

Review of Internal Controls at Fund Managers

Aviva Investors

“Report on Internal Controls” for the period 1 October 2014 to 30 September 2015.

Auditors: PricewaterhouseCoopers LLP

In the auditor’s opinion, in all material respects:

- a) the description in sections D to G fairly presents the investment management services that were designed and implemented throughout the period from 1 October 2014 to 30 September 2015;
- b) the controls related to the control objectives stated in the description were suitably designed to provide reasonable assurance that the specified control objectives would be achieved if the described controls operated effectively throughout the period from 1 October 2014 to 30 September 2015 and customers applied the complementary customer controls referred to in the scope paragraph of this report;
- c) the controls tested, which together with the complementary customer controls referred to in the scope paragraph of this report, if operating effectively, were those necessary to provide reasonable assurance that the control objectives stated in the description were achieved, operated effectively throughout the period from 1 October 2014 to 30 September 2015.

Of the 171 controls tested by the auditor, 8 exceptions were identified.

These exceptions and the management responses are included at the end of this appendix.

BlackRock Inc

“Report on Controls at BlackRock Placed in Operation and Tests of Operating Effectiveness for Asset Management Services” for the period 1 October, 2014 to 30 September, 2015.

Auditors: Deloitte and Touche LLP

In the auditor’s opinion, in all material respects:

- a.) the description fairly presents the System that was designed and implemented throughout the period 1 October, 2014 to 30 September, 2015;
- b.) the controls related to the control objectives stated in the Description of the System were suitably designed to provide reasonable assurance that the control objectives would be achieved if the controls operated effectively throughout the period 1 October, 2014 to 30 September, 2015, and user entities applied the complementary user entity controls contemplated in the design of BlackRock’s controls throughout the period 1 October, 2014 to 30 September, 2015;
- c.) the controls tested, which together with the complementary user entity controls referred to in the scope paragraph of this report, if operating effectively, were those necessary to provide reasonable assurance that the control objectives stated in the Description of the System were achieved, operated effectively throughout the period 1 October, 2014 to 30 September, 2015.

Of the 137 controls tested by the auditor, 4 exceptions were identified:

- 1.) **Page 76 – Control D.1.8** – For 1 of 45 wire instructions selected for testing, performance of the dual authorisation was unable to be evidenced. Additionally, noted that the unique bank-approved stamps remain unlocked on a dedicated senior manager’s desk when not in use during office hours for the Tokyo, Japan location.

Management Response: Due to the use of unique bank-approved stamps, Japanese trust banks do not require dual authorisation to process wire payments, but management requires dual authorisation for all manual payments globally. While dual authorisation could not be evidenced for one margin payment in a sample, management was able to confirm that the payment was appropriate. In February 2015, BlackRock and the Japanese trust banks implemented a new payment process whereby settlement instructions for individual margin movements are no longer required.

- 2.) **Page 79 – F.1.4** – For 1 of 25 securities selected for testing from the Unreviewed Securities Held in Positions Report, DIG was unable to provide evidence of research and monitoring.

Management Response: Management confirmed that the modification made was authorised, however, evidence of continuous monitoring prior to resolution was not able to be provided for testing. The modified security was reviewed within eighteen business days. Management noted that the exception identified had no impact to BlackRock-managed client accounts.

- 3.) **Page 91 – L.1.1** – For 1 of 50 client reports selected for testing, performance of the quality assurance review was unable to be evidenced.

Management Response: Management confirmed that the relevant teams were notified that the Australian fund-specific report was available for quality assurance review, however, no evidence of review was available for testing. Client Reporting Management re-emphasised the importance of maintaining the evidence of completed reviews. Additionally, Aladdin Client Reporting, a centralised deliverable management tool that captures evidence of approval as a key element of the overall production process, has been implemented in Australia for client-specific deliverables.

- 4.) **Page 102 – Q.1.3** – For 2 of 102 individuals across new hires, transfers, and terminations selected for testing to identify timely notification by HR to corporate groups, noted that HR-act transfer notifications were not sent timely. New access was not granted until notifications were received.

Management Response: HR Management re-emphasised the importance of the quality and timeliness of HR notifications as well as the retention of applicable documentation to the teams responsible for processing personnel updates in the HR system of record. HR is reviewing the timeliness of transfer notifications and processing through key metrics and process review.

GMO

“Report On GMO’s Description of its Advisory Services System and on the Suitability of the Design and Operating Effectiveness of Controls” for the period October 6, 2014 to September 30, 2015

Auditors: PricewaterhouseCoopers LLP

In the auditor’s opinion, in all material respects:

- a.) the description fairly presents the Advisory Services System that was designed and implemented throughout the period October 6 2014 to September 30 2015;
- b.) the controls related to the control objectives of GMO stated in the description were suitably designed to provide reasonable assurance that the control objectives would be achieved if the controls operated effectively throughout the period October 6 2014 to September 30 2015 and user entities applied the complementary user entity controls contemplated in the design of GMO’s controls throughout the period October 6 2014 to September 30 2015;
- c.) the controls of GMO tested, which together with the complementary user entity controls referred to in the scope section of this report, if operating effectively, were those necessary to provide reasonable assurance that the control objectives stated in the description were achieved, operated effectively throughout the period October 6 2014 to September 30 2015.

