

# Compliance and Reporting Committee (CRC)

## HYBRID MEETING – 12 February 2024

### ITEM 5 PAPER C

#### ICAEW/SAB Report on Audit Issues

##### ***Background***

- 1) The Committee has previously noted the increasing concern about the divergence in expectations about the amount and type of information that needs to be provided between the auditors of scheme employers, fund officers and their actuaries.
- 2) At the last Audit Summit convened by the Scheme Advisory Board in July 2023 it was agreed that it would be useful to have some authoritative guidance on the timeline and information flow for triennial valuation and IAS19 purposes. The aim would be to aid understanding and signpost the different parties, and in particular auditors, to where they should be requesting the information that they need (summarised as “where is the best version of the truth”). The proposed audience would be actuaries, auditors, fund practitioners and employers.
- 3) Following the meeting, the CRC audit working group agreed a specification to procure such guidance but there was a short delay while the funding for the project was discussed. In the end it was agreed to split the costs 50/50 between the Scheme Advisory Board and the ICAEW. The specification for the guidance is at Annex A.

##### ***Next Steps***

- 4) We now have an outline of the proposed guidance document which will be discussed with a group of volunteer practitioners, actuaries and auditors. Following that process, we expect to have a first draft for detailed review by the end of February 2024. As well as the guidance outlined above, other useful outputs from this work will be:
  - visual maps showing the flow of information between employers, actuaries, funds, custodians and auditors,
  - a model questionnaire with key questions for actuaries to complete each year and provide to scheme employer auditors.
- 5) A further Audit Roundtable will be arranged in April which can agree communications around this guidance, as well as consider any new issues that might create problems when the audit round for 2023/24 accounts kicks off later this year.

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## **Annex A – Specification for Further Guidance on Sources of Audit Information**

### **Purpose**

ICAEW and the LGA would like to procure a short, factual guide that would describe the flow of information between LGPS stakeholders throughout the triennial valuation cycle and the annual IAS19 valuation cycles. This would enable the various parties to understand who holds what information, how it is being relied on, for what purpose and what assurances can be placed upon it (summarised as “where is the best version of the truth”).

In relation to the triennial valuation the kind of information that would be covered in this guide includes:

1. Employer payroll and workforce data (including approach where data is incomplete or cannot be relied upon).
2. Asset value, investment return and cashflow data (including approach where data is incomplete or cannot be relied upon)
3. Processes and controls implemented by the actuary to provide assurance on the accuracy and completeness of data submitted.
4. Summary of fund actuary’s methodology and sources of economic and demographic assumptions
5. Methodology and assumptions for the notional allocation of fund assets between employers at each triennial valuation

In relation to the IAS19 valuation the kind of information that would be covered in this guide includes:

6. Roll-forward approach taken by actuaries, including sources of economic and demographic assumptions.
7. Investment return and cashflow data (including approach where data is incomplete or cannot be relied upon)
8. Processes and controls implemented by the actuary to provide assurance on the accuracy and completeness of data submitted.
9. Reports/information provided by the actuary to practitioners.

The guide should also summarise, again in a factual way, the key objectives sought by auditors with references to the relevant professional standards and guidance. For example, their need to consider and where necessary challenge the available sources of information relied on in the above.

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## **Audience**

Actuaries, auditors, fund practitioners.

## **Outputs**

- A short factual guide as described as above.
- Visual maps showing the flow of information between employers, actuaries, funds, custodians and auditors.
- A model questionnaire with key questions for actuaries to complete each year and provide to scheme employer auditors.

## **Timelines**

To be published by 31 March 2024, with first draft available by 31st January 2024