

# AUDIT & RISK COMMITTEE

## MINUTES

**Date:** Tuesday 23 September 2025

**Time:** 09:00 – 11:00

**Location:** MS Teams

**Present:**

Conrad Hall	Chair
Sophia Morrell	Committee Member
Richard Olszewski	Committee Member
Mandy Kaur-Sadler	Committee Member

**In Attendance:**

Audrey Allen-Chitwa	LPFA Head of Finance and Accountancy
Mark Anderson	LPFA Director of Compliance and Risk
Aaron Bendasiuk	PwC Senior Manager
Jo Donnelly	LPFA Chief Executive Officer
Ashley Durkan	LPFA Governance Manager
Stephanie Edenborough	PwC Partner
Mark Hodgson	Ernst & Young Partner
Iryna Kunitska	LPFA Pension Accountant
Daniel Lynch	LPFA Finance Manager
Rachel Merez	Ernst & Young Manager
Alistair Peck	LPFA Head of Communications & Engagement (item 2)
Christina Thompson	LPFA S151 Officer / Finance Director
Lana Watson	LPFA Funding and Investment Director (Item 5)

**The Committee held a closed session of the meeting with the internal and external auditors  
09:00am – 09:15am**

### 1. ARC843 – Introductory Matters

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

- 1.1 The Chair welcomed members and attendees to the meeting and confirmed that it was quorate. No apologies for absence were received.
- 1.2 No new declarations of interest were made.

#### Minutes of the Meeting held on 10 June 2025

- 1.3 The minutes of the previous meeting were taken as read and approved as an accurate record of proceedings.

#### Action Points

- 1.4 The Governance Manager presented the updated action log. The Chair noted that the action relating to cyber risk (ARC839) was included on the current agenda and did not require separate discussion. The action concerning the 2024–25 Accounts (ARC836) had been completed.
- 1.5 The Chair observed that several other actions were ongoing, with some previously agreed target dates having been extended. The CEO confirmed that these would be addressed under the relevant Internal Audit and Risk items later in the meeting.
- 1.6 The Committee **RESOLVED** to:
  - a) **NOTE** that no apologies or declarations of interest were received;
  - b) **APPROVE** the minutes of the meeting held on 10 June 2025; and
  - c) **CONFIRM** that the action log had been reviewed.

## **2. ARC844 – External Audit Report and Pension Fund Statement of Accounts 2024-25**

### **External Audit Report**

- 2.1 The Chair introduced the item, noting that the Committee would consider the external audit report, the draft Statement of Accounts, the Annual Governance Statement, and the Annual Report prior to recommendation to the Board. The Chair agreed to vary the agenda order to accommodate time constraints for some attendees.
- 2.2 The External Auditor, Mark Hodgson, reported that the audit had progressed positively in its second year, reflecting learning from the prior year's audit. There were minimal audit differences identified, with a small number of updates to the audit status. He highlighted that key areas of focus included value for money considerations and the impact of the qualified Head of Internal Audit opinion issued by PwC.
- 2.3 The External Audit Manager provided a detailed update on progress since the provisional audit report. She confirmed that most audit testing had been completed, with no material issues identified in areas such as trade receivables, pension liabilities, unrecorded liabilities, or related party transactions. A small number of items remained outstanding, including the going concern assessment for the operational accounts, journal entry testing, and the annual report review, which would be completed by November once the final report design was available.
- 2.4 The External Audit Manager confirmed that the final audit opinion was expected to be signed on 30 September 2025, subject to receipt of the final values from LPPI. She outlined audit differences identified and subsequent management actions, noting that a potential £40,000 receivables overstatement had been corrected below the reporting threshold. A separate uncorrected misstatement of £54,000 relating to mis-posted contributions was noted as immaterial.
- 2.5 The auditors also highlighted two corrected differences of greater magnitude: a £6.127 million adjustment to transfers in from other pension funds and a similar £6–7 million adjustment to investment management expenses. These amendments corrected overstatements in investment performance and associated costs in the draft accounts. The Committee discussed whether these differences would have affected conclusions drawn from the draft figures. The Finance team explained that these variances arose from timing differences in receiving CTI (Cost Transparency Initiative) data and final investment valuations, which are routinely updated post year-end.
- 2.6 The Head of Finance and Accountancy confirmed that while estimates inevitably differ from final values, improvements would be made to strengthen estimation accuracy and synchronise data flows with LPPI. The CEO and Section 151 Officer noted that lessons would be taken forward, particularly around performance fees and late data receipt. The auditors confirmed that, although the variance reached the Committee's £4 million reporting threshold, it did not represent an unreasonable estimate.
- 2.7 The Committee discussed the delay in receiving Level 3 investment valuations from LPPI, which could affect the planned sign-off date. The Head of Finance confirmed that late statements had already been received and incorporated, increasing fund value by £29.7 million.
- 2.8 The Committee noted the tight timetable and requested management to engage with LPPI to expedite confirmation of final figures to enable completion by 30 September. The auditors cautioned that further delay could jeopardise that deadline but agreed that timely confirmation would make sign-off feasible.