Of the 159 controls tested by the auditor, 2 exceptions were identified:

- 1) **Page 55 – Control 1d** – For 1 of 5 samples selected for testing, the review of updated client account information from the unit registry was not performed for an Australian account in a timely manner.

Management Response: Management acknowledges the finding. GMO has implemented process changes which are designed to ensure that more timely reviews are carried out going forward.

- 2) **Page 59 – Control 2b** – For 1 of 30 samples selected for testing, a change request for a US and UK account was not sent to the transfer agent in a timely manner.

Management Response: Management acknowledges the finding. The communication of this specific type of change is done manually. Management is considering putting in place additional measures that could prevent reoccurrence of this issue.

Insight Investment

“Statement of Internal Controls Over Investment Management Services for the Year Ended 31 December 2014”

Auditors: KPMG LLP

In the Auditor’s opinion, in all material respects:

- d.) the description on pages 10 to 55 fairly presents the investment management activities that were designed and implemented throughout the period 1 January 2014 to 31 December 2014;
- e.) the controls related to the control objectives stated in the description on pages 10 to 55 were suitably designed to provide reasonable assurance that the specified control objectives would be achieved if the described controls operated effectively throughout the period from 1 January 2014 to 31 December 2014; and
- f.) the controls that we tested were operating with sufficient effectiveness to provide reasonable assurance that the related control objectives stated in the description were achieved throughout the period 1 January 2014 to 31 December 2014.

Of the 133 controls tested by the auditor, 5 exceptions (of which 3 appear to relate to the same issue) were identified:

1. KPMG also inspected the [currency risk management] set up schedule to determine whether the schedule had been signed off by Research and Currency Application Support Team to verify the accuracy and completeness of the restrictions coded.

Exception noted; For 1 out of the 2 clients selected, it was noted that the signed account set up schedule had not been retained.

Management response: The missing Account Set-up Schedule above refers to an existing account transition. All investment management activities were handled correctly. However, the CPM Team failed to follow the procedure of filing a paper based Account Set-up Schedule. The remedial action was to remind members of the CPM Team to follow the established procedure.

2. For a selection of new [Currency Risk Management] accounts inspected the account set-up schedule to determine whether the schedule had been signed off by Research and Currency Application Support Team to verify the accuracy and completeness of the restrictions coded.

Exception noted; For 1 out of the 2 clients selected, it was noted that the signed account set up schedule had not been retained.

Management response: The missing Account Set-up Schedule above refers to an existing account transition. All investment management activities were handled correctly. However, the CPM Team failed to follow the procedure of filing a paper based Account Set-up Schedule. The remedial action was to remind members of the CPM Team to follow the established procedure.

3. For a selection of weeks, inspected meeting minutes for the Investment Management Team meetings to determine whether the minutes included discussion of strategy and portfolio construction.

Exception noted: For 1 out of 5 weeks selected it was noted that the meeting minutes had not been retained.

Management response: The meeting referred to above is the Global Government meeting. The meeting was held as scheduled, however due to an administrative error, a copy of the minutes could not be located on file. The remedial action was to remind the meeting Secretary of the established procedure to retain meeting minutes.

4. For a selection of client payment instructions, inspected the signed client instructions and relevant authorised signatory list to determine whether the client instructions had been validated by the CS team.

KPMG also inspected the cash flow posting to determine whether the instruction had been input completely and accurately and it had been input and authorised by two members of the payments team.

Exception noted: For 10 out of 40 client instructed payments selected Insight were unable to produce the original signed client instruction.

Management response: The cash payments process was insourced from Northern Trust in August 2012. This resulted in a number of legacy regular payments moving from NT to Insight.

A subsequent review of the process highlighted the fact that the original client instructions when each payment was established had not been retained by NT. This is not in line with Insight's current procedures.

At this point Insight assessed the risk profile of each client (and payment) for which there was no original authorisation on file. This was performed using the criteria for simplified due diligence. Each client and payment was concluded to be low risk and therefore a decision was made to re-see the client instructions for filing at the next client review date. Low risk clients are on a 3 year cycle and therefore these original client instructions will not be on file until late 2015.

5. For a selection of new [Currency Risk Management] accounts inspected the account set-up schedule to determine whether the schedule had been signed off by Research and Currency Application Support Team to verify the accuracy and completeness of the restrictions coded.

