

Protocol for Auditor Assurances 2020/21

Local Government Pension Scheme



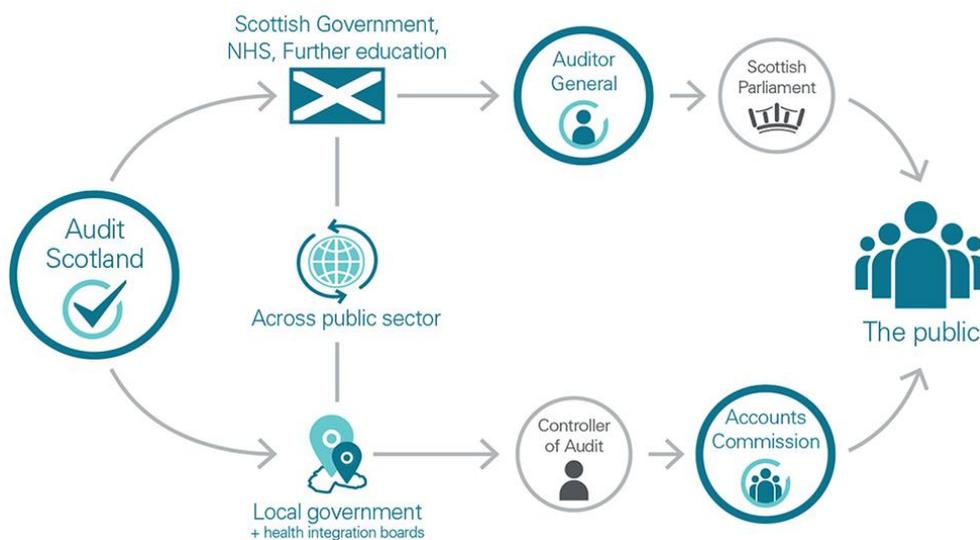
Prepared for auditors of the Local Government Pension Scheme Pension Funds and bodies
with employees in that scheme

18 January 2021

Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

Contents

Introduction	4
Section 1 Contributions payable to pension fund	5
Section 2 Information provided by pension fund to actuary	7
Appendix 1 Illustrative letter in relation to employer body contributions - request	9
Appendix 2 Illustrative letter in relation to employer body contributions - response	11
Appendix 3 Illustrative letter in relation to actuary reporting - request	12
Appendix 4 Illustrative letter in relation to actuary reporting - response	14

Introduction

Context

1. Local Government Pension Scheme (LGPS) pension funds depend on employer bodies for the correct deduction and payment of pension contributions. Employer bodies are in turn dependent on pension funds providing actuaries with appropriate information for the preparation of their reports.
2. The challenge for auditors is to ensure they obtain sufficient appropriate audit evidence in respect of information related to financial reporting which is not held by the body they are auditing. They often request assurances from other auditors which typically involves:
 - LGPS pension fund auditors requesting assurances from employer body auditors in respect of pension contributions payable by the employer body to the pension fund
 - employer body auditors requesting assurances from pension fund auditors in respect of information provided by the pension fund to the actuary in relation to their reports on employer bodies.
3. Pension funds and employer bodies are responsible for being satisfied in relation to the accuracy and completeness of the information included in their financial statements. Auditors should establish the controls in place at their audited body in respect of information related to financial reporting held by another public body, and evaluate the extent to which the controls are sufficient, before seeking assurance from other auditors.

Pension funds and employer bodies depend on each other for information

Purpose of the protocol

4. Auditors may judge that it is not necessary to request any assurances from other auditors. However, where assurances are judged to be appropriate, the purpose of this protocol from Audit Scotland's Professional Support is to set out an agreed framework within which the assurances can be requested and provided in 2020/21.
5. For the avoidance of doubt, this protocol sets out the potential range of assurances but does not compel any specific assurances to be sought. It is not expected that any assurances outwith the specified range will generally be requested but that will be a matter for local agreement in 2020/21 (though they may be included in the protocol in future years).
6. Although primarily focussed on local government bodies, this protocol may also be used by auditors of employer bodies in the central government, health and college sectors with employees who are members of the LGPS.

This protocol sets out a range of auditor assurances

Arrangements for fee for any additional work

7. Professional Support does not expect the procedures required to be performed by auditors to provide the assurances to be significant. However where an auditor considers it necessary to make a charge for the work, they should refer to section 3 of Audit Scotland's [Audit Management and Quality Guidance](#).

