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REGULATIONS FOR AUDITING PENSION FUNDS

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National Pension Commission

About this Regulations

The Regulations for Auditing Pension Funds is divided into six (6) sections.

Section one gives a brief background of the issues which necessitated the development of this Regulation.

Section two sets out the rules of general application, while Section three addresses the appointment of auditors. Sections four and five spells out the rules for auditing RSA funds and Existing Scheme funds respectively.

Section six addresses the modalities for determining and approving audit fees.

The requirements of these Guidelines are consistent with the provisions of the Pension Reform Act, 2004 and are also considered enforceable within the Industry.

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REGULATIONS FOR AUDITING PENSION FUNDS

1.0 INTRODUCTION

1.1 The present practice whereby pension funds are audited independently at different periods with the PFAs and PFCs, has led to incomplete and incomprehensive audit reports of the funds. This practice impinges on balanced regulatory judgment and is of concern to the Commission.

1.2 Operators have argued that, auditing pension funds from both sides (i.e. PFA & PFC) would result in incurring double cost and efforts.

1.3 Furthermore, the controversy concerning who bears the cost of the audit fees charged for auditing of pension funds, has generated much concern for the operators.

1.4 The foregoing have made it imperative for the Commission to develop draft regulations for the auditing of pension funds.

2.0 THE PROPOSED REGULATION

2.1 Rules of General Application

2.1.1 All Pension Fund Administrators (PFAs) and Pension Fund Custodians (PFCs) shall continue to cause their accounts to be audited, in line with the provisions of Section 56(2) of the Pension Reform Act (PRA) 2004

2.1.2 Where the Audit of the company accounts as in 2.1.1 above are undertaken, the Auditor shall obtain an understanding of and test controls relevant to the following areas:

i) RSA opening procedures (in the case of a PFA).

ii) Collection Procedures (in the case of a PFC).

iii) Investment Procedures (In the case of a PFA).

iv) Risk Management Procedures (in the case of a PFA).

v) Safekeeping/custody procedures (in the case of a PFC).

vi) Corporate actions (in the case of a PFC).

vii) Documentation.

viii) Internal controls.

ix) Compliance with the PRA 2004, regulations, codes and guidelines issued by the Commission.

2.1.3 All pension funds shall be audited at least once every year and the report must be submitted to the Commission not later than 120 days from the end of the financial year-end.

2.1.4 The pension funds referred to in 2.1.3 above shall include, but not limited to the following:

i) RSA Funds

ii) Approved Existing Schemes, in respect of:

a) Existing employees;
b) Existing pensioners; and
c) Gratuity funds.

2.1.5 The audit of pension funds shall be carried out not later than four (4) months from the end of the financial year, in the spirit of the provisions of Section 56(2) of the PRA 2004.

2.1.6 The audit shall cover all aspects of the funds, including administration and custody.

2.1.7 To achieve the objective stated in 2.1.6 above, the Auditor shall carry out audit procedures in line with globally accepted auditing standards and framework for conducting statutory audits.

3.0 APPOINTMENT OF AUDITORS

3.1 The PFA shall be responsible for appointing an Auditor for the statutory audit of RSA funds.

3.2 Pursuant to the provisions of Section 56(2) of the PRA 2004, the PFA shall be responsible for appointing an Auditor to audit its company accounts.

3.3 Where a PFA desires to change an Auditor, it shall notify the Auditor to be changed and must obtain prior approval from the Commission.

3.4 The request for approval in 3.3 above shall be in writing, not later than six (6) months before the financial year end of the PFA/PFC and shall clearly indicate the following:

i) Name of the outgoing auditor.

ii) Reasons for changing the auditor.

iii) Name of the suggested incoming Auditor.

iv) Considerations for the appointment of the new auditor.

3.5 A PFA managing an approved existing scheme, as defined in 2.1.4 above, shall request the Board of Trustees to the fund, to appoint an Auditor to undertake the audit of that particular fund. Such appointment shall be communicated by the Board of

Trustees to the PFA, in writing and copied to the Commission.

3.6 Where an approved existing scheme is managed by multiple PFAs, the lead PFA shall request the Board of Trustees to the fund, to appoint an auditor to undertake the audit of the fund. Such appointment shall be communicated by the Board of Trustees to all the PFAs involved in the management of the fund and copied to the Commission.

3.7 The PFA or lead PFA, upon receipt of the notification of appointment as in 3.5 and 3.6 above, shall inform the PFC having custody of such fund(s), of the appointment of the auditor.

4.0 RULES FOR AUDITING RSA FUNDS

4.1 PFAs shall ensure that that the RSA Funds have the same accounting year-end (i.e 31st December), in line with Section 3.12.1 of the Guidelines for the Publication of Rates of Return on RSA Funds by Pension Fund Administrators, issued by the Commission.

4.2 Pursuant to the provisions of Section 57 of the PRA 2004, the PFA/ Lead PFA shall submit annual returns of the RSA Fund to the Commission, along with the audited accounts of the fund, not later 120 days from the end of the financial year- end of the fund (i.e 31 December).

