

**Report for: Pension Fund  
Committee**

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<b>Date of Meeting:</b>	13 September 2021
<b>Subject:</b>	Review of Internal Controls at Investment Managers
<b>Responsible Officer:</b>	Dawn Calvert – Director of Finance and Assurance
<b>Exempt:</b>	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)
<b>Wards affected:</b>	List Ward(s) affected by decision. <b>None</b>
<b>Enclosures:</b>	Exempt Appendix 1 – Review of Internal Controls at Investment Managers

**Section 1 – Summary and Recommendations**

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This report provides the Committee with a summary of the contents of the latest internal controls reports for the Fund's investment managers which were not available at the June meeting. 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. At the Committee's meeting on 24 June 2021, the reports from most of the Fund's investment managers were reported. There were some where reports from 2020-21 were not available at the time of that meeting. This was largely because of the timing of the June meeting, this matter having been considered by the Committee in September 2020 rather than in June 2020.
6. Subsequently, reports have been obtained from the following managers
  - Record Currency Management
  - Pantheon
  - LaSalleand are reviewed in this report. 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.

7. The key points from the findings in respect of these managers are as follows:

#### **LaSalle Investment Management**

The most recent audit report, to 31 December 2020, 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.

#### **Pantheon**

The most recent report received, covering the audit of the period to 30 September 2020, 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.

#### **Record Currency Management Ltd**

The last report received, covering the audit of the period to 31 March 2021, 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.

#### **London CIV**

Since the last meeting of the Committee, LCIV have provided two additional documents

- a. A report titled "Third party Controls Oversight Summary" which sets out how the CIV carries out its role in regard to reviewing and discussing matters arising from individual managers' internal control reports.
  - b. A further manager's internal control assurance report, in respect of the LCIV Multi Asset Credit Fund (which is managed by CQS). The last audit, carried out by Deloitte & Touche LLP, for the period to 31/12/2020, 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 CQ.
8. A summary of the findings from the most recent reports is provided in Appendix 1 (Exempt). 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

#### **9. Oldfield Partners LLP**

A further request has been made to Oldfield Partners for a copy of their most recent report. A response was received advising that this is in the process of being finalised and will be provided shortly.

The previous audit report, carried out by Deloitte LLP, covering the period to 30 June 2019, indicated that controls were operating effectively and, where exceptions had been identified, that there had 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 to 31 March 2020.

The Fund no longer holds investments with Oldfield Partners, having redeemed them in the first quarter of 2021.

## **Legal Implications**

10. There are no direct legal implications arising from this report.

## **Financial Implications**

11. 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**

12. The risks arising from investment performance and managers' operational arrangements are included in the Pension Fund risk register which is reviewed regularly – the most recent review was at the 24<sup>th</sup> June 2021 meeting of the Committee.

## **Equalities implications / Public Sector Equality Duty**

13. Was an Equality Impact Assessment carried out? No

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

## **Council Priorities**

15. 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: 25/08/2021**

**Statutory Officer: Joane Mohan**  
Signed on behalf of the Monitoring Officer  
**Date: 31/08/2021**

**Chief Officer: Charlie Stewart**  
Signed on behalf of the Corporate Director  
**Date: 31/08/2021**

## **Mandatory Checks**

**Ward Councillors notified: Not applicable**

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

**Contact:** Jeremy Randall – Interim Pensions Manager  
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**Background Papers:** None