Contact point

8. The contact point in Professional Support for this protocol is Paul O'Brien, Senior Manager (Professional Support) - pobrien@audit-scotland.gov.uk or 0131 625 1795.

Section 1

Contributions payable to pension fund

Introduction

9. Paragraphs 46 and 47 of Module 4 and 28 to 39 of Module 13 in [Technical Guidance Note 2020/8\(LG\)](#) provide guidance to auditors in respect of risks of misstatement in employee and employer contributions.
10. Under LGPS regulations, responsibility for calculating the contributions lies with each employer body rather than the pension fund. The pension fund should have arrangements to satisfy itself that the contributions received are complete and accurate. However, pension fund auditors may judge that they require assurances from the auditors of the employer bodies.

Responsibility for calculating contributions rests with employer bodies

Planning

11. Pension fund auditors should plan their approach to obtaining assurances on the calculation of contributions at an early stage. Where auditors decide to request assurances from a sample of employer body auditors, they should communicate with the relevant auditors in good time to enable them to appropriately tailor their procedures.

Range of requested assurances

12. Professional Support has facilitated discussions with pension fund auditors on the assurances likely to be requested from the employer body auditor. The range of potential assurances is summarised in the following table:

Assurance area	Explanation
Controls	An outline of the system at the employer body for the accurate and complete deduction and payment of contributions to the pension fund.
	An evaluation of the suitability of the design of the related controls.
	The results of any relevant controls testing and the auditor's conclusion as to the operating effectiveness of those controls.
Sample months	Total amounts in relation to employee and employer contributions paid for sample months.
Testing of contributions	The results of any substantive testing undertaken on contributions in the year and confirmation as to whether they were at the correct rate.
Starter/leaver data	For a sample of starters and leavers: employees' NI Number, the date started/left, salary, pension contribution (employee and employer) and the date of the first pension contribution.
Laws and regulations	Information regarding the auditor's knowledge of any non-compliance with laws and regulations which may impact on the audit opinion on the financial statements of the employer body.
Fraud	Any other significant matters, including any instances of fraud.

- 13.** An illustrative letter for requesting assurances for 2020/21 is provided at Appendix 1 of this protocol along with an illustrative response at Appendix 2. They should be tailored as appropriate by the pension fund auditor for the actual assurances requested (which should not generally be outwith those listed above) and by the auditor of the employer body for the assurances that have been provided.
- 14.** It is important that auditors of employer bodies provide an initial response either agreeing that the requested assurances will be provided or commencing a discussion on the actual assurances that can be provided.
- 15.** Where auditors of employer bodies have not carried out sufficient procedures in respect of contributions to fully satisfy the assurances requested by the pension fund auditor, further procedures may be required. It is more efficient if the procedures are performed by the auditor of the employer body but, in the event this is not possible, arrangements should be made for the auditor of the pension fund to visit the employer body to perform the procedures directly.

Illustrative letters in appendices

Timescales for requesting and providing assurances

- 16.** The timescales for requesting and providing the assurances in 2020/21 have been pushed back to reflect the later planning and completion deadlines that apply generally. The latest dates for auditor action in the main stages of the process are summarised in the following table:

Deadline	Action
30 April 2021	Auditors of pension funds to notify employer body auditors that they have been included in the sample of employer bodies and request required assurances.
28 May 2021	Auditors of employer bodies to provide an initial response indicating the assurances that they intend to provide and the timescales (any significant delays should be communicated as they arise).
27 August 2021	Auditors of employer bodies to provide agreed assurances in a substantive response.
10 September 2021	Auditors of employer bodies to provide any required clarifications or responses to follow up queries.

Section 2

Information provided by pension fund to actuary

Introduction

17. Under ISA (UK) 500, auditors are required to consider the relevance, completeness and accuracy of the source data provided to actuaries to inform their reports prepared for IAS 19 purposes. Paragraphs 21 to 22 of Module 4 in [Technical Guidance Note 2020/8\(LG\)](#) explain that the source data is provided to actuaries by the pension fund.
18. Each employer body should have arrangements to satisfy itself that the source data provided to the actuary is complete and accurate. However, auditors of employer bodies may judge that they require assurances from the auditors of the pension fund.

Source data is provided to actuaries by the pension fund

Planning

19. Employer body auditors should plan their approach to obtaining assurances on the completeness and accuracy of source data. Where auditors decide to request assurances from the pension fund auditor, they should communicate in good time to enable the auditor to appropriately tailor their procedures.

