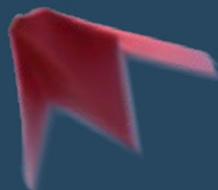




Nest Corporation AAF 02/07 report 2019

—
1 April 2018 to
31 March 2019

Internal controls of the Master Trust for the
reporting period 1 April 2018 to 31 March 2019



Introduction from the chair

I'm pleased to present our fifth control assurance report on behalf of Nest Corporation, the Trustee of the National Employment Savings Trust (Nest) pension scheme (the scheme).



Otto Thoresen
Nest Chair

This report examines the adequacy and operation of our processes and procedures for the governance and administration of the scheme over a period of time (1 April 2018 - 31 March 2019).

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.

We have seen the pensions landscape evolve in the last year, with a more rigorous Master Trust regulatory environment and implementation of the first round of increases to minimum contributions. Nest Corporation has ensured that it is well prepared to meet these new regulations, fulfil the needs of our diverse customer base and manage our growing assets under management.

At Nest we take governance extremely seriously. Auto enrolment has brought 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 is one of the most comprehensive of these standards. 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 communications.

We continue to improve the range and quality of services that we offer to members. For example, we have introduced enhanced support for transfers in and out of Nest during 2018, meaning that members can move their savings into the scheme more easily and consolidate multiple savings pots. New processes are also being developed that will make bulk transfers easier for employers who want to use Nest for their employees' pensions in the future.

Nest was one of the first schemes to complete type-1 and type-2 AAF 02/07 report against the Master Trust assurance framework, developed by The Institute of Chartered Accountants in England and Wales (ICAEW) and The Pensions Regulator (TPR). These reports provided an independent assessment of the design and operation of our internal controls against the framework. As we move into the era of a formally regulated Master Trust sector under the new Occupational Pension Schemes (Master Trusts) Regulations 2018, we expect that our continued focus on this area will stand us in good stead. The introduction of a formal authorisation and supervision regime is a welcome move to improve standards across the whole industry and to increase public confidence in workplace pensions.

This fifth AAF 02/07 report demonstrates the continued effectiveness of the design and operation of the internal control structure of the Nest scheme. Our reporting accountant KPMG conducted this assessment of how we exercise our internal controls and this report confirms that all the control objectives set out in the AAF guidance were met for the reporting period.

It's important for our customers and members to understand that this assurance report, as part of our governance assurance work, isn't just a paper exercise for us. We've undertaken it thoroughly, transparently and in accordance with best practice. Everything we do is focused on our members' interests. 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 April 2018 and 31 March 2019. It's been prepared in accordance with the Institute of Chartered Accountants in England and Wales (ICAEW) Master Trust supplement to AAF 02/07 standard.

We summarise the 27 control objectives from the Master Trust supplement in section 4. We then demonstrate the processes and controls that we use to meet these objectives in section 5. These processes and controls have been audited, 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 Consulting Services (TCS).



Report by the Trustee of Nest

As the Trustee of Nest Corporation, we're responsible for the identification of control objectives relating to governance and administration in the operation of Nest.

We also oversee 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 **ICAEW Technical Release: Assurance reporting on Master Trusts** (Master Trust Supplement to ICAEW AAF 02/07).

In carrying out those responsibilities, we're considering not only the interests of employers and members of Nest, but also 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 against the ICAEW's Technical Release AAF 02/07 and the criteria for Master Trusts set out within it.

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 April 2018 to 31 March 2019 and confirm that:

- The report fairly describes the control procedures that were in place relating to the control objectives referred to above.
- The control procedures described are suitably designed and operated so that there is reasonable assurance that the specified control objectives would be achieved if the described control procedures were complied 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 6 of this document. In addition, we can confirm that the results of the detailed tests include one instance where the control had not operated in accordance with the approved process. Overall, the reporting accountant did not consider this testing exception to be of material significance or representative of a thematic gap in relation to the operational effectiveness of our controls. They were also satisfied with the management responses provided.

Otto Thoresen

Chair of Nest Corporation

25/06/2019

Signed on behalf of National Employment Savings Trust



We're considering not only the interests of employers and members of Nest, but also the needs of the trust business and the general effectiveness and efficiency of the relevant operations.



Controls assurance framework

1 Organisation overview

About Nest Corporation

Nest Corporation is the Trustee of the Nest pension scheme, which was established on 5 July 2010. Its role is to develop and operate the scheme. Nest Corporation's core functions are set out in the Pensions Act 2008. Nest's [Order and Rules](#) set out how the scheme will operate, see section 1.2.

