

**Report of the Section 151 Officer**

**Pension Fund Committee – 13 July 2017**

**INTERNAL CONTROLS REPORTS OF  
APPOINTED FUND MANAGER'S & CUSTODIAN**

<b>Purpose:</b>	To inform Pension Fund Committee of reportable items contained within the internal controls reports of appointed fund managers
<b>Consultation:</b>	Legal, Finance and Access to Services.
<b>Report Author:</b>	Jeffrey Dong
<b>Finance Officer:</b>	Jeffrey Dong
<b>Legal Officer:</b>	S Williams
<b>Access to Services Officer:</b>	N/A
<b>FOR INFORMATION</b>	

**1 Background**

1.1 The internal control and governance framework in which a business operates comprises the systems, work processes and culture and values by which the business directs and controls its business to provide comfort to its customers, clients and shareholders.

1.2 Asset managers and custodians are subject to heavy regulation from a global, EU and UK context. They are required to report on their systems of internal control which are subject to external audit and comment by suitably qualified and independent audit companies.

1.3 The summary of exceptions for the last calendar year is attached at Appendix 1 for the City & County of Swansea's appointed fund managers and custodian.

It is noted that the exceptions have been addressed appropriately by management and are recognised as such with appropriate remedial action being undertaken. The exceptions highlighted are taken seriously but do not pose direct concern for the businesses concerned or the assets under management.

**2 Legal Implications**

2.1 There are no legal implications arising from this report

**3 Financial Implications**

3.1 There are no financial implications arising from this report

**4                    Equality and Engagement Implications**

4.1                    There are no equality and engagement implications arising from this report

**Background Papers:** None.

**Appendices:** Fund Manager Summary of Internal Control Reports – 2016.

**Fund Manager Summary of Internal Control Reports - 2016**

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**Blackrock – Report of Controls at Blackrock Placed in Operation and Test of Operating Effectiveness for Asset Management Services, 1<sup>st</sup> October 2015 to 31<sup>st</sup> October 2016**

Control Procedure	Test Performed	Exception Noted	Management Response
<p>The data team is responsible for processing data on accrued dividends, accrued interest and dividend and interest income/expense on exchange-traded instruments. The data uploaded is derived from external sources and the processing of accrued dividends, accrued interest and dividend and interest income/expense is automated via Paladyne Security Master, which obtains information from third party providers. Log files are reviewed by the Data Team to check that data uploads are complete and exceptions are addressed.</p>	<p>Inspected a sample of Geneva data input feeds from Reuters (primary source since July 2016) and Bloomberg (primary source after July 2016) processed through Paladyne Security Master to determine whether the upload logs were reviewed by the data team.</p>	<p>40 Samples were selected for testing and it was determined that 3 of the reviews were not available.</p>	<p>Management performed additional reviews and is confident that the reviews were completed as required as evidenced by the uploads being accurate.</p> <p>Management has emphasised the importance of filing the checklist and related documents appropriately to avoid misplacement of documentation in the future to the appropriate personnel.</p>

**Blackrock Cont'd**

<b>Control Procedure</b>	<b>Test Performed</b>	<b>Exception Noted</b>	<b>Management Response</b>
<p>Corporate actions (dividends) for listed instruments are received from third party data providers on a daily basis. Data is loaded into Geneva as part of a standard upload, which generates system log files that are reviewed by the Data Team to validate that data uploads are complete.</p>	<p>Inspected a sample of Geneva data input feeds from a third party data providers processed through Paladyne Security Master to determine whether the upload of logs were reviewed by the Data Team.</p>	<p>40 samples were selected for testing and it was determined that 1 of the reviews was not available.</p>	<p>Management performed additional reviews and is confident that the reviews were completed as required as evidenced by the absence of corporate actions upload errors.</p> <p>Management has emphasised the importance of filing the checklist and related documents appropriately to avoid misplacement of documentation in the future to the appropriate personnel.</p>

