A report on the internal controls of NEST, prepared by NEST Corporation, to which is appended an assurance report on internal controls for the period 1 August 2015 to 31 March 2016 prepared by KPMG LLP (the reporting accountants) solely for NEST Corporation (the Reporting accountants’ report) is available for viewing subject to the following terms: The Reporting accountants’ report has been prepared on a confidential basis in accordance with terms of engagement agreed by the customer with the reporting accountants. Following a request by NEST Corporation, the reporting accountants have exceptionally agreed to the posting of the Reporting accountants’ report on this website, on the basis set out in this notice, to enable readers to verify that a report relating to the internal controls of NEST and prepared in accordance with the framework set out by the Institute of Chartered Accountants in England and Wales in Technical Release AAF 02/07 A framework for assurance reports on third party operations as supplemented by the Master Trust Supplement, has been commissioned by NEST Corporation and issued by the reporting accountants, subject to the remaining paragraphs of this notice, to which readers’ attention is drawn.

The reporting accountants wish readers to be aware that the reporting accountants’ work for NEST Corporation was designed solely to meet their agreed requirements and was determined by their needs at the time.

The Reporting accountants’ report should not be regarded as suitable to be used or relied on by any reader wishing to acquire any rights against the reporting accountants other than NEST Corporation for any purpose or in any context. In consenting to the posting of the Reporting accountants’ report on this website, the reporting accountants do not accept or assume any responsibility to any readers other than NEST Corporation in respect of the reporting accountants’ work for NEST Corporation, the Reporting accountants’ report, or any opinions that the reporting accountants may have formed and, to the fullest extent permitted by law, the reporting accountants will accept no liability in respect of any such matters to any readers other than the NEST Corporation. Should any readers other than the NEST Corporation choose to rely on the Reporting accountants’ report, they will do so at their own risk.
NEST Corporation
AAF 02/07 report
Internal controls of the master trust for the reporting period 1 August 2015 to 31 March 2016
Introduction from the Chair

I’m pleased to present this second assurance report on internal controls relating to the National Employment Savings Trust (NEST) pension scheme (the scheme).

This report assesses how our internal controls have operated during the period 1 August 2015 to 31 March 2016. NEST Corporation has been set up by the government especially for auto enrolment. We make sure that every employer has access to a workplace pension scheme that meets the requirements of the new pension rules, but we do more than just meet the regulatory minimum. NEST is designed to make auto enrolment straightforward, whether you’re a member saving with NEST, an employer using the scheme for your workers, or a professional helping your employer clients.

At NEST we take governance extremely seriously. Auto enrolment is bringing millions of people into workplace pension saving, many for the first time. It’s important that we do all that we can to build and safeguard confidence in pensions for this new generation of savers. Robust governance standards that are clearly implemented across the industry are one step towards this goal and the AAF 02/07 master trust assurance framework, developed by the Institute of Chartered Accountants in England and Wales (ICAEW) and the Pensions Regulator (TPR), enables an independent assessment of how NEST Corporation operates against these standards. Another of the standards, the Pensions Quality Mark (PQM) READY status, was achieved by NEST in January 2014 and is reviewed on an annual basis. This means that employers choosing us for their workers can be assured that they’re getting a scheme with good governance, low charges and clear member communication.

NEST Corporation’s first report against the AAF 02/07 framework independently assessed the design of our internal controls and was published in October 2015 with an effective date of 31 July 2015. It built upon the excellent foundations set by the governance statement we published in 2014 which detailed how we delivered the scheme against the defined contribution (DC) quality features identified by TPR in the Code of Practice for the Governance and Administration of Defined Contribution Trust Based Schemes. This second AAF 02/07 report goes a step further than the first report and demonstrates how the operation of the NEST scheme is effective in meeting these requirements over a period of time. KPMG conducted this assessment of how we exercise our internal controls over a period of time and this report confirms that all the control objectives set out in the AAF guidance were met for the reporting period. We believe that the publication of this document so soon after our initial report demonstrates our continued commitment to excellence in scheme governance.
Introduction from the Chairman

It’s important for our customers and members to understand that this assurance report forms part of our overall governance framework and is undertaken thoroughly, transparently and in accordance with best practice. Everything we do is focused on our members’ interests. That’s why we’ve made sure this report delivers value for money for our members and we’ll build on the lessons learned from the output of this report to continue to develop our control framework which is designed to deliver good member outcomes.

