

## Greater Manchester Pension Fund

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Date 1 September 2015

Dear Marianne,

### **Greater Manchester Pension Fund Financial Statements for the year ended 31 March 2015**

In response to your letter of 7 August 2015, I have attached the completed schedule having taken into account the views of other appropriate Executive Directors.

The Chair's response on how the Governing Body, (Pensions Management Panel) maintains oversight of the process is also attached to this letter.

If you require any further information or clarification, please contact me.

Yours sincerely,

**Peter Morris**  
**Executive Director of Pensions**

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## Responses from Management:

Auditor question	Response
<p>What do you regard as the key events or issues that will have a significant impact on the financial statements for 2014/15?</p>	<p>The 2 key events are :</p> <ul style="list-style-type: none"> <li>- the take on of Probation assets and liabilities</li> <li>- the introduction of the new LGPS 1/4/14</li> </ul> <p>The impact of the probation take on is documented in the financial statements</p>
<p>Have you considered the appropriateness of the accounting policies adopted by the Pension Fund? Have there been any events or transactions that may cause you to change or adopt new accounting policies?</p>	<p>The appropriateness of accounting policies is reviewed on a regular basis. Detailed consideration was given to the draft Annual Report and Accounts including the assumptions for estimates at the Employer Funding and Viability Working Group in Aug 2015 and the Summary Accounts statement was considered at the meeting of the Management Panel in July 2015.</p>
<p>Are you aware of any changes to the Pension Fund's regulatory environment that may have a significant impact on the Pension Fund's financial statements?</p>	<p>No, but looking forward, factors such as deficit management, options for separation and asset pooling may have a material impact.</p>
<p>How would you assess the quality of the Pension Fund's internal control processes?</p>	<p>There is considerable stability in the Fund's senior staff and the senior management of the Fund was further strengthened in 2014 to help manage the difficult challenges that pension funds currently face. I think this stability helps the senior staff maintain good quality internal control. The administering authority allocates substantial internal audit resource to review internal control processes which are generally considered to operate well. Copies of these reports are automatically circulated to the senior management of the Admin Authority, the Chair of E &amp; A Working Group (the Local Board in future) together with Fund staff. Internal audit reports will also be submitted quarterly to the Local Board and the relevant Working Group</p>
<p>How would you assess the process for reviewing the effectiveness of internal control?</p>	<p>Managers are aware of their responsibility for establishing sound internal control. The Executive Director of Pensions submits an annual review of his assessment of internal control (and other matters) and actions required. Overall my</p>

	assessment is that the process works well with reassurance provided by internal audit as commented on above.
How do the Pension Fund's risk management processes link to financial reporting?	Many of the Fund's key risks are identified in the Funding Strategy Statement together with measures to mitigate those risks, and they are considered in the Annual Accounts. For part of this financial year The Ethics and Audit Working Group had the remit to oversee and review the effectiveness of internal control and financial reporting. These functions are now undertaken by Employer Funding Working Group with further oversight from the Pensions Board on behalf of the administering authority
How would you assess the Pension Fund's arrangements for identifying and responding to the risk of fraud?	Effective.
What has been the outcome of these arrangements so far this year?	No material frauds have been identified. There will always be pension overpayments following death, but the Fund has checks to facilitate early identification of deaths.
What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?	<ol style="list-style-type: none"> <li>1) Cash and Unquoted Investments and Assets not with the global custodian.</li> <li>2) No communication of changes in circumstance by pensioners or their relatives.</li> </ol>
Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?	Not aware of any.
Have any reports been made under the Bribery Act?	No
As a management team, how do you communicate risk issues (including fraud) to those charged with governance?	Through regular reporting to the Ethics and Audit Working Group ( Employer Funding in future ), other Working Groups and the Panel.
As a management team, how do you communicate to staff and employees your views on business practices and ethical behaviour?	Through training, regular reminders to staff and procedural documents available on the intranet.
What are your policies and procedures for identifying, assessing and accounting for litigation and claims?	<p>Potential receipts</p> <p>Any group litigation re tax claims or class actions relating to Investments (as at the year end) are notified to Accountancy to allow them to take a 'holistic' and prudent view of all group litigation and tax claims for disclosure in the Accounts.</p>

