

REPORT FOR: Pension Board

Date of Meeting: 20 June 2017

Subject: **Information Report** – Annual Review of Internal Controls at Longview Partners

Responsible Officer: Dawn Calvert, Director of Finance

Exempt: No

Wards affected: All

Enclosures: None

Section 1 – Summary

The report sets out in summary the contents of the latest internal controls reports from Longview Partners LLP.

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. 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. At their meeting on 7 March 2017 the Board received a summary of the findings from the most recent reviews as provided by eight of the Fund's ten investment managers. Since the Board met a report has been received from Longview Partners LLP in respect of the year ended 31 December 2016 the key points from which are given below. Insight Investment have advised that their report for the year ended 31 December 2016 will be available shortly and a summary will be provided for the Board at their next meeting.

Longview Partners

The report carried out by Ernst & Young LLP entitled “AAF 01/06 Assurance Report on Internal Controls for the year to 31st December 2016” included the following:

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

- a.) the description on pages 6 to 8 fairly presents the service organisation activities that were designed and implemented throughout the period from 1st January 2016 to 31st December 2016;
- b.) the controls related to the control objectives stated in the description on pages 9 to 10 were suitably designed to provide reasonable assurance that the specified control objectives would be achieved if the described controls operated effectively throughout the period 1st January 2016 to 31st December 2016;
- 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 1st January 2016 to 31st January (sic) 2016.

Of the 106 controls tested by the auditor, 2 exceptions were identified:

Control 4.6.1.3 – The evidences provided from the ticketing tool captured the authorisation of the change; however, these did not formally capture the testing and approved steps before deployment of the changes to production.

Mitigating controls or factors: Management performed retrospective reviews of all seven (7) changes during the reporting period and obtained written confirmation from the business owners/approvers that they had approved these changes to go into production.

Management Response: Whilst we are confident that all changes were correctly tested, approved and deployed, we agree that the Change Management ticketing system should be improved to more accurately record each stage of the change. We will implement this improvement in the coming year.

Control 4.6.1.4 – For internally developed systems, the developers move code changes to UAT and to production and therefore could bypass the Change Management process. Additionally, they have privileged access at the operating system, database and application levels, and hence, they could add, amend and remove their own access.

Management Response: Longview understands the importance of the segregation of duties for developers, however given the multifaceted role of our IT team, pure segregation of duties is unachievable. Longview has controls in our downstream processes which would highlight any unplanned changes to our internally developed systems.

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 Dawn Calvert Director of Finance

Date: 5 June 2017

Ward Councillors notified: NO

Section 4 - Contact Details

Contact: Ian Talbot, Treasury and Pension Fund Manager
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Background Papers - None