

# AUDIT & RISK COMMITTEE

## MINUTES

**Date:** Friday 20 September 2024

**Time:** 13.30 – 16:30

**Location:** MS Teams | The Petersham Hotel, Nightingale Lane, Richmond, Surrey, TW10 6UZ

**Present:**

Conrad Hall	Committee Member and Chair
Richard Olszewski	Committee Member
Mandy Kaur-Sadler	Committee Member
Debbie Rees	Committee Member

**In Attendance:**

Audrey Allen-Chitwa	LPFA Head of Finance and Accountancy
Mark Anderson	LPFA Head of Compliance Risk and Pensions
Aaron Bendasiuk	PwC Senior Manager
Ashley Durkan	LPFA Governance Manager
Stephanie Edenborough	PwC Partner
Mark Hodgson	Ernst & Young Partner
Alistair Peck	LPFA Head of Communications and Engagement
John Preston	LPFA Chair (Observer)
Martin Visagie	Ernst & Young Manager
Lana Watson	LPFA Funding and Investment Director

**Apologies:**

Christina Thompson	LPFA S151 Officer
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### 1. ARC800 – Introductory Matters

#### Chair's welcome, apologies, and declarations

1.1 The Chair welcomed those present to the meeting and confirmed that the meeting was quorate and apologies were received from Christina Thompson.

#### Minutes of the Meeting held on 20 June 2024

1.2 The Board **REVIEWED** and **APPROVED** the minutes of the last meeting held on 20 June 2024 subject to minor amendments.

#### Action Points

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

### 2. ARC801 – Internal Audit

#### **Internal Audit Progress Report and Key Issues**

2.1 Aaron Bendasiuk provided an overview of the Internal Audit Progress Report, detailing the status of 2024 audit activities. The Committee acknowledged that the Pensions Administration Review at LPPA was nearing completion despite delays due to challenges in obtaining relevant data from LPPA. PwC anticipated finalising this review shortly and expressed appreciation for

the collaborative efforts of LPFA staff.

- 2.2 The remaining internal audit plan reviews, including IT Disaster Recovery (ITDR) and Cybersecurity, were scheduled, with scopes and resources fully allocated. However, the Investment Implementation and Investment Manager Oversight review was highlighted as a key discussion point, with PwC proposing its deferral until 2025-26.

### **Discussion on Investment Implementation and Manager Oversight Audit**

- 2.3 PwC outlined the standard approach to investment audits, typically progressing from strategy review through execution to monitoring stages. The Committee's guidance this year had been to focus audit resources on LPFA's direct activities rather than third-party evaluations, such as those at LPPI. A workshop with senior staff from LPFA and PwC evaluated the potential audit scope within LPFA's remit, noting that substantial coverage had been achieved through the previous year's Investment Strategy Setting review and the Third-Party Supply and Management review. Consequently, PwC recommended deferring the Investment Implementation and Investment Manager Oversight review to avoid redundancy, as LPFA received other assurance reports from LPPI's internal audits and third-party evaluations.
- 2.4 The Committee agreed on the deferral, noting satisfaction that LPFA's existing oversight mechanisms provided adequate assurance in this area. There was a query on replacing the deferred audit with another review. PwC confirmed that the current scope sufficed for a complete internal audit opinion, with no additional reviews needed.

### **IT Disaster Recovery (ITDR) and Cybersecurity Audits**

- 2.5 The Committee raised concerns about delays in the ITDR and Cybersecurity reviews. PwC clarified that management had requested deferral to allow LPFA to finalise its ITDR plans and further develop cybersecurity controls. PwC aimed to initiate these reviews later in the year, with final assurance reports expected by Q4 2024-25.
- 2.6 For additional assurance, LPFA will receive a biannual cybersecurity statement from LPPI, with the next update due in November. This statement included certifications from Cyber Essentials and Cyber Essentials Plus, covering both internal and third-party assessments. Discussions between LPFA, LPPI, and PwC had reinforced that LPPI maintained thorough cybersecurity protocols and disaster recovery plans, validated through regular testing and third-party audits. Committee members expressed confidence in LPPI's layered assurance framework, which bolstered LPFA's security strength.
- 2.7 Further discussion addressed concerns about cybersecurity incident response plans. PwC confirmed that both the ITDR and Cybersecurity reviews would include assessments of LPFA's incident management and disaster recovery protocols, ensuring preparedness for potential cyber incidents.

### **LPPA Data Challenges**

- 2.8 The Committee explored delays in receiving standard documentation from LPPA for the Pensions Administration Review, acknowledging LPPA's transition to a new UPM system. LPFA staff highlighted coordination and resource issues at LPPA, noting that some reports previously provided were unavailable due to system migration. LPFA had worked closely with LPPA to

recover critical data and anticipated improved data flow as LPPA finalised system adjustments. The Committee recommended that this matter be raised at the upcoming LPP Board meeting for further review

The Committee **RESOLVED** to:

- a) **APPROVE** the deferral of the Investment Implementation and Investment Manager Oversight audit to 2025-26.
- b) **PRIORITISE** completion of the **ITDR and Cybersecurity** audits in Q4, with PwC aiming to complete a substantial portion before year-end.
- c) **ESCALATE** the data challenges encountered with LPPA to the LPP Board meeting for resolution.

