

# AUDIT & RISK COMMITTEE (“ARC” or “Committee”)

## Minutes

**Date:** Monday 20 February 2023

**Time:** 10:00

**Location:** Teams Microsoft conference call

**Present:** Clare Scott Committee Member (“**Interim Chair**”)  
Debbie Rees Committee Member  
Tamlyn Nail Committee Member

**In attendance:** Mark Anderson Compliance and Regulation Manager  
Janet Adeyemi Interim Governance Manager (Minutes)  
Robert Branagh Chief Executive Officer (“**CEO**”)  
Peter Ballard Funding and Risk Director  
Rita Bajaj LPFA Board Member (Observer)  
Michelle King Finance Director and Section 151 Officer  
Anastasia Klimenko Chief of Staff  
Siobhan O’Shea Governance Manager  
Caroline Pearson Consultant, LCP LLP  
Chris Read Head of Employer Management Services  
Rachel Sollis Investment Compliance Officer

**External Auditors:** Matt Dean Director, Grant Thornton UK LLP (“**External Auditor**”)  
Ciaran McLaughlin Director, Grant Thornton UK LLP (“**External Auditor**”)

**Internal Auditors:** Aaron Bendasiuk Senior Manager, PricewaterhouseCoopers LLP (“**Internal Auditor**”)  
Stephanie Edenborough Partner, PricewaterhouseCoopers LLP (“**Internal Auditor**”)

*The meeting was conducted via Microsoft teams conference call. The LPFA Constitutional Document permits electronic participation and decision-making for Committees (Section C: Standing Orders, (9) (e)).*

### 1. CLOSED SESSION OF THE EXTERNAL AUDITORS AND COMMITTEE MEMBERS

In accordance with paragraph 6.5.7 of the Committee’s terms of reference, the ARC held a closed session with the External Auditor without LPFA officers present.

*[LPFA Officers joined the meeting at 10.15 am]*

### 2. AC739 – INTRODUCTORY MATTERS

#### Submission

To present the minutes and action points of the previous ARC meeting held on 22 November 2022.

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### Discussion

#### Apologies

- 2.1 Apologies for absence were received from Christina Thompson (Committee Chair). The Committee appointed Clare Scott as Interim Chair for the meeting.
- 2.2 The Interim Chair confirmed that a quorum was present, and the meeting was opened.

#### Declarations of interest

- 2.3 Debbie Rees reported that she has been appointed as a NED for Barclays Pension Fund. It was agreed that the Committee Declaration of Interest will reflect this. No other declarations of interest were noted.

#### Decisions made by email

- 2.4 It was confirmed that the Committee had not taken any decisions by email since the previous meeting.

#### Minutes and actions

- 2.5 The Committee considered the minutes of the previous meeting held on 22 November 2022.
- 2.6 The Committee confirmed that it was satisfied with the status of all of the action points from previous meetings, all of which had been completed except one action relating to the outcome of the LPPA audit on data protection, which would be taken forward during 2023.

#### 2.7. LPFA Staff Resourcing

The CEO informed the Committee that the organisation continuing to find recruitment to some roles in particular the Governance Manager position, extremely challenging. In addition to the interim governance manager in post, the Committee heard that the organisation has sought Company Secretary support externally from the professional services Lane Clark & Peacock LLP on a call off/support basis.

The Committee **RESOLVED** to:

1. **Approve** the minutes of the meeting held on 22 November 2022, and agree for these to be signed as a true and accurate record;
2. **Approve** the signing of the minutes; and
3. **Note** the progress made on the action points and confirm that the Committee is content with the status of the actions from previous meetings.

### 3. **AC740 – INTERNAL AUDIT**

#### **Submission**

To provide the Committee with an update on the internal audit activity since the last meeting and present the Internal Audit Risk Assessment and Plan 2022/23 for onward submission to the LPFA Board for approval.

#### **Discussion**

- 3.1 The Finance Director introduced the paper, explaining that since the last meeting, the Contribution Review has been completed resulting in 5 new actions rated (1 High Risk, 1 Medium Risk, and 3 Low Risk). These are being addressed by the Funding and Risk Director and Compliance Manager. The Finance Director reminded the Committee that at the last meeting, a discussion on Integrated Risk Management (IRM) was held and that the Finance Director and the Funding and Risk Director had met with the Internal Auditor, PricewaterhouseCoopers (“**PwC**”) to discuss the action on the applicability of the Integrated Risk Management Audit. PwC delivered a presentation to the Finance Director and Funding and Risk Director which presented the case against the IRM audit.
- 3.2 The Committee noted that the reasons for not proceeding with an IRM audit broadly revolved around the IRM being more applicable to the private sector than a LGPS Fund where there is a robust link between the investment strategy and funding strategy i.e., the Scheme Actuary reviews the link between investment strategy and funding as part of the valuation and together with the FRD carries out ongoing monitoring. The

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Finance Director informed the Committee that PWC expressed their assurance that during 2021 the Internal Audit review scrutinized the Investment strategy creation processes and controls, and these were found to be robust.

