



# Technical Release

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## Assurance reporting on master trusts (Master Trust Supplement to ICAEW AAF 02/07)

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# Foreword

This Supplement is intended to assist the development of good practice standards of governance by trustees of occupational defined contribution (DC) Master Trusts (referred to as Master Trusts throughout this Supplement) and has been produced in association with the Pensions Regulator (the Regulator).

The Regulator has considered the impact that the creation of Master Trusts could have on the pensions market, in light of Government reforms and automatic enrolment of employees into occupational work-place pension schemes.

While there is no standalone legislative or regulatory standard to which Master Trusts specifically need to operate, it is the Regulator's belief that Master Trust providers and trustees of Master Trusts (which may include individual trustees and corporate trustees) would find it beneficial to be able to report on and thereby enable scheme members and customers (employing companies) to obtain a better understanding of the governance and administration arrangements of the Master Trust.

This Supplement therefore sets out what is expected from assurance reports provided by independent practitioners on specified control procedures over a Master Trust's governance and administration, as set out in the Regulator's DC code of practice and DC regulatory guidance. The control procedures are assessed in the light of control objectives that are set out in this Supplement.

This Supplement is effective from 1 May 2014. The Regulator has stated that it would expect Master Trusts to provide their first report in accordance with this framework for periods ending in the financial year 2014/15.

Assurance reporting on Master Trusts will generally cover a period of time, although in certain circumstances may relate to a point in time. See paragraph 8 of the guidance for a discussion of the two subject matter options underlying these two outcomes.

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# Introduction

The Pensions Regulator (the Regulator) published its 'Strategy for regulating defined contribution pension schemes' in October 2013. This included a regulatory expectation for trustees of Master Trusts to obtain independent assurance to further demonstrate the presence of governance and administration standards that meet the DC quality features set out in the Regulator's DC code of practice and DC regulatory guidance.

The Regulator's code of practice defines a Master Trust as an occupational trust-based pension scheme established by declaration of trust which is or has been promoted to provide benefits to employers which are not connected and where each employer group is not included in a separate section with its own trustees. For this purpose, employers are connected if they are part of the same group of companies (including partially owned subsidiaries and joint ventures).

The Regulator drew up a list of DC quality features, as set out in the Regulator's DC code of practice and DC regulatory guidance, as those activities, behaviours and control processes that it believes are more likely to deliver good member outcomes.

The assurance framework used for this Supplement is AAF 02/07 A Framework for assurance reports on third party operations. The report comprises a trustees' report on the Master Trust's governance and administration arrangements supported by an independent assurance report over the description, design and effective operation of controls in accordance with a defined set of control objectives.

Whilst this framework has been developed for Master Trust arrangements, other DC schemes may want to adopt this Supplement as good practice.

It is not intended that the provision of a trustees' report or an independent assurance report should be mandatory. However market participants offering Master Trust arrangements may find it advantageous to be able to provide such a report to potential and existing customers so they can obtain a better understanding of the governance and administration arrangements.

Independent assurance therefore provides trustees with an enablement tool to help demonstrate their accountabilities and help evidence the presence of standards of governance that the Regulator believes are more likely to result in better outcomes for pension scheme members.

## Independent assurance reporting

AAF 02/07 provides a framework for performing assurance engagements on various aspects of operations provided by external organisations (third-party operations) and which may be subject to external independent examination.

The Master Trusts Supplement to AAF 02/07 has been developed based on discussions between ICAEW and the Regulator and is for use by trustees, which may be either individual trustees or directors of corporate trustees of Master Trusts (hereafter referred to as 'trustees') and practitioners engaged to issue an independent assurance report whereby:

- the trustee's report on the description, design, and operating effectiveness of the Master Trust's control procedures related to the control objectives set out in this Supplement; and
- practitioners undertake procedures in order to issue a reasonable assurance report on the description, design and operating effectiveness of the Master Trust's relevant control procedures related to those control objectives.

Paragraphs 37 to 41 of AAF 02/07 set out principal matters relevant to the determination of suitable criteria and hence control objectives to be used as evaluation criteria. This Supplement requires that control objectives:

- are relevant, complete, reliable, neutral and understandable so as to communicate the basis of the evaluation; and
- collectively reflect the level of control exercised at the Master Trust to demonstrate how trustees are addressing the DC quality features; and help satisfy the expectations of employers and their members.

For the purpose of this exercise, it remains the responsibility of trustees to ensure that the control objectives that are described are sufficient to satisfy the Regulator's good practice guidance and to add further objectives and supporting control procedures if appropriate. If certain control objectives do not apply to a Master Trust, the trustees explain the omission of the control objectives in the trustees' report.

The trustees are responsible for establishing procedures to meet the control objectives set out in Appendix 1 as well as any additional control objectives. Suitable control procedures will vary from Master Trust to Master Trust. Should the trustees decide to publish a report, the disclosure of how each control objective is addressed by a Master Trust is likely to be specific to each Master Trust.

# About this Supplement

## General information for trustees and practitioners

- 1 This Supplement addresses the design, description and operational effectiveness of control procedures associated with control objectives included in Appendix 1 and has been developed primarily for trustees of Master Trusts and independent practitioners.
- 2 Throughout this document reference to 'trustees' includes both individual trustees and directors of corporate trustee bodies.
- 3 The control objectives are related to high level principles for governance and administration and are aligned with the Regulator's DC quality features. The Regulator has framed the DC quality features so that they focus on helping to ensure that individual members' interests are protected.
- 4 The control objectives are based, where possible, on existing materials and guidance issued by the Regulator. The Regulator's six principles for DC schemes on which assurance is being sought are:
  - 1 **Essential characteristics:** Schemes are designed to be durable, fair and deliver good outcomes for members.
  - 2 **Establishing governance:** A comprehensive governance framework is established at set-up, with clear accountabilities and responsibilities agreed and made transparent.
  - 3 **People:** Those who are accountable for scheme decisions and activity understand their duties and are fit and proper to carry them out.
  - 4 **Ongoing governance and monitoring:** Schemes benefit from effective governance and monitoring through their full life cycle.
  - 5 **Administration:** Schemes are well-administered with timely, accurate and comprehensive processes and records.
  - 6 **Communication to members:** Communication to members is designed and delivered to ensure members are able to make informed decisions about their retirement savings.
- 5 The six DC principles are what the Regulator expects DC schemes to do in pursuit of good member outcomes. The six DC principles are underpinned by a number of DC quality features that set out in further detail those activities, behaviours and control processes that the Regulator believes are more likely to deliver good member outcomes. The DC quality features represent the standards the Regulator expects trustees to attain and will assist trustees to demonstrate compliance with legal requirements where appropriate.
- 6 The Master Trust Supplement to AAF 02/07 A framework for assurance reports on third party operations provides guidance on assurance reporting on Master Trust's standards of governance and administration as set out in the Regulator's DC code and DC regulatory guidance. The development of the guidance is based on discussions held between the Regulator and the Audit and Assurance Faculty of ICAEW. They will keep this Supplement under review.
- 7 The guidance contained in AAF 02/07 provides a framework for performing assurance engagements on various aspects of operations provided by external organisations. The principles underlying the guidance are broadly applicable to trustees of Master Trusts who are responsible for putting in place and maintaining control procedures for the governance and administration of occupational defined contribution trust-based pension schemes. While this Supplement refers to specific sections of AAF 02/07, this does not replace the need to read the guidance AAF 02/07 in its entirety and apply it as appropriate.
- 8 The subject matter of the assurance reporting envisaged by this guidance may be either: (a) the description and design of the control procedures and their operating effectiveness over a period of time; or (b) the description and design of control procedures only at the point in time specified. The guidance that follows assumes that the report will cover a period of time.
- 9 However a report on control procedures at a point in time is an option, for example when preparing a report for the first time. This transitional provision recognises the fact that trustees may need time to establish and formalise control procedures to enable them to be evidenced. In some cases the controls may take time to develop and implement so a point in time engagement provides an interim assurance solution.
- 10 It is generally envisaged that trustees would report annually and that assurance would be provided to lend additional credence to the trustees' assertions. Trustees may wish to provide a report that covers a period of time that aligns assurance reporting on internal controls with their financial accounting period and statutory audit.
- 11 The Master Trusts Supplement consists of:
  - assurance reporting on the control procedures over the governance and administration of Master Trusts;
  - guidance for practitioners;
  - Appendix 1: DC quality features and related control objectives on the governance and administration of Master Trusts;
  - Appendix 2: Example paragraphs from the assertion by the trustees of the Master Trust; and
  - Appendix 3: A pro forma practitioner's assurance report on the internal control procedures of the Master Trust.

