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Assurance reporting on Master Trusts (Master Trust Supplement to ICAEW AAF 02/07)

Amended 30 November 2016

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FOREWORD

1. This updated Master Trust Supplement to ICAEW AAF 02/07 (the 'Supplement'), produced in association with the Pensions Regulator (the Regulator), addresses assurance reporting on governance control procedures established by trustees of Relevant Multi-employer Schemes (referred to as Master Trusts throughout this Supplement) and takes into account changes made by the Regulator in response to new legalisation and regulatory developments.
2. 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.
3. References to trustees throughout this document includes individually appointed trustees and Independent Trustee companies as well as corporate trustees.
4. The Regulator's original DC Code of Practice and DC regulatory Guidance (published in November 2013 and April 2014 respectively) formed the basis of the control objectives referred to in the previous Supplement published in May 2014. These regulatory documents were designed around a number of DC quality features that described those activities, behaviours and control processes that were considered to be more likely to deliver good member outcomes. It was with these DC quality features in mind, that the control objectives in the original Supplement were drafted.
5. Since this date new legislation addressing minimum quality standards has enabled the Regulator to strengthen its approach to scheme governance and administration through the development of standards of conduct and practice as set out in its revised DC code and relevant DC Guides published by the Regulator which came into effect in July 2016. The Regulator expects both the DC Code and DC guides to be read in conjunction with each other.
6. In response to these legal reforms, the revised DC Code and related DC Guides are no longer structured specifically around quality features. It is the Regulator's view that these should now be well established features and 'principles' of governance which should be present in all DC schemes, including Master Trusts, and therefore remain firm aspects of good governance.
7. As a direct consequence of this, presentational changes have been made to this Supplement and references and alignment with DC quality features previously included in the original Supplement have been removed. A number of control objectives have also been refined, although the impact on the nature of control procedures needed to fulfil these objectives is not significant.
8. This Supplement is effective for Type 2 reports produced for reporting periods commencing after 31 December 2016 and Type 1 reports (see paragraph 23) that fall after the same date. Arrangements for Master Trusts transitioning from the original Supplement to the updated Supplement are considered in paragraphs 25 to 27.
9. To help employers select suitable qualifying schemes for automatic enrolment, the Regulator now maintains a list of master trusts that have appropriately obtained master trust assurance and have met other eligibility criteria, as outlined on their website. Completion of the master trust assurance report in accordance with requirements set out in this Supplement within timeframes set out by the Regulator is just one of the requirements

to be met in order to be added and remain on the master trust list maintained by the Regulator.

10. Reporting Accountants should be aware of, and understand, their clients aspirations in respect of obtaining a master trust assurance report and carefully consider who the report may be made available to. Intended users of the report are considered further in paragraphs 36 to 38.
11. This Supplement will continue to be kept under review in light of any other regulatory or legislative changes.

ABOUT THIS SUPPLEMENT

12. This Supplement consists of:
 - assurance reporting on governance control procedures established by trustees of Master Trusts;
 - guidance for practitioners;
 - Appendix 1: Control objectives on the governance 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 governance control procedures of the Master Trust.
13. This Supplement has been produced in association with the Regulator. The focus of the assurance framework is specifically in relation to governance control procedures established and operated by the trustees of the Master Trust in relation to each of the control objectives set out in Appendix 1.
14. The assurance framework used for this Supplement is AAF 02/07 entitled “A Framework for assurance reports on third party operations”. 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. AAF 02/07 sets out principal matters relevant to the determination of suitable criteria and hence control objectives to be used as evaluation criteria.
15. The assurance framework helps trustees demonstrate their accountabilities and help evidence the presence of standards of governance that the Regulator believes are attributable to a well-run scheme and are more likely to result in better outcomes for pension scheme members.
16. The trustees engage independent practitioners to issue an independent assurance report whereby:
 - the trustee’s report on the description, design, and operating effectiveness of the governance control procedures established by the trustees of the Master Trust related to the control objectives set out in Appendix 1; and
 - practitioners undertake procedures in order to issue a reasonable assurance report on the description, design and operating effectiveness of the relevant governance control procedures related to those control objectives established by the trustees of the Master Trust.
17. The report therefore comprises a trustees’ report on the governance control procedures and arrangements established by the trustees of the Master Trust supported by an independent assurance report over the description, design and effective operation of governance control procedures established by the trustees of the Master Trust in accordance with a defined set of control objectives.
18. This Supplement sets out what is expected from reports provided on specified control procedures based on control objectives which are aligned with legal requirements and standards of governance expected by the Regulator, as set out in the revised DC code and related DC Guides published by the Regulator in July 2016. The governance control procedures established by the trustees of the Master Trust are assessed in the light of all the control objectives that are set out in Appendix 1.
19. 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 DC Code and

related DC Guides and to add further objectives and supporting control procedures if appropriate.

