

Annual Review of Fund Manager & Custodian Compliance with Statements of Internal Control	
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<i>Papers with this report</i>	None
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SUMMARY

As a good practice measure, an annual review is undertaken by officers of the Statements of Internal Control for all Fund Managers and for the Custodian of the Pension Fund. This report is to provide assurance to Committee that this review has been completed and to highlight any issues which require further investigation.

RECOMMENDATIONS

Committee is requested to note the outcome of the review of the internal controls in place with the fund managers and custodian and to agree that follow up requirements will be discussed and managed through the Investment Sub Committee who will agree actions as part of their work for the coming year.

INFORMATION

The Statement on Standards for Attestation Engagements (SSAE 16) and the Service Organisation Control Report (SOC) are guidance which allows service organisations to disclose their control activities and processes to their customers and their customers' auditors in a uniform reporting format. The issuance of a service auditor's report prepared in accordance with SSAE 16 and SOC signifies that a service organisation has had its control objectives and control activities examined by an independent accounting and auditing firm. The service auditor's report, which includes the service auditor's opinion, is issued to the service organisation at the conclusion of the examination.

Latest versions of the custodian and fund manager Statements of Internal Control and audit opinions were provided by Northern Trust, Ruffer, State Street Global Advisors, JP Morgan, Kempen and UBS. M&G and Newton outsource their back office services to a custodian who provided reports. Adams Street Partners and LGT Capital Partners have not implemented their own SSAE 16/SOC review. The audit opinion for those managers who undertook an external review showed the described controls were suitably designed to provide reasonable assurance that the specified control objectives would be achieved. Testing showed some minor exceptions where the control had not been applied successfully and these are summarised below:

- The fund's custodian **Northern Trust** had a number of exceptions relating to areas such as Trade settlements, Daily Cash reconciliation and Information Technology. Although none of the exceptions noted had any impact on the fund measures have been put in place to improve processes in these areas. The issues raised will be followed up with our liaison contact at Northern Trust. Also, a note will be made to ensure that any repeat of these exceptions is highlighted in the next financial year's report (2013/14), and will be reported to committee.
- Of the five exceptions noted for **JP Morgan**, one has resulted in a change to their procedures, which has meant that production personnel can not make changes to data without a supervisors permission.
- **M&G** have outsourced their administration and custody services to State Street Corporation. The review of State Street SOC report showed an exceptions ranging from Processing of Portfolio Administration data to Cash reconciliation. The main area of concern in most of the 16 exceptions noted relates to maintenance of evidence of subsequent review of processes. Management have however reinforced the need for documented evidence to all staff involved.
- **SSgA** had two areas where exceptions were noted. These included SSgA been unable to produce evidence of Portfolio Manager ("PM") review of all of the trade tickets/blotters. But management testing has confirmed that the control was operating effectively throughout the period under review.
- Most of the 14 exceptions noted in the BNY Mellon report for **Newton Asset Management** revolved around Information Technology processes. In all cases, there were no breaches of security or lapses in processes. But human error was the main reason most issues. Management reinforced the issues with relevant staff and have recommended for training on protocol adherence.
- Two areas where exceptions were noted for **UBS** include trade administration and in particular retention of Longview trade tickets. Management confirmed the trades in question were correctly executed, but accepted to tighten up controls around retention of documentary evidence of trades. The second area of concern was IT.
- There was one main exception noted in **Ruffer's** control report, which centred on Accounts setup and administration in compliance with client agreements. In this particular exception there was no formal sign off of AML (Anti Money Laundering) documentation checks. Management agreed with the exception and reinforced with staff the importance of the process and need to evidence adherence to it.

Further details will be taken to a future meeting of the ISC to review as part of their monitoring of Fund Managers.

FINANCIAL IMPLICATIONS

There are no direct financial implications arising directly from the report

PART I - MEMBERS, PRESS & PUBLIC

LEGAL IMPLICATIONS

There are no legal implications arising directly from the report

BACKGROUND DOCUMENTS

Fund Manager SSAE 16/SOC Reports

PART I - MEMBERS, PRESS & PUBLIC

PENSIONS COMMITTEE – 19 JUNE 2013