# Assurance reporting on the control procedures over the governance and administration of Master Trusts

## The responsibility of trustees of the Master Trust

12 Trustees of the Master Trust evaluate their control procedures regarding governance and administration by reference to the control objectives set out for each of the Regulator's DC quality features. Both the Regulator's DC quality features and the control objectives are set out in Appendix 1 of this Supplement. .

## Assurance reporting on the Master Trust's governance and administration

13 The IAASB Assurance Framework, on whose principles ISAE 3000 and AAF 02/07 are based, sets out five elements of an assurance engagement. These five elements are:

- three party relationship;
- an appropriate subject matter;
- suitable criteria;
- sufficient appropriate evidence; and
- a written assurance report in the form appropriate to the type of assurance engagement.

14 Certain aspects of these elements are likely to require specific consideration in the context of this Supplement. These are a three party relationship, an appropriate subject matter, suitable criteria and sufficient appropriate evidence and are discussed below.

## A three party relationship

15 Assurance engagements involve three parties: a responsible party, intended users, and a practitioner.

### Responsible party

16 The responsible party performs operations or provides information for the benefit of the intended user and hence is responsible for the subject matter over which assurance is sought. The responsible party in the context of this Supplement are the trustees of the Master Trust. Trustees are responsible for the governance and administration of the Master Trust.

17 The trustees prepare a written report setting out their responsibilities and describing the control procedures in place within the Master Trust to support the control objectives set out in this Supplement. The report also includes the trustees' assertion on the description, design and operating effectiveness of those control procedures. When making this assertion in their report, the trustees state that it is referring to the control objectives in this Supplement.

18 Example paragraphs from an illustrative trustees' assertion are set out in Appendix 2.

19 The trustees of the Master Trust communicate to the practitioner the purpose of their report and the associated assurance reporting needed.

### Intended users

20 The intended users of an AAF 02/07 report are typically expected to be employers who have entrusted their employees' DC contributions to the Master Trust, or are considering doing so (ie customers of the Master Trust). Depending on the purpose of reporting by the trustees of Master Trust, the intended users would vary.

21 It is also acknowledged that scheme members may also want to read through the report.

22 One of the purposes of seeking independent assurance over trustee reporting on control objectives and supporting control procedures will be to enhance the confidence of the trustees over their procedures related to governance and administration. Assurance reporting should also help increase the confidence of current and possibly prospective users.

### Practitioner

23 The practitioner performs the assurance engagement on the reporting by trustees on the Master Trust's control procedures. Relevant, generic guidance for the practitioner is set out in AAF 02/07 in the section entitled (a) Engagement with the responsible party within Third party operations (paragraphs 13 – 15) and Where the responsible party is the client in AAF 02/07 (paragraphs 58 – 61). Further guidance for the practitioner is set out in paragraphs 38 – 40 below.

24 When requested to provide an assurance report, the practitioner needs to clarify the purpose for which the assurance report is being sought, the party (or parties) seeking to benefit from the assurance report, and the use that will be made of the assurance report.

## An appropriate subject matter

- 25 The subject matter in assurance reporting envisaged in this Supplement is the control procedures related to the Master Trust's governance and administration. The trustees prepare a written report describing the control procedures that have been designed and implemented to deliver their Master Trust operations at a given date or for a given period having regard to appropriate control objectives as set out in this Supplement and further control objectives deemed relevant to the governance and administration of the Master Trust, see paragraph 34 below.
- 26 Where aspects of the administration operations of the Master Trust are outsourced (including those where the outsourced provider is a related party of the Master Trust), the trustees describe how they monitor those outsourced activities, including relevant control objectives, and may obtain an appropriate assurance report from the service organisation to which the trustees of the Master Trust has outsourced these operations as part of their evidence of monitoring those outsourced activities. Further generic guidance on outsourcing can be found in AAF 02/07 in the section entitled Responsible parties that use other organisations (paragraphs 78–82).
- 27 This assurance report would form part of the evidence of the trustees' monitoring of those outsourced activities when determining standards of governance and administration.

## Suitable criteria

- 28 The control objectives in Appendix 1 are considered to be suitable criteria for the evaluation of the Master Trust's control procedures for governance and administration in so far as they:
- address the risks to members in relation to the Regulator's six DC principles (as detailed above in paragraph 4); and
  - are complete and appropriate to the functions and provision of Master Trust services.
- 29 Control objectives:
- need to be relevant, complete, reliable, neutral and understandable so as to communicate the basis of the evaluation;
  - are not intended to be exhaustive. The control objectives specified in Appendix 1 are intended to be a minimum set of control objectives for inclusion in the Master Trust report prepared by the trustees. However, it remains the responsibility of the trustees of the Master Trust to ensure that the control objectives that it describes are sufficient and to add further objectives and supporting control procedures where appropriate.
- 30 The trustees of the Master Trust describe control procedures for a set of associated control objectives that are developed based on the criteria in Appendix 1. The trustees explain in their report to the practitioners how the control procedures relate to the control objectives for the provision of their Master Trust operations.
- 31 If there are omissions or misstatements with regard to the control objectives, in particular in the report by the trustees of the Master Trust, the practitioner asks the trustees to amend the description. If it is not amended the practitioner considers the need to state that fact in their report.
- 32 Exceptionally, the trustees may determine that a control objective is not relevant to their particular Master Trust's circumstances. Where this is the case, the trustees should explain why the control objective is not relevant in order to give users an understanding of the omission, and this should be referenced in their assertion. An example where this could occur is where control procedures related to a particular control objective were still under development, but the trustees wanted to still seek assurance over the operational effectiveness of control procedures related to other control objectives. Any other omissions should be accompanied with a reasonable justification.
- 33 Suitable control procedures will vary from Master Trust to Master Trust; therefore, the disclosure of how each objective is addressed by trustees of a particular Master Trust is likely to be specific to each Master Trust.

## Where the Master Trust applies additional control objectives

- 34 Relevant control objectives that trustees need to have regard to for the purpose of this exercise are detailed in Appendix 1. However, the trustees may include additional objectives if they consider them to be relevant and appropriate.

