

Protocol for auditor assurances for retirement benefits 2018/19



Prepared for appointed auditors in the local government sector

25 February 2019

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

Contents

1	Introduction	4
	Background	4
	Purpose of the protocol	4
	Contact point	4
2	Contributions payable to the pension fund	5
	Planning	6
	Requests for assurance	6
	Arrangements for additional fee.....	7
	Timetable for correspondence and testing.....	7
3	Information provided to the actuary	8
	Requests for assurances.....	8
	Timetable for correspondence and any additional work.....	9
	Arrangements for additional fee.....	10
	Appendix 1	11
	Illustrative letter in relation to employer body contributions - request from pension fund auditor to employer body auditor	11
	Appendix 2	13
	Illustrative letter in relation to employer body contributions - response from employer body auditor to pension fund auditor	13
	Appendix 3	15
	Illustrative letter in relation to actuary reporting - request from employer body auditor to pension fund auditor.....	15
	Appendix 4	17
	Illustrative letter in relation to actuary reporting - response from pension auditor to employer body auditor	17

1 Introduction

Background

1. [Technical guidance note 2018/10\(LG\)](#) refers to assurances between auditors of pension funds forming part of the local government pension scheme (LGPS) and auditors of employing local government bodies, and advised that Professional Support would be developing a protocol to provide a framework for seeking and providing the requested assurances.
2. Pension funds are ultimately dependent on employer bodies for the correct deduction and payment of the pension contributions for which they account. Employer bodies are in turn dependent for their financial statements on pension funds providing actuaries with the appropriate information for the preparation of their reports.
3. Obtaining any audit assurances requires auditors to coordinate their work to avoid duplication. Such coordination is expected by paragraph 33 of the [Code of audit practice](#).

Purpose of the protocol

4. Assurances in respect of retirement benefits typically take the form of:
 - pension fund auditors requesting assurances from employer body auditors in respect of pension contributions payable by the employer body to the pension fund
 - employer body auditors requesting assurances from pension fund auditors in respect of information provided by the pension fund to the actuary in relation to their reports on employer bodies.
5. Auditors may judge that it is not necessary to request any assurances from other auditors. However, where assurances are judged to be appropriate, this protocol establishes a framework within which the assurances can be requested and provided, and clarifies arrangements for recovering the cost of any additional work.
6. It should be noted that the protocol sets out the potential range of assurances but does not require any specific assurances to be sought. It is not expected that any assurances outwith the specified range will generally be requested but that will be a matter for local agreement in 2018/19 (though they may be included in the protocol in future years).
7. It is for the audited body to obtain their own assurances in relation to the information included in their financial statements and it is not the intention to undermine this process. Auditors should establish what management arrangements are in place at their audited body, and the extent to which they can be relied upon, before seeking assurance from other auditors.

Contact point

8. The contact point in Professional Support for this protocol is Paul O'Brien, Senior Manager (Professional Support) - pobrien@audit-scotland.gov.uk or 0131 625 1795.

2 Contributions payable to the pension fund

9. The following is an extract from module 12 of technical guidance note 2018/10(LG) which provides guidance to auditors of pension funds in respect of employee and employer contributions:

37 Auditors should assess whether:

- employee contributions during 2018/19 are at the correct rate
- the rate is applied to correct pensionable pay
- contributions are in respect of all members, and only members.

38. Under the LGPS regulations, responsibility for calculating the contributions lies with the employing authority rather than the administering authority. Testing should therefore be straight-forward for the 11 employing authorities that are also administering authorities, as auditors will have access to the necessary information.

39. For the other employing bodies, testing of employee contributions will have been carried out as part of the audit of retirement benefits set out at module 4. Auditors of those employing bodies should provide assurance to the pension fund auditor as to whether, based on their testing of payroll, there are:

- matters arising that could impact on the employing body's ability to properly account to the pension fund for contributions
- audit findings expected to be material to the employer
- issues to be reported to those charged with governance.

41. Auditors of pension funds should contact the auditors of the other employing bodies they consider necessary to agree arrangements for satisfactory assurances to be provided.