20. It is expected that trustees of Master Trusts will report on all the control objectives set out in Appendix 1 of this Supplement. If certain control objectives are not relevant to the master trust and are therefore omitted, this is explained in the report by the trustees of the Master Trust (see Appendix 2) and highlighted in the independent practitioners' assurance report where disclosure of the omission together with an explanation has not been provided in the report by the trustees of the Master Trust (see paragraphs 63 to 65). Suitable governance control procedures established by trustees will vary from Master Trust to Master Trust.
21. Practical guidelines in the Regulator's DC code and related DC Guides should form the primary basis of guidance for trustees when establishing governance control procedures, as well as reference material for independent practitioners when undertaking Master Trust assurance engagements.
22. The subject matter of the assurance reporting envisaged by this guidance may be either: (a) the description and design of the governance control procedures established by the trustees of the Master Trust and their operating effectiveness over a period of time (Type 2 report); or (b) the description and design of governance control procedures established by the trustees of the Master Trust only at the point in time specified (Type 1 report).
23. The guidance that follows assumes that the report will cover a period of time. However a report on governance 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 governance control procedures to enable them to be evidenced. In some cases the governance control procedures may take time to develop and implement so a point in time engagement provides an interim assurance solution.
24. Trustees may wish to provide a report that covers a period of time that aligns Master Trust assurance reporting with their financial accounting period and statutory audit.

EFFECTIVE DATE AND TRANSITIONAL ARRANGEMENTS

25. This revised Supplement is effective for all Type 2 reporting periods commencing after 31 December 2016 and Type 1 reports that fall after this date. The Regulator expects Master Trusts to adopt this revised Supplement in accordance with these timescales.
26. Where possible, early adoption of this revised Supplement is encouraged. However, for Master Trusts that are in the process of or have already reported under the previous Supplement, the following transitional arrangements apply:
 - a. Type 1 reports dated after 31 December 2016 applicable to Master Trusts newly adopting the framework should adopt this revised Supplement. However, if significant work has already commenced at the date this revised Supplement was published it may be justifiable to prepare the report using the previous Supplement, although a note to this effect should be included in the report by the trustees. All subsequent Type 2 reports should adopt the revised Supplement.
 - b. Type 2 reports whose reporting periods straddle the 31 December 2016, for example 31 March 2017 reporting year ends, are encouraged to adopt this revised Supplement, although if a significant level of work has already been undertaken, trustees may decide to prepare the report under the previous Supplement. In this example, subsequent Type 2 reports should be prepared in accordance with this revised Supplement.
27. It is important to note that the revised DC code and related DC Guides came into effect in July 2016, superseding the previous DC code and DC regulatory guidance. Trustees adopting this revised Supplement and control objectives, and independent practitioners, should be familiar with the requirements in the new regulatory material underpinning this Supplement.

ASSURANCE REPORTING ON GOVERNANCE CONTROL PROCEDURES ESTABLISHED BY TRUSTEES OF MASTER TRUSTS

The responsibility of trustees of the Master Trust

28. Trustees of the Master Trust evaluate their governance control procedures, and related scheme operations, at all stages of the pension life-cycle by reference to all the control objectives set out in Appendix 1 and relevant legal requirements and standards of governance as set out in the Regulator's DC code and related DC Guides.

Assurance reporting on the trustees governance control procedures

29. 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.
30. 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

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

Responsible party

32. 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 of the Master Trust.
33. The trustees of the Master Trust prepare a written report setting out their responsibilities and describing the governance control procedures established by the trustees of 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 governance control procedures established by the trustees. When making this assertion in their report, the trustees state that it is referring to all the control objectives in this Supplement. Where this is not the case the trustees should explain this and the reason why a control objective has been omitted or a new control objective included in their assertion.
34. Example paragraphs from an illustrative trustees' statement are set out in Appendix 2.
35. The trustees of the Master Trust communicate to the practitioner the purpose of their report and the associated assurance reporting needed.

