



# **Pension scheme reports and financial statements, and related matters in the context of the COVID-19 pandemic**

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## **Section 1. About the Guide**

The Guide has been prepared by a joint working party comprising representatives of the Institute of Chartered Accountants in England and Wales (ICAEW), the Institute of Chartered Accountants of Scotland (ICAS) and the Pensions Research Accountants Group (PRAG).

It has been prepared primarily to support pension scheme auditors navigate the additional challenges they are likely to experience as a consequence of the COVID-19 pandemic in meeting their responsibilities towards the scheme's annual report, including the audited financial statements.

Trustees and accounts preparers will also find this a useful document when considering their own challenges, and to understand those faced by the auditing profession. There may be circumstances where trustees may need to consider taking their own legal advice to establish how to respond appropriately to matters arising from the COVID-19 pandemic.

New and updated guidance relevant to pension scheme trustees, accounts preparers and auditors, in the context of the COVID-19 pandemic, is being published on a regular basis. So it is essential that the Guide is read alongside the latest available guidance from The Pensions Regulator (TPR), the Financial Reporting Council (FRC) and other key third parties.

The Guide signposts to guidance issued by both TPR and the FRC relevant to the topics covered and in some instances the Guide provides some accompanying commentary.

## **Section 2. Scope of the Guide**

The Guide is relevant to private sector occupational defined benefit (DB) and defined contribution (DC) trust-based pension schemes in the UK, including hybrid schemes and DC master trusts, applying Financial reports of pension schemes: A statement of recommended practice (the Pensions SORP), published by PRAG.

The Guide does not form part of the Pensions SORP nor has it been reviewed by the FRC. Elements of this Guide attempt to explain and illustrate what is required under the Pensions SORP (2018), in the context of the COVID-19 pandemic, but the Guide does not carry the authority of the SORP.

The Pensions SORP is available on the PRAG website – [www.prag.org.uk](http://www.prag.org.uk). It is free to members of PRAG and can be purchased by non-members.

The Guide does not change, remove, or add to any relevant statutory or regulatory requirements or professional standards. Reference will need to be made directly to these as necessary.

## **Section 3. Overview of pension scheme reporting and audit requirements**

The requirements for the preparation and audit of pension scheme financial statements have not been revised as a consequence of the COVID-19 pandemic. Nevertheless, business as usual has been disrupted and both trustees and auditors will need to check TPR's website - [www.thepensionsregulator.gov.uk](http://www.thepensionsregulator.gov.uk) regularly for any updates relating to pension scheme annual reports.

Pension scheme annual reports, which include the audited financial statements, are required to be completed within seven months of the end of the reporting period to which they relate.

While the uncertainties and unprecedented risks posed by the COVID-19 pandemic continue, the practical challenges this poses and caution with regard to financial statements disclosures, could, in some cases, mean that schemes will need to allow additional time to finalise their annual reports in line with statutory deadlines.

Trustees may be taking longer to complete going concern assessments and audit firms may be introducing strengthened risk management and quality control arrangements around the signing of auditor's reports. These additional measures may delay the signing of financial statements and auditor's reports.

## Trustees' responsibilities

Pension scheme trustees are responsible for their scheme's annual report, which includes the financial statements, and therefore for delivering financial statements which give a 'true and fair view' in accordance with the applicable financial reporting framework.

Under the Financial Reporting Standard applicable in the UK and Republic of Ireland ([FRS 102](#)), the going concern basis of accounting applies to all entities including pension schemes except in specific circumstances and is interpreted for pension schemes in the Pensions SORP: material from the Pensions SORP on going concern is referenced in Section 10 of the Guide. The basis on which the financial statements are prepared will necessarily be a key focus for both auditors and trustees at this time. The following illustrative statement of responsibilities reflects trustees' responsibilities as they are set out in pension scheme regulations:

### ***"The Trustees' responsibilities in respect of the financial statements***

*The financial statements, which are prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102), are the responsibility of the trustees. Pension scheme regulations require, and the trustees are responsible for ensuring, that those financial statements:*

- *show a true and fair view of the financial transactions of the Scheme during the Scheme year and of the amount and disposition....."*

## **The annual report, incorporating the trustees' report, audited financial statements and other information**

The minimum requirements for pension scheme annual reports are set out in regulation. However, the Pensions SORP includes commentary and guidance on the content of the annual report. The narrative elements of the annual report, in particular the trustees' report and the chair's statement, where one is required, will need to reflect the implications of the COVID-19 pandemic for the scheme, where relevant.

The content of a pension scheme's annual report is as follows:

- A trustees' report.
- Financial statements.
- Summary of contributions (forming part of the trustees' report or a separate document where an auditor's statement about contributions is required).
- An auditor's report on the financial statements.
- An auditor's statement about contributions (except for some multi-employer schemes).
- A report on actuarial liabilities for DB schemes (forming part of the trustees' report).
- Actuarial certification of the schedule of contributions for DB schemes.
- The chair's statement for relevant DC schemes as required by regulation.

In addition, it is custom and practice to include a statement of trustees' responsibilities in the annual report and this is something auditors will require.

For both DB and DC pension schemes, the applicable financial reporting framework governing their financial statements comprises regulations, FRS 102 and the Pensions SORP. Any material departures from the financial reporting framework will need to be disclosed in the financial statements and auditors will need to consider the implications for their auditor's report.

The FRC has issued guidance for companies on the going concern basis of accounting and COVID-19. However, elements of the guidance are relevant to pension schemes and are likely to be of assistance to pension scheme trustees, financial statements preparers and scheme advisers, including scheme auditors.

- [Guidance on the going concern basis of accounting and reporting on solvency and liquidity risks](#) (April 2016).
- [Company Guidance March 2020 \(COVID-19\)](#).

## The audit of pension scheme financial statements

Aspects of the audit, from planning the audit through to preparing the auditor's report, will need to reflect both the impact of the COVID-19 pandemic on the pension scheme and the practical challenges the auditor is likely to face in obtaining sufficient appropriate audit evidence.

It is vital that auditors maintain audit quality both in the conduct of their audit work and in judgements they make about the evidence they obtain. Professional judgement and professional scepticism will be key.

Audits of pension scheme financial statements are conducted in accordance with the International Standard on Quality Control (UK) 1, International Standards on Auditing (ISAs) (UK) and the FRC's Ethical standard.

In addition, pension scheme auditors should also consider other relevant guidance issued by the FRC, including:

- [Practice Note 15 \(revised\): The Audit of Occupational Pension Schemes in the UK](#) (November 2017) (PN15).
- [Bulletin: Compendium of illustrative auditor's reports on United Kingdom private sector financial statements](#) for periods commencing on or after 17 June 2016 or before 15 December 2019 (October 2016).
- [Bulletin: Illustrative auditor's reports on United Kingdom private sector financial statements](#) (March 2020). The bulletin has been updated to provide guidance on auditor's report requirements when the September 2019 version of ISA (UK) 570 on going concern has been applied.
- [Bulletin: Guidance for auditors and matters to consider where engagements are affected by coronavirus \(COVID-19\)](#) (March 2020). The bulletin includes guidance on gathering evidence through remote means, updated by the FRC on 9 April 2020.
- Guidance on [Modified audit opinions during the COVID-19 crisis](#) (21 April 2020).