**Aberdeen Asset Management Ltd – Internal Controls Report for the period ended 30<sup>th</sup> June 2016**

<b>Control Procedures</b>	<b>Test Performed</b>	<b>Exceptions Noted</b>	<b>Management Response</b>
<p>All invoices received are authorised by appropriate personnel in accordance with the Authorities document.</p> <p>All invoices received are reviewed for accuracy and appropriate authorisation by a senior member of the Property Operations team prior to payments being processed.</p>	<p>For a sample of invoices received, inspected evidence to confirm invoices were authorised by appropriate personnel in accordance with the Authorities document.</p>	<p>For one of the 45 items in our sample, it was not possible to obtain the invoice showing sign off by the Fund Managers or Property Operations in line with the Authorities document.</p>	<p>Management acknowledge that the invoice was no longer attached to the cover sheet, however, it should be noted that all invoices will only be released for payment if authorised by appropriate person(s) and two separate processes ensure that this always occurs. The importance of accurate filing has been stressed to staff. No client impact occurred.</p>
<p>Exposure limits are monitored as part of the daily breach monitoring on all funds by the Guidelines Monitoring EMEA team and provided to the Quantitative investment desk for review.</p> <p>Any active breaches are logged with SWORD by the Quantitative investment desk and corrected in a timely manner.</p>	<p>For a sample of days, inspected evidence to confirm that the monitoring of post-trade breaches was performed by the Guideline Monitoring EMEA team and any valid exceptions were logged by SWORD. For a sample of all relevant breaches logged on SWORD, inspected evidence to confirm further investigation was performed and the breach was resolved.</p>	<p>For one of 30 days in our sample, the exceptions report was produced by the Guideline Monitoring EMEA team, however the report was not then provided to the Quantitative investment desk for review</p>	<p>This was an isolated instance. Staff involved in this process have been reminded of the requirements to follow process. There was no client impact.</p>

**Aberdeen Asset Management Ltd cont'd**

<b>Control Procedures</b>	<b>Test Performed</b>	<b>Exceptions Noted</b>	<b>Management Response</b>
<p>Until April 2016, as part of the daily price check for all daily priced funds, the Investment Accounting team uses predetermined tolerances to verify the day-to-day price movements against market indices. Any movements out with tolerance are investigated and resolved. The price check is subject to monthly senior management review.</p>	<p>For a sample of days, inspected evidence to confirm that day-to-day price movements were verified against market indices using predetermined tolerances and that any movements out with tolerance were investigated and resolved.</p> <p>For the same sample, inspected evidence to confirm that the check was subject to monthly senior review from a member of the Investment Accounting team.</p>	<p>For one of the 8 months tested in our sample, the review by Senior Management was delayed by one month</p>	<p>We acknowledge the delay and have re-iterated the need to complete the activity in a timely manner to management and staff. There was no impact on clients.</p>

**Goldman Sachs – Report on Goldman Sachs Asset Management’s Description of its Investment Management System and on the Suitability of the Design and Operating Effectiveness of Controls – 1<sup>st</sup> October 2015 through 30<sup>th</sup> September 2016.**

Control Procedures	Test Performed	Exceptions Noted	Management Response
<p>Backups to tape are monitored and failures are managed through remediation.</p>	<p>For the population of production servers configured for backup to tape, inspected evidence to determine whether backups to tapes were performed and whether failures were identified.</p> <p>For a sample of failures, inspected evidence to determine whether the failures were managed through to remediation.</p>	<p>For the period 1<sup>st</sup> October 2015 to 31 December 2015, the following exceptions were noted related to the population of backups to tape</p> <p>- 50 month end server backups across 35 unique servers were not written to tape media. For the 50 month-end server backups, a successful disk backup was performed.</p> <p>For the period 1 January 2016 to 30 September 2016 no exceptions were noted related to the population of backups to tape.</p>	<p>The exception resulted from the misconfiguration of a new backup-to-disk system to provide faster backups and recovery. During the period 1 October 2015 to 31 December 2015, 50 month end backups across 35 production servers were not copied to tape and as a result, a control incident was generated.</p> <p>The underlying technology issue that caused the control failure – misconfiguration of the disk to tape tier was addressed in February 2016.</p> <p>For all servers across all months, at least one backup method (tape or disk) succeeded, no data was at risk.</p> <p>Additional measures were implemented to prevent re-</p>



			occurrence, including continuous monitoring of the disk-to-tape process.
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**HarbourVest Partners LLC – Private Equity Fund Administration Report on Controls Placed in Operation and Tests of Operating Effectiveness – October 1, 2015 to September 30, 2016**

<b>Control Procedures</b>	<b>Test Performed</b>	<b>Exceptions Noted</b>	<b>Management Response</b>
IT personnel are automatically notified of backup failures and appropriate action is taken for resolution	For a sample of backup failures identified by the automated backup tool, inspected documentation to determine whether backup failures were reviewed and appropriate action was taken for resolution.	Evidence of a backup failure resolution is not retained to determine whether appropriate action was performed. The in-scope applications did not experience backup failures during the period covered by this report.	During the period covered by this report, no backup failures were experience for in-scope applications. In addition, controls are such that the IT personnel perform a daily review of the Commvault summary log which would indicate any case of failures, management has reinforced requirements to maintain evidence of the resolution indicating the steps which were performed to resolve the incident or confirming that no action was needed.