We hope that this will contribute towards building a safer and more secure pension saving landscape for the automatically enrolled generation. We look forward to supporting millions more members in saving confidently for their retirement.

This report considers the control framework between 1 August 2015 and 31 March 2016. It’s been prepared in accordance with the Institute of Chartered Accountants in England and Wales (ICAEW) master trust supplement to AAF 02/07.

We summarise the 38 control objectives from the master trust supplement in the chapter Summary of control objectives. We then demonstrate the processes and controls that we use to meet these objectives in the chapter Description of procedures and controls. These processes and controls have been tested, and reported on, by KPMG LLP.

This report looks at the controls operated by NEST Corporation over the affairs of the master trust, and not the operational controls performed on our behalf by third parties such as our scheme administrator, Tata Consultancy Services (TCS).
As Trustee of NEST Corporation, we’re responsible for the identification of control objectives relating to governance and administration in the operation of NEST and the design and implementation of the control procedures to provide reasonable assurance that the control objectives are achieved. These objectives are derived from the defined contribution (DC) code of practice and DC regulatory guidance and are set out in the Institute of Chartered Accountants England and Wales (ICAEW) Technical Release: Assurance reporting on master trusts (Master Trust Supplement to ICAEW AAF 02/07).

In carrying out those responsibilities we have regard to the interests of employers and members of NEST, the needs of the trust business and the general effectiveness and efficiency of the relevant operations.

We have evaluated the effectiveness of NEST’s control procedures having regard to the ICAEW’s Technical Release AAF 02/07 and the criteria for master trusts set out therein.

We set out in this report a description of the relevant control procedures together with the related control objectives which operated over the period 1 August 2015 to 31 March 2016 and confirm that:

- the report describes fairly the control procedures that relate to the control objectives referred to above which were in place
- the control procedures described are suitably designed and operated such that there is reasonable assurance that the specified control objectives would be achieved if the described control procedures were complied with satisfactorily
- the control procedures described were operating with sufficient effectiveness to provide reasonable assurance that the related control objectives were achieved during the specified period.

The result of the review of these controls is set out in the Reporting accountant’s report, forming section six of this document. We confirm that there were three instances where the controls did not operate in accordance with the process for one of the items in each of the samples tested. In each instance the reporting accountant did not consider any of these exceptions to be of material significance or representative of a thematic gap in relation to the overall operational effectiveness of these controls and were satisfied with the management response provided.

Otto Thoresen
Chair of NEST Corporation
29 June 2016
Signed on behalf of National Employment Savings Trust
Controls assurance framework

Organisation overview
NEST is a trust-based occupational pension scheme set up in 2010 to support the government’s pension reforms. Designed to make auto enrolment easier for employers and their workers, NEST offers easy online access, clear communications, high quality governance and an award-winning investment strategy.

NEST Corporation is the Trustee of NEST (the Trustee), made up of a Chair, a deputy chair and up to 13 Trustee Members. As Trustee, NEST Corporation has a duty to run the scheme in the best interests of its members. Currently, Trustee Members are appointed by the Secretary of State for Work and Pensions in line with public appointments guidance that promotes selection on the basis of merit, fairness and openness. Under the Pensions Act 2008, the Trustee receives guidance from a Members’ Panel that represents the member’s perspective of the scheme, and an Employers’ Panel that represents participating employers. The Trustee consults the panels on matters to do with the operation and development of the scheme. It also consults the panels when specifically required to by legislation, for example when making changes to the NEST rules.

Unlike any other occupational pension scheme trustee, NEST’s Trustee has a public service obligation (PSO) to accept any employer who wishes to use NEST to meet its employer duties. An employer just needs to agree to the terms and conditions of the scheme and use the scheme in line with these terms and conditions. Employer terms and conditions are reviewed at least once a year and as necessary following a change to relevant legislation.

Members enrolled into the scheme have access to their own individual, secure online member account. Once logged in, they can review their personal details, make additional contributions, change their investment fund and cease contributions. A member can continue using NEST throughout their working life, regardless of a change of employment or personal circumstances.

