

# Pension Board AGENDA

**DATE:** Thursday 28 March 2019

**TIME:** 6.30 pm

**VENUE:** Committee Room 5, Harrow Civic Centre, Station Road, Harrow, HA1 2XY

[NOTE: Please note start time of meeting.]

**MEMBERSHIP** (Quorum 3, including at least one Employer representative and one Scheme Member representative).

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**Chair:** Mr R Harbord

**Board Members:**

Councillor James Lee	- Harrow Council, Employer Representative
Gerald Balabanoff (VC)	- Scheme Members' Representative - Pensioners
John Royle	- Scheme Members' Representative - Active Members

**Contact:** Daksha Ghelani, Senior Democratic and Electoral Services Officer  
Tel: 020 8424 1881 Email: [daksha.ghelani@harrow.gov.uk](mailto:daksha.ghelani@harrow.gov.uk)

# Useful Information

## Meeting details:

This meeting is open to the press and public.

Directions to the Civic Centre can be found at:  
<http://www.harrow.gov.uk/site/scripts/location.php>.

## Filming / recording of meetings

The Council will audio record Public and Councillor Questions. The audio recording will be placed on the Council's website.

Please note that proceedings at this meeting may be photographed, recorded or filmed. If you choose to attend, you will be deemed to have consented to being photographed, recorded and/or filmed.

When present in the meeting room, silent mode should be enabled for all mobile devices.

## Meeting access / special requirements.

The Civic Centre is accessible to people with special needs. There are accessible toilets and lifts to meeting rooms. If you have special requirements, please contact the officer listed on the front page of this agenda.

An induction loop system for people with hearing difficulties is available. Please ask at the Security Desk on the Middlesex Floor.

**Agenda publication date: Wednesday 20 March 2019**

# AGENDA - PART I

## 1. DECLARATIONS OF INTEREST

To receive declarations of disclosable pecuniary or non pecuniary interests, arising from business to be transacted at this meeting, from:

- (a) all Members of the Committee;
- (b) all other Members present.

## 2. MINUTES (Pages 7 - 12)

That the minutes of the meeting held on 5 December 2018 be taken as read and signed as a correct record.

## 3. PUBLIC QUESTIONS \*

To receive any public questions received in accordance with Committee Procedure Rule 17.

Questions will be asked in the order in which they were received. There will be a time limit of 15 minutes for the asking and answering of public questions.

**[The deadline for receipt of public questions is 3.00 pm, Monday 25 March 2019. Questions should be sent to [publicquestions@harrow.gov.uk](mailto:publicquestions@harrow.gov.uk)**

**No person may submit more than one question].**

## 4. PETITIONS

To receive petitions (if any) submitted by members of the public/Councillors under the provisions of Committee Procedure Rule 15 (Part 4B of the Constitution).

## 5. DEPUTATIONS

To receive deputations (if any) under the provisions of Committee Procedure Rule 16 (Part 4B) of the Constitution.

## 6. MEETINGS OF THE PENSION BOARD - MUNICIPAL YEAR 2019/20

- (i) 17 July 2019 at 2.00pm (instead of 6 June 2019, as set out in the Council's Calendar)
- (ii) 26 September 2019 at 2.00pm
- (iii) 12 December 2019 at 2.00pm (instead of 13 November 2019, as set out in the Council's Calendar)
- (iv) 20 April 2020 at 2.00pm (instead of 18 March 2020, as set out in the Council's Calendar)

**7. INFORMATION REPORT - PENSION FUND COMMITTEE MEETINGS - 16 JANUARY AND 12 MARCH 2019 (Pages 13 - 20)**

Report of the Director of Finance.

**8. INFORMATION REPORT - PERFORMANCE MONITORING (Pages 21 - 26)**

Report of the Director of Finance.

**9. INFORMATION REPORT - WORK PROGRAMME 2019-20 (Pages 27 - 30)**

Report of the Director of Finance.

**10. INFORMATION REPORT - EXTERNAL AUDIT PLANS 2018/19 (Pages 31 - 50)**

Report of the Director of Finance.

**11. INFORMATION REPORT - STATUTORY GUIDANCE ON ASSET POOLING (Pages 51 - 64)**

Report of the Director of Finance.

**12. INFORMATION REPORT - ANNUAL REVIEW OF INTERNAL CONTROLS AT INVESTMENT MANAGERS (Pages 65 - 70)**

Report of the Director of Finance.

**13. ANY OTHER BUSINESS**

Which cannot otherwise be dealt with.

**14. EXCLUSION OF THE PRESS PUBLIC**

To resolve that the press and public be excluded from the meeting for the following item of business, on the grounds that it involves the likely disclosure of confidential information in breach of an obligation of confidence, or of exempt information as defined in Part I of Schedule 12A to the Local Government Act 1972:

<u>Agenda Item No</u>	<u>Title</u>	<u>Description of Exempt Information</u>
15.	Information Report - Annual Review of Internal Controls at Investment Managers - Appendix	Information relating to the financial or business affairs of any particular person (including the authority holding that information)
16.	Information Report - Local Government Scheme Pension Scheme Amendment Regulations	Information relating to the financial or business affairs of any particular person (including the authority holding that information)

## **AGENDA - PART II**

- 15. INFORMATION REPORT - ANNUAL REVIEW OF INTERNAL CONTROLS AT INVESTMENT MANAGERS** (Pages 71 - 78)

Appendix to the report of the Director of Finance at item 12 above.

- 16. INFORMATION REPORT - LOCAL GOVERNMENT SCHEME PENSION SCHEME AMENDMENT REGULATIONS** (Pages 79 - 100)

Report of the Director of Finance.

**\* DATA PROTECTION ACT NOTICE**

The Council will audio record item 4 (Public Questions) and will place the audio recording on the Council's website, which will be accessible to all.

[**Note:** The questions and answers will not be reproduced in the minutes.]

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# PENSION BOARD MINUTES

## 5 DECEMBER 2018

**Chair:** \* Mr R Harbord

**Board Members:** \* Councillor James Lee Harrow Council, Employer Representative  
\* Gerald Balabanoff (VC) Scheme Members' Representative - Pensioners  
John Royle Scheme Members' Representative - Active Members

\* Denotes Member present

### 15. Declarations of Interest

**RESOLVED:** To note that there were no declarations of interests made by Members.

### 16. Minutes

**RESOLVED:** That the minutes of the meeting held on 3 October 2018 be taken as read and signed as a correct record.

### 17. Public Questions/Petitions/Deputations

**RESOLVED:** To note that none were received.

## RESOLVED ITEMS

### 18. Information Report - Pension Fund Committee Meeting 27 November 2018

The Board received a report of the Director of Finance, which set out the matters considered by the Pension Fund Committee at its meeting on 27 November 2018.

An officer informed the Board that due to the proximity of the meetings, the minutes of the Pension Fund Committee were not available for circulation to the Board. The officer provided the following summary on the business considered at the Pension Fund Committee:

- the Fund's diversification had been achieved by investing globally;
- the Pension Fund Committee had raised concerns with PIRC's work on performance and the quality of data provided. The Board was informed that PIRC would be invited to attend the next ordinary meeting of the Committee scheduled to be held on 12 March 2019 to discuss the concerns of the Committee;
- a training session to discuss the risks in detail would be held on 16 January 2019. Members of the Board would be invited to the training as it would provide an opportunity for members to comment on the Risk Register;
- the discussion on the Local Government Pension Scheme Amendment Regulations had concentrated on the ability of employers to access surplus on exit of its members. The officer reported that, to date, one contractor had terminated its contract with Harrow and a surplus of £18,000 had been paid to the contractor. In response to questions, the officer stated that employers could potentially benefit from the volatility of the financial markets. However, if the Fund was in deficit, the contractor would have to pay back into the Fund;
- the performance of a fund manager would be discussed further at a special meeting of the Pension Fund Committee scheduled to be held on 16 January 2019;
- the process for the provision and re-procurement of Investment Consultancy Services was ongoing and the Pension Fund Committee had delegated the decision to the Director of Finance following consultation with the Chair of the Committee;
- attendance of the Chair of the Board during consideration of confidential business at meetings of the Pension Fund Committee had been raised and that the Chair of the Committee had referred to the advice previously received from HB Public Law, which the Committee needed to adhere to – Minute 272 of 7 March 2018 meeting of the Pension Fund Committee referred.



The Board expressed their concerns on the advice of HB Public Law regarding access to the private session of the Pension Fund Committee given that many other local authorities gave access. A member asked if the Board could obtain independent advice. Another member suggested that as the employer representative, he would have access to the meeting of the Committee and whether the Constitution needed amending. The Chair requested reasons from HB Public Law to be provided to the Board given that the Pension Regulator had given a view that the Board should be allowed access to such confidential papers.

The Board requested that they be advised of topics of all training sessions so that they could decide on the relevance of it for the purposes of their work area. The officer circulated a document to the Board setting out the training sessions.

**RESOLVED:** That the report be noted and HB Public Law be requested to provide the reasons why the Board could not access the private session of the Pension Fund Committee.

## **19. Information Report - Performance Monitoring**

The Board received a report of the Director of Finance, which set out the performance monitoring information for the quarter ended 30 September 2018.

An officer introduced the report and asked the Board to note that the Guaranteed Minimum Pension Reconciliation exercise had been completed and agreed with HMRC before the 31 December 2018 deadline.

The Board commended the work carried out by officers and considered it to be a great achievement, particularly as it had been completed at no cost to the Council/Fund and without reliance on external support other than incurring a small fee for the appropriate software.

The officer thanked members for their comments, which he would report back to his team. He explained that of the 9,000 records reconciled, there were 11 cases overpaid on pension increases in the Harrow scheme. These had now been corrected. The Board noted that officers had taken guidance from the HMRC on the latter and their advice had been that it was not appropriate to pursue a payback as the amounts were relatively small.

With reference to internal complaints, the Board noted that one case remained outstanding and the decision on it would be reported back to the Board.

**RESOLVED:** That the report be noted and officers be commended for their work on the project to reconcile the scheme records with the HMRC.

