

London Pensions Fund Authority

Meeting of the Audit and Risk Committee

MINUTES

Approved

Date: Monday 25 November 2024

Time: 13:00 – 15:30

Location: MS Teams

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
Sofia Choudhary	LPFA Chief Legal Officer (item 7 only)
Ashley Durkan	LPFA Governance Manager
Stephanie Edenborough	PwC Partner
Mark Hodgson	Ernst & Young Partner
Christina Thompson	LPFA S151 Officer
Martin Visagie	Ernst & Young Manager
Lana Watson	LPFA Funding and Investment Director

Apologies: None

1. ARC807 – 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 no apologies were received.

Minutes of the Meeting held on 20 September 2024

1.2 The Board **REVIEWED** and **APPROVED** the minutes of the last meeting held on 20 September 2024, subject to a clarification regarding the cyber security statement. It was noted that the LPFA ARC, rather than the Board, would receive the cyber security statement, which had been included in the supplementary pack for the meeting.

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.

1.4 The Committee discussed an item not formally recorded as an action point relating to severance payment compliance. It was noted that while the expectation was that compliance had been met, a review of the process had been intended. The Committee agreed that future processes would ensure all relevant rules and regulations were checked.

1.5 It was **CONFIRMED** that EY had accepted the reporting on severance payment compliance, which included a management response.

2. ARC808 – Internal Audit

Internal Audit Planning for 2025-26

- 2.1 Aaron Bendasiuk provided an update on internal audit planning for the next financial year, highlighting that the internal audit universe had been refreshed, incorporating the LPFA risk register. A shortlist of proposed audit reviews was presented, covering employee contributions, investment manager oversight (deferred from the previous year), key financial controls, and GDPR and data quality. Prioritisation was given to the top three, with GDPR included as an additional potential review.
- 2.2 The Committee considered the timing of key financial controls, noting that the last review took place in 2022. A more structured approach to annual assurance was suggested to reduce gaps between reviews.
- 2.3 Regarding investment manager oversight, it was noted that last year's proposed audit had been reconsidered to ensure a focus on LPFA's oversight rather than LPPI's execution of investments. The importance of engaging with the Investment Committee was highlighted, particularly in addressing concerns about the quality of oversight.
- 2.4 Budget discussions confirmed that the 2025-26 audit budget was lower than in the previous year, with a reduction of approximately £24,000. The Committee was satisfied that the four proposed audits could be accommodated within this revised budget.
- 2.5 On data quality, there was consideration of whether the review should be deferred, given ongoing data validation work by the actuary. A decision was made to consult the actuaries further to assess whether additional internal audit work would add value. It was acknowledged that should any concerns arise, the Committee could revisit the need for an internal audit review at a later stage.
- 2.6 Indicative budgets for all reviews were acknowledged as subject to further refinement during the detailed planning stage.

Progress Against the Current Year's Audit Plan

- 2.7 An update was provided on progress against the 2024-25 audit plan. As of mid-November, no reviews had been finalised. The Compliance Review was nearing completion, while IT Disaster Recovery and Cyber Security Reviews were scheduled to begin in Q4 at management's request. The LPPA Benefit Calculations Review had experienced delays on both LPPA's and LPFA's sides.
- 2.8 Although individual reasons for delays were understood, there was concern over the cumulative impact of having no concluded reviews seven months into the audit year. The Committee noted the need to ensure a more structured approach to delivery in future cycles.
- 2.9 It was confirmed that the next ARC meeting was scheduled for 27 February 2025, by which point all outstanding reviews should be concluded.
- 2.10 The Committee **RESOVLED** to:
 - a) **NOTE** the internal audit planning update and the proposed audit reviews for 2025-26.
 - b) **AGREE** that investment manager oversight should focus on LPFA's role, with engagement from the Investment Committee.

- c) **CONFIRM** that the four proposed audits could be accommodated within the reduced budget.
- d) **AGREE** to consult actuaries before determining the necessity of a data quality audit.
- e) **NOTE** the delays in the current year's audit plan and **AGREE** to ensure improved delivery timelines going forward.
- f) **CONFIRM** that all outstanding audits should be concluded by the next meeting in February 2025.

