

# Actuary and Auditor Fostering a happy relationship

Presented by:

**Terry O' Rourke**



\*connectedthinking

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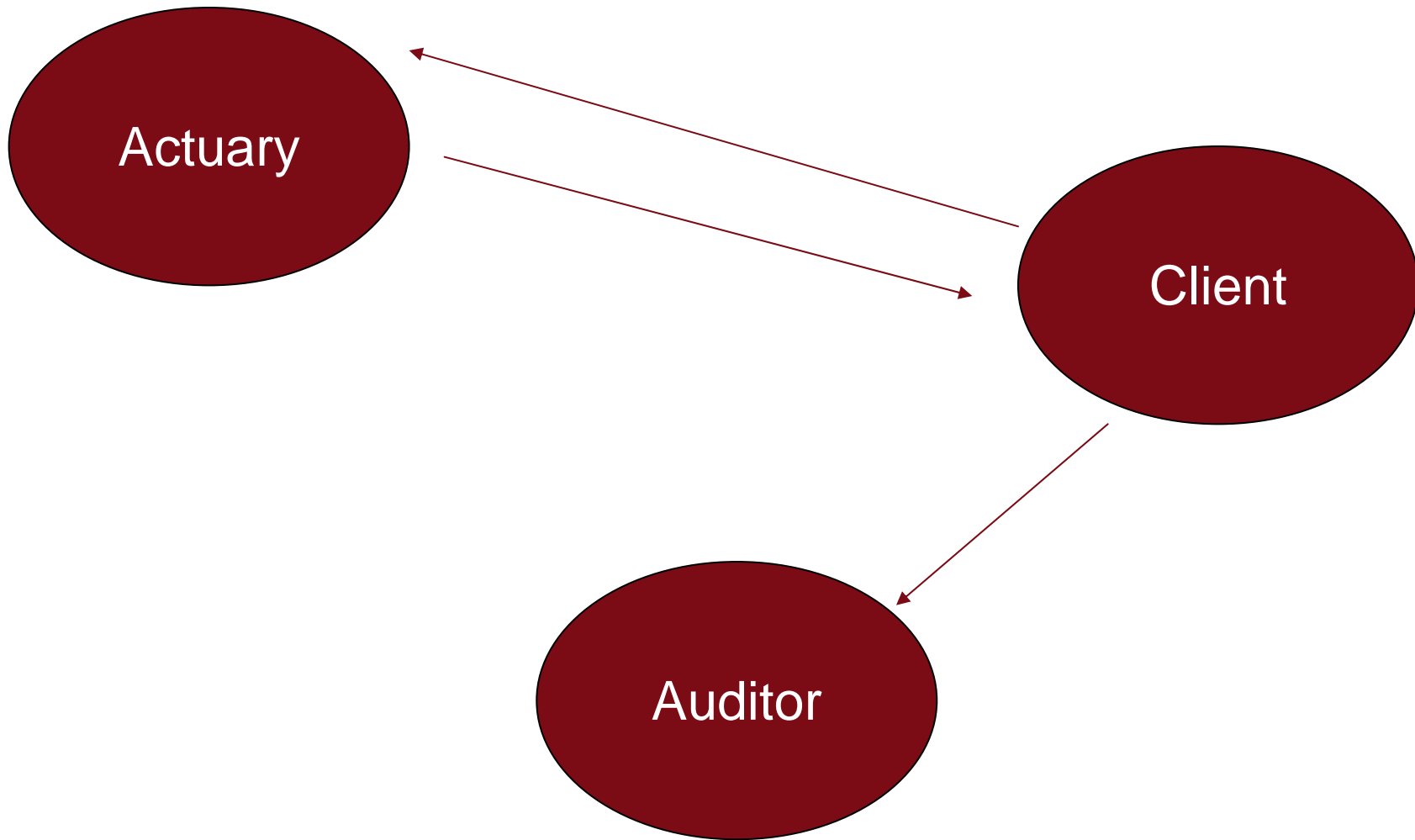
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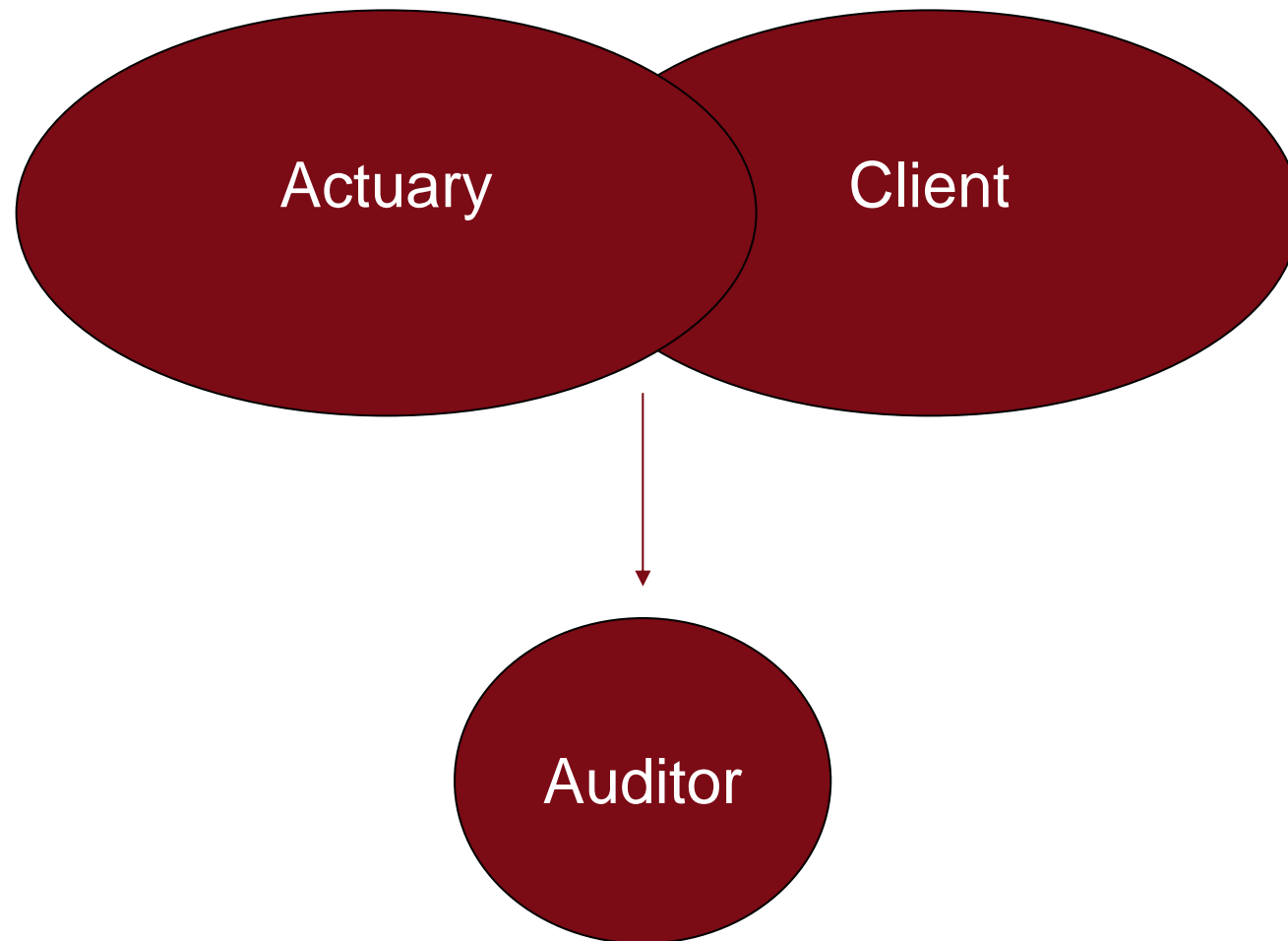
# AGENDA