Exception noted; For 1 out of the 2 clients selected, it was noted that the signed account set up schedule had not been retained.

Management response: The missing Account Set-up Schedule above refers to an existing account transition. All investment management activities were handled correctly. However, the CPM Team failed to follow the procedure of filing a paper based Account Set-up Schedule. The remedial action was to remind members of the CPM Team to follow the established procedure.

Longview Partners LLP

“Assurance Report on Internal Controls” for the period 1 January 2014 to 31 December 2014.

Auditors: Moore Stephens LLP

In the Auditor’s opinion, in all material respects:

- a) the accompanying report by members describes fairly the control procedures that relate to the control objectives referred to above which were in place as at 31 December 2014;
- b) the control procedures described in section 6 were suitably designed such that there is reasonable, but not absolute, assurance that the specified control objectives would have been achieved if the described control procedures were complied with satisfactorily; and
- c) the control procedures that were tested, as set out in the attachment to this report were operating with sufficient effectiveness for us to obtain reasonable, but not absolute, assurance that the related control objectives were achieved in the period 1 January 2014 to 31 December 2014.

Of the 92 controls tested by the auditor, 0 exceptions were identified

Oldfield Partners LLP

“AAF 01/06 Assurance Report on Internal Controls” for the period 1 July 2014 to 30 June 2015

Auditors: Deloitte LLP

In the auditor’s opinion, in all material respects:

- a.) the description on pages 10 to 37 fairly presents the control procedures of Oldfield Partners LLP’s investment management services that were designed and implemented throughout the period 1 July 2014 to 30 June 2015;
- b.) the controls related to the control objectives stated in the description on pages 10 to 37 were suitably designed to provide reasonable assurance that the specified control objectives would be achieved if the described controls operated effectively throughout the period 1 July 2014 to 30 June 2015; and
- c.) the controls that we tested were operating with sufficient effectiveness to provide reasonable assurance, that the related control objectives stated in the description were achieved throughout the period 1 July 2014 to 30 June 2015.

Of the 153 controls tested by the auditor, 0 exceptions were identified.

Pantheon

“Type II Report on Controls Placed in Operation Relating to Investment Advisory and Management Activities” for the period from 1 October, 2014 to 30 September, 2015

Auditors: KPMG LLP

In the auditor’s opinion, in all material respects:

- a.) the Description fairly presents the Investment Advisory and Management Activities system as designed and implemented throughout the period from 1 October 2014 to 30 September 2015;
- b.) the controls related to the control objectives stated in the Description were suitably designed throughout the period from 1 October 2014 to 30 September 2015; and
- c.) the controls tested, which were those necessary to provide reasonable assurance that the control objectives stated in the Description were achieved, operated effectively throughout the period from 1 October 2014 to 30 September 2015.

Of the 107 control objectives tested by the auditor, 0 exceptions were identified:

Record Currency Management Ltd

“Report on Internal Controls (AAF 01/06)” for the period 1 April, 2014 to 31 March, 2015.

Auditors: Grant Thornton UK LLP

The auditors confirmed that:

- a.) the report describes fairly the control procedures that relate to the control objectives referred to above which were in place as at 31 March 2015;
- b.) the control procedures described 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
- c.) the control procedures described were operating with sufficient effectiveness to provide reasonable assurance that the related control objective were achieved during the specified period.

Of the 137 controls tested by the auditor, 0 exceptions were identified.

Standard Life Investments

“Internal Controls Report” for 1 October 2014 to 30 September 2015

Auditors: PricewaterhouseCoopers LLP

In the Auditor’s opinion, in all material respects:

- (a) the description on pages 24 to 119 fairly presents the in-scope investment management services that were designed and implemented throughout the period from 1 October 2014 to 30 September 2015;
- (b) the controls related to the control objectives stated in the description were suitably designed to provide reasonable assurance that the specified control objectives would be achieved if the described controls operated effectively throughout the period from 1 October 2014 to 30 September 2015 and clients applied the complementary client controls referred to in the scope paragraph of this report;

- (c) the controls tested, which together with the complementary client controls referred to in the scope paragraph of this report, if operating effectively, were those necessary to provide reasonable assurance that the control objectives stated in the description were achieved, operated effectively throughout the period from 1 October 2014 to 30 September 2015.

Of the 334 controls tested by the auditor, 7 exceptions were identified:

These exceptions and the management responses are included at the end of this appendix.

