Auditing for pensions

Zoe Plowman explores developments within pension scheme auditing

Ensors Accountants LLP has been providing pension scheme audit services to clients since the introduction of the Pensions Act 1995 and have built up a sizeable portfolio of pension scheme clients. As a result, we can boast an established and experienced specialist pension scheme team. Our portfolio of clients includes a range of sizes from the small, self-administered scheme to larger defined benefit/contribution and also hybrid schemes, with several hundred million of assets.

Ensors Accountants LLP are proud to have won Pensions Accountancy Firm of the year at the 2018 and 2022 Pension Age Awards, demonstrating our commitment to the sector.

In the past few years, we have seen a multitude of changes that have culminated in a shock to the global economy. This feature discusses the impact this has had on pension scheme auditing together with details of an important, upcoming change.

How has pension scheme auditing been affected by the uncertainties of the past few years?

The Covid-19 restrictions brought many challenges for trustees. Navigating the deep uncertainties that this created for the sponsor and potentially the pension scheme was not an easy task. Many trustees found themselves in detailed conversations with their auditors in relation to going concern. Whilst Covid affects appear to be largely under control now, new challenges arise such as the conflict in Ukraine, rising inflation rates, the tight labour market and supply chain disruption. These present similar challenges when considering going concern and the effect of the employer covenant.

ISA 570 states that a scheme is considered a going concern unless the trustees have taken the formal decision to wind up, or a notice has been served to wind up the scheme or a trigger event has occurred which indicates that there is no alternative to wind up, such as contributions having stopped, or the employer has experienced an in-solvency event.

We are also required to report material uncertainties too, ie the employer entering the PPF assessment period, the employer experiencing financial difficulties and contributions that are consistently late.

Understanding the impact this has on the sponsoring employer or wider group and constantly reappraising this in light with the changing economic environment is key to understanding the impact on the pension scheme's funding position.

As auditors, we will be looking at the trustee's assessment of the employer in consideration of scheme funding, however it is important to be aware that many of the wider economic issues will also have a direct impact on the scheme itself. It is key that trustees ensure that they fully understand the impact on their scheme, to allow time to adopt sufficient hedging strategies in consideration of their long-term funding objectives.

The Pensions Regulator has issued guidance for trustees with regard to the conflict in Ukraine. As auditors we will be looking for evidence that trustees have assessed the impact on their scheme, particularly regarding the investment portfolio. The trustees must prioritise their fiduciary duties in this regard, but also consider members personal views, the environmental social and governance policy and the scheme's Statement of Investment Principles.

What's upcoming for pension scheme auditing?

ISA 315 is effective for audits of financial statements for periods beginning on or after 15 December 2021. It deals with identifying and assessing the risk of material misstatement through understanding the entity and its control environment. This is not a new concept at all, but the revised ISA clarifies that the auditor should:

- Perform a separate assessment of inherent and control risk
- Consider a spectrum of inherent risk considering the inherent risk factors of; complexity, subjectivity, change, uncertainty, management bias or any other fraud risk factors in so far as they affect inherent risk.
- Clearly understand the entity's IT environment, to identify and assess the risks of material misstatement arising from the use of IT related to the IT applications and other aspects of the entity's IT environment.
- Show an enhanced use of professional scepticism throughout the risk assessment process.

Having early conversations with your auditors is advised to assist with gathering additional information needed. Identifying risks in this volatile economy may be more challenging than you think!

Written by Ensors Accountants associate partner, Zoe Plowman

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