

**Report for: Pension Fund
Committee**

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| Date of Meeting: | 24 June 2021 |
| Subject: | Review of Internal Controls at Investment Managers |
| Responsible Officer: | Dawn Calvert – Director of Finance and Assurance |
| Exempt: | Yes – (Appendix 1 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) |
| Wards affected: | List Ward(s) affected by decision. None |
| Enclosures: | 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 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.

Recommendations:

The Committee is requested to note the report.

Section 2 – Report

1. 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.
2. 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.
3. 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.
4. 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.
5. A summary of the findings from the most recent reviews is provided in Appendix 1. The reports and management responses indicate that each of the fund managers demonstrates appropriate levels of controls, and that where exceptions have been identified via testing, appropriate action has been taken to resolve the issue. Where the date of the most recent report is earlier than 31 March 2021, "bridging letters" have been provided by the managers confirming that the control environment was unchanged in the subsequent period.
6. The key points from the findings in respect of the Fund's managers are as follows:

LaSalle Investment Management

The most recent audit report, to 31 December 2019, carried out by Deloitte LLP, indicated that controls are operating effectively and, where exceptions have been identified, that there has been a satisfactory

management response. This was reported to the Committee's meeting in September 2020. A bridging letter was provided covering the subsequent period.

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 most recent audit report, carried out by Deloitte LLP, covers the period to 30 June 2019. It indicated that controls are operating effectively and, where exceptions have been identified, that there has been a satisfactory management response. This was reported to the Committee's meeting in September 2020. A bridging letter was provided covering the subsequent period. The Fund no longer holds investments with Oldfield Partners, having redeemed them in the first quarter of 2021.

Pantheon

The last report received, covering the audit of the period to 30 September 2019, carried out by KPMG LLP, indicated that controls were operating effectively and, where exceptions have been identified, that there had been a satisfactory management response. This was reported to the Committee in September 2020.

The latest report is awaited.

Record Currency Management Ltd

The last report received, covering the audit of the period to 31 March 2020, carried out by RSM Risk Assurance Services LLP, indicated that controls were operating effectively and, where exceptions have been identified, that there had been a satisfactory management response. This was reported to the Committee in September 2020.

The latest report is awaited.

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 last audit, carried out by Deloitte & Touche LLP, for the period to 31/12/2019, indicates that controls are operating effectively, and, where exceptions have been identified, that there has been a satisfactory management response. A bridging letter covering the period to 31 March 2021 was provided by CQS.
- 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 Sustainable Equity Fund – the audit, carried out by PWC, indicates that controls are operating effectively, 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.
- LCIV Global Bond Fund - the audit, carried out by PWC, and, where exceptions have been identified, that there has been a satisfactory management response.

Legal Implications

7. There are no direct 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 and managers' operational arrangements are included in the Pension Fund risk register which is reviewed elsewhere on this agenda.

Equalities implications / Public Sector Equality Duty

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

Council Priorities

12. 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

Statutory Officer: Dawn Calvert

Signed by the Chief Financial Officer

Date: 08/06/2021

Statutory Officer: Caroline Eccles

Signed on behalf of the Monitoring Officer

Date: 10/06/2021

Chief Officer: Dawn Calvert

Signed on behalf of the Corporate Director

Date: 08/06/2021

Mandatory Checks

Ward Councillors notified: Not applicable

Section 4 - Contact Details and Background Papers

Contact: Jeremy Randall – Interim Pensions Manager

Email: Jeremy.randall@harrow.gov.uk

Telephone 020 8736 6552

Background Papers: None