

AUDIT & RISK COMMITTEE

MINUTES

Date:	Thursday 23 November 2023	
Time:	11:30 – 13.30	
Location:	MS Teams	
Present:	Christina Thompson	Committee Member and Chair
	Debbie Rees	Committee Member
	Clare Scott	Committee Member
	Tamlyn Nall	Committee Member
In Attendance:	Audrey Allen-Chitwa	Deputy s151 Officer
	Mark Anderson	Head of Compliance Risk and Pensions
	Aaron Bendasiul	PwC
	Robert Branagh	LPFA CEO
	Stephanie Edenborough	PwC Partner
	Ashley Durkan	LPFA Governance Manager
	Ibukun O'Oluwasegu	Grant Thornton, Audit Manager
	Lana Watson	LPFA Funding and Investment Director
Apologies:	Michele King	LPFA Finance Director

1. ARC769 Introductory Matters

Chair's welcome, apologies, and declarations

- 1.1 The Chair welcomed those present and confirmed that the meeting was quorate.

Minutes of the Meeting held on 20 September 2023

- 1.2 The Committee **APPROVED** the minutes of the last meeting held on 20 September 2023

Action Points

- 1.3 The Committee **NOTED** the actions from previous meetings, the updates on how those actions were being addressed and those marked for closure.

2. ARC770 Financial Reporting

- 2.1 The Deputy s151 Officer presented the financial performance report and the report was taken as read. The report revealed that the results were below the budgeted figures, predominantly due to the lower-than-expected net profit on disposal of assets and change in market value. This was impacted by last year's economic downturn, which influenced inflation and suppressed returns. The change in the market value of the fund was £7.9 million, significantly below the budgeted figure of £150 million, mainly due to unrealised losses in various funds. A cautious forecast for the end of the year was established, anticipating continued low market performance. The net outflow from the Pension Fund was higher than budgeted, affected by new members and employers joining late the previous year.
- 2.2 The Deputy s151 Officer further clarified that the net assets as of 30 September 2023 were £7.6 billion, a slight decrease from the year-end figure. This was attributed to the overall reduction in the fund's value and changes in market value. A correction was made regarding a typo in the report, confirming the figure as 7.6 billion, not million.
- 2.3 Regarding Residual Liabilities, the Deputy s151 Officer highlighted a change in the funding regime, impacting the levy income. An error in the forecasted levy for Greater London was corrected to £1 million. The management of residual liabilities and the transfer of funds to the pension scheme were also

discussed.

- 2.4 A Committee Member inquired about the lower-than-expected employer deficit contributions and the budgeting process concerning the new funding arrangement for Residual Liabilities. The Deputy s151 Officer explained that the lower deficit contributions were due to timing issues and confirmed that the forecast aligned with the actuary's evaluation.
- 2.5 Another Committee Member pointed out confusion arising from how contributions linked to Residual Liabilities were presented in the pension fund accounts. The suggestion was to rename these contributions for clarity. The current terminology seemed to imply a direct relation to Residual Liabilities, but the Committee Member felt this was misleading due to the evolving nature of these liabilities and their connection to the pension fund.
- 2.6 The specific change proposed was to refer to these contributions as "other contributions" or a similar term that accurately reflects their nature and source, rather than labelling them under "Residual Liabilities." This change aimed to make the accounts more understandable and to clearly distinguish between current contributions and historical ties to Residual Liabilities.
- 2.7 Queries regarding the cash balance of £15m and its alignment with the Treasury policy were addressed.
- 2.8 The Committee **NOTED** the updates provided.

3. ARC771 Internal Audit

- 3.1 During the Audit, Risk, and Compliance Committee meeting, PwC presented the Internal Audit Plan for 2024/25. The plan was prepared in collaboration with LPFA's management and based on a four-year audit universe and risk assessment. It proposed auditing higher risk areas more frequently, resulting in a plan that included reviews of custodial oversight, investment management performance, risk management framework, and cybersecurity.
- 3.2 The discussion further delved into the appropriate timing and scope of the custodial and investment management reviews, considering recent changes and the complexities involved. The Committee debated the classification of custodial audit as a high-risk area, noting recent audits and questioning its prioritisation. Members discussed the importance of aligning the audit plan with LPFA's specific governance requirements and the unique aspects of the Local Government Pension Scheme (LGPS). The dialogue highlighted a need to ensure the audit approach was relevant and effective for LGPS, avoiding unnecessary alignment with private sector standards. Additionally, the Committee discussed deferring some reviews to accommodate operational pressures and focus on areas with immediate concerns, such as third-party risk management in the LPPA business and controls around key administrative processes.
- 3.3 Succession planning was also a topic of discussion. The Committee expressed concerns about the progress and response to the draft audit report on succession planning. Given the significance of this topic, particularly its confidential nature, it was suggested that it might be more appropriate to discuss this particular topic during the private session of the LPFA Board in December 2023.
- 3.4 The Committee **NOTED** the updates provided.