	<p>Potential expenditure</p> <p>The norm would be to account for legal costs and settlement as incurred. If there was a material claim against the Fund, consideration would need to be given to the appropriate treatment at the time. I am not aware of any material claims being made against the Fund over the last 25 years.</p>
Is there any use of financial instruments, including derivatives?	Yes (Futures and Forward Currency contracts). These are reported in the accounts at year end.
Are you aware of any significant transaction outside the normal course of business?	No
Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	No
Are you aware of any guarantee contracts?	No
Are you aware of allegations of fraud, errors, or other irregularities during the period?	There was one case where an ex wife of a deceased pensioner made an allegation that she should have been a beneficiary. The case was investigated and found to be unfounded. The process followed by the Fund was correct.
Are you aware of any instances of non-compliance with laws or regulations or is the Pension Fund on notice of any such possible instances of non-compliance?	During 2014/15 the LGPS Regulations required that an annual benefit statement (ABS) be sent to each active, deferred and pension credit member, by 30 September 2014. Some for actives were produced late and some not at all, due to data from employers being missing or inaccurate. No formal complaints were received.
Have there been any examinations, investigations or inquiries by any licensing or authorising bodies or the tax and customs authorities?	No
Are you aware of any transactions, events and conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement?	No
Where the financial statements include amounts based on significant estimates, how have the accounting estimates been made, what is the nature of the data used, and the degree of estimate uncertainty inherent in the estimate?	There are no amounts based on significant estimates. The basis of valuation is set out in the notes to the accounts.
Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	No
Has the management team carried out an assessment of the going concern basis for preparing the financial statements? What was the outcome of	There is not a formal process in place by the Fund's management team to consider whether the

<p>that assessment?</p>	<p>Council is a going concern. However given that tax raising bodies are considered by the Fund and its Actuary as the most secure of employers, this is considered to provide adequate comfort that the Council satisfies the "Going Concern Basis" in preparing the Fund's accounts. Further comfort is provided by the relative strength of the GMPF's funding position where it is in the top 3 of LGPS funds.</p>
<p>Although the public sector interpretation of IAS1 means that unless services are being transferred out of the public sector then the financial statements should be prepared on a going concern basis, management is still required to consider whether there are any material uncertainties that cast doubt on the Pension Fund's ability to continue as a business. What is the process for undertaking a rigorous assessment of going concern? Is the process carried out proportionate in nature and depth to the level of financial risk and complexity of the organisation and its operations? How will you ensure that all available information is considered when concluding the organisation is a going concern at the date the financial statements are approved?</p>	<p>The starting point is that GMPF is relatively well funded, albeit at the individual employer level there is a wide range of funding levels and this is regularly monitored. The prime purpose of the actuarial valuation is to determine employer contributions including deficit recovery. Monitoring processes are in place to ensure employers pay their required rate. The Management Panel has established an Employer Funding and Viability Working Group to consider viability issues at the whole fund and individual employer level. The Funding Strategy Statement is a key document in helping to focus attention on funding and associated risk management which is reviewed every 3 years by the WG and Management Panel and subject to consultation. An in-house actuary has been employed by the Fund since March 14. These arrangements are considered strong in concluding the Fund is a going concern at the date the financial statements are approved.</p>
<p>Can you provide details of those solicitors utilised by the Pension Fund during the year? Please indicate where they are working on open litigation or contingencies from prior years?</p>	<p>None of the following involve open litigation, unless stated.</p> <ol style="list-style-type: none"> <li>1.Eversheds – Beaufort House, Uxbridge – dispute with adjoining owner.</li> <li>2.DLA Piper – Chapel Street, Southport – dispute regarding water leaks. Open litigation – settlement imminent.</li> <li>3.DLA Piper – Sale of four properties for main portfolio.</li> <li>4.Addleshaw Goddard – purchase of mixed use scheme.</li> <li>5.Irwin Mitchell – Loan and banking documents for loan to Urban Splash (New Islington,</li> </ol>

	Manchester)
Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	<p>The Fund has 3 independent advisors supporting the Management Panel. These are listed in the Annual Report.</p> <p>Hymans Robertson is the Fund's primary investment consultant in addition to their main role of providing advice on investment strategy. They have also provided advice on the selection of investment managers for property and global equities.</p> <p>The Investment Team also utilise specialist advice from a variety of sources on an ad hoc basis for making investments.</p> <p>Actuarial and funding advice is also provided by Hymans Robertson.</p> <p>Various support services have been brought in to help deliver the MoJ consolidation in GMPF.</p>
Have any of the Pension Fund's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	No