Since the staging process for auto enrolment began in October 2012, NEST Corporation has enrolled almost 3 million members into the scheme from over 60,000 employers.

Restrictions
The Pensions Act 2008 placed certain restrictions on the NEST scheme. One of these is an annual contribution limit. This is reviewed each year and updated in line with the average earnings index following a formula set out in the NEST rules. This limit will be removed completely from 1 April 2017. There are currently restrictions on transfers into and out of the scheme which will also be removed on 1 April 2017.

Charges
There’s no charge for employers to set up or use NEST. There’s also no charge for delegates acting on behalf of an employer, for example a third party that the employer has asked to administer the scheme for them. The scheme has the same charges for all members, no matter who their employer is, what their level of contributions is or which retirement fund they invest in. These charges are made up of two parts:

- a contribution charge of 1.8 per cent on each new contribution into a member’s retirement fund
- an annual management charge (AMC) of 0.3 per cent on the total value of a member’s fund each year, which is reflected in the unit price.

Every three years, the Trustee also produces a ‘value for money’ report. This brings together information from investment reports and market data to assess the quality of service provided against the costs and charges applied to the membership. This report was last published in 2015 and is available on the NEST website.

NEST Corporation’s operating model
NEST Corporation operates an outsourced business model. As a non-departmental public body (NDPB) operating at arm’s length from the government, NEST Corporation is subject to the Public Contracts Regulations 2015. It has incorporated robust procurement processes for this reason.
NEST Corporation has outsourced many of the key services in relation to running the scheme. This report focuses on the controls operated by NEST Corporation over the affairs of NEST, including monitoring the operational controls performed by the third parties. These operational controls aren’t included in this report because they’re the responsibility of the third party service providers and are included in their own internal controls reports. The main operations outsourced to the third party service providers by NEST include, but aren’t limited to:

**Scheme administration:** Tata Consultancy Services (TCS)
Includes setting up new employers, maintenance of member records, processing contributions and paying member benefits.

**Fund administration:** State Street Bank (SSB or Fund Administrator)
The set of activities supporting the running of the investment funds we offer members. It includes directing the right contributions to the right investment managers and working out the unit prices of the scheme’s funds.

**Fund management**
Managing the investments used by NEST Corporation as building blocks to make up the investment funds we offer members:

- Global developed equities - UBS Global Asset Management
- Global real estate equities - Legal & General Investment Management
- Sterling liquidity (money market investments) - BlackRock
- Sterling corporate bonds - Royal London Asset Management
- UK gilts - Legal & General Investment Management
- UK gilts - State Street Global Advisors
- UK index-linked gilts - State Street Global Advisors
- Global emerging market equities - Northern Trust Global Investment
- Global emerging market equities - HSBC Global Asset Management
- Sharia-compliant global developed equities - HSBC Global Asset Management
- Global ethical developed equities - F&C Investments
- Ethical sterling corporate bonds - F&C Investments
- Direct UK commercial property - Legal & General Investment Management
- Emerging markets debt - Amundi Asset Management

**Market recognition**
NEST has been awarded a 4 Star Rating in the auto enrolment pension category from the leading independent financial research company, Defaqto. Their ratings are designed to show the level and quality of features and benefits in a financial product to help people make better financial decisions. The 4 Star Rating indicates that NEST provides a high quality offering in the auto enrolment market. NEST has also received awards for our market-leading approach to communications, the NEST Connect service for intermediaries helping their employers with auto enrolment, our investment approach and has recently been voted Best Master Trust at the Corporate Adviser awards 2016.
Organisational structure
NEST Corporation is sponsored by the Department for Work and Pensions (DWP). Although it’s accountable to Parliament through the DWP, it acts at arm’s length from government and is largely independent in its day-to-day operations.

NEST Corporation’s powers are defined by four authorities:

- the Pensions Act 2008 which sets out its functions and powers as a body corporate
- the scheme order which sets out its powers as a Trustee
- trust and pensions legislation
- common law.

There is also a set of scheme rules that outline further Trustee powers and duties.

When taking a decision, NEST Corporation must be clear that it has the power to do so and reference the source of that power.