3. ARC809 – External Audit Annual Report 2023-24

- 3.1 Mark Hodgson provided a verbal update on the progress of the audit, following the audit results report presented at the September meeting. A legal review had been obtained to clarify the appropriate treatment of the residual liability account, which confirmed that a separate audit opinion should not be issued for that account. Instead, the residual liability entity account was incorporated into the operational account. A revised set of accounts reflecting this approach had been received and was under review to ensure compliance with international auditing standards.
- 3.2 It was confirmed that an audit results report would be issued later in the week, detailing the audit procedures undertaken, with letters of representation to follow for management sign-off. A final audit opinion was scheduled for completion, in line with the government's deadline for clearing pre-2022-23 audits by 13 December 2024.
- 3.3 The Committee discussed the emphasis of matter within the audit opinion, which had been included due to the significant change in financial reporting. While the emphasis of matter was not a qualification, it was noted that the change from three sets of accounts to two, with the residual liability incorporated into the operational account, constituted a material shift in presentation. The auditor confirmed that the emphasis was required to ensure transparency for stakeholders.
- 3.4 Some members expressed reservations about the necessity of the emphasis of matter, noting that while the reporting structure had changed, no new liabilities had been introduced, and the financial substance remained consistent. Comparisons were made with other administering authorities, with confirmation that the revised approach aligned with standard pension fund accounting practices.
- 3.5 Discussions also covered the audit completion timeline. It was confirmed that the aim was to finalise all outstanding matters by 29 November 2024, allowing for the Annual Report to be published by 1 December 2024. The auditor reported that internal reviews and consultations were ongoing, with a reasonable expectation that all work would be completed on schedule.
- 3.6 The Committee **RESOLVED** to:
 - a) **NOTE** the external audit update and the legal clarification on the treatment of the residual liability account.
 - b) **ACKNOWLEDGE** the inclusion of an emphasis of matter in the audit opinion and the rationale provided by the auditor.
 - c) **NOTE** the need for transparency in financial reporting given the change in accounting treatment.
 - d) **CONFIRM** that all efforts were being made to meet the 29 November 2024 deadline for audit completion to allow publication of the Annual Report by 1 December 2024.

4. ARC810 – Finance Report

- 4.1 The Committee received an update from the LPFA Head of Finance and Accountancy on the financial position up to the end of September 2024. It was reported that the organisation remained underspent, primarily due to delays in progressing certain projects and savings arising from the fixed-rate pension contribution arrangement with LPPI. The key elements contributing to the underspend were:
- 4.2
- **Pension contributions**, with a reduction of £168,000 following the fixed-rate arrangement agreed in March 2024.
 - **Consultancy costs**, with expenditure deferred for various projects that were still in progress.
- 4.3 While some underspending was noted as positive, it was acknowledged that certain planned activities needed to progress to ensure full utilisation of the budget.
- 4.4 The Committee also reviewed the merged accounts, following the incorporation of the residual liability account into the operational account. It was confirmed that the consolidation adjustments had been made, including the offsetting of intercompany balances and transactions, and that there had been no substantive changes to the financial figures. The updated accounts would be circulated in their final design version before publication.
- 4.5 The Committee discussed the sign-off process and confirmed that the Section 151 Officer would sign the accounts once the external auditor had issued their final audit report. The letters of representation would also be circulated for signing in advance of the 29 November 2024 deadline, ensuring timely publication of the Annual Report on 1 December 2024. It was agreed that, in the unlikely event of any unexpected developments before sign-off, the Committee would be informed.
- 4.6 The Committee also received the **Mid-Year Treasury Report**, which confirmed continued compliance with the Treasury policy. It was noted that:
- Cash placements had been managed in line with agreed Treasury guidelines.
 - Large exit payments for employers leaving the scheme while in surplus had been processed efficiently and on time.
- 4.7 There were no reported exceptions to Treasury policy compliance.
- 4.8 The Committee **RESOLVED** to:
- NOTE** the financial position and reasons for the current underspend.
 - NOTE** the updated merged accounts, confirming that no substantive changes had been made beyond the consolidation adjustments.
 - AGREE** that the S151 Officer would sign the accounts on behalf of the Committee once the external audit was complete.
 - CONFIRM** that the accounts would be finalised by 29 November 2024, ensuring publication of the Annual Report by 1 December 2024.
 - NOTE** that the Mid-Year Treasury Report confirmed full compliance with Treasury policy and successful management of employer exit payments.

