

AUDIT & RISK COMMITTEE

Annual Report from Audit & Risk Committee to Board 2021-22

By Christina Thompson, ARC Chair

Introduction:

The Audit and Risk Committee (ARC or Committee) is chaired by Christina Thompson and its membership is reviewed by the LPFA Board, as a constitutional requirement, at the first meeting of the new financial year.

The ARC Terms of Reference require a report to be prepared, reviewed by the Board, and published, on an annual basis. This report provides assurance on the work undertaken by the Committee, specifically in relation to the: effectiveness of external audit; significant issues considered during the year; details of risk management; and review of internal controls.

ARC Duties:

As a standing committee of the LPFA Board, ARC has a broad range of functions related to internal controls, governance, risk and compliance. The specific duties of the ARC are to:

- Monitor and review the LPFA's financial obligations;
- Oversee and advise the LPFA Board on risk strategy and risk exposure;
- Oversee the effectiveness of the risk management system;
- Receive assurance on the presence of suitable internal controls; and
- Monitor the governance framework and compliance arrangements.

In addition, the Committee provides assurance to the Board on the adequacy of LPFA's internal and external audit functions and makes recommendations to the Board on the appointment (and, if necessary, removal) of both the LPFA's Internal and External Auditors. The Committee also considers the adequacy and effectiveness of LPP Group oversight on compliance related matters, and makes recommendations to the Board, as necessary.

Committee Membership and Attendance:

- Christina Thompson has been the Chair of the ARC since 1 January 2019.
- The members of ARC are: Tamlyn Nall; Clare Scott; and Deborah Rees.
- Clare Scott and Deborah Rees were appointed to ARC on 16 June 2021 and Terence Jagger stood down from the Committee on the same date. Dr Barbara Weber was a member of ARC until she stood down from the LPFA Board on 5 July 2021 at the end of her term of office.

Details of attendance at Committee meetings are as follows :

2021-22		Chair	Members				
Date	Meeting	Christina Thompson	Tamlyn Nall	Clare Scott	Deborah Rees	Terence Jagger	Dr Barbara Weber
13.05.21	Audit and Risk Committee	1	1			1	1
05.07.21		1	1	1	1		1
24.09.21*		1	1	1	1		
11.11.21		1	1	0	0		
14.02.22		1	1	1	1		
*Special meeting		5 of 5	5 of 5	3 of 4	3 of 4	1 of 1	2 of 2

Committee ways of working during 2021-22:

The Committee met five times during the year, including a special meeting to consider the LPFA Statement of Accounts 2020/21. Due to government guidance on social distancing relating to the Coronavirus pandemic (Covid-19), all meetings were held virtually over video and audio conference calls. The LPFA constitutional document permits electronic participation and decision making for all Committees (Section C: Standing Orders (9) (e)).

Audit

External Audit, Statement of Accounts, Pension Fund Annual Report & Annual Governance Statement:

ARC received regular updates on the impact of The Accounts and Audit (Coronavirus) (Amendment) Regulations 2020, which extended the publication date for local authority audited accounts from 31 July to 30 November. A notice was issued on the LPFA website to advise the public of the revised regulatory requirements. A draft Statement of Accounts was published on LPFA's website for public inspection, as part of the requisite 30 working day period, on 2 August 2021, and no requests were received from the public during this period. The Committee considered and recommended to the LPFA Board the approval of the Annual Governance Statement (AGS). The Board subsequently decided to separate the AGS from the Pension Fund Annual Report and publish these as separate documents.

In September 2021, the ARC held a special meeting to consider the Statement of Accounts and Pension Fund Annual Report and, subject to minor suggested amendments to the latter, was content to recommend to the Board the approval of both documents. The LPFA Board approved, by email, the Statement of Accounts on 29 September for publication on 30 September 2021. However, there was a delay in finalising details with the Auditor, which resulted in the Statement of Operational and Residual Liabilities Accounts being published on 4 November 2021. An unqualified opinion was issued by Grant Thornton LLP on all three sets of LPFA 2020-21 accounts.

On 19 October 2021, the Board approved the Pension Fund Annual Report 2020/21, delegating authority to the CEO, ARC Chair and Section 151 Officer to make any final minor amendments required prior to publication. The Pension Fund Annual Report and the Statement of Pension Fund Accounts were published on 4 November 2021.

Internal Audit

PricewaterhouseCoopers (PwC) was appointed as LPFA's internal auditor, effective 1 April 2020, for a three-year period. During the year, the Committee considered internal audit reports produced on: investment strategy and governance, employer contribution management (phase two), benefits calculation, custody of assets and cyber security. The five internal audit reviews identified 9 high risk, 8 medium risk, 7 low risk and 1 advisory risk findings to improve weaknesses in the design of controls and /or operating effectiveness. PwC's audit opinion is downgraded from "generally satisfactory with some improvements required" to "major improvements required". This is mainly attributable to the 7 critical risk ratings in the benefit calculation and cyber reviews. It was also noted that during 2021/22, LPFA brought several key functions in-house and as a consequence there was a need to update the organisation's internal control framework to reflect the new arrangements.

