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**Submitted via email to:**

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**Dear TPR Powers Policy Team,**

The Chartered Institute of Internal Auditors (Chartered IIA) welcomes the opportunity to respond to the Department for Work and Pensions' consultation, *Trust-based pension schemes: Trustees and governance, building a stronger future*. The Chartered IIA is the professional body for internal auditors in the UK and Ireland, representing around 10,000 members working across all sectors. We advocate for effective governance, risk management and internal control, and promote the critical role of internal audit in contributing to these aims, including within trust-based pension schemes.

Internal audit provides independent and objective assurance to boards and governing bodies on the effectiveness of governance, risk management and internal control frameworks. It helps those responsible for oversight understand whether key risks are being properly identified, managed and mitigated, and whether controls are operating as intended. Where a company runs a trust-based pension scheme and has an appropriately positioned and resourced internal audit function, trustees can use this independent insight to strengthen oversight of pension scheme management risks and gain assurance over wider organisational risks that may ultimately affect the performance and security of members' pensions.

At present, the Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA) require financial services companies providing contract-based pension schemes and master trust schemes that fall under their remit to establish and maintain internal audit functions as part of their governance framework. By contrast, companies that run trust-based occupational pension schemes and some master trust arrangements regulated by The Pensions Regulator (TPR) are not subject to an equivalent requirement. As a result, trust-based pension schemes may be subject to weaker internal audit and governance requirements depending on the regulator overseeing them.

High-profile corporate collapses have illustrated how governance and control weaknesses can have serious consequences for employees and their pensions. Many of these corporate collapses were also characterised by the absence of an internal audit function. The collapse of BHS revealed significant governance failings, including the absence of an internal audit function, and left a pension deficit of over £570 million, affecting thousands of members. Similarly, Patisserie Valerie's collapse after the discovery of a significant accounting fraud resulted in job losses and left employees' pensions at risk. In both cases, the absence of an appropriately positioned and resourced internal audit function may have meant that

boards and audit committees did not receive sufficient independent assurance over the effectiveness of governance, risk management and internal control systems and processes. Had such a function been in place, it might have identified these weaknesses earlier and made appropriate recommendations, potentially reducing the risk to employees' pensions. These examples highlight the importance of independent assurance in helping to identify and address governance and control weaknesses at an early stage, before they can affect the security of members' benefits.

We recommend that internal audit should be established as a regulatory expectation for large trust-based pension schemes and master trust schemes. There is an opportunity, through secondary legislation, to amend the Pensions Act 2004 to include a proportionate requirement for companies running their own trust-based pension schemes to have an internal audit function. In addition, the provisions on internal audit within TPR's Code of Practice should be strengthened to set clearer expectations in this area.

We believe this consultation provides an important opportunity to help address this long-standing regulatory gap. Strengthening expectations around internal audit within trust-based pension arrangements, while remaining proportionate to scheme size and complexity, would support trustees in demonstrating that their governance, risk management and internal control frameworks are operating effectively and consistently. This would also help ensure that trust-based schemes offering similar levels of member exposure are supported by comparable levels of oversight, contributing to stronger governance and better pension investment outcomes.

We have responded to the consultation questions most closely aligned with our expertise. Our comments focus on how internal audit can provide trustees with an objective evaluation of governance, risk management and internal control processes. We also emphasise the importance of proportionality and flexibility, recognising that trust-based pension arrangements differ in size and complexity, and that expectations around assurance should reflect this diversity while still promoting clear accountability and strong governance.

We would welcome further discussion on any of the points raised in our response. We are happy for our response to be published.

**Yours sincerely,**



**Gavin Hayes**  
**Head of Policy and Public Affairs**

## **Chartered Institute of Internal Auditors' Response to the DWP Consultation: Trust-based pension schemes: Trustees and governance, building a stronger future.**

### **Questions responses:**

#### **1. What do you think works well in the current trusteeship and governance system?**

The Chartered IIA recognises that the current trusteeship framework, underpinned by legislation and TPR's General Code of Practice, provides a sound foundation for governance of pension schemes. Governance arrangements work well where there is clear accountability, structured oversight and effective risk management. We believe that when this is supported by a strong internal control and assurance framework, including an appropriately positioned and resourced internal audit function, trustees are better equipped to make informed decisions in an increasingly complex regulatory and commercial environment.

From an internal audit perspective, governance arrangements are strongest where trustees have access to an appropriately positioned and resourced internal audit function. Internal audit provides independent and objective assurance on governance, risk management and internal controls. It can provide assurance on the risks and controls specific to the pension scheme, as well as on broader business-critical risks within the wider organisation. If those wider risks are not properly identified, managed or mitigated, and the company fails as a result, the pension scheme may also be put at risk. Corporate failures in recent years demonstrate how weaknesses in governance and internal controls can have consequences for pension schemes and their members. By offering insight into how risks are being managed and where control weaknesses or gaps may lie, internal audit can support stronger oversight and, in turn, can better protect members' pensions.