Nest Corporation is a Public Corporation sponsored by the Department for Work and Pensions (DWP) and is a key component of the auto enrolment programme. Its working relationship with the DWP is set out in a framework document which was refreshed in February 2019. The function of the Trustee is to ensure that the scheme is run in the interests of its members. The [Nest Corporation annual report and accounts](#) are produced separately from this document and may be found on the Nest website.

Members and committees

As at 31 March 2019, the Nest Corporation Board, has 15 members, two of whom have day to day executive responsibilities. Collectively they are responsible for setting the strategic direction and objectives for Nest Corporation, managing the scheme and representing members' interests.

Nest Board 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. A broad range of skills, experience and knowledge are required collectively on the Trustee Board. Appointments are made in line with the Commissioner for Public Appointments' Code of Practice and Cabinet Office guidance.

All Board Members were independent at appointment having no current or previous material relationship with the organisation as an employee, officer or contractor. This is with the exception of one individual, who previously served as a Board Member of Nest Corporation between 2010 and 2015, and the two current Board Members who have Executive responsibilities as Chief Executive Officer and Chief Financial Officer.

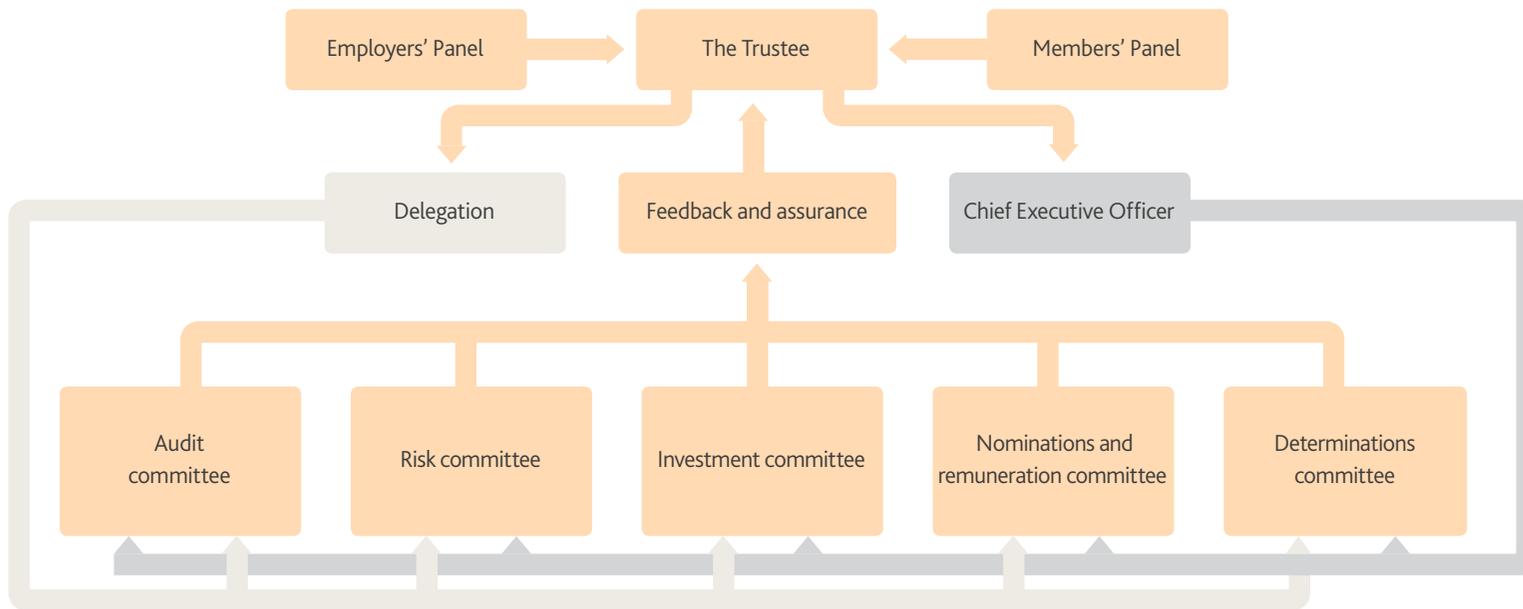
Every Board Member has completed The Pensions Regulator's Trustee Toolkit, an online learning programme. New Board Members must complete this within their first six months in addition to a detailed induction programme. All Board Members are provided with a tailored induction programme depending on their requirements, skills, qualifications and experience. The induction process includes familiarisation with the scheme's governance structure and governing documentation and provides the opportunity for new Board Members to meet key staff across the organisation.

