

COMMITTEE: Pensions Committee	DATE: 17 November 2011	CLASSIFICATION: Unrestricted	REPORT NO.	AGENDA NO.
REPORT OF: Corporate Director of Resources ORIGINATING OFFICER(S): Oladapo Shonola – Chief Financial Strategy Officer		TITLE: Review of Internal Control Report Ward(s) affected: N/A		

Lead Member	Cllr Alibor Choudhury - Resources
Community Plan Theme	All
Strategic Priority	One Tower Hamlets

1. SUMMARY

- 1.1 This report presents the findings of a review of the adequacy of internal control measures put in place by the pension fund managers.
- 1.2 Each fund manager is required to submit to the Council an audited Statement of Auditing Standards No. 70 (SAS 70). The SAS 70 is an internationally recognised audit standard that assesses the adequacy of internal controls in an organisation and is designed to provide third party assurance on how service organisations conduct business.
- 1.3 All the SAS 70 reports have been audited and approved by independent auditors. Officers have also reviewed these reports and are satisfied that the internal controls that are in place are satisfactory.

2. DECISIONS REQUIRED

- 2.1 Members are recommended to note this report.

3. REASONS FOR DECISIONS

- 3.1 The review of fund managers' SAS 70 reports provides assurance to the Pension Fund (Members and Trustees) that fund managers have adequate controls and safeguards in place for managing the Fund assets. It is appropriate for the committee and Fund members to be kept abreast of any risks identified through this process and the likely impact of such risks to the Fund.

4. ALTERNATIVE OPTIONS

- 4.1 There are no alternative options as it is a statutory requirement that the Pension Fund administrators review the controls and safeguards in place for managing the Fund assets and report the outcome of the review to the Trustees and Members of the Fund.

5. BACKGROUND

- 5.1 Statement on Auditing Standards No.70 (SAS 70) is an internationally recognised auditing standard developed by the American Institute of Certified Public Accountants (AICPA). SAS 70 is widely recognised, because it shows that a service organisation has been through an in-depth audit of their control objectives and control activities, which often include controls over information technology and other related processes.
- 5.2 This authoritative guidance requires pension fund managers to disclose their control activities and processes in a universally recognised reporting format, which is updated annually.
- 5.3 The Fund requires that fund managers prepare and provide SAS 70 reports as part of their reporting requirement to the Fund. These reports provide assurance to the Fund that fund managers' internal controls/safeguarding measures are adequate. These reports are subject to annual audits, and consequently officers also review the updated reports annually to ensure that any changes are acceptable to the Council and will not expose the Funds assets to undue risk.

6. REVIEW OF FUND MANAGERS' INTERNAL CONTROL REPORTS

- 6.1 This financial year, the internal control reports for the following fund managers have so far been received and reviewed:
- Schroder's;
 - Investec Asset Management;
- 6.2 The exceptions noted in the auditors' reports for these organisations have been considered for potential impact on the Pension Fund. Officers have not identified any significant change in risk.
- 6.3 Reports for other fund managers have now been received and are being reviewed. The outcome of these reviews will be reported to the February meeting of the Committee.

7. COMMENTS OF THE CHIEF FINANCIAL OFFICER

- 7.1. The comments of the Corporate Director Resources have been incorporated into the report.

8. CONCURRENT REPORT OF THE ASSISTANT CHIEF EXECUTIVE (LEGAL)

- 8.1 The Pensions Committee is charged under the Council's constitution with the duty to consider pension matters and meet the obligations and the duties of the Council under the Superannuation Act 1972, and the various statutory requirements in respect of investment matters.
- 8.2 Under the principals of good governance Members need to satisfy themselves that appropriate checks and balances are built into the pension administration system to demonstrate that it is adequate and effective.

- 8.3 This officer's report is demonstrating one of those checks and balances as it reviews the internal control measures of the fund managers.

9. ONE TOWER HAMLETS CONSIDERATIONS

- 9.1 The Pension Fund Accounts demonstrate the financial stewardship of the scheme members and employers assets. A financially viable and stable pension fund is a valuable recruitment and retention incentive.

10. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

- 10.1 There is no Sustainable Action for A Greener Environment implication arising from this report.

11. RISK MANAGEMENT IMPLICATIONS

- 11.1 The review of the SAS 70 internal control reports of third parties that manage Pension Fund assets ensures that fund managers are able to demonstrate that they are properly managing pension fund assets as stewards of the Fund and are following procedures that do not expose fund assets to any undue risks.
- 11.2 Pension Fund assets could be exposed to undue risk where SAS 70 reports are not in place or adequate internal controls and safeguard measures are lacking in the management of Fund assets.

12. CRIME AND DISORDER REDUCTION IMPLICATIONS

- 12.1 There are no any Crime and Disorder Reduction implications arising from this report.

13. EFFICIENCY STATEMENT

- 13.1 The review arrangement of fund managers' internal control framework provides some assurance to the Committee that assets are being managed in a way that is congruent with the Fund Strategy and therefore more likely to yield returns/outcomes that reflect Fund objectives.

LOCAL GOVERNMENT ACT 1972 (AS AMENDED) SECTION 100D **LIST OF "BACKGROUND PAPERS" USED IN THE PREPARATION OF THIS REPORT**

Brief description of "background papers"

Fund Managers SAS 70 reports (Schroder's & Investec)

Name and telephone number of holder And address where open to inspection

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