### 3. **ARC802 – Pension Fund Annual Report (Front Half)**

#### **Presentation of the Draft Annual Report**

- 3.1 The Head of Communications presented the front half of the Pension Fund Annual Report for ARC approval. The draft had been reviewed by relevant business units, with contributions from LPPI, LPPA, the Chair of the Investment Committee, and the S151 Officer. Outstanding data points included information on overpayments, late payment analysis, and the employer list, which were scheduled for completion by the following Monday.
- 3.2 A compliance check confirmed that the report aligned with updated CIPFA guidance issued in April. One outstanding query concerned the inclusion of the total pool savings figure of £153 million, a number previously included in the report to reflect LPPI's pooled savings.

#### **Discussion on Pool Savings Inclusion**

- 3.3 The Committee considered whether to include the total pool savings figure in the report. The Head of Communications noted that, while this figure was powerful and relevant as a reflection of LPPI's impact, the S151 Officer had questioned its relevance to the fund-specific report. It was emphasised that this was a recurring figure in various sections of the report, with some members advocating for consistency in its presentation across the document.
- 3.4 John Preston raised a point regarding the accuracy of LPFA's attributed savings of £103 million from the £153 million total, as LPFA managed approximately £9 billion out of the total £26 billion pool. He requested validation of this proportion, given the potential implications of an inaccurately attributed figure. The Head of Communications shared feedback from LPPI's Joe Peach, who explained that the higher LPFA share resulted from higher pre-pooling fees in areas like global equities, credit, and real estate, which led to larger realised savings for LPFA.

#### **Methodology and Consistency**

- 3.5 The Committee sought assurance that the methodology for calculating pooled savings had remained consistent year-on-year. The Head of Communications confirmed no changes in methodology, with savings figures compiled and validated by the Ministry. Audrey added that these figures could vary slightly throughout the year as new returns were submitted, potentially altering the total reported. While LPPI finalised figures annually in September, subsequent late returns could cause discrepancies in the reported total, which was adjusted in the accounts if necessary.

- 3.6 The Committee also discussed the CEO's past involvement with the report, noting that he held office during the period covered by the report. It was agreed to retain his name in alignment with past practice. Minor edits, such as rephrasing "I am pleased" in John Preston's statement and ensuring consistency in terminology across sections, were identified for revision.
- 3.7 The Committee **RESOLVED** to:
- a) **APPROVE** the inclusion of the total pool savings figure of £153 million in the report, pending final validation.
  - b) **ENSURE** that minor edits and biographical details for Board members would be reviewed and confirmed with each member.
  - c) **RECOMMEND** that the draft be sent to the Board in October, with publication scheduled by 15 November after final proofing and approval from the S151 Officer.

#### 4. ARC803 – External Audit, Pension Fund Statement of Accounts

- 4.1 The The Head of Finance introduced the external audit report, noting that the document covered three sets of accounts and highlighted significant updates since the May publication. The primary change was a £37 million increase in scheme assets, taking the total value to over £8 billion. There had also been adjustments to investment fees and market value changes, specifically due to a significant reduction in performance fees by Montana Capital, which decreased from £11 million to approximately £600,000 upon final reporting. The total adjustment to fees was £25.8 million, affecting the change in market value by reducing overall gains. The Committee was invited to approve the accounts, with minor adjustments pending LPPI's final sign-off next week.

##### **Audit Results Report**

- 4.2 The EY audit team provided an overview of the audit process, confirming that it was progressing on schedule, with a target to sign off by 30 September. They commended the collaborative work with LPFA's finance team, noting that despite a late start in February, they were on track to meet the statutory deadline. The audit results indicated minimal material issues, with primary adjustments related to management expenses, asset classifications, and disclosure enhancements. EY outlined key findings, including:
- **Materiality Adjustment:** Materiality had been increased to £79.9 million, reflecting the net asset position.
  - **Unadjusted Audit Differences:** The main unadjusted difference was an initial overstatement in Level 3 investment valuations, which had since been revised with LPPI's updated figures.
  - **Adjusted Audit Differences:** The primary adjustment was the reclassification of some Level 2 investments to Level 3, improving risk representation. Additional disclosures on investment fees were included to align with the Code requirements.
- 4.3 EY confirmed they expected to issue an unqualified audit opinion, encompassing both the pension fund financial statements and group operational accounts, with the potential for one combined opinion rather than separate reports.

### **Discussion on Merging of Accounts and Audit Opinion**

- 4.4 The EY audit team raised the consideration of issuing a single audit opinion that would encompass both the pension fund financial statements and the group operational accounts, including disclosures related to residual liabilities, rather than providing separate audit opinions. They clarified that this approach would still deliver a "true and fair" opinion on all financial statements presented.
- 4.5 The Committee sought reassurance that this format would not diminish the level of assurance provided. EY confirmed that a combined opinion would not reduce the scope or quality of assurance; it was solely a structural consideration to streamline the reporting process. Internal consultations were ongoing within EY to finalise this approach, and the Committee expressed no objections to a combined report, provided full assurance across all accounts remained intact.