It also received status updates on open or closed findings from previous internal audit reports.

Risk

Building on the work undertaken to formalise LPFA's Risk Management Principles (RPM) the previous year, the Funding and Risk Director has further enhanced and strengthened LPFA's approach to assessing risk this year. During 2021/22, a consolidated review of risk management was undertaken, resulting in the publication of a Risk Appetite Statement in March 2022 to articulate LPFA's attitude to taking managed risks in support of its strategic objectives. The statement sets out the principal areas

of risk to LPFA and sets parameters by which the LPFA officers will manage risk within the organisation. The ARC was supportive of the Risk Appetite Statement and associated changes to the RMP, which were approved by the Board in March 2022.

The ARC has received assurance that the Risk Register has been embedded into LPFA's ongoing risk management process through monthly reviews by the management team. The Risk Register, latest risk profile and changes are reviewed as a standing item at every formal ARC meeting. The Enterprise Risk Management Software (CAMMS) platform is used for ongoing risk management and reporting.

Employer Covenant & Liability Risks

The Committee continued to receive regular employer issues and mitigation reports. During the year, risk management relating to employer covenant and liability risks has been further strengthened. In July 2021, the ARC considered a suite of risk management policies and controls (Employer Risk Management Framework, Admissions and Cessation Policy and Contributions Flexibility Policy) and, on the recommendation of the Committee, these were subsequently approved by the Board.

Finance

Quarterly financial management reports are provided to the ARC as a standing item.

Finance Project

The CEO and LPFA Finance Director have kept the ARC up to date on the successful introduction of a new Finance system during 2021, along with the expansion of the Finance Team and resulting TUPE of several Local Pensions Partnership Investments Ltd (LPPI) staff to LPFA.

Treasury Management

An annual outturn report on the treasury management service provided by the Greater London Authority (GLA) was received providing assurance on the treasury function, cash investments and treasury reporting.

Compliance Activities

LPPI and LPPA Compliance Assurance

LPP, including its subsidiaries LPPI and Local Pensions Partnership Administration Ltd (LPPA), presented an annual report on the effectiveness of their systems and internal controls. The report provided assurance that the respective business subsidiaries were adhering to the necessary compliance and controls environment required by their respective industry standards.

LPFA Compliance

A regular update on related party transactions (for the year ending 31 March 2021), quarterly gifts, hospitality & expenses (GHE) register statements, and review of our contract register were reported to the Committee. Additional annual assurance statements were received through-out the year included the custodian security arrangements over assets.

During the year, the Chief Legal and Compliance Officer enhanced LPFA's internal controls through the formalisation of a Compliance Framework, which was supported by the ARC and approved by the Board.

Fraud awareness and National Fraud Initiative (NFI)

The Fraud Control Framework, including the Anti-Bribery Policy was revised, approved by the LPFA Board and published in December 2021.

Governance

Terms of Reference (ToR)

In 2021/22, the Committee's ToR were reviewed and updated to reflect changes to LPFA's governance arrangements following the introduction of a formal Investment Committee from 1 January 2022. These amendments were considered by ARC in February 2022 and approved by approved at the next Board meeting. A copy of the Committee's ToR can be found in LPFA's Constitutional Document.

Local Code of Corporate Governance and Governance Compliance Statement

The Local Code of Corporate Governance and Governance Compliance Statement were updated to reflect organisational changes. Both documents were reviewed by the Committee as part of an annual undertaking on governance related matters. During the year, the ARC considered a gap analysis against the Scheme Advisory Board Phase III Good Governance Report. It was, however, acknowledged that the majority of identified actions are dependent on as yet to be published statutory and non-statutory guidance and consolidation of The Pensions Regulator Codes of Practice.

Whistleblowing Policy and procedure

The Whistleblowing Policy is published on the LPFA website, and included as part of the induction material for new staff/board members. The Committee receives an annual assurance statement on the policy.

Closed session of the Committee with External Auditors and Internal Auditors

Following the move to hybrid working arrangements arising from the Coronavirus (Covid-19 pandemic), it has been agreed that the Committee will continue to meet virtually save for one meeting each year when it will be convened as an in-person meeting. With the agreement of the Committee, it has been decided that the next closed session of the Committee and the External Auditors and Internal Auditors will be timed for the next in-person meeting scheduled to take place in September 2022.

Looking ahead The Committee continues to maintain a comprehensive workplan during 2022/23. Key activities planned include: reviewing financial controls, contribution monitoring, IT disaster recovery, integrated risk management and succession planning.