

APPENDIX 3

Greater Manchester Pension Fund

**Linda Kettles
Audit Commission**

EXECUTIVE DIRECTOR OF PENSIONS
Council Offices, Wellington Road
Ashton-under-Lyne, Tameside. OL6 6DL

Call Centre 0161-342 8355
Minicom 0161-342 3839
Web Site www.gmpf.org.uk

Email: peter.morris@tameside.gov.uk

Your Ref
Our Ref PM/LS
Doc Ref pmletts11/AuditComm07
Ask for Peter Morris
Direct Line 0161 342 2952
Date 24 August 2011

Dear Linda,

Audit 2011
Compliance with International Auditing Standards

In your letter of July 2011 you asked four questions which I address using your numbering.

1) *How those charged with governance, exercise oversight of management's processes in relation to:*

- ***Undertaking an assessment of the risk that the financial statements may be materially mis-stated due to fraud;***
- ***Identifying and responding to risks of fraud in the organisation;***
- ***Communication to employees of views on business practice and ethical behavior;***
and
- ***Communication to those charged with governance the processes for identifying and responding to fraud.***

Our responses to these questions are set out below:

The investment function is primarily undertaken by external managers that are international institutional fund managers. An important element of their appointment process was the financial standing of the organisation and the strength of their internal control arrangements, which include compliance and internal audit functions.

The work of the Risk Management and Internal Audit Service provides the Ethics and Audit Working Group with assurance that management processes are controlled effectively and that risks are identified, evaluated and managed. The Audit Plan is presented to the Ethics and Audit Working Group annually and progress is reported quarterly.

Managed Audits are undertaken annually on all key financial systems to ensure that the controls are operating effectively and that the systems are fit for purpose.

The investigation of fraud is undertaken by a specialist investigator in accordance with best practice and reported to both the Standards Panel and Audit Panel.

The purchase and sale of securities is actioned by the Fund's appointed custodian, operating on instructions from the Fund's managers. Again, the financial standing of the custodian and its internal control procedures are vital aspects of its appointment.

Reconciliations are periodically undertaken between the custodian and fund managers and these are reviewed by the investment team.

When the Fund invests in specialist funds, financial standing and internal control procedures are key components of the evaluation process undertaken by investment staff.

In preparing the accounts for securities such as equities and bonds, the Fund uses an independent provider (HSBC) for its investment accounting function and this adds another layer to the reconciliation process and ensures consistency of classification and pricing. Officers of the Fund must operate within the standards, policies and regulations set by the Council and the regulations set by the Government as an administering authority of the LGPS.

A potential risk for the Fund is the overpayment of pension on the death of the member, when it is not reported. Over the years, the Fund has used life certificates, NFI, receipt of information from registrars and it now uses a tracing agency that utilises registrar's information nationally to identify deaths on a monthly basis. This has led to a significant reduction in the number of mismatches in the NFI report.

The Standards Panel continues to be active in promoting ethical governance and standards of conduct and behaviour.

2) *How the Ethics and Audit Working Group oversees management processes to identify and respond to the risk of fraud and possible breaches of internal control.*

The Risk and Internal Audit Manager updates the Ethics and Audit Working Group quarterly on progress to date and her report would include comments on suspected or alleged frauds.

As you are aware, the activities of the Fund, its systems and procedures are subject to extensive and systematic review by internal audit. An important aim of such audits is to provide reassurance on the internal control systems and sample check the effectiveness of operation.

The Fund also uses its Pensioner Newsletter "Grapevine" to remind scheme members of the "terms" of their pension and the consequences of fraudulent action by them or their relatives regarding their pension.

The Council also has a whistleblowing policy in place and this policy has been communicated to employees and training has been provided to encourage reporting of unacceptable behaviour.

3) *Have you knowledge of any actual, suspected or alleged frauds?*

The ongoing tightening of arrangements regarding the identification of pensioner deaths is resulting in the earlier identification of death and this reduces the scale of overpaid pensions. Given the number of pensioner deaths, it is likely that there will be some small scale suspected or actual fraud.

4) How you gain assurance that all relevant laws and regulations have been complied with.

The Pension Service has a decentralised legal function that focuses solely on pension fund activities.

The Pensions Office that deals with administration matters has a technical officer and a recently created employer, compliance and training team that provides guidance on regulatory and legal matters to the Pensions Office.

External trainers are used to complement internal/on the job training and external trainers are occasionally used to provide training to our employers.

Senior members of the team participate in national and regional groups. This is an important part of their continuing professional development enabling them to keep up to date with current events. CPD is supported in all areas of the Fund's activities.

Assurance is also taken from the work of the Internal Audit Service who test compliance with relevant laws and regulations as part of managed, systems and risk based audits.

The work undertaken to prepare the Council's Annual Governance Statement requires the Executive Director of Pensions to sign an assurance letter and complete an assurance question of which the first two sections relate to the compliance with legal requirements, the Constitution, Council Objectives and Policies.

All reports presented to Panels and Working Groups are required to have the comments of the Borough Solicitor setting out any legal implications/vires of the proposals contained within it. These are personally provided by the Borough Solicitor. The Borough Treasurer is also required to provide financial implications and in doing so would comment on any issues affecting the Council's compliance with financial and accounting regulations.

In addition both officers avail themselves as and when needed to give specialist advice on specific technical issues.

Yours sincerely,

Councillor J Middleton
Chair, Ethics and Audit Working Group

Peter Morris
Executive Director of Pensions