**Invesco – Report on Invesco Asset Management Ltd, Description of their Investment Management Services and on the Suitability of the Design and Operating Effectiveness of Controls for the Period 1 October 2015 to 30 September 2016**

<b>Control Procedures</b>	<b>Test Performed</b>	<b>Exceptions Noted</b>	<b>Management Response</b>
<p>User accounts for Invesco Information Systems are removed promptly upon change of employment</p>	<p>Inspected the terminated employee listing and the active user listings for the databases, operating systems and applications to determine whether user accounts were removed promptly following a change in employment status.</p>	<p>Sybase – of the population of two Sybase users terminated during the period, access for one terminated user was not removed.</p> <p>Frontier – of the population of three Frontier users terminated during the period, access for one terminated user was not removed.</p> <p>Proxy Exchange – Of the population of five Proxy Exchange users terminated during the period, access for two terminated users was not removed.</p>	<p>The terminated users identified were subsequently removed from the respective systems. Network access was removed in a timely manner for each terminated user, which reduces the risk of the respective user accessing the applications.</p> <p>Further awareness and education to the teams involved in the user access process for these applications is underway to provide more rigor and oversight around the current manual process.</p>

**JP Morgan Asset Management – Report on JP Morgan Asset Management’s Description of its Investment Management Services System and on the Suitability of the Design and Operating Effectiveness of its Controls. 1 January 2016 – 31 December 2016**

Control Procedures	Test Performed	Exceptions Noted	Management Response
<p>Portfolio investment decisions and trade execution functions are segregated for equities and fixed income transactions</p>	<p>Inspected user lists with access to the equity and fixed income systems to confirm that users who had the ability to authorise portfolio investment decisions did not have the ability to execute equity transactions.</p>	<p>For the period 6 September 2016 through 31 December 2016, one user had Prism access to authorise fixed income portfolio investment decisions and Minerva access to execute fixed income transactions.</p>	<p>Management had remediated the inappropriate access. The one user was a portfolio manager within the Global Liquidity team whose access should have been limited to Global Liquidity accounts only. Management performed a detailed review that confirmed that the user had not raised any orders on any Fixed Income accounts in Prism.</p>
<p>Access to systems is granted only upon approval by authorised management or a designee. The approver confirms access is commensurate with the users’ job responsibilities.</p>	<p>For a sample of new user entitlements, inspected on-boarding documentation to confirm that access had been approved by authorised management or a designee and was granted in accordance with the request.</p>	<p>Five new users to the client account management application (PandA) were not members of the Identity and Access Management (CTRIAM) team were granted security administration entitlements to the client account management application during the report period. The five users did not use their access to perform</p>	<p>The two control exceptions noted were identified by internal control testing conducted by management. Management was able to provide evidence to the Independent Auditor that the assignment of security administration entitlements was limited to 6 users, that the entitlements were removed from the 6 users with the</p>

**JP Morgan Asset Management cont'd**

<b>Control Procedures</b>	<b>Test Performed</b>	<b>Exceptions Noted</b>	<b>Management Response</b>
		<p>any security administration activity within the report period</p> <p>For the period 14 November 2016 to 31 December 2016, one new user was provided access to the LENS application without documented approvals in place. 5 users who previously had read-only access in the legacy LMA application were further provided with edit access in the LENS application.</p>	<p>period under review and via reference to activity logs generated by the application, that none of the 6 users had performed any security administration activity since 1 January 2016, therefore there was no business impact as a result of the exception.</p>

**Legal & General – AAF 01/06/ISAE 3402 Assurance Report on Internal Controls for the Period 1 January 2015 to 31 December 2016**

