

ITEM NO: 5(b)

GREATER MANCHESTER PENSION FUND

ETHICS AND AUDIT WORKING GROUP

22 July 2011

Commenced: 10.05am

Terminated: 12.30pm

Present: Councillor Middleton (Chair)
Councillor Grimshaw
Councillor Mitchell
Councillor Pantall
John Harrison Audit Commission
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
Christine Weston Internal Audit
Victoria Plackett Pension Fund Accountancy

Apologies for absence: Councillors Ambler, Harrison, Sullivan, White and Mr Llewellyn

1. DECLARATIONS OF INTEREST

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

2. CHAIR'S OPENING REMARKS

The Chair welcomed everyone to the meeting and introduced a new Member, Councillor Grimshaw, representing Bury Metropolitan Borough Council.

3. MINUTES

The Minutes of the proceedings of the meeting of the Ethics and Audit Working Group held on 8 April 2011 were approved as a correct record.

With regard to Minute 49, Recommencement of the Stocklending Programme, it was confirmed that the programme had now recommenced.

4. RISK MANAGEMENT AND INTERNAL AUDIT SERVICES – UPDATE REPORT FOR THE QUARTER ENDING 30 JUNE 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 30 June 2011. It also provided details of further reviews, investigations, checks and other Internal Audit activities up to the end of June 2011.

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

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

- Review of Fund Manager (UBS)
- Service Charges
- Calculation of Benefits

The Executive Director of Pensions, remarked that there seemed to be increasing instances of 'low level of assurance' given as an audit opinion arising from visits to employers, and asked Ms Weston to comment further on this.

Ms Weston Internal Audit, explained that as re-organisation/restructuring occurred in many scheme employers, some had experienced a loss of skilled staff and key personnel, which was starting to have an impact. Arrangements were in place to follow up the actioning of recommendations with employers and those with a low level of assurance may require a further site visit to progress any outstanding matters.

RECOMMENDED

That the report be noted.

5. AUDIT COMMISSION PROGRESS REPORTS

Consideration was given to a report of the Audit Commission that set out the External Auditor's progress with the 2010/11 audit.

Ms Kettles of the Audit Commission explained that, upon examination of the main financial systems, work to date had not identified any significant internal control risks, and that should this position change, it would be reported accordingly.

Members sought clarification with regard to the processes involved in identifying risk.

The Executive Director of Pensions explained that each Service Unit Manager had responsibility for internal controls within their Service Area. In addition to this, Internal Audit provided support.

The Head of Pension Fund Investments made reference to the wider picture and the need for the Fund's agents all over the world to draw up controls to address risk. Strong controls were in place, but there were no ultimate guarantees and there was an ongoing process of improvement.

Members also asked how the Fund compared to other Local Authority funds with whom the Audit Commission were involved.

Ms Kettles responded that GMPF was often amongst the best when compared to other Local Authority funds.

Members made reference to the risk associated with liabilities i.e. the current financial situation and rising life expectancy, which was an increasing burden on the Fund.

The Executive Director of Pensions acknowledged these concerns and informed the Working Group that a piece of work was being commissioned from the Actuary to try and address these issues, especially at individual employer level.

RECOMMENDED

That the report be noted.

6. GMPF STATEMENT OF ACCOUNTS 2010/2011

The Executive Director of Pensions submitted a report which reviewed the GMPF 2010/2011 accounts incorporated within the administering authority (Tameside MBC) final accounts 2010/2011. It was reported that the new international standard on auditing expected the trustees to have reviewed the reasonableness of significant assumptions for estimates to be used in the accounts. The Statement of Accounts 2010/11 was appended to the report.

The Head of Pension Fund Accountancy gave a detailed presentation and highlighted key areas of the Fund's Accounts for the Year ended 31 March 2011, and the Net Asset Statement as at 31 March 2011. The Notes to the Accounts were also explained and discussed and attention focused on the basis of the assumptions underpinning estimates.

The Chair congratulated everyone involved in producing the Statement of Accounts 2010/2011, including the Head of Pension Fund Accountancy, the Head of Pension Fund Investments and their respective teams.

RECOMMENDED

That the assumptions for estimates to be used in the accounts be approved.

7. GMPF ADMINISTRATION EXPENDITURE MONITORING STATEMENT FOR THE 12 MONTHS TO MARCH 2011

The Executive Director of Pensions submitted a report which detailed the administration expenses incurred by the Fund for the 12 months to 31 March 2011. The actual outturn for the 12 months to March 2011 showed an overspend of £2,379,000 against the budget of £12,425,000 for that period.

At the April 2011 meeting of the Ethics and Audit Working Group, the administration expenditure monitoring statement for the 11 months to February 2011 reported an under spend against profiled budget of £60,000 and a projected under spend for the year to March 2011 of £71,000.

The major variation between the projected and actual outturn was due to a provision for an anticipated performance fee payment to one of the Fund's investment managers.

RECOMMENDED

That the report be noted.

8. GMPF ADMINISTRATION EXPENDITURE MONITORING STATEMENT FOR THE TWO MONTHS TO MAY 2011

The Executive Director of Pensions submitted a report which compared the administration expenses budget against the actual results for the two months to May 2011. In the two months to May 2011 there was an overspend of £9,000 against the budget of £2,081,000 for that period. Thus actual expenditure was broadly in line with the budget.

RECOMMENDED

That the report be noted.

9. AGED DEBT FOR THREE MONTHS AS AT 30 JUNE 2011

A report was submitted by the Executive Director of Pensions which showed that the value of aged debt for the fund as at 30 June 2011 was £5.32 million. This showed an increase in the overall debt from 28 February 2011 quarter of £1.84 million. The Head of Pension Fund Accountancy informed members that the main reason for the increase in debt was timing, with the June figures incorporating the new quarter's rent payable from 24 June 2011.

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 admitted body agreements were envisaged that would lead to significant additional costs that needed to be recovered from employers.

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.

RECOMMENDED

That the report be noted.

10. ROUTINE PIRC UPDATE

Alan McDougall and Janice Haywood of PIRC Ltd attended the meeting and reported on 'Assessing Asset Managers'.

Mr McDougall outlined the key points in the report including;

- Factors causing asset managers to devote greater resources and attention to environmental, social and governance (ESG) issues;
- Existing research into how managers address these issues has a number of gaps; and
- Engagement with managers over ESG issues and the development of the Forum's Trustee Guide.

RECOMMENDED

That the report be noted.