The application of ISA (UK) 570 on going concern will be a key consideration for auditors. A revised edition of ISA (UK) 570 was issued in September 2019. This is effective for the audit of financial statements for periods commencing on or after 15 December 2019 and early adoption is permitted. Therefore, audit firms will need to make an informed decision about whether to apply the revised standard early.

The FRC revised this standard to enhance the audit of going concern and the application of the revised standard is likely to require additional audit work, notwithstanding any additional work in this area as a consequence of the COVID-19 pandemic. The additional requirements include changes to the way the auditor reports on going concern in their auditor's report.

## PRAG guidance on going concern

PRAG issued guidance on 'Pension scheme financial statements and going concern' in April 2018 (PRAG's going concern guidance). The guidance is available to PRAG members via the members' zone of the PRAG website. An update of the guidance, to be published in summer 2020, will address the changes to ISA 570 (UK) (September 2019) on going concern, applicable to accounting periods commencing on or after 15 December 2019.

Section 10 (Accounting issues: going concern and the trustees' assessment of going concern) and Section 12 (Audit issues) of this Guide should be read alongside PRAG's going concern guidance, including the revised edition of the guidance when it is available and where ISA 570 (UK) (September 2019) is being applied by the scheme auditor.

## Section 4. TPR guidance on the deadline for finalising the annual report

There is no requirement to file the annual report, which includes audited financial statements, with a regulator, except for DC master trusts. Although TPR could take regulatory action in the event that audited financial statements are not available to trustees within seven months of the end of the reporting period to which they relate.

However, on 9 April 2020, TPR issued [COVID-19: an update on reporting duties and enforcement activity](#). This update includes the following easements relevant to the annual report:

- Audited financial statements  
Failing to produce audited financial statements need only be reported where the breach is likely to be of material significance. In most instances, failure to complete a set of financial statements is unlikely to be of significant detriment to members and so a general extension until 30 June 2020 will apply. Therefore, if a scheme's annual report, including its audited financial statements, was due to be finalised before 30 June 2020, TPR may not consider a delay to be a matter of material significance. Clearly this only applies to periods ended no later than 30 November 2019, hence the importance of looking out for further TPR updates.

DC master trusts are required to file financial statements with TPR and this remains the case, but TPR will not take regulatory action if the delay does not go beyond the filing deadline or 30 June 2020 whichever is later.

- Chair's statements (DC only)  
Because the legislation on preparing a chair's statement does not give TPR any discretion in relation to enforcement, TPR will continue to impose fines if schemes do not comply with this requirement.

However, to ease the burden for schemes, TPR will not issue penalty notices before 30 June 2020. This is the case whether a statement has not been completed, or whether it is not compliant with regulations.

TPR will not review any chair's statements it receives, for example, through master trust submissions or via annual reports, before 30 June 2020. Any such statements will be returned unread, and not reviewed. This should not be taken as any indication that the statement in question complies with the requirements.

It is not clear from TPR's update if potential fines for non-compliant chair's statements will be avoided or just delayed.

## **Section 5. Notifiable events, significant events and triggering events**

### **Notifiable events**

The purpose of the TPR's [notifiable events regime](#) is to reduce the risk of circumstances which may lead to compensation being payable from the Pension Protection Fund (PPF) to scheme members. Calls on the PPF will normally arise when an employer becomes insolvent and its scheme is underfunded. The regime is designed to provide an early warning of possible insolvency and underfunding, giving TPR the opportunity to assist, or to intervene, before a call is made.

Trustees of DB schemes and sponsoring employers will need to be particularly alert at this time to their duty to notify TPR in writing of events:

- In respect of pension schemes (scheme-related events).
- In respect of employers, in relation to their pension schemes (employer-related events).

The duty to notify falls on trustees, individually as well as collectively, in respect of scheme-related events and employers in respect of employer-related events.

Trustees and employers will need to refer to TPR's [Code of Practice No. 02](#) for more information about their legal duties under the notifiable events regime.

TPR has stated, in its 9 April 2020 update on reporting duties and enforcement activities, that because notifiable events are potential indicators of serious issues that affect savers, it may need to investigate with a view to taking regulatory action, so it is not extending any reporting changes to this requirement.

### **Significant events and triggering events**

Those involved in running a DC master trust will also need to refer to TPR's guidance on [significant event](#) and [triggering event](#) duties for master trusts: these duties still apply during the pandemic.

## **Section 6. Reporting matters of material significance to The Pensions Regulator**

Pension scheme trustees, auditors and others have a statutory duty to report matters of material significance to TPR. No changes have been made to this statutory duty and it remains in place during the pandemic.

A written report must be made to TPR as soon as is practicable where a person has reasonable cause to believe that:

- A duty which is relevant to the administration of the scheme in question, and is imposed by or by virtue of an enactment or rule of law, has not been or is not being complied with; and
- The failure to comply is likely to be of material significance to the TPR in the exercise of any of its functions.

It is important to emphasise that this is a two-part test and both conditions need to be met before a duty to report exists. Judgement is required particularly in relation to what is likely to be of material significance to TPR.

For example, judgements:

- In relation to reporting delays in the signing of annual reports will need to be considered in the light of any statements or guidance from TPR on how it will approach deadlines missed during the course of the COVID-19 pandemic, for example, the 9 April update on reporting duties and enforcement activities.
- Will need to be made if employer contributions to the scheme are reduced or suspended and the reduction or suspension is not reflected in the scheme's schedule of contributions.

The following TPR codes of practice are relevant to the statutory duty to report:

- Code of Practice 01 on [reporting breaches of the law](#).
- Code of Practice 03 on [funding defined benefits](#).
- Code of Practice 05 on [reporting late payment of contributions to occupational pension schemes](#).

Additional guidance for auditors on reporting matters of material significance to TPR is available in PN15.

## **Section 7. Ethical issues for professional accountants and auditors**

It is important that at a time of great pressure that professionally qualified accountants who are trustees or who are preparing or auditing the financial statements comply with their professional body's Code of Ethics.

In addition, auditors must apply the FRC's Ethical standard to audits of financial statements.

## **Section 8. Impact of the COVID-19 pandemic on the control environment of pension schemes**

The preparation and audit of pension scheme annual reports, including the financial statements, will be impacted by changes in the control environment in which schemes operate; the extent of the impact of the COVID-19 pandemic on a scheme's control environment will depend on its reporting period end date. For example, a scheme with a period end date of 31 December 2019 may not have experienced any COVID-19 related impacts on its control environment, in the period to that date. However, it may have done subsequently and this may be relevant to aspects of its annual report, including its financial statements.