The Trustee
The Trustee comprises a Chair, a deputy chair and up to 13 other Trustee Members. The Trustee meets regularly throughout the year to agree strategy, monitor performance, explore issues relevant to the governance and administration of the scheme and make decisions. Dates for the meetings are agreed up to a year in advance and follow a formal agenda. Each year, the Trustee carries out a board effectiveness review for the Trustee board as a whole, and also for each of its committees that exercise delegated power. At least every three years, the Trustee effectiveness review is carried out by an external facilitator.

Newly appointed Trustee Members are expected to complete The Pension Regulator’s ‘Trustee toolkit’. They’re also encouraged to review and identify any gaps in their knowledge and understanding at least once a year. This aims to help address any training needs and keep Trustees up to date with issues regarding the scheme’s operations and the legislative environment in which it operates. Trustee Members also regularly complete a number of internal training programmes.

Trustee Members identify, monitor and manage conflicts of interest in accordance with the conflicts of interest policy and the statutory provisions. This policy is reviewed each year.

Delegation of authority
The Trustee has a power to delegate any of its activities to its committees or the chief executive officer. A schedule of reserved powers and delegations outlines who has the authority to make decisions and is reviewed each year.

Delegation to committees
A number of committees have been established, each chaired by a Trustee Member and with representatives from the executive team in attendance. A committee meeting can’t take place unless an agreed minimum quorum of Trustee Members is achieved.

Each committee has its own terms of reference to outline its responsibilities. It also requires each committee to report back to the Trustee on the areas for which it’s responsible.
The responsibilities of each committee are:

- **Audit committee** - integrity of the financial statements for NEST Corporation and the scheme, approving and monitoring the internal control framework and the effectiveness of audit and compliance functions.

- **Determinations committee** - decision-making on the second stage of cases made through the scheme's internal dispute resolution procedure, ensuring that the processes for dealing with disputes are fit for purpose, determining on these cases.

- **Investment committee** - recommending to the Trustee the overall investment strategy and any changes to the investment approach or the funds made available to members. Also monitoring investment performance and operational investment risks.

- **Nominations and governance committee** - leading the recruitment for the appointment of the CEO of NEST Corporation, supporting and assisting with recruitment of Trustee Members by the Secretary of State, ensuring sound corporate governance within NEST Corporation.

- **Risk committee** - advising on overall risk strategy and considering all aspects of risk, and the management of those risks, that could affect NEST Corporation and the scheme.

- **Remuneration committee** - setting the remuneration of the CEO, providing advice on setting the remuneration of other employees of NEST Corporation, oversight of NEST Corporation’s organisational culture and values. The Secretary of State determines the fee levels for Trustee Members.

- **Propositions committee** - overseeing the strategic development of the scheme regarding the proposition offered to members, ensuring that the product offered meets the needs of our members, employers and target market.
Delegation to the chief executive officer (CEO)

The Trustee has delegated a number of powers to the CEO. This includes a broad power to be responsible for the efficient and effective day-to-day operation of NEST Corporation and the scheme. The CEO is supported in exercising these powers by eight accountable executives who assist with the delivery of the delegated functions. Although many powers are delegated to the CEO, the Trustee remains ultimately responsible for the operations of NEST Corporation and the scheme.

To help ensure that delegated powers are being properly exercised, the Trustee receives feedback and assurance from the CEO and the other accountable executives. This is done both directly and through its committees.
NEST people and culture

NEST Corporation recognises that its greatest asset is the people who work in the organisation. Recruitment and retention of staff and the working environment are therefore key areas of focus for the Trustee and executive team alike.

Recruitment into NEST Corporation follows a thorough employee vetting process. This is designed to ensure that the candidate displays the competence to successfully undertake a role and subscribes to NEST Corporation’s mission and values. New employees are briefed on the operation of NEST Corporation through an induction process that includes training on what’s expected of them while working in a regulated environment.

The working environment within NEST Corporation is based on a culture established in accordance with a set of ethical principles. These are explained in a Code of conduct given to all members of staff and backed up with specific policies addressing areas like:

- equality, diversity and dignity at work
- gifts and hospitality
- conflicts of interest
- conducting political activities
- competition law
- procurement
- travel and expenses
- data protection
- information security
- staff share dealing policy
- anti-bribery and corruption.

Each year, the accountable executive will seek confirmation that their team has read and understood the NEST Corporation Code of conduct.

