Item 3

23rd September 2026

Glasgow City Council

Strathclyde Pension Fund Committee

Report by Head of Audit and Inspection

Contact: Jillian Campbell **Ext: 74247**

INTERNAL AUDIT – Investment Income

Purpose of Report:

To present the results of the Internal Audit review of the monitoring processes for Investment Income.

Note:

In most cases one of four opinions is expressed:

1. The control environment is satisfactory i.e. audit testing found no concerns with the control environment.
2. A reasonable level of assurance can be placed upon the control environment i.e. audit testing found no major weaknesses in the control environment but some improvements could be made.
3. A limited level of assurance can be placed upon the control environment i.e. improvements are necessary to ensure the control environment is fit for purpose.
4. The control environment is unsatisfactory i.e. significant improvements are required before any reliance can be placed upon the control environment.

Recommendations:

The Committee is asked to note the contents of this report, **AGREE** the audit recommendation and request that the Head of Audit and Inspection submits a further report to Committee on the implementation of the actions contained in the Action Plan.

Ward No(s): Citywide: ✓

Local member(s) advised: Yes ☐ No ☐ consulted: Yes ☐ No ☐

Glasgow City Council Internal Audit Section
Committee Summary
Strathclyde Pension Fund Office – Investment Income

1 Introduction

1.1 As part of the agreed Internal Audit plan, we have carried out a review of monitoring processes for investment income within the Strathclyde Pension Fund Office (SPFO).

1.2 The SPFO have a statutory requirement to provide retirement, death, and other benefits for all eligible employees within the Strathclyde Pension Fund Local Government Pension Scheme (LGPS). To achieve this, the Pension Fund must ensure that its assets and the future contributions are invested in a manner that enables benefits to be paid to members and their beneficiaries as they arise.

1.3 The Pension Fund has a Statement of Investment Principles and an Investment Strategy in place which broadly defines the types of investment to be held and the balance of the different types of investment (for example, equities, infrastructure etc.), the management of which is delegated to professional Investment Managers. Income from investments can either be realised or reinvested into existing investments. The SPFO also participates in a securities lending programme managed by its Global Custodian, Northern Trust.

1.4 The scope of the audit was to ensure there are sufficient and appropriate controls in place in relation to investment income. The scope of the audit included:

- Reviewing the arrangements that are in place to monitor and validate levels of income generated by investments.
- Reviewing the arrangements that are in place to monitor and validate levels of income reinvested within the investment portfolio.
- Reviewing the arrangements that are in place to take account of any potential changes in income realisation requirements of the fund.
- Reviewing the arrangements in place in relation to the lending of securities; and
- Ensuring that appropriate reporting arrangements are in place in relation to investment income and any securities lending.

1.5 The audit did not review the appropriateness of the investments made or the Direct Impact Portfolio (DIP) which was assessed as part of the Direct Impact Portfolio audit reported to Committee in June 2026.

2 Audit Opinion

2.1 Based on the audit work carried out a reasonable level of assurance can be placed upon the control environment. The audit has identified some scope for improvement in the existing arrangements and one recommendation which management should address.

3 Main Findings

3.1 We are pleased to report that the key controls are in place and generally operating effectively. The main governance forum for the monitoring of investment income and performance is the Investment Advisory Panel (IAP) which meets quarterly and provides advice to the Strathclyde Pension Fund Committee. Investment monitoring reports are reviewed by the IAP on a regular basis, with a summary of this information as well as minutes from the IAP presented to Committee.

3.2 A revised investment strategy was approved by the Strathclyde Pension Fund Committee in March 2024, with work undertaken to align investments with the revised strategy over 2024 and 2025. The IAP is responsible for setting and reviewing investment mandate terms with Investment Managers. The IAP also review reporting and is able to make recommendations regarding the current fund allocations across asset categories, mandates, and managers, in line with the investment strategy.

3.3 We noted that appropriate arrangements are in place to ensure that income is released or reinvested in line with expectations. Individual Investment Managers have delegated authority to decide on whether income arising from an investment will be realised or reinvested. This will be determined based on the contractual arrangements documented in the investment mandate and the type of investment being made. However, where required, the SPFO may instruct Investment Managers to reinvest or realise income or rebalance investments as deemed necessary by the investment strategy.

3.4 A ten-year cash flow forecast is developed and reported as part of the annual SPFO business plan which is approved by the Strathclyde Pension Fund Committee. Cash flow is also monitored by the IAP on a quarterly basis. However, as the fund matures, where more members are in receipt of pension benefits rather than actively contributing to the fund, management recognise that additional planning will be required regarding the timing of investment returns.

3.5 While reconciliations of income from direct property investments are not undertaken by the SPFO, arrangements are in place for the SPFO to obtain assurance over the completeness and accuracy regarding the recording of this income.

3.6 The SPFO has entered into a securities lending agreement with its Global Custodian, Northern Trust. Under this agreement, the lending of securities is undertaken by Northern Trust at arm's length from the SPFO. We found that appropriate arrangements are in place for the SPFO to obtain assurance that Northern Trust has appropriate organisational controls in place in relation to securities lending.