[42 to 44 excluded]

45 Auditors should assess whether the employers' contributions for 2018/19 have been:

- calculated using the correct primary percentage. This is the primary rate of the employer's contribution specified in the rates and adjustments certificate expressed as a percentage of the pay of its employees who are active members
- calculated using the correct pensionable pay
- increased or reduced by any secondary rate adjustments specified for that employer for that year in the rates and adjustments certificate.

46. As with employee contributions, auditors of pension funds should contact the auditors of the other employing bodies to agree arrangements for satisfactory assurances to be provided.

Planning

10. Pension fund auditors should plan their approach to the audit of contributions income at an early stage. Having selected a sample of employer bodies for review, they should communicate with relevant employer body auditors in good time to enable them to tailor their payroll testing as necessary.

Requests for assurance

11. Professional Support has facilitated discussions with pension fund auditors on the assurances likely to be required from the employer body auditor. The range of potential assurances is summarised in the following table:

Area	Explanation
Arrangements	An outline of arrangements for the accurate and complete deduction and payment of contributions to the pension fund.
	An evaluation of the design of the above arrangements.
	The results of any controls testing on the above arrangements and the auditor's conclusion as to the operation of those controls.
Sample months	Total amounts in relation to employee and employer contributions paid for sample months.
Testing of contributions	The results of any testing undertaken on contributions in the year and confirmation as to whether they were at the correct rate.
Starter/leaver data	For a sample of starters and leavers: employees' NI Number, the date started/left, salary, pension contribution (employee and employer) and the date of the first pension contribution.
Laws and regulations	Information regarding the auditor's knowledge of any non-compliance with laws and regulations which may impact on the audit opinion on the financial statements of the employer body.
Fraud	Any other significant matters, including any instances of fraud.

12. An illustrative request letter for 2018/19 is provided at Appendix 1 of this protocol along with an illustrative response at Appendix 2. They should be tailored locally as appropriate by the pension fund auditor for the actual assurances requested (which should not generally be outwith those listed above) and by the auditor of the employing body for the assurances that can be provided.
13. Where auditors of employing bodies have not carried out sufficient testing of contributions to fully satisfy the assurances requested by the pension fund auditor, further testing may be required. It is more efficient if the testing is carried out by the auditor of the employing body

but, in the event this is not possible, arrangements should be made for the auditor of the pension fund to visit the employing body to undertake the testing directly.

Arrangements for additional fee

14. Professional Support does not expect the levels of testing required by pension fund auditors to impact significantly on the audit work planned at employer bodies. Where the employer body auditor considers it necessary to make a charge for their work, they should contact Professional Support in the first instance for further advice.

Timetable for correspondence and testing

15. The timetable for seeking and providing the requested assurances in 2018/19 is summarised in the following table:

Deadline	Action
29 March 2019	Auditors of pension funds should notify employer body auditors that they have been included in the sample of employers and seek required assurances.
26 April 2019	Auditors of employing bodies should provide an initial response indicating the assurances that they intend to provide.
31 July 2019	Auditors of employer bodies should provide a substantive response.

3 Information provided to the actuary

16. The following is an extract from module 4 of technical guidance note 2018/10(LG) which provides guidance to auditors of employing bodies in respect of information provided to the actuary:

17 Actuaries rely on the accuracy of the source data provided by employer bodies and the pension fund. Bodies should have communicated accurate cash flows and details of significant events to the pension fund actuary (usually via the relevant administering authority). However, actuaries are usually required to produce their reports in April each year before final cash flow information is available. This means that a significant portion of the figures are estimates.

18. Auditors should:

- discuss with the auditor of the relevant pension fund any assurances required regarding the completeness and accuracy of the information for 2018/19
- assess whether the body has a satisfactory procedure in place to check for significant movements or employer decisions, particularly those occurring in the final months of 2018/19, and has passed details to the actuary.