The ability of the scheme to continue operating, including making payments to retired members will depend on the resilience and viability of its pensions administration. The Pensions Administration Standards Association (PASA) published its [COVID-19 guidance for administrators](#) in March 2020. The PASA COVID-19 guide has been prepared for commercial Third Party Administrators (TPAs) and in-house administrators.



PASA has identified the following priorities for administrators at this time:

- Pensioners continue to be paid.
- Cashflow is managed.
- Retirement and death cases are processed.
- Contribution payments are invested.
- Disinvestments are timely.
- Pension increases are calculated.
- Members have appropriate communication.

More broadly, pension schemes where they are relying on out-sourced or in-house services critical to:

- The day to day operation of the scheme.
- The ability of the trustees to meet their legal duties.
- The production of the annual report, including the financial statements.

.....will need to make inquiries as to whether their service providers are having difficulty meeting the terms of any service level agreements or are experiencing any other difficulties which could give rise to a notifiable event or a requirement to report a matter of material significance to TPR. If so, the trustees will need to gain an understanding of what steps are being taken to address these difficulties and when services are expected to return to normal.

Areas where inquiries should be made include, but are not limited to:

- The implementation of business continuity plans.
- The testing of disaster recovery plans.
- The maintenance or strengthening of cyber and IT security measures.
- The maintenance or strengthening of controls around member data and GDPR compliance.
- The impact of the COVID-19 on governance arrangements and internal controls, more broadly, including:
  - The performance of reconciliations.
  - The introduction of new controls around the use of electronic signatures (where wet signatures were used previously), to reduce the risk of fraud.
  - Any enhanced or new controls to protect members' benefits, given the increased risk of scams.

Trustees and their auditors will need to engage at an early stage to determine if there is likely to be any disruption to the financial statements' production process and therefore to the audit timetable arising from difficulties with pension administration or with other services, for example, asset valuation.

## **Section 9. Narrative elements of the annual report**

Trustees should reflect on the impact of COVID-19 on the content of their trustees' report and other narrative elements of the annual report, such as the Chair's statement, from a governance perspective, where there is an impact.

The issues which may need to be considered include but are not limited to:

- Business continuity issues. This could include reporting on operational resilience and business continuity plans, for example, in relation to scheme administration.
- Sponsoring employer issues that may impact the scheme. For example, where the employer is experiencing financial difficulties but the directors regard the business as a going concern and are seeking to resolve the difficulties, perhaps by re-negotiating banking covenants or re-financing debt obligations. Also, do parent company guarantees still stand?

If an employer would, for example, be able to operate at reduced size this may not create a material uncertainty as to whether it is a going concern. In addition, general financial difficulties may not be material enough to impact whether an entity is a going concern.

- Scheme funding issues (DB only). For example, has the sponsor requested a deficit recovery contribution (DRC) reduction or suspension and has the request been accepted? What impact has COVID-19 had on scheme funding post-year end?
- Investment performance issues. For example, what impact has COVID-19 had on the scheme's investment strategy as set out in its Statement of Investment Principles (SIP) pre-year-end and post-year end?
- Contributions receivable. Where contributions payable to the scheme are affected as a consequence of COVID 19, for example, due to suspension of DRCs or changes to salary levels under the Coronavirus Job Retention Scheme (CJRS) trustees need to continue to monitor the completeness and accuracy of contributions against the schedules of contributions and the payment schedules in place.

## Statement of Investment Principles

A scheme's SIP sometimes includes target weightings of investment holdings so if a category such as equities suffers from a sharp decline in value then these weightings may not be achieved.

Some other schemes prepare more complex SIPs which may have triggers that require trustees to change investment holdings where those triggers have been met.

Where a scheme deviates from such terms during the reporting period the reason and any action taken should be explained in the trustees' annual report as required under the regulations.

By 1 October 2020, the trustees of DB schemes must publish their SIP on a publicly available, free to access website. This requirement is already in place for the trustees of DC schemes with 100 or more members.

## The chair's statement

DC schemes other than those only receiving Additional Voluntary Contributions (AVCs) must prepare a chair's statement.

The trustees of all DC schemes are required to demonstrate in the chair's statement how they have met:

- The default arrangement investment strategy requirements.
- The requirements for processing core financial transactions.
- The requirements for calculating member borne charges and transaction costs in respect of all funds and explaining how they represent value for members.
- The requirements around trustees' knowledge and understanding.

There is the potential for the COVID-19 pandemic to impact on each of these requirements but this will depend on the scheme's reporting period. For example, for periods ending on 31 December 2019, the impact of the pandemic is likely to be outside of the reporting period. Therefore, trustees will need to consider whether commentary, for example, on any changes to the scheme's default investment strategy after the end of the reporting period needs to be included in the trustees' report.

Steps may have been undertaken by the trustees, in view of the impact of the COVID-19 pandemic on financial markets, to review and possibly amend the scheme's default investment strategy, schemes may also have had to introduce new defaults to protect those members who have self-selected their investments.

TPR's [A quick guide to the chair's statement](#) says: that

*"The [chair's] statement should be a standalone document within the annual report and financial statements so that all the required information..... is in one place. It is, however, acceptable to attach to the statement any information or documents that are required to be included as part of it (such as the default arrangement Statement of Investment Principles)."*

*These should be contained in a clearly labelled appendix and referred to in the statement itself (or a link provided if the statement and documents are made available via a website)."*

## Sources of guidance about the narrative elements of the annual report

The following sources of guidance about the narrative elements of the annual report are available:

- The Pensions SORP provides commentary on the narrative elements of the annual report, including commentary on the content of the trustees' report. Appendix 3 of the SORP sets out in more detail the annual report disclosure requirements in the UK.
- For DB schemes, TPR provides guidance on the SIP within its [DB investment](#) guidance.
- For DC schemes, TPR provides guidance on the SIP and Chair's statement in Code of Practice 13 on governance and administration of occupational trust-based schemes providing money purchase benefits. TPR's [landing page](#) for Code of Practice 13 also includes further information about recent changes to pensions legislation which came into force on 6 April 2018, which apply to the Chair's statement.

## Section 10. Accounting issues: going concern and the trustees' assessment of going concern

Consideration of going concern in the preparation of pension scheme financial statements is going to require greater focus due to COVID-19. This section of the Guide considers aspects of going concern relevant to all schemes and also draws out aspects specific to DB schemes, DC schemes, DC master trusts and multi-employer DB schemes.

### The trustees' responsibility for the going concern assessment: all schemes

The trustees are responsible for undertaking the going concern assessment and the assessment must meet the requirements of both FRS 102 and the Pensions SORP.

The going concern basis of accounting is normally appropriate, but the trustees need to consider in detail the extent to which the COVID-19 pandemic impacts on the basis of preparation and whether there are any material uncertainties in relation to going concern.