## Other information provided by trustees of Master Trusts

- 35 The trustees of a Master Trust may include in their report information that is not a part of the description of control objectives and procedures that relates to governance and administration.
- 36 If trustees of a Master Trust include other information in their report, they should make it clear that this information would be outside the scope of assurance reporting unless there is a specific agreement with the practitioners in the engagement letter that it should be included.

## Sufficient appropriate evidence

- 37 The trustees of the Master Trust are responsible for providing information to practitioners on specific control procedures in place to meet the control objectives, to help the practitioner obtain sufficient audit evidence. Where the practitioners are unable to test a described control procedure because, for example, it has not operated during the year, they state the fact that no tests have been carried out and the reason in their description of tests.

# Assurance report

## A written assurance report in the form appropriate to the type of assurance engagement

### Guidance for practitioners

- 38 Practitioners refer to the principles set out in AAF 02/07 which includes the role of practitioners in the assurance reporting framework envisaged in AAF 02/07 (paragraphs 29–32).
- 39 Practitioners refer to the section entitled Guidance for practitioners (paragraphs 46 – 105) and apply them as appropriate to the engagement. This includes guidance on accepting an engagement, planning and performing an engagement, the nature, timing and extent of tests and assurance reporting. In particular, practitioners understand and agree the scope and the purpose of the assurance engagement between the parties to the engagement as set out in the sub-section entitled agreeing the terms of engagement, as set out in AAF 02/07 (paragraphs 57–65) and in doing so refer to AAF 04/06 Assurance engagements: Management of risk and liability.
- 40 Practitioners note that they are governed by ethical and quality control requirements as set out AAF 02/07 (paragraphs 51–56).

### Assurance report

- 41 Practitioners conclude on the fairness of the description and the design and operating effectiveness of control procedures in relation to a specified reporting period. The practitioners' conclusion is expressed in a written assurance report attached to the trustees' report.
- 42 The assurance report reflects the agreement set out in the engagement letter. The report makes it clear for whom it is prepared and who is entitled to rely upon it and for what purpose as established in accordance with AAF 04/06.
- 43 A pro-forma practitioners' assurance report on the internal control procedures of the Master Trust is available in Appendix 3.

### Assurance reporting limitations

- 44 Control procedures have inherent limitations and accordingly errors and irregularities may occur and not be detected. Also control procedures cannot guarantee protection against fraudulent collusion especially on the part of those holding positions of authority or trust. Practitioners refer to such inherent limitations in their report.

### Reporting on description misstatements, design deficiencies or when control procedures are not operating effectively

- 45 Practitioners discuss with the trustees when they become aware that the control objectives in place are not in accordance with those set out in Appendix 1 so that the trustees can amend the description to include the specified control objective(s). If the trustees do not do so the practitioners add an explanation in the assurance report identifying the omitted or inappropriate control objective(s) to draw the attention of the relevant users. In addition, the wording of the conclusion paragraph may also be modified.
- 46 As already noted above in paragraph 32, where specified control objectives are omitted, trustees should give an explanation. If the trustees do not do so the practitioners add an explanation in the assurance report identifying the omitted or inappropriate control objective(s) to draw the attention of the relevant users.
- 47 Practitioners note that it is the responsibility of the trustees and not the practitioners to ensure the completeness and the reasonableness of control procedures over governance and administration. Although practitioners may qualify their conclusion on the fairness of the description of control procedures, for example where controls are not clearly described or are misstated, this does not necessarily affect the suitability of design or operating effectiveness of the control procedures.
- 48 Where control procedures associated with stated control objectives are incomplete or inappropriate, practitioners also discuss this with the trustees of the Master Trust so that they may amend the description to include the associated control procedures. If the trustees do not amend the description, the practitioners add an explanatory paragraph preceding the conclusion to the report identifying the omitted or inappropriate control procedures to draw the attention of the users of the report. In addition, the wording of the conclusion paragraph may be modified.
- 49 Where practitioners conclude that a set of control procedures are not suitably designed in relation to a specified control objective, this is reported after the description of the test and they consider the design deficiencies in their overall assessment of the control procedures. If the practitioners determine that control procedures are not suitably designed to achieve a specified control objective, they add an explanatory paragraph preceding the conclusion to the report identifying the design deficiencies and modify the conclusion.
- 50 Where practitioners' tests identify exceptions to the operating effectiveness of the control procedures, they consider whether this exception means that a control objective has not been achieved. In some cases deficiencies may be so pervasive that the practitioners modify their conclusion on the achievement of one or more control objective or issue an adverse opinion.
- 51 Where significant changes are introduced during the period covered by the report, the trustees of the Master Trust report this fact. If practitioners become aware that the description on changes is missing, they request the trustees to amend the description.

# Appendix 1: DC quality features and related control objectives on the governance and administration for Master Trusts

This Appendix sets out detailed control objectives for Master Trusts (Table 2) referred to in paragraphs 1 and 12 developed in association with the Regulator. Control objectives are presented together with the relevant DC quality features, the rationale and risks that the Regulator developed. This is to provide the context and to facilitate the application of control objectives for governance and administration of Master Trusts.

This Appendix also summarises all the DC quality features and maps these against the full list of control objectives (Table 1). Not all the DC quality features are associated with controls objectives. DC quality features 9, 22 and 25 are not subject to assurance.

The control objectives in Table 2 are not intended to be exhaustive. It remains the responsibility of the trustees to ensure that the described control objectives are sufficient to meet standards the Regulator would expect in relation to relevant DC quality features of a good DC scheme, as described in the Regulator's DC code of practice<sup>1</sup> and DC regulatory guidance.<sup>2</sup> Practical guidelines in each of these documents should form the primary basis of additional guidance for trustees when implementing control procedures. In certain cases guidance has been included under control objectives in Table 2 to provide further clarity.

The Master Trust's control procedures should be evaluated against the control objectives to the extent that the trustees consider that they are relevant to their Master Trust activities.

The control objectives specified in this Appendix are intended to be a minimum set of control objectives for inclusion in the Master Trust's report. Trustees may decide not to include a particular control objective, perhaps because (i). control procedures that underpin the control objective are not fully established or (ii). the related control procedures are outsourced (including where the outsourced provider is a related party) or (iii). the trustees determine that the control objective is not relevant to their Master Trust.

Where control objectives set out in Table 2 are not included, the trustees of the Master Trust should in all cases explain in its report the fact and reasons for the omission. For outsourced services this might include a description of the functions and nature of the activities performed by the outsourced service providers and how the trustees of the Master Trust satisfy themselves as to the effective operation of those outsourced services.