- What drives the relationship?
  - ↳ Auditors' legal responsibilities
  - ↳ Influence of external regulators
  - ↳ Criticisms of pension accounting
- Some areas of concern to auditors

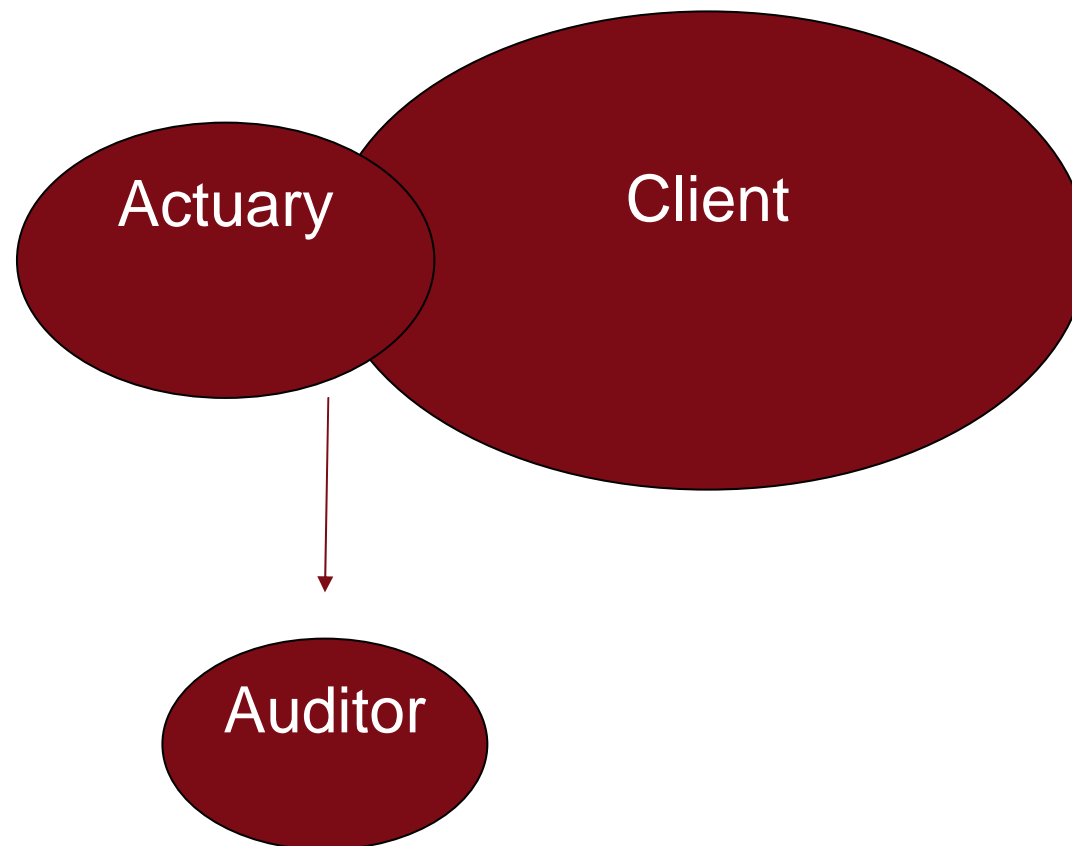