- 3.3 The Committee noted that the second reason given to LPFA was that the Fund's investment and covenant link which in some cases places reliance on government and/or tax-raising powers differentiates the Fund from private sector schemes or the "last man standing approach" and that PWC has sufficient assurance derived from the previous review on the covenant process that the LPFA investment strategy is reviewed and monitored taking into account the strength of the individual employer's covenant.
- 3.4 The Finance Director commented that on this basis the applicability of IRM for LPFA is less so than private sector Schemes. Where elements of IRM are more applicable, PWC derived assurance from existing processes and controls which support the investment strategy creation and the ongoing management and monitoring of performance/risk. PWC thought that these areas have been included within the scope of previous (and relatively recent reviews) and via actuarial support. The IRM audit was therefore clarified to LPFA as an error of scope and removed from the schedule of audits to be carried out.
- 3.5 The Finance Director presented the Internal Audit forward plan to the Committee noting that the Principal Officers do not feel seven or eight audits in a year are right for LPFA or the risks that the organisation is trying to control.
- 3.6 In response to a question raised on the forward plan relating to benefit calculations and procedures including data quality and LPPA having adequate management controls in place to ensure benefit calculations are complete and accurate, the Internal Auditor informed the Committee that this is a high-risk area and have seen issues lately in terms of overpayments. It was further advised that the audit work will address these concerns in due course and that the recommendation from Internal Auditor is pragmatic and right for the LPFA. The Internal Auditor concluded that the plan is to ensure that mitigating controls are in place until the action can be fixed and that the Committee is willing to accept a potential risk exposure until the issues are fixed.
- 3.7 The Committee received assurance on digital verification noting that the pragmatic approach that LPPA is applying to fulfil the functionality and process improvement is operating alongside the review of the operating model. It was also confirmed that the organisation required time for all these changes to be implemented.
- 3.8 The Interim Chair queried the contribution audit and questioned whether the Internal Auditor has thought about what the new process will look like and added that the new process will be delayed and sought clarification on these. In response, it was explained that the audit is currently in the contribution and monitoring state and that the organisation is planning for a move of all of the contributions into a direct debit platform, whilst noting this is a significant project but work is underway internally in collaboration with the employer services team on this.
- 3.9 A question was raised on the difference between expected and actual contribution and not consistently investigated. It was explained that the team will recover all the single amount through the direct debit mandate. It was agreed that there is a need for the organisation to determine what the materiality is and be consistent with it. The Interim Chair asked the Finance Director to take this forward.
- 3.10 The Committee was advised that for every single action, there is a management action plan and a responsible person behind it. It was further noted that the Committee will receive a report update on the action every three months.
- 3.11 A Committee member recalled previous discussions regarding the visibility of the outcomes of LPP's internal audits. The Funding and Risk Director to investigate and report back to the Committee on this.

**ACTION: P Ballard**

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The Committee **RESOLVED** to:

1. **Note** the Internal Audit Progress Report;
2. **Approve** Internal Audit Forward Plan and Internal Audit Charter; and
3. **Note** the Contribution Review Report

**4. AC741 – EXTERNAL AUDIT**

**Submission**

To provide the ARC with the timetable for the statutory audit of the LPFA Pension Fund Annual Report and Accounts 2022/23, and present lessons learned from the 2022/23 audit process.

**Discussion**

- 4.1 The Finance Director introduced the report, which was taken as read. The External Auditor from Grant Thornton UK (“**GT**”) explained that as part of the audit planning process, a meeting had been held between the auditors and the LPFA Finance Team to reflect on areas of improvement based on the previous year, with the agreed outcomes set out within the report for incorporation into this year’s process.
- 4.2 The Interim Chair informed the Committee that during the closed session discussion with the External Auditor, the Committee raised concerns about valuations and delays with LPP. The Interim Chair asked whether LPFA can go back to LPP to push further on this and added that these concerns will be raised at the March Board. The Finance Director informed the Committee that LPFA is working on the estimated valuations noting that the concerns were around the Internal and External Auditors doing so.
- 4.3 The External Auditor raised a query on using estimated valuations for private markets funds in the accounts due to the additional work involved. LPFA has not put sufficient mechanisms in place that allow the organisation to review and monitor the funds regularly and which will provide its own independent estimates of what it thinks is happening to the value of the funds that can then be reviewed and checked later to confirm the accuracy or not.
- 4.4 In response to the concerns on valuation and the delays with LPP, the Finance Director explained that the LPFA has changed its investment process by analysing the investment information that is coming through the custodian properly and looking at the master book. It was further noted that the LPFA Finance team is undertaking more rigorous checking and due diligence on valuation.
- 4.5 The Committee agree that pressure needs to be put on LPP And the Funding and Risk Director informed the Committee that review, challenge, and oversight is happening with LPPI.
- 4.6 Following a detailed discussion, the Committee acknowledged that the issues would continue to be discussed.