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1 [thepensionsregulator.gov.uk/codes/code-governance-administration-occupational-dc-trust-based-schemes.aspx](https://thepensionsregulator.gov.uk/codes/code-governance-administration-occupational-dc-trust-based-schemes.aspx)

2 [thepensionsregulator.gov.uk/guidance/guidance-dc-schemes.aspx](https://thepensionsregulator.gov.uk/guidance/guidance-dc-schemes.aspx)

Table 1 – DC quality features mapping summary		Control objective <sup>3</sup>
1	Trustees will understand their duties and be fit and proper to carry them out.	23 and 24
2	Trustees will regularly review their skills and competencies to demonstrate they understand their duties and are fit and proper to carry them out.	25
3	Trustees will ensure that accountability and delegated responsibilities for all elements of running the scheme are identified, documented and understood by those involved.	27
4	Trustees will establish and maintain adequate internal controls which mitigate significant operational, financial, regulatory and compliance risks.	29
5	Trustees will ensure that sufficient time and resources are identified and made available for maintaining the ongoing governance of the scheme.	26
6	Trustees will ensure that investment objectives for each investment option are identified and documented in order for them to be regularly monitored.	20 and 21
7	Trustees will ensure that the number and risk profile of investment options offered reflects the needs of the membership.	18
8	Trustees will ensure that a default strategy is provided which is suitable for the needs of the membership.	16
9	Trustees will act in the best interests of all beneficiaries.	Not subject to assurance
10	Trustees will predominantly invest in assets admitted to trading on regulated markets. Where unregulated investment options are offered, it must be demonstrable why it was appropriate to offer those investment options.	11
11	Trustees will understand the levels of financial protection available to members and carefully consider situations where compensation is not available.	8, 9 and 10
12	Trustees will understand and put arrangements in place to mitigate the impact to members of business and/or commercial risks.	1
13	Trustees will monitor the ongoing suitability of the default strategy for the membership.	16
14	Trustees will ensure that arrangements are established to review the ongoing appropriateness of investment options.	20 and 21
15	Trustees will ensure that the performance of each investment option, including the default strategy, is regularly assessed against stated investment objectives.	17 and 19
16	Trustees will ensure that members are regularly made aware of their current investment strategy and what this means for them.	36
17	Trustees will be able to effectively demonstrate how they manage conflicts of interest.	22
18	Trustees will establish and maintain procedures and controls to ensure the effectiveness and performance of the services offered by scheme advisers and service providers.	28
19	Trustees will ensure that all members receive value for money.	12
20	Trustees will ensure that all costs and charges borne by members are clearly disclosed to members.	15
21	Trustees will ensure that all costs and charges borne by members are transparent and communicated clearly at point of selection to the employer to enable value for money comparisons to be made and to assess the fairness to members of the costs and charges.	13 and 14
22	Trustees will ensure that schemes offer flexible contribution structures that give members the option to pay more.	Not subject to assurance
23	Trustees will ensure that members are regularly informed that their level of contributions is a key factor in determining the overall size of their pension fund.	36
24	Trustees will ensure that member data across all membership categories is complete and accurate and is subject to regular data evaluation.	5, 6 and 7
25	Trustees will support employers in understanding their responsibilities for providing accurate information, on a timely basis, to scheme advisers and service providers.	Not subject to assurance
26	Trustees will take appropriate steps to monitor contributions and resolve contributions which have not been paid in accordance with the payment schedule in full on or before the due date.	33
27	Trustees will ensure that core scheme financial transactions are processed promptly and accurately.	30, 31 and 32
28	Trustees will ensure that administration systems are able to cope with scale and are underpinned by adequate business and disaster recovery arrangements.	2, 3, and 4
29	Trustees will ensure that a process is provided which helps members to optimise their income at retirement.	34 and 35
30	Trustees will clearly communicate to members the options available at retirement in a way which supports them in choosing the option most appropriate to their circumstances.	38
31	Trustees will ensure that scheme communication is accurate, clear, understandable and engaging and it addresses the needs of members from joining to retirement.	37

3 Three DC quality features are not subject to independent assurance. While important, the underlying nature of these features is too subjective to be practically assured.

Table 2 – The independent assurance framework

Rationale/risk (this column is intended to provide context for the control objective).	Control objectives (bold text below denotes the control objectives. In some cases the control objectives are supported by further information (on the types of procedures and activities the Regulator would expect trustees to have in place) to assist trustees and Reporting Accountants. Reference to trustees includes both individual trustees and directors of corporate trustees.	Relevant DC quality feature (ref to Table 1)
<b>Safety of assets and records</b>		
<p><b>Commercial and business risks</b></p> <p>Trustees of Master Trusts need to take steps to help ensure that business and commercial risks do not compromise the durability of their Master Trust and ensure that the interests of the scheme membership are protected.</p> <p><b>Risk</b> – Members’ assets or entitlements may be put at risk due to a failure such as an insolvency event at the provider.</p> <p>Commercial or business risks result in a decision to close down, transfer or sell the Master Trust operations and this leads to a loss to members due to inadequate safeguards.</p>	<p>1 <b>Discontinuance plans, which address how member assets or entitlements are safeguarded in the event of the Master Trust or any key service provider failing, are documented, approved and maintained.</b></p> <p>The discontinuance plan should include activities for managing and protecting member assets or entitlements in the event:</p> <ul style="list-style-type: none"> <li>• a decision is made to wind up or close the Master Trust; or</li> <li>• the Master Trust’s operations/ownership are or need to be transferred to another entity; or</li> <li>• a provider becomes insolvent or unable to continue supporting the Master Trust for any other reason.</li> </ul> <p>This plan should reflect requirements in the trust deed and rules, be periodically reviewed and any deficiencies addressed.</p>	<p>Trustees will understand and put arrangements in place to mitigate the impact to members of business and/ or commercial risks (12).</p>
<p><b>Business and disaster recovery</b></p> <p>Administration and other systems need to be underpinned by adequate business and disaster recovery arrangements. Systems need to be able to manage increased capacity and scale when accepting new business.</p> <p><b>Risk</b> – Member assets or entitlements are put at risk due to loss of data following a system failure.</p>	<p>2 <b>Data and systems are backed up regularly, retained offsite and regularly tested for recoverability. Business and information systems recovery plans are documented, approved, tested and maintained.</b></p> <p>3 <b>The capacity of an administration system to take on new business is assessed, approved and regularly monitored.</b> Trustees regularly review and assess administration systems to determine whether they can manage increased volumes of administration processing and data handling.</p> <p>4 <b>New business take-ons are properly established in accordance with Master Trust’s rules and contractual arrangements.</b> Contractual arrangements between the Master Trust and participating employer(s) are documented and authorised and should include the terms of engagement between various parties, including the responsibilities of each party.</p>	<p>Trustees will ensure that administration systems are able to cope with scale and are underpinned by adequate business and disaster recovery arrangements (28).</p>
<p><b>Data quality and security</b></p> <p>Data quality is key to ensuring members receive the appropriate benefits. Also due to the sensitive nature of the information held by a Master Trust, data security is essential.</p> <p><b>Risk</b> – Incorrect benefits are paid out or incorrect calculations are made at other times, eg, unitisation due to poor quality member data.</p>	<p>5 <b>Member data is complete and accurate and is subject to regular data evaluation. Data transmissions are secure and appropriate measures are implemented to counter the threat from malicious electronic attack.</b> Member data may either be common or conditional data as described in the Regulator’s DC code of practice. Member data and records across all membership categories should be regularly reconciled and a data review exercise should be conducted annually or at other intervals appropriate to the Master Trust. Data errors are subject to exception reporting and where data integrity issues are identified a data improvement plan is produced to address poor quality data, including arrangements to resource and fund the cost of addressing any widespread maladministration.</p> <p>6 <b>Physical and logical access to computer systems, and member and Master Trust records and data, is restricted to authorised persons.</b></p> <p>7 <b>IT equipment is maintained in a controlled environment and the maintenance and development of systems, applications and software is authorised, tested approved and implemented.</b></p>	<p>Trustees will ensure that member data across all membership categories is complete and accurate and is subject to regular data evaluation (24).</p>

