

MEETING

PENSION FUND COMMITTEE

DATE AND TIME

WEDNESDAY 27TH MAY, 2015

AT 1.00 PM

VENUE

HENDON TOWN HALL, THE BURROUGHS, LONDON NW4 4AX

TO: MEMBERS OF PENSION FUND COMMITTEE (Quorum 3)

Chairman: Councillor Mark Shooter
Vice Chairman: Councillor John Marshall

Councillors

Andreas Ioannidis	Jim Tierney Peter Zinkin	Arjun Mittra
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Substitute Members

Anthony Finn Dean Cohen	Steven Sowerby Adam Langleben	Ross Houston Pauline Coakley Webb
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You are requested to attend the above meeting for which an agenda is attached.

Andrew Charlwood – Head of Governance

Governance Service contact: Kirstin Lambert 020 8359 2177 kirstin.lambert@barnet.gov.uk

Media Relations contact: Sue Cocker 020 8359 7039

ASSURANCE GROUP

ORDER OF BUSINESS

Item No	Title of Report	Pages
1.	Minutes	1 - 4
2.	Absence of Members	
3.	Disclosable Pecuniary interests and Non Pecuniary interests	
4.	Public Question and Comments (if any)	
5.	Report of the Monitoring Officer (if any)	
6.	Members' Items (if any)	
7.	Pension Fund External Audit Plan for the year ended 31 March 2015	5 - 22
8.	Motion to exclude the press and public	
9.	Appointment of an Independent Pension Fund Adviser to the Pension Fund	23 - 26
10.	Any item(s) that the Chairman decides is urgent	

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Decisions of the Pension Fund Committee

2 March 2015

Members Present:-

AGENDA ITEM 1

Councillor Mark Shooter (Chairman)
Councillor John Marshall (Vice-Chairman)

Councillor Andreas Ioannidis Councillor Peter Zinkin
Councillor Jim Tierney Councillor Arjun Mittra

1. MINUTES

RESOLVED - That the minutes of the meeting held on 3 December 2014 be agreed as a correct record, subject to the inclusion of the following interest from Councillor Andreas Ioannidis:

Item/Report	Interest
7. Barnet Council Pension Fund Performance for July to September 2014.	Non Disclosable Pecuniary Interest as Councillor Ioannidis was a member of the Local Government Pension Scheme.

2. ABSENCE OF MEMBERS

Councillor Daniel Seal.

3. DISCLOSABLE PECUNIARY INTERESTS AND NON PECUNIARY INTERESTS

Councillor	Item	Interest
John Marshall	Item 7 Barnet Council Pension Fund Performance for October to December 2014	Non Disclosable Pecuniary Interest by virtue of having shareholdings in a number of companies that the fund had investments in.
Peter Zinkin		Non Disclosable Pecuniary Interest by virtue of being a member of the Local Government Pension Scheme to which he had contributed to but had not made any claims.
Arjun Mittra		Non Disclosable Pecuniary Interest by virtue of having shareholdings in a number of companies that the fund had investments in.

4. PUBLIC QUESTION AND COMMENTS (IF ANY)

There were none.

5. REPORT OF THE MONITORING OFFICER (IF ANY)

There was none.

6. MEMBERS' ITEMS (IF ANY)

There were none.

7. BARNET COUNCIL PENSION FUND PERFORMANCE FOR QUARTER ...

A representative from the JLT Group introduced the report and outlined how the Pension Fund had performed, including the performance of the Pension Fund Managers, Newton and Schroders, and the possible reasons for Newton's underperformance during the quarter.

The Committee was addressed by representatives fund management companies, Newton Investment Management Limited and Schroders Investment Management Limited. The Committee questioned the fund managers on their presentations, their performance for the quarter October 2014 to December 2014 and their plans for the coming months.

RESOLVED - That

1. The Committee instruct the Chief Operating Officer and Chief Finance Officer to ensure that the cash held internally and not required for payment of pension benefits be invested in equity with fund manager Legal and General Equity Tracker being the preferred option;
2. That ethical/socially responsible investments be discussed at a future review.