## Response from Chair

### Fraud risk assessment

Auditor Question	Response
Has the Pension Fund assessed the risk of material misstatement in the financial statements due to fraud?	<p>Yes,</p> <ol style="list-style-type: none"><li>1. We have fulfilled our responsibilities for the preparation of the financial statements in accordance with the Code; in particular the financial statements show a true and fair view in accordance therewith, and for keeping records in respect of contributions received in respect of active members.</li><li>2. We acknowledge our responsibility for the design and implementation of internal control to prevent and detect error and fraud.</li><li>3. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.</li><li>4. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the Code.</li><li>5. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of the Code.</li><li>6. All events subsequent to the date of the financial statements and for which the Code requires adjustment or disclosure have been adjusted or disclosed.</li><li>7. We have adjusted the misclassifications and disclosure changes brought to our attention in the Audit Findings Report. Following these adjustments, the financial statements are free of material misstatements, including omissions</li><li>8. We believe that the Fund's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Fund's needs. We believe that no further disclosures relating to the Fund's ability to continue as a going concern need to be made in the financial statements.</li><li>9. We have no plans or intentions that may materially alter the carrying value</li></ol>

	<p>or classification of assets and liabilities reflected in the financial statements.</p> <p>10. We acknowledge our responsibilities for making the accounting estimates included in the financial statements. Where it was necessary to choose between estimation techniques that comply with the Code, we selected the estimation technique considered to be the most appropriate to the Fund's particular circumstances for the purpose of giving a true and fair view. Those estimates reflect our judgment based on our knowledge and experience about past and current events and are also based on our assumptions about conditions we expect to exist and courses of action we expect to take.</p>
What are the results of this process?	No risk of material misstatement identified
What processes does the Pension Fund have in place to identify and respond to risks of fraud?	<p>There will always be a risk of fraud in respect of pensions in payment. Regular checks help reduce this risk.</p> <p>The processes of internal control within the in-house teams and external managers are designed to prevent fraud and significant internal audit time is allocated annually to review systems and processes. Internal audit also visit (targeted) employers</p> <p>The capacity of external managers to make good any losses is an important factor in their recruitment.</p> <p>The Council has a whistleblowing policy in place.</p> <p>Regular reconciliations are undertaken between the custodian and fund managers' holdings.</p>
Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?	Overpayment of pensions to deceased pensioners is a risk. A mortality tracing agency is used which matches the payroll to the Central Register of Deaths Also the Fund participates in the National Fraud Initiative (NFI), which matches the payroll to the DWP records of deceased persons, this is carried out every two years.
Are internal controls, including segregation of duties, in place and operating effectively?	Generally yes, with processes and procedures periodically reviewed by internal audit as well as management.
If not, where are the risk areas and what mitigating actions have been taken?	Risk areas are identified as part of the business planning process, internal audit reports, in-house reviews and by learning from complaints – when



	identified and where appropriate, systems and processes are amended.
Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?	There is always the risk of collusion. The nature of the activity, the use of external managers and monitoring thereof and standard checks e.g. between custodian and a Fund Manager gives an environment where the risk of inappropriate influence is relatively low.
Are there any areas where there is a potential for misreporting override of controls or inappropriate influence over the financial reporting process?	None that I am aware of.
How does the Pension Fund exercise oversight over management's processes for identifying and responding to risks of fraud?	Through regular reporting to the Panel, Working Groups and Local Board by: <ul style="list-style-type: none"> <li>-management,</li> <li>-fund managers</li> <li>-internal audit including approval of the audit plan, and</li> <li>- external audit</li> </ul>
What arrangements are in place to report fraud issues and risks to the Management Panel/Working Group members?	Internal audit report to every Working Group and the Local Board. All internal audit reports are copied to the senior officers of the Council (in addition to management).
How does the Pension Fund communicate and encourage ethical behaviour of its staff and contractors?	Through training, regular reminders to staff and procedural documents available on the intranet
How do you encourage staff to report their concerns about fraud?	Through training, regular reminders to staff and procedural documents available on the intranet.
Have any significant issues been reported?	No significant issues.
Are you aware of any related party relationships or transactions that could give rise to risks of fraud?	No There some related party relationships reported in the Accounts but these do not give rise to risk of fraud.
Are you aware of any instances of actual, suspected or alleged, fraud, either within the Pension Fund as a whole or within specific departments since 1 April 2014?	There was one case where an ex wife of a deceased pensioner made an allegation that she should have been a beneficiary. The case was investigated and found to be unfounded. The process followed by the Fund was correct.