5. AC811 - Medium Term Financial Plan & Strategic Policy Statement

- 5.1 The Committee received an overview of the Medium-Term Financial Plan (MTFP) and Strategic Policy Statement (SPS). It was clarified that the SPS is a statutory requirement under the Greater London Authority Act, setting out LPFA's intentions and strategic direction for a three-year period, while the MTFP aligns the financial planning to support delivery of those objectives.
- 5.2 It was noted that the strategic priorities remained largely unchanged, focusing on:
- Governing well
 - Building resilience and capacity in the organisation
 - Preparing for change in the LGPS
- 5.3 The Committee considered whether recent government announcements on LGPS reform warranted amendments to the SPS. While recognising that the implications of these changes were still unclear, it was acknowledged that the SPS might need to be revisited later in the year as further details emerged. It was suggested that when the document goes to the Board, a note should be included confirming that the Committee had considered whether amendments were required but concluded that it was premature to reflect changes at this stage.
- 5.4 The Committee also discussed the GLA's role in approving the SPS, with members noting that previous years had seen minimal feedback or engagement from the GLA. It was confirmed that the residual liabilities levy for London boroughs needed to be reported to the GLA as part of this process to facilitate levy-setting for authorities.
- 5.5 Specific feedback on the MTFP included:
- Digitisation of microfilm data, where concerns were raised about the continued reliance on outdated technology.
 - Head of Communications role, where interim arrangements were in place to cover maternity leave. It was noted that while vacancies were being filled as required, broader structural changes should be reviewed once a new CEO was appointed.
- 5.6 The recommendations for approval and delegation of completion were discussed. It was agreed that the final draft of the SPS and MTFP would be completed by the Section 151 Officer and the Interim Head of Paid Service before submission to the Board.
- 5.7 The Committee **RESOLVED** to:
- REVIEW** the Medium-Term Financial Plan and Strategic Policy Statement.
 - AGREE** that, while recent government announcements on LGPS reform may require future amendments, it was premature to update the SPS at this stage.
 - CONFIRM** that the residual liabilities levy would be reported to the GLA as required.
 - NOTE** feedback on digitisation efforts and interim staffing arrangements, with broader structural considerations to be reviewed post-CEO appointment.
 - AGREE** to recommend the SPS and MTFP to the Board for approval.
 - DELEGATE** finalisation of the SPS and MTFP to the Section 151 Officer and Interim Head of Paid Service for minor amendments before Board submission.

6. ARC812 - Annual Assurance on Custodian Arrangements

- 6.1 The The Committee received an update on the annual assurance process for custodian arrangements. It was noted that, historically, assurance had been provided through a circulated

letter. However, due to procedural changes, the assurance process would now be based on the AAF 01/06 report, which provides an independent review of the custodian's internal controls and processes.

- 6.2 It was confirmed that the latest AAF 01/06 report had been received and reviewed, providing sufficient assurance regarding the custodian's operational arrangements and risk management processes. Based on this review, it was confirmed that adequate controls and assurances were in place. No concerns were raised regarding the level of assurance provided.
- 6.3 The Committee **RESOLVED** to:
- a) **NOTE** the updated assurance process, confirming that the AAF 01/06 report would replace the previous assurance letter.
 - b) **RECEIVE** confirmation that the custodian's internal controls and processes had been reviewed and were satisfactory.
 - c) **AGREE** that the AAF 01/06 report would form the basis of future assurance updates.

