



1.4 The Committee **RESOLVED** to:

- a) **NOTE** the apologies received;
- b) **APPROVE** the minutes of the previous meeting; and
- c) **CONFIRM** that the action log was reviewed.

## 2. ARC832 – Internal Audit

### Internal Audit Planning for 2025-26

- 2.1 PwC presented the internal audit update covering the final audits from the 2024–25 plan and progress on the 2025–26 plan. It was noted that the pensions administration benefit calculations review had been delayed but would be finalised for the next Committee. The outcome was expected to remain at “needs improvement/unsatisfactory” but with evidence of positive actions being taken since the time of the review.
- 2.2 The Committee considered the reviews of IT disaster recovery and cybersecurity. PwC confirmed that while LPFA outsources IT services to LPPI and LPPA, LPFA retained ownership of the associated risks. The audit found that LPFA did not have a standalone disaster recovery plan and that arrangements for oversight, assurance, and recovery objectives were insufficient. PwC concluded that improvements were required to strengthen documentation, roles, responsibilities, and contractual clarity.
- 2.3 The Director of Compliance and Risk confirmed that a cyber incident response policy existed but required updating. A review of business continuity and disaster recovery gaps had been completed, and work was underway with LPPI and Daisy WaveNet to formalise recovery objectives and assurance arrangements. A three-quarter plan was being developed, with the first stage focused on establishing a framework and target timetable, followed by embedding and testing.
- 2.4 Members requested a clear timetable of actions with defined responsibilities to enable monitoring of progress. It was agreed that a substantive update would be provided at the September ARC meeting, with completion of the remedial plan expected by December 2025.
- 2.5 The Committee discussed PwC’s overall opinion of limited assurance. PwC explained that the outcome reflected the number and severity of findings across the reviews, including three high-priority recommendations and delays in addressing actions. While some progress had been made, the position left PwC with no alternative but to issue a limited opinion.
- 2.6 The Committee acknowledged the significance of this opinion and noted that LPFA must not be an outlier in the sector given the increasing importance of cyber resilience and disaster recovery. Members emphasised that the organisation must demonstrate to regulators, members, and stakeholders that it has effective policies, procedures, and assurance mechanisms in place, particularly in light of recent sector incidents.
- 2.7 The Committee **NOTED** the internal audit update, the limited assurance opinion, and the timetable for improvement, and **AGREED** that a substantive progress report would be presented at the September ARC meeting.

## 3. ARC832 – External Audit

- 3.1 EY presented the external audit plan for 2024–25 and the plan was taken as read.

- 3.2 The auditors confirmed that there were no significant changes to the risks identified in the prior year, except for the valuation of the asbestosis provision which had been reduced from a significant risk to an inherent risk following work completed in the previous audit. The non-standard risks for LPFA continued to relate to the IAS 26 disclosure, IAS 19 liabilities, and operational accounts.
- 3.3 The Committee discussed the impact of wider geopolitical and economic uncertainty on investment values. It was agreed that this would be primarily addressed through the Investment Committee, although EY confirmed they would continue to consider estimation uncertainty as part of their financial statements audit. The Section 151 Officer confirmed that sensitivity reporting on level three investments was received annually and informed the accounts.
- 3.4 The auditors confirmed that the timetable remained for completion of the audit and opinion by 30 September 2025. Members noted this would be a significant achievement, well ahead of the statutory backstop deadline of 27 February 2026. The Section 151 Officer and Head of Finance and Accountancy reported that the operational accounts process had been embedded as business as usual, reducing the risk of errors.
- 3.5 EY highlighted other points within the plan, including changes to materiality thresholds, updates to the approach on value for money (VFM) following the internal audit opinion, and the introduction of ISA 600 requirements for group audits which would increase risk assessment and procedures in relation to LPP.
- 3.6 There were no changes to auditor independence, and confirmation of final scale fee variations from PSAA remained outstanding.
- 3.7 The Committee **NOTED** the external audit plan, timetable, and risk assessment.

#### **4. ARC834 – Compliance Monitoring Report**

- 4.1 The Director of Compliance and Risk presented the compliance monitoring report. The Committee noted the biannual cyber security statement, which confirmed that testing activity had taken place, though further work remained to strengthen oversight and assurance.
- 4.2 The Committee received an update on the LPPA annual performance report. While overall improvements in communication and engagement with LPPA were noted, anomalies remained in casework reporting due to system functionality which created additional work items that could not be closed. The Committee discussed the importance of considering the member experience in addition to technical performance metrics, particularly for cases involving retirements and bereavements. It was noted that LPPA were reviewing processes and systems to address these issues.
- 4.3 The Committee considered incident and breach reporting. The report included details of data breaches from the last two quarters, which continued to be managed on a case-by-case basis. The Director of Compliance and Risk confirmed that a direct reporting portal was being developed to reduce data transmission risks.
- 4.4 The Committee confirmed that there had been no whistleblowing reports relating to LPFA. This assurance covered notifications made directly to the Monitoring Officer, but did not extend to LPPI or LPPA unless escalated to LPFA.