### The going concern concept and pension scheme financial statements: all schemes

Pension scheme financial statements are stewardship financial statements primarily intended to record and report on scheme net assets and financial transactions. Under the Pensions SORP, the going concern basis is assumed unless a decision has been made to wind up the scheme or an event triggering its wind up has occurred. Triggers and powers to wind up a scheme are normally set out in its trust deed and rules.

The Pension SORP states:

*3.29.1 FRS 102 requires the following in relation to going concern:*

***3.29.2 When preparing financial statements, the management of an entity using this FRS shall make an assessment of the entity's ability to continue as a going concern. An entity is a going concern unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the date when the financial statements are authorised for issue. (FRS 102:3.8)***

***3.29.3 When management is aware, in making its assessment, of material uncertainties related to events or conditions that cast significant doubt upon the entity's ability to continue as a going concern, the entity shall disclose those uncertainties. When an entity does not prepare financial statements on a going concern basis, it shall disclose that fact, together with the basis on which it prepared the financial statements and the reason why the entity is not regarded as a going concern. (FRS 102:3.9)***

*3.29.4 The actuarial valuation and related report are the primary source of information regarding the ability of a defined benefit scheme to meet the benefit promises, although it should be noted that this may ultimately be dependent upon the employer's continued ability to fund the scheme in accordance with funding rates advised by the actuary. The financial statements of the pension scheme itself do not provide any relevant information in this context other than to set out the type and value of the scheme's assets at a particular point in time. For defined contribution schemes, the concept of solvency does not apply because the obligations of the scheme to pay benefits are dependent upon the funds available. Schemes that are closed to new members, or to which there will be no further contributions, are accounted for in the same way as continuing funds.*

*3.29.5 In view of the above, the going concern concept does not play the same fundamental role in the measurement and classification of assets and liabilities in pension scheme financial statements as it does in the financial statements of commercial entities. Accordingly, the basis of preparation of the financial statements does not need to refer to the going concern concept unless the trustees or employer have taken the formal decision to wind up the scheme or have no realistic alternative but to do so, for example, where there has been a cessation event (these are normally set out in the trust deed and rules).*

It is good practice to disclose that financial statements have been prepared on a going concern basis, in line with other entities, although there is no requirement under the Pensions SORP to do so. Likewise, although it is not a requirement, the trustees may wish to set out the reasons why they have concluded that the basis of preparation is appropriate. Where the financial statements are prepared on a cessation basis this will need to be disclosed in the basis of preparation note.

### **Going concern considerations: all schemes**

Following from paragraph 3.29.5 of the Pensions SORP noted above, although the measurement of investment values in pension scheme financial statements are not usually different where accounts are prepared on a going concern or cessation basis, the going concern assessment still needs to be made, which may result in additional disclosures in the trustees' report and financial statements.

In view of the COVID-19 pandemic, trustees need to consider whether the going concern basis remains appropriate and, where relevant, whether a material uncertainty related to going concern needs to be disclosed for the financial statements to give a 'true and fair view'.

The specific circumstances which need to exist for pension scheme financial statements not to be prepared on a going concern basis remain unchanged. However, it is likely that more schemes may need to disclose a material uncertainty relating to going concern due to the impact of the COVID-19 pandemic on the scheme.

If a material uncertainty related to going concern is disclosed, the financial statements are still required to be prepared on a going concern basis. Therefore, pension scheme financial statements could be required to refer to the going concern basis of preparation for the first time.

The scheme auditor will ask trustees to provide evidence to support the trustees' going concern assessment immediately prior to the signing of the financial statements and auditor's report. The trustees' assessment will inform whether there are any material uncertainties relating to going concern to disclose in the financial statements.

It is for the trustees to determine what information they need in order to undertake their going concern assessment. Where relevant, the assessment will need to have regard to conclusions from their monitoring of employer and supplier covenants up to the date the financial statements are signed. Suppliers in this instance could be TPAs and insurance companies, where buy-in contracts are in place.

Although some business sectors have in general suffered more than others, the trustees' assessment of going concern should take into consideration the specific circumstances of the sponsoring employer. Not all employers will have suffered equally as a consequence of the COVID-19 pandemic, with some business sectors being impacted more than others.

## Going concern considerations for DB schemes

Trustees have a regulatory responsibility to consider the strength of the employer covenant (whether through an external covenant adviser or internally) and up-to-date information in this respect will be relevant to their assessment of going concern. This may also include the employer's financial statements, where these have been recently signed.

In undertaking their going concern assessment, the trustees of DB schemes may wish to consider [TPR's guidance](#) on matters to raise with sponsoring employers. While the guidance is entitled 'Guidance for DB scheme trustees whose sponsoring employers are in corporate distress', its content is more broadly relevant.

In addition, the trustees of DB schemes will need to consider any decisions they have taken in relation to the suspension or reduction of DRCs and payments for future service. These decisions should be taken in accordance with TPR's [DB scheme funding and investment: COVID-19 guidance for trustees](#). For example, the guidance states that:

*"[The suspension or reduction of contributions] should not be longer than three months if the trustees are not able to fully assess the employer's position as per our guidance. A condition of this agreement should be full and ongoing provision of information so that trustees can monitor the employer covenant."*

Many DB schemes have in place significant buy-in policies, longevity swaps or similar arrangements or schemes may have significant individual pension annuity policies in the name of the trustees. Where these are held, trustees should be considering the operational resilience, credit arrangements and regulatory structures of the providers and counterparties in order to consider the impact of COVID-19 on these arrangements.

The insolvency of an employer does not necessarily mean that it is no longer appropriate to prepare the financial statements on a going concern basis or that a material uncertainty relating to going concern exists, for example, if the scheme has reached self-sufficiency and is expected to be so for a period of at least 12 months after the financial statements are signed off. However, it would still be appropriate to disclose the insolvency of the sponsoring employer in order for the financial statements to give a true and fair view.

PRAG's going concern guidance (April 2018) includes the following paragraphs on considering disclosures in the financial statements:

*".....trustees may wish to have regard to the status of member communications as there could be sensitivities about financial statement disclosures on the future of the scheme that have not been communicated to employees and members. Such considerations cannot override the requirement for the financial statement disclosures but could, for example, influence the timing of the approval of the annual report and financial statements within the statutory time limits. (Paragraph 5.4)"*

*Where the employer is experiencing financial difficulties and disclosure of going concern issues in the scheme financial statements could be sensitive or prejudicial to the financial position of the employer, for example, if negotiations with the employer and creditors, and possibly PPF and TPR, are on-going but not public, it would be good practice for the trustees to engage with the employer, and other parties if appropriate, at an early stage to make them aware of the going concern disclosure requirements in the scheme financial statements so all interested parties are aware of the requirements and can manage them appropriately within statutory timeframes. (Paragraph 5.5)"*

## Going concern considerations for DC schemes

As noted above, paragraph 3.29 4 of the Pensions SORP states that *"For defined contribution schemes, the concept of solvency does not apply because the obligations of the scheme to pay benefits are dependent upon the funds available."* However, there are going concern considerations for DC schemes including DC master trusts as set out below.

