


Non-Executive Report of the: Pensions Board Monday 20 November 2023	 TOWER HAMLETS
Report of Julie Lorraine Corporate Director Resources	Classification: Unrestricted
Review of Internal Controls at Investment Managers and Custodian – London CIV	

Originating Officer(s)	Miriam Adams, Interim Head of Pensions & Treasury
Wards affected	All wards

Summary

This report presents the finding of the review of the adequacy of internal control measures put in place by the London CIV and their review of underlying fund managers controls. Officers have reviewed the available AAF 01/06 and SSAE3402 for investment managers whom the Fund has in direct relationships with. These internal control reports signifies that a service organization has had its control objectives and control activities examined by an independent accounting and auditing firm.

The third-party internal controls oversight summary report received from LCIV concludes that no significant changes in the internal control environment for the period 1 April 2022 to 31 March 2023 was reported and bridging letters were provided by LCIV underlying managers covering periods to 31 March 2023 not covered by the internal control reports.

The Committee and Board considered reports for Northern Trust, Schrodgers, Legal & General, Goldman Sachs and Insights in June. London CIV report was not available at the time of the June Committee and Board meetings.

Recommendations:

The Pensions Board is recommended to:

1. Note the report contents; and
2. Note that the London CIV Third Party Controls and Oversight Summary report at 31 March 2023 (Appendix 1).

1. REASONS FOR THE DECISIONS

- 1.1 There are no alternative decisions to be made.

2. ALTERNATIVE OPTIONS

- 2.1 The review of fund managers' AAF 01/06 and ISAE 3402 reports and associated reports should provide some assurance to the Pension Fund (Members and Trustees) that fund managers including London CIV have adequate controls and safeguards are in place to for managing the Fund's assets. It is appropriate for the committee, Board and Fund members to be kept abreast of any risks identified through this process and the likely impact of such risks to the Fund.

3. DETAILS OF REPORT

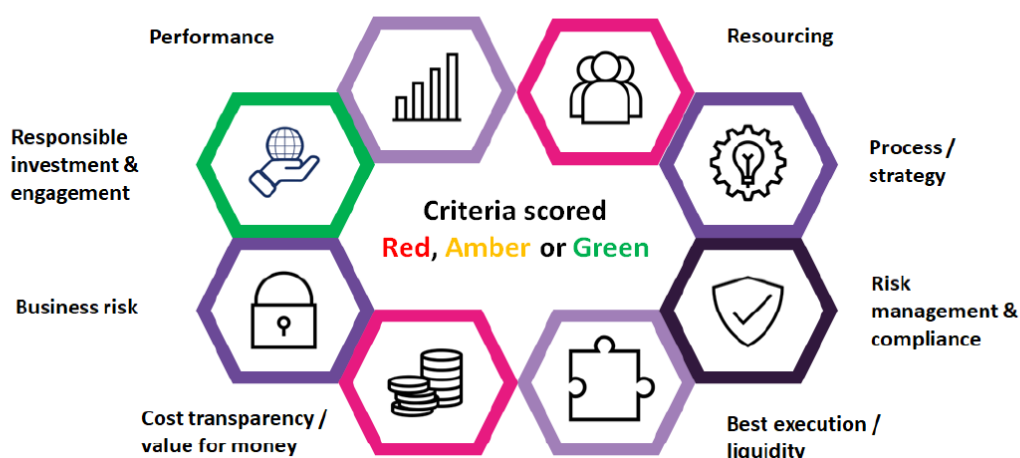
- 3.1 The Pensions Regulator Code of Practice 9 Internal Controls requires Trustees to review internal controls as part of risk management.
- 3.2 There are a range of internal control reports produced in different countries in response to local and regulatory pressures. The guidance allows service organisations to disclose their controls activities and processes to their clients and the auditors of their clients in a uniform reporting format.
- 3.3 The publication of a service auditor's report prepared in accordance with a country's authoritative guidance indicates that a service organisation has had its service control objectives and control activities examined by an independent accounting and auditing firm.

The importance of these assurance reports is that they can provide appropriate audit evidence under ISA (UK & I) 402.

Review of London CIV Internal Control Reports

- 3.4 London CIV Sub-funds are monitored using the London CIV Fund Monitoring Framework. This Framework is described in the LCIV Investment Governance Document and associated policies which are shared with Client Fund Investors.
- 3.5 LCIV assess Sub-funds against the eight criteria summarised in their third-party controls oversight summary report (Appendix 1). The third-party controls report also explains the operational oversight activities performed by LCIV over third party vendors covering portfolio management and fund administration.

