

**Report for: Pension Fund  
Committee**

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<b>Date of Meeting:</b>	12 October 2022
<b>Subject:</b>	Review of Investment Managers' Internal Control Reports
<b>Responsible Officer:</b>	Dawn Calvert – Director of Finance and Assurance
<b>Exempt:</b>	Public with Exempt Appendix 1 - 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>	None
<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. 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 recommended 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 2022, "bridging letters" have been provided by the managers confirming that the control environment was unchanged in the subsequent part of the year.
6. The key points from the findings in respect of the Fund's managers are as follows:

### **BlackRock Inc.**

The audit, carried out by Deloitte and Touche LLP, covers the year to 30 September 2021, indicates that controls are operating effectively and that

no exceptions have been identified. A bridging letter has been provided covering the period from 1 October 2021 to 31 March 2022.

### **Insight Investment**

The audit, carried out by KPMG LLP, covering the period to 30 September 2021, indicates that controls are operating effectively and provided reasonable assurance. No exceptions were identified. A bridging letter has been provided covering the period from 1 October 2021 to 31 March 2022.

### **Record Currency Management Ltd**

The last report received, covering the audit of the year to 31 March 2022, carried out by RSM Risk Assurance Services LLP, indicated that controls were operating effectively and provided reasonable assurance.

### **GMO**

The audit, carried out by PWC LLP, covering the year to 30 September 2021, indicates that controls are operating effectively and that an appropriate response was provided to all exceptions, enabling confirmation that the audit provided reasonable assurance. A bridging letter has been provided covering the period from 1 October 2021 to 31 March 2022.

### **LaSalle**

The audit report, carried out by Deloitte LLP, covering the year to 31 December 2021, indicates that controls are operating effectively and that an appropriate response was provided in respect of all exceptions identified, enabling confirmation that the audit provided reasonable assurance.. A bridging letter has been provided covering the period from 1 January 2022 to 31 March 2022.

### **Pantheon**

The audit, carried out by KPMG LLP, covering the year to 30 September 2021, indicates that controls are operating effectively and that an appropriate response was provided to all exceptions, enabling confirmation that the audit provided reasonable assurance. A bridging letter has been provided covering the period from 1 October 2021 to 31 March 2022.

### **London CIV**

LCIV have provided a control oversight report – this sets out how LCIV reviews the control frameworks put in place by the underlying asset managers, including its process for reviewing internal control assurance reports and discussing any exceptions highlighted with the managers. The report also covers the operational arrangements of LCIV's custody services provider (Northern Trust) and its own internal control and governance framework.

In regard to the various sub-funds in which the LBH Pension Fund, is invested, the various auditors provided assurances that controls were operating correctly, and where exceptions had been identified that the response from management had been satisfactory.

## **Legal Implications**

7. There are no direct legal implications arising from this report.
8. The Pension Fund Committee has the following powers and duties:
  - i. to exercise on behalf of the Council, all the powers and duties of the Council in relation to its functions as Administering Authority of the LB Harrow Pension Fund (the fund), save for those matters delegated to other Committees of the Council or to an Officer;
  - ii. the determination of applications under the Local Government Superannuation Regulations and the Teachers' Superannuation Regulations;
  - iii. to administer all matters concerning the Council's pension investments in accordance with the law and Council policy;
  - iv. to establish a strategy for the disposition of the pension investment portfolio; and
  - v. to appoint and determine the investment managers' delegation of powers of management of the fund;
  - vi. to determine cases that satisfy the Early Retirement provision under Regulation 26 of the Local Government Pension Scheme Regulations 1997 (as amended), and to exercise discretion under Regulations 8 of the Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2000 (as amended, subject to the conditions now agreed in respect of all staff, excluding Chief Officers;
  - vii. to apply the arrangements set out in (vi) above to Chief Officers where the application has been recommended by the Chief Executive, either on the grounds of redundancy, or in the interests of the efficiency of the service, and where the application was instigated by the Chief Executive in consultation with the leaders of the political groups.

## **Financial Implications**

9. 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.

## **Risk Management Implications**

10. The Pension Fund's Risk Register is reviewed regularly by both this Committee and by the Pension Board. The latest review was carried out at the 9<sup>th</sup> March meeting of the Committee.
11. There are no specific risk management implications arising from this report. The level of risk to which its investments are exposed is a key component in developing the Fund's investment strategy.

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

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

## **Section 3 - Statutory Officer Clearance**

**Statutory Officer: Dawn Calvert**

Signed by the Chief Financial Officer

**Date: 01/09/2022**

**Statutory Officer: Sharon Clarke**

Signed on behalf of the Monitoring Officer

**Date: 31/08/2022**

**Chief Officer: Dawn Calvert**

Signed on behalf of the Chief Executive

**Date: 01/09/2022**

## **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**