<b>Control Procedures</b>	<b>Test Performed</b>	<b>Exceptions Noted</b>	<b>Management Response</b>
Investment strategy is set and implemented in a timely manner	A Fund Objectives and Guidelines document (FOG) is created for each fund that summarises all of the investment guidelines and restrictions as part of the agreement. Each new FOG is reviewed and signed off by the Fund Manager, Client Account Manager and Portfolio Monitoring team	For a sample of 2 out of 26 new funds, the FOG document was not signed by a member of the Portfolio Monitoring team.	The control framework has been strengthened so that senior managers in the team now confirm that all FOGs documents are signed and guidelines released in MIG21 before funds are made live. This is evidenced in our Risk Management System.
Investment strategy is set and implemented in a timely manner	The majority of investment restrictions and guidelines are monitored through MIG21. These are input by a member of the Portfolio Monitoring team and reviewed and released by a second person in the team before the fund goes live.	For a sample of 2 out of 26 new funds, the investment restrictions and guidelines were not released on MIG21 before the funds went live.	The control framework has been strengthened so that senior managers in the team now confirm that all FOGs documents are signed and guidelines released in MIG21 before funds are made live. This is evidenced in our Risk Management System.

**Legal & General cont'd**

<b>Control Procedures</b>	<b>Test Performed</b>	<b>Exceptions Noted</b>	<b>Management Response</b>
<p>Commission levels and transaction costs are monitored</p> <p>Logical access to computer systems programs, master data, transaction data and parameters, including access by administrators to applications, databases, systems and networks, is restricted to authorised individuals via information security tools and techniques.</p>	<p>On a monthly basis, the heads of asset classes review a report of commission levels and turnover rates with the Head of Dealing. The final monthly report is prepared and shared with the Board and reviewed by the Board annually.</p> <p>User access to IT network, infrastructure and applications is disabled on staff departure date and deleted after three months.</p>	<p>Due to software issues the monthly report was not ran for 3 months of the year. As such no meeting was held to discuss commission levels and turnover rates.</p> <p>For 6 out of 162 leavers access was not appropriately disabled after they left LGIM.</p>	<p>Steps have been taken to improve reliability of report generation and a subsequent review of the period in question showed that commission levels and turnover were within acceptable boundaries.</p> <p>To date, the process by which HR and IT are notified of leavers has been manual and relied on line managers notifying HR promptly. We are introducing a new control whereby the line manager will use Service Now to log leavers within LGIM. This will send automated reports to HR and IT, who will then remove or disable systems access. This will remove the manual element and the reliance on line managers which has caused the control to fail in the past. We expect this to be in place by end of Q2. No</p>

**Legal & General cont'd**

<b>Control Procedures</b>	<b>Test Performed</b>	<b>Exceptions Noted</b>	<b>Management Response</b>
			Inappropriate access was achieved or attempted by the leavers.

**Permal – Report on HSBC Security Services in Ireland’s Description of its Fund, Custody and Transfer Agency Services System and on the Suitability of the Design and Operating Effectiveness of Controls for the period 1 December 2015 – 30 September 2016**

Control Procedures	Test Performed	Exceptions Noted	Management Response
<p>Corporation Action notifications from third parties are captured in the XSP application. Automatic matching occurs for each event, where differences are identified the record is manually validated to other external sources and a “Golden Record” is created. Each Golden Record is subject to second-level review</p>	<p>For a sample of corporate actions inspected the authoritative record to validate the creation of such a record and the audit trail to confirm that all differences were identified and approved.</p> <p>Inspected the corporate action sheet to confirm validation of key data against two or more sources and verified that there was a secondary level of the checklist.</p>	<p>For one of the 25 corporate action events sampled, there was no evidence of a secondary review of the details uploaded into Icon.</p>	<p>The Head of Asset Servicing reviewed the incomplete checklist and can confirm that a second level review was undertaken at the time. The approval is recorded within the XSP system and the audit trail clearly shows that this event was approved in a timely manner.</p> <p>Controls had been completed and the non-completion of the checklist is a documentation oversight. To avoid a recurrence, team management has strongly reiterated the requirement to complete all checklists as required.</p> <p>We can confirm that the corporate action event on the date where the checklist exception was noted was not applicable to any clients of HSS Ireland.</p>