London CIV Fund Monitoring Framework



3.6 Key risk areas assessed as part of their process is listed below:

- Fraud risk
- Operational risk
- Counterparty risk
- Regulatory risk
- Legal risk
- Information and cyber security risk

3.7 LCIV officers prepare criteria scores and the recommended Monitoring Status, which is then presented to the LCIV Investment Panel, chaired by the Chief Investment Officer (CIO), for ratification.

LCIV Fund or Sub-fund	Investment Manager	Last Operational Due Diligence date
LCIV Diversified Growth fund	Baillie Gifford	August 2020
LCIV Global Alpha Growth Paris Aligned fund		
LCIV MAC fund	CQS	April 2022
	PIMCO	February 2022
LCIV Sustainable Equity fund	RBC Global Asset Management (UK) Limited ('RBC')	September 2020
LCIV Absolute Return fund	Ruffer LLP	August 2020
LCIV Renewable Infrastructure fund	BlackRock Financial Management Inc	September 2021

	Foresight Group LLP	March 2021
	Stonepeak Global Renewables Advisor LLC	March 2021
	Quinbrook	April 2021
	Macquarie	March 2023
LCIV UK housing fund	CBRE	March 2023

Portfolio managers internal control reports

- 3.8 LCIV reports state that Officers of LCIV review manager reports and any identified control issues are discussed with the investment managers as par to the investment oversight process.

Based on LCIV review of the internal control reports, LCIV have confirmed that there are no issues which they would like to bring to the attention of client funds as the internal control reports are unqualified. As of the report date, the table below is a summary of internal control reports reviewed by LCIV.

LCIV Fund or Sub-fund	Investment Manager	Auditor	Date of Internal Control report	Auditors' sign off date	Qualified ?
LCIV Diversified Growth fund					
LCIV Global Alpha Growth Paris Aligned fund	Baillie Gifford	PwC	30/04/2022	07/06/2022	No
	CQS	RSM	30/09/2022	30/01/2023	No
LCIV MAC fund	PIMCO	PwC	30/09/2022	01/03/2023	No
LCIV Sustainable Equity fund	RBC Global Asset Management (UK) Limited ('RBC')	PwC	30/04/2022	04/08/2022	No
LCIV Absolute Return fund	Ruffer LLP	EY	31/03/2022	08/07/2022	No
LCIV Renewable Infrastructure fund	BlackRock Financial Management Inc	EY	31/10/2022	23/12/2022	No
	Foresight Group LLP	BDO	31/03/2022	12/07/2022	No
	Stonepeak Global Renewables Advisor LLC	EY	30/09/2022	Nov-22	No
	Quinbrook	BDO	30/09/2021	24/02/2022	No
	Macquarie*	n/a	n/a	n/a	n/a
LCIV UK housing fund	CBRE*	n/a	n/a	n/a	n/a

* Manager recently appointed

4. EQUALITIES IMPLICATIONS

- 4.1 There are no direct equalities implications to this report.

5. OTHER STATUTORY IMPLICATIONS

- 5.1 This section of the report is used to highlight further specific statutory implications that are either not covered in the main body of the report or are required to be highlighted to ensure decision makers give them proper consideration. Examples of other implications may be:

- Best Value Implications,
- Consultations,
- Environmental (including air quality),
- Risk Management,
- Crime Reduction,
- Safeguarding.
- Data Protection / Privacy Impact Assessment.

Risk Management Implications

- 5.2 The review of the AAF 01/06 and SSAE3402 internal control reports of third parties that manage Pension Fund assets ensures that fund managers can 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.
- 5.3 Pension Fund assets could be exposed to undue risk where AAF 01/06 and SSAE 3402 reports are not in place or adequate internal controls and safeguard measures are lacking in the management of Fund assets.
- 5.4 The risks arising from this investment performance are included in the Pension Fund risk register.

6. COMMENTS OF THE CHIEF FINANCE OFFICER

- 6.1 Whilst the performance and effective controls of the investment manager and custodian is of paramount importance in the performance of the Pension Fund, there are no direct financial implications arising from this report.
- 6.2 The employer's contribution is a significant element of the Council's budget and consequently any improvement in investment performance will reduce the contribution and increase the funds available for other corporate priorities.
- 6.3 A viable pension scheme also represents an asset for the recruitment and retention of staff to deliver services to the residents.

7. COMMENTS OF LEGAL SERVICES

- 7.1 This is a noting report for the Pension Board. There are no direct legal implications arising from this report. The position regarding the internal controls for the London CIV Sub-funds is outlined in this report and appendix.

Linked Reports, Appendices and Background Documents

Linked Report

- None

Appendices

- London CIV Third Party Controls Oversight Summary 31 March 2023 – Appendix 1

Local Government Act, 1972 Section 100D (As amended)

List of “Background Papers” used in the preparation of this report.

Officer contact details for documents:

- Miriam Adams, Interim Head of Pensions & Treasury x4248