## **20. Information Report - Work Programme 2018-19 and Pension Board Three Year Review**

The Board received a report of the Director of Finance, which reviewed the Board's actions over the last three years and invited the Board to comment on a suggested work programme for the remainder of the Municipal Year 2018-19.

Members of the Board suggested that following matters ought to be reviewed in 2019: external audit plan, communications policy and governance issues. They also referred to the need to review the investment strategy with a view to considering the approach taken on environmental, social and governance issues.

In response to questions on the impact of Brexit on the Fund and its impact on the risk register, a document that was submitted to the Pension Fund Committee and circulated to the Board for information only, the Board was advised that the Fund's allocation and diversification within global equities would help minimise any adverse impact. Currency hedging would help manage volatility in the financial markets.

A member of the Board queried whether the ownership of the risk register ought to rest with the Pension Fund Committee instead of the Director of Finance (Section 151 Officer) on the basis that decisions on investments were made by the Committee. He acknowledged that there were a myriad of risks that ought to be owned by the Director of Finance but not those relating to investments.

The Chair stated that he would look at the guidance from CIPFA in this regard. The officer undertook to take this matter back to his Director. The officer reported that this point could also be raised at the training session to be held on 16 January 2019 prior to the special meeting of the Pension Fund Committee.

**RESOLVED:** That the report be noted, including the comments set out in the preamble above.

## **21. Information Report - Local Pension Board Governance and Administration Survey 2018**

The Board received a report of the Director of Finance on the receipt of a Public Service Governance and Administration Survey 2018 survey which had been commissioned by the Pensions Regulator and invited the Board to make comments for inclusion in the survey response.

An officer referred to the survey and highlighted the sections where the Board's input was required. Members of the Board indicated their preferences on Sections B, H, I, and J. They also suggested comments that could be included in the survey. The officer stated that a draft would be circulated to the Chair prior to it being sent to the Pensions Regulator.

**RESOLVED:** That the report be noted and that a draft of the survey response be circulated to the Chair prior to it being submitted to the Pensions Regulator.

## 22. Any Other Business

### Date and Start Time of the next meeting of the Pension Board

A member of the Board requested that the start time of the 28 March 2019 meeting of the Board be delayed to 6.30 pm. Another member stated that he had no objection to this request because it was important to ensure that a quorum was present to allow the Board to conduct its business.

Members noted that the vacancy for an employer representative (scheduled and admitted bodies) remained unfilled. An officer responded that a person had been identified but he was seeking permission before the appointment could be made by full Council.

The Chair undertook to confirm if he was available for a later start. Otherwise, the date of the meeting, including its start time, would need to be moved.

**RESOLVED:** That it be noted that the start time and/or the date of the next meeting be moved subject to the Chair's confirmation on his availability and any further consultation with members of the Board.

(Note: The meeting, having commenced at 2.00 pm, closed at 2.48 pm).

(Signed) RICHARD HARBORD  
Chair

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## **REPORT FOR: Pension Board**

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<b>Date of Meeting:</b>	28 March 2019
<b>Subject:</b>	<b>Information Report</b> - Pension Fund Committee Meetings – 16 January and 12 March 2019
<b>Responsible Officer:</b>	Dawn Calvert, Director of Finance
<b>Exempt:</b>	No
<b>Wards Affected:</b>	All
<b>Enclosures:</b>	Minutes of Pension Fund Committee 16 January 2019 (Special Meeting) 12 March 2019 (Ordinary Meeting) – To Follow

### **Section 1 – Summary**

#### **Summary**

The report sets out the matters considered by the Pension Fund Committee at the meetings on 16 January 2019 and 12 March 2019, attaches the minutes of the meetings and invites the Board to agree any comments they might wish to make to the Committee.

### **Section 2 – Report**

#### **1. Matters considered by the Pension Fund Committee at their special meeting on 16 January 2019**

- Investment manager strategy review. Pension Fund Committee agreed to disinvest from Aberdeen Standard Investments Global Absolute

Return Strategies once agreement reached on suitable alternative assets.

## 2. Matters considered by the Pension Fund Committee at their meeting on 12 March 2019

Report	Comments /Action Taken
Pension Fund Committee - Update on Regular Items	Report noted
Information Report: Quarterly Trigger Monitoring Q3 2018	Report noted .Funding level 76.2% fall reflecting fall in fund value to £800m. Recovery in January and February to £835m
Information Report: Performance Measurement Services Quarterly Review Q3 2018	Negative fund performance for quarter -4.7% Reflecting fall in equities in volatile quarter
Information Report: External Audit Plans 2018/19	Report noted see Pension Board agenda item 4
Statutory Guidance on Asset Pooling	Officers to submit consultation response – see Pension Board agenda item 5
Information Report: Annual review of investment manager internal controls	Report noted. See Pension Board agenda item 6.
Information Report: Investment Consultancy Procurement appointment	Aon appointed.
<b>Part II</b>	
London CIV Asset Pooling Investment Strategy Manager Review	<p>PFC agreed</p> <ul style="list-style-type: none"> <li>• redemption of Aberdeen Standard GARS (Circa £93m)</li> <li>• 11% Strategic allocation to London CIV Multi Asset Credit Fund managed by CQS from GARS proceeds</li> <li>• 7.5% Strategic allocation to London CIV Infrastructure Fund from Insight Investments and Cash at future drawdowns.</li> <li>• To update Investment Strategy Statement to reflect agreed changes</li> <li>• To engage with the London CIV to set out the Fund's priorities for asset pooling.</li> </ul>
Information Report: Quarter 3 2018 Investment Manager Performance Monitoring	Report noted.
LGPS Amendment Regulations	PFC agreed changes to amendment regulations and policy agreed. See exempt report 7
Independent Procurement Advisors	Committee agreed procurement process for two independent advisers contract expires July 2019.

A copy of the draft minutes of the meeting of 12 March 2019 will be tabled at the Pension Board meeting on 28<sup>th</sup> March 2019.

Training session before Pension Fund meeting –Presentation from Fund Manager –CQS on Multi Asset Credit .London CIV also attended.

### **Financial Implications**

2. Whilst this report discusses numerous matters relevant to the financial standing of the Pension Fund there are no financial implications arising directly from it.

### **Risk Management Implications**

3. Relevant risks are included in the Pension Fund Risk Register.

### **Equalities implications**

- 4 There are no direct equalities implications arising from this report.

### **Council Priorities**

5. The financial health of the Pension Fund directly affects the level of employer contribution which in turn affects the resources available for the Council's priorities.

## **Section 3 - Statutory Officer Clearance**

Name: Sharon Daniels	<input checked="" type="checkbox"/>	on behalf of the Chief Financial Officer
Date: 15 March 2019		

<b>Ward Councillors notified:</b>	<b>Not applicable</b>
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## **Section 4 - Contact Details**

**Contact:** Iain Millar, Treasury and Pensions Manager  
Tel: 0208 424 1432

## **Background Papers - None**

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# PENSION FUND COMMITTEE (SPECIAL) MINUTES

## 16 JANUARY 2019

<b>Chair:</b>	* Councillor Nitin Parekh	
<b>Councillors:</b>	* Keith Ferry (1) * Norman Stevenson	* Bharat Thakker
<b>Co-optee (Non-voting):</b>	* Howard Bluston	
<b>Trade Union Observers:</b>	John Royle	Pamela Belgrave
<b>Independent Advisers:</b>	* Mr C Robertson * Honorary Alderman R Romain	Independent Adviser Independent Adviser

\* Denotes Member present  
(1) Denotes category of Reserve Member

#### 45. Attendance by Reserve Members

**RESOLVED:** To note the attendance at this meeting of the following duly appointed Reserve Member:-

Ordinary Member

Councillor Antonio Weiss

Reserve Member

Councillor Keith Ferry

## 46. Declarations of Interest

### All Agenda Items

Councillor Norman Stevenson, member of the Committee, declared a non-pecuniary interest in that he was a Director of Cathedral Independent Financial Planning Ltd, and that he had clients who were past and present members of the Harrow Pension Scheme. His wife was a member of Harrow Council's Pension Scheme. He would remain in the room whilst the matters were considered and voted upon.

Howard Bluston, non-voting co-optee, declared non-pecuniary interests in that he had previously worked with AON Hewitt and that he knew a number of Fund Managers, including BlackRock. He added that he had clients who had invested in GARS (Global Absolute Return Strategies Fund). He would remain in the room whilst all matters were considered and make contributions.

Colin Cartwright, Aon Hewitt, declared that his wife had a small investment in GARS (Global Absolute Return Strategies Fund). He would remain in the room whilst all matters were considered and advise the Committee.

Colin Robertson, Independent Adviser, declared that he and his mother had personal investments in GARS (Global Absolute Return Strategies Fund). He would remain in the room whilst the matters were considered and make contributions.

## 47. Deputations

**RESOLVED:** To note that no deputations were received at the meeting.

## 48. Exclusion of the Press Public

**RESOLVED:** That in accordance with Part I of Schedule 12A to the Local Government Act 1972, the press and public be excluded from the meeting for the following item) for the reasons set out below:

<u>Items</u>	<u>Title</u>	<u>Reason</u>
5/6	Investment Strategy Manager Review/Information Report - Investment Manager Performance Monitoring for period ending 30 September 2018	Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person (including the authority holding that information)).

## **RESOLVED ITEMS**

## 49. Investment Strategy Manager Review

The Committee received a confidential report of the Director of Finance setting out a summary of the 'Meet the Manager' day held on 5 November

2018 and, further to the Pension Fund Committee meeting on 27 November 2018, to consider the next steps required to manage the Fund Investment Strategy and to meet the requirement to invest through the London Collective Investment Vehicle.

The Committee also received a tabled document from Aon Hewitt, Advisers to the Fund, on the potential options available for replacing GARS (Global Absolute Return Strategies) following their revised 'sell' rating for Aberdeen Standard Investments. Consideration of the tabled document would depend on the decision of the Committee that evening. It was noted that the tabled document had not been available at the time the agenda was despatched due to the need to provide the most up to date information to allow the Committee to make an informed decision.

