

ITEM NO: 5(b)

GREATER MANCHESTER PENSION FUND

ETHICS AND AUDIT WORKING GROUP

14 October 2011

Commenced: 10.15am

Terminated: 12.35pm

Present: Councillor Middleton (Chair)
Councillor Harrison
Councillor Grimshaw
Councillor Mitchell
Councillor Pantall
Councillor Ambler
Councillor Buckley
Councillor White
Mr Mulryan UNITE
Mr Llewellyn UNITE
John Harrison Audit Commission
Peter Morris Executive Director of Pensions
Steven Taylor Head of Pension Fund Investments
Tracey Boyle Head of Pension Fund Accountancy
Tom Harrington Pension Fund Investments Team
Raymond Holdsworth Pension Fund Investments Team
Christine Weston Internal Audit
Victoria Plackett Pension Fund Accountancy

Apologies for absence: Councillors Lone and Sullivan

11. DECLARATIONS OF INTEREST

There were no declarations of interest submitted by Members of the Working Group.

12. MINUTES

The Minutes of the proceedings of the meeting of the Ethics and Audit Working Group held on 22 July 2011 were approved as a correct record.

13. GMPF ADMINISTRATION EXPENDITURE MONITORING STATEMENT FOR THE FIVE MONTHS TO AUGUST 2011

The Executive Director of Pensions submitted a report which detailed the administration expenses incurred by the Fund for the five months to 31 August 2011. The actual outturn for the 5 months to August 2011 showed an overspend of £71,000 against the budget of £5,240,000 for that period.

The major variation between the projected and actual outturn was due to an under provision of investment managers fees.

RECOMMENDED

That the report be noted.

14. AGED DEBT FOR FIVE MONTHS AS AT 31 AUGUST 2011

A report was submitted by the Executive Director of Pensions which showed that the value of aged debt for the fund as at 31 August 2011 was £3.42 million. This showed a decrease in the overall debt from 30 June 2011 quarter of £1.9 million. The Head of Pension Fund Accountancy informed members that the main reason for the increase in debt was timing, with the August figures still only including rent for the June quarter (the next demand being 29 September).

The report summarised that the environment remained difficult for many of the Fund's debtors. The debt recovery process was considered to be working relatively well but recovery continued to be difficult as some tenants struggled to pay. Where considered appropriate, payment plans and monthly billing were agreed to help tenants work through difficult trading conditions.

Material increases in early retirements continued to be forecast and thus increased costs for employers where the capital cost of such retirements could not be met from within their 'budget provision'. Some terminations of employer agreements were envisaged that would lead to significant additional costs that needed to be recovered from the employers lease to participate in the Scheme.

The range of debt recovery activity remained likely to increase in the near term, bringing with it some complex issues to address in pursuing recovery.

Decisions on appropriate action continued to be property and tenant specific, reflecting the local circumstances.

In response to a question from the Chair, the Head of Pension Fund Accountancy confirmed that no new requests for payment plans had been received recently.

The Head of Pension Fund Accountancy also made reference to the priority order for the distribution of assets to creditors, details of which were appended to the report. This had been circulated in response to a request from working group members.

RECOMMENDED

That the report be noted.

15. RISK MANAGEMENT AND INTERNAL AUDIT SERVICES – ANNUAL REPORT FOR THE YEAR 2010-11

Consideration was given to a report of the Borough Treasurer which summarised the Internal Audit work carried out in the year.

It was reported that the overall audit opinion on the Control Environment for 2010/11 based upon the audit work undertaken was strong and effective.

RECOMMENDED

That the report and the overall audit opinion on the control environment be noted.

16. RISK MANAGEMENT AND INTERNAL AUDIT SERVICES – UPDATE FOR THE PERIOD ENDING 23 SEPTEMBER 2011

Consideration was given to a report of the Borough Treasurer which summarised risk management and internal audit work carried out in the period ending 23 September 2011. It also provided details of further reviews, investigations, checks and other Internal Audit activities up to the 23 September 2011.

With regard to work carried out this quarter, it was reported that two reports had been issued in the quarter. The key issues arising from the final reports were detailed and discussed.