However, internal audit is not applied consistently across all pension arrangements. Companies that run trust-based occupational pension schemes and some master trust scheme arrangements are not required by TPR to maintain an independent internal audit function. This differs from the position for FCA and PRA-regulated firms providing contract-based pensions, where internal audit forms an integral part of the governance framework and is a regulatory requirement set out in the FCA Handbook and PRA Rulebook.

Section 249A of the Pensions Act 2004 requires governing bodies of pension schemes to establish and operate an effective system of governance, including internal controls, proportionate to the size, nature and complexity of the scheme. In our view, that system is strengthened where independent and objective assurance, provided by internal audit, forms part of the governance framework.

There is an opportunity, through secondary legislation, to amend the Pensions Act 2004 to include a proportionate requirement for companies running their own trust-based pension schemes to have an internal audit function.

Alternatively, this could be addressed through strengthening the wording on internal audit in the TPR Code of Practice. The existing TPR Code of Practice refers to internal audit but does not set a clear expectation that schemes should establish or maintain access to an internal audit function. Below is suggested wording that could be incorporated within the Code to strengthen expectations in this area:

### ***Proposed Amendments to the TPR Code of Practice on Internal Audit***

***Some governing bodies may have access to internal auditors within a participating employer or within the scheme, who can provide scrutiny comparable to an independent external assessment. The scope and nature of internal audit work can be tailored to meet the governing body's requirements. This type of audit may include financial and non-financial processes and controls. To support effective governance and internal controls, it is best practice for a participating employer or scheme to establish and maintain an internal audit capability, accessible to the governing body, where appropriate and proportionate to the nature, scale, and complexity of its business and activities. This internal audit capability can be delivered through an in-house or an outsourced internal audit function. Internal auditors should adhere to professional standards, including the International Professional Practices Framework and the Chartered Institute of Internal Auditors' Internal Audit Code of Practice. When selecting a suitable internal auditor, the governing body should consider:***

- ***the candidate's independence***
- ***any actual or potential conflicts of interest (see Conflicts of interest)***
- ***the candidate's knowledge of the subject***

***If you do not have access to internal auditors, it is recommended that governing bodies:***

- ***regularly review whether internal audit is needed and if it is required work with the participating employer or scheme to secure internal audit capabilities.***
- ***have other appropriate ways to independently assure the effectiveness of the system of governance and internal controls.***

***Note: Not all internal auditors within a sponsoring employer will have sufficient pensions knowledge to perform an adequate assessment of all scheme operations.***

## **2. What are the barriers to good trusteeship?**

The Chartered IIA believes that a key barrier to stronger trusteeship is the absence of clear and consistent regulatory expectations around internal audit for organisations operating trust-based occupational pension schemes. Where trustees do not have access to internal audit, and where independent and objective assurance is not embedded within governance arrangements, trustees may lack the structured insight needed to demonstrate that governance, risk management and internal controls are functioning as intended and that members' pensions are being protected.

One barrier is the uneven availability of internal audit across trust-based pension schemes. Trustees may receive regular reporting on scheme operations and performance. However, without access to an appropriately positioned and resourced internal audit function, they may lack clear insight into whether governance arrangements and internal controls are genuinely operating effectively in practice. As schemes become larger and arrangements more complex, the need for independent assurance becomes more important.

Furthermore, where the company of a trust-based pension scheme does not maintain an internal audit function, the board and audit committee may not receive sufficient independent and objective assurance over business-critical risks and the controls used to manage and mitigate those risks. High-profile corporate failures demonstrate how weaknesses in governance and internal controls, when not identified or challenged early, can escalate quickly. In the case of BHS, the company's collapse revealed serious governance failings, including the absence of an internal audit function, and left behind a pension deficit of more than £570 million. Similarly, Patisserie Valerie collapsed following a significant accounting fraud. In both cases, there was no internal audit function in place to provide independent and objective assurance over key financial controls and risk management processes. Had such a function been in place, it might have identified these weaknesses earlier and made appropriate recommendations, potentially reducing the risk to employees' pensions.

This risk applies to pension schemes. Where the governing body of a trust-based pension scheme itself does not have access to internal audit capability, trustees may lack independent and objective assurance over the governance, risk management and internal controls specific to the scheme. Without that independent evaluation, trustees may find it more difficult to evidence effective oversight or to identify weaknesses before they place members' pensions at risk. This inconsistency creates a regulatory gap. Where internal audit is not an established expectation, access to independent assurance depends on organisational choice rather than the scale of pension liabilities or the potential impact on members. For larger organisations operating their own trust-based occupational pension schemes, this weaker governance and oversight has the potential to result in sub-optimal outcomes for savers.