4.3 The annual returns in 4.2 above shall include the following minimum disclosures:

i) Total number of RSAs opened during the year.

ii) Total contributions received during the year.

iii) Total amount paid out to pensioners from the RSA Fund during the year.

iv) Total fees debited to the RSA fund during the year.

v) Returns on the RSA Fund, showing the following the following details

a) Cumulative income earned (in Naira);

b) Income earned during the year (in Naira);

c) Cumulative returns (in %); and

d) Returns for the year (in %).

vi) Total accrued benefit transferred to the RSA fund (in Naira).

4.4 The annual returns referred to in 4.2 above shall include but shall not be limited to the following:

i) Audited financial statements.

ii) Management letter (including management response).

iii) Audit adjustments.

iv) Special disclosure as outlined in 4.5 below.

4.5 In addition to the disclosure requirement specified in Section 58(1) of the PRA 2004, the audited account shall contain the following disclosures:

i) The annual rate of return of the fund (computed after audit adjustments).

ii) Liquidity of the fund.

iii) Cost profile (i.e brokages paid, investment advisory fees paid,any other direct or indirect cost incurred within the audit period.

iv) Details of any litigation.

v) Any non compliance of the PFA.

vi) Dispute with stockbrokers or any other service provider.

vii) Number and nature of complaints from RSA holders and pensioners.

4.6 The audited accounts of the funds must be approved by the Commission.

4.7 The approved audited accounts shall be displayed in a conspicuous place in the Head Office and branches of the PFA within 30 days of the approval throughout the financial year.

4.8 In addition to 4.7 above, the PFA shall post the approved audited accounts on its website within 30 days of the approval, throughout the financial year.

4.9 In the case of CPFAs, the audited accounts shall be posted on its intranet (where available) and published through any medium that is readily accessible to all members.

5.0 RULES FOR AUDITING APPROVED EXISTING SCHEMES

5.1 All Approved Existing Schemes (AES) shall be audited annually.

5. 2 The AES administered by multiple PFAs shall be audited in its entirety.

5.3 Pursuant to 5.2 above, the auditor shall carry out comprehensive audit procedures, relevant for the audit of the administration and custody aspects of that scheme.

5.4 The lead PFA, shall co-ordinate all activities relating to the audit and shall take responsibility for ensuring that a complete and comprehensive audit is carried out on the fun

5.5 Pursuant to the provisions of Section 57 of the PRA 2004, the PFA or lead PFA shall submit an annual report of the AES to the Commission, along with the audited accounts of the fund, not later than 120 days from the end of the financial year-end of the fund.

5.6 The annual report in 5.5 above shall include the following minimum disclosures:

i) Total funding/contributions received during the year.

ii) Total payments to beneficiaries during the year.

iii) Number of pensioners, deferred pensioners and age group profiling.

iv) Total fees debited to the fund during the year.

v) Returns on the fund, showing the following details

- Cumulative income earned;
- Income earned during the year;
- Cumulative returns (in %); and
- Returns for the year (in %).

5.7 The audited account referred to in 5.5 above shall include but shall not be limited to the following:

i) Audited financial statements.

ii) Management letter (including management response).

iii) Audit adjustments.

iv) Special disclosures as outlined in 5.8 below.

5.8 In addition to the disclosure requirements specified in Section 58(1) of the PRA 2004, the audited accounts shall contain the following minimum disclosures in respect of each PFA involved with the administration of the fund:

i) Level of compliance with agreement between PFAs and the Trustees.

ii) Returns on the fund (computed after audit adjustment).

iii) Liquidity of the funds based on the previous actuarial valuation.

iv) Cost profile (i.e. brokerages paid, investment advisory fees paid etc.)

v) Details of any litigations.

vi) Number of complaints by pensioners and Trustees.

6.0 AUDIT FEES

6.1 The audit fees arising from the audit of a pension fund shall be charged to that fund.

6.2 In the case of RSA funds, the PFA shall negotiate a reasonable fee with the Auditor for the audit of the fund.

6.3 In the case of Approved Existing Scheme, the Trustees shall negotiate a reasonable fee with the Auditor for the audit of the fund.

6.4 In the case of AES administered by multiple PFAs, the audit fees shall be charged proportionally to the portion of funds administered by each PFA.

6.5 Pursuant to 6.2 and 6.3 above, the audit fee shall be in relation to the size and complexity of the fund and extent of work to be done.

6.6 The PFA shall request for the Commission's prior approval in writing for the audit fees charged by the Auditors for its RSA and AES funds.

6.7 In the case of AES administered by multiple PFAs, the request for approval by the lead PFA shall indicate the proportions charged to the funds administered by all the PFAs involved in the administration of that particular scheme.

7.0 Review and Enquiries

7.1 These regulations shall be reviewed from time to time as the need arises.

7.2 All enquiries regarding the content of these Regulations should be forwarded to the Director General, National Pension Commission.