7. ARC813 – Annual Review of Asbestosis Provision

- 7.1 The Committee received an update from the Chief Legal Officer on LPFA's approach to managing inherited asbestos-related claims, focusing on risk management, financial oversight, and legal compliance. It was noted that LPFA, in collaboration with external legal advisors Eversheds, ensures that claims are rigorously assessed, liabilities are accurately determined, and legal requirements are met.
- 7.2 The Committee discussed the timeframe for processing claims, noting that the average period from notification to resolution was one to two years. While recognising the complexity of individual cases, the Committee emphasised the importance of ensuring prompt resolution where possible, particularly for claimants with short life expectancies.
- 7.3 Further discussion focused on the financial breakdown of claims, particularly the proportion allocated to legal costs versus payments to claimants. It was noted that LPFA holds detailed financial records, and an indicative 20% of total costs were allocated to legal expenses, though the precise figures would be provided separately as an action. **ACTION: SC**
- 7.4 Two cases where liability had been denied were reviewed, with confirmation that LPFA was not the appropriate liability holder. The Committee acknowledged that many claimants had complex employment histories, and GLC was often named as a fallback defendant, requiring rigorous investigation to determine responsibility.
- 7.5 The Committee also considered future reporting arrangements, agreeing that an annual review remained appropriate but requested slightly more detail in future reports, particularly regarding:
- The number of cases closed, and the average time taken for resolution.
 - Key milestones in case progress.
 - Assurance that cases were being handled efficiently while ensuring legal compliance.
- 7.6 The internal sign-off process for settlements was reviewed. It was confirmed that:

- Amounts under £100,000 could be approved by the Chief Legal Officer
- Amounts over £100,000 required approval by the Compliance and Risk Director
- Amounts exceeding the threshold required sign-off from the S151 Officer and Funding and Investment Director.

7.7 The Committee was content with these arrangements.

7.8 The Committee **RESOLVED** to:

- NOTE** the update on asbestosis claims management, including legal, financial, and risk considerations.
- ACKNOWLEDGE** that claim processing times varied but **AGREED** that efficient handling remained a priority
- NOTE** that approximately 20% of total costs were allocated to legal fees, with a detailed breakdown to be provided separately.
- CONFIRM** that liability was denied in two cases where LPFA was not the appropriate liability holder.
- AGREE** that future reports should include additional details on case progress and resolution timelines.
- APPROVE** the internal sign-off process for settlements, ensuring appropriate financial oversight.

8. ARC814 – LPFA Contract Register

8.1 The Committee reviewed the LPFA contract register, which was provided as an update on ongoing contracts and upcoming renewals. It was noted that there were no new supplier agreements entered into during the last quarter. The contracts register included details of upcoming contracts, particularly those that would require a procurement exercise due to expiration.

8.2 The Committee discussed procurement processes, particularly with regard to the PwC contract. It was noted that PwC's contract had an option for extension, and the Committee considered whether it would be appropriate to extend for a year or proceed with a new tender process. The Committee expressed a preference to extend the contract for a year, pending the appointment of the new CEO.

8.3 There was also discussion about the Barnett Waddingham contract, which would need to be extended to complete the valuation process. The Committee agreed that an extension for the necessary duration would be appropriate, with a view to re-tendering afterward.

8.4 The issue of actuarial fees was raised, particularly the confusion surrounding the £1.5 million figure. It was clarified that this amount represented the total value of services provided by Barnett Waddingham, with a significant portion of the cost recovered from employers, so it did not represent a direct cost to LPFA.

8.5 The Committee also discussed the procurement review process for Eversheds, which would be conducted once the new Public Procurement Act comes into force in February 2025. The outcome of this review, including whether to re-procure or solicit different providers, would be reported back to the Committee. **ACTION: SC**

8.6 Additionally, the BNY Mellon contract was noted to expire on 30 July 2024. It was confirmed

that a procurement exercise was already underway to address this and that BNY Mellon was continuing to provide services under the existing agreement.