- 4.5 Members requested clarification on the process for determining what information on data breaches and incidents should be reported to the external auditors. It was agreed that EY would liaise directly with the Director of Compliance and Risk to confirm the level of information required.
- 4.6 The Committee **NOTED** the compliance monitoring report, including updates on cyber security, LPPA performance, incident and breach reporting, and whistleblowing.

## **5. ARC835 – LPP Group AFF 01/20 Type II Service Auditors Report**

- 5.1 The Committee received presentations from LPPA and LPPI on the outcomes of their AAF 01/20 Type II Service Auditor Reports undertaken by KPMG.
- 5.2 LPPA reported that the audit covered over 30 internal control objectives across pension administration and supporting IT services. Of these, 28 were given an unqualified opinion and two were qualified for the period April to August 2024. These related to the retention of documented evidence of third-party IT service provider meetings. The issue was resolved from September 2024 onwards through formal minute-keeping. The Committee noted this as a positive first report and welcomed the expectation that future audits would achieve unqualified assurance across all controls.
- 5.3 LPPI reported that the audit covered 97 controls and 52 control objectives. KPMG found no exceptions in 94% of the controls, with 51 of the 52 objectives achieved. The one qualified objective related to logical access rights within the Broadridge portfolio management system, where some users inadvertently had privileged access between January and November 2024. This was rectified by November 2024, with enhanced user provisioning processes and additional detective controls implemented. No unauthorised transactions were identified, and daily reconciliations had provided further assurance.
- 5.4 LPPI also reported minor exceptions, including a small number of configuration checks not documented, one urgent change not pre-authorized, and a delayed revocation of one user's access. All issues had been addressed through strengthened procedures and process improvements.
- 5.5 The Committee **NOTED** the outcomes of the AAF 01/20 Type II Service Auditor Reports, welcomed the high level of assurance achieved by both LPPA and LPPI, and recognised the remedial actions taken to address the qualified and minor findings.

## **6. ARC836 – DRAFT Annual Report and Accounts (Front Half only)**

- 6.1 The Committee received the draft Annual Report and Accounts and draft Annual Governance Statement. It was noted that the documents remained in development and that further updates would be provided ahead of submission to the Board on 8 July 2025, with final approval scheduled for September.
- 6.2 The Head of Communications and Engagement introduced the draft, highlighting that the report was compliant with the latest guidance and had been positively referenced by the LGA as an example of best practice in the previous year. The draft had been shared with the Local Pension Board, which provided minimal feedback. The next stages would be review by the Investment Committee on 25 June and by the LPFA Board in July.

- 6.3 The Committee discussed the importance of ensuring the draft reflected recent developments, including the internal audit limited assurance opinion. Members agreed that the Annual Governance Statement should reference this explicitly and set out the actions being taken in response. The Committee also agreed that this should be highlighted within the executive summary to demonstrate transparency and the positive steps being taken to address findings.
- 6.4 The Committee noted comments on the need to ensure appropriate coverage of investment performance, climate-related goals and alignment with shareholder positions, and LPFA's role in contributing to government policy debates, particularly on pooling reform. Officers confirmed that updates would be made in the next draft.
- 6.5 Members were invited to share any high-level views on messaging with the Head of Communications and Engagement in advance of the next meeting to help shape the executive summary.
- 6.6 The Committee **NOTED** the draft Annual Report and Accounts and Annual Governance Statement and **AGREED** that a revised version incorporating the internal audit opinion and other updates would be presented at the next meeting for recommended approval to the LPFA Board.

## **7. ARC837 – Finance Report**

- 7.1 The Head of Finance and Accountancy introduced the Finance Report, which was taken as read.
- 7.2 The Committee noted an underspend against budget, which had moved significantly from the December forecast. It was explained that the variance was mainly due to the decision not to proceed with consultancy costs following the departure of the Chief Executive Officer in September, representing approximately £535,000.
- 7.3 Other factors contributing to the underspend included the removal of pension contributions of around £300,000, which were not carried forward into the 2025–26 budget, and a net credit arising from changes to IAS 19 treatment under the new arrangement with LPPI. Staffing costs had also been budgeted at a higher level to allow for a revised structure which had not materialised. Some of this provision had been retained to ensure capacity for future requirements.
- 7.4 The Committee discussed the importance of aligning budget forecasts more closely with actual expenditure and noted that the underspend had been factored into the 2025–26 budget. Members also acknowledged that capacity considerations might need to be addressed considering issues raised earlier in the meeting.
- 7.5 The Committee **NOTED** the updates provided.

