
**Amendments to the Occupational Pension Schemes
(Requirement to obtain Audited Accounts and a Statement
from the Auditor) Regulations 1996**
Department for Work and Pensions
RPC rating: validated

The IA is now fit for purpose as a result of the Department's response to the RPC's initial review. As first submitted, the IA was not fit for purpose.

Description of proposal

Financial Reporting Standard 102 (FRS102), introduced in 2014, revised the financial reporting framework in the UK. It covered the format, content and accounting policies for UK pension schemes. Under this framework, several of the administrative requirements of the Occupational Pension Schemes Regulations 1996 no longer reflect modern UK accounting practices. Therefore, they are surplus to the requirements that pension schemes must complete to produce financial statements.

To rectify this situation, the Department proposes to remove the administrative requirements of the Occupational Pension Schemes Regulations 1996 that are no longer needed to produce financial statements. The Department proposes to replace these requirements with a requirement to obtain a statement from the auditor confirming that the accounts have been prepared in line with FRS102.

Impacts of proposal

The Department states that, as a result of the changes, 7,894 pension schemes will no longer have to meet additional requirements relating to: providing administrative information, preparing accounts and auditing accounts. This will save each scheme between 1.25 hours and 35 hours of an internal pension auditor's time, depending on the size of the scheme and whether the scheme is defined contribution or defined benefit. The Department estimates the opportunity cost of one hour of a pension auditor's time at £100. It uses this figure to estimate calculate annual savings to business of £0.6 million in relation to providing administrative information, £1.3 million in relation to preparing accounts and £2.4 million from auditing accounts.

The Department states that 2606 multi-employer schemes and masters trusts will no longer be required to produce an auditor's statement of contributions. This will save

2-10 hours of a pension administrator's time, which is priced at £19 per hour, in each scheme or trust. This results in annual savings to business of £0.1 million.

There will also be a one-off familiarisation cost of approximately £0.1 million. This is based on a pension administrator in each pension scheme spending 15 minutes reading the associated guidance.

The RPC validates the estimated equivalent annual net cost to business (EANCB) of -£4.2 million. This will be a qualifying regulatory provision that will score under the business impact target.

Quality of submission

As initially submitted, the IA included two issues that meant that the RPC did not consider it fit for purpose. Following the RPC's initial review, the Department submitted a revised IA that includes the following changes:

The Department has now used the correct wage rate for pension administrators in its calculations, correcting an error in the original IA. This has changed the EANCB from approximately -£5 million to -£4.2 million.

Initially it was not clear what evidence the Department's estimate of £100 for the hourly opportunity cost of a pension auditor's time was based on. The Department now states that it was "based on [the Pensions Research Accounts Group's] knowledge of average industry audit costs, discussions with a pension accounts service provider, and ONS wage statistics" (page five). However, the Department also states that "Since this information is typically represented by accounting providers and auditors who charge fees rather than salary costs, it should not be treated as a pure wage cost and therefore it is not uprated" (page five). Ideally the Department would have used an estimate of pension administrator's wages uprated by non-wage labour costs. However, as this information is not readily available, the RPC notes that it may be better to use a fee-based proxy for labour costs instead of a proxy based on an inaccurate wage rate.

Finally, the IA only includes the minimum amount of information necessary to understand the proposal. The IA would be improved by adding greater explanation of the technical details of the changes.

Departmental assessment

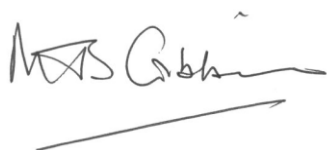
Classification	Qualifying regulatory provision (OUT)
Equivalent annual net cost to business	-£5 million (initial estimate)

Opinion: EANCB validation
Origin: domestic
RPC reference number: RPC-3277(1)-DWP
Date of implementation: not known

(EANCB)	-£4.18 million (final estimate)
Business net present value	£37.82 million

RPC assessment

Classification	Qualifying regulatory provision (OUT)
EANCB – RPC validated ¹	-£4.2 million
Business Impact Target (BIT) Score ¹	-£21.0 million
Small and micro business assessment	Not required (deregulatory)
RPC rating (of initial submission)	Not fit for purpose



Michael Gibbons CBE, Chairman

¹ For reporting purposes, the RPC validates EANCB and BIT score figures to the nearest £100,000.