Table 2 – The independent assurance framework

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<p><b>Protection of assets</b></p> <p>Trustees of Master Trusts need to ensure that there are adequate safeguards over member assets or entitlements.</p> <p>This risk is particularly important as Occupational DC Trust Based Pension schemes do not, in their structure, contain any element of capital adequacy or compensation similar to the employer underpin and Pension Protection Fund protection provided in defined benefit schemes or, in certain cases, access to the Financial Services Compensation Scheme available to contract based schemes. Therefore members bear the investment risk and so it is essential that there are controls over the protection of assets and consideration is given to the availability of compensation when selecting investments.</p> <p><b>Risk</b> – Trustees and members are unaware of their exposure to risks associated with investing in unregulated markets or investments not eligible for compensation in the event of a default, resulting in a loss to member funds through ill-informed investment decisions.</p>	<p>8 <b>Member assets or entitlements are safeguarded from loss, misappropriation and unauthorised use in accordance with a defined policy.</b> Trustees should authorise a policy setting out whether any form of collateralisation is permitted, for example stock lending. All member assets are segregated from assets of the provider and entitlements or rights are the subject of other regulatory requirements and safeguards that relate to asset protection. For example Financial Conduct Authority (FCA) rules that relate to insured schemes (and rights under the insurance policy).</p> <p>9 <b>Cash is safeguarded and all payments are suitably authorised and controlled.</b></p> <p>10 <b>Financial protection available to members in the event of default is assessed and documented, and communicated to employers and members on request.</b> Whilst investment decisions should not be based primarily on the availability of compensation, trustees should understand the levels of financial protection which may be available to members. Trustees should acknowledge the reasons for selecting investments where compensation arrangements are not in place.</p> <p>11 <b>Investment decisions relating to the selection of investments on regulated markets and unregulated investments are researched, authorised and monitored.</b> Trustees must predominantly invest member funds in assets which are admitted to trading on regulated markets. Where unregulated investments are offered to members or investments are made through investment managers which are not regulated in either the UK or other jurisdictions:</p> <ul style="list-style-type: none"> <li>• the decision to select and offer these investments is approved by the trustees and this decision is formally recorded;</li> <li>• the trustees review the suitability of these investments and this review should be documented;</li> <li>• monitoring mechanisms are established to evaluate the performance of unregulated investments; and</li> <li>• information communicated to members clearly indicates investment choices which are not subject to regulation and highlights the implication of this.</li> </ul>	<p>Trustees will understand the levels of financial protection available to members and carefully consider situations where compensation is not available (11).</p> <p>Trustees will predominantly invest in assets admitted to trading on regulated markets. Where unregulated investment options are offered, it must be demonstrable why it was appropriate to offer those investment options (10).</p>
<b>Assessing value</b>		
<p><b>Assessment of value for money</b></p> <p>Members participating in a Master Trust should receive value for money. Costs and charges should be commensurate to the quality of pension provision offered to the membership.</p> <p><b>Risk</b> – Member outcomes are reduced due to excessive costs and charges which outweigh the value of the pension provision.</p>	<p>12 <b>A value for money review is undertaken and this review is documented, approved and findings actioned.</b> A scheme offers value for money (VFM) where the costs and charges deducted from members’ assets or entitlements or contributions (the costs of membership) provide good value in relation to the benefits and services provided (the benefits of membership) when compared to other options available in the market. Trustees should carry out a periodic strategic VFM review, for example every three years. The VFM review should take into account guidelines set out in the Regulator’s DC regulatory guidance requiring trustees to obtain administration and investment reports and market data which enable them to assess the quality of service provided and the level of costs and charges applied to different classes of membership. A VFM report should be made available to customers (ie existing and potential participating employers) upon request. Where trustees determine that VFM is not being provided, documented action is taken.</p>	<p>Trustees will ensure that all members receive value for money (19).</p>

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<p><b>Communication of costs and charges</b></p> <p>Master Trusts need to clearly and accurately disclose the charging structure of the Master Trust.</p> <p>Employers should consider the charging structure of Master Trusts and compare with other arrangements when selecting a new pension product. They should be provided with a complete breakdown of all costs and charges that will be incurred by members.</p> <p>Members should be informed about costs and charges that reduce their fund.</p> <p><b>Risk</b> – Members’ retirement funds will be at risk if an employer selects a pension scheme with high charges that does not offer value for money.</p> <p><b>Risk</b> – Insufficient information provided to members about costs and charges prevents members from assessing whether they are getting value for money from their pension provider.</p>	<p>13 <b>A complete and accurate list of the types of costs and charges incurred by members and employers is documented, monitored and approved.</b> The trustees regularly assess costs and charges to ensure accuracy and completeness.</p> <p>14 <b>Disclosure of information on costs and charges borne by members is provided to employers at the point of selection and is complete and accurate.</b> Employers are provided with clear information about costs and charges when choosing a pension scheme for their employees. The form and content of this information should take into account Government and industry standards, for example the Joint Industry Code: Pension charges made clear (which is available at <a href="http://www.napf.co.uk">www.napf.co.uk</a>).</p> <p>15 <b>Disclosure of information to members of costs and charges (rates (%) and amounts (£)) are complete and accurate.</b> Trustees should provide members with a breakdown of costs and charges they incur in a readily accessible form and in line with industry and Government standards. This should be provided to members at appropriate points of time, for example:</p> <ul style="list-style-type: none"> <li>• on joining</li> <li>• annually thereafter (for example, in the members’ annual benefit statement)</li> <li>• prior to members carrying out transactions that incur costs (for example, switching funds)</li> <li>• on request</li> <li>• on leaving the scheme/employer (in particular, increased charges for deferred members should be clearly flagged)</li> <li>• before charges or funds change.</li> </ul>	<p>Trustees will ensure that all costs and charges borne by members are transparent and communicated clearly at point of selection to the employer to enable value for money comparisons to be made and to assess the fairness to members of the charges (21).</p> <p>Trustees will ensure that all costs and charges borne by members are clearly disclosed to members (20).</p>
<b>Assessment of investment options</b>		
<p><b>Appropriateness of the default strategies</b></p> <p>The default investment strategies set up by Master Trusts should take account of the likely characteristics and needs of employees who will be automatically enrolled into it.</p> <p>It is likely many employees in the default strategies will not be engaged in financial decisions, so decisions will need to be taken for them about their risk profile. As such there should be an appropriate balance between risk and return for the likely membership profile and the charging structure should reflect this balance.</p> <p><b>Risk</b> – Retirement income will be at risk if the default strategies are not designed with the likely membership risk profile in mind.</p>	<p>16 <b>The design and on-going suitability of the default strategies is regularly reviewed and monitored. This review is documented and approved.</b> Trustees should take into account changes in regulatory requirements, the demographics of the scheme membership and innovations in the decumulation market and DC investment products. The governance of the default strategy should also take into accounts standards set out in the DWP ‘Guidance for offering a default option for defined contribution automatic enrolment pension schemes’<sup>4</sup> and the investment strategy. The design and continued suitability of default strategies should undergo a full review at least every three years.</p> <p>17 <b>The performance of the default strategies and funds within the default strategies are regularly reviewed and monitored. This review is documented and approved.</b> The performance of the default option should undergo a full review at least every three years and the performance of the funds within the default strategies should be checked at regular intervals throughout the year, taking into account the DWP ‘Guidance for offering a default option for defined contribution automatic enrolment pension schemes’.</p>	<p>Trustees will ensure that a default strategy is provided which is suitable for the needs of the membership (8).</p> <p>Trustees will monitor the ongoing suitability of the default strategy for the membership (13).</p> <p>Trustees will ensure that the performance of each investment option, including the default strategy, is regularly assessed against stated investment objectives (15).</p>

4 [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/185056/def-opt-guid.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/185056/def-opt-guid.pdf).