Range of requested assurances

20. Professional Support has facilitated discussions with auditors of employer bodies on the assurances likely to be requested from the pension fund auditor. The range of potential assurances is summarised in the following table:

Assurance area	Explanation
Controls	An outline of the system at the pension fund to establish the accuracy and completeness of the source data provided to the actuaries in relation to IAS 19 reporting at 31 March 2021.
	An outline of the system at the pension fund to establish the accuracy and completeness of the source data provided to the actuaries in relation to the triennial valuation at 31 March 2020.
	An evaluation of the suitability of the design of the related controls.
	The results of any relevant controls testing and the auditor's conclusion as to the operating effectiveness of those controls.
Actuary's guidance	Confirmation that the pension fund has taken account of relevant guidance and briefings provided by the actuary.
Cashflow information provided to actuary	Cashflow estimates (contributions, benefits, investment returns) provided to the actuary in respect of the employer body for 2020/21.
Actual cashflow	Actual cashflows (benefits and investment returns) for 2020/21.
Assets	Total pension fund assets at 31 March 2021.
	Details of the pension fund auditors testing approach, including sample sizes, and findings in relation to pension fund assets as at 31 March 2021.

Assurance area	Explanation
Laws and regulations	Information regarding the pension fund auditor's knowledge of any non-compliance with laws and regulations which may impact on the audit opinion on the employer body.
Fraud	Any other significant matters arising during the pension fund auditor's work, including any instances of fraud or suspected fraud.

- 21.** An illustrative letter for requesting assurances is provided at Appendix 3 of this protocol along with an illustrative response at Appendix 4. They should be tailored locally as appropriate by the employer body auditor for the actual assurances requested (which should not generally be outwith those listed above) and by the pension fund auditor for the assurances that can be provided.
- 22.** It is important that auditors of employer bodies provide an initial response either agreeing that the requested assurances will be provided or commencing a discussion on the actual assurances that can be provided.
- 23.** Where the auditors of the pension fund have not carried out sufficient procedures to fully satisfy the assurances requested by the auditor of the employer body, further procedures may be required. It is more efficient if the procedures are performed by the auditor of the pension fund but, in the event this is not possible, arrangements should be made for the auditor of the employer to visit the pension fund to perform the procedures directly.

**Illustrative letters
in appendices**

Timescales for requesting and providing assurances

- 24.** The timescales for requesting and providing appropriate assurances is summarised in the following table:

Deadline	Action
30 April 2021	Auditors of employer bodies to communicate their requests for assurances to the pension fund auditor.
28 May 2021	Auditors of pension fund to provide an initial response indicating the assurances that they intend to provide and the timescales (any significant delays should be communicated as they arise).
27 August 2021	Auditors of pension fund to provide agreed assurances in a substantive response.
10 September 2021	Auditors of pension fund to provide any required clarifications or responses to follow up queries.

Appendix 1

Illustrative letter in relation to employer body contributions - request

Introduction

I am writing to you in respect of the financial statements for the year ended 31 March 2021 of [name of pension fund]. [Name of employer body] is a [scheduled/admitted body] of the pension fund.

[Insert name of pension fund] is responsible for the preparation of financial statements that give a true and fair view of its financial position and performance. [Insert name of employer body] is responsible for the deduction and payment of pension contributions to the pension fund which form part of those financial statements.

[Insert name of appointed auditor] is the appointed auditor for the [insert name of pension fund]. This letter is a request for you in your capacity as appointment lead in the audit of [insert name of employer body] to provide assurances in relation to the arrangements in place at the body for the payment of contributions to the pension fund. This request is made in accordance with Audit Scotland's Protocol for Auditor Assurances 2020/21 – Local Government Pension Scheme.

Requested assurances

To assist [insert name of appointed auditor of pension fund] in forming a conclusion on the arrangements at [insert name of employer body], please provide [tailor the list as appropriate]:

- an outline of the system for the accurate and complete deduction and payment of contributions to the pension fund;
- your evaluation of the suitability of the design of the controls related to the system for the accuracy and completeness of contributions;
- the results of any tests of controls and your conclusion as to the operating effectiveness of those controls;
- total amounts in relation to employee and employer contributions paid for a sample of [insert number] months;
- the results of any substantive testing undertaken on contributions in the year and confirmation that they were at the correct rate;
- for a sample of [insert number] starters and leavers: employee NI Number, the date started/left, salary, pension contribution (employee and employer) and the date of the first pension contribution;
- information regarding your knowledge of any non-compliance with laws and regulations of which you are aware which may impact on our audit opinion on the financial statements of [insert employer body name]; and
- any other significant matters arising during your work, including any instances of fraud or suspected fraud.