The Committee **RESOLVED** to **approve** the External Audit Timetable 2022-23 with delegation to the CEO and Finance Director to agree the basis of preparation of the LPPI Fund Accounts to enable closure of LPFA accounts by 29<sup>th</sup> September 2023.

**5. AC742 – FINANCIAL REPORT**

**Submission**

To present the Q3 2022/23 financial reports, the investment strategy for the London Treasury Liquidity Fund (LTLF), formerly known as the GLA Group Investment Syndicate (GIS), and changes to the LPFA Write-Off Policy for recommendation to the LPFA Board.

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**Discussion**

- 5.1 The Finance Director introduced the report, which provided details of LPFA's financial performance for the quarter ending 31 December 2022, and noted that the report is presented in a new format as previously discussed in the last meeting.
- 5.2 The Committee noted the summary of the notable Finance Director activities since the ARC meeting of the 22 November 2022 meeting and was advised that the External Auditor Grant Thornton UK LLP will be finishing their role as our auditor in July. The Finance Director acknowledged the good relationship and work Grant Thornton had carried out for LPFA during their tenure.
- 5.3 The Finance Directors informed the Committee that the Public Sector Audit Appointments (PSAA) have confirmed the appointment of Ernst & Young LLP as External Auditor of the London Pensions Fund Authority for five years from 2023/24 to 2027/28. This appointment is made under regulation 13 of the Local Audit (Appointing Person) Regulations 2015 and was approved by the PSAA Board at its meeting on 16 December 2022.
- 5.4 Discussion focused on the Group Investment Syndicate (GIS) assets from the GLA into London Treasury Liquidity Fund LP (LTLF) (formerly known as GLA Strategic Reserve LP). The Interim Chair reminded the Committee of previous discussions on their broad concerns about the nature of the investment as a cash investment and stated that the Committee and Board need to ensure that they understand the nature of this investment, the level of liquidity, and any risk with the profile. It was further added that the Investment Committee agreed to take on the due diligence on this.
- 5.5 Comment was made on the three-year lock-in period and the level of risk LPFA is taking. The Committee considered there to be some risk and uncertainty with the GLA Group Investment Syndicate (GIS) investment that would warrant more discussion.
- 5.6 In response to the concerns raised by Committee, the Finance Director and Funding and Risk Director assured the Committee that LPFA has set up Treasury Management Group with the support of the LPFA CEO and LPPI colleagues for cash management purpose. The Committee noted that a Money Market Fund was put in place with BNY Mellon to place Pension Fund cash.
- 5.7 The Chief Executive informed the Committee that the decision had been made to transfer only the cash relating to the residual liabilities to LTLF. The pension fund's cash would not be transferred, and Money Market Funds would be used for cash investment instead. The Committee noted and were reassured by this split.
- 5.8 In response to the questions raised, the Finance Director commented that LPFA will conduct its due diligence on the recommendations and that Eversheds had been appointed by the limited partners or Syndics, and that once this has been completed it will be reported back to the Committee. A copy of the Eversheds opinion was provided to the Committee in support of this item. **ACTION: Investment Committee**
- 5.9 A member of the Investment Committee commented that the Committee is reassured that structures are in place to ensure that LPFA is investing the cash in a money market fund and a deep dive on the fees and expenses is needed to ensure what they are for and how it is structured.
- 5.10 Following a detailed discussion, the Committee felt reassured that the pension fund cash will not be invested in the GIS but that further review of the GIS/LTLP would be needed in future. It was also agreed that the Investment Committee should take on the due diligence in this area around the cash investments and any changes to ARC and IC Terms of Reference would be undertaken later this year.
- 5.11 The Committee noted that the write-off policy has been updated in conjunction with LPFA officers and the Chief Executive to improve the recoverability of write-offs and delegate write-off payments to officers, which therefore amends the scheme of delegation to the Audit and Risk Committee.