NEST Corporation recognises it has a responsibility to foster a culture in which acting with integrity is the norm and all staff can act in an open and honest manner. This is supported by a comprehensive system of internal communication and briefing, including a weekly blog by the chief executive, which summarises some of the current NEST Corporation news and key outcomes from committees.

NEST Corporation recognises that its staff need to be well supported by management to prepare for future career development. NEST Corporation has a learning and development budget for this. It’s used to address identified training needs and also to help staff develop skills to enable them to further their careers. Ongoing assessment of competence and performance is assured by a formal annual appraisal process for staff at all levels.

Risk management framework

NEST Corporation has a risk directorate that’s responsible for establishing and embedding NEST’s risk management framework. The framework is designed to help all parts of the organisation identify, assess, manage and monitor significant risks that exist within their environment. This includes operational, financial, regulatory and compliance risks. The risk management framework is approved by the risk committee and reviewed annually to ensure it accurately reflects NEST Corporation’s risk management objectives.
Risk registers
Across the organisation, each executive director must maintain a risk register and nominate a risk coordinator. The coordinator will liaise with the risk directorate to ensure that risks are identified, included in the risk register and the risk register remains accurate.

Once a risk has been identified, it’s assessed for impact and likelihood on a scale of 1 to 5. The risk scoring matrix is made up of descriptive examples to ensure risks are rated consistently across the organisation. All risks have a named owner who’s responsible for accurately describing and rating the risk. All risks on a risk register are reviewed on an ongoing basis for continued relevance and to ensure that the risk ratings remain accurate. They’re also reviewed to take account of any additional mitigating activities that have taken place or are planned. Commitment to risk management processes at a senior level is high. NEST’s executive team are presented with a risk dashboard at least four times a year, that highlights key risks from across the organisation and outlines any key changes and areas of particular interest. The dashboard is used to initiate conversations about risk, helping to raise awareness and drive mitigation activities.

The risk committee
The risk committee is chaired and attended by Trustee Members and meets on average four times a year. The committee provides independent oversight of the risk management framework and challenges the control strategies surrounding key risks. They undertake ‘deep-dives’ and scenario analyses of specific areas of risk as a method of gaining assurance that risks are being managed effectively. The committee also receives a copy of the risk dashboard to ensure they have oversight of the highest rated risks across NEST Corporation and NEST.

Operating an outsourced model
By operating an outsourced model, NEST Corporation is able to obtain and effectively scale services from third party suppliers. NEST Corporation’s approach to its outsourcing model is designed to provide effective internal controls for investment and fund administration, scheme administration and IT.

A vital mechanism of the outsourced model is how NEST Corporation appoints, monitors and manages key service providers and suppliers to assist in delivering a quality pension scheme. NEST Corporation’s purchasing policy provides the framework for how it undertakes procurement of these key service providers and suppliers. The purchasing policy is aligned to the Public Contracts Regulations 2015 legislation. On the basis stipulated by the contractual agreement, the performance of key service providers and suppliers is assessed by the relevant business area.

Business continuity and disaster recovery plans as well as associated policies are in place, not only for NEST Corporation but also specifically for each of its key service providers. These plans are reviewed at least once a year with the aim of ensuring that they remain fit for purpose.

Investment
The investment objectives for the scheme are set out in its Statement of investment principles (SIP). The Trustee is required to prepare this document under section 35 of the Pensions Act 1995. The SIP was reviewed in April 2015 and will be reviewed every three years and whenever there’s a change in the investment approach. The Members’ and Employers’ Panels are consulted prior to any changes to the SIP.

Based on NEST Corporation’s understanding of the diverse needs of NEST membership, NEST Corporation has developed an approach to investment that offers:

- a well-constructed default strategy that has clear return objectives and a carefully managed risk profile, called the NEST Retirement Date Fund
- a selection of clearly differentiated fund choices for those who have different risk appetites, investment objectives or want an approach that matches their beliefs or faith.
The day-to-day management of NEST members’ funds is performed by external fund managers. Each manager is authorised and regulated by the Financial Conduct Authority (FCA) or the regulatory body in the country the fund is domiciled. The funds and fund managers are selected through a competitive tender process. Professional advice from the Trustee’s in-house investment team and independent external investment advisers is obtained and considered in the selection of these funds and fund managers. As part of this selection, a due diligence process is performed to ensure that the assets are invested with sufficient security and liquidity. It also makes sure that each of the fund managers is of the appropriate quality and calibre to ensure the quality and profitability of the assets.