Table 2 – The independent assurance framework

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<p><b>Appropriateness of the other investment options (ie, non default strategy investment options)</b></p> <p>Members need to be offered a range of investment choices that provides an appropriate variety of risk profiles, so that they can set their own investment strategy.</p> <p><b>Risk</b> – The member’s ability to make an appropriate investment decision is hindered by an inadequate range of options. This includes situations where the investment options do not provide a sufficient range of risk profiles, where the number of options is bewilderingly long or where the range of options assumes an inappropriate level of financial literacy.</p>	<p>18 <b>The range and risk profile of other investment options are documented, approved and regularly reviewed for suitability. This review is documented.</b> When determining the range and suitability of other investment options offered to members, trustees:</p> <ul style="list-style-type: none"> <li>• should have regard to the needs of the membership.</li> <li>• can demonstrate that they have considered the financial literacy of the membership.</li> <li>• should ensure that characteristics of other investments are clearly described.</li> </ul> <p>19 <b>The performance of other investments options is regularly reviewed against relevant investment objectives and (where available) industry benchmarks. This review is documented and approved.</b></p>	<p>Trustees will ensure that the number and risk profile of investment options offered reflects the needs of the membership (7).</p> <p>Trustees will ensure that the performance of each investment option, including the default strategy, is regularly assessed against stated investment objectives (15).</p>
<p><b>Identification of investment objectives and assessment against them</b></p> <p>To enable trustees to effectively monitor the suitability and range of investment choices they need to understand the aims, objectives and characteristics of each investment fund.</p> <p><b>Risk</b> – If investment options are not monitored against investment objectives then poor performance, lack of appropriateness or other issues will not be identified and rectified, leading to potential financial detriment for members.</p>	<p>20 <b>A complete and accurate description of all investment options is maintained and approved.</b> Trustees should make this available for distribution by the employer to prospective members on a timely basis.</p> <p>21 <b>A Statement of Investment Principles (SIP) is documented, approved and regularly reviewed.</b> The SIP, which sets out the investment objectives and the principles governing how decisions about investments are made, should include the investment policies set out in the Regulator’s DC code of practice. The SIP should be reviewed at least every three years and without delay after any significant change in investment policy.</p>	<p>Trustees will ensure that arrangements are established to review the ongoing appropriateness of investment options (14).</p> <p>Trustees will ensure that investment objectives for each investment option are identified and documented in order for them to be regularly monitored (6).</p>
<b>People</b>		
<p><b>Conflicts of interest</b></p> <p>Trustees need to make sure all actual, potential or perceived conflicts of interest are actively identified, monitored and managed. In Master Trusts, provider representation on the trustee board may result in non trivial conflicts of interest and so need to be managed.</p> <p><b>Risk</b> – If decisions about the scheme and its governance (eg, investment or administration) are influenced by the needs of parties other than the membership (e.g. senior management of the product provider) this increases the risk of financial detriment for members.</p> <p>For example, decisions are coloured by non-trivial, acute or pervasive conflicts of interest resulting from provider appointed trustees or services offered by related entities, resulting in financial detriment to members.</p>	<p>22 <b>Conflicts of interest are identified, recorded and managed in accordance with a defined policy which is regularly reviewed and approved.</b> Trustees should maintain a documented conflicts of interest policy which sets out their approach for identifying, recording and managing conflicts of interest that affect or could affect the Master Trust and its trustees, employers, members and providers.</p> <p>As part of the conflicts management procedure, trustees maintain a register of interests for all trustees and the conflicts of interest identified. These are managed in accordance with the conflicts of interest policy. In particular, conflicts which need to be managed carefully arise when employees of the provider are appointed as trustee and/or the provider (or a related party) of the Master Trust is also providing investment management, and/or administration services or when they also provide annuities. Trustees need to be able to demonstrate that the use of related parties is in the interest of the membership. The trust deed and rules give the trustees the power to change any service supplier including the scheme administrator and investment manager.</p>	<p>Trustees will be able to effectively demonstrate how they manage conflicts of interest (17).</p>

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<p><b>Fit and proper trustees</b></p> <p>Master Trusts need to be run well by sufficiently skilled and competent trustees in accordance with the trust deed and rules.</p> <p>All trustees should act with integrity, honesty and need to be financially sound to undertake their role.</p> <p><b>Risk</b> – Members’ assets or entitlements are put at risk if trustees are not fit and proper (including competent) to carry out their duties.</p>	<p>23 <b>Fitness and propriety requirements are recorded and managed in accordance with a defined policy which is regularly reviewed and approved.</b> The policy should address matters relating to a trustee’s:</p> <ul style="list-style-type: none"> <li>• honesty and integrity;</li> <li>• competency and capability, including trustee skills and knowledge; and</li> <li>• financial soundness.</li> </ul> <p>Standards associated with each of the above criteria can be found in the Regulator’s Prohibition Orders Statement<sup>5</sup>.</p> <p>24 <b>The fitness and propriety of trustees is regularly reviewed and monitored prior to appointment and thereafter. This review is documented and approved.</b> Trustees are only appointed and their appointment maintained where the trustee board (or other trustee appointing body) has assessed, against requirements set out in the policy, and concluded that the individual is fit and proper for the role.</p> <p>25 <b>Trustee skills and knowledge are managed and maintained in accordance with an approved training programme. The training programme is regularly reviewed and updated.</b> Each year an assessment is undertaken to identify knowledge and skill gaps on the trustee board and assess whether trustees have sufficient knowledge and skills for their role. Training records are maintained by all trustees. Trustees should successfully complete the Regulator’s Trustee toolkit within 6 months of their appointment or demonstrate that they otherwise meet the requirement for appropriate knowledge and understanding<sup>6</sup>.</p>	<p>Trustees will understand their duties and be fit and proper to carry them out (1).</p> <p>Trustees will regularly review their skills and competencies to demonstrate they understand their duties and are fit and proper to carry them out (2).</p>
<b>Governance</b>		
<p><b>Resource planning</b></p> <p>Due to the scale and complexity of Master Trust governance activities, it is important that sufficient time and resources are made available to run the scheme properly.</p> <p><b>Risk</b> – Important tasks are not undertaken properly due to the lack of suitable resources.</p>	<p>26 A plan is maintained and regularly reviewed to ensure that resources are properly allocated. Trustees should use this plan to determine whether key tasks, for example trustee meetings, risk management, data evaluation exercises, a review of the Statement of Investment Principles and investment governance, are sufficiently resourced, by trustees with appropriate skills to undertake this activity.</p>	<p>Trustees will ensure that sufficient time and resources are identified and made available for maintaining the ongoing governance of the scheme (5).</p>
<p><b>Scheme Management</b></p> <p>The appointment and ongoing effectiveness of firms offering services are properly monitored and managed, even where powers of appointment are vested with the provider.</p> <p><b>Risk</b> – Service providers: Poor performance by service providers presents a risk to the security and size of members’ retirement outcomes.</p> <p>Scheme adviser: A lack of accountability means that quality advice may not be guaranteed and there may be no recourse if advice results in member detriment.</p>	<p>27 <b>Roles, responsibilities and duties of all trustees, advisers and service providers are documented, approved and regularly reviewed.</b> Services provided by all third parties and/or organisations related to the Master Trust (including fund managers) are specified clearly in contractual documents, including the roles, responsibilities and duties of each party.</p> <p>28 <b>Activities undertaken by all scheme advisers and service providers are properly managed and subject to regular performance reviews which are documented and approved.</b> The performance and quality of all scheme advisers and service providers (including fund managers) are managed and monitored through application of formal agreements, regular documented reviews (for example assurance reviews) and service quality measures (including service level agreements). Trustees will need to determine what levels of assurance can be provided by service providers in the absence of independent assurance reviews, in the case of administration for example. The trustees have a mechanism for measuring poor performance which is acted upon. Due diligence is carried out before appointing advisers and service providers. Documented criteria are used to assess the suitability of advisers and service providers prior to appointment, or compliance with other defined procurement requirements.</p>	<p>Trustees will ensure that accountability and delegated responsibilities for all elements of running the scheme are identified, documented and understood by those involved (3).</p> <p>Trustees will establish and maintain procedures and controls to ensure the effectiveness and performance of the services offered by scheme advisers and service providers (18).</p>