### **Annual Governance Statement (AGS) and Letter of Representation**

- 2.9 The Committee reviewed the AGS, included within the Annual Report pack. It was noted that the AGS incorporated management's commentary on governance effectiveness and reflected PwC's internal audit opinion. EY confirmed that the AGS was consistent with their understanding of the Authority and that no discrepancies or additional assurances were required.
- 2.10 The Committee also considered the Letter of Representation, noting that the representations sought by EY were standard for the purpose of the audit. No additional or exceptional representations had been requested, and the content was in line with normal audit practice.

### **Value for Money Statement**

- 2.11 The auditors confirmed that the audit opinion would include an “other matter” reference reflecting weaknesses identified by internal audit in 2024–25, specifically relating to oversight and control arrangements. While the final Auditor’s Annual Report would be issued in November, the Chair sought assurance from management on progress made to address the underlying issues.
- 2.12 The CEO and Section 151 Officer advised that improvement work was underway, including the IT tenancy separation project with LPPI to strengthen cyber and systems control, as well as structural and oversight changes to enhance monitoring of LPPI and LPPA performance. The Committee was assured that these measures were improving the control environment and timeliness of responses.
- 2.13 The Chair concluded that the Committee had held a full discussion on the audit findings, estimates, management responses, and associated governance disclosures. There were no further matters raised by Committee members or the external auditors.
- 2.14 The Committee **RESOLVED** to:
- a) APPROVE** the External Audit Findings Report for 2024–25;
  - b) RECOMMEND** the Statement of Accounts, Annual Report, and Annual Governance Statement to the Board for approval;
  - c) RECOMMEND** the Letter of Representation to the Board for approval; and
  - d) NOTE** the remaining outstanding audit items and the timetable for finalisation.

### **3. ARC845 – Internal Audit Update**

#### **Progress against the 2024–25 Internal Audit Plan**

- 3.1 The PwC Senior Manager reported good progress against the plan. The Financial Controls Review had been completed and was in draft reporting with management. No unsatisfactory or high-risk rating was anticipated, and final observations were being agreed with the Finance team.
- 3.2 The remaining reviews on Investment Manager Oversight and GDPR were in scoping and fieldwork respectively. The Investment Manager Oversight scope had been shared with LPFA for comment. Both reviews were planned for completion by the end of the calendar year.

#### **Audit actions and follow-up**

- 3.3 PwC provided an update on action tracking. Actions on Investment Strategy had been completed in August. Extensions had been requested for the Benefits Calculations and Payments actions related to bank authorisation and account validation checks at LPPA, with completion expected in October.
- 3.4 The Director of Compliance and Risk confirmed that work on the Compliance Framework review would be finalised next week before proceeding to embedding, and that third-party and administrator oversight activity was underway, including strengthening reporting over benefits calculations and broader vendor risk management.
- 3.5 In response to questions on long-standing extensions, management explained that delays had largely arisen from dependencies on LPPA’s software provider (Civica). The Committee noted that in some cases these constituted fourth-party dependencies which had affected delivery timelines across multiple contracts and agreed that future audit planning should reflect the practical constraints posed by limited market providers.

#### **Pensions Administration and Benefit Calculations Review**

- 3.6 PwC presented the final report, noting that testing commenced in April 2024 when the control environment required improvement, with delays observed across key casework and weaknesses in the complaints process. PwC reported material improvement over the subsequent twelve months, supported by the independent third-party assurance (AAF) report issued in June which indicated progress relative to the earlier position.