8.7 The Committee **RESOLVED** to:

- a) **NOTE** the LPFA contract register and reviewed the upcoming contract renewals.
- b) **AGREE** to extend PwC's contract for one year due to the current organisational context and the upcoming CEO appointment.
- c) **AGREE** to extend the Barnett Waddingham contract to complete the valuation process and review for re-tendering thereafter.
- d) **NOTE** that £1.5 million in actuarial fees represented the total value of services, with a significant portion recovered from employers.
- e) **CONFIRM** that a procurement review for Eversheds would take place once the new Public Procurement Act came into effect in February 2025, with outcomes reported to the Committee.
- f) **NOTE** that the BNY Mellon contract for custodian services would be reviewed as part of an ongoing procurement exercise, with action taken to address the expiry date of 30 July 2025.

9. ARC815 – LPFA Risk Dashboard & Register

- 9.1 The Committee received an update from the Compliance and Risk Director on the LPFA Risk Dashboard & Register, including the latest developments on the Protecht Risk Management platform. It was noted that all risk and control owners had completed initial training, with secondary training sessions underway, focusing on scenario testing and engagement. A feedback session was scheduled for December to capture user experiences and refine reporting.
- 9.2 Following a delegation from the Board, the Committee was asked to consider how risk reporting should be structured going forward. Examples of exception reporting, detailed reporting, and broader summaries were provided in the supplementary pack for discussion.
- 9.3 The Committee acknowledged the clarity of the reporting but raised concerns regarding whether risk scoring accurately reflected actual exposure levels. It was noted that many risks appeared well under control, which, while positive, required careful scrutiny to ensure the scoring was realistic and not overly optimistic.
- 9.4 Cybersecurity was discussed as an example, with members noting that it remained one of the highest inherent risks, yet its control effectiveness was rated as effective, and its residual risk as moderate. The Committee questioned whether cyber risks could ever be fully controlled given the evolving threat landscape and suggested further review of this area.
- 9.5 The Committee also noted that internal audit reviews of controls had not yet been completed, meaning the risk register had not yet been externally tested. Broader geopolitical risks, including the potential for cyber warfare escalation, were highlighted as additional considerations.
- 9.6 A comparison was made with pension fund risk registers, which were often more extensive in their risk assessments. The Committee suggested that reviewing similar registers from other funds could provide useful benchmarking insights.

9.7 The Committee confirmed that the risk register is ultimately approved by the Board, and no formal decision was required at this stage. However, members were invited to consider whether further training on the risk platform was necessary. **ACTION:MA**

9.8 The Committee **RESOVLED** to:

- a) **NOTE** the Risk Dashboard & Register update and the progress on the Protecht platform implementation.
- b) **DISCUSS** the presentation of risks, highlighting the need for realistic scoring and careful assessment of control effectiveness.
- c) **REQUEST** a further review of cybersecurity risks to ensure that the residual risk rating appropriately reflects external threats.
- d) **NOTE** that internal audit reviews of controls had not yet been completed, and that further assurance would be sought as part of that process.
- e) **SUGGEST** reviewing pension fund risk registers as a benchmarking exercise for future discussions.
- f) **AGREE** that a training session on the Protecht platform should be considered and discussed with the Board.

10. ARC816 – EMS Update Report

10.1 The Committee received a verbal update on Employer Management Services (EMS). It was noted that, due to the short period between the Board meeting and this Committee meeting, there had been no significant BAU activity to report.

10.2 However, an important development was highlighted regarding a recent government announcement. The Department for Education (DfE) has confirmed that further education (FE) bodies will receive government guarantees for their LGPS liabilities, similar to the arrangement already in place for academies.

10.3 The implications of this guarantee were discussed, including:

- FE bodies covered by the guarantee would receive the highest covenant rating, affecting their contribution rates to LPFA.
- LPFA does not currently conduct covenant assessments on academies due to their government-backed status, and the DfE guidance suggests that FE bodies should now be treated similarly.
- The exact application of the guarantee remains for LPFA to determine, rather than being dictated by the DfE.

