

# Member record-keeping: what trustees can expect from statutory auditors

This statement sets out to help trustees understand the extent and limits of the auditor's work in a statutory pension scheme audit.

The statement emphasises that trustees cannot rely on the statutory audit to inform them of the quality and accuracy of their member data, or the controls around that data. It also sets out some of the steps trustees can take to address these issues.

The Institutes of Chartered Accountants of Scotland (ICAS) and England and Wales (ICAEW) have contributed to the content of this statement and we are grateful for their input. The Institutes intend to publish a statement for their own members.

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## The regulator's approach

Member records are vital to the good governance and administration of a pension scheme.

Incorrect or incomplete member records can result in incorrect financial transactions, which will be reflected in the scheme's financial statements. For example, an overpayment of benefits due to poor member records will result in an overstatement of costs in the financial statements, and a consequent reduction in scheme assets. Naturally, poor records can also have adverse consequences for members.

Our guidance on record-keeping and internal controls was strengthened in 2010. Specific targets and timescales for record keeping were recommended, as was an industry-wide mechanism by which member records can be measured and assessed.

## What does the regulator's approach mean for trustees?

1. Trustees are accountable for scheme records and for the associated internal controls.
2. Trustees should have risk assessment processes in place, part of which should consider risks associated with member records. Our experience is that many trustees have not taken action to assess or mitigate the risk of poor member records.
3. We expect trustees to start demonstrating what they have been doing to ensure their member records will meet the targets we recommended in 2010. Any scheme that has not yet addressed this issue will need to do so now and may find it appropriate to speak to the scheme administrator (or any other person who has been delegated to look after the member records) at the earliest opportunity. They could also consider speaking to their scheme auditor or an independent data specialist whom they may wish to appoint to separately review or test the data.

## The statutory audit framework – what to expect

- The annual statutory audit of the financial statements of a scheme is a legal requirement under the Pensions Act 1995.
- The auditor should plan and perform an audit with professional scepticism recognising that circumstances may exist that cause the financial statements to be materially mis-stated. This applies to all audits undertaken by an auditor and is not specific to pension scheme audits.
- The statutory audit should be carried out in accordance with auditing standards issued by the Auditing Practices Board. The standards describe the extent and limits of audit work.

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- Auditors will consider the control environment from the viewpoint of the financial transactions reported in the accounts. They will document and understand those controls and they will design tests to verify their understanding where they are planning to take audit assurance from these controls.
- There is no statutory obligation for auditors to consider controls or risks other than those associated with the financial transactions reported in the financial statements. This also applies to all audits undertaken by an auditor and is not specific to pension scheme audits.
- They may consider any risk assessment carried out by the trustees, but are not obliged to do so. They will exercise professional judgement to assess the likelihood of particular risks leading to a material mis-statement of the financial transactions in the accounts. Statutory auditors will not necessarily carry out tests to assess member records, unless they judge the condition of those records to create a significant risk of material mis-statement in the accounts. To the extent they do so, will be at the time they impact the accounts eg when a benefit is payable.
- Auditors will report to trustees if they come across significant errors in member records (as well as any other areas where significant deficiencies are found) during the normal course of their work. They would do this by issuing a management letter or key issues memorandum at the conclusion of the audit. These will be significant deficiencies that, in the auditor's professional judgement, are of sufficient importance to bring to the attention of trustees. This is irrespective of any decision by the auditor to formally report to the regulator under code of practice 1: 'Reporting breaches of the law.'

### Next steps for trustees

- Trustees should contact their administrator and ensure they assess the risk that poor or deficient member records has on the scheme and take the necessary steps to address this.
- Trustees should have a dialogue with their administrator and their auditor on the extent of the internal controls tested. Where controls over record-keeping have not been tested, they should ask their administrator to report in accordance with the regulator's record-keeping guidance.
- Trustees may need to gain further reassurance on member records. This could be via regular re-testing, and/or commissioning tests from third parties other than their administrator. These other parties could include the auditor (although as part of a separate engagement and outside the statutory pension scheme audit) or an independent data specialist. They should not assume their auditor is doing this work as part of the statutory pension scheme audit.

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## Summary

- Complete and accurate member data is vital to the good governance and administration of a pension scheme.
- Trustees are accountable for member data.
- Trustees cannot rely on their scheme statutory audit to inform them of the quality and accuracy of their member data, or the controls around that data. They should take separate steps to gain assurance that their member records are complete and accurate.

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Statement from The Pensions Regulator

### **Member record-keeping: what trustees can expect**

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