4. ARC772 Annual External Audit Report 2022-23

- 4.1 The Grant Thornton Audit Manager presented the Annual External Audit Plan for LPFA for the financial year 2022/23, and the report was taken as read. The audit revealed a varied financial performance for LPFA, largely impacted by market turbulence and inflation, leading to a net outflow from the fund. Despite these challenges, the investment return reached +2.7%, albeit lower than the Fund's target. The triennial valuation showed no significant weaknesses that required recommendations.
- 4.2 During the meeting, Committee Members engaged in discussions on several key aspects of the audit. A

significant focus was placed on the governance aspect, where LPFA was experiencing a transitional phase due to staffing changes. This phase was impacting risk management and compliance improvements. Committee Members agreed on the necessity of finalising the People Strategy and developing business cases for new roles. Additionally, they discussed the LPFA's focus on achieving Net Zero targets and Responsible Investment, noting the recovery in performance against Service Level Agreements.

- 4.3 Committee Members also deliberated on the improvement recommendations from the audit. These included the development of the Annual Governance Statement in a timely manner and aligning workforce growth with strategic direction through a People Strategy and business cases for each additional role.
- 4.4 The importance of implementing the audit recommendations was a key area of discussion. The Committee Members stressed the need for action tracking to ensure the effective implementation of these recommendations. Another topic of discussion was the risk management and reporting mechanisms. Committee Members emphasised the importance of having effective reporting mechanisms for LPPI and LPPA risks to the LPFA Board, considering LPFA's roles and responsibilities "(Shareholder vs Client Hat)". The LPFA CEO explained that further consideration would need to be given in terms of what information regarding LPP Group risks should be disclosed to the LPFA Board. **ACTION:** M Anderson & R Branagh
- 4.5 The accuracy and relevance of the audit report to LPFA were also addressed, with suggestions made to correct minor errors in the report's wording for accuracy and relevance to the Fund.
- 4.6 The Committee **NOTED** the updates and recommendations in the report and acknowledged the importance of addressing improvement actions and monitoring progress.

Ibukun O'Oluwasegu left the meeting.

5. ARC773 Compliance and Governance Report.

- 5.1 The LPFA Head of Compliance Risk and Pensions presented his update report on Compliance and Governance and the report was taken as read. He highlighted key areas of concern, particularly focusing on the fall in performance in retirement deferred, retirements active, and deaths. He noted the October performance update, expressing particular concern over bereavements, which had declined, falling more than 5% away from the SLA. A meeting was scheduled with the LPPA Managing Director to discuss this matter further.
- 5.2 He acknowledged staff resourcing changes in bereavements and improvements being made, including automation and clearing backlogs. Despite a temporary decline in performance as older cases were addressed, there was an expectation of an overall improvement trajectory, emphasising the sensitivity of the area and the need for delivering high-quality service.
- 5.3 Regarding employer risk contribution, he reported that a remediation exercise had been completed across all areas and all payments were being addressed. He mentioned the recent implementation of a new finance system two weeks prior, which was instrumental in gaining clearer oversight across employer contributions.
- 5.4 He then shifted focus to the Annual Benefit Statements (ABS), highlighting the ongoing challenges and the progress made in gaining traction with monthly returns. The EMS function was engaging with employers and LPPA to ensure compliance with both ABS and monthly returns. He mentioned that the LPPA and LPFA were working closely to manage backlogs and improve overall service delivery. He also pointed out that robust and clear data from employers would significantly enhance service delivery to members.
- 5.5 Committee members raised queries about the presentation of breaches and underpayments of contributions. It was noted that such incidents should be logged as breaches and reported transparently. In response, he agreed that a final report would be prepared, naming employers and detailing the actions

taken to rectify issues. He acknowledged the need for a robust logging system for breaches and assured that they were working on capturing all necessary information, despite some challenges in obtaining accurate data from LPPA. The Committee expressed a desire for greater transparency in breach reporting to ensure accurate tracking and informed decision-making.