Intended users

36. The intended users of an AAF 02/07 report are typically expected to be employers who have entrusted their employees' contributions to the Master Trust, or are considering doing so (i.e. actual or potential customers of the Master Trust). It should also be recognised that the Regulator is likely to be an intended user where the master trust is seeking to go on, and remain on, the Regulator's master trust list (see paragraph 9). Depending on the purpose of reporting by the trustees of a Master Trust, the intended users would vary, and Reporting Accountants should determine who the intended users are likely to be at the outset.
37. It is also acknowledged that scheme members may also want to read the report, but are not generally expected to be a typical intended user.
38. 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. Assurance reporting should also help increase the confidence of current and prospective users.

Practitioner

39. The practitioner performs the assurance engagement on the Master Trust's governance control procedures established by the trustees of the Master Trust. 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).
40. 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

41. The subject matter in assurance reporting envisaged in this Supplement is the governance control procedures established by the trustees of the Master Trust. The trustees prepare a written report describing the governance 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 all the control objectives as set out in this Supplement and further control objectives deemed relevant to the governance of the Master Trust, see paragraph 50 below.
42. Where aspects of governance (including certain administrative activities) 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).
43. This assurance report would form part of the evidence of the trustees' monitoring of those outsourced activities when determining standards of governance established by the trustees of the Master Trust.

Suitable criteria

44. All the control objectives in Appendix 1 are considered to be suitable criteria for the evaluation of the governance control procedures established by the trustees of the Master Trust in so far as they:
 - address key risks to members in DC schemes; and
 - are complete and appropriate to the functions and provision of Master Trust services.
45. 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 governance control procedures where appropriate.
46. The trustees of the Master Trust describe their governance control procedures for a set of associated control objectives. The trustees explain in their report how the governance control procedures relate to the control objectives.
47. 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. This would include any new control objectives introduced by the trustees of the Master Trust. If it is not amended the practitioner considers the need to state that fact in their report.
48. 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 included in their statement. An example where this could occur is where governance 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.
49. Suitable governance control procedures will vary from Master Trust to Master Trust therefore 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 trustees of the Master Trust apply additional control objectives

50. Relevant control objectives that trustees need to have regard to are detailed in Appendix 1. However, the trustees may include additional objectives if they consider them to be relevant and appropriate. If this is the case the trustee should report this fact in their trustee statement.

Other information provided by trustees of Master Trusts

51. The trustees of a Master Trust may include in their report information that is not a part of the description of control objectives and associated governance control procedures.
52. 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

53. The trustees of the Master Trust are responsible for providing information to practitioners on specific governance control procedures in place to meet the control objectives, to help the practitioner obtain sufficient evidence. Where the practitioners are unable to test a described governance 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

54. 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).
55. 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.
56. Practitioners note that they are governed by ethical and quality control requirements as set out in AAF 02/07 (paragraphs 51–56) and ISAE 3000.

Assurance report

57. Practitioners conclude on the fairness of the description and the design and operating effectiveness of governance control procedures in relation to a specified reporting period. The practitioners' conclusion is expressed in a written assurance report attached to the trustees' report.
58. 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.
59. A pro-forma practitioners' assurance report on the governance control procedures established by the trustees of the Master Trust is available in Appendix 3.

Assurance reporting limitations

60. Governance control procedures have inherent limitations and accordingly errors and irregularities may occur and not be detected. Also governance 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. Conclusions reached by the Reporting Accountant are based on historical information and the projection of any information or conclusions in the report to any future periods would be inappropriate.
61. The Master Trust assurance framework is designed to provide reasonable assurance over the design, description and operational effectiveness of specific governance control procedures established by the trustees. The scope of engagement terms and work undertaken by the Reporting Accountant will be set out in the terms of engagement which should be appended to the report.