State Street Global Advisors

“Service Organisation Control Report” July 1, 2014 – June 30, 2015

Auditors: Ernst & Young LLP

In the auditor’s opinion, in all material respects:

- a.) the Description fairly presents SSGA’s Investment Advisory System Applicable to the Processing of Client Transactions that was designed and implemented throughout the period July 1, 2014 to June 30, 2015;
- b.) the controls related to the control objectives stated in the Description were suitably designed to provide reasonable assurance that the control objectives would be achieved if the controls operated effectively throughout the period July 1, 2014 to June 30, 2015 and if user entities applied the complementary user entity controls contemplated in the design of SSGA’s controls and if State Street’s Information Technology and Global Security divisions applied the controls contemplated in the design of State Street’s controls throughout the period July 1, 2014 to June 30, 2015;
- c.) the controls of SSGA tested, which, together with the complementary user entity controls and States Street’s Information Technology and Global Security divisions’ controls referred to in the scope paragraph of this report if operating effectively, were those necessary to provide reasonable assurance that the control objectives stated in the Description were achieved, operated effectively throughout the period July 1, 2014 to June 30, 2015.

Of the 165 controls tested by the auditor, 4 exceptions were identified:

- 1.) **Control 2.1** – Out of a combined sample of 87 new or amended funds/accounts selected for testing, we identified the following deviations in the UK:
 - For 1 out of 25 new or amended fund/accounts selected for testing, a checklist was not completed

- For 2 out of 25 new or amended fund/accounts selected for testing, the checklist was not reviewed by a second person

Management Response: Management acknowledges that for 1 out of 25 new or amended fund/accounts selected for testing in the UK, a checklist was not completed. Management also acknowledges that for 2 out of 25 new or amended fund/accounts selected for testing in the UK, the checklist was not reviewed by a second person. Management confirmed that the new or amended funds/accounts procedures were performed accurately and timely based on the contract/agreement. Management has reinforced with the appropriate personnel the requirement to maintain proper documentation of review.

2.) **Control 12.1** – Accounts set up as Investment Programs or Mandates in CRS in the US:

- For all 3 accounts selected for testing during the period July 1 2014 to March 31 2015 the client reporting package did not include the new account. Management determined that all accounts set up in the US as Investment Programs or Mandates during the period July 1 2014 to March 31 2015 were not included on the respective client reporting package.
- No deviations were noted for accounts set up as Investment Programs or Mandates in CRS during the period April 1 2015 to June 30 2015.

Management Response: Management acknowledges that for the 3 accounts tested, the new account was not included in the client reporting package. Management determined that due to a transition of responsibility in setting up new accounts, certain manual steps were not completed for accounts set up as Investment Programs or Mandates and therefore were excluded from being captured in the client reporting package. Management performed a full analysis of the July 2014 through March 2015 time periods and found that 60 new accounts set up as Investment Programs or Mandates out of 601 total new accounts were omitted from the pdf version of their respective performance report and were therefore not included in the client reporting package. This affected 13 out of 189 clients that had changes and 53 reports out of 13,513 that were distributed during this time. Refer to Section V “Client Reporting” for additional information on the availability of client reports and information on ssga.com. Effective April 1 2015, Management has implemented an additional step within the change management process of identifying client package configuration levels of Client, Investment Program and Mandate in the New/Closed Account report. Management has reinforced with appropriate personnel the applicable change management process that needs to be followed for all client report changes.

- 3.) **Control 13.6** – For 2 out of 2 monthly RMS generated listings of approved invoices selected for testing, it was noted that the invoice listings and exceptions were not reviewed timely.

Management Response: Management acknowledges that for 2 out of 2 monthly RMS generated listings of approved invoices selected for testing, it was noted that the invoice listings and exceptions were not reviewed timely. Management confirms that all invoices on the 2 monthly RMS generated listings of approved invoices were prepared and reviewed by separate individuals. Management has reinforced the requirement to perform timely review of the RMS generated listing of approved invoices.

- 4.) **Control 13.7** – For 2 out of 2 monthly reconciliations of client prepared invoices to RMS fee calculations selected for testing it was noted that the review of the reconciliations was not performed timely.

Management Response: Management acknowledges that for 2 out of 2 monthly reconciliations of client prepared invoices to RMS fee calculations selected for testing were not reviewed timely. Management confirms that variances were researched as appropriate. Management has reinforced the requirement to perform timely review of the fee payment reconciliation.

Table showing number of controls tested by each manager and the number of exceptions as reported to Committee in 2014, 2015 and 2016

Fund Manager	Control Objectives Tested 2014 Report	Number of Exceptions 2014 Report	Control Objectives Tested 2015 Report	Number of Exceptions 2015 Report	Control Objectives Tested 2016 Report	Number of Exceptions 2016 Report
Aviva	158	5	177	7	171	8
BlackRock	182	5	138	2	137	4
GMO	N/A	N/A	200	1	159	2
Insight	N/A	N/A	133	5	133	5
Longview	101	0	92	0	92	0
Oldfield Partners LLP	N/A	N/A	149	3	153	0
Pantheon	97	1	103	1	107	0
Record	137	3	138	0	137	0
Standard Life	213	4	232	4	334	7
State Street	159	5	156	3	165	4