8. UPDATE ON ADMITTED BODY ORGANISATIONS

The Head of Treasury Services introduced the report.

RESOLVED - That

1. The update on the issues in respect of Admitted Body organisations within the Pension Fund be noted;
2. The Head of Treasury Services provide a response to a query from in relation to the length of time it would take to set up the Bond for Green Sky (Claremont School) which had been admitted on 7 July 2014.

9. UPDATE REPORT LONDON COLLECTIVE INVESTMENT VEHICLE

Members received a report of the Head of Treasury Services.

RESOLVED –

1. That the Pension Fund Committee note the progress update on starting up the CIV and,
2. That the Pension Fund Committee approves an additional payment of £50,000 towards the cost of establishing the London Collective Investment Vehicle.

10. ANY ITEM(S) THAT THE CHAIRMAN DECIDES IS URGENT

There were none.

The meeting finished at 8.45 pm

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	AGENDA ITEM 7
	Pension Fund Committee 27 May 2015
Title	Pension Fund External Audit Plan for the year ended 31 March 2015
Report of	Chief Operating Officer
Wards	N/A
Date added to Forward Plan	N/A
Status	Public
Enclosures	Audit Plan
Officer Contact Details	Iain Millar, Head of Treasury Services 0208 359 7126

Summary
To note the external auditors' detailed Audit Plan for the Pension Fund audit for the year ended 31 March 2015.

Recommendations
1. That the audit strategy for the 2014/2015 external audit be noted.

1. WHY THIS REPORT IS NEEDED

1.1 The audit plan highlights the key elements of the external auditor's proposed audit strategy for the benefit of those charged with governance.

2. REASONS FOR RECOMMENDATIONS

2.1 Information item

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

3.1 None. The external audit of the Pension Fund is a statutory requirement.

4. POST DECISION IMPLEMENTATION

4.1 The External Auditor will report to the next Pension Fund Committee to provide a follow up on the previous period's detailed audit findings.

5. IMPLICATIONS OF DECISION

5.1 Corporate Priorities and Performance

5.1.1 A positive external audit opinion on the Pension Fund's Annual Report plays an essential and key role in providing assurance that the Pension Fund's financial risks are managed in an environment of sound stewardship and control.

5.2 Resources (Finance & Value for Money, Procurement, Staffing, IT, Property, Sustainability)

5.2.1 This report sets out the framework for the assessment of the Pension Fund's financial reporting and financial management as well as providing value for money.

5.2.2 The external audit fees for 2014-15 are £21,000 (£35,000 in 2013-14). These costs will be funded from the Pension Fund.

5.3 Legal and Constitutional References

5.3.1 Constitution – Part 15 Responsibility for Functions sets out the responsibilities of the Pension Fund Committee, through the Pension Fund Governance Compliance Statement.

5.4 Equalities and Diversity

5.4.1 Pursuant to the Equalities Act 2010, the Council is under an obligation to have due regard to eliminating unlawful discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act; advancing equality of opportunity between persons who share a relevant 'protected characteristic' and those who do not share it; and fostering good relations between persons who share a relevant 'protected characteristic' and persons who do not share it. The 'protected characteristics' are: age, disability,

gender reassignment, pregnancy, and maternity, race, religion or belief, sex and sexual orientation.

