to third parties	<i>Reports on internal controls, usually those at service organisations, issued in accordance with guidance published by the Institute of Chartered Accountants in England and Wales in Technical Release AAF 01/06</i>
Audited Accounts Regulations	<i>The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 (SI 1996/1975), as amended</i>
Disclosure Regulations	<i>The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013</i>
Earmarked schemes	<i>Money purchase schemes under which all benefits are secured by one or more policies of insurance or annuity contracts specifically allocated to individuals or their dependants. Such schemes are not required by statute to obtain audited financial statements.</i>
FRS	<i>Financial Reporting Standard issued by the Accounting Standards Board, a part of the Financial Reporting Council</i>
Funding Regulations	<i>The Occupational Pension Schemes (Scheme Funding) Regulations 2005 (SI 2005/3377)</i>
HMRC	<i>HM Revenue & Customs</i>
ISAs (UK)	<i>Auditing standards issued by the Financial Reporting Council that are based on International Standards on Auditing issued by the International Auditing and Assurance Standards Board</i>
PSA 1993; PA 1995; PA 2004	<i>The Pension Schemes Act 1993; The Pensions Act 1995; The Pensions Act 2004; Pension Schemes Act 2017</i>
Pensions SORP	<i>Financial Reports of Pension Schemes a Statement of Recommended Practice (2015)</i>
PRAG	<i>The Pensions Research Accountants Group</i>
Scheme	<i>An occupational pension scheme as defined by Part 1 Section 1 of PSA 1993; the activities of occupational pension schemes are defined in s255 of PA 2004</i>
Scheme Administration Regulations	<i>The Occupational Pension Schemes (Scheme Administration Regulations 1996 (SI 1996/1715), as amended</i>
TPR	<i>The Pensions Regulator</i>



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