Representatives of Aon Hewitt explained why they had advised on this course of action in relation to the Investment Manager, Aberdeen Standard Investments and outlined the options available to the Committee. They added that the Committee needed to consider if it had confidence in the Investment Manager and whether to or not to replace them. They outlined the monetary value under consideration, which was £92m, representing 11% of the total Fund.

Members of the Committee referred to the presentation they had received from the Investment Manager, Aberdeen Standard Investments, at the meeting on 27 November 2018 and the responses given following robust questioning. Representatives of Aon Hewitt referred to the workings of the organisation, including how it operated, its direction of travel and its ability to navigate volatile markets. A Member of the Committee pointed out that the performance of the Fund had changed. Members also received advice from the Independent Advisers and the Co-optee serving on the Committee.

Following a lengthy discussion and upon receipt of further advice from the Independent Advisers, representatives of Aon Hewitt and an officer, Members of the Committee expressed their own views and reached a consensus view.

The Committee also discussed how best to take their decision forward and discussed possible suitable investments, such as equities, returns on cash holdings, infrastructure and 'other' suitable liquid assets. An officer advised that robust arguments would be required if the Committee was minded to invest elsewhere other than the London CIV.

Members also referred to the proposed training session on infrastructure with presentations from other managers to be held on 28 January 2019 and agreed that it would commence at 1.00 pm.

**RESOLVED:** That

- (1) the Pension Fund Committee seek to disinvest from Aberdeen Standard Investments, GARS (Global Absolute Return Strategies) as and when suitable acceptable alternative investments become available to the Committee;

- (2) a further report setting out available options based on investments in infrastructure, LCIV (London Collective Investment Vehicle) and 'other' liquid assets be submitted to the March 2019 meeting of the Committee to allow Members to delegate to officers the execution of resolution (1) above.

**50. Information Report - Investment Manager Performance Monitoring for period ending 30 September 2018**

The Committee received the confidential report of the Director of Finance, which included Aon Hewitt's quarterly report on Harrow's investment managers. Members noted that this information report which had been considered at the last meeting of the Committee had been included on the agenda to support any discussions at agenda item 6 (minute 49 refers).

**RESOLVED:** That the preamble be noted.

(Note: The meeting, having commenced at 6.33 pm, closed at 7.44 pm).

(Signed) COUNCILLOR NITIN PAREKH  
Chair

**REPORT FOR: Pension Board**

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<b>Date of Meeting:</b>	28 March 2019
<b>Subject:</b>	Information Report – Performance Monitoring
<b>Responsible Officer:</b>	Dawn Calvert, Director of Finance
<b>Exempt:</b>	No
<b>Wards Affected:</b>	All
<b>Enclosures:</b>	Appendix 1: Pension Administration Performance Monitoring Q3 to 31 <sup>st</sup> December 2018

## Section 1 – Summary

### Summary

This report presents the Board with performance monitoring information for the quarter ending 31<sup>st</sup> December 2018.

### For information

## Section 2 – Report

1. At several of their meetings the Board has rightly suggested that it sees part of their role as monitoring the service performance of the Fund. Whilst to date it has received a substantial amount of performance information through the Fund's Annual Report and Accounts, the Scheme Advisory Board's Benchmarking and Key Performance Indicators return and reports on the triennial actuarial valuation .It has been monitoring comparative pensions administration indicators since June 2017.

2. The Pensions administration performance statistics measured against the national benchmarks for the third quarter to 31 December 2018 are set out in Appendix 1. The Board is invited to comment on this performance.
3. Table 1 below sets out the membership of the Pension Fund in the current year to 31 December 2018, with previous years as a comparator. The percentage of active members in the fund is one indicator of the maturity of the fund.

Table 1 Pension Members to 30 December 2018				
	31 December 2018	31 March 2018	31 March 2017	31 March 2016
Pensioners	5,780	5,760	5,576	5,438
Deferred	6,985	7,115	6,925	6,700
Active Members	5,443	5,557	5,659	5,561
% Active Members	29.9%	30.1%	31.2%	31.5%
Total	18,208	18,432	18,160	17,699

#### **Requirement to Report Breaches of Law**

4. Pension Board reviewed the breaches in law policy and breaches reporting procedure at its meeting on 20<sup>th</sup> September 2018.
5. There have been no known breaches of law in the current financial year.

#### **Internal Disputes Cases and Complaints**

6. No internal disputes have been raised in the current financial year.

#### **Issue of Annual Benefit Statements**

7. All benefit statements were published and distributed in early August well before the 31 August 2018 deadline.

#### **Payment of Employer Contributions**

8. Employer contributions are required to be paid in arrears by the 19<sup>th</sup> of each month. All employer contributions have been paid on time in the year to date. Employers are contacted if payment has not been received by the date.
9. The Board is asked to consider whether the information discussed in this report would meet its requirements for regular performance monitoring and to comment as it sees fit.

## Financial Implications

10. Whilst the provision of performance monitoring information should assist in the efficient and effective management of the Pension Fund there are no financial implications arising from this report.

## Risk Management Implications

11. All risks are included within the Pension Fund Risk Register.

## Equalities implications

11. There are no direct equalities implications arising from this report.

## Council Priorities

12. The financial health of the Pension Fund directly affects the resources available for the Council's priorities.

## Section 3 - Statutory Officer Clearance

			on behalf of the
Name: Sharon Daniels	x		Chief Financial Officer
Date: 15 March 2019			

**Ward Councillors notified:**

**Not applicable**

## Section 4 - Contact Details

**Contact:** Iain Millar, Treasury and Pensions Manager  
Tel: 0208 424 1432

**Background Papers – None**

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**Appendix 1 Q3 Performance Monitoring 01/010/2018 – 31/12/2018**

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<b>SERVICE</b>	<b>Harrow Actual within National Target</b>	<b>National Benchmarking Target</b>	<b>Harrow Performance against National Target %</b>
Issue letter notifying of dependent's benefit in 5 days	<b>7/7</b>	<b>5 days</b>	<b>100</b>
Calculation and notification of ill health estimate within 10days	<b>2/2</b>	<b>10 days</b>	<b>100</b>
Calculation and notification of retirement benefits estimate in 10 days	<b>32/32</b>	<b>10 days</b>	<b>100</b>
Issue letter to new pension provider detailing transfer-out quote in 10 days	<b>9/9</b>	<b>10 days</b>	<b>100</b>
Calculation and notification of deferred benefits in 10 days	<b>13/13</b>	<b>10 days</b>	<b>100</b>
Calculation and notification of retirement benefits in 5 days	<b>24/25</b>	<b>5 days</b>	<b>96</b>
Process refund and issue payment within 5 days	<b>27/27</b>	<b>5 days</b>	<b>100</b>
Calculation and notification of actual ill health benefits within 5 days	<b>1/1</b>	<b>5 days</b>	<b>100</b>
Contact next of kin on notification of death in 3 days	<b>32/32</b>	<b>5 days</b>	<b>100</b>
Issue statutory notification on receipt of transfer funds in 8 days	<b>12/12</b>	<b>10 days</b>	<b>100</b>

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**REPORT FOR: Pension Board**

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**Date of Meeting:** 28 March 2019

**Subject:** Information Report – Work Programme  
2019-20

**Responsible Officer:** Dawn Calvert, Director of Finance

**Exempt:** No

**Wards affected:** All

**Enclosures:** None

**Section 1 – Summary**

This report reviews the Pension Boards' actions to date and invites the Pension Board to comment on a suggested work programme for 2019-20.

**For Information**

## Section 2 – Report

1. Pension Board has met quarterly during 2018-19. The work programme for the 2018-19 financial year which, together with an update on the Board's current position, is as follows:

<b>Matter for Consideration</b>	<b>Board Position</b>
Pensions Administration – Performance monitoring	Proposals developed 12 July 2017 Quarterly report from 8 November 2017
Review of Internal Controls at fund managers	2018-198 internal control reports on 28 March 2019 agenda
Risk Register Review	Pension Fund Risk Register considered on 5 December 2018
Annual Report and Financial Statement for year ended 31 March 2018 including External Audit report	Draft Report 14 June External Audit Report 20 September Meeting
Scheme Advisory Board Local Pension Board Survey	Survey response agreed at meeting on 5 <sup>th</sup> December 2018.
Use of CIPFA Pension Administration Benchmarking Club	Use of performance indicators and benchmarking service reviewed 12 July 2017
Review of Internal Controls at fund managers	On agenda 28th March 2019
Knowledge and skill requirements	Reviewed quarterly.
London CIV and its approach to Environmental, Social and Governance Issues	Presentation from London CIV to Pension Board 12 September 2017. Update at 22 <sup>nd</sup> March 2018
External Audit Plan	On agenda 28th March 2019
Training Programme 2018-19	Reviewed quarterly
Environmental, Social and Governance Issues	To be considered at future meetings
Funding Strategy Statement	Reviewed on 22 March 2018
Long term cashflow and funding	Considered by Pension Fund Committee at each meeting and by Board in review of PFC minutes quarterly
Investment Strategy Statement	Reviewed on 22 March 2018
Governance Compliance Statement	Reviewed on 22 March 2018
Communications Policy Statement	Reviewed on 22 March 2018
Latest Pension Fund Committee Meeting	Considered at each meeting of Board See Agenda Items 1,4,5,6 and 7
Pension Board referral to Pension Fund Committee	Pension Board Minutes to be reported formally to Pension Fund Committee

2. A suggested work programme for 2019-20 on which the Board's comments are invited is as follows:

## **Proposed Workplan 2019-20**

- Annual Report to Council
- Annual Report and Financial Statement for year ended 31 March 2018 including External Audit report
- Long term cashflow and funding
- Review of Governance Statements
- Review of Risk Register
- London CIV update
- Latest Pension Fund Committee Meeting
- Pensions Administration – Performance monitoring quarterly review
- Review of Internal Controls at fund managers and for administering authority
- Environmental, Social and Governance Issues
- Training Programme 2019
- Review of 2019 Public Governance and administration survey
- Knowledge and Skills for Pension Board

## **Proposed Pension Board Meetings 2019-20**

17 July (instead of 6 June)

26 September (remains the same as in the Calendar)

12 December (instead of 13 November)

20 April 2020 (instead of 18 March).

## **Pension Fund Committee meetings 2018-19**

Wednesday 26 June 2019

Wednesday 11 September 2019

Tuesday 26 November 2019

Tuesday 25 March 2020

All members of the Board are invited to attend the training session starting at 17.30 and the public part of Committee at 18.30.