Responsibilities and acknowledgements

[Insert name of appointed auditor of pension fund] acknowledges that:

- your work was not initially planned in contemplation of the audit of [insert name of pension fund];
- your audit of [insert name of employer body], in accordance with the Code of Audit Practice, would not necessarily identify matters in which [Insert name of appointed auditor of pension fund] may be primarily interested;

- it is for [insert name of appointed auditor of pension fund] to conclude on the work required to support the opinion on the financial statements of [insert name of pension fund] and your work does not substitute for the audit procedures set out in International Standards on Auditing (ISAs); and
- it is for [insert name of appointed auditor of pension fund] to consider the extent to which additional procedures should be performed in order to comply with ISAs.

Timescales

In accordance with timescales set out in the Protocol for Auditor Assurances 2020/21 – Local Government Pension Scheme, I would be grateful if you would:

- confirm by 28 May 2021 that you are able to provide the assurances requested in this letter
- provide the requested assurances by 27 August 2021 at the latest.

Please inform me of any expected delays.

Appendix 2

Illustrative letter in relation to employer body contributions - response

Introduction

I am writing to you in my capacity as appointment lead for the audit of [insert name of employer body] in accordance with your request under Audit Scotland's Protocol for Auditor Assurances 2020/21 – Local Government Pension Scheme, in relation to your audit of [insert name of pension fund].

As stated in your letter of xx April 2021, [insert name of employer body] is responsible for the deduction and payment of pension contributions to the pension fund and these amounts form part of the pension fund financial statements.

[Insert name of the pension fund] remains responsible for the preparation of financial statements that give a true and fair view of its financial position and performance.

It is for individual auditors to conclude on the work required to support their opinion on the financial statements of their audited bodies. Our work does not substitute for your own audit procedures in accordance with International Standards on Auditing.

Assurances [tailor the list to reflect actual assurances requested and extent of assurance actually provided]

- An outline of the system at [insert name of employer body] for the accurate and complete deduction and payment of contributions to the pension fund is set out in Appendix 1.
- In my opinion, the related controls are suitably designed to achieve the control objectives.
- [We did not perform any tests of controls/Our tests of controls did not identify any significant issues with their operating effectiveness/Our controls testing identified the following significant weaknesses with their operating effectiveness].
- Employee and employer contributions paid to the pension fund for [insert sample months] were [insert amounts].
- Payroll sample testing of individual employees confirmed that both employee and employer contributions had been correctly calculated and included in the monthly payments. Details are provided in the attached protected spreadsheet, the password for which will be communicated separately.
- Details for [insert number] starters and leavers are included in the attached protected spreadsheet.
- The audit of [insert name of employer body] is not yet complete, but at this stage there is nothing to report in relation to non-compliance with laws and regulations or other significant matters including fraud or suspected fraud.

Responsibilities and acknowledgments

This letter is supplied on the understanding that it is for the sole use of the persons to whom it is addressed and for the purposes stated.

Our work was not initially planned in contemplation of your audit of [insert name of pension fund] and our audit in accordance with the Code of Audit Practice would not necessarily identify matters in which you may be interested. Additional procedures were however undertaken in order to provide you with your requested assurances.

It is for you to consider the extent to which you should perform additional procedures in order to comply with International Standards on Auditing.

Appendix 3

Illustrative letter in relation to actuary reporting - request

Introduction

I am writing to you in respect of the financial statements for the year ended 31 March 2021 of [name of employer body]. The body is a [scheduled/admitted] body of the [insert name of pension fund].

[Insert name of employer body] is responsible for the preparation of financial statements that give a true and fair view of its financial position and performance. [Insert name of pension fund] provides information to the scheme actuaries which is used to prepare a report under IAS 19 on which the body relies to produce its financial statements.

[Insert name of appointed auditor] is the appointed auditor for the [insert name of employer body]. This letter is a request for you in your capacity as appointment lead in the audit of [insert name of pension fund] to provide assurances in relation to the arrangements in place at the pension fund for the provision of information to the actuary for IAS 19 reporting purposes. This request is made in accordance with Audit Scotland's Protocol for Auditor Assurances 2020/21 – Local Government Pension Scheme.