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

62. Practitioners discuss with the trustees when they become aware that the control objectives in place are not in accordance with all 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.
63. Where specified control objectives are omitted, trustees should give an explanation. The trustees should adopt the same approach if control objectives additional to those in Appendix 1 are included. If the trustees do not do so the practitioners add an explanation in the assurance report identifying additional or inappropriate control objective(s) to draw the attention of the intended users.
64. Practitioners note that it is the responsibility of the trustees and not the practitioners to ensure the completeness and the reasonableness of governance control procedures. Although practitioners may qualify their conclusion on the fairness of the description of control procedures, for example where governance control procedures are not clearly described or are misstated, this does not necessarily affect the suitability of design or operating effectiveness of the governance control procedures.
65. Where governance 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 governance 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.
66. Where practitioners conclude that a set of governance 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 governance control procedures. If the practitioners determine that governance 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 their conclusion.
67. Where practitioners' tests identify exceptions to the operating effectiveness of the governance 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 objectives or issue an adverse opinion.
68. 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: CONTROL OBJECTIVES ADDRESSING GOVERNANCE ARRANGEMENTS ESTABLISHED BY TRUSTEES OF MASTER TRUSTS

This Appendix sets out those control objectives that should be adopted by trustees of Master Trusts (Table 1) for the purposes of reporting under this Supplement which were developed in association with the Regulator.

The control objectives in Table 1 are not intended to be exhaustive. However, they represent the minimum set of control objectives for Master Trust assurance reporting purposes. It remains the responsibility of the trustees to ensure that the described control objectives are sufficient to meet standards of governance the Regulator would expect, as described in the Regulator's DC code of practice¹ and related DC Guides² published in July 2016.

Practical guidelines in each of these documents should form the primary basis of guidance for trustees when implementing governance control procedures applicable to the control objectives, as well as reference material for independent practitioners when undertaking Master Trust assurance engagements.

The governance control procedures established by the trustees of the Master Trust should be evaluated against all the control objectives to the extent that the trustees consider that they are relevant to their Master Trust activities.

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 trustees determine that the control objective is not relevant to their Master Trust.

Where control objectives set out in Table 1 are not included, the trustees of the Master Trust should in all cases explain in their report the fact and reasons for the omission.

For the purpose of being added to the Regulator's list of Master Trusts that have obtained Master Trust assurance services, among other things the trustees should ensure that, where relevant, in the introductory section of the report there is a summary of any exceptions, and in more serious cases any modifications, to the Reporting Accountant's assurance report (see paragraph 9).

¹ <http://www.thepensionsregulator.gov.uk/codes/code-governance-administration-occupational-dc-trust-based-schemes.aspx>

² <http://www.thepensionsregulator.gov.uk/guidance/guidance-dc-schemes.aspx>

Table 1 – The Master Trust assurance framework minimum set of control objectives

Value for members

Assessing value for members

1. A value for money assessment is undertaken annually and the process followed is documented and approved. The assessment should include value to members derived from scheme management and governance, administration, investment governance and communications.

Management of costs and charges

2. Disclosure of information to members of costs and charges (rates (%) and/or amounts (£)) are complete and accurate.

Investment governance

Protection of assets

3. Scheme and member assets or entitlements are safeguarded from loss, misappropriation and unauthorised use. Financial protection and compensation available to members in the event of a default is assessed and documented.
4. The design and on-going suitability of the default arrangement and range and risk profile of other investment options are regularly reviewed and monitored. This review is documented and the investment aims and objectives for the arrangement and investment policies for all investment options are included in an approved Statement of Investment Principles.
5. The performance of each investment option including the default arrangement(s) in which member funds are invested are regularly reviewed and monitored against objectives in the Statement of Investment Principles. This review is documented and approved.

The trustee board

6. Fitness and propriety requirements for trustees are recorded and managed in accordance with a policy which is regularly reviewed and approved. The fitness and propriety of trustees is reviewed prior to appointment and annually thereafter. This review is documented and approved.

Scheme management skills

7. Conflicts of interest are subject to ongoing monitoring and are identified, recorded and managed in accordance with a defined policy which is regularly reviewed and approved.
8. Trustee levels of knowledge and understanding are managed and maintained in accordance with an approved training and development plan. This plan is regularly reviewed and updated.
9. A business/resource plan is maintained, that sets out when scheme related activities are due to take place or be completed, and regularly reviewed to ensure that resources are available and allocated.
10. Roles, responsibilities and duties of all trustees, advisers and service providers are documented and the performance and quality of their service is subject to regular documented reviews. The suitability of advisers and service providers is reviewed against criteria before appointment and this review is documented.
11. Discontinuance plans, which address how member assets or entitlements are safeguarded in the event of the Master Trust or any key service provider failing, defaulting or transferring ownership, are documented, approved and maintained.
12. A risk management framework is established to identify, evaluate and treat scheme risks. Risks are recorded in a risk register which is reviewed at least annually.

