



Audit support pack



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Our approach to answering auditor's letters containing standard questions

In the interests of operational efficiency and to reduce costs to employers we ask that NeXtStep subscribers direct their auditor to our website in order to obtain a copy of this document.

It is not our policy to respond individually to standard (pro-forma) auditor's letters unless they also contain specific questions regarding the individual circumstances of a particular employer.

All standard questions received from audit firms are collated and addressed in this document which is freely accessible from our website. Additional queries should be emailed to audit@pensionswatch.com

The engagement

Please confirm that the employers can use the figures which you have produced in preparing their financial statements.

We confirm this to be the case.

If you are not a Fellow of the Institute and Faculty of Actuaries, or Society of Actuaries, are you a fellow of an equivalent professional body?

All PensionsWatch signatory actuaries are Fellows of the Institute and Faculty of Actuaries.

Are you employed by, or related in some other manner to, the reporting entity?

No.

Please can you confirm your independence from each of the bodies listed above.

We are independent of all entities that commission our services.

Please describe briefly the purpose and terms of your engagement for each body. In particular:

▶ Whether your terms of reference have been agreed in writing?

All NeXtStep subscribers are supplied with a standard Terms of Reference document.

- ▶ The degree of accuracy required in the valuation and whether different materiality levels have been specified for different admitted bodies.
- ▶ The steps required to achieve the degree of accuracy required in the valuation within the reporting time-scale and any factors that may cause this not to be achieved e.g. any significant event, such as major redundancy programmes that might have an impact on the valuation
- ▶ The anticipated range of valuation of the scheme surplus/deficit and the factors affecting the size of that range.

The answers to these questions are contained in our document "*FRS17 and IAS19 calculations guide*" (the "Calculations Guide"). Employers may download this document from our website.

If the admitted body has decided that it will be possible to use updated figures from the most recent valuation, do you consider that any exceptional events or unusual circumstances have come to light to indicate that a fuller or more recent valuation might be necessary?

The NeXtStep service is designed to work by updating the results of the most recent formal valuation of the relevant LGPS fund. Should exceptional events or unusual circumstances come to light that would invalidate this approach then the employer is notified that it may not possible to continue to use the NeXtStep service.

Please confirm that you have included all retirement benefits (i.e. funded and unfunded) in your calculations that you have been notified of by each admitted body.

If any benefits have been excluded please give details.

The scope of our work extends only to retirement benefits within the LGPS, related unfunded Compensatory Added Years benefits in payment and Teachers' additional unfunded pension liabilities which are recharged to the employer on a Pay As You Go basis. All classes of liabilities are reported separately.

Have there been any limitations on the scope of your work or uncertainties in respect of pensions to which you intend to refer in your report? Please explain the background.

No.

The control environment

Are you aware of any problems having been experienced during the year that could have a significant impact on the accuracy of data concerning the pension scheme membership and obligations or associated authority records?

Discrepancies in data are reported in the Results Schedule. Apart from these, we are not aware of any problems that could impact on the accuracy of the data.

Have you been concerned by indications of a weak control environment affecting pensions or be system or staff changes that might result in a weakening of control? Have any such matters been drawn to the attention of the Administering Authority?

We are not aware of any indications of a weak control environment or of staff changes.

Reporting

Can you confirm that your report meets the relevant accounting requirements?

Our work meets the requirements of FRS17 and IAS19.

We are not aware of any areas where our figures do not meet the various public sector accounting requirements.

Please describe:

Any variations in your report from the requirements of the Pensions TAS issued by the Financial Reporting Council's Technical Actuarial Standard R - Reporting Actuarial Information, Technical Actuarial Standard D - Data or Technical Actuarial Standard M - Modelling and;

Indicate the reasons for these variations; and what you have done instead.

We confirm that the figures and supporting work comply with all relevant Pensions Technical Actuarial Standards, including those listed here.

Have you included all retirement benefits that you have been notified of by each admitted body?

The calculations cover only those retirement benefits described above.