## Law and regulation

Auditor Question	Response
What arrangements does the Pension Fund have in place to prevent and detect non-compliance with laws and regulations?	The arrangements include in-house resources, participation in national bodies / groups, training of Pension staff and employers. There is also regular reporting to the Management Panel and Working Groups by management and internal and external audit of compliance with internal controls.
How does management gain assurance that all relevant laws and regulations have been complied with?	Through the business planning process, monitoring of actions, reports considered by the Panel and Working Groups, procedures and structures in place and internal audit reviews.
How is the Panel / Working Group provided with assurance that all relevant laws and regulations have been complied with?	Through regular reports from management and internal audit (and external audit) on the compliance with internal controls Relevant reports are also submitted to the Management Panel and other Working Groups.
Have there been any instances of non-compliance or suspected non-compliance with law and regulation since 1 April 2014?	During 2014/15 the LGPS Regulations required that an annual benefit statement (ABS) be sent to each active, deferred and pension credit member, by 30 September 2014. Some for actives were produced late and some not at all, due to data from employers being missing or inaccurate. No formal complaints were received.
What arrangements does the Pension Fund have in place to identify, evaluate and account for litigation or claims?	<p>Potential receipts - Any group litigation re tax claims or class actions relating to Investments (as at the year end) are notified to Accountancy to allow them to take a 'holistic' and prudent view of all group litigation and tax claims for disclosure in the Accounts.</p> <p>Potential expenditure - The norm would be to account for legal costs and settlement as incurred. If there was a material claim against the Fund, consideration would need to be given to the appropriate treatment at the time. I am not aware of any material claims being made against the Fund.</p>
Is there any actual or potential litigation or claims that would affect the financial statements?	There is a long-outstanding (going back around 5-6 years) claim from Network Rail relating to water leaks at Chapel Street, Southport. The Fund's Property Managers, LaSalle are now dealing with this and their intention is to settle the claim for a payment by the Fund to Network Rail of £75,000. This does not have a material effect on the financial

	statements.
Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance?	No

## Going concern considerations

Auditor Question	Response
Does the Pension Fund have procedures in place to assess the Pension Fund's ability to continue as a going concern?	The actuarial valuation is key to providing this comfort. The Fund has a funding level in the top 3 of LGPS funds when assessed on a standardised assumption basis.
Is management aware of the existence of other events or conditions that may cast doubt on the Pension Fund's ability to continue as a going concern?	None that I am aware of.
Are arrangements in place to report the going concern assessment to the Panel/Working Group?	In considering the annual accounts, consideration is given to the going concern assessment and explicit reference was made at the August meeting of the Employer Funding and Viability Working Group .
Are the financial assumptions in that report (e.g. future levels of income and expenditure) consistent with the Business Plan and the financial information provided throughout the year?	Reports are periodically presented to the Management Panel and Employer Funding Working Group and as part of the Business Plan that focus on the importance of cash flow and increasing maturity.
Are the implications of the statutory or policy changes appropriately reflected in the Business Plans, financial forecasts and reports on going concern?	The key issues are changes in the membership structure and the growing number of employers – These and other changes will be reflected in our plans.
Have there been any significant issues raised with the Panel/Working Group during the year which would cast doubts on the assumptions made? (Examples include adverse comments raised by internal and external audit regarding financial performance or significant weaknesses in systems of financial control.)	No
Does a review of available financial information identify any adverse financial indicators including negative cash flow? If so, what action is being taken to improve financial performance?	Again the Actuarial Valuation is critical. There are specific employer issues and the structures are being established to help address funding and stability of cost issues when the opportunity arises.
Does the Pension Fund have sufficient staff in post, with appropriate skills and experience, particularly at senior manager level, to ensure the delivery of the Pension Fund's objectives? If not, what action is being taken to obtain those skills?	This is a very challenging environment to be managing a defined benefit scheme. The Management Panel have supported the strengthening of both the senior management team and investment and administration teams.
Has the Management Panel assessed the process management has followed in forming a view on going concern and the assumptions on which that view is based?	Yes, through consideration of the actuarial valuation and funding strategy statement.