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- 5.12 Following a discussion on a small number of areas, the Committee also took some assurance that the overall volumes of write offs was low.
- 5.13 The Finance Director to reformat the write-off figures in the main table of the report before submitting the policy to the LPFA Board for approval. **ACTION: M King**

The Committee **RESOLVED** to:

1. **Note** the Q3 2022/23 Financial Reports;
2. **Approve** the appointment of the auditor 2023/4- 2027/8;
3. **Note** the lessons learned arising from the audit 2021/22;
4. **Note** the transfer of oversight of London Treasury Limited to the Investment Committee; and
5. **Approve** the changes to the LPFA Write-Off Policy for recommendation to the LPFA Board for approval.

## 6. AC743 – LPFA RISK MANAGEMENT

### Submission

To provide an overview of the recent review of LPFA's risk management processes, and to present the draft Risk Appetite Statement and amended Risk Management Principles to the Committee for recommendation to the LPFA Board.

### Discussion

#### AC743(a) Review of Risk Management Principles

- 6.1 The Risk and Compliance Manager introduced the paper, noting that the responsibility for risk management processes and ownership of the risk register now sit under the LPFA Risk and Compliance function. It was explained that LPFA Board and Local Pension Board will receive an update on risk quarterly rather than every six months. This will enable the Risk Dashboard reviewed by Audit and Risk Committee to be passed on to LPFA Board and Local Pension Board with minimal alterations.
- 6.2 The Committee noted that the Risk Appetite Statement and Risk Management Principles will be reviewed every three years, which is in line with the requirement set out in the Risk Appetite Statement published on the LPFA website.

#### AC743(b) LPFA Risk Management Update

- 6.3 The Committee referred to the LPFA Risk Dashboard, which was attached to Appendix 1 to the report, and was advised that been three changes relative to the previous register reviewed by the Committee, O6 (LPFA Resourcing), T5 (Covid-19) and O4 (Business Continuity)
- 6.4 In response to a question on the risk register, the Committee noted that the responsibility of the risk register sits with the LPFA principal officers.
- 6.5 The Committee also briefly discussed the broader resourcing issues and noted that the LPFA team has significant challenges on resourcing to fully discharge all of LPFA's responsibilities and deliver on the Board's strategic objectives. The LPFA CEO outlined the various steps and structures that are in place to mitigate the risks including re prioritisation of some tasks and redistribution of roles and responsibilities. In response, the Committee offered the CEO their support and thanked staff for their continuing work in delivering the LPFA strategic objectives.

#### AC743(c) AVC Review

- 6.6 The Funding and Risk Director informed the Committee that the review of AVC arrangements in Appendix 3 has not identified any issues and is very similar to the report provided by Barnett Waddingham in October 2021. It was further added that LPFA officers will continue to engage regularly with LPFA's relationship manager at Prudential, however, the LPFA is proposing that the next formal review of the AVC arrangement is carried out in three-years time rather than annually.

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- 6.7 The Interim Chair questioned whether LPFA's communication to members reinforces the message that the investment choice is for members to choose and that LPFA does not have a role there. In response, the Committee noted that members are advised that the communication they receive from Prudential outlines what the options are and the process.

AC743(d) LPP and LPPI fixed contribution update

- 6.8 The Funding and Risk Director informed the Committee that LPP is continuing to consider its preferred approach to addressing the implications of its Defined Benefit pension obligations on its regulatory capital requirement. It was noted LPP has commissioned advice to support this process and expects to put a decision to the LPP Shareholder Board at its meeting on 20 March 2023.
- 6.9 The Committee raised concern that LPP appeared to have ruled out the option of providing additional capital which had not been discussed with LPFA and that the LPFA Board had asked for further analysis of all the options. Committee noted that depending on the decision of the LPP Board, further decisions may be required from the LPFA Audit and Risk Committee and LPFA Board.

The Committee **RESOLVED** to:

1. **Approve** the draft Risk Management Principles for recommendation to the LPFA Board;
2. **Note** the risk dashboard, risk register, and audit log;
3. **Note** the information provided by Prudential and the AVC review carried out by Barnett Waddingham;
4. **Approve** the proposal for the next formal review of AVC arrangements to be carried out in three years; and
5. **Note** the LPP and LPPI fixed rate contribution update.

**7. AC744 – EMPLOYER MANAGEMENT SERVICES**

**Submission**

The Committee was presented with an update on ongoing employer-related issues and project updates.