Can you confirm that the valuation reflects death-in-service and incapacity benefits in line with IAS19?

Yes.

What are your views on the degree of precision attaching to your report and factors giving rise to potential misstatement?

Our calculations are compliant with the relevant accounting standards and professional requirements. Issues of accuracy are covered in our Calculations Guide.

If there is a risk of material misstatement what additional steps would need to be taken to develop a more precise valuation and how long would this take?

The calculations are carried out using a roll-forward approach which is approximate in nature as described in our Calculations Guide.

We do not believe a more precise valuation could be achieved within the required reporting time-scales.

Have you had to depart from relevant professional requirements or guidance issued by your professional body in the course of your work?

No.

Major events

Are there any other matters regarding the actuarial review for pension cost purposes or for any pension arrangements in general relating to any of the bodies listed above of which the auditor should be aware? For

example

- ▶ **Any matters which have come to your attention as occurring in the period between the reporting entity's balance sheet date on which the valuation was completed, that could have a material effect on the valuation of the scheme's liabilities;**
- ▶ **The impact of any significant events of which you or we are aware, such as a major outsourcing, housing stock transfer, redundancies etc.**

All finalised accounting calculations are carried out at the reporting entity's balance sheet date and do not take account of subsequent events.

As noted earlier, the NeXtStep service is designed for operation where exceptional events or unusual circumstances do not (in our opinion) invalidate the standard roll-forward approach.

Our system specifically prohibits operation under these circumstances. Employers are required to confirm there have been no major events of this nature prior to obtaining any figures.

Reliability of source data

Have you carried out any overall validation to establish whether the source data provided by the Administering Authority appears to be complete, consistent with previous data and reflects known events that you are aware of?

All data supplied to us by the Administering Authority is automatically validated when entered into our web-enabled systems.

Our validation procedures cross-reference the latest valuation summary data supplied by the fund's actuary, the previous year's accounting figures and a library of standard reasonableness checks.

Please see point above regarding special events.

If the formal written reports and statements are not available, please give a summary of the membership information on which the valuation underlying the actuarial statement was based.

The assets and liabilities underlying the accounting calculations are supplied by the fund's

actuary at each formal actuarial valuation of the fund (or the date of admission to the fund if later) and this information is summarised in the Results Schedule.

Subsequent accounting valuations are carried out using a roll-forward approach as described in our Calculations Guide.

Due to the multi-employer nature of the LGPS, please explain the approach taken to assess the respective assets / liabilities for each of the admitted bodies.

This information is set out in our Calculations Guide which employers may download from our website.

Can you confirm that the current service costs, as defined in IAS19, have been based on employees' and employers' contributions for the complete year and have been recalculated for material events arising during the year.

The current service costs have been based on the Pensionable Pay for the year as supplied by the Administering Authority or the employer (or estimated by our systems as detailed in our Calculations Guide.

Assumptions

In general terms what process has been used to develop the actuarial assumptions of the bodies? Can you confirm that the assumptions have been arrived at in consultation with the admitted bodies?

Our approach is described in our document "*How we set assumptions for FRS17 and IAS19 pensions accounting figures*" which employers may download from our website. Employers are encouraged to discuss their assumptions directly with us and are able to make their own changes as required.

Has a common approach been adopted for all admitted bodies? If not please provide further details.

Our standard assumptions approach is common across all employers but each employer is free to choose alternative assumptions if required.

Which assumptions have the greatest financial impact on the final figures?

The discount rate, earnings inflation, pension increases, expected return on assets and the mortality assumptions.

What allowance has been made for the recent changes identified in the pensions industry (e.g. improvements in mortality rates)?

This information is set out in our Calculations Guide which employers may download from our website.

Can you please confirm that you are using the mortality rates as indicated by the Continuous Mortality Investigation (CMI).

Unless requested otherwise, the mortality tables used are the same as those used for the latest formal valuation of the fund. LGPS funds use a mixture of CMI and proprietary tables. The type of tables in use is indicated on the Results Schedule.



Questions?

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