5.4.2 There are no equalities implications arising from this report.

5.5 Consultation and Engagement

5.6.1 Not Applicable.

5 BACKGROUND PAPERS

6.1None

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The Audit Plan London Borough of Barnet Pension Fund

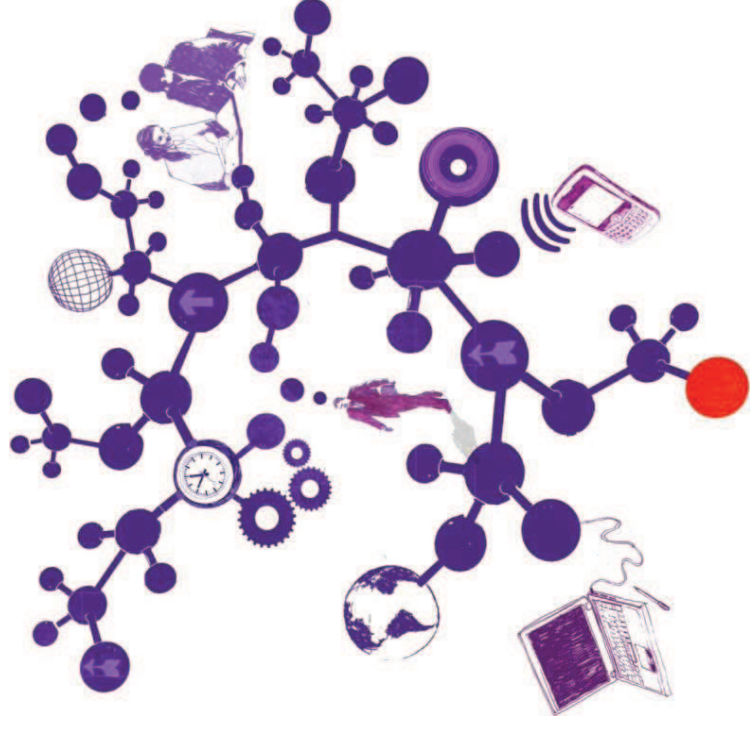
Year ended 31 March 2015

27 May 2015

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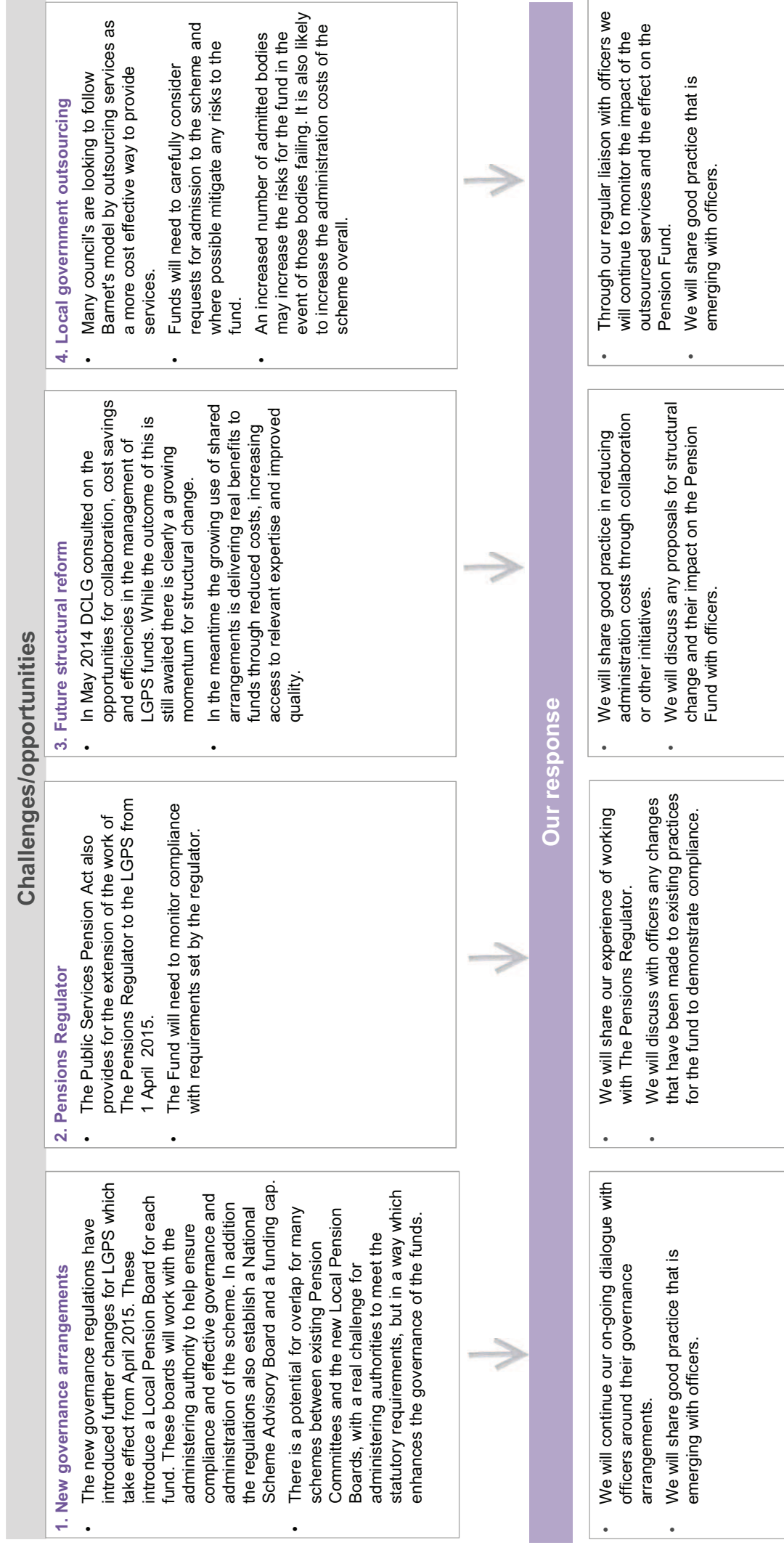
The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Understanding your business