Requested assurances

To assist [insert name of appointed auditor of employer body] in forming a conclusion on the arrangements at [insert name of pension fund], please provide [tailor list as appropriate]:

- an outline of the systems to establish the accuracy and completeness of the source data provided to the actuary in relation to IAS 19 reporting at 31 March 2021;
- An outline of the system at the pension fund to establish the accuracy and completeness of the source data provided to the actuaries in relation to the triennial valuation at 31 March 2020;
- your evaluation of the suitability of the design of the controls related to the system for the accuracy and completeness of source data;
- the results of any tests of controls and your conclusion as to the operating effectiveness of those controls;
- confirmation that the pension fund has taken account of relevant guidance and briefings provided by the actuary in relation to IAS 19 reporting;
- cashflow estimates provided to the actuary in respect of [insert name of employer body];
- actual cashflow information for the year
- total pension fund assets at 31 March 2021, and details of your testing approach, including sample sizes, and findings in relation to those assets;
- information regarding your knowledge of any non-compliance with laws and regulations of which you are aware which may impact on our audit opinion on [insert employer body name]; and
- any other significant matters arising during your work, including any instances of fraud or suspected fraud.

Responsibilities and acknowledgements

[Insert name of appointed auditor of employer body] acknowledges that:

- your work was not initially planned in contemplation of our audit of [insert name of employer body];
- your audit of [insert name of pension fund], in accordance with your statutory responsibilities, would not necessarily identify matters in which we may be primarily interested;

- it is for us to conclude on the work required to support our opinion of the financial statements of [insert name of employer body] and your work does not substitute for the audit procedures set out in International Standards on Auditing (ISAs); and
- it is for us to consider the extent to which we should perform additional procedures in order to comply with ISAs.

Timescales

In accordance with timescales set out in the Protocol for Auditor Assurances 2020/21 – Local Government Pension Scheme, I would be grateful if you would:

- confirm by 28 May 2021 that you are able to provide the assurances requested in this letter
- provide the requested assurances by 27 August 2021 at the latest.

Please inform me of any expected delays.

Appendix 4

Illustrative letter in relation to actuary reporting - response

Introduction

I am writing to you in my capacity as appointment lead for the audit of [insert name of pension fund] in accordance with your request under Audit Scotland's Protocol for Auditor Assurances 2020/21 – Local Government Pension Scheme, in relation to your audit of [insert name of employer body].

As stated in your letter of xx April 2021, [insert name of employer body] is a scheduled/admitted body of the pension fund and as such relies on the pension fund providing information to the actuary for the purposes of IAS 19 reporting.

[insert name of the employer body] remain responsible for the preparation of financial statements that give a true and fair view of their financial position and performance.

It is for individual auditors to conclude on the work required to support their opinion on the financial statements of their audited bodies. Our work does not substitute for your own audit procedures in accordance with International Standards on Auditing.

Assurances [tailor the list to reflect actual assurances requested and extent of assurance actually provided]

- An outline of the system at [insert name of pension fund] to establish the accuracy and completeness of the source data provided to the actuary in relation to IAS 19 reporting at 31 March 2021 is set out in Appendix 1.
- An outline of the system at the pension fund to establish the accuracy and completeness of the source data provided to the actuaries in relation to the triennial valuation at 31 March 2020 is set out at Appendix 2;
- In my opinion, the related controls are suitably designed to achieve the control objectives.
- [We did not perform any tests of controls/Our tests of controls did not identify any significant issues with their operating effectiveness/Our controls testing identified the following significant weaknesses with their operating effectiveness].
- The pension fund has taken account of relevant guidance and briefings provided by the actuary.
- Cashflow information provided to the actuary relevant to [insert name of employer body]'s IAS 19 report is included at Appendix 2.
- The actual cashflow information for the year to 31 March 2021 and assets at that date for [insert name of employer body] is included at Appendix 3. These amounts are consistent with the pension fund's analysis of the totals that appear in the pension fund annual accounts for the year.
- Our approach to testing of pension fund assets, including sample sizes, and findings is set out at Appendix 4. Our materiality level for the audit is [insert amount].
- Our audit is not yet complete, but at this stage there is nothing to report in respect of non-compliance with laws and regulations or any other significant matter including any instances of fraud or suspected fraud.

Responsibilities and acknowledgments

This letter is supplied on the understanding that it is for the sole use of the persons to whom it is addressed and for the purposes stated.

Our work was not initially planned in contemplation of your audit of [insert name of employer body] and our audit in accordance with our statutory responsibilities would not necessarily identify matters in which

you may be interested. Additional procedures were however undertaken in order to provide you with your requested assurances.

It is for you to consider the extent to which you should perform additional procedures in order to comply with International Standards on Auditing.

Protocol for Auditor Assurances 2020/21 – Local Government Pension Scheme

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