Finally, the consultation highlights that trustee capability requirements are increasing, and a broader skillset is required, especially around risk and controls. Senior internal auditors routinely operate at the board and audit committee level, assessing governance frameworks, risk management and internal controls across large organisations. The internal audit profession, therefore, represents a significant source of governance expertise that could help strengthen trusteeship, both through clearer expectations around assurance and through individuals with relevant governance experience contributing to governing bodies and trustee boards.

### **3. Looking ahead to 2030 and beyond, what further support will trustees need to ensure effective scheme governance?**

The Chartered IIA believes that pension schemes of comparable size and significance should not be subject to different internal audit and governance requirements simply because they operate under different regulatory regimes. To address this gap and support trustees further, they will need access to an appropriately positioned and resourced internal audit function as an integral part of their governance framework, particularly as pension schemes continue to grow in size and manage increasingly significant pension liabilities.

As set out in our previous responses, independent and objective assurance strengthens trustees' ability to demonstrate that governance, risk management and internal controls are operating effectively. Looking ahead to 2030 and beyond, trustees will increasingly be responsible for overseeing larger and more complex arrangements. In that context, structured and independent assurance will be central to maintaining strong oversight and protecting members' pensions.

As schemes grow in size and manage increasingly significant pension liabilities, the difference in internal audit requirements between TPR-regulated trust-based schemes and FCA- and PRA-regulated pension providers becomes more difficult to justify.

Looking ahead, internal audit should be established as a regulatory requirement for trust-based pension schemes and master trusts, applied where appropriate and proportionate, taking into account the nature, scale and complexity of the scheme — for example, by requiring schemes without an internal audit function to review annually whether one is needed. Aligning internal audit expectations more closely with the approach taken by the FCA and PRA would address the current regulatory gap and help ensure that schemes of comparable scale and member exposure are supported by a consistent level of independent assurance.

As set out in our response to question 1, this could be supported by amending the Pensions Act 2004 through secondary legislation to better reflect the role of internal audit. In addition, the TPR Code of Practice should be strengthened to set a clear expectation that such schemes maintain access to independent and objective internal audit assurance or review annually the need for internal audit where a function is not in place.

Applied proportionately, this would ensure that schemes with comparable risk profiles and size are supported by appropriately robust and consistent governance and oversight of internal control and risk management arrangements.

#### **4. Does effective scheme governance in a Megafund require additional support or any specific changes in regulatory approach?**

The Chartered Institute of Internal Auditors considers that effective governance in Megafunds does require additional regulatory support to ensure that governance, risk management and internal control arrangements are working as intended, given the scale of assets managed and the potential impact on millions of savers. Specifically, we believe that given their scale, Megafunds should be required to have access to internal audit.

Megafunds will manage significant assets on behalf of millions of pension savers. In schemes of this scale, trustees must be able to demonstrate that governance, risk management and internal controls are functioning as intended in practice. For arrangements of this size, independent and objective internal audit assurance should not be discretionary. It should form part of the core governance framework.

Internal audit can support trustees by evaluating whether key governance processes, risk management arrangements and internal controls are working as intended, including in areas such as regulatory compliance, conflicts of interest and the oversight of outsourced activities. This strengthens trustee oversight and supports informed decision-making in members' interests.

There is currently a two-tier approach to internal audit expectations across pension arrangements. Given the scale of Megafunds, maintaining that position would mean that some of the largest trust-based schemes in the market could operate without the level of independent assurance that is expected in comparable regulated environments.

Introducing a clear regulatory expectation for internal audit in Megafunds would strengthen existing governance arrangements and provide greater consistency. It would support trustees in demonstrating that robust governance and internal control arrangements are in place, proportionate to the scale and significance of the scheme. There is an opportunity to support this through amending the Pensions Act 2004 via secondary legislation, alongside strengthening the provisions on internal audit within TPR's Code of Practice.

**5. Can you describe any potential or actual conflicts of interest that stem from the provision of further services within professional trustee firms and other third-party providers? How are these conflicts managed now? What is the scale of the residual risk in the market?**

The Chartered IIA recognises that conflicts of interest can arise where professional trustee firms provide services beyond the core trustee role, such as administration and investment oversight services. For example, where a professional trustee firm also provides investment oversight services to the scheme, there is a risk that the oversight of that service may not be subject to the same level of independent scrutiny as would apply to an external provider.

Trustees are already subject to requirements under TPR's General Code of Practice in appointing and managing advisers and service providers, and all trustees are required to manage conflicts of interest. However, these requirements alone do not provide assurance that conflicts of interest are being effectively managed in practice. An independent internal audit function can evaluate whether appropriate processes have been followed when appointing and monitoring service providers, whether conflicts of interest are being properly identified, managed and mitigated, and whether the controls in place around these processes are functioning effectively. The Chartered IIA does not seek to comment on the overall scale of residual risk in the market.