In planning our audit we need to understand the challenges and opportunities the Pension Fund is facing. We set out a summary of our understanding below.



Developments relevant to your business and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice (the code) and associated guidance.

Developments and other requirements

1. LGPS 2014

- During 2013/14 funds have implemented LGPS 2014. This has moved LGPS from a final salary scheme to a career average scheme one year ahead of other public sector schemes.
- Under this new scheme, the calculations of benefits are likely to be more complex, as are the arrangements for ensuring the correct payment of contributions.
- LGPS 2014 has put a greater emphasis on the employer providing detailed information to the scheme administrator, while also requiring the scheme to have enhanced information systems in place to maintain and report on this data.

2. Financial Reporting

- There are no significant changes to the Pension Fund financial reporting framework as set out in the CIPFA Code of Practice for Local Authority Accounting (the Code) for the year ending 31 March 2015, however the Pension Fund needs to ensure on-going compliance with the Code.

3. Accounting for Fund management costs

- The Code's only requirement for the disclosure of the costs of managing the pension fund is that management costs in relation to a retirement benefit plan are disclosed on the face of the fund account.
- CIPFA have recently produced guidance aimed at improving the transparency of management cost data and have suggested that funds should include in the notes to the accounts a breakdown of those management costs across the areas of investment management expenses, administration expenses and oversight and governance costs.

4. Timetable for financial reporting

- The Accounts and Audit Regulations 2015 come into effect from 1 April 2015. These bring forward the local government reporting timetable for published accounts to 31 July in 2017/18. In 2017/18 draft financial statements will need to be prepared by 31 May