- 5.6 The Committee turned to the Annual Fraud Control Framework, which had been submitted for review. However, points were raised about unresolved comments in the document, suggesting it wasn't ready for a review and sign-off by the Committee.
- 5.7 In addition, a question was raised about the Annual Fraud Action Plan. A Committee Member inquired if this was included in another document or needed separate attention. It was noted that this would need to be reviewed and brought back for Committee for approval in addition to the Annual Fraud Control Framework.
- 5.8 Points were voiced over several unresolved issues within the document. Given these unresolved comments, there was a consensus on the need for further clarifications before considering the Framework ready for review.
- 5.9 The significance of the points raised was acknowledged. It was agreed that these should be resolved prior to presenting the Framework to the Committee and then to the Board. **ACTION:** M Anderson
- 5.10 The Committee **NOTED** the updates provided.

6. ARC774 LPFA Risk Management

- 6.1 The LPFA Head of Compliance Risk and Pensions presented his Risk Management report and the report was taken as read.
- 6.2 The Committee turned their attention to the risk register. A Committee Member had previously raised points regarding the risk register, notably that the output from CAMS was not functioning as expected. It was reported that while the system was in a better state now, more manual intervention was still required.
- 6.3 A Committee member raised a question regarding the understanding of the terms 'risk likelihood' and 'risk impact', expressing a common interpretation of these terms regarding the Cyber Security risk. She was querying why a particular risk impact on the front page was being adjusted to reflect controls in place. It was clarified that the likelihood of cyber-attacks was high, evidenced by the fact that LPPI IT was repelling an attack every 28 seconds. However, the impact of these attacks had been reduced due to effective controls. It was acknowledged that there might be a need to rework the wording to clarify that while attacks were likely, their impact was being mitigated.
- 6.4 The Cyber Security risk at 05 was shown as outside of the tolerance on the summary page, but there were no actions listed on Page 121. The Committee questioned whether the tolerance level was reasonable or if more action was needed. It was noted that the actions currently in place, mainly around control, included regularized reporting on the Azure platforms and the risk profiles, especially concerning "log-ons". There was an agreement that continual training was essential, especially since human error was identified as a potential link.
- 6.5 Regarding the specific risk on T1, relating to changes in the finance function, the Committee deliberated whether it should remain open on the register. Despite a positive audit report and smooth operations in the past six months, it was decided to keep this risk open for further review, following the finalisation of the audit.
- 6.6 For risk T3, which concerned McCloud regulations, it was noted that there were no actions listed, possibly due to a system issue. The Committee was informed of a recent update from LPPA regarding Civica's preparedness and new regulations. A review of this risk was scheduled for the coming weeks.

- 6.7 There was a suggestion for cosmetic improvements to the risk register, specifically for the coding of ESIOP under LPPA for consistency and ease of understanding. It was also mentioned that part of the risk review would involve a revision of the taxonomy used in the risk process.

7. ARC775 Employer Management Services

- 7.1 The Investment and Funding Director provided her update report on Employer Management Services and the report was taken as read. She highlighted recent progress, noting that since the last information sharing, there had been developments with several employers. Specifically, mentioning Peabody #3's exit debt repayment plan, which the LPFA Board had approved to cease, leading to their complete exit from the Fund, a process being handled with Eversheds. Additionally, CIH's documentation to release their security had been finalised.
- 7.2 She then discussed the de-risking proposals that had been a topic at a previous Board meeting John Preston, LPFA Chair, had responded to letters from the Chairs involved from Dulwich College and the University of Greenwich, but LPFA were still awaiting further feedback.
- 7.3 She also reported on the follow-up actions from the LPFA Board meeting concerning de-risking proposals. These actions included discussions with Claire Scott regarding her experiences in the field and a meeting with Hymans for their advice on Funds. Insights from these discussions, particularly case studies, were shared but had yet to be fully analysed for next steps.
- 7.4 Furthermore, she updated on the ongoing work with OCAT in admitting their three academies, focusing on covenant monitoring. She had requested a review of seven employers, particularly those with B2, C1, and C2 ratings, to ensure there were no concerns regarding their ability to pay contributions. The review found no significant issues, and she noted that most risks related to exit deficits had improved since the last valuation.
- 7.5 A Committee member expressed concern about employer cessations from the Fund, questioning the risk of potentially losing valuable employers. The Investment and Funding Director reassured that while the process was not an exact science, the Fund had not experienced significant losses through exit credits. She emphasised the ongoing need to evaluate these measures, especially in the current market conditions.
- 7.6 Another Committee Member raised the point of maintaining a balanced cross-section of employers within the Fund. The Investment and Funding Director acknowledged this point, noting that current market conditions had facilitated the removal of some less stable employers, which potentially improved the overall fund position.
- 7.7 Regarding annual covenant reviews, the Investment and Funding Director clarified that all employers requiring covenants, except for schedule A bodies, undergo annual reviews as part of the employer risk management framework.
- 7.8 The Committee deliberated on whether the Employer Management report sufficiently covered all necessary aspects of employer management or if adjustments were needed.
- 7.9 It was suggested including oversight aspects related to employers, such as payment timeliness and data delivery, into further reporting.
- 7.10 The Committee **NOTED** the updates provided.

