

23 November 2006

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Dear David

Consultation Draft of proposed Practice Note 15: The audit of occupational pension schemes in the United Kingdom (Revised)

Further to Mary-Lou Wedderburn's email of 22 November, I enclose the ICAEW's response to the Consultation Draft of proposed Practice Note 15: The audit of occupational pension schemes in the United Kingdom (Revised).

I hope that it is helpful, but please let me know if you have any queries.

With best wishes.

Yours sincerely

Liz Cole
Manager, Business Law and Secretary to the Pensions Sub-Committee

ICAEW REP 65/06

CONSULTATION DRAFT PRACTICE NOTE 15: THE AUDIT OF OCCUPATIONAL PENSION SCHEMES IN THE UNITED KINGDOM (REVISED)

*Memorandum of comment submitted in November 2006 on the Consultation Draft
Practice Note 15: The audit of occupational pension schemes in the United
Kingdom (Revised) published by the Auditing Practices Board*

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INTRODUCTION

- 1 The Institute of Chartered Accountants in England and Wales (the ‘Institute’) welcomes the opportunity to comment on the Consultation Draft *Practice Note 15: The audit of occupational pension schemes in the United Kingdom (Revised)*, published by the Auditing Practices Board.

WHO WE ARE

- 2 The Institute operates under a Royal Charter, operating in the public interest. It is regulated by the Department of Trade and Industry (DTI) through the Accountancy Foundation. As a world leading professional accountancy body, the Institute provides leadership and practical support to over 128,000 members in more than 140 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained. The Institute is a founding member of the Global Accounting Alliance with over 700,000 members worldwide.
- 3 Our members provide financial knowledge and guidance based on the highest technical and ethical standards. They are trained to challenge people and organisations to think and act differently, to provide clarity and rigour, and so help create and sustain prosperity. The ICAEW ensures these skills are constantly developed, recognised and valued.

GENERAL COMMENTS

- 4 The Institute welcomes the proposed revised Practice Note. Although it is lengthy, we believe that the draft covers issues relating to the audit of occupational pension schemes at the required depth and breadth and do not therefore consider that any reduction of its coverage is advisable. In particular, we consider that the document needs to be long in order to cover issues relating to the audit of occupational pension schemes in sufficient breadth and depth.
5. Whilst the Practice Note will be useful to audit firms of all sizes, it is likely to be especially useful to general practitioners who may only audit one or two schemes. There are many small occupational schemes that are subject to a statutory audit requirement. It would not be in the scheme members’ interests if such schemes were not able to appoint small or local firms of auditors to carry out the work.

6. As stated in the Introduction, audits of occupational pension schemes may be undertaken for reasons other than statutory or regulatory requirements, for example because the members or trustees wished for the scheme financial information to be audited. We consider that it would be useful to add examples to the appendices in the Practice Note, of an engagement letter for a non-statutory assignment, and the related audit report. The two points that we suggest should be covered in the examples as being different from ‘statutory’ audits are compliance with the Data Protection Act 1998 (DPA), and the auditor’s right or duty to report to the regulator.
7. In relation to the DPA, the auditors will need to explain in the engagement letter that they might collect and use personal information about scheme members in the course of their work, which they will hold as data controllers under the Act. The trustees will need to confirm that they have complied with the requirements of the DPA when providing the auditors with such information. *It should also be noted that the exemptions from DPA applicable to statutory audits are not available for non-statutory audits.*
8. So far as reporting to the regulator is concerned, there may not be a statutory duty if the auditors are appointed on a voluntary basis, although the legislation is very broadly drafted as applying to professional advisers in relation to an occupational pension scheme¹. If there is no statutory duty, there may still be a right, so auditors should have regard to Section B of ISA (UK and Ireland) 250, *The Auditor’s Right and Duty to Report to Regulators in the Financial Sector*.

SPECIFIC COMMENTS

9. The wording in the *Basis of statement about contributions* section of the example report in the current Practice Note 15 refers to evidence relevant to the amounts of contributions **paid** (our emphasis) to the scheme and the timing of those payments under the schedule of contributions/payment schedule. The wording has been changed in the example in Appendix 6 of the Consultation Draft to refer to the amounts of contributions **payable** to the scheme. This is wrong: all the auditor is required to do is to check that the **actual payments** have been in accordance with the relevant schedule (and, where appropriate, the scheme rules and/or recommendations or the actuary).
10. An alternative wording might be:
‘... the work that we carried out included a comparison, on a test basis, of evidence relevant to the amounts and timing of contributions **paid** to the scheme with those stipulated by the [schedule of contributions/payment schedule/scheme rules/recommendations of the actuary]. Our Statement about contributions is required to refer to any breaches of the schedule of contributions that come to our attention in the course of our work.’

¹ Pensions Act 2004, s.70.

11. It might be helpful if Appendix 6 or the body of the Practice Note included some guidance on how the reconciliation between the summary of contributions and the financial statements might be presented, since the latter includes employee AVCs.
12. We recommend that the example paragraph for a negative statement on contributions be amended. As in the unqualified report, we do not think that it is correct to refer to “contributions payable” because the opinion needs to cover any deviation from the Schedule in terms of amount or timing. We therefore recommend words along the following lines:

‘In view of the significance of the matter referred to above, in our opinion contributions to the scheme during the year ended [] were not {in all material respects} paid {at least} in accordance with the schedule of contributions certified by the actuary on [date].’

MLW / LC 23.11.06