10.4 It was confirmed that LPFA is currently:

- Reviewing which of the 10–12 FE bodies within the fund would be impacted.
- Seeking legal advice from Eversheds to confirm the legal structure and status of these institutions.
- Considering the timing and methodology for incorporating the guarantee into contribution rates, as well as benchmarking against other LGPS funds.

10.5 The Committee noted that one employer had already contacted LPFA to request a contribution review based on the anticipated impact of the guarantee.

10.6 The Committee sought clarification on whether the guarantee would cover all past liabilities or only those arising from the date of introduction. It was confirmed that the guarantee applies to

all existing liabilities for eligible FE bodies.

10.7 As the situation is still developing, LPFA will continue assessing the implications and update the Committee as required.

10.8 The Committee **RESOVLED** to:

- a) **NOTE** that no significant BAU activity had been reported since the last update.
- b) **NOTE** the DfE's announcement on government guarantees for further education bodies' LGPS liabilities.
- c) **ACKNOWLEDGE** that LPFA is currently reviewing affected employers and seeking legal advice.
- d) **NOTE** that the guarantee applies to all existing liabilities for eligible further education bodies.
- e) **AGREE** to receive further updates as the assessment of implications progresses.

11. ARC817 – AVC Review

11.1 The Committee received an update on the Additional Voluntary Contribution (AVC) arrangement, which falls under Funding and Investment and is subject to regular review by the Committee. The last full review of the arrangement took place in 2019, with interim reviews focusing on Prudential's administration of the scheme. As five years had passed since the last full review, this assessment examined investment offerings, charging structures, the default fund, and member engagement patterns.

11.2 The review found that the fund range was complex, with multiple UK equity funds offering varying levels of active and passive management at different charge rates. The rationale for maintaining this structure was unclear. Unlike industry norms where 80-95% of members invest in a lifestyle arrangement, less than half of LPFA members use this option, suggesting possible confusion or a lack of engagement with the investment selection process.

11.3 Charges were found to be relatively high, with Prudential's default fund carrying a fee of around 60 basis points, compared to 40 basis points for Legal & General (L&G) funds. Prudential confirmed that fees were set across the board, with larger funds cross-subsidising smaller ones. While this was a known industry practice, it was agreed that further challenge should be made on whether LPFA members were receiving fair value.

11.4 The Committee discussed the governance structure around AVC reviews and whether every aspect required Board approval. It was noted that AVC assets (£50 million) are relatively small compared to LPFA's £8 billion fund, but highly material to the individual members involved. The terms of reference for the Committee are due for annual review in February, and it was suggested that the governance process be reviewed at that stage to consider whether certain AVC decisions could be delegated to the Committee instead of requiring Board approval.

ACTION: AD

11.5 The next steps would be taken to the Board for approval on 18 December 2024, including a review of the fund range, charging structure, and potential changes to the default investment option. It was noted that LPFA would need to engage Prudential on these matters and determine how to improve value for members, particularly regarding charges and fund selection. The Committee agreed that the default fund correction should proceed immediately rather than being delayed for formal Board sign-off.

11.6 The Committee **RESOVLED** to:

- a) **NOTE** the findings of the AVC review, including high charges, fund complexity, and lower-than-expected use of lifestyle investment options.
- b) **ENDORSE** the recommendation to challenge Prudential on charges and review the investment range, with formal proposals to be taken to the Board on 18 December 2024.
- c) **AGREE** that the ongoing governance review should assess whether certain AVC-related decisions could be delegated to the Committee to improve efficiency and avoid unnecessary delays.

12. ARC818 – AOB & Forward Planner

- 12.1 The Committee **REVIEWED** and **NOTED** the forward plan of business, and the updates provided.
- 12.2 The Board **NOTED** that its next meeting was scheduled to take place on 27 February 2025
- 12.3 There being no further business, the Chair declared the meeting closed.

Conrad Hall, Chair

Date 27 February 2025