The Trustee Board has a full working knowledge of the Nest [Order and Rules](#).

To support effective and robust decision making, the Trustee Board has established five committees. The Trustee Board and its committees take decisions that affect the scheme and ensure that the Corporation fulfils its obligations as a public body. The terms of reference for the Trustee Board and its committees are published on the Nest website. Every committee makes recommendations for approval by the Trustee Board on specific decisions and items.

In addition, the Nest Order 2010, article 8 sets out the remit for an employers' panel and a members' panel, in accordance with the requirements on the Trustee Board under the Pensions Act 2008. As requested by the Trustee Board these panels must give assistance and advice about the operation, development or amendment of the scheme.

A Scheme of Reserved Matters and Delegations outlines the matters reserved to the Trustee Board, and delegations to the committees. Decisions which are not reserved to the Trustee Board or a committee are within the authority of the Chief Executive Officer, who is responsible for the day to day operations and management of Nest Corporation and the Nest pension scheme. The Chief Executive Officer delegates authority to each member of the executive team and holds them accountable for delivery in their remit. Regular meetings of the Executive Board are chaired by the Chief Executive Officer to oversee the operation of the Corporation and the scheme, and the Chief Executive Officer provides a report to each meeting of the Trustee Board.



Nominations and remuneration committee

The primary role of the committee is to ensure the remuneration strategies and organisation culture enables Nest to attract and retain the required calibre of senior executives and provide oversight of the corporate governance processes within Nest.

Determinations committee

The determinations committee is responsible for adjudicating the disputes received about the scheme at Stage 2 of the Internal Dispute Resolution Procedure (IDRP).

The committee makes recommendations to the executive on learning outcomes from the Stage 2 IDRP disputes to help improve the effectiveness of the scheme and member experience.

Employers' Panel

The Employers' Panel was set up in accordance with the Pensions Act 2008 and Nest Order 2010 to represent participating employers by providing advice on the operation, development and amendment of the scheme. The panel has 10 members.

Members' Panel

The Members' Panel was set up in accordance with the Pensions Act 2008 and Nest Order 2010 to represent scheme members by providing advice on the operation, development and amendment of the scheme. The panel has 11 members.

Audit committee

The audit committee is responsible for monitoring the integrity of the financial statements for Nest Corporation and the scheme and the validity of the assurance given on them. It approves and monitors the internal control framework and the effectiveness of audit and compliance functions.

Risk committee

The risk committee is responsible for advising on overall risk strategy. It considers all aspects of risk, and the management of those risks that could affect Nest Corporation and the scheme.

Investment committee

The investment committee is responsible for overseeing the scheme's overall investment strategy and any changes to the investment approach or the funds made available to members. The committee also monitors investment performance and operational investment risks.

2 Nest Corporation's operating model

Nest Corporation operates an outsourced business model. As a public corporation operating at arm's length from the government, Nest Corporation is subject to the Public Contracts Regulations 2015. It has incorporated robust procurement processes.

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 provider 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:

Asset Class	Fund manager
Emerging market debt	Amundi Asset Management
Low-risk sterling liquidity	Amundi Asset Management
Dynamic risk management	Amundi Asset Management
Short duration investment grade bonds	BlackRock
Low-risk sterling liquidity	BlackRock
Ethical global equities	BMO Global Asset Management
Ethical sterling corporate bonds	BMO Global Asset Management
Commodities	Core Commodities
Global emerging markets equities (economic weights)	HSBC Global Asset Management
Sharia compliant equities	HSBC Global Asset Management
Global high yield bonds	J.P Morgan Asset Management
Global listed property	Legal & General Investment Management
Hybrid property	Legal & General Investment Management
UK direct property	Legal & General Investment Management
Short-dated gilts	Legal & General Investment Management
Global emerging market equities (ESG screening)	Northern Trust Asset Management
Sterling corporate bonds	Royal London Asset Management
Short duration investment grade bonds	Royal London Asset Management
Index-linked gilts	State Street Global Advisors
Gilts	State Street Global Advisors
Global developed equities	UBS Global Asset Management
Climate Aware Global Developed Equities	UBS Global Asset Management
Global developed equities (hedged)	UBS Global Asset Management
UK equities	UBS Global Asset Management