## The Isolationist Model



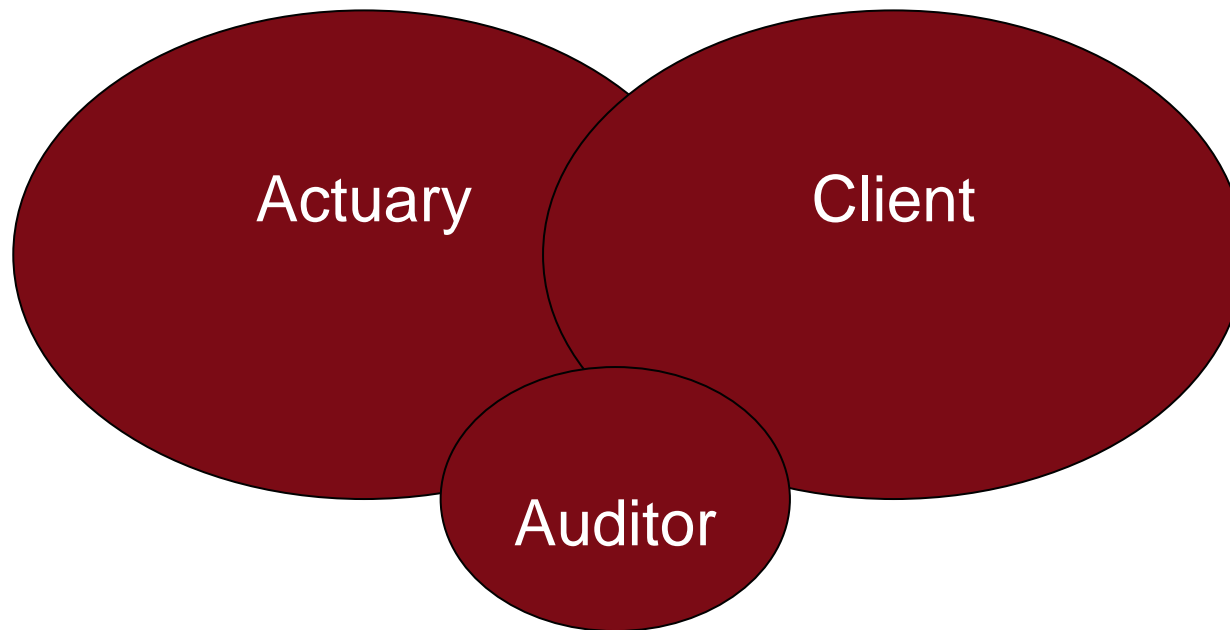
# The Cahoots Model



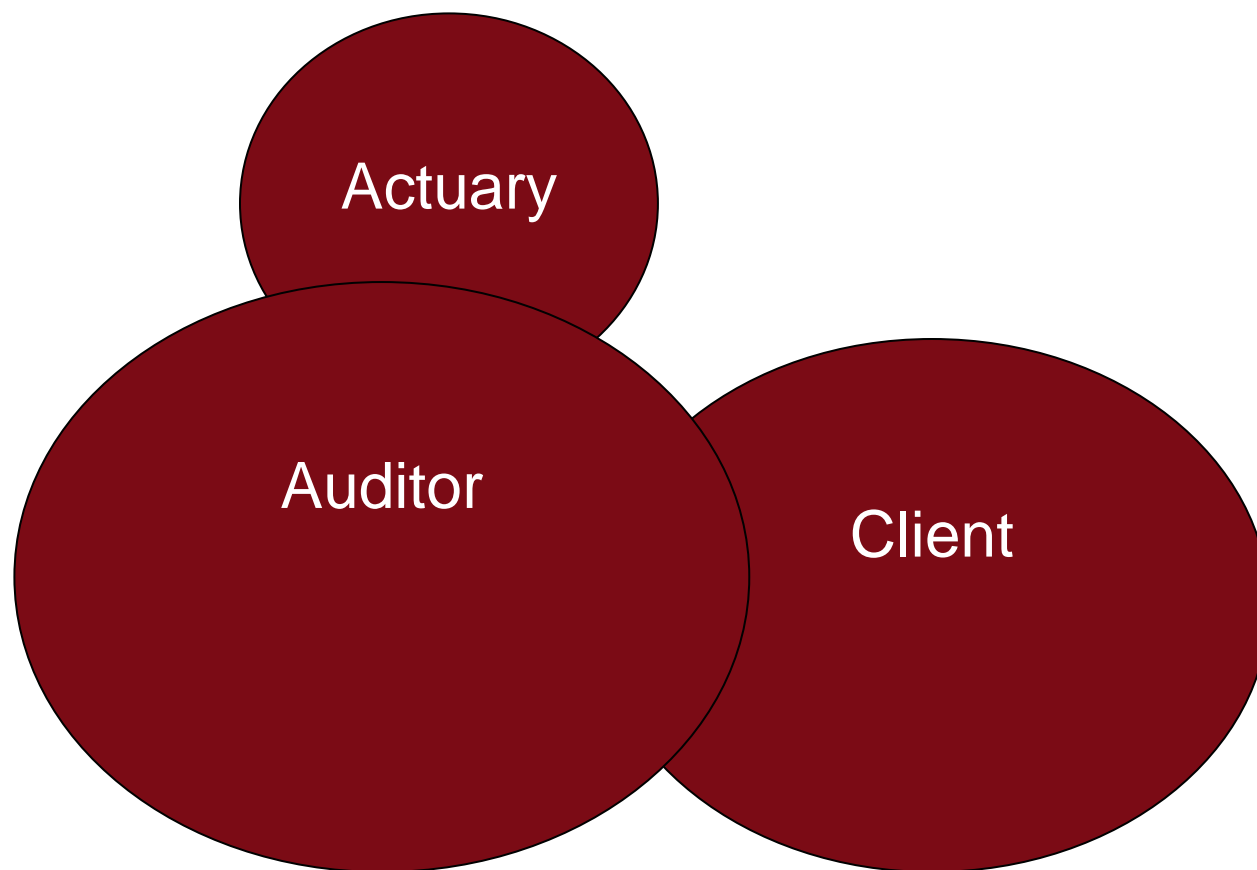
## The Bully Model



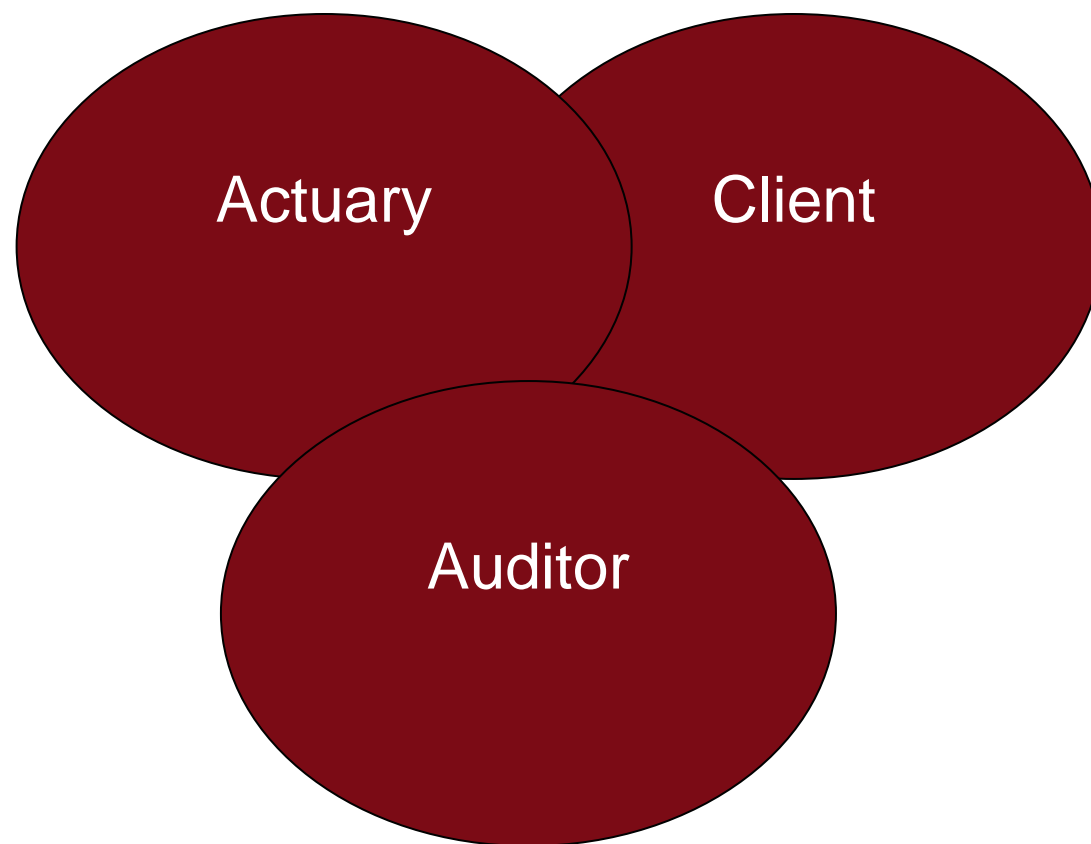
# The Takeover Model



## The Reverse Takeover Model



# Equilibrium





## The Auditor's Legal Responsibilities

- **Give opinion on whether accounts prepared by the directors give a true and fair view**