For DC only schemes, while investment costs may well be covered by annual management charges on member funds, the costs of running the scheme are met by specific additional contributions from the employer to the scheme or directly by the employer. Therefore, the ability of the employer to continue meeting the running costs of DC schemes could be more difficult as a consequence of the COVID-19 pandemic.

## Going concern considerations for DC master trusts

DC master trusts are usually supported by a funding entity (Scheme Funder) and are required under regulations to hold, or have access to, reserves to fund a wind up if a triggering event arises and the master trust cannot continue to operate. These reserves can be held in a number of forms and in some cases in an escrow account outside of the DC master trust.

When assessing the going concern of DC master trusts, consideration will need to be given to the financial strength of the funding entity and whether a trigger event could arise as a result of the insolvency of the Scheme Funder or whether the master trust is unlikely to be able to continue as a going concern.

Consideration will also need to be given as to whether the level of financial reserves still meets requirements set out in agreements and regulations. As well as triggering events relating to the ability of the master trust to continue to operate, there are significant events which potentially impact on the authorisation status of a master trust relating to business planning, including liquidity and changes in business forecasts and membership. All of these will need to be considered as part of the regular review of the master trust's business plan.

## Going concern considerations for multi-employer DB schemes (with non-associated employers)

Paragraph 3.29.10 of the Pensions SORP states that:

*“For multi-employer sectionalised schemes, each section should be considered separately for these purposes.”*

For multi-employer DB schemes, the trustees' going concern assessment will need to take account of the employer covenant strength of each of the employers within each section of the scheme. Where there is a going concern issue with any of the employers, this will need to be disclosed where the impact on the scheme could be material.

For multi-employer DB schemes where there is a sponsoring employer experiences an insolvency event, the terms on the withdrawal arrangements will need to be considered to assess how any section 75 debt should be dealt with.

## Section 11. Other key accounting issues

Other key accounting issues covered in the Guide are:

- Fair value of investments.
- Fair value hierarchy – classification of investments.
- Nature and extent of risks arising from financial instruments.
- Events after the end of the reporting period.

### Fair value of investments

Financial instruments, including investments, are required to be held at fair value in the scheme's statement of net assets.

There are indications that obtaining asset valuations for periods ending on or after 31 March 2020 will be challenging for some asset classes, for example, illiquid assets such as commercial property, infrastructure funds, or private equity investments and other assets such as AVCs. It is not possible to determine at this time when conditions may enable valuations to be provided as before.

There is a risk that pension schemes may only have access to stale price information, for example:

- Valuers of commercial property are indicating that they will not issue definitive market values for accounting periods ending on 31 March 2020.
- Private equity or hedge funds may take longer to provide valuation information but this may become available before the financial statements are finalised.
- Differences between the scheme's reporting year-end and the reporting year-end of any funds where the scheme holds units (including commercial property funds) could be an additional hurdle in obtaining valuations.

- Similarly, where policies, such as legacy AVCs, insurance policies and annuity policies, must be recognised by the scheme in order to comply with FRS 102 and the Pensions SORP but are not normally valued for any other purpose at the scheme's reporting date, obtaining valuations may be more challenging at this time.

In stable market conditions, some schemes normally take the latest available valuation pre-year end for assets such as private equity and hedge fund investment and update these for cash movements since the date of the latest fund valuation. This method, for example, is not likely to be possible for accounting periods ending on 31 March 2020, given the extent of known market movements prior to that date.

There are indications that due to AVC providers prioritising business as usual activities, year-end information for pension schemes with reporting periods ending on 31 March 2020 or on dates up to and including 5 April 2020 may not be available.

In respect to AVC investments, paragraph 3.26.6 of the Pensions SORP states:

*“In practice, certain AVC providers are unable to supply details of movements on the fund to a specified Statement of Net Assets date, typically because calculations of interest and other income allocations are made to a different timetable. If the provider does not supply information as at the scheme year-end, the financial statements should include the information at a date as near as practicable to the scheme year-end, adjusted for cash movements in the intervening period. Similarly, where practical difficulties arise in obtaining the necessary up-to-date information within the limited period allowed for preparation of financial statements, the financial statements should use the latest available information, adjusted for subsequent cash movements, and explain the treatment adopted in the notes to the financial statements.”*

It is expected that it is currently too early for any adjustment to be made to valuations that include mortality assumptions as part of the investment valuation.

Contingent assets may become assets of the scheme, if the criteria set out in the agreement have been met.

Where valuations have been established as at the end of the reporting period using a valuation technique, there are likely to be uncertainties about their robustness. Where this is the case, it will be necessary to disclose the nature and extent of these uncertainties.

Where reliable valuations cannot be obtained, trustees and auditors will need to discuss the implications for a scheme's financial statements early in the financial statements production process and alternative audit procedures may need to be considered by the auditor.

Consideration will need to be given to disclosing details about funds which have been closed to redemptions or where redemptions have been restricted, as they were during the financial crisis in 2008. Such a disclosure would be relevant even if the closure or restriction took place after the end of the reporting period.

A review will need to be undertaken of the scheme's accounting policy on the approach to determining the fair values of investments. If appropriate, the accounting policy should be updated.

In summary, if the scheme has been unable to obtain valuations in the usual way as at the end of the accounting period, the following questions arise:

- When was the last available valuation obtained?
- How robust is this value?
- Does the value need to be adjusted?
- Has the value been adjusted for post-valuation date transactions?
- Has a subsequent value been provided at a subsequent date that may provide information about the valuation at the year-end date?
- Is there a sufficient degree of uncertainty over asset values as at the year-end date to require a material uncertainty to be disclosed in the financial statements?

Where the impact on the financial statements of difficulties in obtaining reliable asset values is material, the auditor will need to consider the implications for their auditor's report.

## **Fair value hierarchy – classification of investments**

Pension schemes are required to disclose, for each class of financial instrument, an analysis of the level into which the fair value measurement is categorised.

A fair value measurement is categorised in its entirety on the basis of the lowest level input that is significant to the fair value measurement in its entirety. The following levels are specified in FRS 102:

- Level 1: The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.
- Level 3: Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

Trading conditions at the reporting date need to be considered to ensure that investments are disclosed appropriately as level 1, 2 or 3. For example, where market data is not available for investments normally classified (and disclosed) as level 2, it may be appropriate to re-categorise these as the reporting date as level 3.

Where it is necessary to include investments within a different level, a narrative disclosure will need to be included to explain the reason for the change in level from the previous year.

