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**REPORT FOR: PENSION FUND  
COMMITTEE**

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<b>Date of Meeting:</b>	9 September 2020
<b>Subject:</b>	Annual Review of Internal Controls at Investment Managers
<b>Responsible Officer:</b>	Dawn Calvert – Director of Finance and Assurance
<b>Exempt:</b>	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)
<b>Wards affected:</b>	All
<b>Enclosures:</b>	Exempt Appendix 1 – Review of Internal Controls at Investment Managers

## **Section 1 – Summary and Recommendations**

This report provides the Committee with a summary of the contents of the latest internal controls reports for seven of the Fund's 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.

### **Recommendation**

The Committee is asked to note the report.

## **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:

### **LaSalle Investment Management**

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.

## **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 KPMG LLP, indicates that controls are operating effectively and, where exceptions have been identified, that there has been a satisfactory management response.

## **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 RSM Risk Assurance Services LLP, indicates that controls are operating effectively and, where exceptions have been identified, that there has been a satisfactory management response.

## **London CIV**

LCIV have provided an internal control assurance report on the sub-funds held by the Pension Fund, as follows

- LCIV Multi Asset Credit Fund – the audit, carried out by Deloitte & Touche LLP, indicates that controls are operating effectively, and, where exceptions have been identified, that there has been a satisfactory management response.
- LCIV Global Equity Focus Fund – the audit, carried out by EY, and, where exceptions have been identified, that there has been a satisfactory management response.
- LCIV Infrastructure Fund - the audit, carried out by EY, and, where exceptions have been identified, that there has been a satisfactory management response.

## Legal Implications

7. There are no legal implications arising from this report.

## Financial Implications

8. 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

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

## Equalities implications / Public Sector Equality Duty

10. Was an Equality Impact Assessment carried out? No  
There are no direct equalities implications arising from this report

## Council Priorities

11. 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: Dawn Calvert  Chief Financial Officer

Date: 27/08/2020

Name: Caroline Eccles  on behalf of the  
Monitoring Officer

Date: 27/08/2020

Name: Dawn Calvert  on behalf of the  
Corporate Director of  
Resources

Date: 27/08/2020

**Ward Councillors notified:**

Not applicable.

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

**Contact:** Jeremy Randall – Interim Pensions Consultant  
Email: [Jeremy.randall@harrow.gov.uk](mailto:Jeremy.randall@harrow.gov.uk)

**Background Papers:** None