



PREPARING AN AUDIT REPORT FOR OCCUPATIONAL PENSION SCHEMES

GUIDE

September 2018

Audit and Assurance Faculty Helpsheets are now known as 'Guides'. This Guide was last updated in September 2018 and is based on the relevant laws and regulations that apply as at 1 September 2018. The only changes since the last version of the Guide are to the use of the audit report section to reflect the release of Technical Release 01/03AAF (Revised).

Introduction

This Guide is designed to explain the main changes that are needed to the audit report of a pension scheme compared to that of a company. It does not seek to explain every difference, just the key areas to consider as a result of the differing legal and regulatory requirements.

The audit requirements for pension schemes are set out primarily in the Pensions Acts 1995 and 2004 (the 'Acts') and Regulations made under those Acts. Generally, the Pensions Act 1995 sets out the requirements for the statutory audit of the pension scheme's annual financial statements, whereas the Pensions Act 2004 sets out the requirements for reporting for the purposes of the Pension Protection Fund (PPF) or other actuarial valuations. This Guide deals with the former, and does not address the requirements for reporting for the purposes of PPF or other actuarial valuations. 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.

The example wording in this Guide has been adapted from the company examples in the [FRC's Compendium of illustrative auditor's reports](#).

For the purposes of this Guide, and as would be expected for a pension scheme, it has been presumed that the pension scheme is not listed, is not a Public Interest Entity as defined by the EU Regulation and is not required nor has chosen voluntarily to report on how it has applied the UK Corporate Governance Code. In the unlikely event that the pension scheme is the parent entity of a group, refer to the separate group Guides for guidance on how to amend the audit report to deal with the auditor reporting requirements for a group.

The guidance in this Guide suggests options for how pension scheme audit reports can comply with the requirements of the Acts, the Regulations made under those Acts and International Standards on Auditing (UK). However, provided that the audit report complies with the applicable requirements, audit firms may prefer alternative ways of presenting the required information.

Pervasive changes to the audit report

All references to 'company' need to be amended to 'scheme' or other suitable description.

All references to 'directors' need to be amended to 'trustees' (or 'trustee' for a corporate trustee). The references to the 'Companies Act 2006' need to be amended to the 'Pensions Act 1995 and Regulations made thereunder', although reference should be made to the specific changes set out in this Guide.

Addressee of the report

The audit report of a pension scheme is addressed to its trustees.

Opinion

The opinion paragraph describes the financial statements, including specifying the titles of the primary statements. For a pension scheme these will typically be the fund account, the statement of net assets and the related notes. However, it is important that the titles of the primary statements precisely match those used by the pension scheme.

The opening paragraph of the 'Opinion' section needs to reflect the financial reporting framework, which is UK GAAP, including FRS 102.

The actual audit opinion is different from that for a company and needs to be amended as follows:

In our opinion, the financial statements:

- ~~give show~~ a true and fair view of the ~~state of the company's affairs as at [date] and of its [profit/loss] for the year then ended~~ financial transactions of the Scheme during the year ended [date], and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with [United Kingdom Generally Accepted Accounting Practice ~~/IFRSs as adopted by the European Union~~]; and
- ~~have been prepared in accordance with the requirements of the Companies Act 2006~~ 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, made under the Pensions Act 1995.

Basis for opinion

Where the auditor has taken advantage of an exemption provided in paragraph 6.11, 6.12 or 6.13 of the FRC's Ethical Standard for the audit of a 'Small Entity' in relation to non-audit services or partners/statutory auditors joining the entity, the auditor is required to disclose this in the 'Basis for opinion' section of the audit report:

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the ~~company scheme~~ in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and the provisions available for small entities, in the circumstances set out in note [X] to the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Paragraph 6.4 of the FRC's Ethical Standard defines a Small Entity (as it applies to pension schemes) as 'any pension fund with less than 100 members (including active, deferred and pensioner members)' and further notes 'In cases where a scheme with more than 100 members has been in wind-up over a number of years, such a scheme does not qualify as a Small Entity, even where the remaining number of members falls below 100.'

Conclusions relating to going concern

No changes are needed apart from the pervasive changes referred to above.

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 winding up of the scheme and the transfer of its assets and liabilities to

the PPF. The trustees also need to consider whether there are any material uncertainties that may give rise to significant doubt related to going concern, for example events or conditions that may lead to a decision to wind up the scheme or may trigger winding up of the scheme.

Other information

Trustees of nearly all occupational pension schemes are required by Regulations made under the Pensions Act 1995 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 includes a trustees' report, giving a review of the management of the scheme, membership statistics, investment performance developments

and compliance matters during the period, together with other statements, reports and certifications required by Regulations, the SORP and / or FRS 102.