17. Employer bodies receive reports from the actuary which are based on the results of the most recent formal valuation (i.e. 31 March 2017) rolled forward to 31 March 2019 for employer cash flows and investment returns, together with updated and revised actuarial assumptions.
18. Information to inform these reports is provided to the actuary by the pension fund. As this information is a key part of the reporting process, employer body auditors may wish to conclude on the reliability of that information. Where the employer body auditor is not also the auditor of the pension fund they should contact the pension fund auditor in respect of assurances required.

Requests for assurances

19. Professional Support has facilitated discussions with auditors on the assurances likely to be required from the pension fund auditor. The range of potential assurances is summarised in the following table:

Area	Explanation
Arrangements	An outline of the arrangements to establish the accuracy and completeness of the source data provided to the actuaries in relation to IAS 19 reporting at 31 March 2019.
	An evaluation of the design of the above arrangements.
	The results of any controls testing on the above arrangements and the auditor's conclusion as to the operation of those controls.
Actuary's guidance	Confirmation that the pension fund has taken account of relevant guidance and briefings provided by the actuary.
Cashflow information provided to actuary	Cashflow estimates (contributions, benefits, investment returns) provided to the actuary in respect of the employing body.
Actual cashflow	Actual cashflows (benefits and investment returns) for the year.
Assets	Total pension fund assets at 31 March 2019. Details of the pension fund auditors testing approach and findings in relation to pension fund assets as at 31 March 2019.
Laws and regulations	Information regarding the pension fund auditor's knowledge of any non-compliance with laws and regulations which may impact on the audit opinion on the employing body.
Other matters	any other significant matters arising during the pension fund auditor's work, including any instances of fraud or suspected fraud.

20. An illustrative letter for requesting assurances is provided at Appendix 3 to this protocol along with an illustrative response at Appendix 4. They should be tailored locally as appropriate by the employer body auditor for the actual assurances requested (which should not generally be outwith those listed above) and by the pension fund auditor for the assurances that can be provided.

Timetable for correspondence and any additional work

21. The timetable for seeking and providing the requested assurances is summarised in the following table:

Deadline	Action
29 March 2019	Employer body auditors should communicate their requirements to pension fund auditors in advance of finalising their audit plans. This will enable pension fund auditors to consider any additional work required and agree any fee involved.

Deadline	Action
31 July 2019	Pension fund auditors should aim to respond to requests from employer body auditors.

Arrangements for additional fee

22. Where pension fund auditors have been requested to undertake work that has not been a necessary part of their pension fund or employer body audit (where they also audit the administering authority), it may be appropriate to charge additional fee to the pension fund who can then recharge it to the employer body.
23. If additional work cannot be accommodated within 10% of the expected fee, the auditor should inform Audit Scotland's Audit Quality and Appointments in line with the audit planning guidance.

Appendix 1

Illustrative letter in relation to employer body contributions - request from pension fund auditor to employer body auditor

Introduction

I am writing to you in respect of the annual accounts for the year ended 31 March 2019 for [name of pension fund]. [name of the employer body] is a scheduled / admitted body of the pension fund.

[Insert name of auditor] is the appointed auditor for the [insert name of pension fund] and this letter is a standard request for you to provide us with information about your audit work on [insert name of employer body] in line with Audit Scotland's assurance protocol for retirement benefits.

[Insert name of pension fund] remains responsible for the preparation of financial statements that give a true and fair view of their financial position and performance. [Insert name of employer body] is responsible for the deduction and payment of pension contributions to the pension fund which form part of their financial statements.

We are seeking assurances from you in your capacity as appointed auditor of [insert name of employer body] in relation to the arrangements in place at the body for the payment of contributions to the pension fund.

Reporting

To assist us in forming a conclusion on the arrangements at [insert employer body name], please provide to us [tailor the list as appropriate]:

- an outline of the arrangements for the accurate and complete deduction and payment of contributions to the pension fund;
- your evaluation of the design of the arrangements for the accuracy and completeness of contributions;
- the results of any controls testing on these arrangements and your conclusion as to the operation of those controls;
- total amounts in relation to employee and employer contributions paid for a sample of [insert number] months;
- the results of any testing undertaken on contributions in the year and confirmation that they were at the correct rate;
- for a sample of [insert number] starters and leavers: employees NI Number, the date started/left, salary, pension contribution (employee and employer) and the date of the first pension contribution;

- information regarding your knowledge of any non-compliance with laws and regulations of which you are aware which may impact on our audit opinion on the financial statements of [insert employer body name]; and
- any other significant matters arising during your work, including any instances of fraud or suspected fraud.