## **Financial Implications**

5. There are no financial implications arising directly from this report.

## **Risk Management Implications**

6. The Pension Fund has its own risk register which covers all risks which might arise from this report.

## **Equalities implications**

7. There are no direct equalities implications arising from this report.

## Council Priorities

6. Whilst the financial health of the Pension Fund and the employer's contribution affects the resources available for the Council's priorities there are no impacts arising directly from this report.

## Section 3 - Statutory Officer Clearance

Name: Sharon Daniels	<input checked="" type="checkbox"/>	on behalf of the Chief Financial Officer
Date: 15 March 2019		

<b>Ward Councillors notified:</b>	<b>NO</b>
-----------------------------------	-----------

## Section 4 - Contact Details

**Contact:** Iain Millar, Treasury and Pensions Manager  
Tel: 0208 424 1432

**Background Papers - None**

**REPORT FOR: Pension Board**

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**Date of Meeting:** 28 March 2019

**Subject:** Information Report -  
External Audit Plans 2018/19

**Responsible Officer:** Dawn Calvert, Director of Finance

**Exempt:** No

**Wards affected:** All

**Enclosures:** Pension Fund Audit Strategy  
Memorandum for year ending 31 March  
2019

**Section 1 – Summary and Recommendations**

This report provides the Committee with an opportunity to consider the External Audit Plans 2018/19 from the Council’s external auditors

**Recommendation**

The Committee is asked to note the External Audit Plan (Audit Strategy Memoranda for the Pension Fund)

**Reason**

To keep the Pension Board informed of the planned external audit work.

## **Section 2 – Report**

### **Background**

External Audit Plans (Audit Strategy Memoranda) for 2018/19

1. The Council has received the External Audit Plan 2018/19 as prepared by Mazars and presented to Governance, Audit, Risk Management and Standards Committee on 29 January 2019. The Plan, which includes the audit of the Pension Fund, is attached as the appendix to this report.
2. Broadly, the Plan covers:
  - Engagement and responsibilities
  - Audit Scope approach and timelines
  - Significant risks and key judgement areas
  - Fees
  - Materiality and misstatement
3. In addition to the overall audit of the Pension Fund the auditors have made the following specific points:
  - Materiality and misstatements – the overall materiality levels are set at 1% of Gross Revenue Expenditure. This gives a level of £8.2m for the Pension Fund. The materiality levels for misstatements (the level of triviality) is set at £245k for the Pension Fund
  - Significant and other audit risk - Management override of controls  
- Valuation of unquoted investments

### **Financial Implications**

4. Whilst, clearly, the annual audit concentrates largely on the financial state of the Pension Fund there are no financial implications arising directly from this report. Projected audit fees for the pension fund are £16,170 for the 2018-19 external audit compared to £21,000 for the 2017-18 audits.

### **Risk Management Implications**

5. The Pension Fund has its own risk register which includes all the risks identified. The annual audit assists in the management of the risks but no implications arise directly from this report.

### **Equalities implications**

6. There are no direct equalities implications arising from this report.

### **Council Priorities**

7. Whilst the financial health of the Pension Fund directly affects the level of employer contribution which, in turn, affects the resources available for the Council's priorities there are no impacts arising directly from this report.



### **Section 3 - Statutory Officer Clearance**

Name: Sharon Daniels

on behalf of the  
Chief Financial Officer

Date: 15 March 2019

**Ward Councillors notified:**

n/a

### **Section 4 - Contact Details and Background Papers**

**Contact:** Iain Millar, Treasury and Pensions Manager  
Tel: 0208 424 1432

**Background Papers:** None

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# Audit Strategy Memorandum

London Borough of Harrow Pension  
Fund

Year ending 31 March 2019





## CONTENTS

1. Engagement and responsibilities summary
2. Your audit engagement team
3. Audit scope, approach and timeline
4. Significant risks and key judgement areas
5. Fees for audit and other services
6. Our commitment to independence
7. Materiality and misstatements

Appendix A – Key communication points

Appendix B - Forthcoming accounting and other issues

Appendix C – Mazars' client service commitment

This document is to be regarded as confidential to London Borough of Harrow Pension Fund. It has been prepared for the sole use of the Governance, Audit, Risk Management and Standards Committee as the appropriate sub-committee charged with governance. No responsibility is accepted to any other person in respect of the whole or part of its contents. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.

Governance, Audit, Risk Management and Standards Committee  
Civic Centre  
Station Road  
Harrow  
HA1 2XY

29 January 2019

Dear Members,

**Audit Strategy Memorandum – Year ending 31 March 2019**

We are pleased to present our Audit Strategy Memorandum for the London Borough of Harrow Pension Fund for the year ending 31 March 2019.

The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, Section 6 of this document also summarises our considerations and conclusions on our independence as auditors.

We consider two-way communication with you to be key to a successful audit and important in:

- reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;
- sharing information to assist each of us to fulfil our respective responsibilities;
- providing you with constructive observations arising from the audit process; and
- ensuring that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing Harrow Pension Fund which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

This document, which has been prepared following our initial planning discussions with management, is the basis for discussion of our audit approach, and any questions or input you may have on our approach or role as auditor.

This document also contains specific appendices that outline our key communications with you during the course of the audit, and forthcoming accounting issues and other issues that may be of interest.

Client service is extremely important to us and we strive to continuously provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations so, if you have any concerns or comments about this document or audit approach, please contact me on 020 7063 4634.

Yours faithfully,



Lucy Nutley  
Mazars LLP

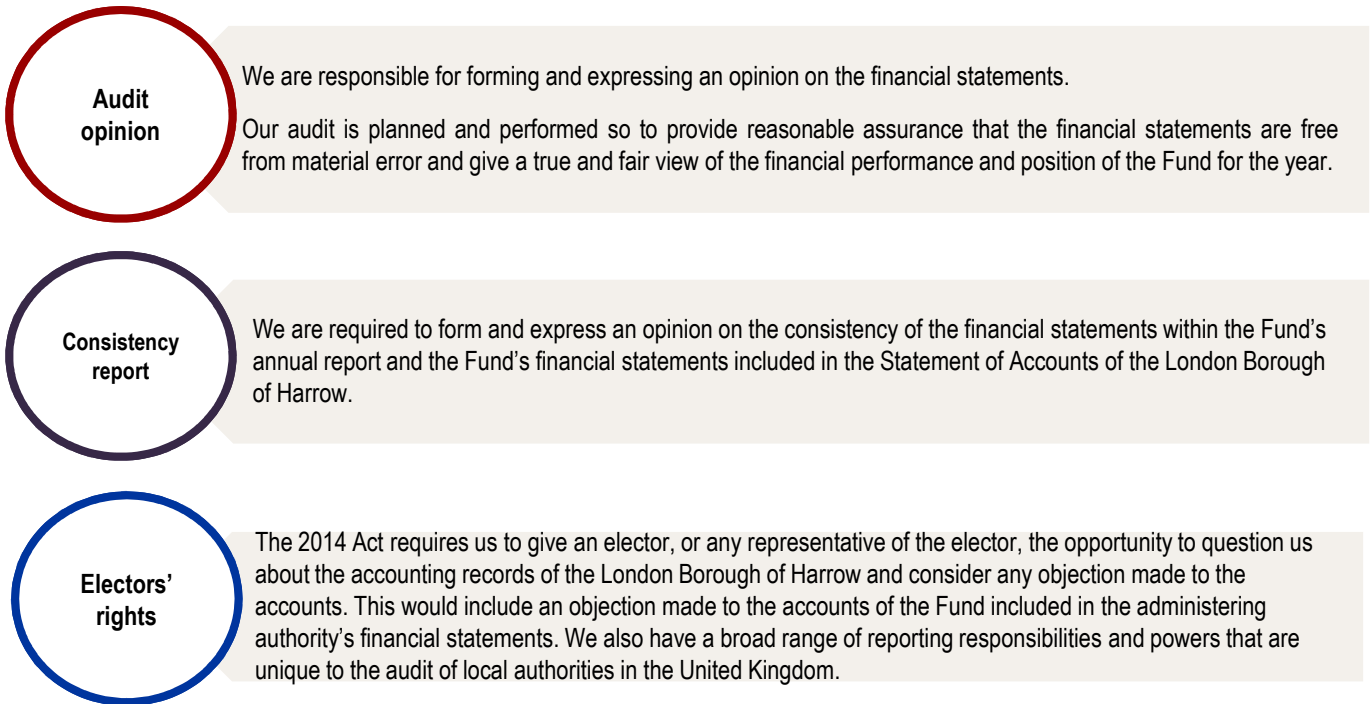
# 1. ENGAGEMENT AND RESPONSIBILITIES SUMMARY

## Overview of engagement

We are appointed to perform the external audit of Harrow Pension Fund (the Fund) for the year to 31 March 2019. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: <https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>

## Our responsibilities

Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined below:



Our audit does not relieve management or those charged with governance, of their responsibilities. The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both those charged with governance and management. In accordance with International Standards on Auditing (UK), we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. However our audit should not be relied upon to identify all such misstatements.

As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance as to their knowledge of instances of fraud, the risk of fraud and their views on management controls that mitigate the fraud risks.

The Fund is required to prepare its financial statements on a going concern basis by the Code of Practice on Local Authority Accounting. As auditors, we are required to consider the appropriateness of the use of the going concern assumption in the preparation of the financial statements and the adequacy of disclosures made.

For the purpose of our audit, we have identified the Governance, Audit, Risk Management and Standards Committee as those charged with governance.



