

REPORT FOR: Pension Fund Committee

Date of Meeting: 6 September 2016

Subject: Information Report – Annual Review of Internal Controls at Insight Investment

Responsible Officer: Dawn Calvert, Director of Finance

Exempt: No

Wards affected: All

Enclosures: Appendix - Review of Internal Controls at Fund Managers – Insight Investment

Section 1 – Summary

The report sets out in summary the contents of the latest internal controls report from Insight Investment.

FOR INFORMATION

Section 2 – Report

1. The Report of the Auditor on the Pension Fund's 2009-10 Accounts recommended that due diligence be 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. Operational control reviews focus on the key environmental, business and process issues.
4. At their meeting on 9 March the Committee received reports in respect of all its managers.
5. For eight of the Fund's managers the latest reports received were for periods of 12 months ended during 2015 but for two of them, Insight Investment and Longview Partners LLP, they were in respect of the year ended 31 December 2014. At their meeting on 21 June 2016 the Committee received a report in respect of Longview for the year ended 31 December 2015 and this report relates to Insight Investment for the same period.

Insight Investment

The report carried out by KPMG LLP entitled "ISAE 3402 AAF 01/06 Statement of Internal Controls over Investment Management Services" included the following:

In our opinion, in all material respects, based on the criteria including specified control objectives described in the directors' assertion on page 3:

- a) the description on pages 10 to 54 fairly presents the investment management activities that were designed and implemented throughout the period from 1 January 2015 to 31 December 2015;
- b) the controls related to the control objectives stated in the description on pages 10 to 54 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 2015 to 31 December 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 January 2015 to 31 December 2015.

Of the 182 controls tested by the auditor, 8 exceptions (all of which appear to relate to the same issue) were identified. Further detail is provided in the attached Appendix.

Financial Implications

6. 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

7. The risks arising from the controls exercised by the Fund's investment managers are included in the Pension Fund risk register.

Equalities implications

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

Council Priorities

9. 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: Dawn Calvert



Director of Finance

Date: 18 August 2016

Ward Councillors notified:

NO

Section 4 - Contact Details

Contact: Ian Talbot, Treasury and Pension Fund Manager
0208 424 1450

Background Papers - None