Our response

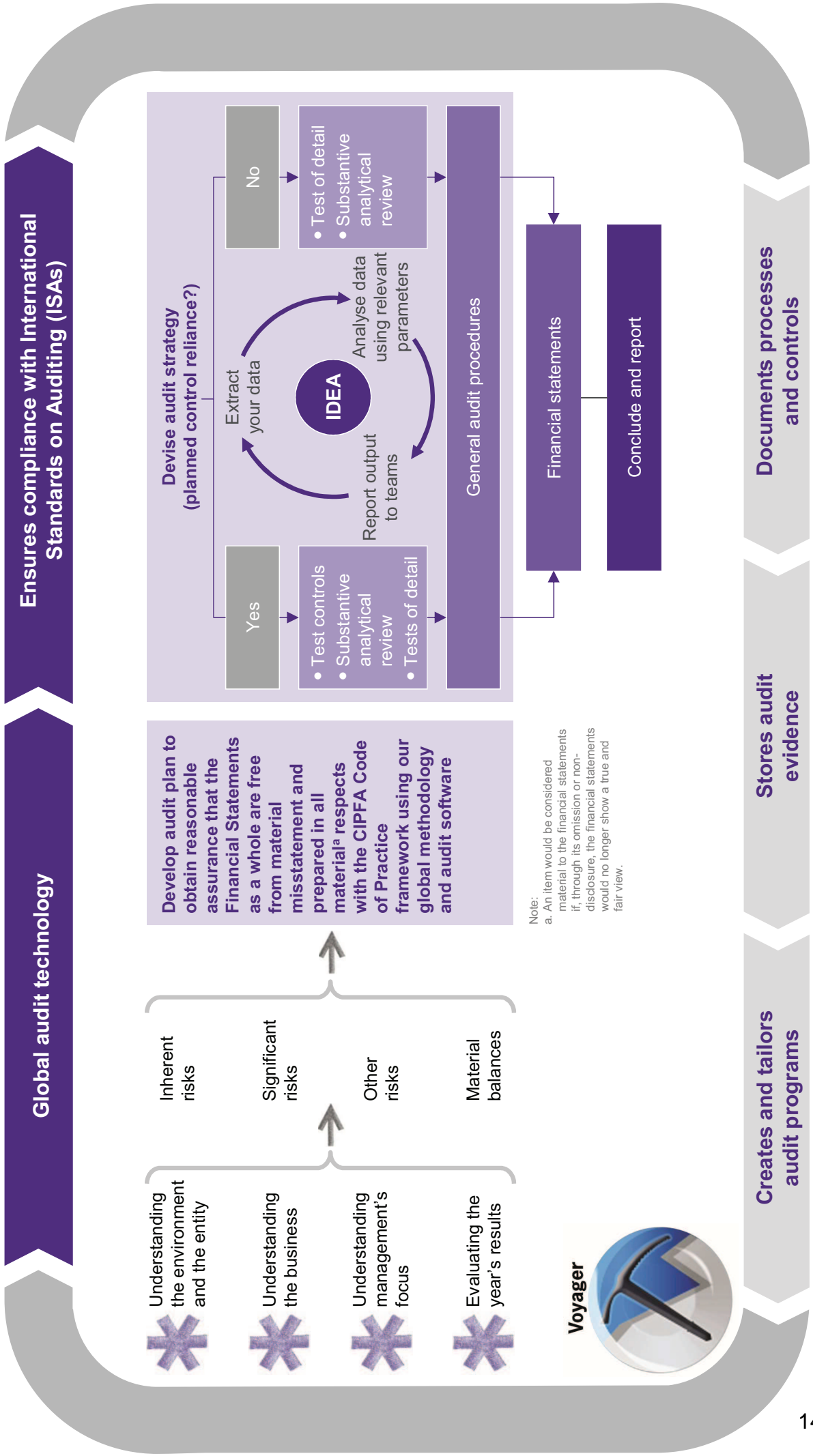
- We will consider changes made to the pensions administration control environment in response to LGPS data requirements.
- We will confirm the existence of controls to ensure that it identifies and receives all expected contributions from member bodies and that benefits are correctly calculated and that the appropriate payments are generated and recorded

- We will ensure that the Pension Fund financial statements comply with the requirements of the Code through our substantive testing.

- We will discuss with officers any planned changes to the financial statements in response to this guidance.

- Although not an issue for 2014/15 we will continue to work with you to help identify ways of streamlining the process for preparing the financial statements.

Our audit approach



Significant risks identified

Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty' (ISA 315).