**Partners Group – Report on the Internal Controls, Holdings AG as of 31 December 2016**

<b>Control Procedures</b>	<b>Test Performed</b>	<b>Exceptions Noted</b>	<b>Management Response</b>
<p>Notices are entered into the system by Treasury Management. The timely execution of instructions to issue a capital call notice or distribution notice is ensured through maintaining instruction monitoring sheets or through AutoAlert</p>	<p>Validated the expected functionality of the AutoAlert and reviewed the system set up for AutoAlert.</p>	<p>We noted that due to an update in AutoAlert the AutoAlert functionality was not operating for some products during the period from August to November 2016.</p>	<p>Partners Group has a compensating control in place which ensures the timely execution of capital calls and distributions. For a sample of capital calls and distributions, PwC inspected the evidence that the timely execution thereof was monitored in the monitoring sheets with no exception noted.</p> <p>Controls are further being improved to ensure that capital calls and distribution notices to investors are issued on a timely basis.</p>

**Schroders Investment Management Ltd – Internal Controls Report 2016 ISAE 3402/AAF 01/16**

<b>Control Procedures</b>	<b>Test Performed</b>	<b>Exceptions Noted</b>	<b>Management Response</b>
<p>For new and existing clients who wish to start trading derivatives, a checklist detailing all tasks required for the client take-on/change process is completed and signed off prior to the commencement of investment activity. This includes checking whether clients have an active Legal Entity Identifier (LEI), obtaining the LEI and ensuring it is uploaded into the relevant systems for reporting to the trade repository.</p>	<p>For a sample of new and existing clients who wish to start trading derivatives, inspected checklists for client take-on/change process to ensure they had been completed and signed off. Inspected that these had been signed off prior to the commencement of investment activity, and that they had been uploaded into the relevant systems.</p>	<p>For 1 out of 7 clients tested, one of the checklists was not completed (the LEI was not uploaded onto the trade repository) prior to the investment activity.</p>	<p>One exception occurred when an existing client began trading in-scope derivatives, as a result of a change in mandate, without an LEI in place. This was identified by Schroders and reported to PwC. The LEI has since been uploaded to the trade repository.</p> <p>Enhancements to the mandate change process were implemented in February 2017. Management has performed a review to identify the changes required to the Charles River order management system to prevent investment activity from commencing without an LEI in place where it is required.</p>

**HSBC Security Services Description of its Global Custody Services System and on the Suitability of the Design and Operating Effectiveness of Controls for the period 1 December 2015 – 30 September 2016**

Control Procedures	Test Performed	Exceptions Noted	Management Response
<p>Payment entitlements input into GC GHSS are subject to a system enforced dual control to prevent input and authorisation by the same operator before release to the client's account.</p>	<p>Observed the payment entitlement and claim input into the GPS to determine whether payment entitlement and claim input is subject to a system enforced dual control to prevent input and authorisation by the same operator.</p>	<p>The system enforced dual control doesn't operate as expected and therefore the input and authorisation by the same operator is not prevented.</p>	<p>System setting has been fixed by 2 December 2016 to ensure proper system enforced dual control is in place. While there was a flaw noted in the system design, the process integrity has not been affected during the review period because :</p> <ol style="list-style-type: none"> <li>1. Daily reconciliation is in place as a compensating control to identify discrepancies between HSS and Agents payout. The daily reconciliation processes have been tested by PWC with no exception noted.</li> <li>2. There has been no payment error identified due to this issue from 1 December 2015 to the date of this report.</li> </ol>

**HSBC Security Services cont'd**

<b>Control Procedures</b>	<b>Test Performed</b>	<b>Exceptions Noted</b>	<b>Management Response</b>
<p>The TAS team reconciles the total number of client holdings from the Trade Transition Status Summary, Intraday and Aged reports back to the client instructions to verify that client holdings have successfully transitioned to HSS. Discrepancies and researched and resolved by the TAS Team.</p>	<p>For a sample of new clients, inspected the Transition Trade Status Summary, Intraday and Aged reports to the client instructions to determine whether the TAS Team reconciles the total number of client holdings from the Trade Transition Status Summary, Intraday and Aged reports back to the client instructions to verify that client holdings have been successfully transitioned to HSS and whether the discrepancies are researched and resolved by the TAS Team.</p>	<p>For 1 out of 20 items sampled, reconciliations to client instructions to ensure all holdings transitioned was not performed.</p>	<p>This was the first Fundsettle transition we have undertaken since 2006 and the instance highlighted that our procedures needed to reflect the Fundsettle business as usual model, different from normal custody transition (i.e. Fundsettle instructing and confirming the trade into GCS). For future Fundsettle transitions, procedures will be amended to incorporate a reconciliation from the client instructions to the Fundsettle report.</p>