Responsibilities

We acknowledge that:

- your work was not initially planned in contemplation of our audit of [insert name of pension fund];
- your audit of [insert name of employer body], in accordance with the Code of Audit Practice, would not necessarily identify matters in which we may be primarily interested;
- it is for us to conclude on the work required to support our opinion of the financial statements of [insert name of pension fund] and your work does not substitute for the audit procedures set out in International Standards on Auditing (ISAs); and
- it is for us to consider the extent to which we should perform additional procedures in order to comply with ISAs.

Timetable

To ensure our deadlines are met we would be grateful if you could provide a response as early as you are able and by 31 July 2019 at the latest. Please inform us of any likely delays.

Thank you for your assistance. Please send your response to the address below. If you would like to discuss this request, please do not hesitate to contact me.

Appendix 2

Illustrative letter in relation to employer body contributions - response from employer body auditor to pension fund auditor

Introduction

I am writing to you in my capacity as appointed auditor for [insert name of employer body] in accordance with your request under the Audit Scotland's assurance protocol for retirement benefits, in relation to your audit of [insert name of pension fund].

As identified in your letter of xx March 2019, [Insert name of employer body] is responsible for the deduction and payment of pension contributions to the pension fund and these amounts form part of the pension fund financial statements.

[insert name of the pension fund] remain responsible for the preparation of financial statements that give a true and fair view of their financial position and performance.

It is for individual auditors to conclude on the work required to support their opinion on the financial statements of their audited bodies. Our work does not substitute for your own audit procedures in accordance with International Standards on Auditing.

Findings

- An outline of the employer body arrangements for the accurate and complete deduction and payment of contributions to the pension fund is set out in Appendix 1.
- The arrangements for accuracy and completeness are considered adequate. [We did not carry out any controls testing/Our controls testing did not identify any significant issues with their operation/Our controls testing identified the following weaknesses with their operation].
- Employee and employer contributions paid to the pension fund for [insert sample months] were [insert amounts].
- Our payroll sample testing of individual employees confirmed that both employee and employer contributions had been correctly calculated and included in the monthly payments. Details are provided in the attached protected spreadsheet, the password for which will be communicated separately.
- Details for [insert number] starters and leavers are included in the attached protected spreadsheet.
- Our audit of is not yet complete, but at this stage we have nothing to report in relation to non-compliance with laws and regulations or other significant matters including fraud or suspected fraud.

Concluding comments

This letter is supplied on the understanding that it is for the sole use of the persons to whom it is addressed and for the purposes stated.

Our work was not initially planned in contemplation of your audit of [insert name of pension fund] and our audit in accordance with the Code of Audit Practice would not necessarily identify matters in which you may be interested. Additional procedures were however undertaken in order to provide you with your requested assurances.

It is for you to consider the extent to which you should perform additional procedures in order to comply with International Standards on Auditing.

If you require any further information, please do not hesitate to contact me.

Appendix 3

Illustrative letter in relation to actuary reporting - request from employer body auditor to pension fund auditor

Introduction

I am writing to you in respect of the annual accounts for the year ended 31 March 2019 for [name of employing body]. The body is a scheduled/admitted body of the [insert name of pension fund].

[Insert name of auditor] is the appointed auditor for the [insert name of employing body] and this letter is a standard request for you to provide us with information about your audit work on [insert name of pension fund] in line with Audit Scotland's assurance protocol for retirement benefits.

[Insert name of employing body] remains responsible for the preparation of financial statements that give a true and fair view of their financial position and performance. [Insert name of pension fund] provides information to the scheme actuaries which is used to update the body's IAS 19 report on which the body relies to produce their financial statements.

We are seeking assurances from you in your capacity as appointed auditor of [insert name of pension fund] in relation to the arrangements in place at the pension fund for the provision of information to the actuary as part of the IAS 19 reporting process.