In addition, the report detailed work in progress as follows:

- Calculation of Benefits;
- Visit to Manchester City Council;
- Visit to Trafford MBC; and
- Visit to Rochdale MBC.

With regard to the latest results from the National Fraud Initiative exercise, it was reported that matches relating to deceased persons, where the fund had not been informed of the pensioners death, were significantly reduced in number this year. Further to this, Members questioned controls in banks and the delay in identifying activity in bank accounts of deceased persons. Members also sought an update with regard to the case of Mr KH.

Councillor White expressed concern with regard to a report of a visit to Bolton MBC, in particular the medium level of assurance given and sought further information regarding this. Ms Weston, Internal Audit, agreed to obtain further information with regard to this and contact Councillor White directly.

RECOMMENDED

- (i) **That the report be noted; and**
- (ii) **That further information regarding the case of Mr KH identified in the NFI exercise, be reported to the next meeting of the Working Group.**

17. UBS UPDATE ON UNAUTHORISED TRADING WITHIN THE UBS INVESTMENT BANK

John Nestor, Head of UK and Ireland; Trevor Hunt, Head of Operations, UK and Deputy Global Head of Operations; James Fisher, Executive Director, Operational Risk Control, Central Europe Middle East and Africa excluding Switzerland and Steven Sykes, Executive Director, Operational Risk Control, UK and Ireland, all of UBS Global Asset Management, attended the meeting to provide an update on the implications of the recent unauthorised trading within the Investment Banking arm of UBS for GMPF.

Mr Fisher began by outlining the roles and responsibilities of Operational Risk Management and Control. The mitigation of Operational Risk was also examined and the process of agent basis trading, the role of third-party custodians and the segregation of duties were detailed. It was further explained how the nature of the UBS Global Asset Management business and operating model materially reduced the scope and opportunity for fraud or unauthorised trading.

Mr Hunt gave details regarding how the segregation of duties was implemented in practice, by way of examples at the pre-trade, trade and post-trade (including trade matching) stages of the investment cycle and through reconciliations to external custodian records.

The Head of Pension Fund Investments explained trade matching and highlighted it as a key control in the prevention of 'rogue' trading.

Mr Nestor stated that UBS Global Asset Management and the Investment Banking arm of UBS were separate legal entities. He gave details of corporate governance arrangements and key committees within UBS Global Asset Management in the UK, including how these fed into the global organization. He further reassured Members of the ongoing commitment to ensuring that risks were mitigated.

Councillor Pantall asked UBS for examples of significant risk areas within UBS Global Asset Management. Mr Fisher provided examples from 13 categories of risk that had been reported to key committees within UBS Global Asset Management and the regulator.

A wide ranging discussion took place on the content of UBS' report and presentation. Members sought clarification of risk control and also made reference to errors, which were not necessarily fraud, and asked how long it would take to identify and correct such errors, and what, if any, would be the effect on the client.

Mr Nestor conceded that errors were always possible, but reassured Members that the client would be made good in these cases.

The Chair thanked all the representatives of UBS Global Asset Management for their presentation.

18. CAPITAL INTERNATIONAL CORPORATE GOVERNANCE REVIEW

Steven Gosztony, Martyn Hole, Rob Beale and Michelle Mew of Capital International attended the meeting and gave an overview of Corporate Governance activity over the last twelve months.

The Capital approach to proxy voting and the voting statistics of Capital at company meetings worldwide for the 12 months to 30 September 2011 were detailed.

Mr Hole gave examples of Capital's engagement with companies, focussing on the energy sector. A wide ranging discussion took place on the content of Capital's report.

RECOMMENDED

That the content of the presentation be noted.

19. CAPITAL INTERNATIONAL REPORT ON TRADING COSTS

Michelle Mew presented Capital's IMA Level One Report and GMPF's IMA Level Two Report for the 12 month period ending 30 June 2011, and responded to questions thereon.

RECOMMENDED

That the report be noted.

20. ROUTINE PIRC UPDATE

Alan McDougall and Janice Haywood of PIRC Ltd attended the meeting and reported on:

- PIRC's response to the Sharman Inquiry consultation;
- News Corporation AGM – voting issues; and
- Annual LAPFF Conference – 30 November – 2 December 2011.

RECOMMENDED

That the report be noted.