NEST Corporation receives regular AAF 01/06 or ISAE 3402 assurance reports from the fund administrator and all of the investment managers, also referred to as fund managers. It assesses the findings of these reports to check the adequacy of suppliers’ controls and to see that these controls are being effectively operated.

The scheme management and assurance (investment admin) team monitor the performance of NEST funds on a daily basis. This activity aims to ensure that members’ money is managed responsibly. Regular monitoring by the scheme management and assurance team and the investment directorate is designed to ensure that decisions are made in the best interests of members. It also checks that the data available to the investment committee is based on accurate and complete information. Each quarter, the investment committee is presented with management information (MI) on fund performance, fund strategy and the current investment risk environment.

Administration

The administration of the scheme is outsourced to Tata Consultancy Services Limited (TCS or the scheme administrator). The scheme administration and assurance team and the scheme administrator contract manager provide assurance to the Trustee, CEO and executive team that this relationship is continuing to work effectively. They do this on an ongoing basis.

The scheme administrator’s role includes managing employer participation, enrolling members, collecting contributions, managing accounts, passing funds to and from the fund administrator and managing retirement and death processes. Each of these processes is designed by the administrator and agreed by NEST Corporation. They’re based on a set of functional specifications established by NEST Corporation and underpinned by contractual requirements to ensure the service provided is in line with market best practice.

The Trustee recognises the primary importance of making sure contributions are paid on time. As a result, together TCS and NEST Corporation have devoted significant effort to developing processes and controls to ensure contributions are received in time. They’ve also been designed to make sure that appropriate action is taken in the event that contributions are late.

The scheme administrator provides detailed feedback to NEST Corporation on a monthly basis. This aims to provide adequate assurance that services are being provided in line with levels of service that members and participating employers deserve. The scheme administrator also provides the Trustee with an annual AAF 01/06 assurance report detailing the adequacy and operation of their internal control framework.

NEST Corporation IT services and information security

The work of NEST Corporation IT and information security teams aims to ensure that NEST Corporation and its outsourced providers operate in an efficient and secure IT environment. To support this aim, all NEST Corporation IT users are required to undertake information security training. This is supported by policies on data protection, information security and records management. NEST Corporation is certified against ISO 27001.
IT infrastructure is outsourced to an external IT service specialist. Up to November 2015 this provider was Capita. Since then it has been Advance 365, who are also certified against ISO 27001. Access to the NEST Corporation IT network is through a series of logical access controls, established by NEST Corporation and administered by the outsourced provider. This is regularly reviewed to help ensure that access rights are granted appropriately.

One of the contractual responsibilities of the IT service provider is to help ensure that NEST Corporation’s systems and data are recoverable in the event of a disaster. NEST Corporation has in place polices on both business continuity management and business continuity disaster recovery which are available to all staff members. Another is to meet the appropriate recovery time objectives in place set by NEST Corporation to ensure that systems are operational following a disaster event. These arrangements are tested regularly.

Communications
NEST Corporation produces clear and concise communication materials for members and employers. Designed to be easy to understand and engaging, these communications are underpinned by NEST’s Golden rules of communication. This outlines eight principles for effective communications, such as using plain language and real life examples to bring communications to life. These have been incorporated into all our communications to help ensure they’re relevant to their audience.

For employers, there’s a suite of guidance on setting up and managing the scheme available on the NEST website, including the online help centre. There’s also a range of statutory communication templates employers can use to meet their duty to tell their workers about auto enrolment. A telephone helpdesk and live web chat facility are also available to deal instantly with their queries.

Member communications are tailored to meet their needs at each stage of their journey to retirement. On joining the scheme, members are sent a Member welcome pack to tell them the basics about saving with NEST. Among other things, this explains their investment choices and how their level of contributions is a key factor in determining the overall size of their pension fund. Each year we also send members information on their pension pot in their annual statement.

As members approach retirement we send them information on the options available to them, starting from six months before their retirement date. The Taking your money out of NEST guide is reviewed each year to make sure it’s relevant and complies with legislative and regulatory disclosure requirements.