### **Value for Money and Risk Assurance**

- 4.6 EY noted no significant weaknesses in value-for-money assessments and anticipated providing a favorable commentary in the auditor's report. They highlighted the robustness of controls for Level 3 assets, though they recommended additional assurance over performance fees to address any potential volatility. The Committee agreed that discussions with LPPI on performance fee frameworks would be beneficial to ensure ongoing compliance and transparency.

### **Severance Payment Compliance**

- 4.7 EY flagged an exit package disclosure that potentially exceeded the threshold requiring HM Treasury approval. The Committee agreed to verify details of the severance package in question and ensure compliance with public sector standards, despite legal advice received at the time suggesting otherwise. Management committed to reviewing this matter further to avoid future compliance risks.

### **Resolution**

- 4.8 The Committee **RESOLVED** to:
- a) **NOTE** the contents of the draft audit results report, including both corrected and uncorrected adjustments to the accounts.
  - b) **APPROVE** the management letter of representation for signing by the S151 Officer, confirming that no unadjusted errors required further action.
  - c) **AUTHORISE** the S151 Officer to make any final minor changes to the accounts, aligned with LPPI's final sign-off and any Board review comments.
  - d) **ACKNOWLEDGE** the outstanding action for further discussion on performance fee assurance with LPPI.
- 4.9 The Committee expressed thanks to the finance team for their diligence and the auditors for their thorough approach, noting that an on-time sign-off would place LPFA among the few organisations completing audits by the September deadline.

## **5. AC805 - Compliance and Governance Matters**

### **Compliance and Governance Report**

- 5.1 The Director of Compliance, Risk and Pensions introduced the compliance and governance report, providing an update on key areas, including LPPA's performance, gifts and hospitality

(G&H) tracking, and the transition to the Protecht platform. The update highlighted ongoing improvements in monthly returns and provided performance statistics for Annual Benefit Statements (ABS). By 31 August, 97.8% of ABSs had been issued to eligible active and deferred members, with a breakdown of 95.6% for active members and 99.4% for deferred members. Efforts were continuing to reach 100% coverage in collaboration with employers.

### **Protecht Platform Progress**

- 5.2 The Protecht platform rollout was discussed, with LPFA staff collaborating to develop automation for G&H, expenses, policy framework, and conflicts of interest. The Governance Manager noted improvements over the previous system, particularly in aligning with The Pensions Regulator's (TPR) obligations, enabling LPFA to track policy compliance comprehensively. The next phase will include automated quarterly G&H submissions, streamlining the process and reducing manual data entry.
- 5.3 The Director of Compliance added that the platform's initial phase, including obligations mapping and risk controls, was functioning well. The contract register and procurement processes were also being looked at integrated into the platform, providing audit trails and supporting compliance with the new Procurement Act. Future plans included integrating external links to capture incident and breach reports, with full deployment expected within the business between November and January.

### **Procurement Act and Contract Register**

- 5.4 The Director of Compliance and Risk confirmed that while LPFA already had a contract register, it had been updated to meet new procurement requirements and ensure all processes and exemptions were documented. The Committee requested periodic visibility of the contract register, particularly regarding waivers or exemptions, for enhanced oversight.

### **Scheme of Delegation Increase**

- 5.5 The Committee considered a recommendation to increase general expenditure delegation from £50,000 to £75,000. The Governance Manager noted that this adjustment would enable efficient decision-making and mitigate risks associated with delayed approvals.

### **LPPA Performance and Complaints Reporting**

- 5.6 The Committee discussed the consistency of LPPA's performance data, acknowledging positive service-level agreement (SLA) metrics despite some recent data return delays. In response to concerns about data breaches, the Director of Compliance and Risk confirmed that recent breaches were minor and had been contained, with no substantial records released. Ongoing improvements were being made to streamline data processing and refine the relationship with LPPA as a sub-processor.
- 5.7 Committee members recommended including a regular summary of complaints and escalations, particularly those reaching the Pensions Ombudsman, in future reporting. This summary would provide insight into complaint types, resolution times, and escalation trends, offering a holistic view of service issues. The Director confirmed that this would be coordinated with LPPA and aligned with existing monthly reporting on complaint volumes and outcomes.
- 5.8 The Committee **RESOLVED** to:
- a) **NOTE** the updates on compliance and governance, including the progress on Protecht

platform implementation and ABS issuance.

- b) **APPROVE** the increase in general expenditure delegation from £50,000 to £75,000.
- c) **REQUEST** periodic updates on the contract register, specifically for waivers and exemptions, for increased visibility.
- d) **INCLUDE** an annual summary of complaints, with specific reporting on cases escalated to the Pensions Ombudsman, in future governance reports.

## 6. AC806 Forward Agenda

- 6.1 The Committee **REVIEWED** and **NOTED** the forward plan of business, and the updates provided.
- 6.2 The Board **NOTED** that its next meeting was scheduled to take place on 25 November 2024
- 6.3 There being no further business, the Chair declared the meeting closed.

**Conrad Hall, Chair**

**Date 25/11/2024**

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