Administration

Core financial transactions

13. Core financial transactions are processed promptly and accurately.
14. Contributions are invested and allocated in accordance with member instructions or the requirements of the default arrangement.
15. Transaction errors are identified and rectified.
16. Cash is safeguarded and all payments are suitably authorised and controlled.
17. Late and inaccurate contributions are pursued and resolved.

Business and disaster recovery

18. 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.
19. The capacity of an administration system to take on new business is assessed, approved and regularly monitored.
20. New business take-ons are properly established in accordance with Master Trust's rules and contractual arrangements.

Data quality and security

21. Member data is complete and accurate and is subject to regular data evaluation.
22. Monitoring of operations implemented to support the security of data transmissions and measures implemented to mitigate the threat of malicious electronic attack are regularly reviewed and documented.
23. Physical and logical access to computer systems, and member and Master Trust records and data, is restricted to authorised persons.
24. IT equipment is maintained in a controlled environment and the maintenance and development of systems, applications and software is authorised, tested, approved and implemented.

Communication and reporting

25. Retirements are managed in accordance with a documented process which is regularly reviewed and approved.
26. Member communications are accurate, clear and understandable and are produced in accordance with a communications plan. The plan is regularly reviewed and monitored.
27. Member communications contain information to support the decisions members need to make at retirement.

APPENDIX 2: EXAMPLE PARAGRAPHS FROM THE REPORT BY THE TRUSTEES OF THE MASTER TRUST

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

As trustees of [name of Master Trust], we are responsible for the identification of control objectives relating to the governance of the Master Trust and for establishing governance control procedures that provide reasonable assurance that the control objectives are achieved. Those control objectives are derived from standards of governance set out in the Regulators DC code of practice and DC guides.

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 governance 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 along with control objectives that are additional to those included in Table 1 above.]

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

- (a) the report describes fairly the governance control procedures established by the trustees that relate to the control objectives referred to above which were in place throughout the period [date] to [date];
- (b) the governance 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 governance control procedures were complied with satisfactorily; and
- (c) the governance control procedures described were operating with sufficient effectiveness to provide reasonable assurance that the related control objectives were achieved throughout 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 GOVERNANCE CONTROL PROCEDURES ESTABLISHED BY THE TRUSTEES OF MASTER TRUSTS

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 as set out in the trustees' report.

Independent practitioner's assurance report on the governance control procedures established by trustees 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 arrangements established by the trustees of the Master Trust.

Scope

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

Trustees' responsibilities

The trustees' responsibilities and statement 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 governance control procedures established by the trustees 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 governance control procedures were suitably designed and operating effectively. The criteria against which the control procedures were evaluated are the control objectives developed for Master Trusts as set out within the Master Trust Supplement to AAF 02/07 and identified by the trustees as control objectives to be applied for the purpose of governance.

Our work involved performing procedures to obtain evidence about the presentation of the trustees' description of the governance control procedures and the design and operating effectiveness of those governance control procedures. Our procedures include assessing the risks that the description is not fairly presented, and that the governance control procedures were not suitably designed or operating effectively. Our procedures also included testing the operating effectiveness of those governance 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 and the suitability of the control objectives stated therein.

Our independence and quality control

We have complied with the independence and other ethical requirements of the 'Code of Ethics for Professional Accountants' issued by the International Ethics Standards Board for Accountants which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firm applies International Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control, including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Inherent limitations

The trustees' description of governance control procedures was prepared to meet the common needs of a broad range of users and may not, therefore, include every aspect of the governance control procedures that may be relevant to each participating employer or member of the Master Trust. Also, because of their nature, governance control procedures may not prevent or detect and correct all errors or omissions in performing governance 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 governance 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 governance control procedures established by the trustees that relate to the control objectives referred to above which were in place throughout the period [date] to [date];
- (ii) the governance control procedures established by the trustees 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 governance control procedures operated effectively throughout the period; and
- (iii) the governance control procedures established by the trustees 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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