**6. Are additional safeguards needed to effectively manage these risks, given the need to balance members' interests with effective scheme management?**

The Chartered IIA believes that additional prescriptive safeguards are not necessarily required to manage the risks identified in question 5, including those arising from the provision of further services by professional trustee firms. Instead, an appropriately positioned and resourced internal audit function can itself act as a key safeguard by providing independent and objective assurance over the governance, risk management and internal control arrangements that are already in place.

Where a trust-based pension scheme has access to internal audit, it can act as an additional safeguard by evaluating whether existing governance arrangements are working as intended, including whether conflicts of interest are being properly identified, managed and mitigated, and whether the scheme is operating in compliance with TPR's General Code of Practice.

As highlighted previously, the use of internal audit across trust-based pension schemes is inconsistent. For companies operating their own trust-based occupational pension schemes and some master trusts, access to independent internal audit assurance remains discretionary. There is an opportunity, through secondary legislation, to amend the Pensions Act 2004 to include a proportionate requirement for trust-based pension schemes, including professional trustee firms, to have access to an internal audit function.

In addition, the provisions on internal audit within TPR's Code of Practice should be strengthened to set clearer expectations in this area.

A proportionate safeguard would therefore be to introduce clearer expectations that trust-based schemes should have access to internal audit capability. Any such expectation should be proportionate to the size, scale and complexity of the scheme. This internal audit capability can be delivered through an in-house or an outsourced internal audit function.

Clarifying internal audit expectations in this way would strengthen existing safeguards while maintaining flexibility. It would support trustees in demonstrating that governance, risk management and internal control arrangements are functioning effectively in practice.

**9. If the Government introduced an enhanced code of practice for sole trustees, what specifically would you like to see included? Do you think existing codes of practice (TPR Code of Practice) already cover some or all of this?**

The Chartered IIA supports enhancements to the Code of Practice for sole trustees where these strengthen governance and provide greater clarity around how sole trustees demonstrate that governance, risk management and internal control arrangements are operating effectively in practice.

The Chartered IIA notes that the existing TPR Code of Practice refers to internal audit as part of the governance framework on internal controls, but does not require the participating employer or the schemes themselves to ensure access to internal audit. As a result, access to independent internal audit assurance remains discretionary. In addition, it does not set clear expectations around how internal audit should be considered within sole trustee structures, where legal responsibility for governance and decision-making rests with a single trustee rather than a trustee board.

An enhanced Code could therefore provide an opportunity to set out clear guidance on how sole trustees obtain independent assurance over governance, risk management and internal controls. This should remain proportionate, but it should set out expectations that reflect the concentration of responsibility within sole trustee models. Below is suggested wording that could be included within an enhanced Code of Practice for trustees.

**Proposed New Code Section on Internal Audit (for Sole Trustees)**

***In a sole trustee arrangement, legal responsibility for governance and decision-making rests with a single trustee rather than a trustee board. In such structures, appropriate independent assurance over the system of governance and internal controls is particularly important.***

***Some sole trustees may have access to internal auditors within a participating employer or within the scheme who can provide independent and objective assurance over financial and non-financial processes and controls. The scope and nature of internal audit work can be tailored to meet the needs of the sole trustee.***

***To support effective governance and internal controls, it is best practice for a scheme operating under a sole trustee arrangement to establish and maintain access to an internal audit capability,***

*where appropriate and proportionate to the nature, scale and complexity of the scheme and its activities.*

*Internal auditors should adhere to recognised professional standards, including the International Professional Practices Framework and the Chartered Institute of Internal Auditors' Internal Audit Code of Practice.*

*When selecting a suitable internal auditor, the sole trustee should consider:*

- *the candidate's independence*
- *any actual or potential conflicts of interest (see Conflicts of interest)*
- *the candidate's knowledge of the subject*

*If a sole trustee does not have access to internal auditors, it is recommended that they:*

- *regularly review whether internal audit is needed and, where required, secure appropriate internal audit capability*
- *have other appropriate ways to independently assure the effectiveness of the system of governance and internal controls.*

***Note: Not all internal auditors within a participating employer will have sufficient pensions knowledge to perform an adequate assessment of all scheme operations.***

Strengthening guidance in this way would complement the existing TPR Code of Practice by clarifying how independent assurance can be obtained within sole trustee structures, while retaining flexibility for schemes of different sizes and complexity.

In addition, any amendment to the Pensions Act 2004 through secondary legislation to better reflect the role of internal audit would further support this by helping to ensure that sole trustees have access to independent internal audit assurance. This is particularly important where governance responsibility is concentrated in a single trustee.

The Chartered IIA would be pleased to support the Department in the development of guidance relating to internal audit within any enhanced Code.