## 2. YOUR AUDIT ENGAGEMENT TEAM



- **Lucy Nutley, Director and Engagement Lead**
- Lucy.Nutley@mazars.co.uk
- 020 7063 4634



- **Michael Yeats, Engagement Manager**
- Michael.Yeats@mazars.co.uk
- 020 7063 4403

1. Engagement and responsibilities

2. Your audit team

3. Audit scope

4. Significant risks and key judgements

5. Fees

6. Independence

7. Materiality and misstatements

Appendices



### 3. AUDIT SCOPE, APPROACH AND TIMELINE

#### Audit scope

Our audit approach is designed to provide an audit that complies with all professional requirements.

Our audit of the financial statements will be conducted in accordance with International Standards on Auditing (UK), relevant ethical and professional standards, our own audit approach and in accordance with the terms of our engagement. Our work is focused on those aspects of your business which we consider to have a higher risk of material misstatement, such as those affected by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past.

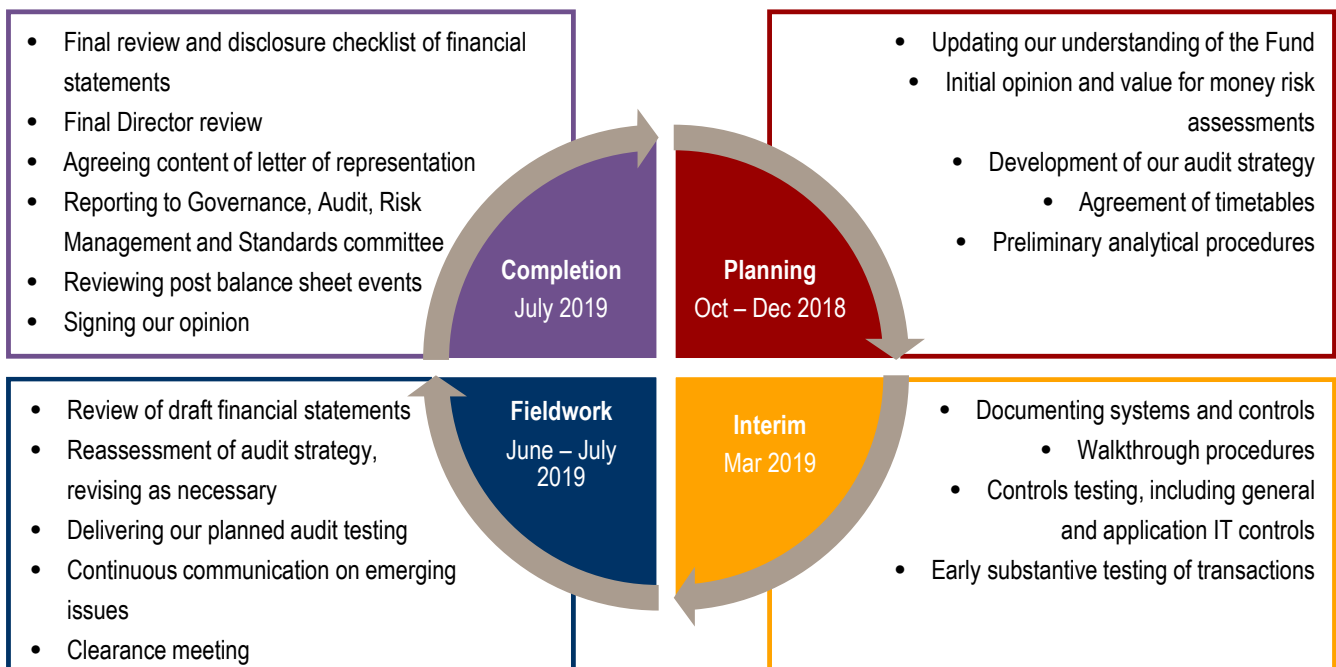
#### Audit approach

Our audit approach is a risk-based approach primarily driven by the risks we consider to result in a higher risk of material misstatement of the financial statements. Once we have completed our risk assessment, we develop our audit strategy and design audit procedures in response to this assessment.

If we conclude that appropriately-designed controls are in place then we may plan to test and rely upon these controls. If we decide controls are not appropriately designed, or we decide it would be more efficient to do so, we may take a wholly substantive approach to our audit testing. Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise tests of details (of classes of transactions, account balances, and disclosures) and substantive analytical procedures. Irrespective of the assessed risks of material misstatement, which take into account our evaluation of the operating effectiveness of controls, we are required to design and perform substantive procedures for each material class of transactions, account balance, and disclosure.

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The concept of materiality and how we define a misstatement is explained in more detail in section 7.

The diagram below outlines the procedures we perform at the different stages of the audit.





### 3. AUDIT SCOPE, APPROACH AND TIMELINE (CONTINUED)

#### Reliance on internal audit

Where possible we will seek to utilise the work performed by internal audit to modify the nature, extent and timing of our audit procedures. We will meet with internal audit to discuss the progress and findings of their work prior to the commencement of our controls evaluation procedures.

Where we intend to rely on the work of internal audit, we will evaluate the work performed by your internal audit team and perform our own audit procedures to determine its adequacy for our audit.

#### Management's and our experts

Management makes use of experts in specific areas when preparing the Fund's financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account.

Items of account	Management's expert	Our expert
Disclosure notes on funding arrangements and actuarial present value of promised retirement benefits.	Hymans Robertson	We will review the national analysis of pension trends and assumptions of the various LGPS actuaries and consider the findings for potential impact on the values included within the financial statements.

#### Service organisations

International Auditing Standards (UK) define service organisations as third party organisations that provide services to the Fund that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as well as evaluating the design and implementation of controls over those services. The table below summarises the service organisations used by the Fund and our planned audit approach.

Items of account	Service organisation	Audit approach
The calculation and payment of pension benefits, assessment of funding levels based on existing pensioner data.	Harrow Council	We will contact the Council, and their auditors, to seek appropriate confirmation that the controls and procedures have operated as designed throughout the year and that no weaknesses have been identified that would have a material impact on the information they provide to the London Borough of Harrow Pension Fund.
Investment valuations and income and all related disclosures	Fund managers	Substantive testing of transactions occurring in the year and the valuations applied to investments at the year end.
Investment valuations and income and all related disclosures	Custodians	Confirmation of transactions occurring in the year, reconciling income received and agreement of valuations applied to investments at the year end.



## 4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS

Following the risk assessment approach discussed in section 3 of this document, we have identified relevant risks to the audit of financial statements. The risks that we identify are categorised as significant, enhanced or standard, as defined below:

- Significant risk** A significant risk is an identified and assessed risk of material misstatement that, in the auditor's judgment, requires special audit consideration. For any significant risk, the auditor shall obtain an understanding of the entity's controls, including control activities relevant to that risk.
- Enhanced risk** An enhanced risk is an area of higher assessed risk of material misstatement at audit assertion level other than a significant risk. Enhanced risks incorporate but may not be limited to:
- key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and
  - other audit assertion risks arising from significant events or transactions that occurred during the period.
- Standard risk** This is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement. Although it is considered that there is a risk of material misstatement, there are no elevated or special factors related to the nature, the likely magnitude of the potential misstatements or the likelihood of the risk occurring.

In assessing the significant risks and key judgement areas we have reviewed key documents and spoken to key members of management. At this point, we have not performed a detailed review of systems. Should further significant risks arise from this work, we will update the Committee accordingly.

The summary risk assessment, illustrated in the table below, highlights those risks which we deem to be significant. We have summarised our audit response to these risks on the next page.



## 4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

We provide more detail on the identified risks and our testing approach with respect to significant risks in the table below. An audit is a dynamic process, should we change our view of risk or approach to address the identified risks during the course of our audit, we will report this to the Governance, Audit, Risk Management and Standards Committee.

### Significant risks

	Description of risk	Planned response
1	<p><b>Management override of controls</b></p> <p>Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.</p>	<p>We will address the risk through performing audit procedures, covering a range of areas including (but not limited to):</p> <ul style="list-style-type: none"> <li>• accounting estimates included in the financial statements for evidence of management bias;</li> <li>• any significant transactions outside the normal course of business; and</li> <li>• journals and other adjustments recorded in the general ledger in preparing the financial statements.</li> </ul>
2	<p><b>Valuation of unquoted investments</b></p> <p>As at 30 September 2018 the Pension Fund held investments which were not quoted on an active market with a fair value of £89.5million, accounting for 10.5% of the Fund's net investment assets. Inherently these assets are harder to value, as they do not have publicly available quoted prices from a traded market, and as such they require professional judgement or assumptions to be made when valuing them at year end.</p> <p>As the pricing of these investment assets is subject to judgements, they may be susceptible to pricing variances due to the assumptions underlying the valuation. We therefore consider that there is an increased risk of material misstatement.</p>	<p>We plan to address this risk by completing the following additional procedures:</p> <ul style="list-style-type: none"> <li>• agree holdings from fund managers reports to the respective custodian's reports;</li> <li>• agree the valuation to supporting documentation including investment manager valuation statements and cashflows for any adjustments made to the investment manager valuation;</li> <li>• agree the investment manager valuation to audited accounts or other independent supporting documentation, where available; and</li> <li>• where audited accounts are available, check that they are supported by a clear opinion.</li> </ul>

### Revenue recognition

We have considered the presumed risk in relation to revenue recognition, and have assessed that due to the low inherent risk associated with revenue in the pension fund, we can rebut the presumed risk.



## 5. FEES FOR AUDIT AND OTHER SERVICES

### Fees for work as the Fund's appointed auditor

At this stage of the audit we are not planning any divergence from the scale fees set by PSAA as communicated in our fee letter of 25 April 2018.

Service	2017/18 fee	2018/19 fee
Code audit work	£21,000	£16,170

The prior year audit was performed by KPMG LLP.

### Fees for non-PSAA work

We confirm that we have not been separately engaged by the Fund to carry out additional work for the London Borough of Harrow Pension Fund. Further information about our responsibilities in relation to independence is provided in section 7.