Reporting

To assist us in forming a conclusion on the overall reliability of processes and controls at [insert name of pension fund], please provide us with [tailor list as appropriate]:

- an outline of the arrangements to establish the accuracy and completeness of the source data provided to the actuary in relation to IAS 19 reporting at 31 March 2019;
- your evaluation of the design of the arrangements together with the results of any controls testing and your conclusion on their operation;
- confirmation that the pension fund has taken account of relevant guidance and briefings provided by the actuary in relation to IAS 19 reporting;
- cashflow estimates provided to the actuary in respect of [insert name of employing body];
- actual cashflow information for the year
- total pension fund assets at 31 March 2019, and details of your testing approach and findings in relation to those assets;
- information regarding your knowledge of any non-compliance with laws and regulations of which you are aware which may impact on our audit opinion on [insert employer body name]; and

- any other significant matters arising during your work, including any instances of fraud or suspected fraud.

Responsibilities

We acknowledge that:

- your work was not initially planned in contemplation of our audit of [insert name of employing body];
- your audit of [insert name of pension fund], in accordance with your statutory responsibilities, would not necessarily identify matters in which we may be primarily interested;
- it is for us to conclude on the work required to support our opinion of the financial statements of [insert name of employing body] and your work does not substitute for the audit procedures set out in International Standards on Auditing (ISAs); and
- it is for us to consider the extent to which we should perform additional procedures in order to comply with ISAs.

Timetable

To ensure our deadlines are met we would be grateful if you could provide a response as early as you are able and by 31 July 2019 at the latest. Please inform us of any likely delays.

Thank you for your assistance. Please send your response to the address below. If you would like to discuss this request, please do not hesitate to contact me.

Appendix 4

Illustrative letter in relation to actuary reporting - response from pension auditor to employer body auditor

Introduction

I am writing to you in my capacity as appointed auditor for [insert name of pension fund] in accordance with your request under the Audit Scotland's assurance protocol for retirement benefits, in relation to [insert name of audited body].

As identified in your letter of xx February 2019, [insert name of audited body] is a scheduled/admitted body of the pension fund and as such they rely on the pension fund to provide information to the actuary for the purposes of IAS 19 reporting.

[insert name of the employer body] remain responsible for the preparation of financial statements that give a true and fair view of their financial position and performance.

It is for individual auditors to conclude on the work required to support their opinion on the financial statements of their audited bodies. Our work does not substitute for your own audit procedures in accordance with International Standards on Auditing.

Findings

- The pension fund's arrangements for the provision of source data to the actuary are outlined at Appendix 1.
- I have reviewed the arrangements for the provision of information to the actuary in relation to IAS 19 and found them to be satisfactory. I can confirm that the schedule from which the information at Appendix 2 is extracted agrees to the underlying records of the pension fund.
- I can confirm that the pension fund has taken account of relevant guidance and briefings provided by the actuary.
- Cashflow information provided to the actuary relevant to [insert employer body name's] IAS 19 report is included at Appendix 2.
- The actual cashflow information for the year to 31 March 2019 and assets at that date for [insert employer body name] is included at Appendix 3. I can confirm that these amounts are consistent with the pension fund's analysis of the totals that appear in the pension fund annual accounts for the year.
- Our approach to testing of pension fund assets is set out in our audit plan attached at Appendix 4. Our materiality level for the audit is [insert amount].
- Our audit is not yet complete, but at this stage we have nothing to report in respect of non-compliance with laws and regulations or any other significant matter including any instances of fraud or suspected fraud.

Concluding comments

This letter is supplied on the understanding that it is for the sole use of the persons to whom it is addressed and for the purposes stated.

Our work was not initially planned in contemplation of your audit of [insert name of employer body] and our audit in accordance with our statutory responsibilities would not necessarily identify matters in which you may be interested. Additional procedures were however undertaken in order to provide you with your requested assurances.

It is for you to consider the extent to which you should perform additional procedures in order to comply with International Standards on Auditing.

If you require any further information, please do not hesitate to contact me.