

AUDIT & RISK COMMITTEE

Annual Report from Audit & Risk Committee to Board 2020-21:

By Christina Thompson, ARC Chair

Introduction:

The Audit & 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 the: effectiveness of external audit; significant issues considered during the year; details of risk management; and review of internal controls.

ARC Duties:

As the only 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 the LPFA's internal and external audit functions, and their respective appointments and remuneration. The Committee receives reports on 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; Terence Jagger; and Dr Barbara Weber.
- Details of attendance at Committee meetings:

2020-21					
DATE	MEETING	Chair	Members		
12.05.20	AUDIT & RISK COMMITTEE	Christina Thompson	Terrence Jagger	Tamlyn Nall	Dr Barbara Weber
14.07.20		1	1	1	1
09.09.20+		1	1	1	0
03.11.20		1	1	1	1
09.02.21		1	1	1	1
TOTAL FOR 2020-21		5	5	5	4

+ Special Meeting

The work of the Committee and response to Coronavirus pandemic (Covid-19) during 2020-21:

The Committee formally met four times and held one special meeting during the financial year to consider the LPFA Statement of Accounts. Due to government guidance on social distancing relating to the 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)).

During the initial period of the first government imposed lockdown, the ARC Chair was consulted on a number of matters to ensure that regard to necessary probity was maintained including the finalisation of the appointment of the new internal auditor, the development of the new risk register and arrangements related to the execution of legal documentation.

The May and July 2020 ARC meetings were conducted with an abridged agenda to allow discussions to focus on urgent business matters and the meeting duration was reduced from three to one hour. To ensure that ARC was able to adequately fulfil its function, several reports were provided as part of the Committee papers for discussion by exception at the meeting and additional time was allowed for feedback on the reports after the meeting date. Regular ARC meetings resumed from November 2020, albeit taking place virtually.

Audit

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

ARC received regular updates on external audit related to 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 by the 31 May 2020 to advise the public of the revised regulatory requirements. A draft Statement of Accounts was published on the LPFA's website for public inspection, as part of the requisite 30 working day period, on 7 July 2020. There were no requests received from the public. The Committee considered and approved the Annual Governance Statement (AGS) including the action plan for inclusion in the Statement of Pension Fund Accounts.

In September 2020, a special ARC meeting reviewed the Statement of Accounts and Pension Fund Annual Report. The ARC was supportive of progress made to date and the October 2020 LPFA Board meeting provided in principle approval to allow both documents to be published. The Pension Fund Annual Report and the Statement of Pension Fund Accounts were published on 30 November 2020. 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 22 December 2020. A notice was published on the LPFA website to inform the public of the delay. An unqualified opinion was issued by Grant Thornton LLP on all three sets of LPFA 2019-20 accounts and the annual audit letter 2019/20 for the LPFA was reviewed prior to publication in February 2021.

Internal Audit

Following a procurement exercise, PricewaterhouseCoopers (PwC) were appointed LPFA's internal auditor, effective 1 April 2020, for a three-year period. The Committee approved a new 3-year internal audit plan in May 2020 and a revised 2-year internal audit plan in February 2021. During the year, the Committee considered internal audit reports produced by PwC on: risk management; cash flow management; regulation and compliance effectiveness; business continuity planning; General Data Protection Regulation (GDPR); employer contribution management (phase 1); and received status updates on open or closed findings from previous internal audit reports. In addition, two internal audit reports on Member Communications and Compliance with the Shareholder agreement were received from LPFA's former internal auditor, Deloitte, finalised before their appointment ended on 31 March 2020.

Overall, during the course of the year, Internal Audit has undertaken a significant amount of work. Each internal audit review has provided an opportunity for aspects of good practice which has assisted the small management team with strengthening processes and when required, formalising procedures as responsibility for some services have transferred from LPP Group to LPFA.

Risk

Risk Management Principles

The Funding and Risk Director has enhanced and strengthened the LPFA approach to assessing risk through the formalisation of Risk Management Principles (RMP). The RMP provide a comprehensive overview of the process, objectives, assessment criteria, escalation and responsibility for risk management at the LPFA. ARC was supportive of the updated RMP and they were approved by the December 2020 Board.

