

## **REPORT FOR: Pension Fund Committee**

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**Date of Meeting:**

12 March 2019

**Subject:**

**Information Report** – Annual Review of Internal Controls at Investment Managers

**Responsible Officer:**

Dawn Calvert, Director of Finance

**Exempt:**

No, except for appendix 1 which is 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**

The audit, carried out by PricewaterhouseCoopers LLP, showed that. During the year two of the manually monitored mandate compliance controls, did not operate effectively. However the majority of mandate

rules are automated and as a result the impacted population of investment guidelines is extremely low. Mitigating controls exist outside this report through reliance on fund managers for low risk rules that cannot be automated. Aviva have confirmed that there have been no breaches of investment guidelines during the period under review and will be strengthening the controls in this area as a priority.

### **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 year” ended on 31 December 2017, the results of which will be reported to the Committee at their meeting on 27 June 2018.

### **Longview Partners LLP**

The “audit year” ended on 31 December 2017, the results of which will be reported to the Committee at their meeting on 27 June 2018.

### **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 Dawn Calvert  Director of Finance

Date: 27 February 2019

**Ward Councillors notified:** NO

## Section 4 - Contact Details

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

## **Background Papers - None**