

<b>COMMITTEE:</b> <b>Pensions Committee</b>	<b>DATE:</b> <b>21 February 2013</b>	<b>CLASSIFICATION:</b> <b>Unrestricted</b>	<b>REPORT NO.</b>	<b>AGENDA NO.</b>
<b>REPORT OF:</b> Interim Corporate Director of Resources  <b>ORIGINATING OFFICER(S):</b> Oladapo Shonola – Chief Financial Strategy Officer Lisa Stone – Pensions Accountant		<b>TITLE:</b> <b>Review of Internal Control Reports in 2012/13</b>  <b>Ward(s) affected:</b> N/A		

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

## **1. SUMMARY**

- 1.1 This report presents the finding of the review of the adequacy of internal control measures put in place by the fund managers that hold the Fund's assets in management. Officers have reviewed the available SAS70 and SSAE16 (which signifies that a service organization has had its control objectives and control activities examined by an independent accounting and auditing firm).
- 1.2 The review of fund managers SAS70/SSAE16 reports has identified no significant changes in the internal control environment from last year.
- 1.3 The Fund managers' internal control reports have been audited and approved by external auditors and they are satisfied that adequate controls are in place for managing and reporting of the Fund's assets.

## **2. DECISIONS REQUIRED**

- 2.1 Members are recommended to note this report.

## **3. REASONS FOR DECISIONS**

- 3.1 There are no decisions to be made.

## **4. ALTERNATIVE OPTIONS**

- 4.1 The review of fund managers' SAS 70 and SSAE 16 reports should provide some assurance to the Pension Fund (Members and Trustees) that fund managers have adequate controls and safeguards are in place to for managing the Fund's 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.

## **5. BACKGROUND**

- 5.1 The new service organisation reporting standard Statement on Standards for Attestation Engagements No. 16 (SSAE 16), effective as of 15 June 2011, supersedes the Statement on Auditing Standards No.70 (SAS 70). It is an internationally recognized auditing standard developed by the American Institute of Certified Public Accountants (AICPA). SSAE 16 is widely recognized, because it represents that a service organization 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 allows pension fund managers to disclose their control activities and processes in a universally recognised reporting format, which is updated annually.
- 5.3 The Fund has always required that fund managers prepare and provide SAS70/SSAE16 reports as part of their reporting requirement to the Fund. These reports provide some 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 Fund's assets to undue risk.

## **6 REVIEW OF FUND MANAGERS' INTERNAL CONTROL REPORTS**

- 6.1 This financial year, the internal controls reports for the following fund managers have been received and reviewed:
- Schroder
  - GMO
  - Baillie Gifford
  - Legal & General
  - Ruffer LLP
  - Investec
- 6.2 The exceptions noted in the auditors' reports for these organisations have been considered for potential impact on the Pension Fund. Where there have been changes to procedures officers have followed these up with the relevant managers to clarify impact on Fund assets. This process has not identified any significant change in risk to the Fund.

## **7. COMMENTS OF THE CHIEF FINANCIAL OFFICER**

- 7.1. The comments of the Interim 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 SAS70/SSAE16 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 SAS70/SSAE16 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.

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### **LOCAL GOVERNMENT ACT 1972 (AS AMENDED) SECTION 100D**

#### **LIST OF "BACKGROUND PAPERS" USED IN THE PREPARATION OF THIS REPORT**

***Brief description of "background papers"***

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

*Oladapo Shonola, x4733, 7<sup>th</sup> Floor  
Mulberry Place.  
Lisa Stone, x4731, 7<sup>th</sup> Floor  
Mulberry Place*