- 3.7 The Committee considered the seriousness of benefit calculation weaknesses given their direct impact on members. PwC agreed to make clearer in the executive summary and progress table that improvements had been evidenced since testing, and to include a bolder reference to the independent assurance obtained post-fieldwork.
- 3.8 The CEO acknowledged that the report was disappointing at the time of testing but confirmed that LPPA performance had improved during 2024–25 following leadership and staffing changes. The Committee discussed the need for more transparent reporting to the LPFA Board on customer service quality, recognising that delays and errors have significant member impacts.
- 3.9 The Governance Manager undertook to prepare a short written summary of ARC activity for the Chair's Board update as a late paper.
- 3.10 The Committee **RESOLVED** to:
- a) **NOTE** PwC's progress update, including the draft status of the Financial Controls Review and the planned completion of the Investment Manager Oversight and GDPR reviews by year end;
  - b) **NOTE** the position on audit actions, including extensions linked to LPPA and its software provider, and the planned completion of banking verification controls in October; and
  - c) **ENDORSE** PwC's commitment to amend the Administration and Benefits report to reflect post-testing improvements and the June AAF assurance.

#### **4. ARC846 – Risk and Compliance Update**

##### **Risk and Compliance Report**

- 4.1 The Director of Compliance and Risk presented the report, which included updates across cyber, compliance, business continuity, and tenancy separation workstreams. The Committee was informed that progress continued on the tenancy separation project, with policy and control systems being developed in readiness for LPFA's independent IT environment. Discussions were ongoing with LPPI regarding IT service management resourcing due to capacity constraints on their side.
- 4.2 It was noted that the traditional IT disaster recovery arrangements would fall away as part of the new tenancy structure. Future resilience would instead be managed through contractual obligations, which was currently under review with LPPI's CTO.
- 4.3 On compliance activities, the Committee heard that the PwC-supported compliance review was progressing well, with role and responsibility mapping underway. Procurement for Business Continuity Management Services had reached the call-off and order stage, and final confirmation was expected in the coming weeks.
- 4.4 The revised Risk Appetite and Risk Management Principles Policy had been circulated with tracked and clean versions showing amendments agreed following the last Board meeting. The Committee was asked to review and recommend the policy for approval to the LPFA Board.

##### **Cyber and Information Security**

- 4.5 The Director of Compliance and Risk confirmed that cyber-related work continued to mature, supported by ongoing tenancy separation and the introduction of monthly security working group meetings. These enhanced LPFA's visibility of IT operations and incident management through closer collaboration with LPPI.
- 4.6 In response to questions, the Committee was advised that although LPFA remained co-dependent on LPPI for certain IT and security functions, the organisation was building its own capability and oversight structures to strengthen resilience.

##### **Contractual and Governance Arrangements**

- 4.7 The Committee discussed the status of IT contractual schedules between LPFA and LPPI. The Director of Compliance and Risk confirmed that a change control notice was being prepared to formalise new IT service oversight arrangements. The Governance Manager clarified that a contract was already in place, and the change control would serve to update the schedules to reflect enhanced roles and responsibilities.

## **Risk Register Review**

- 4.8 The Committee reviewed the detailed risk register, noting updates across core risks. It was reported that the pensions dashboard risk remained live, though The Pensions Regulator had confirmed that current issues with Civica would not result in a breach scenario.
- 4.9 The three new cyber-related risks were reviewed, reflecting the separation of the former combined cyber risk into distinct entries covering system resilience, data security, and tenancy separation.
- 4.10 The Committee discussed whether additional risks should be added. The Chair queried whether LPPA's historic complaints system weaknesses warranted a specific risk. Management confirmed that this area continued to be monitored closely through direct engagement with LPPA's complaints team and Local Pension Board oversight but agreed to formalise the risk for completeness.
- 4.11 The Committee also discussed the potential implications of future LGPS fund agreements to LPPI and associated changes in governance structure. The Director of Compliance and Risk confirmed that this was captured under the existing "shareholder relationships" risk but would be strengthened to reflect the evolving environment.

## Data Breach and Lessons Learned

- 4.12 The Committee noted an LPPA data breach that had been previously reported by email. The Director of Compliance and Risk commended LPPA for its prompt notification, clear communication, and proactive management of the incident.
- 4.13 The Committee discussed data transmission and information security improvements, noting that LPFA and LPPA were now trialling a secure ShareFile system and working towards enhanced access controls within UPM. LPPA had committed to ceasing the use of unsecured email for data sharing and had implemented safeguards to prevent recurrence of the earlier early-payment processing error.
- 4.14 The Committee confirmed that it had reviewed the revised cyber risk entries, discussed potential new risks, and was satisfied with progress on compliance and business continuity developments.
- 4.15 The Committee **RESOLVED** to:
- a) **NOTE** the updates provided on compliance, cyber, tenancy separation, and business continuity;
  - b) **NOTE** the review of three new cyber-related risks and agree the inclusion of additional risks relating to LPPA complaints oversight and governance changes arising from potential pool accessions; and
  - c) **RECOMMEND** the revised Risk Appetite and Risk Management Principles Policy to the Board for approval.