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- Compliance with accounting standards – FRS 17 / IAS 19
- **Work to support audit opinion based on compliance with Auditing Standards**

## Criticisms of pension accounting and disclosure

- **UK Financial Reporting Review Panel**
- **Part of FRC where BAS also sits**

## Criticisms of pension accounting and disclosure

- UK Financial Reporting Review Panel
- **Mortality**
  - ↳ **Variation in assumptions**

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- **Lack of quantified sensitivities**



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- UK Financial Reporting Review Panel
- Mortality
  - ↳ Variation on assumption
  - ↳ Transparency of assumption
- Basis for expected return on assets
- Sensitivities
- **New FRS 17 disclosures = IAS 19; y/c 6.4.07**

## Criticisms of pension accounting and disclosure

- UK Financial Reporting Review Panel
- Mortality
  - ↳ Variation on assumption
  - ↳ Transparency of assumption
- Basis for expected return on assets
- Sensitivities
- New FRS 17 disclosures = IAS 19; y/c 6.4.07)
- **ASB recommended further disclosures**

## Regulators / Standard Setters

- **ASB / IASB – Accounting Standards**
- **FRRP / IAASA – monitors accounting**

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- APB – Auditing Standards
- **ICAI / IAASA etc – monitors auditors**

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- ASB / IASB – Accounting Standards
- FRRP / IAASA – monitors accounting
- APB – Auditing Standards
- ICAI etc – monitors auditors
- ..... **ultimately, the High Court**

Bringing focus\*...

# APB Auditing Standard – ISA 620

## Using the work of an expert

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- **Actuary, property valuer, physical assessor, financial assets, derivatives**



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  - ↳ **e.g. member of relevant body**

## APB Auditing Standard – ISA 620

### Using the work of an expert

- Actuary, property valuer, physical assessor, financial assets, derivatives
- Sufficient evidence that work adequate
- Evaluate competence of expert
  - ↳ qualification, experience, resources
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- **Objectivity of expert**

## APB Auditing Standard – ISA 620

- **Scope of work**
  - ↳ **adequate?**
  - ↳ **Written instructions**

## APB Auditing Standard – ISA 620

- Scope of work
  - ↳ adequate?
  - ↳ Written instructions
- **Appropriateness of work as audit evidence**
  - ↳ **Source data, assumptions**
  - ↳ **Findings reflected in accounts?**

## APB Auditing Standard – ISA 620

- Scope of work
  - ↳ Adequate?
  - ↳ Written instructions
- Appropriateness of work as audit evidence
  - ↳ Source data, assumptions
  - ↳ Findings reflected in accounts
- **Clean audit report does not refer to the expert**

## APB Guidance on auditing FRS 17 compliance – PN 22

- Clarity on who is doing what – and when
- Communication with actuary re audit evidence
- Not “second-guess” work of actuary, but consistent with other factors
- Understand the schemes
- Assumptions
  - ↳ Directors’ responsibility
  - ↳ Based on actuarial advice
  - ↳ Reasonable and consistent

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- What drives the relationship?
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  - ↳ Criticisms of pension accounting
- Some areas of concern
  - ↳ Consistency of valuation with known factors
  - ↳ Scope of actuaries' brief



## Some legitimate concerns of auditor

- **Consistency with known factors - internal**

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 **Source data**

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- Consistency with known factors - internal
  - ↳ Source data
  - ↳ **Changes in benefits**

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  - ↳ **Curtailments / settlements**

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  - ↳ Source data
  - ↳ Changes in benefits
  - ↳ Curtailments / settlements
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  - ↳ **Average remaining service lives**