5 [www.thepensionsregulator.gov.uk/regulate-and-enforce/prohibition-of-trustees.aspx#s8706](http://www.thepensionsregulator.gov.uk/regulate-and-enforce/prohibition-of-trustees.aspx#s8706)

6 In accordance with Regulation 3 of the Occupational Pension Schemes (Trustees’ Knowledge and Understanding) Regulations 2006).

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<p><b>Internal control framework</b></p> <p>Trustees need to develop robust systems and controls that detect, mitigate and manage risk.</p> <p><b>Risk</b> – Members are enrolled into a pension scheme that does not carry out any monitoring to mitigate the operational, financial, regulatory and compliance risks. For example, inadequate internal controls expose the final outcome of members’ pensions to a higher level of risk and uncertainty.</p>	<p>29 <b>A risk management framework is established to identify, manage and monitor significant operational, financial, regulatory and compliance risks.</b> These risks should be evaluated for impact and likelihood and adequate mitigating actions should be implemented. Risks should be recorded in a risk register. Trustees should review the risk register at least annually and evaluate their risk assessment arrangements, procedures and systems for material changes. They should record these changes (usually on the risk register itself) with any agreed actions to mitigate the risk.</p> <p>The risk management and internal controls framework should take into account requirements set out in the Regulator’s DC code of practice. As part of the overall risk management process, trustees should have access to relevant information held by the Master Trust provider in order to manage business and commercial risks that may affect the Master Trust.</p>	<p>Trustees will establish and maintain adequate internal controls which mitigate significant operational, financial, regulatory and compliance risks (4).</p>
<p><b>Core scheme transactions</b></p> <p>Core scheme financial transactions impact on the benefits of all classes of members (for example active and deferred) and beneficiaries and include:</p> <ul style="list-style-type: none"> <li>• Bulk transfers in and out</li> <li>• Member fund switches and redirections</li> <li>• Receipt of contributions</li> <li>• Member unitisation and investment of contributions</li> <li>• Investment and disinvestment of scheme assets</li> <li>• Individual transfers in and out</li> <li>• Benefits payable on death</li> <li>• Purchase of annuities and payments of lump sums</li> </ul> <p>Trustees need to make sure that core scheme financial transactions are managed, taking into account the high volume of transactions.</p> <p><b>Risk</b> – Members’ benefits are at risk if there are delays or administration errors that are made when processing key member events such as retirement, fund switches, receipt and investment of contributions.</p>	<p>30 <b>Contributions, benefit payments, investment transactions and calculations and related income and expenditure are completely and accurately processed in a timely manner and recorded in the proper period.</b> Trustees must establish and operate adequate internal controls<sup>7</sup> to ensure that all core scheme financial transactions are processed promptly and accurately, even where this has been outsourced.</p> <p>Where the processing of core scheme financial transactions are outsourced, trustees should describe how they monitor these outsourced activities and should ask their service providers to demonstrate how their arrangements ensure that the Master Trust meets relevant legal and regulatory requirements in relation to those services provided. The service provider may, for example, prepare an internal controls report covering the general control environment under which the Master Trust’s outsourced services operate which may be used by the trustees.</p> <p>Where member assets or entitlements are unitised (whether by the Master Trusts or external service provider) controls should include a reconciliation of member units (between those records held by the administrator and the unit allocations held by fund managers). This should be undertaken at least on a monthly basis and following contribution and switching exercises.</p> <p>31 <b>Contributions are invested in accordance with member instructions or the default policy.</b> Trustees should have controls in place to check whether there is a matching transaction for each contribution recorded and that the contribution has been invested at least within five working days<sup>8</sup> of receipt of monies and relevant data.</p> <p>32 <b>Transaction errors are rectified and members are treated fairly as a result of that rectification.</b> Where core scheme financial transactions are not processed promptly and accurately, there is an agreed and transparent resolution process for errors including how members’ funds will be adjusted. Trustees should ensure that arrangements are in place to fully fund the cost of administrative errors that might reasonably be expected to affect member benefits, for example financial resources and/or insurance policies maintained by administrators to fund the cost of addressing maladministration, and regularly assess the suitability of these arrangements.</p>	<p>Trustees will ensure that core scheme financial transactions are processed promptly and accurately (27).</p>