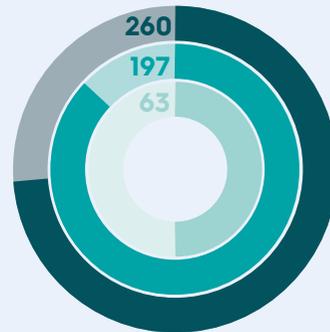
3 Market recognition

Nest has been awarded a 5 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 5 Star Rating indicates that Nest provides a high quality offering in the auto enrolment market.



ShareAction independent survey of 10 UK auto enrolment providers

Nest ranked first



- Total score (out of 352)
- Responsible investment score (out of 227)
- Communications & engagement score (out of 125)



4 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.

Nest Corporation needs to make sure that it can grow at scale to support the future development of the scheme. It does that by employing the right number and quality of employees and building an appropriate skills base through staff training and external recruitment where required. It has also continued to develop a positive working culture so that employees are motivated, empowered and treated with respect.

Recruitment into Nest Corporation follows a thorough employee vetting process. This is designed to ensure that the candidate displays the competencies 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 values. These are explained in the Nest staff handbook given to all members of staff and backed up with specific policies addressing the following areas:

- equality and diversity
- gifts and hospitality
- conflicts of interest
- conducting political activities
- competition law
- procurement
- travel and expenses
- data protection
- information security
- anti-bribery and corruption.

Each year, the accountable executive will seek confirmation that their teams have behaved in line with Nest values.

Nest Corporation recognises it has a responsibility to foster a culture where 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 through Nest Corporation's intranet site, including a weekly blog by the Chief Executive Officer summarising relevant 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 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, and all staff are encouraged to have a personal development plan.

5 Risk management framework

Nest Corporation has an enterprise risk team 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 annually by the Nest Corporation Governing Body on the recommendation of the Risk Committee 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 enterprise risk team 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 Board are presented with risk management and principal risk dashboards every quarter. They highlight key risks from across the organisation and outline any key changes and areas of particular interest. The dashboards are used to monitor principal risks and initiate conversations about risk, helping to raise awareness and drive mitigation activities.

The risk committee

The risk committee is chaired and attended by Board Members and meets on average five times a year. The committee provides independent oversight of the risk management framework and challenges the control strategies surrounding key risks. They undertake in-depth reviews 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 principal risk dashboard to ensure they have oversight of the highest rated risks across Nest Corporation and Nest. The Committee also monitor the key principal risks as identified by Nest Corporation.

6 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 2018 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 are 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 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 fund administration 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 fund administration 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.

7 Administration

The administration of the scheme is outsourced to Tata Consultancy Services Limited (TCS or 'the scheme administrator'). The scheme assurance team and the scheme administrator contract manager provide assurance to the Trustee, the Chief Executive Officer 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, TCS and Nest Corporation have together 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 if 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.

8 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, currently Advanced 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 backed up in accordance with the business continuity disaster recovery (BCDR) policy. Another is to put appropriate recovery time objectives in place to ensure that systems are operational following a disaster event. These arrangements are tested regularly.

9 Communications

Nest Corporation produces clear and concise communication materials for members and employers which are designed to be easy to understand and engaging. These communications are underpinned by Nest's [golden rules of communication](#) and brand guidelines which outline principles for effective communications, such as using plain language and real life examples to bring communications to life. We have incorporated these into 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 contact centre and live web chat facility are also available to deal with their queries.

Member communications are tailored to meet their needs at each stage of their journey to retirement. On joining the scheme, members receive a letter with a document called [Your quick guide to Nest](#) through the post. When they log in to their secure mailbox they will have a link to the [Welcome to Nest](#) PDF. Among other things, this explains the investment choices available to them and how their level of contributions is a key factor in determining the overall size of their pension pot. 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 on the Nest website for any audience at any time. This information is reviewed on an annual basis to make sure it remains accurate.

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. Nest communications are reviewed for ongoing accuracy and completeness.

10 Assurance activity

Assurance 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, Chief Executive Officer and executive team that Nest Corporation and its suppliers are managing the scheme effectively, with adequate controls in place.

