

ITEM NO: 6(a)

GREATER MANCHESTER PENSION FUND

ETHICS AND AUDIT WORKING GROUP

16 April 2010

Commenced: 10.05am

Terminated: 12.40pm

Present: Councillor Middleton (Chair)

Councillor Mitchell

Councillor Pantall

Councillor Sidebottom

Mr Llewellyn TGWU

Linda Kettles 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

Wendy Poole Internal Audit

Daniel Hobson Pension Fund Investments Team

Raymond Holdsworth Pension Fund Investments Team

Neil Charnock Pension Fund Legal

Apologies for absence: Councillors: Harrison and K Welsh and Mr Mulryan (AMICUS)

31. MINUTES

The Minutes of the proceedings of the meeting of the Ethics and Audit Working Group held on 22 January 2010 were approved as a correct record.

32. DECLARATIONS OF INTEREST

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

33. RISK MANAGEMENT AND INTERNAL AUDIT SERVICES – UPDATE REPORT FOR THE QUARTER ENDING 31 MARCH 2010

Consideration was given to a report of the Borough Treasurer which summarised risk management and internal audit work carried out in the period to the end of March 2010. It also provided details of further reviews, investigations, checks and other Internal Audit activities up to the end of March 2010.

It was reported that nine draft reports had been issued and twelve reports finalised. The key issues arising from the final reports were detailed and discussed.

The report detailed work in progress as follows:

- VAT
- HSBC Accounting System
- Local Initiatives – Internally Managed Funds

It was further reported that several Post Audit Reviews (PAR) had been completed in the quarter and there were no outstanding issues to report on the Post Audit Reviews completed.

With regard to investigation work, it was reported that there were currently several National Fraud Initiative cases under investigation, regarding overpayment of pension where the next of kin had not responded to the Fund's requests for repayment. Pension Fund Legal had obtained evidence from the bank where the pensions were paid, which would assist with investigations.

RECOMMENDED

That the report be noted.

34. RISK MANAGEMENT AND INTERNAL AUDIT SERVICES – ANNUAL AUDIT PLAN 2010/11

Consideration was given to a report which presented the proposed annual audit plan for 2010/11.

A copy of the plan was appended to the report.

Following concerns raised by Members regarding the ability of the Service to deliver the plan in the days allocated. The Head of Risk Management and Audit Services explained that there were some resource issues in the Service, however she reassured Members that the Team would be able to meet its commitment to the Pension Fund and that should any issues arise, the Executive Director of Pensions would be consulted.

RECOMMENDED

That the 2009/2010 Annual Audit Plan be approved.

35. GMPF ADMINISTRATION EXPENDITURE MONITORING STATEMENT FOR THE ELEVEN MONTHS TO FEBRUARY 2010

The Executive Director of Pensions submitted a report which compared the administration expenses budget against the actual results for the eleven months to February 2010.

In the eleven months to 28 February 2010 there was an underspend of £275,000 against the budget of £11,393,000 for that period. The main reasons for the underspend related to issues concerning managers/professional fees and turnover and delay in the appointment of staff.

RECOMMENDED

That the report be noted.

36. AGED DEBT MONITORING FOR THE ELEVEN MONTHS TO 28 FEBRUARY 2010

A report was submitted by the Executive Director of Pensions which showed that the value of aged debt for the fund as at 28 February 2010 was £2.76 million. This showed a decrease in the overall debt from 31 December 2009 quarter of £6.05 million.

In response to suggestions from Members with regard to future content of the report, the Head of Pension Fund Accountancy informed the Working Group that she was reviewing the format of the report and looking to increase the content and improve the format.

RECOMMENDED

That the report be noted.

37. STATEMENT OF INVESTMENT PRINCIPLES

Consideration was given to a report of the Executive Director of Pensions which advised Members of various changes that were proposed to be made to the Statement of Investment Principles and outlined the reasons for the proposed changes.

Consideration was also given to the extent to which the Fund complies with guidance given by the Secretary of State which is encompassed in a report entitled "Investment Decision Making and Disclosure in Local Government Pension Schemes : A Guide to the Application of the Myners Principles". Members expressed a degree of scepticism towards what could potentially be a 'box ticking' approach and considered that the Fund has strong governance arrangements in place. Members also discussed the CIPFA Knowledge and Skills Framework. The availability and take up of training was recognised but this could perhaps be better recorded or codified.

RECOMMENDED

That the Working Group:

- (i) support the increase in the limit on 'contributions to partnership; from 5% - 10%;**
- (ii) note the changes to the Statement of Investment Principles as required by the Regulations; and**
- (iii) support the adoption of the revised Statement of Investment Principles (as appended to the report) by the Management Panel.**

38. UBS CORPORATE GOVERNANCE REVIEW

Mr Pitfield of UBS Global Asset Management Limited attended the meeting and gave an overview of Corporate Governance activity over the last twelve months, circulating a written summary thereof.

Mr Pitfield outlined the fundamentals of good Corporate Governance which should lead to better corporate performance and improved shareholder value. He stressed the importance of an effective Chairman, stating that this was key to an effective Board. The approach of UBS to Corporate Governance was also detailed which involved; building relationships through regular company meetings, engaging with companies, voting on all resolutions globally (where practical), intervening where necessary and reporting to clients. Mr Pitfield presented statistics regarding UBS voting activity on behalf of GMPF for the 12 months to 31 December 2009, as follows:

- Voted at 350 meetings globally; and
- Voted against management or abstained at 109 meetings.

The subject of executive remuneration was discussed.

Mr Pitfield explained that the structure of executive remuneration could be a useful indicator of how seriously a Board takes governance. In addition, the remuneration structure was seen as important in aligning the interests of shareholders and management. Elements that UBS look for include; a sensible performance hurdle such as relative shareholder return, encouraging share ownership and avoiding excessive issuance.

The Executive Director of Pensions asked Mr Pitfield to provide an update regarding a particular company in the UBS portfolio. Mr Pitfield explained that he was aware of potential legal action against the company and an investigation into the conduct of its auditor by the Accountancy and Actuarial Discipline Board. UBS would continue to closely monitor the situation and consider any appropriate action once the investigation was concluded.

RECOMMENDED

That the presentation be noted.

39. UBS REPORT ON TRADING COSTS

Mr Pitfield presented GMPF's IMA Level Two Report for the 12 month period ending 31 December 2009.

RECOMMENDED

That the report be noted.

40. ROUTINE PIRC UPDATE

Alan McDougall and Janice Hayward of PIRC Ltd attended the meeting and gave a presentation on a report entitled "PIRC UK Shareholder Voting Guidelines 2010".

RECOMMENDED

That the report be noted.