**Discussion**

- 7.1 The paper was taken as read. The LPFA Head of Employer Management Services (EMS) explained that EMS is in the process of delivering the 2022 Triennial Valuation project.
- 7.2 In response to a question from the Interim Chair, the Head of Employer Management Services confirmed that LPPI is aware of the cash flow requirements and more work is going into identifying more detail of liquidity within LPPI.

The Committee **RESOLVED** to note the recent activity of the Employer Management Services team.

**8. AC745 – PENSION FUND ANNUAL REPORT**

**Submission**

To provide the Committee with key messages to be included in the LPFA Pension Fund Annual Report and Accounts 2022/23 and key approval milestones.

**Discussion**

- 8.1 The paper was taken as read. The Interim Chair suggested a different version of the annual report to be tailored to a different audience such as members of the funds could be developed, rather than reducing the technicalities of the full report. .

The Committee **RESOLVED** to **note** the timeframes and review process.

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**9. AC746 –LPP Group**

**Submission**

To provide the Annual Assurance Reports for both LPPA and LPPI.

**Discussion**

9.1 The paper was taken as read.

The Committee **RESOLVED** to **Note** the LPPA Annual Assurance report and LPPI Annual Assurance report and its appendix 1, the LPPI internal assurance report.

**10 AC747 – COMPLIANCE AND GOVERNANCE MATTERS**

**Submission**

To present various updates and assurance statements on compliance and governance matters related to the oversight of the Audit and Risk Committee (ARC).

**Discussion**

10.1 The Governance Manager introduced the paper. With reference to the Gifts, Hospitality, and Expenses Framework, the Committee noted the proposed amendments to the document. Whilst overall the content has not been substantively changed, the language has been streamlined and the narrative reordered into a more logical flow. In addition, the car mileage policy has been aligned with the HMRC guidelines.

10.2 In relation to the assurance statement on the LPFA contracts register and register of seals, the Committee noted that there were no major contracts that required ARC's attention for Q3 2022/23.

10.3 The Committee noted the LPP SLA for Q3 2022/23 as attached in appendix 1. The Committee was advised that the drivers behind the low performance are the result of resources, the migration of UPM, and the benefit payments were not robust enough in terms of processing.

10.4 The Committee noted that paragraph 9.4 of the ARC Terms of Reference (“**ToR**”) requires that the ToRs be reviewed at least annually. The Finance Director and Governance Manager have conducted this review and propose only relatively minor amendments, as set out in appendix 5.

10.5 In relation to the Whistleblowing Assurance Statement, the Committee noted that the statement has been developed to confirm that since the start of 202/23 and the publication of the policy, the CEO has not received any concerns raised with the day-to-day management of the LPFA in relation to the LPFA Whistleblowing Policy.

10.6 The Committee was advised that LPFA is required to have oversight of the services provided by LPPI in terms of cyber security provisions, as part of this LPPI provides a statement of assurance which is attached in appendix 6.

10.7 The Committee noted the draft policy and procedures for reporting Breaches. The Interim Chair suggested that the policy should be owned by the LPFA Board, and the implementation of the policy should sit under the remit of the risk and compliance function.

10.8 The Interim Chair suggested that breach reports should contain more detail on the reasons for the breach to establish patterns of causes to inform decision on the materiality and whether breaches should be reported to The Pensions Regulator.

The Committee **RESOLVED** to

1. **Approve** LPFA Gifts, Hospitality, and Expense (GHE) Framework for recommendation to the LPFA Board for approval;
2. **Note** the assurance statement / Contracts register update assurance statement;
3. **Note** LPP SLA Compliance Statement Q2 2022/23;
4. **Approve** the Audit and Risk Committee Terms of Reference for recommendation to the LPFA board for approval;



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5. **Note** the annual assurance statement on Whistleblowing;
6. **Noted** the bi-annual assurance statement on cyber security;
7. **Noted** the LPFA policy and procedures for the reporting of breaches of law for recommendation to the LPFA Board for approval; and
8. **Note** the ABS breach report.

**11. AC748 – FORWARD AGENDA**

**Submission**

To provide the forward agenda planner for feedback.

**Discussion**

- 11.1 The Committee **NOTED** the ARC Forward Agenda Planner.

**12. ANY OTHER BUSINESS**

- 12.1 The Committee thanked the outgoing Governance Manager for her service and support and wished her all the best in her new role.
- 12.2 It was noted that the next meeting was scheduled on 13 June 2022, 10.00am-13.00pm.
- 12.3 There being no further business, the Chair declared the meeting closed at 12.10pm.

**Signed:**

Clare Scott  
**Interim Committee Chair**

**Date:** 13/06/2023