## 6. OUR COMMITMENT TO INDEPENDENCE

We are committed to independence and are required by the Financial Reporting Council to confirm to you at least annually, in writing, that we comply with the Financial Reporting Council's Ethical Standard. In addition, we communicate any matters or relationship which we believe may have a bearing on our independence or the objectivity of the audit team.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement there are no relationships between us and any of our related or subsidiary entities, and you and your related entities creating any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place which are designed to ensure that we carry out our work with integrity, objectivity and independence. These policies include:

- all partners and staff are required to complete an annual independence declaration;
- all new partners and staff are required to complete an independence confirmation and also complete computer-based ethics training;
- rotation policies covering audit engagement partners and other key members of the audit team;
- use by managers and partners of our client and engagement acceptance system which requires all non-audit services to be approved in advance by the audit engagement partner.

We confirm, as at the date of this document, that the engagement team and others in the firm as appropriate, and Mazars LLP are independent and comply with relevant ethical requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with Lucy Nutley in the first instance.

Prior to the provision of any non-audit services, Lucy will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence.

No threats to our independence have been identified.

Any emerging independence threats and associated identified safeguards will be communicated in our Audit Completion Report.



## 7. MATERIALITY AND MISSTATEMENTS

### Summary of initial materiality thresholds

Threshold	Initial threshold (£m)
Overall materiality	£8.2m
Trivial threshold for errors to be reported to the Governance, Audit, Risk Management and Standards Committee	£0.245m

### Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole. Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- have a reasonable knowledge of business, economic activities and accounts;
- have a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements.

We consider materiality whilst planning and performing our audit based on quantitative and qualitative factors.

Whilst planning, we make judgements about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial.

We revise materiality for the financial statements as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

Our provisional materiality is set based on a benchmark of net assets. We will identify a figure for materiality but identify separate levels for procedures designed to detect individual errors, and also a level above which all identified errors will be reported to the Audit & Governance Committee.

We consider that net assets remains the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark. We expect to set a materiality threshold at 1% of Net Assets.

Based on Net Assets we anticipate the overall materiality for the year ending 31 March 2019 to be in the region of £8.2million (£10million in the prior year).



## 7. MATERIALITY AND MISSTATEMENTS (CONTINUED)

After setting initial materiality, we continue to monitor materiality throughout the audit to ensure that it is set at an appropriate level.

### Misstatements

We aggregate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to those charged with governance that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. Based on our preliminary assessment of overall materiality, our proposed triviality threshold is £245,000 based on 3% of overall materiality. If you have any queries about this please do not hesitate to raise these with Lucy Nutley.

### Reporting to the Governance, Audit, Risk Management and Standards Committee

To comply with International Standards on Auditing (UK), the following three types of audit differences will be presented to the Governance, Audit, Risk Management and Standards Committee:

- summary of adjusted audit differences;
- summary of unadjusted audit differences; and
- summary of disclosure differences (adjusted and unadjusted).



# APPENDIX A – KEY COMMUNICATION POINTS

ISA (UK) 260 'Communication with Those Charged with Governance', ISA (UK) 265 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' and other ISAs (UK) specifically require us to communicate the following:

Required communication	Audit Strategy Memorandum	Audit Completion Report
Our responsibilities in relation to the audit of the financial statements and our wider responsibilities	✓	
Planned scope and timing of the audit	✓	
Significant audit risks and areas of management judgement	✓	
Our commitment to independence	✓	✓
Responsibilities for preventing and detecting errors	✓	
Materiality and misstatements	✓	✓
Fees for audit and other services	✓	
Significant deficiencies in internal control		✓
Significant findings from the audit		✓
Significant matters discussed with management		✓
Our conclusions on the significant audit risks and areas of management judgement		✓
Summary of misstatements		✓
Management representation letter		✓
Our proposed draft audit report		✓





# APPENDIX B – FORTHCOMING ACCOUNTING AND OTHER ISSUES

## Changes relevant to 2018/19

IFRS 9 Financial Instruments - the standard replaces IAS 39 and introduces significant changes to the recognition and measurement of the [financial instruments, particularly financial assets.

Although the accounting changes may be complex and may require the reclassification of some instruments, it is unlikely that this will have a significant implications for most local government pension funds as most material financial instruments are already carried at fair value through profit and loss, and this is expected to continue under the new standard.

IFRS 15 Revenue from Contracts with Customers - the 2018/19 Code also applies the requirements of IFRS 15, but it is unlikely that this will have significant implications for most local government pension funds.

There are no other significant changes to the Code of Practice on Local Authority Accounting (the Code) for 2018/19.



# APPENDIX C – MAZARS' CLIENT SERVICE COMMITMENT

We are here because of our clients; serving them in the best way we can is part of our DNA. We operate a Code of Conduct which drives our client service commitment in all areas, as set out below.



1. Engagement and responsibilities	2. Your audit team	3. Audit scope	4. Significant risks and key judgements	5. Fees	6. Independence	7. Materiality and misstatements	Appendices
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**REPORT FOR: Pension Board**

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**Date of Meeting:** 28 March 2019

**Subject:** Information Report – Statutory Guidance on Asset Pooling

**Responsible Officer:** Dawn Calvert , Director of Finance

**Exempt:** No

**Wards affected:** All

**Enclosures:** Appendix 1: MHCLG guidance on asset pooling in the Local Government Pension Scheme.

**Section 1 – Summary**

**Summary**

This report presents the recently published MHCLG draft statutory guidance on asset pooling and outlines key points raised by the guidance for consideration by the Pension Board.

## Section 2 – Report

### MHCLG CONSULTATION

1. In January 2019 the Ministry for Housing Communities and Local Government (MHCLG) published its draft statutory guidance on LGPS asset pooling, inviting views through an informal consultation with interested parties until 28 March 2019.
2. The draft guidance is attached at Appendix 1 for Members' consideration.
3. The main points to highlight from the guidance are as follows
  - Pool members should transition assets into the pool as quickly and cost effectively as possible (5.1);
  - Inter-authority payments may be desirable to share transition costs equitably between pool members (5.2);
  - In exceptional cases, some existing investments may be retained by pool members on a temporary basis to maturity if the cost of moving the existing investment to a pool vehicle exceeds the benefits of doing so (5.4);
  - Pool members should normally make all new investments through the pool company to maximise benefits of scale. From 2020, when new investment strategies are in place, pool members should make new investments outside the pool only in very limited circumstances (6.1);
  - A small proportion of a pool member's assets may be invested in local initiatives within the geographical area of the pool member. These assets should not normally exceed an aggregate 5% of the pool member's assets at the point of investment (6.2);
  - Pool members may invest through pool vehicles in a pool other than their own where collaboration across pools or specialisation can deliver improved net returns. (6.3);
  - There is no target for infrastructure investment for pool members or pools, but pool members are expected to set an ambition on investment in this area (7.2);
  - All residential property is included in the official CIPFA definition of infrastructure assets (7.5);
  - New extensive reporting requirements for pool members come into force with effect from the 2018/19 annual report, with a requirement to report on the costs and performance of pooled assets, the progress of any transition plans and a rationale for all assets that continue to be held outside the pool, including a planned transition

date and a comparison of costs to any comparable pool vehicle (8.1 onwards);

- The definition of pooled assets excludes passive investment in life policies held directly by pool members, or any asset where a pool member retains the day to day management or responsibly for selecting or reappointing an external manager (8.4).

### **Consultation Response**

- 4 Pension Fund Committee Members were recommended to consider the guidance attached and provide any feedback to officers ahead of the 28 March deadline; officers will coordinate responses and respond to MHCLG on behalf of the Committee.

### **Financial Implications**

5. There are no direct financial implications arising from this report. The statutory guidance requires the revision of investment strategies to ensure that new investments are made in the pool from 2020. To date Harrow has over 37% of fund assets managed through the London CIV and its preferred providers.

### **Risk Management Implications**

6. Pension Fund investment risks are set out in the Pension Fund Risk Register.

### **Equalities implications**

9. Was an Equality Impact Assessment carried out? - No

There are no direct equality implications arising from this report

### **Council Priorities**

10. Investment performance has a direct impact on the financial health of the Pension Fund which directly affects the level of employer contribution which in turn affects the resources available for the Council's priorities.

### **Section 3 - Statutory Officer Clearance**

Name: Sharon Daniels



on behalf of the  
Chief Financial Officer

Date: 15 March 2019

**Ward Councillors notified:**

**NO**

### **Section 4 - Contact Details and Background Papers**

#### **Section 4 - Contact Details**

**Contact:** Iain Millar, Treasury and Pensions Manager  
Tel: 0208 424 1432

**Background Papers** - None

## **Local Government Pension Scheme**

### **Statutory guidance on asset pooling**

## **Contents**

### **Foreword**

- 1 Introduction**
- 2 Definitions**
- 3 Structure and scale**
- 4 Governance**
- 5 Transition of assets to the pool**
- 6 Making new investments outside the pool**
- 7 Infrastructure investment**
- 8 Reporting**



## **Foreword**

The reform of investment management in the Local Government Pension Scheme (LGPS) for England and Wales began in 2015 with the publication of criteria and guidance on pooling of LGPS assets, following extensive consultation with the sector. LGPS administering authorities responded by coming together in groups of their own choosing to form eight asset pools.

Through the hard work and commitment of people across the scheme, those eight pools are now operational. Their scale makes them significant players at European or global level, and significant annual savings have already been delivered, with the pools forecasting savings of up to £2bn by 2033. Along the way many lessons have been learnt and great progress has been made in developing expertise and capacity, including in private markets and infrastructure investment.

This is a considerable achievement in itself, but there is still a long way to go to complete the transition of assets and to deliver the full benefits of scale. In the light of experience to date with pooling and the challenges ahead, authorities have requested guidance on a range of issues. The time is now right for new guidance to support further progress.

## 1 Introduction

1.1 This guidance sets out the requirements on administering authorities in relation to the pooling of LGPS assets, building on previous Ministerial communications and guidance on investment strategies, and taking account of the current state of progress on pooling. It is made under the powers conferred on the Secretary of State by Regulation 7(1) of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the 2016 Regulations). Administering authorities are required to act in accordance with it.