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- **Consistency with known factors – external**
- **Discount rate**

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- **Completeness of schemes valued**
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- Completeness of schemes valued
  - Including overseas schemes
- Asset valuations
- **Recoverability of surplus**
- **Substantial experience adjustments**

## Non balance of costs schemes

- **Distinguishing between DB and DC**
  - **Target schemes**

## Non balance of costs schemes

- DB or DC?
- **Deficit sharing schemes**

## Other types of schemes

- DB or DC?
- Deficit sharing schemes
- **State agencies / C&AG**

## Other types of schemes

- DB or DC?
- Deficit sharing schemes
- State agencies
- **Group schemes**
  - ↳ **DC or DB accounting?**
  - ↳ **FRS 17 revised requires more explanation**



# Accounting Judgments related to pensions

- Materiality
- Going concern
- Distributable profits
- Deferred tax

Bringing focus\*...

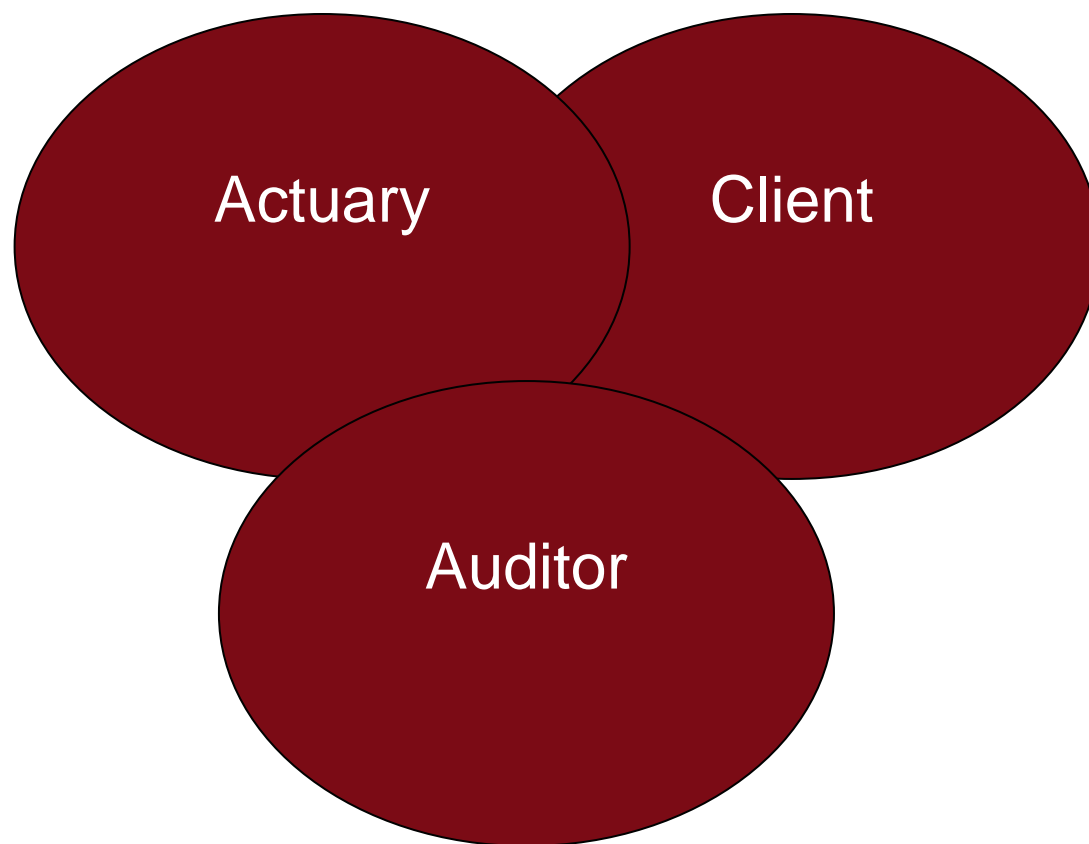
## Practical Issues

- Timetable
- Co-operation
- Data presentation
- Resources / Costs

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# YOUR VIEWS

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