Information relating to NEST’s costs and charges is available from the public website for any audience at any time. This information is reviewed on an annual basis to make sure it remains accurate. It’s also reviewed to make sure it takes into account guidance on pension charges from the National Association of Pension Funds (NAPF), which has recently been re-named as the Pensions and Lifetime Savings Association (PLSA).

Before a new communication is sent to an employer or member it’s subject to the marketing and creative services quality assurance process (MACS-QA). This is designed to ensure that all our communications are consistent with specified brand guidelines and messaging, as well as legislative and regulatory requirements. All NEST communications are reviewed for ongoing accuracy and completeness.
Assurance activity

Monitoring activity is carried out throughout NEST Corporation to demonstrate that the scheme is being operated in accordance with relevant legislative and regulatory requirements. This assures the Trustee, audit committee, CEO and executive team that NEST Corporation and its suppliers are managing the scheme effectively, with adequate controls in place.

NEST Corporation employs a ‘line of defence’ model for monitoring and audit functions. The first line of defence monitoring is primarily undertaken by the scheme administration assurance and investment administration teams. Their activity is designed to ensure that the activities of outsourced providers are compliant with legislation, regulation and the terms of the outsourcing contracts.

The second line of defence comes from the compliance team and specialists within the risk directorate, namely the financial crime prevention and information security teams. They provide assurance that the policies and processes within NEST Corporation are sufficient for the purposes of compliance with regulatory and legislative requirements.

The third line of defence is the internal and external audit functions and our independently tested assurance reports, such as the AAF 02/07 and ISO 27001. External audit activities of NEST Corporation are conducted by the National Audit Office (NAO) and external audit of the scheme is conducted by KPMG. To help ensure absolute independence of internal audit activity of NEST Corporation and the scheme, this function is outsourced to Ernst & Young. Both functions design and carry out an annual audit plan, reviewing the operation of NEST Corporation and the scheme, where appropriate. They also review the activities of the first and second lines of defence to help ensure that they’re carrying out their activities competently and compliantly. Both internal and external auditors have unrestricted access to any aspect of the organisation. The heads of all second and third line functions also have unrestricted access to the CEO and chair of the audit committee.

Where second or third line monitoring identifies failings in process or practice, these are thoroughly evaluated. Action points are then agreed with the appropriate member of the executive team and assigned to a named individual to resolve. Each quarter, all monitoring and audit functions throughout NEST Corporation report findings of their investigations and escalate any issues to the audit committee. Actions assigned through monitoring or audit activity are tracked. Process owners who fail to complete actions in the timeframe set by the monitoring function have to provide an explanation to the audit committee. On a regular basis, second and third line of defence functions meet to review actions arising from their monitoring work and address any common themes identified.
Summary of control objectives

Set out below is a summary of the control objectives that the Trustee of NEST has identified as being relevant to the governance and administration in the operation of NEST. Section five of this report that follows describes the procedures and controls which are designed to meet these control objectives.

Safety of assets and records

Commercial and business risks
1. 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.

Business and disaster recovery
2. 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.
3. The capacity of an administration system to take on new business is assessed, approved and regularly monitored.
4. New business take-ons are properly established in accordance with master trust’s rules and contractual arrangements.

Data quality and security
5. 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.
6. Physical and logical access to computer systems, and member and master trust records and data, is restricted to authorised persons.
7. IT equipment is maintained in a controlled environment and the maintenance and development of systems, applications and software is authorised, tested approved and implemented.

Protection of assets
8. Member assets or entitlements are safeguarded from loss, misappropriation and unauthorised use in accordance with a defined policy.
9. Cash is safeguarded and all payments are suitably authorised and controlled.
10. Financial protection available to members in the event of default is assessed and documented, and communicated to employers and members on request.
11. Investment decisions relating to the selection of investments on regulated markets and unregulated investments are researched, authorised and monitored.
Assessing value

Assessment of value for money
12. A value for money review is undertaken and this review is documented, approved and findings actioned.

Communication of costs and charges
13. A complete and accurate list of the types of costs and charges incurred by members and employers is documented, monitored and approved.

14. Disclosure of information on costs and charges borne by members is provided to employers at the point of selection and is complete and accurate.

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

Assessment of investment options

Appropriateness of the default strategies
16. The design and ongoing suitability of the default strategies is regularly reviewed and monitored. This review is documented and approved.