## **ARC838 – Treasury Management Report 2024-25**

- 7.6 The Head of Finance and Accountancy presented the Treasury Management Report for 2024–25, which was taken as read.
- 7.7 The Committee noted that LPFA's finances continued to be managed in accordance with the Treasury Management Policy approved by the Board. The report confirmed that the agreed

core account balance of approximately £30 million had been maintained throughout the year. Investment returns had been managed against the overnight SONIA rate, with performance marginally below benchmark but within acceptable tolerance. The Committee was satisfied that the primary objective of ensuring sufficient liquidity to meet member payments had been achieved.

- 7.8 The Head of Finance and Accountancy clarified that a reported £60 million influx was not new income but a transfer from LPPI to meet cessation payments. Members agreed that future reports should make this clear to avoid any misunderstanding about the source of funds.
- 7.9 The Committee discussed governance and reporting arrangements, noting that Treasury Management reports had not routinely been considered by the Senior Leadership Team (SLT). It was agreed that future reports would also be reviewed at SLT as a standing finance item, with ARC continuing to receive them for oversight and noting.
- 7.10 The Committee **NOTED** the Treasury Management Report, including clarification on the £60 million transfer, the maintenance of core balances, and the intention to strengthen internal reporting through SLT.

## **8. ARC839 – LPFA Risk Management Report**

- 8.1 The Director of Compliance and Risk presented the Risk Management Report, which included the updated risk appetite statement, risk management principles, and a simplified framework to support the development of a stronger risk culture within LPFA. The Committee welcomed the clearer and more accessible format, noting in particular the differentiated approach to risk appetite across different areas.
- 8.2 The Committee discussed cyber and business continuity risks. It was noted that while the inherent risk rating was assessed as severe, the mitigated rating had been reduced to moderate. Members considered that, in light of the internal audit opinion, this reduction may not yet be justified until further assurance was obtained. The Director of Compliance and Risk confirmed that future iterations would differentiate LPFA's own cyber risks from those associated with outsourced providers, enabling more accurate risk ratings.
- 8.3 The Committee also discussed the treatment of external risks, including the potential implications of political change in Lancashire, the government's pooling agenda, and the possibility of new partner funds joining the pool. Members agreed that such risks should be reflected in the register, even at a general level, to ensure they were monitored.
- 8.4 Members further suggested that the register should include a column noting the date each risk was last reviewed, and that all risks should be subject to an annual review regardless of current rating. It was also proposed that year-on-year tracking of risk ratings could provide greater visibility of how risks evolve over time. The Director of Compliance and Risk agreed to consider these enhancements and to review examples shared by members.
- 8.5 The Committee **NOTED** the LPFA Risk Management Report, the updates to the risk appetite statement and management framework and recommended them to Board for **APPROVAL**.

## **9. ARC840 – Employer Management Services Update Report**

- 9.1 The 9.1 The Funding and Investment Director presented the Employer Management Services

Update Report. The Committee noted that the report now included additional information on employer engagement activities, complementing the financial and admission/cessation aspects covered previously.

- 9.2 The Committee received an update on recent initiatives, including a lunch and learn session delivered jointly with London Councils, which had been well received and may be extended to selected larger employers as part of their employee benefit programmes. An employer newsletter had also been launched to provide Fund-specific updates alongside LPPA communications, with feedback to be sought at the autumn employer forum. The Committee welcomed the broader focus on employer engagement.
- 9.3 The Committee noted that security arrangements for the Fund had been released in some cases, primarily linked to the Further Education (FE) College's guarantee and a small number of employer cessations.
- 9.4 The Committee **NOTED** the Employer Management Services Update Report.

#### **10. ARC841 – Forward Planner**

- 10.1 The Committee noted the Forward Planner. The next meeting would take place on 23 September 2025 and would focus primarily on the Annual Report and Accounts.

#### **11. ARC842 – Any Other Business**

- 11.1 The Funding and Investment Director provided an update on the AVC Review. The Committee noted that the reduction in fees for members' AVC funds, agreed at the February meeting, had now been implemented automatically. A fund review of AVC investment options had also been undertaken and would be considered by the Investment Committee on 25 June, with proposals to refresh and broaden fund choices. A communications programme was being prepared to advise members of the fee reductions and subsequent changes.
- 11.2 The Committee reviewed the conduct of the meeting. Members agreed that time allocations could be adjusted, with less time required for routine finance reports and potentially more time allowed for audit items, particularly on cyber security. Members also agreed that a scheduled short break would be beneficial for longer meetings.
- 11.3 The Committee expressed appreciation for the quality and clarity of the meeting papers.
- 11.4 The Committee **NOTED** the AVC update provided.
- 11.5 There being no further business, the meeting was concluded.