1.2 This guidance replaces the section at pages 7 to 8 of Part 2 of *Guidance for Preparing and Maintaining an Investment Strategy*, issued in September 2016 and revised in July 2017, which deals with regulation 7(2)(d) of the 2016 Regulations. It also replaces *Local Government Pension Scheme: Investment Reform Criteria and Guidance*, issued in November 2015.

## 2 Definitions

2.1 This guidance introduces a set of definitions for use in this and future guidance, as follows:

**'Pool'** the entity comprising all elements of a Local Government Pension Scheme (LGPS) asset pool

**'Pool member'** an LGPS administering authority which has committed to invest in an LGPS pool and participates in its governance

**'Pool governance body'** the body used by pool members to oversee the operation of the pool and ensure that the democratic link to pool members is maintained (for example, Joint Committees and officer committees)

**'Pool company'** the Financial Conduct Authority (FCA) regulated company which undertakes selection, appointment, dismissal and variation of terms of investment managers, and provides and operates pool vehicles for pool members

**'Pool fund'** a regulated unitised fund structure operated by a regulated pool company, such as an Authorised Contractual Scheme (ACS)

**'Pool vehicle'** an investment vehicle (including pool funds) made available to pool members by a regulated pool company

**'Pooled asset'** an investment for which the selection, appointment, dismissal and variation of terms for the investment manager is delegated to a regulated pool company, or an investment held in a pool vehicle

**'Retained asset'** an existing investment retained by a pool member during the transition period

**'Local asset'** a new investment by a pool member which is not a pooled asset

## 3 Structure and scale

3.1 All administering authorities must pool their assets in order to deliver the benefits of scale and collaboration. These include:

- reduced investment costs without affecting gross risk-adjusted returns
- reduced costs for services such as custody, and for procurement
- strengthened governance and stewardship and dissemination of good practice
- greater investment management capacity and capability in the pool companies, including in private markets
- increased transparency on total investment management costs
- diversification of risk through providing access to a wider range of asset classes, including infrastructure investments

3.2 In order to maximise the benefits of scale, pool members must appoint a pool company or companies to implement their investment strategies. This includes:

- the selection, appointment, dismissal and variation of terms of investment managers, whether internal or external

- the management of internally managed investments
- the provision and management of pool vehicles including pool funds

It is for the pool companies to decide which investment managers to use for pool vehicles, including whether to use in-house or external management. Pool members may continue to decide if they wish to invest via in-house or externally managed vehicles.

3.3 Pool companies may be wholly owned by pool members as shareholders or may be procured and appointed by the pool members as clients.

3.4 A pool company must be a company regulated by the Financial Conduct Authority (FCA) with appropriate FCA permissions for regulated activities. This helps ensure the pools comply with financial services legislation, and provides additional assurance to scheme members and employers. Depending on the structure of the pool, appropriate permissions may include permissions for execution, acting as agent, provision of advice, or such other permissions as required by the FCA. Where regulated funds (e.g. in an ACS) are operated by the pool company it should comply with relevant UK legislation.

#### *Regular review of services and procurement*

3.5 Pool governance bodies, working with the pool company, should regularly review the provision of services to the pool, and the process of procurement, to ensure value for money and cost transparency. Where services are procured or shared by pool members, pool members should regularly review the rationale and cost-effectiveness of such arrangements, compared to procurement and management through the pool company. Pool members and pool companies should consider using the national LGPS procurement frameworks ([www.nationallgpsframeworks.org](http://www.nationallgpsframeworks.org)) where appropriate.

#### *Regular review of active and passive management*

3.6 Pool members, working with the pool company, should regularly review the balance between active and passive management in the light of performance net of total costs. They should consider moving from active to passive management where active management has not generated better net performance over a reasonable period. Pool members should also seek to ensure performance by asset class net of total costs is at least comparable with market performance for similar risk profiles.

## **4 Governance**

4.1 Pool members must establish and maintain a pool governance body in order to set the direction of the pool and to hold the pool company to account. Pool governance bodies should be appropriately democratic and sufficiently resourced to provide for effective decision making and oversight.

4.2 Pool members, through their internal governance structures, are responsible for effective governance and for holding pool companies and other service providers to account. Strategic asset allocation remains the responsibility of pool members, recognising their authority's specific liability and cash-flow forecasts.

4.3 Members of Pension Committees are elected representatives with duties both to LGPS employers and members, and to local taxpayers. Those who serve on Pension Committees and equivalent governance bodies in LGPS administering authorities are, in many ways, required to act in the same way as trustees in terms of their duty of care to scheme employers and members, but are subject to a different legal framework, which derives from public law. In particular while they have legal responsibilities for the prudent and effective stewardship of LGPS funds, LGPS benefits are not dependent on their stewardship but are established and paid under statute in force at the time.

4.4 Those who serve on Pension Committees and equivalent governance bodies in pool members should therefore take a long term view of pooling implementation and costs. They should take account of the benefits across the pool and across the scheme as a whole, in the interests of scheme members, employers and local taxpayers, and should not seek simply to minimise costs in the short term.

4.5 Local Pension Boards of pool members have a key role in pool governance, given their responsibilities under the LGPS Regulations 2013 (regulation 106 (1)) for assisting authorities in securing compliance with legislation, and ensuring effective and efficient governance and administration of the LGPS. They can provide additional scrutiny and challenge to strengthen pool governance and reporting, and improve transparency and accountability for both members and employers.

4.6 Local Pension Boards may also provide a group of knowledgeable and experienced people from which observers may be drawn if pool members wish to include observers on pool governance bodies.

#### *Strategic and tactical asset allocation*

4.7 Pool members are responsible for deciding their investment strategy and asset allocation, and remain the beneficial owners of their assets, in accordance with *Guidance for Preparing and Maintaining an Investment Strategy*.

4.8 Pool members collectively through their pool governance bodies should decide the pool's policy on which aspects of asset allocation are strategic and should remain with the administering authority, and which are tactical and best undertaken by the pool company. Pool governance bodies, when determining where such decisions lie, should be mindful of the trade-off between greater choice and lower costs and should involve the pool company to ensure the debate is fully informed on the opportunities and efficiencies available through greater scale.

4.9 Providing pool members with asset allocation choices through an excessively wide range of pool vehicles or investment managers will restrict the pool company's ability to use scale to drive up value. On the other hand maximising scale by significantly limiting asset allocation options may not provide all pool members with the diversification needed to meet their particular liability profile and cash flow requirements. Pool members should set out in their Funding Strategy Statement and Investment Strategy Statement how they, through the pool governance body, have balanced these considerations and how they will keep this under regular review.

4.10 Where necessary to deliver the asset allocation required by pool members, pool companies may provide a range of pool vehicles and in addition arrange and manage segregated mandates or access to external specialist funds. Pool governance bodies should ensure that their regulated pool companies have in place the necessary permissions to enable pool vehicles to be made available where appropriate.

4.11 Determining where asset allocation decisions lie will not be a one-off decision as pool member requirements will change over time. Pool governance bodies should ensure that a regular review process, which involves both pool members and pool companies, is in place.

## **5 Transition of assets to the pool**

5.1 Pool members should transition existing assets into the pool as quickly and cost effectively as possible. Transition of listed assets should take place over a relatively short period.

5.2 Pool governance bodies, working with pool companies and, where appointed, external transition managers, should seek to minimise transition costs to pool members while effectively balancing speed, cost and timing, taking into account exit or penalty costs and opportunities for crossing trades.

5.2 The transition process will incur direct or indirect costs which may fall unevenly across pool members. For example, where the selected managers are used by some pool members but not others. In such cases pool members who are already using the selected manager may incur significantly lower (if any) transition costs than those who do not.

5.3 Inter-authority payments (or other transfers of value) may be desirable in order to share these costs equitably between pool members. The Government's view is that such payments are investment costs within Regulation 4(5) of the 2016 Regulations, and payments made by a pool member to meet its agreed share of costs may be charged to the fund of that pool member, whether the payments are made to other pool members, the pool company, or another body by agreement.

#### *Temporary retention of existing assets*

5.4 In exceptional cases, some existing investments may be retained by pool members on a temporary basis. If the cost of moving the existing investment to a pool vehicle exceeds the benefits of doing so, it may be appropriate to continue to hold and manage the existing investment to maturity before reinvesting the funds through a pool vehicle.

5.5 In many cases there will be benefits in such retained assets being managed by the pool company in the interim. However pool members may retain the management of existing long term investment contracts where the penalty for early exit or transfer of management would be significant. These may include life insurance contracts ('life funds') accessed by pool members for the purpose of passive equity investment, and some infrastructure investments. Pool members may also retain existing direct property assets where these may be more effectively managed by pool members.

#### *Regular review of retained assets*

5.6 Pool members, working with the pool company, should undertake regular reviews (at least every three years) of retained assets and the rationale for keeping these assets outside the pool. They should review whether management by the pool company would deliver benefits. Pool members should consider the long term costs and benefits across the pool, taking account of the guidance on cost-sharing, and the presumption should be in favour of transition to pool vehicles or moving such assets to the management of the pool company.

## **6 Making new investments outside the pool**

6.1 Pool members should normally make all new investments through the pool company in order to maximise the benefits of scale. Following the 2019 valuation, pool members will review their investment strategies and put revised strategies in place from 2020. From 2020, when new investment strategies are in place, pool members should make new investments outside the pool only in very limited circumstances.

6.2 A small proportion of a pool member's assets may be invested in local initiatives within the geographical area of the pool member or in products tailored to particular liabilities specific to that pool member. Local assets should:

- Not normally exceed an aggregate 5% of the value of the pool member's assets at the point of investment.
- Be subject to a similar assessment of risk, return and fit with investment strategy as any other investment.

6.3 Pool members may invest through pool vehicles in a pool other than their own where collaboration across pools or specialisation by pools can deliver improved net returns.