## **Nature and extent of risks arising from financial instruments (i.e. fair value hierarchy - investment risk disclosures)**

Trustees will need to review the nature and extent of risks arising from the COVID-19 pandemic and update the scheme's fair value hierarchy investment risk disclosures as appropriate, for example, to:

- Emphasise their commitment to taking a long term rather than short term approach to the scheme's investment strategy.
- Refer to circumstances where de-risking elements in the scheme's investment strategy have mitigated falls in the value of certain assets.
- Report on any change in approach to investment risk as a consequence of the COVID-19 pandemic.
- Identify and explain the impact on investment performance relative to the scheme's SIP.
- Explain where there have been any changes to the mitigation of direct credit risk from collateral arrangements.

Although a permitted rather than a required investment risk disclosure, the trustees may wish to consider reporting any change in the scheme's approach to holding cash. For example, holding more cash due to concerns around short-term liquidity.

## **Events after the end of the reporting period**

Events after the end of the reporting period are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. There are two types of events:

- (a) those that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the end of the reporting period); and
- (b) those that are indicative of conditions that arose after the end of the reporting period (non-adjusting events after the end of the reporting period). [FRS 102.32.2]

Amounts in the financial statements must be adjusted in response to adjusting events while only disclosures are required in response to non-adjusting events.

For pension schemes with accounting periods ending on 31 December 2019, the COVID-19 pandemic during in 2020 is likely to be a non-adjusting event.

Schemes will need to judge how much of the impact of the COVID-19 pandemic should be considered to arise from non-adjusting events for subsequent reporting dates. This will be highly dependent on the reporting date, and the specific circumstances of the scheme.



If an event is considered to be non-adjusting, then the nature of the event will need to be disclosed. Where an estimate of the financial effect on the scheme can be made, then this will also need to be disclosed. Otherwise the fact that the financial effect cannot be estimated will need to be disclosed.

It should be noted that where investment markets are subject to frequent movements there may be little benefit in disclosing the impact and consideration will need to be given to disclosing this fact.

An estimate does not need to be exact; a range of estimated effects is better than no quantitative information at all. In the absence of any quantitative estimate, a qualitative description will need to be provided.

For a pension scheme, a non-adjusting event could be, for example:

- The significant decline in the value of investments.
- The suspension or reduction of deficit recovery contributions or contributions for future service. Disclosures about changes to contributions will also need to be included in the note on contributions as this is a requirement of the Pensions SORP.
- A delay beyond the statutory deadline for completing the triennial actuarial valuation and agreeing a schedule of contributions and, where applicable, a recovery plan based on that valuation.
- The closure of funds to redemptions or restrictions placed on redemptions.
- The insolvency of the employer, although it may be necessary to write down contributions due but not received at the year-end to their recoverable amount. The impact of such an event on the basis of preparation of the financial statements would necessarily form part of the trustees' going concern assessment.

## **Section 12. Audit issues**

### **Overview of audit issues for pension schemes arising from the COVID-19 pandemic**

Auditors should be considering the impact of the COVID-19 pandemic on all aspects of the audit and communicating with pension scheme trustees about these as appropriate. This Guide highlights some of the key issues scheme auditors will likely need to address. Fundamental to the audit is the requirement to obtain sufficient appropriate audit evidence (i.e. sufficient relevant and reliable audit evidence) to be able to complete the audit, form an opinion on the financial statements and issue an auditor's report. Audit evidence, and the documentation of that evidence, is therefore a theme throughout this section of the Guide.

In addition to applying the ISAs (UK), pension scheme auditors should also refer to:

- [Practice Note 15 \(revised\): The Audit of Occupational Pension Schemes in the UK](#) (November 2017) (PN15) as authoritative guidance.
- ICAEW help sheet [Preparing an audit report for occupational pension schemes](#) (September 2018).

Please note that both of the above documents refer to the version of ISA (UK) 570 published in June 2016.

### **Strategies and plans**

Audit strategies and audit plans finalised prior to the COVID-19 pandemic should be reviewed to establish if any changes need to be made; it is likely that this will be the case.

Payroll testing will be an important element of the audit work on member contributions and the auditors should plan this early to ensure they are able to obtain the necessary audit evidence, particularly as some employers may have previously preferred on site visits due to GDPR/data protection issues.

### **Materiality in planning and performing the audit**

Lower asset values will normally lead to a lower level of materiality being applied by the auditor and therefore to an increase in the relative significance and the testing of some elements of the financial statements.

## **Internal controls, assessing risks of material misstatement and accounting estimates**

A scheme's internal controls may not be operating or operating as expected throughout the entire reporting period. For example, while it is unlikely that a scheme with a 31 December 2019 year-end will have had its internal control arrangements disrupted by the COVID-19 pandemic, this may not be the case for a scheme with, say, a 31 March year-end. Auditors will need to consider how any disruption to a scheme's internal control arrangements and any steps taken by the trustees to address any disruption is likely to impact on their audit work, including their assessment of risks of material misstatement.

Many schemes rely on the internal controls of third parties and their ability to provide services and information to the scheme. Therefore, auditors will need to gain an understanding about how the COVID-19 pandemic has impacted, for example, on the internal controls of TPAs or on the availability of reliable asset values at the year-end date, and adapt their audit approach accordingly.

Where a scheme auditor is seeking to rely on an assurance report on the internal controls of a TPA, the auditor will need to understand how the work of the independent practitioner who prepared the assurance report may be impacted by the COVID-19 pandemic and assess the implications for their audit work.

In assessing risks of material misstatement and responding to these risks, the auditors of DB schemes should consider how the trustees have responded to the implications of COVID-19 for the scheme as part of the scheme's integrated risk management approach and consider the implications for their audit, including the audit of accounting estimates.

Similarly, the auditors of DC schemes should consider how the trustees have responded to the implications of COVID-19 as part of the scheme's approach to managing investment risk and understanding the financial risks faced by participating employers, such as the risk of insolvency.

## **Going concern**

Audit work on going concern will be a key focus of the audit work of scheme auditors. It is much more likely that trustees will need to report material uncertainties in their financial statements due to uncertainties around whether the employer(s) will continue in operation.

For multi-employer DB schemes, as the trustees' going concern assessment will need to take account of the employer covenant strength of each of the employers within each section of the scheme, auditors will need to design their audit work on going concern accordingly. However, materiality considerations will apply here as some employers individually may not be material to the scheme but collectively smaller employers could be.

Evaluating the trustees' going concern assessment will be vital in forming the audit opinion and auditors should maintain professional scepticism with regard to the evidence presented.

Auditors should therefore consider, if they have not already done so, whether to adopt early the version of ISA (UK) 570 published in September 2019, effective for accounting periods commencing on or after 15 December 2019. The audit firm may have a firm-wide policy on early adoption.

