

First Briefing, March 2021

Going concern assessments for DB scheme accounts

As a result of recent high-profile corporate failures and the knock-on impact on the pension schemes they sponsored, scheme auditors have an additional professional responsibility to be robustly sceptical when signing off scheme accounts.

The FRC has issued guidance on going concern, ISA (UK) 570, which is mandatory for accounting years starting after 15 December 2019.

There is likely to be extra work for all involved in preparing pension scheme financial statements – for those preparing the accounts and the auditors themselves, as well as trustees, administrators, and perhaps even the employer and other advisers.

The extent of this extra work can be controlled by holding early discussions with auditors to establish what evidence they will need to be satisfied that the scheme is a going concern.

ISA (UK) 570 and the Covid-19 pandemic

In September 2019, the Financial Reporting Council issued revised guidance on going concern¹. This was prompted by recent high-profile corporate failures.

Under ISA (UK) 570, auditors are required to obtain evidence and then assess whether there is material uncertainty that the entity being audited is likely to continue to operate for the foreseeable future, i.e. that the entity is a *going concern*.

The September 2019 changes required auditors to *demonstrate their professional scepticism* by carrying out both of the following:

- An enhanced risk assessment of the entity being audited

- More work to robustly challenge the management's own assessment of going concern.

While corporate failures prompted these changes, they apply to all sets of accounts, including those for pension schemes.

Pension scheme auditors will also need to carry out these enhanced risk assessments and, if necessary, robustly challenge trustees on whether it is appropriate to treat their scheme as a going concern.

The 2020 Covid-19 pandemic has raised the profile of this going concern assessment, primarily for companies facing financial difficulties, and also for the pension schemes they sponsor.

Implications for trustees and their reporting

The Pensions Research Accountants Group (PRAG) issued updated going concern guidance for pension scheme financial statements in August 2020.

PRAG's guidance notes that the Pensions SORP states that schemes should be accounted for as a going concern *unless the trustees or employer have taken the formal decision to wind up the scheme or have no realistic alternative but to do so*.

Furthermore, the SORP requires that *where trustees are aware of material uncertainties ... that cast significant doubt on the scheme's ability to continue ... the trustees shall disclose those uncertainties*.

In considering these matters, trustees need to consider at least 12 months beyond the date of approval of the financial statements.

¹ [ISA \(UK\) 570 \(frc.org.uk\)](https://www.frc.org.uk/isa-uk-570)

Going concern assessments for DB scheme accounts

It is the trustees' responsibility to determine whether there are any material uncertainties as to the going concern status of the scheme which require disclosure, for the accounts to give a 'true and fair view'.

The trustees should document this assessment formally to act as a record of appropriate governance and to provide evidence to the scheme auditor.

Factors that trustees should consider

First, the trustees should ask whether the sponsor's own going concern status for the corporate accounts has been decided. If the employer's accounts are being modified on the basis of going concern, then the scheme auditors will expect the scheme's accounts to be modified too, unless the scheme can demonstrate it is self-sufficient, both financially and operationally.

Otherwise, events and considerations that may constitute material uncertainty include:

- The trustees or employer are considering winding up the scheme
- The employer has ceased making contributions or the trustees expect the employer to do so
- The employer has experienced an insolvency event that will trigger the wind-up of the scheme
- The scheme is in a PPF assessment period
- The employer hasn't yet experienced an insolvency event, but there are warning signs such as
 - Frequent late payment of contributions
 - Overdue employer contributions
 - Employer requests for contribution deferral, particularly without explanation as to how this would support the longer-term viability of the employer, or
- There are wider indications that the employer is facing financial difficulties (particularly in the face of COVID-19), for example:
 - Renegotiation of banking facilities, covenants or debt re-financing
 - Loss of key customers.

The trustees may seek further evidence from the employer to help with the going concern assessment of the scheme, such as:

- Latest available financial statements, including the directors' and auditors' going concern statement in respect of the employer
- Financial forecasts
- Latest available trading results/management accounts/public statements to the market
- Any employer covenant review

- Any employer Notifiable Events.

As well as all these employer-related issues, the trustees will also need to assess the scheme itself, for example:

- The scheme's ability to meet benefit payments and expenses, particularly in the absence of regular employer contributions
- The liquidity of the scheme's investments, should they need to be sold to meet benefit payments
- The scheme's ability to continue to operate on a day-to-day basis should the employer be unable to contribute either financially or in terms of resources (in particular, for schemes where the employer currently provides banking facilities and/or the payroll function for paying pensions to members).

Auditor responsibilities

If the trustees haven't already done so, the auditors will ask the trustees to make the going concern assessment as described above in *Factors that trustees should consider*.

Should the trustees conclude that the scheme remains a going concern, the auditors will carry out the enhanced and robust review of the evidence in support of that assessment. If the auditors don't agree, they might qualify their audit report in the accounts. In any case they will also check that the trustees have met their obligation to disclose any material uncertainties they have identified that might cast doubt on the going concern status of the scheme.

So why don't I remember all this from the last time we did the accounts?

The revised FRC going concern guidance was only mandatory for accounting years starting after 15 December 2019, so this year is the first time it applies to many schemes. Also, the impact of Covid-19 has brought matters into sharper focus.

There has always been a requirement for trustees to make the going concern assessment, but

- This was often taken as a given
- The normal scheme records were often regarded as sufficient evidence by auditors
- It was very rarely necessary to overturn the going concern decision or for the auditors to qualify/modify the scheme accounts audit report.

Planning ahead for the audit

Some additional work is likely, but this can be minimised by some or all of the following:

- The trustees getting an update on their sponsoring employer's financial position, with supporting documentation
- The trustees having evidence of their own scheme risk management, such as up-to-date risk registers, recent funding and investment advice, and meeting minutes
- An early discussion between the trustees, those preparing the accounts and the auditors, to determine what information the auditors will require to complete their review
- The trustees having a draft statement of going concern either ahead of this meeting or shortly afterwards
- Where appropriate, regular calls to monitor progress on the preparation of accounts.

First Actuarial can help trustees with their going concern responsibilities, for example by:

- Arranging and preparing for the suggested planning discussion with the auditors and others involved
- Sharing tools, checklists and sample disclosure wording for the accounts
- preparing information in support of the trustees' assessment, such as
 - Future cashflow forecasts
 - Appropriate draft wording for a trustees' statement of going concern for the auditor.

DC schemes

Defined Contribution (DC) schemes are also covered by the revised guidance.

While there are no deficit funding issues to be considered, trustees of occupational DC schemes will still need to demonstrate that their scheme remains a going concern, particularly if there are concerns about the employer's position.

Corresponding assessments to those set out above for DB schemes may also be needed for trust-based DC schemes, at least to the extent that the matters are relevant. In particular, DC scheme trustees should consider the likelihood of prompt payment of future employer contributions and their ability to continue running the scheme, should the employer be in difficulty.

Further information

For further information, please contact your usual First Actuarial consultant. We are able to help even if we do not prepare the scheme's accounts.