Nest Corporation employs a 'three lines of defence' model for monitoring and audit functions. The first line of defence monitoring is primarily undertaken by the scheme assurance and fund 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 specialists within the risk and compliance directorate, namely the assurance team comprising of specialists in compliance, financial crime prevention and information security & data protection. 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. 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 EY. 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 Chief Executive Officer and chair of the audit committee.

Where second or third line monitoring identifies failings in process or practice, these are thoroughly investigated. Action points are then agreed with the appropriate member of the executive team or their delegate and assigned to a named individual to resolve. Each quarter, all assurance 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 must 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 5 of this report describes the procedures and controls which are designed to meet these 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 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** (SIP).

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 SIP. This review is documented and approved.

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. It is 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.



Retirements are managed in accordance with a documented process which is regularly reviewed and approved.

Nest's description of procedures and controls

This report examines the existence, design and operation of the processes and procedures in place for the governance and administration of the scheme during the period 1 April 2018 to 31 March 2019.

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 therefore 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 accountants testing, and
- the management response, if applicable.

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

The full version of this report details in 92 pages, 183 key controls over 103 control procedures, spread across the 27 control objectives set out within the Master Trust assurance framework.

The conclusion from the reporting accountant's testing of these controls is set out in the Reporting accountant's report. In addition, we can confirm that the results of the detailed tests in the full version include one instance where the control had not operated in accordance with the drafted process.

This was for one of the samples selected by the reporting accountant. For this instance, the reporting accountant did not consider this testing exception to be of material significance or representative of a thematic gap in relation to the overall operational effectiveness of this control. They were also satisfied with the management response provided. This one instance related to a review of an annual plan that was completed by a person other than the person documented in the control.

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, it is not appropriate to offer full disclosure. Making a judgement about the balance between this increase in risk and our core value of transparency, we conclude that publication is not in members' interests.

The full report will be made available to The Pensions Regulator and the Department for Work and Pensions. Our Members' and Employers' Panels will again be briefed on the control structure and findings of the review.

Reporting accountants' report



Zoom into the letter for a closer look

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25 June 2019

Dear Sirs

Independent practitioner's assurance report on the governance and administration control procedures of the National Employment Savings Trust.

In accordance with our engagement contract dated 23 June 2017 (our "Engagement Letter"), we have examined the accompanying description at pages 15 to 106 of the controls in place at the Master Trust called the National Employment Savings Trust ("Nest") and carried out procedures to enable us to form an independent conclusion on whether the Trustee of Nest have fairly described the governance and administration in the operation of the Master Trust for the period 1 April 2018 to 31 March 2019 (the "Description"), and on the design and operation of controls related to the control objectives stated in the Description. Our opinion is set out below and should be read and considered in conjunction with this report in full.

Use of report

This report is made solely for the use of the Trustee, as a body, of NEST, and solely for the purpose of reporting on the internal controls of NEST, in accordance with the terms of our engagement contract dated 23 June 2017.

Our work has been undertaken so that we might report to the Trustee those matters that we have agreed to state to them in this report and for no other purpose. Our report must not be recited or referred to in whole or in part in any other document nor made available, copied or recited to any other party, in any circumstances, without our express prior written permission.

To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Trustee as a body and NEST for our work, for this report or for the conclusions we have formed.

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25 June 2019

Scope

We have been engaged to report on the trustee's of its description of its governance and administration control procedures throughout the period 1 April 2018 to 31 March 2019 and on the suitability of the design and operating effectiveness of the control procedures stated in the description.

Trustee's responsibilities

The Trustee's responsibilities and statements are set out on page 4 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 Trustee.

Our responsibilities

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

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

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

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25 June 2019

Inherent limitations

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

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

Opinion

In our opinion, in all material respects:

- (a) the accompanying Master Trust's report fairly presents the control procedures that relate to the control objectives referred to above which were in place throughout the period 1 April 2018 to 31 March 2019;
- (b) the control procedures described in pages 15 to 106 were suitably designed to provide reasonable, but not absolute, assurance that the specified control objectives would have been achieved if the described control procedures operated effectively throughout the period; and
- (c) the control procedures that were tested were operating with sufficient effectiveness to provide reasonable, but not absolute, assurance that the related control objectives were achieved throughout the period 1 April 2018 to 31 March 2019.

Yours faithfully

KPMG LLP

KPMG LLP
Chartered Accountants
15 Canada Square
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United Kingdom
25 June 2019

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