6.4 During the period of transition, while pool governance bodies and pool companies work together to determine and put in place the agreed range of pool vehicles, a pool member may make new investments outside the pool, if following consultation with the pool company, they consider this is essential to deliver their investment strategy. This exemption only applies until the pool vehicles needed to provide the agreed asset allocation are in place.

## 7 Infrastructure investment

7.1 Infrastructure investment has the potential to provide secure long term returns with a good fit to pension liabilities, and form part of investment strategies of authorities. The establishment of the pools was intended to provide the scale needed for cost-effective investment in infrastructure, and to increase capacity and capability to invest in infrastructure.

7.2 There is no target for infrastructure investment for pool members or pools, but pool members are expected to set an ambition on investment in this area. Pool companies may provide pool vehicles for investment in UK assets, or overseas assets, or both, as required to provide the risk and return profile to meet pool member investment strategies. However the Government expects pool companies to provide the capability and capacity for pools over time to move towards levels of infrastructure investment similar to overseas pension funds of comparable aggregate size.

7.3 Pool companies may provide pool vehicles for investment in existing (brownfield) or new (greenfield) infrastructure, based on an assessment of the benefits and risks in relation to pool member liabilities, and non-financial factors where relevant. Pool members may invest in their own geographic areas but the asset selection and allocation decisions should normally be taken by the pool company in order to manage any potential conflicts of interest effectively, maintain propriety, and ensure robust evaluation of the case for investment.

7.4 For the purpose of producing annual reports, infrastructure assets are defined in the Chartered Institute of Public Finance and Accountancy (CIPFA) guidance *Preparing the Annual Report* as follows:

*Infrastructure assets are the facilities and structures needed for the functioning of communities and to support economic development. When considered as an investment asset class, infrastructure investments are normally expected to have most of the following characteristics:*

- *Substantially backed by durable physical assets;*
- *Long life and low risk of obsolescence;*
- *Identifiable and reliable cash flow, preferably either explicitly or implicitly inflation-linked;*
- *Revenues largely isolated from the business cycle and competition, for example, through long term contracts, regulated monopolies or high barriers to entry;*
- *Returns to show limited correlation to other asset classes.*

*Key sectors for infrastructure include transportation networks, power generation, energy distribution and storage, water supply and distribution, communications networks, health and education facilities, social accommodation and private sector housing.*

*Conventional commercial property is not normally included, but where it forms part of a broader infrastructure asset, helps urban regeneration or serves societal needs it may be.*

7.5 All residential property is included in this definition of infrastructure. It is not restricted to social accommodation or private sector housing.

7.6 A variety of platforms may be required to implement the infrastructure investment strategies of pool members. Pool companies are expected to provide access to a range of options over time including direct and co-investment opportunities.

## 8 Reporting

8.1 Pool members are required to report total investment costs and performance against benchmarks publicly and transparently in their annual reports, following the CIPFA guidance *Preparing the Annual Report*, with effect from the 2018-19 report.

8.2 In summary, pool member annual reports should include:

- opening and closing value and proportion of pooled assets by asset class
- opening and closing value and proportion of local assets by asset class
- net and gross performance of pooled assets by asset class
- total costs of pooled assets by asset class
- for actively managed listed assets, net performance by asset class net of total costs compared to appropriate passive indices over a one, three and five year period
- net and gross performance of local assets by asset class
- total costs of local assets by asset class
  - asset transition during the reporting year
  - transition plans for local assets
  - pool set-up and transition costs, presented alongside in-year and cumulative savings from pooling
  - ongoing investment management costs by type, with a breakdown between pooled assets and local assets

8.3 Investments should be classed as pool assets on the basis of the definition in the CIPFA guidance *Preparing the Annual Report*.

*For the purpose of defining those assets which are classed as being within an asset pool, 'pooled assets' are those for which implementation of the investment strategy – i.e. the selection, appointment, dismissal and variation of terms for the investment managers (including internal managers) – has been contractually, transferred to a third party out with the individual pension fund's control.*

8.4 Any investment where a pool member retains the day to day management, or the responsibility for selecting or reappointing an external manager, is not a pool asset.

8.5 Pool members should provide a rationale for all assets continuing to be held outside the pool, including the planned end date and performance net of costs including a comparison which costs of any comparable pool vehicles. They should also set out a high level plan for transition of assets.

8.6 The SAB will publish an annual report on the pools based on aggregated data from the pool member annual reports, in the Scheme Annual Report. Pool members should comply with all reasonable requests for any additional data and information from the SAB to enable it to publish a comprehensive report.

8.7 Pool members should ensure that pool companies report in line with the SAB Code of Cost Transparency. They should also ensure that pool companies require their internal and external investment managers to do so.

8.8 Pool members should also ensure that the annual report of the pool company is broadly consistent with the reports of pool members, and with the Scheme Annual Report, in so far as it relates to their investments, and that the report includes a narrative to explain differences. These may arise for example from reporting periods of pool companies which differ from that of the pool member.

8.9 Pool members are required to report any change which results in failure to meet the requirements of this guidance to the LGPS Scheme Advisory Board (SAB) and to MHCLG.

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**REPORT FOR: Pension Board**

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- Date of Meeting:** 28 March 2019
- Subject:** **Information Report** – Annual Review of Internal Controls at Investment Managers
- Responsible Officer:** Dawn Calvert, Director of Finance
- Exempt:** Yes – ( Appendix only) Exempt from publication under paragraph 3, Part 1 of Schedule 12A to the Local Government Act 1972 (as amended) as it contains information relating to the financial or business affairs of any particular person (including the authority holding that information)
- Wards affected:** All
- Enclosures:** Exempt Appendix1 – Review of Internal Controls at Investment Managers

**Section 1 – Summary**

The report sets out in summary the contents of the latest internal controls reports for eight of the Fund's ten investment managers. The reports have been reviewed and show that controls are operating effectively and, where exceptions have been identified, that there has been a satisfactory management response.

**FOR INFORMATION**

## **Section 2 – Report**

1. The Report of the Auditor on the Pension Fund's 2009-10 Accounts recommended that due diligence is carried out on the strength of the operational controls at investment managers both through a review of internal controls reports and visits to key investment managers. At the November 2010 meeting of the, then, Pension Fund Investment Panel a template was introduced as a basis for measuring the level of assurance provided by the operational structure supporting each mandate.
2. Operational controls of investment managers relate to the procedures in place to safeguard the Fund's assets against loss through error or fraud and to ensure that client reporting is accurate. Poor operational controls can also hamper the management of the assets leading to reduced returns or increased costs. Should there be a lack of evidence that controls operated by investment managers are robust the continued appointment of the manager would be questionable.
3. Each of The Fund's investment managers prepares an annual report having regard to the International Standard on Assurance Engagements 3402 (ISAE 3402), issued by the International Auditing and Assurance Standards Board, the Technical Release AAF 01/06 (AAF 01/06), issued by the Institute of Chartered Accounts in England and Wales and the control objectives for their services and information technology.
4. Under these protocols the directors/partners of each manager prepare a report focussing on key environmental, business and process issues and make commitments along the following lines:
  - the report describes fairly the control procedures that relate to their stated control objectives;
  - the control procedures are suitably designed such that there is reasonable assurance that the specified control objectives would be achieved if the described control procedures were complied with satisfactorily; and
  - The control procedures described were operating with sufficient effectiveness to provide reasonable assurance that the related control objectives were achieved during the period specified.
5. Each of the managers has engaged a leading firm of auditors to report on the suitability of the design and operating effectiveness of the controls to achieve the related control objectives.

6. A summary of the findings from the most recent reviews is provided in the Appendix. The key points from the findings in respect of the Fund's managers are as follows:

#### **Aviva Investors La Salle**

Following the change of ownership from Aviva Investors to La Salle, the internal control reports will be reported to the Committee on 26 June 2019.

#### **BlackRock Inc.**

The audit, carried out by Deloitte and Touche LLP, indicates that controls are operating effectively and, where exceptions have been identified, that there has been a satisfactory management response.

#### **GMO**

The audit, carried out by PricewaterhouseCoopers LLP, indicates that controls are operating effectively and, where exceptions have been identified, that there has been a satisfactory management response.

#### **Insight Investment**

The audit, carried out by PricewaterhouseCoopers LLP, indicates that controls are operating effectively and, where exceptions have been identified, that there has been a satisfactory management response.

#### **London CIV Longview Partners LLP**

The "audit year" ended on 31 December 2018, the results of which will be reported to the Committee at their meeting on 26 June 2019.

#### **Oldfield Partners LLP**

The audit, carried out by Deloitte LLP, indicates that controls are operating effectively and, where exceptions have been identified, that there has been a satisfactory management response.

#### **Pantheon**

The audit, carried out by KPMG LLP, indicates that controls are operating effectively and, where exceptions have been identified, that there has been a satisfactory management response.

#### **Record Currency Management Ltd**

The audit, carried out by Grant Thornton UK LLP, indicates that controls are operating effectively and, where exceptions have been identified, that there has been a satisfactory management response.

## **Standard Life Investments Inc.**

The audit carried out by KPMG LLP indicates that controls are operating effectively and, where exceptions have been identified, that there has been a satisfactory management response.

### **Financial Implications**

7. Whilst the performance and effective controls of the fund managers is of paramount importance in the performance of the Pension Fund, there are no financial implications arising from this report.

### **Risk Management Implications**

8. The risks arising from investment performance are included in the Pension Fund risk register.

### **Equalities implications**

9. There are no direct equalities implications arising from this report.

### **Council Priorities**

10. Investment performance has a direct impact on the financial health of the Pension Fund which directly affects the level of employer contribution which then, in turn, affects the resources available for the Council's priorities

## **Section 3 - Statutory Officer Clearance**

Name: Sharon Daniels	<input checked="" type="checkbox"/>	on behalf of the Chief Financial Officer
Date: 15 March 2019		

<b>Ward Councillors notified:</b>	<b>NO</b>
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## **Section 4 - Contact Details**

**Contact:** Iain Millar, Treasury and Pension Fund Manager  
Tel: 0208 424 1432

**Background Papers - None**

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