Therefore the annual report will usually include 'Other information' in addition to the financial statements and the auditor's report thereon, and the 'Other information' paragraph needs to be amended as follows:

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon¹. The ~~directors~~ trustees are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, ~~except to the extent otherwise explicitly stated in our report,~~ we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

As a pension scheme, there is no reporting required under the Companies Act 2006, and the Pensions Acts and Regulations made thereunder do not require any explicit reporting on the trustees' report, so although a trustees' report is required in the annual report, this section of the audit report is not required for a pension scheme.

Matters on which the auditor is required to report by exception

As a pension scheme, there is no reporting required under the Companies Act 2006, and the Pensions Acts and Regulations made thereunder do not require any exception or other reporting, so this section is not required for a pension scheme.

Responsibilities of trustees

No changes are needed other than amending the references to 'directors' and 'company'.

Auditor's responsibilities for the audit of the financial statements

ISA (UK) 700 includes a detailed description of the responsibilities of the auditor and the wording to use varies depending on whether the entity is listed, the auditor reports key audit matters in accordance with ISA (UK) 701 or where there is a group audit.

¹ A more specific description of the other information may be used, such as: The other information comprises the trustees' report.

As for a company, a pension scheme auditor has three choices in relation to the more detailed description of the auditor's responsibilities:

- to include within the audit report directly;
- to include within an appendix to the audit report; or
- to include a reference to a more detailed description on the FRC's website.

1. Include within the audit report directly

The only changes needed are to amend the references to 'directors' and 'company'.

An example of how this would look is given in Appendix 2 of the FRC Bulletin – please note that the example in that Appendix is for a group and all references to 'group' need to be removed or amended to refer to the

scheme. In addition, the last bullet point in that example needs to be deleted as that responsibilities only applies to group auditors:

- ...
- ~~Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.~~
- ...

2. Include within an appendix to the audit report

Where the more detailed description is included in an appendix, the references to 'directors' and 'company' in that appendix again need to be amended. The audit report needs to indicate the page number or other specific reference to the location of the more detailed description.

An example of how this would look is given in Appendix 6 of the FRC Bulletin – please note that the example here is for a listed group and all references to 'group' need to be removed or amended to refer to the scheme. In addition, the following further changes are needed to remove responsibilities that only apply for listed entities or groups:

- ...
- ~~Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the group financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.~~

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

~~We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.~~

~~From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.~~

3. Include a reference to a more detailed description on the FRC's website

Where the auditor chooses to refer to the description of the auditor's responsibilities on the FRC website, the audit report needs to refer to www.frc.org.uk/auditorsresponsibilities.

An example of how this would look is given in Appendix 1 of the FRC Bulletin.

The website link above does not refer anywhere to 'company' and uses the term 'entity', which would be equally applicable to pension schemes. It does, however refer to 'directors' but it should be clear from the context that, as this is setting out the responsibilities under ISAs, any such references relate to trustees for a pension scheme.

Use of the audit report

ICAEW guidance within Technical Release 01/03AAF (Revised), The Audit Report and Auditors' Duty of Care to Third Parties, includes clarification language stating that the audit is performed for the benefit of the members, as a body, in accordance with the Companies Act 2006 and case law. This wording is also referred to as 'Bannerman' wording.

The wording is equally applicable to occupational pension scheme audits although care needs to be taken to ensure that appropriate addressees are referenced as required by relevant law (see 'Addressees of the report' above).

The guidance in Technical Release 01/03AAF (Revised) states that this paragraph is suitably placed as the final section of the audit report with a heading 'Use of our report'.

The typical company wording needs to be amended to read as follows:

This report is made solely to the ~~company's directors~~ scheme's trustees, as a body, in accordance with ~~Chapter 3 of Part 16 of the Companies Act 2006~~ Regulation 3 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995. Our audit work has been undertaken so that we might state to the ~~company's directors~~ scheme's trustees those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the ~~company and the company's directors~~ scheme's trustees as a body, for our audit work, for this report, or for the opinions we have formed.

It will remain for each firm to decide its own individual approach to the management of audit risk and whether to include the above wording and if so, in which section of the audit report. However, as the guidance in Technical Release 01/03AAF (Revised) makes clear, while a third party's use of an audit report presents uncertainty for auditors, the best risk management policy is for firms to take the steps that are necessary to carry out quality audits.

Signature on the audit report

The requirements for pension schemes are different from those for companies and the audit report is required to be signed in the name of the firm only:

ABC LLP, Statutory Auditor
[Address]
[Date]

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