17. The performance of the default strategies and funds within the default strategies are regularly reviewed and monitored. This review is documented and approved.

Appropriateness of the other investment options, such as non-default strategy investment options
18. The range and risk profile of other investment options are documented, approved and regularly reviewed for suitability. This review is documented.

19. The performance of other investments options is regularly reviewed against relevant investment objectives and, where available, industry benchmarks. This review is documented and approved.

Identification of investment objectives and assessment against them
20. A complete and accurate description of all investment options is maintained and approved.

21. A Statement of Investment Principles (SIP) is documented, approved and regularly reviewed.

People

Conflicts of interest
22. Conflicts of interest are identified, recorded and managed in accordance with a defined policy which is regularly reviewed and approved.

Fit and proper trustees
23. Fitness and propriety requirements are recorded and managed in accordance with a defined policy which is regularly reviewed and approved.

24. The fitness and propriety of trustees is regularly reviewed and monitored prior to appointment and thereafter. This review is documented and approved.

25. Trustee skills and knowledge are managed and maintained in accordance with an approved training programme. The training programme is regularly reviewed and updated.
Governance
Resource planning
26. A plan is maintained and regularly reviewed to ensure that resources are properly allocated.

Scheme management
27. Roles, responsibilities and duties of all trustees, advisers and service providers are documented, approved and regularly reviewed.
28. Activities undertaken by all scheme advisers and service providers are properly managed and subject to regular performance reviews which are documented and approved.

Internal control framework
29. A risk management framework is established to identify, manage and monitor significant operational, financial, regulatory and compliance risks.

Core scheme transactions
30. 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.
31. Contributions are invested in accordance with member instructions or the default policy.
32. Transaction errors are rectified and members are treated fairly as a result of that rectification.

Receipt of contributions
33. Late and inaccurate contributions are pursued and resolved.

Retirement process
34. Retirements are managed in accordance with a documented process which is regularly reviewed and approved.
35. Retirement products selected by members are monitored and the range of retirement products made available is reviewed regularly for ongoing suitability.
36. 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.

Communications
37. Scheme communications are accurate, clear and understandable and are produced in accordance with a documented communications plan. The plan is regularly reviewed and monitored.
38. Communications contain information to support the decisions members need to make at retirement.
Description of procedures and controls

This report examines the existence, design and operation of the procedures and controls in place for the governance and administration of the scheme during the period 1 August 2015 to 31 March 2016.

The control descriptions have been drafted to be objective and factual. In accordance with best practice they contain the level of detail required to enable them to be properly verified and tested, and so reveal:

- what the control is for
- who operates the control
- how the control is operated
- the frequency of the control
- how the control is evidenced
- the results of the reporting accountant’s testing
- the management response (if applicable).

These controls are given context by detailed procedure descriptions which show how the control fits into the overall operation of NEST Corporation.

The conclusion from the reporting accountant’s testing of these controls is set out in the Reporting accountant’s report. In addition, we confirm that the results of the detailed tests in the full version include three instances where the controls had not operated in accordance with the process for all of the samples selected by the reporting accountant. In each instance the reporting accountant did not consider these testing exceptions to be of material significance or representative of a thematic gap in relation to the overall operational effectiveness of these controls and were satisfied with the management response provided. One instance related to no declarations of new interest being requested at the beginning of a committee meeting, one related to the missed executive board review of the quarterly review of the scheme administrator dashboard, and the last related to a single instance of a daily review of an exception report being performed out of sequence.

We believe that the work involved in preparing this statement serves the interest of our members by giving them independent assurance, by the reporting accountant, about our control procedures.

We have again reviewed whether we should publish the full details of our key controls and procedures, which make up this section in the full report. We remain of the view that due to the increase in risk of financial crime or data breach that full disclosure would cause it is not appropriate to make this disclosure. Making a judgement about the balance between this increase in risk and our core value of transparency, we conclude that publication would not be in members’ interests.

The full report will be made available to The Pensions Regulator. Our Members’ and Employers’ Panels will again be briefed on the control structure and findings of the review.
Reporting accountant’s report

Introduction from the Chairman

Report by the Trustee of NEST

Controls assurance framework

Summary of control objectives

Description of procedures and controls

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