In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
<p>The revenue cycle includes fraudulent transactions</p>	<p>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at London Borough of Barnet Pension Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including London Borough of Barnet Pension Fund who act as the administrators of the pension fund, mean that all forms of fraud are seen as unacceptable.
<p>Management over-ride of controls</p>	<p>Under ISA 240 the presumption that the risk of management over-ride of controls is present in all entities.</p>	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Risk assessment of accounting estimates, judgments and decisions made by management <p>Work planned:</p> <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management • Testing of journal entries • Review of unusual significant transactions.
<p>Risk of new accounting system Integra produces Fund balances that are materially mis-stated</p>	<p>As at 1 April 2014, the ledger system was migrated from SAP to Integra which is hosted by Capita.</p> <p>2014/15 will be year one the Fund accounts will be compiled on Capita's ledger system.</p>	<p>Document our understanding of the controls put in place by management over data migration.</p> <p>Work completed to date:</p> <ul style="list-style-type: none"> • Testing the completeness of data migration to the new systems as part of our IT review • Complete walk through tests of the new ledger system <p>Work planned:</p> <ul style="list-style-type: none"> • Review of subsystem reconciliations

Other risks identified

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other risks	Description	Audit Approach
Investments	Investment activity not valid Valuation is incorrect	<p>Work completed to date:</p> <ul style="list-style-type: none"> We have documented and confirmed the operation of controls around investment activities <p>Further work planned:</p> <ul style="list-style-type: none"> We will review the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and seek explanations for variances We will complete a predictive analytical review for different types of investments We will test a sample of purchases and sales during the year back to detailed information provided by the fund managers.
Contributions	Recorded contributions not correct	<p>Work completed to date:</p> <ul style="list-style-type: none"> We have confirmed the existence of controls operated by the Pension Fund to ensure that it identifies and receives all expected contributions from member bodies <p>Further work planned:</p> <ul style="list-style-type: none"> We will test a sample of contributions to source data to gain assurance over their accuracy and occurrence We will rationalise contributions received with reference to changes in member body payrolls and numbers of contributing pensioners to ensure that any unexpected trends are satisfactorily explained.

Other risks identified continued

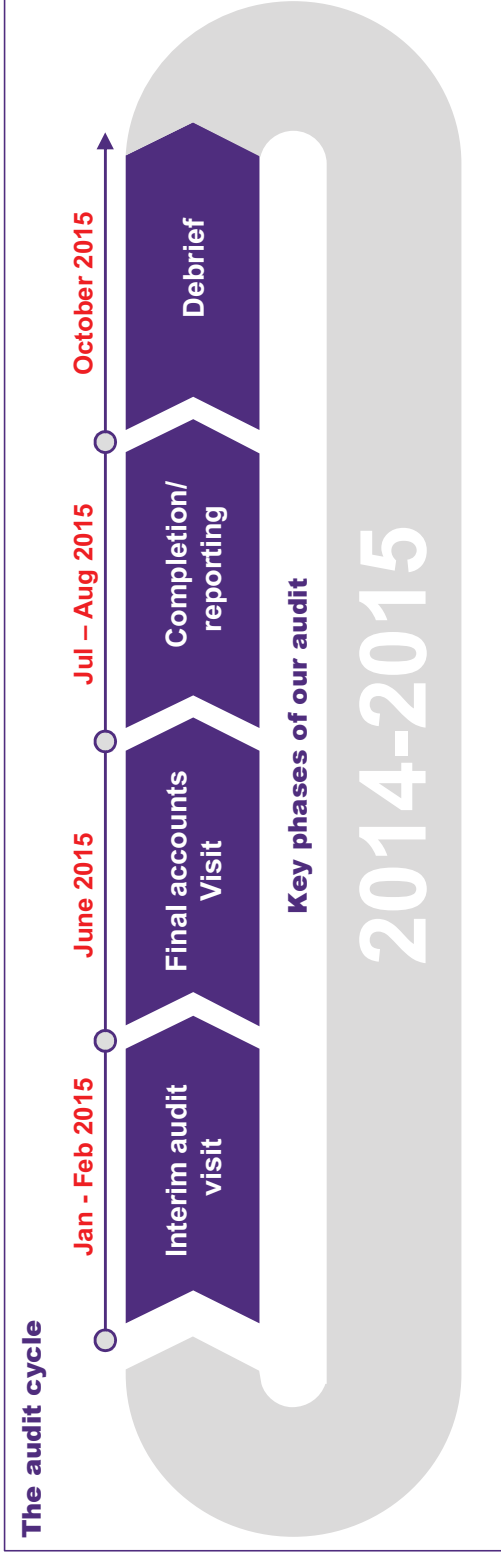
Other risks	Description	Audit Approach
Benefits payable	Benefits improperly computed/claims liability understated	<p>Work completed to date:</p> <ul style="list-style-type: none"> We have confirmed the existence of controls operated by the Fund to ensure that all benefits are correctly calculated and that the appropriate payments are generated and recorded <p>Further work planned:</p> <ul style="list-style-type: none"> Test a sample of individual pensions in payment by reference to member files. We will rationalise pensions paid with reference to changes in pensioner numbers and increases applied in the year to ensure that any unusual trends are satisfactorily explained.
Member Data	Member data not correct	<p>Work completed to date:</p> <ul style="list-style-type: none"> We have confirmed the existence of controls and reconciliations covering the determination of member eligibility, the input of evidence onto the Pensions Administration System and the maintenance of member records <p>Further work planned:</p> <ul style="list-style-type: none"> Sample testing of changes to member data made during the year to source documentation.