If the September 2019 version is applied, the auditor should be aware that changes have been made in the following key areas relevant to the audit of pension schemes:

- **Definitions**  
Now included is a definition of the term 'management bias' as well as an extensive definition of the expression 'material uncertainty related to going concern'.
- **Increased work effort**  
In many cases, requirements for additional procedures to be undertaken reflect what currently happens in practice in relation to the auditor's evaluation of management's assessment of the going concern status of the entity. However, greater emphasis is placed on the need for the auditor to demonstrate how they have challenged management's going concern assessment and the rigour with which they have tested this assessment and the evidence and supporting documentation obtained.

- **Increased documentation requirements**  
The increase in the auditor's work effort based on the revised standard will inevitably increase the amount of documentation needed to support the auditor's evaluation of management's going concern assessment.

There is also a new stand back requirement in the revised ISA (UK) which requires the auditor to consider all the evidence obtained before concluding on the appropriateness of management's use of the going concern basis or whether a material uncertainty related to going concern exists. This stand back step of the audit process will also need to be documented.

- **Enhanced reporting requirements**  
These include a conclusion that management's use of the going concern basis of accounting in the preparation of the entity's financial statements is appropriate.

Further information on enhanced reporting requirements is included in the Guide under the heading 'The auditor's report, including the auditor's opinion'.

Auditors need to understand how the trustees have approached their going concern assessment, including the trustees' consideration of how the COVID-19 pandemic has impacted on the strength of the sponsor covenant and the covenant of its key suppliers, the primary risk being with those suppliers used to pay benefits.

Under FRS 102, the trustees' going concern assessment must take account of all available information about the future, which is at least, but is not limited to, twelve months from the date when the financial statements are authorised for issue.

### **Using the work of an auditor's expert**

Auditors should consider whether it would be appropriate to engage an auditor's expert, even if they have not done so in previous years.

Specialist valuers may be able to provide additional information about investment valuations for level 3 (and possibly some level 2) assets, given the increased challenge of obtaining reliable valuations at the year-end date.

Similarly, auditors may find it of value to engage an expert employer covenant reviewer to support their conclusions on the implications for the audit of any material uncertainty related to going concern identified by the trustees, where a high degree of professional judgement is needed.

### **Subsequent events**

The timing of the COVID-19 pandemic or the consequences of it were not, for most pension schemes with 31 December 2019 year ends, adjusting events after the end of the reporting period. However, this may not necessarily be the case for schemes with year-ends from January 2020 onwards, if information on conditions which existed at the year-end comes to light subsequently.

Auditors should consider the specific facts and circumstances of the scheme in their approach towards their audit work on subsequent events.

Given the potential magnitude of the impact of COVID-19 counter measures taken by government and other impacts of the COVID-19 pandemic, auditors will need to consider what evidence they require in support of:

- Narrative disclosures about such events.
- Estimates of the financial effects of non-adjusting events.
- Estimates of the financial effects of adjusting events on the numbers in the primary statements and notes to the financial statements.

### **Written representations**

The auditor may wish to seek written representations from the trustees in their representation letters in support of evidence provided to the auditor about the implications of the COVID-19 pandemic for the scheme and actions taken by the trustees in response to these up to the date of the signing of the financial statements.

## The auditor's report, including the auditor's opinion

In preparing the auditor's report, in addition to the reporting ISAs (UK) the auditor should also refer to:

- The FRC's [Bulletin: Illustrative auditor's reports on United Kingdom private sector financial statements](#) (March 2020) or the [October 2016 edition](#) if ISA (UK) 570 (June 2016) is being applied.

While the illustrative auditor's report bulletins apply to companies, these can assist with developing auditor's reports for pension schemes.

- The relevant material in the FRC's [Bulletin: Guidance for auditors and matters to consider where engagements are affected by coronavirus \(COVID-19\)](#) (March 2020).
- The relevant material in the FRC's guidance on [Modified audit opinions during the COVID-19 crisis](#) (21 April 2020).

Again, while these have been developed for companies, the documents do provide useful guidance about when it is appropriate for the auditor to issue a modified audit opinion. Requirements and application guidance on modified auditor's opinions are also available in ISA (UK) 705.

Where there have been challenges obtaining sufficient appropriate audit evidence in relation to the valuation of certain investments, the auditor is required to consider the implications for their auditor's report.

Where a material uncertainty related to going concern exists and has been adequately disclosed in the financial statements, the auditor expresses an unmodified opinion but the auditor's report must include a separate section under the heading 'Material uncertainty related to going concern', which draws attention to the related note in the financial statements.

In addition, under ISA (UK) 570 (September 2019) the auditor must:

- Conclude positively that they have concluded that the trustees' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
- Explain how they have evaluated the trustees' assessment of going concern and the key observations arising from their own evaluation.

ISA (UK) 570 (September 2019) also requires that if the auditor considers that a 'material uncertainty relating to going concern' should be included in the auditor's report, or that it is necessary to issue a qualified, adverse or disclaimer of opinion in respect of matters related to going concern, they are required to determine whether law, regulation or relevant ethical requirements:

- (a) require them to report to an appropriate authority outside the entity;
- (b) establish responsibilities under which reporting to an appropriate authority outside the entity may be appropriate in the circumstances.

In respect of the above, please refer back to section 6 of the Guide on reporting matters of material significance to The Pensions Regulator. Where the June 2016 edition of ISA (UK) 570 is applied, auditors should still be considering whether they have a duty to report to TPR in the circumstances described in the September 2019 edition.

The auditor's responsibilities in relation to other information are set out in ISA (UK) 720. The 'other information' is the information published alongside the financial statements within the annual report. It is essential that in reading the other information and concluding on its consistency with the financial statements and whether it otherwise includes any material misstatements, auditors ensure that the trustees have adequately reflected the impact of the COVID-19 pandemic on the scheme.

## Audit firms' own risk management arrangements over signing auditor's reports

Audit firms may put in place additional risk management and approval processes before clearance is given for auditor's reports to be signed. More work is required to specifically consider the impact of COVID-19 in relation to going concern and subsequent events.

This could be an additional internal review of areas of the audit, for example, around the work undertaken in relation to going concern, asset valuations and subsequent events.

## **Audit fees**

Auditors may have to undertake additional work in the current environment and this may have an impact on audit fees. Where additional work is undertaken, this will need to be discussed with the trustees, and possibly the sponsoring employer, if it becomes clear that additional fees are likely.

## **Section 13. The auditor's statement about contributions**

The trustees of most occupational pension schemes are required to obtain, not more than seven months after the end of the scheme year, an auditor's statement about contributions under the scheme. The auditor's statement must comprise:

- A statement as to whether or not in their opinion contributions have in all material respects been paid at least in accordance with the schedule of contributions or payment schedule; and
- If the above statement is negative or qualified, a statement of the reasons.

Further guidance about the auditor's statement and trustees' responsibilities in relation to contributions is available in PN15.