## **5. ARC847 – Employer Management Services**

### **Employer Risk Management Policy**

- 5.1 The Funding and Investment Director presented the updated Employer Risk Management Policy, noting that the key change related to the removal of the mechanism allowing employers to improve their covenant grade by providing security. The change reflected the reality that employer appetite for offering security had reduced significantly. The total level of security held had fallen from approximately £500 million at the last valuation to around £2 million once remaining FE college guarantees were released.
- 5.2 It was explained that many employers, particularly universities and other education institutions, had shown little interest in providing security to improve their covenant grade, preferring to manage liabilities through contribution rates. The revised approach was therefore considered more proportionate and reflective of current employer behaviour.
- 5.3 The Chair summarised that the changes represented a pragmatic response to market behaviour and reduced deficits. The mechanism would still allow for exceptions where an employer specifically wished to offer security, as the policy retained discretion for case-by-case consideration.

- 5.4 A query was raised regarding the covenant grading table in section 4.5 of the policy, which classified LEA schools as automatic Grade A covenants. The Committee questioned whether this remained appropriate given that some schools, particularly in London, faced falling rolls and potential closure risks.
- 5.5 The Funding and Investment Director advised that the grading reflected the statutory guarantee provided by the Department for Education (DfE) for maintained schools, which meant that any liabilities would ultimately be met. The Section 151 Officer confirmed that this had been tested in her previous role with the DfE, noting that while the department would not give blanket written guarantees for academies, in practice it would intervene to manage any school in financial distress.
- 5.6 The CEO added that the Government would be highly unlikely to default on a guarantee, given the fiscal implications. The Committee agreed that this rationale was sound but asked that management confirm the basis for all “Grade A” designations and report back should any further clarification be required.

#### **Admission and Cessation Policy**

- 5.7 The Funding and Investment Director introduced the revised Admission and Cessation Policy, which had been circulated the previous day to align with the valuation timetable. The principal change was the introduction of a “corridor approach” to cessation valuations to provide employers with greater certainty before an exit event.
- 5.8 The corridor mechanism was intended to help employers make informed financial and staffing decisions by understanding the likely surplus or deficit position before cessation. The approach had been tested successfully with Dulwich College, whose experience had demonstrated its value in enabling earlier planning and member consultations.
- 5.9 The Committee noted that the Valuation Working Group had endorsed the revised approach at its recent meeting. Members supported the change, noting that it aligned with practice adopted by several other LGPS funds.
- 5.10 A member commented that the tone of the Admission Policy could be softened to avoid any perception of discouraging prospective employers from joining the Fund. It was also suggested that paragraph 21 of the policy, dealing with data submission at admission, should be clarified to improve readability.
- 5.11 The Funding and Investment Director agreed to review the tone and rephrase the section on data requirements for clarity.
- 5.12 The Committee **RESOLVED** to:
- a) **RECOMMEND** the revised Employer Risk Management Policy to the Board for approval; and
  - b) **RECOMMEND** the revised Admission and Cessation Policy to the Board for approval.

#### **6. ARC848 – AOB and Forward Planner**

- 6.1 The Chair confirmed that the next meeting of the Audit and Risk Committee was scheduled for 11 November 2025 and asked members to note the date in their diaries.
- 6.2 The Committee discussed whether the November meeting should be held in person or online. It was noted that the current meeting had been planned as an in-person session but had taken place virtually. Members agreed that, given the proximity to Armistice Day and potential scheduling conflicts, the November meeting would be held online via Microsoft Teams.
- 6.3 There were no further items of business. The Chair thanked members and attendees for their contributions and confirmed that a short debrief would be held immediately after the meeting for Committee members only.

- 6.4 The Committee **RESOLVED** to:
- a) **NOTE** the date of the next meeting on 11 November 2025; and
  - b) **AGREE** that the meeting would be held online via Microsoft Teams.

**Conrad Hall**, Chair

**Date: 11/11/2025**

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