8. ARC776 Medium Term Financial Plan and Strategic Policy Statement

- 8.1 The CEO provided a verbal update outlining the context for the Strategic Policy Statement (SPS) and the support it will receive from the Medium-Term Financial Plan (MTFP). He highlighted that the upcoming SPS, due for presentation at December's Board meeting, would differ from the usual evolutionary

approach. This time, it aims to be more assertive, aligning closely with the change agenda discussed throughout the year, including significant discussions on growth and consolidation at the Away Day.

- 8.2 He emphasised the need to invest more time and energy into evolving the employer service, addressing both good and bad employers. The CEO pointed out the challenges posed by multiple reports and the increasing involvement of LPFA Employer Management staff in educating and supporting employers, especially concerning monthly reports.
- 8.3 Regarding member services, the CEO shared aspirations to enhance employer contributions, particularly for active members, to drive engagement and increase signups to the pension portal. He mentioned the necessity of improvements in communication with employers and plans to refresh the website and provide more guidance to members over the next three years.
- 8.4 Strategically, the CEO discussed the current composition of the Fund's members, noting a relatively low number of active contributors compared to deferred and pensioner members. He expressed the need to increase active members and contributions for better cash flow management. The CEO also spoke about future aspirations for the fund by 2026, including increasing assets under management and gaining more control over liabilities. He underscored the importance of investing in resources to support this growth, mentioning the potential inclusion of new roles such as a Chief Operating Officer in the MTFP.
- 8.5 A Committee member raised a point about expanding costs without clear visibility of growth sources, stressing the importance of justifying expenditures. The CEO acknowledged this, highlighting the need for careful cost benchmarking, and differentiating between LPPA costs and additional expenses incurred by the Fund.
- 8.6 The Chair reiterated the necessity of having clear business cases for new posts, ensuring clarity around their purpose, and expected outcomes. The CEO concluded by outlining what would be presented at the next board meeting, including a draft SPS and finalised MTFP.
- 8.7 The Committee **NOTED** the updates provided.

9. ARC777 Any Other Business

- 9.1 The meeting moved to address items under "Any Other Business." A key point raised was the reflection on the committee's effectiveness, which had been a topic of discussion during the LPFA Board Away Day. It was noted that several points aimed at improving the Committee's functioning had been identified, many of which aligned with issues previously discussed.
- 9.2 A significant topic that prompted discussion was the Chief Executive's need to dedicate more time to strategy. It was suggested that the CEO could potentially reduce his attendance at all Committee meetings, thereby alleviating some of his time pressures. This could be achieved by relying more on the Section 151 Officer, The LPFA Head of Compliance Risk and Pensions/ the Monitoring Officer to cover those meetings. Such a change would not only free up time for the CEO to focus on strategic matters but also provide developmental opportunities for these officers.
- 9.3 The discussion also touched upon the importance of regular meetings between the Chair of ARC and the Section 151 Officer, as well as with auditors. This was seen as important for discussing not just Committee matters but also broader issues related to forward planning and upcoming agenda items. The effectiveness of these interactions was highlighted as beneficial for the Committee's overall functioning.
- 9.4 Another key point discussed was the review of the risk management and risk register by the Senior Leadership Team (SLT) before it was presented to ARC. The importance of this timely review was reiterated, emphasising its significance for the Committee's effective oversight.
- 9.5 Transparency was another important topic. It was pointed out that most discussions at ARC should be open to the public, with only a limited area concerning commercial aspects of LPP being exempt. The

need for visibility and transparency, especially to those funding the activities, was stressed. This was in line with the desires of the GLA, who had raised this issue in discussions earlier in the year.

- 9.6 A query was raised about the specifics of accessing LPP's audit findings, management reports, and annual reviews. The CEO acknowledged the request, noting it as an interesting list of items to consider. He expressed the need to understand how this request would align with the Committee's reduced direct oversight of the LPPA and LPPI businesses and how to best provide the Committee with relevant content.
- 9.7 The session concluded with the CEO appreciating the suggestions and agreeing to consider these points for future implementation. **ACTION R Branagh**
- 9.8 The Committee **NOTED** the updates provided.

10. ARC778 Date of next meeting

- 10.1 The Committee **NOTED** that its next meeting was scheduled to take place on 22 February 2024



Christina Thompson, Chair

22 February 2024

Date