TPR has also issued the following guidance relevant to DC contributions:

- [Automatic enrolment and DC pension contributions: COVID-19 guidance for employers](#)
- [DC pension contributions: COVID-19 technical guidance for large employers](#)

In undertaking work in relation to the auditor's statement about contributions, the auditor will need to know whether contributions to the scheme have been impacted by:

- The suspension or reduction of DRCs or future contributions (DB only).
- Changes in pensionable earnings.
- The furloughing of employees under the UK government's Coronavirus Job Retention Scheme (CJRS).

## **The suspension or reduction of DRCs or future contributions (DB only)**

The suspension or reduction of employer contributions have specific challenges for the auditor, depending on when they were reduced or suspended.

If the trustees agree a new schedule of contributions with the sponsoring employer (certified by the scheme actuary) before contributions are deferred or suspended no issues arise.

However, if circumstances arise where contributions are suspended or reduced before a new schedule of contributions is in place, the auditor will need to consider the implications for their statement.

If the suspension or reduction of employer contributions is judged to be a material departure from the schedule of contributions, the auditor should report this in their statement and should consider whether this is a matter of material significance to be reported to TPR.

If the situation is such that the schedule of contributions is not legally effective, failure to have a schedule in place where one is required is a breach of the law and the auditor would need to consider whether this was a matter of material significance to be reported to TPR. Concluding whether or not a schedule is legally effective is not a matter for the auditor and trustees would normally be expected to take legal advice in case of doubt in this area.

## **Changes in pensionable earnings**

Auditors should be aware that contribution errors can occur when a member's pensionable salary drops (for example, due to long term sick leave) where benefit accrual continues, so while member contributions may drop or cease, employer contributions remain payable, just as they do during maternity/paternity leave when not on full pay.

## Coronavirus Job Retention Scheme issues

Auditors will need to gain an understanding of the [CJRS](#) and the extent of the employer's use of that scheme in order to check that employer contributions in relation to staff on furlough have been calculated correctly and paid into the scheme on time.

Under the CJRS the employer can claim an amount equivalent to the statutory minimum auto-enrolment contribution payable by the employer, based on the employee's reference pay under the CJRS. Therefore, while employer contributions into the scheme must still be based on the employee's pensionable pay before furlough, those contributions will be made up of CJRS funding plus any top up from the employer.

TPR's guidance on [Automatic enrolment and DC pension contributions: COVID-19 guidance for employers](#) includes important information where the employer has furloughed staff under the CJRS scheme. In particular, it highlights the difference between pension contributions which can be recovered under the CJRS and the requirement for employers to continue to make the employer contributions due under scheme rules, including for active members in DB and hybrid schemes and where salary sacrifice arrangements are in place. The key message here is the pensionable pay is not impacted by the CJRS.

TPR's guidance states that *"You might pay more than the statutory employer minimum auto-enrolment contribution included in the grant under the CJRS because:*

- *You choose to pay your furloughed worker more than 80% of their salary or more than £2,500 a month.*
- *The furloughed worker is an active member of a defined benefit (DB) pension scheme or a DB member of a hybrid pension scheme.*
- *You choose to use certification for your defined contribution (DC) pension scheme (sometimes known as a 'money purchase scheme') and the scheme rules or governing documentation may require contributions from the first penny of earnings.*
- *Under the scheme rules, your contribution rate is higher than 3%.*
- *Under the scheme rules, you pay the total contribution and your member of staff does not pay any: this will be the case if you use salary sacrifice on pension contributions.*

*If you are paying more than the auto-enrolment statutory minimum contribution, the excess will not be funded by the CJRS. You should continue to make the correct contributions due under the scheme and in this case will have to pay a proportion of the pension contribution cost yourself."*

Under the CJRS employers can apply for grant funding to furlough staff rather than make them redundant. The CJRS funds 80% of an employee's salary up to a cap of £2,500 per month. Under the scheme, employers can top up to 100% of salary if they wish.

In addition to funding 80% of salary, the CJRS also funds the associated employer national insurance contributions and employer pension contributions (up to the level of the minimum auto-enrolment employer pension contribution) on that subsidised furlough pay (the reference pay).

The minimum auto-enrolment contribution from employers is 3% of qualifying earnings. For the tax year 2020/21, qualifying earnings are earnings between £6,240 and £50,000, with an earnings trigger of £10,000. Employees under the age of 22 are permitted to opt-in to an occupational pension scheme provided by their employer and to receive employer contributions as long as they earn at least £6,240 in 2020/21.

The reference pay of the CJRS should not include benefits provided through salary sacrifice schemes (including pension contributions) that reduce an employee's taxable pay.

TPR's COVID-19 [technical guidance for larger employers states](#) that:

*"When calculating the pension contribution due for a furloughed worker who has agreed a salary sacrifice arrangement for pension contributions, any contractual obligations you have entered into and the obligation in the pension scheme rules continue to apply as normal.*

*However, as all of the grant claimed must be paid to a furloughed worker in the form of money this may mean that, where a salary sacrifice arrangement is in place for pensions, an employer will need to amend their payroll processes to calculate the pension contribution to be paid to the pension scheme under the pension scheme rules.”*

The CJRS applies to staff employed through PAYE on 19 March 2020: initially the date was 28 February 2020. The scheme is to run in its current form until the end of July 2020 and employers can use the scheme at any time during this period. From August 2020 through to October 2020, employers currently using the scheme will have more flexibility to bring their furloughed employees back to work part time while still receiving support from the scheme. The UK government will update the [CJRS guidance page](#) with details of any further developments.

In conclusion, sufficient appropriate audit evidence about contributions to the scheme should be gathered as part of any audit work on the Fund Account.

Where contributions have not been paid in accordance with the schedule of contributions, or in the case of a DC scheme, the scheme’s payment schedule, during the reporting period, the auditor will need to consider the implications for their statement and whether in the course of their work they have identified any matters of material significance to report to TPR.

Furthermore, the trustees and sponsoring employer may have agreed to suspend or delay the payment of deficit funding contributions. Auditors will need to obtain supporting evidence of any agreement such as a recertified schedule of contributions and any correspondence, including that with TPR, at the time of the agreement and consider the implications for their statement about contributions.

### **Third party resources**

[The Financial Conduct Authority \(FCA\)](#)

FCA: [COVID-19 \(coronavirus\) latest news](#)

[The Financial Reporting Council \(FRC\)](#)

FRC: [FRC COVID-19 response](#)

[The Pensions Administrators Standards Association \(PASA\)](#)

PASA: [COVID-19 guidance for administrators](#) (March 2020)

[The Pensions and Lifetime Savings Association \(PLSA\)](#)

PLSA: [COVID-19 resources](#)

[The Pension Protection Fund \(PPF\)](#)

PPF: [Our coronavirus \(COVID-19\) preparation](#)

[The Pensions Regulator \(TPR\)](#)

TPR: [COVID-19 \(coronavirus\): what you need to consider](#)



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Further information about the bodies issuing the guidance can be found on their respective websites at:

ICAEW – [www.icaew.com](http://www.icaew.com)

ICAS – [www.icas.com](http://www.icas.com)

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