



# corporate | pension schemes and changes to auditing standards

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The Auditing Practices Board issued a series of revisions and clarifications to a number of Auditing Standards in October 2009.

The purpose of these revisions has been to clarify existing requirements and practices. However, some Standards have been revised to include new requirements, and two completely new Standards have been issued.

The changes are unlikely to result in fundamental shifts in the way we will carry out audits of pension schemes' financial statements, but there will be a shift in emphasis in certain areas.

The Pensions Regulator issued the Code of Practice on Internal Controls in November 2006, reinforcing, and explaining the legal onus on pension scheme trustees to establish and operate adequate and appropriate internal controls. Since this date we have seen improvements in evidencing consideration of internal control processes and procedures, and scheme risks, by the majority of Trustee Boards.

One of the two new Auditing Standards is squarely aimed at enhancing the quality of the auditors' communication of deficiencies in internal control identified during the audit process. This covers shortcomings in existing controls, and also controls which are missing.

The Standard requires auditors to communicate significant deficiencies discovered and to explain their potential effects.

The Standard covering auditing procedures where entities use service organisations has also been revised. This affects the outsourcing of administration, fund management, custody of investments, payroll etc. The Standard has been realigned to deal with understanding internal controls operated at those organisations on behalf of the pension scheme, and how auditors use the internal controls reports produced by the providers. The Standard is now more prescriptive about the use of the service providers' internal controls reports. As these are now more widely available, particularly for administrative service providers, this is seen as a natural progression of the Standard.

Auditors reviewing and reporting on these matters may have been the expectation of trustees in the past. However, making it a requirement promotes best practice and should enhance the robustness and value of the annual audit process.

The revised Auditing Standards were issued in October 2009 and will apply to audits of financial statements for periods ending on or after 15 December 2010.

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## changes to the basis of the PPF levy

The Pension Protection Fund ("PPF") has announced that it is establishing a steering group of senior business figures to establish a new levy formula. This follows the response to the consultation document published late in 2008 on the future development of the Pension Protection levy.

The purpose of this is to enhance the concept of fairness and to address a mis-match between the risk pension schemes pose to the PPF, and the share of the levy that they are charged. This mis-match has arisen because of the long-term assessment of the risk to the PPF, and the allocation of this risk to pension schemes being based on short-term expectations.

Proposals originally included in the consultation document for changing the formula used in calculating the risk based element of the levy introduced two new variables:

- Assessing the sponsor's risk over a five year time span
- The risk posed by the scheme's investment strategy

Following the consultation, as part of its commitment to developing a levy system which is both fair and accurate and reflects long term risk, the PPF need more time to research and develop the basis used for assessing this risk.

The PPF acknowledge that by introducing investment risk, this may incentivise schemes to reduce the level of risk in their portfolios to lower their levy. However, they note that the impact on the overall levy is likely to be small.

Changes are not likely to come into effect before the calculation of the 2012/2013 levy at the earliest.

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