3.7 Where securities are being loaned, the creditworthiness of borrowing organisations is assessed by Northern Trust, and borrowers are required to provide collateral at least equal to the market value of the securities. This provides protection to the SPFO in the event that a borrower becomes insolvent or fails to return the relevant securities at the end of the loan.

3.8 However, our audit testing identified some areas where existing arrangements could be strengthened. Arrangements are in place for Northern Trust and the SPFO to monitor the performance of Investment Managers, including reconciliations of returns against appropriate benchmarks. Audit testing found that not all expected information was included in the regular performance reconciliation, and that there could be a delay in performance reporting being reviewed by the SPFO. These investments were, however, included in the Northern Trust Executive Report used to develop the performance reporting provided to the IAP and Strathclyde Pension Fund Committee.

3.9 The SPFO receive an annual performance report from Northern Trust regarding the securities lending programme and have access to additional reports through Northern Trust's reporting portal. We obtained evidence that the performance report was discussed at an IAP session held in advance of the Strathclyde Pension Fund Committee meeting; however, this discussion was not formally minuted. Consequently, there is no documented evidence of the IAP's consideration of the report, limiting the ability to demonstrate the scrutiny undertaken and reducing the visibility of this oversight activity for the Strathclyde Pension Fund Committee.

3.10 An action plan is provided at section four outlining our observations, risks and recommendations. We have made one recommendation for improvement. The priority of the recommendation is:

Priority	Definition	Total
High	Key controls absent, not being operated as designed or could be improved. Urgent attention required.	0
Medium	Less critically important controls absent, not being operated as designed or could be improved.	0
Low	Lower level controls absent, not being operated as designed or could be improved.	1
Service Improvement	Opportunities for business improvement and/or efficiencies have been identified.	0

3.11 The audit has been undertaken in accordance with the Global Internal Audit Standards in the UK public sector.

3.12 We would like to thank officers involved in this audit for their cooperation and assistance.

3.13 It is recommended that the Head of Audit and Inspection submits a further report to Committee on the implementation of the actions contained in the attached Action Plan.

4 Action Plan

No.	Observation and Risk	Recommendation	Priority	Management Response
Key Control: Appropriate arrangements are in place to monitor investment performance and report to senior management as well as Committee.				
1	Arrangements are in place for the SPFO and its Global Custodian to monitor the performance of Investment Managers, including cash reconciliations and reconciliations of returns against relevant benchmarks. However, audit testing identified that not all expected information was included in the regular performance reconciliation. In addition, arrangements should be strengthened to ensure performance reporting is reviewed by the SPFO on a timely basis. While the omitted investments were reflected within the Northern Trust Executive Report, which informs performance reporting to the Investment Advisory Panel (IAP) and Strathclyde Pension Fund Committee, they were not captured within the regular reconciliation process used to monitor Investment Manager performance. In relation to securities lending, the SPFO receives an annual performance report from Northern Trust and has access to further reporting through Northern Trust's reporting portal. While the IAP has received performance reporting relating to securities lending and this was discussed	The SPFO management should review the arrangements in place to ensure that complete performance information is received and reviewed on a timely basis. The review should also consider whether the reporting of securities lending performance is sufficient to support effective oversight by the Strathclyde Pension Fund Committee.	**Low**	**Response:** Part 1 All performance reconciliations must be completed in order for the Global Custodian to finalise the Fund's performance reporting, but this was not reflected in a reconciliation report sent in advance of reporting completion. The investment team will make sure that all investment reconciliations are accurately captured in future reconciliation summaries from the Global Custodian. Part 2 The next securities lending update is expected to be provided in 2027. Any future updates on the securities lending programme to the Investment Advisory Panel will be recorded in the update of IAP meetings included in Committee reports.

No.	Observation and Risk	Recommendation	Priority	Management Response
	at a session held in advance of the Strathclyde Pension Fund Committee meeting, this was not formally minuted. As a result, there is limited evidence of the scrutiny undertaken and reduced visibility of securities lending oversight for the Strathclyde Pension Fund Committee. Where performance monitoring arrangements are not fully documented, complete or timely, there is an increased risk that exceptions, omissions or performance issues are not identified, investigated and addressed in a timely manner.			**Officer Responsible for Implementation:** Chief Investment Manager **Timescales for Implementation:** Part 1 31 December 2026 Part 2 30 September 2027

Policy and Resource Implications

Resource Implications:

Financial:	Internal Audit services are included within the Central Support Services cost.
Legal:	None
Personnel:	None
Procurement:	None

Equality and Socio-Economic Impacts:

Does the proposal support the Council's Equality Outcomes 2021-25? Please specify.	No specific proposals are included within this report.
What are the potential equality impacts as a result of this report?	No significant impact.
Please highlight if the policy/proposal will help address socio-economic disadvantage.	There are no equality impacts as a result of this report.

Climate Impacts:

Does the proposal support any Climate Plan actions? Please specify:	Not Applicable
What are the potential climate impacts as a result of this proposal?	Not Applicable
Will the proposal contribute to Glasgow's net zero carbon target?	Not Applicable
Privacy and Data Protection Impacts:	None

5 Recommendation

5.1 The Committee is asked to note the contents of this report, **AGREE** the audit recommendation and request that the Head of Audit and Inspection submits a further report to Committee on the implementation of the actions contained in the Action Plan.