7 Section 249A of the Pensions Act 2004.

8 As suggested in the Regulator’s DC code of practice.

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<p><b>Receipt of contributions</b></p> <p>Trustees must collect contributions in accordance with the Payment Schedule and within legal due dates.</p> <p><b>Risk</b> – Member benefits are at risk if the employer is not making the required contributions and the trustees do not pursue the outstanding amounts.</p>	<p>33 <b>Late and inaccurate contributions are pursued and resolved.</b> Trustees monitor contributions on an ongoing basis, in accordance with the Regulator’s code on reporting late payment of contributions, so that they are able to report to the Regulator where they identify that a material payment failure has arisen. Trustees have a duty to check that contributions falling to be paid under the scheme rules are taken into the scheme in accordance with the payment schedule and have a duty to seek to recover any outstanding payments and debts to the scheme.</p>	<p>Trustees will take appropriate steps to monitor contributions and resolve contributions which have not been paid in accordance with the payment schedule in full on or before the due date (26).</p>
<p><b>Retirement process</b></p> <p>Members need to take advantage of retirement options that optimises the conversion of their fund into a pension which offers the most suitable level of income at retirement. Master Trusts may offer use of annuities offered by related companies, but should also ensure that all retirement products, including the availability of the open market option, are clearly and fairly presented.</p> <p>Trustees need to be confident that retirement processes help streamline the retirement process effectively and enable members to select a retirement product that best suits an individual member’s circumstances.</p> <p><b>Risk</b> – Members choose a sub-optimal retirement product offering a lower income at retirement than other options available.</p>	<p>34 <b>Retirements are managed in accordance with a documented process which is regularly reviewed and approved.</b> Trustees should produce a documented retirement process taking into account requirements set out in the Regulator’s DC regulatory guidance, for example key activities and who is responsible and timeframes.</p> <p>35 <b>Retirement products selected by members are monitored and the range of retirement products made available is reviewed regularly for ongoing suitability.</b> Trustees need to be confident that the retirement process enables, as far as reasonable possible, members to select a product that optimises their retirement income. Prior to execution trustees should determine (as far as reasonably possible) whether members are taking advantage of the full range of options.</p> <p>Trustees should review the design and operation of the retirement process at least every three years and monitor data that shows the range of retirement products selected by members at retirement.</p> <p>36 <b>Members are regularly made aware of their investment choices, the importance of reviewing the suitability of their investment choices and that their level of contributions is a key factor in determining the overall size of their pension fund.</b></p>	<p>Trustees will ensure that a process is provided which helps members to optimise their income at retirement (29).</p> <p>Trustees will ensure that members are regularly informed that their level of contributions is a key factor in determining the overall size of their pension fund (23).</p> <p>Trustees will ensure that members are regularly made aware of their current investment strategy and what this means for them (16).</p>
<p><b>Communications</b></p> <p>To help members understand their pension and make informed investment related decisions, trustees should ensure that information is accurate, clear, concise and engaging. Members need quality information to help choose the most suitable product at retirement; highlighting advantages and disadvantages of different products.</p> <p><b>Risk</b> – Information provided is overwhelming and does not help members make important decisions on a timely basis.</p>	<p>37 <b>Scheme communications are accurate, clear and understandable and are produced in accordance with a documented communications plan. The plan is regularly reviewed and monitored.</b> The communications plan should include:</p> <ul style="list-style-type: none"> <li>• The process for assessing the accuracy and quality of communications.</li> <li>• The process for gauging whether communications are understandable and engaging.</li> <li>• The frequency of communications.</li> <li>• Information requirements for different member at different stages of the pensions lifecycle.</li> <li>• The timescales for reviewing all communications.</li> </ul> <p>38 <b>Communications contain information to support the decisions members need to make at retirement.</b> Trustees communicate relevant information at the right time to support the decisions members need to make at retirement. The timing of information sent to members to help inform retirement decisions should take into account the communication timeframes (throughout the scheme lifecycle) set out in the Regulator’s DC regulatory guidance.</p>	<p>Trustees will ensure that scheme communication is accurate, clear, understandable and engaging and it addresses the needs of members from joining to retirement (31).</p> <p>Trustees will clearly communicate to members the options available at retirement in a way which supports them in choosing the option most appropriate to their circumstances (30).</p>

# Appendix 2: Example paragraphs from the report by the trustees of the Master Trust

The following text contains example paragraphs from an illustrative trustees' assertion.

As trustees of [name of Master Trust], we are responsible for the identification of control objectives relating to governance and administration in the operation of the Master Trust and the design, implementation and operation of the control procedures to provide reasonable assurance that the control objectives are achieved. Those objectives are derived from the DC code of practice and DC regulatory guidance.

In carrying out those responsibilities, we have regard not only to the interest of employers (who have entrusted their employees' DC contributions to the Master Trust, or are considering doing so) and members of the Master Trust but also to the needs of the trust business and the general effectiveness and efficiency of the relevant operations.

We have evaluated the effectiveness of the [name of Master Trust]'s control procedures having regard to ICAEW's Technical Release AAF 02/07 including its Master Trusts Supplement and the control objectives set out therein. [Details of any omissions of control objectives included in this Supplement to be referred to here.]

We set out in this report a description of the relevant control procedures together with the related control objectives which operated during the period [x] to [y] and confirm that:

- (a) the report describes fairly the control procedures that relate to the control objectives referred to above which were in place throughout the period [date] to [date];
- (b) the control procedures described were suitably designed throughout the period [x] to [y] such that there is reasonable assurance that the specified control objectives would be achieved if the described control procedures were complied with satisfactorily; and
- (c) the control procedures described were operating with sufficient effectiveness to provide reasonable assurance that the related control objectives were achieved during the specified period.

Trustee

Date

Signed on behalf of the trustees of [name of Master Trustee]

# Appendix 3: A pro forma practitioner's assurance report on the internal control procedures of the Master Trust

Practitioners issue an assurance report in a form suitable for the specific engagement. The report below is adapted from a pro forma assurance report (ii) (a) Appendix 2 of AAF 02/07 for the purpose of reporting in relation to the Master Trust's control objectives related to its governance and administration as set out in the Master Trust's report.

## Independent practitioner's assurance report on the governance and administration control procedures of Master Trusts

To xxxxx (See AAF 02/07 for wording)

### Use of report

Example wordings to describe applicable restrictions on the use of the report, together with supporting guidance on alternative forms of engagement and associated duties of care arising, are set out in AAF 02/07, Appendix 2 (ii). However, restrictions should not exclude the use of the report by customers of the Master Trust who wish to obtain a better understanding of the governance and administration arrangements at the Master Trust.

### Scope

We have been engaged to report on the trustees' of the [name of Master Trust]'s description of its governance and administration control procedures throughout the period [date] to [date] and on the suitability of the design and operating effectiveness of the control procedures stated in the description.

### Trustees' responsibilities

The trustees' responsibilities and assertions are set out on page [ ] of your report. The control objectives stated in the description include those control objectives set out in the Master Trusts Supplement to AAF 02/07 that are considered relevant by the trustees.

### Our responsibilities

Our responsibility is to form an independent opinion, based on the work carried out in relation to the control procedures of [name of Master Trust] as described in your report and report this to you. We conducted our engagement in accordance with International Standard on Assurance Engagements (ISAE) 3000 and with ICAEW Technical Release AAF 02/07 including its Master Trusts Supplement. ISAE 3000 and AAF 02/07 require, among other things, that we comply with ethical and other professional requirements.

We plan and perform our procedures to obtain reasonable assurance about whether, in all material respects, the description is fairly presented and the control procedures are suitably designed and operating effectively. The criteria against which the control procedures were evaluated are the control objectives developed for the Master Trusts as set out within the Master Trusts Supplement to AAF 02/07 and identified by the trustees as control objectives to be applied for the purpose of governance and administration.

Our work involved performing procedures to obtain evidence about the presentation of the trustees' description of the governance and administration control procedures and the design and operating effectiveness of those control procedures. Our procedures include assessing the risks that the description is not fairly presented, and that the controls procedures were not suitably designed or operating effectively. Our procedures also included testing the operating effectiveness of those control procedures that we considered necessary to obtain reasonable assurance that the control objectives stated in the description were achieved. An assurance engagement of this type also included evaluating the overall presentation of the description, the suitability of the control objectives stated therein.

## Inherent limitations

The trustees' description of control procedures was prepared to meet the common needs of a broad range of users and may not, therefore, include every aspect of control procedures that may be relevant to each employer company or member of the Master Trust. Also, because of their nature, control procedures may not prevent or detect and correct all errors or omissions in performing governance or administration activities.

Our opinion is based on historical information. The projection of any evaluation of the fairness of the presentation of the description, or opinion about the suitability of the design or operating effectiveness of the control procedures to future periods would be inappropriate.

## Opinion

In our opinion, in all material respects:

- (i) the accompanying Master Trust's report fairly presents the control procedures that relate to the control objectives referred to above which were in place throughout the period [date] to [date];
- (ii) the control procedures described on pages [ ] to [ ] were suitably designed to provide reasonable, but not absolute, assurance that the specified control objectives would have been achieved if the described control procedures operated effectively throughout the period; and
- (iii) the control procedures that were tested were operating with sufficient effectiveness to provide reasonable but not absolute assurance that the related control objectives were achieved throughout the period [date] to [date].

[Name of firm]

Chartered accountants

[Location]

[Date]

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