Results of interim audit work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed and findings	Conclusion
Internal audit	We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention.	Our review of internal audit work to date has not identified any weaknesses which impact on our audit approach.
Walkthrough testing	<p>We completed walkthrough tests of controls operating in areas where we consider that there is a risk of material misstatement to the financial statements other than observe or confirm the controls operating over the entry of accounting information from Acclink system into the Integra accounting system (details set out on page 10).</p> <p>At the time of our review (February 2015), we were unable to observe or confirm the controls operating over the entry of accounting information from Acclink system into the Integra accounting system.</p> <p>We understand there had been technical issues in entering journals onto the Integra accounting system. This had resulted in the delay of the following posting into the Integra system:</p> <ul style="list-style-type: none"> • monthly posting of investment journal until month 6 • monthly posting of months 1 - 10 of journal entries of contributions received and benefits paid. <p>Delays in posting of Fund transactions to the ledger increases the risk of errors not being identified and materially mis-stated in the Fund statements.</p>	<p>Subject to observing controls over subsystems are periodically reconciled to the ledger, our work has not identified any additional weakness which impact on our audit approach.</p> <p>We will ensure the accounting entries are correctly posted from Acclink into Integra during our final accounts testing.</p>
Review of information technology controls	As part of the overall review of the internal controls system, our information systems specialist has performed a high level review of the general IT control environment, including a follow up of any issues identified in the previous year. The review was undertaken as part of the main financial statements audit.	This work is currently in progress. Should any issues arise from this work, we will discuss these with management and report our findings in the Audit Findings Report.
Journal entry controls	We have reviewed the Fund's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Fund's control environment or financial statements.	Our review of the Fund's journal entry policies and procedures has not identified any weaknesses which impact on our audit approach.

Key dates



Date	Activity
Jan – Feb 2015	Planning / Interim
27 May 2015	Presentation of audit plan to Pension Fund Committee
8 June 2015	Year end fieldwork commences
July 2015 TBC	Audit findings clearance meetings
30 July 2015	Report audit findings to the Pension Fund Committee
By August 2015	Sign financial statements opinion

Fees and independence

Fees

	£
Total fees (excluding VAT)	21,000

Fees for other services

Service	Fees £
None	Nil

Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, the Fund, and its activities, have not changed significantly
- The Fund will make available management and accounting staff to help us locate information and to provide explanations

Fees for other services

Fees for other services reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter.