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. From 2021, an Enterprise Risk Management Software (CAMMS) platform was used for ongoing risk management and reporting.

Employer Covenant & Liability Risks

The Committee continued to receive regular employer issues and mitigation reports. In February 2021, the High-Risk Employers dashboard was renamed employer engagement dashboard. This reflects the LPFA's collaborative approach to working with employers and acquiring security to mitigate covenant risks.

During the year, ARC was kept updated on the LPFA implementation of The Pensions Regulator guidance to provide a flexible approach to employers impacted by Covid-19 and was supportive of the decision-making framework. The recommendations of an in-depth report on the impact of Covid-19 on LPFA employers was supported and shared with the Board.

Risk Appetite Framework & Risk Appetite Statement

An annual assessment of the Risk Appetite framework was provided by the Funding and Risk Director at the May 2020 meeting. A more detailed appraisal on the framework and Risk Appetite statement will be undertaken following the finalisation of the Investment Strategy review during 2021/22.

An Investment and Funding Risk Report was prepared by LPPI on a quarterly basis to provide the Committee with the context of managing the Fund's Triennial balance sheet. Feedback from ARC has led to incremental improvement and refinement to some aspects of the report. The timing of the report publication and the Committee meetings continue to present a challenge.

Finance

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

Finance Project

The Commercial and Finance Director has been keeping the ARC updated on the project plan and progress since June 2020. The scope of the project was revised in December 2020. Given the strategic significance for a successful and timely delivery of the project, this matter was regularly reported at Board by the CEO.

Treasury Management

An annual outturn report on the Treasury management service provided by the GLA was received providing assurance on the treasury function, cash investments and treasury reporting.

Annual Financial reports

In accordance with constitutional requirements, an annual compliance report was provided in November 2020 on adherence to the LPFA write off policy by LPPA and LPFA residual liabilities claims.

Compliance Activities

LPPI and LPPA Compliance Assurance

The Local Pensions Partnership Ltd including its subsidiaries Local Pensions Partnership Investments Ltd and Local Pensions Partnership Administration Ltd, 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 2020), 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 and compliance monitoring on Environmental, Social Governance and Responsible Investment.

The GHE framework was reviewed to reflect an updated approvals process and in consideration of the Greater London Authority's (GLA) policy. The Board approved the framework in December 2020, following the Committee's recommendation.

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 2020. A conclusion to LPFA participation in the NFI exercise from 2019 was reported in July 2020 and a subsequent meeting confirmed that the LPFA would undertake the NFI exercise every six months, instead of the mandatory requirement of every two years.

Governance

Terms of Reference (ToR)

The review of the Committee's ToR was discussed in November 2020 with consideration for alignment with the RMP/constitutional document and was subsequently approved at the next Board meeting. An addition has been the inclusion of the Investment Panel assurance on investment risks. 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 Statements were updated to reflect organisational changes. Both documents were reviewed by the Committee as part of an annual undertaking on governance related matters. The anticipated governance changes (Good Governance Project and consolidation of The Pensions Regulator Codes of Practice) were delayed due to Covid-19 and have been included on the Committee work plan for 2021/22.

Whistleblowing Policy and procedure

ARC reviewed the whistleblowing policy and recommended Board approve the document along with several recommendations. The policy is now published on the LPFA website, included as part of the induction material for new staff/board members and the Committee receive an annual assurance on the policy.

Closed session of the Committee with External Auditors and Internal Auditors

The Committee held a closed session to provide the auditors with an opportunity to raise any concerns in November 2020. The engaged discussion did not identify any areas of concern.

Looking ahead The Committee continues to maintain a comprehensive workplan during 2021/22. Some key activities planned include: reviewing the LPFA compliance framework and assurance map, providing input into the governance and committee effectiveness, overseeing the anticipated governance and regulatory developments and supporting the Finance system project delivery.