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirement of the Auditing Practices Board's Ethical Standards.

Communication of audit matters with those charged with governance

International Standards on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit plan	Audit findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issue arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.	✓	✓
Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged.		
Details of safeguards applied to threats to independence		
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓



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AGENDA ITEM 9



Pension Fund Committee

27 May 2015

Title	Appointment of an Independent Pension Fund Adviser to the Pension Fund
Report of	Chief Operating Officer
Wards	All
Status	Public
Enclosures	Separately circulated member pack
Officer Contact Details	Iain Millar, Head of Treasury, CSG iain.millar@barnet.gov.uk 0208 359 7126

Summary

This report concerns the appointment of an independent adviser to the Pension Fund. The Invitations were made through National Local Government Pension Scheme (LPGS) Investment Consultancy Framework.

Six applications were received and assessed by officers supported by a technical expert. Three companies were shortlisted to progress to second stage selection meeting with the Pension Fund Committee.

Members will be provided with an information pack which includes the full background to the applicants being put forward for interview.

Decisions

1. That the Pension Fund Committee interview the applicants for this contract. and
2. That following the interview the Chief Operating Officer in consultation with the Chair of the Pension Fund Committee will award the contract to the successful candidate for a period to end on 31 March 2020.

1. WHY THIS REPORT IS NEEDED

- 1.1 To select and appoint an independent adviser to the Pension Fund

2. REASONS FOR DECISIONS

- 2.1 The Pension Fund Committee's terms of reference include the appointment of independent advisers to the pension fund.

3. ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

- 3.1 Not applicable.

4. POST DECISION IMPLEMENTATION

- 4.1 Should the committee consider it appropriate to appoint to the contract, then the Chief Operating Officer in consultation with the Chair of the Pension Fund Committee will award the contract to the successful applicant.
- 4.2 On appointment the pension fund adviser will review the pension fund investment strategy and provide investment advice to the Pension Fund Committee on a quarterly basis.

5. IMPLICATIONS OF DECISION

5.1 Corporate Priorities and Performance

- 5.1.1. The contract procurement process through a framework is consistent with the Council's corporate priority: The council, working with local, regional and national partners, will strive to ensure that Barnet is a place: 'where services are delivered efficiently to get value for money for the taxpayer.

5.2 Resources (Finance & Value for Money, Procurement, Staffing, IT, Property, Sustainability)

- 5.2.1 The cost of the procurement and the provision of investment advice is met from the Pension Fund.
- 5.2.2 The Investment adviser is appointed to ensure that an appropriate pension fund investment strategy is followed to maximise investment return with due regards to risk and investment diversification.

5.3 Legal and Constitutional References

- 5.3.1 Constitution –Responsibility for Functions, Pension Fund Governance Compliance Statement, sets out the responsibilities delegated by Council to the Pension Fund Committee: 2.2.6, the appointment of independent advisers.
- 5.3.2 Constitution –Part 22 Contract Procedural Rules.

5.4 Risk Management

- 5.4.1 To help manage pension fund investment risk, the Pension Fund has an independent advisor who provides investment advice to officers and members and attends the quarterly Pension Fund Investment Panel. The advisor also assists with the preparation and review of the Pension Fund investment strategy, benchmarking and monitoring the performance of external investment fund managers.

5.5 Equalities and Diversity

- 5.5.1 The tendering process did not identify any specific issues around equalities and diversity. The proposed contractor was identified following procurement process conducted in accordance with the Council's Equality Duty

5.6 Consultation and Engagement

- 5.6.1 Members of Pension Fund Committee will receive a separately circulated member appointment pack.

6. BACKGROUND PAPERS

- 6.1 DPR 15.4.15: Pension Fund Procurement of an Independent Pension Fund Adviser.
<http://barnet.moderngov.co.uk/ieDecisionDetails.aspx?ID=5742>

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