

London Pension Fund Authority

Audit and Risk Committee Terms of Reference

Owner: Audit and Risk Committee

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Purpose

The function of the Audit and Risk Committee (ARC or Committee) is to:

- a) Monitor and review the London Pensions Fund Authority's (LPFA) financial obligations, including compliance with the related policies and standards, and the pension fund annual report and accounts;
- b) Oversee and advise the LPFA Board on the future risk strategy and current risk exposures of the LPFA;
- c) Oversee the effectiveness and stringency of the LPFA's risk management system;
- d) Ensure that the LPFA has robust internal controls;
- e) Oversee and monitor the LPFA's governance and compliance arrangements;
- f) Appoint the internal and external auditors and monitor and evaluate their ongoing effectiveness; and
- g) Receive reports on the above matters and make recommendations to the LPFA Board, as necessary.

As The LPFA continues to oversee its corporate service functions in-house, ensuring effective governance, risk management, and financial oversight. While IT services remain outsourced, the LPFA retains responsibility for ensuring compliance with regulatory requirements and maintaining operational efficiency.

The LPFA continues to receive Investment Management and Pensions Administration services from the Local Pensions Partnership Investments Ltd (LPPI) and Local Pensions Partnership Administration Ltd (LPPA) under established agreements. LPPI provides investment oversight through the Asset Management Agreement (AMA), while LPPA delivers pension administration services via the SLA.

The Committee remains responsible for monitoring the risks and internal controls associated with services provided by LPP Group, with a particular focus on their impact on LPFA's risk exposures and compliance with regulatory requirements.

Membership, quorum and attendance at meetings

The Committee shall comprise at least three members of the LPFA Board, as determined and nominated by the LPFA Board.

All Members of the Committee shall be independent non-executive Board Members with appropriate knowledge, skills and expertise to fully understand risk and compliance matters. At least one member shall have recent and relevant financial experience with competence in account and/or auditing. Neither the Board Chair nor any Deputy Board Chair shall be members of the Committee.

Only members of the Committee have the right to attend the meetings. However, the Principal Officers of LPFA, shall be expected to attend meetings of the Committee regularly. Other non-members may be invited to attend all or part of any meeting as and when appropriate and necessary, with the approval of the Committee Chair.

No business shall be transacted at a meeting of the Committee unless a quorum of at least two members is present.

Frequency of meetings

The Committee shall meet at least four times a year and may be convened at such other times as deemed necessary by the Committee Chair, the Chief Executive Officer or the Section 151 Officer.

Outside of the formal meeting programme, the Committee Chair will maintain a dialogue with key individuals involved in LPFA's governance, compliance and risk management. These individuals include, but are not limited to, the LPFA Board Chair, the Chief Executive Officer, the Monitoring Officer, the Section 151 Officer, the Funding and Risk Director, the external audit lead partner and the internal audit lead partner.

Notice and minutes of the meetings

The Monitoring Officer shall appoint a nominee to act as the secretary of the Committee and will ensure that the Committee receives information and papers in a timely manner to enable full and proper consideration of issues.

The secretary shall minute the proceedings and decisions of all Committee meetings, including recording the names of those present and in attendance.

Draft minutes of Committee meetings shall be circulated in agreement with the Chair. Circulated minutes will be shared with members of the LPFA Board, and a redacted version published on the corporate website as per LPFA's Freedom of Information (FOI) Publication Scheme.

Delegated Powers

The Committee is authorised to:

- a) Carry out the specific duties set out in these terms of reference. Beyond these specific delegated powers, the Committee acts as an advisory body with no executive powers but is authorised to investigate any activity within its terms of reference.
- b) Obtain, at the LPFA's expense, independent legal, accounting, or other professional advice on any matter it believes is necessary to do so.
- c) Publish in the LPFA's annual report details of any issues that cannot be resolved between the Committee and the Board.
- d) The Section 151 Officer has a specific statutory responsibility for the administration of the LPFA's financial affairs and has a duty to report and act upon unlawful expenditure. Such action by the Section 151 Officer should be taken in consultation with the Chief Executive Officer and Monitoring Officer and be notified to the Committee Chair.
- e) The Audit and Risk Committee has the delegated authority to establish and implement day-to-day operational policies for the Fund; however, all public policy statements shall be submitted to the Board for final approval.

Duties

The Committee's duties relate to oversight and scrutiny of: financial reporting (6.1); narrative reporting (6.2); risk management systems (6.3); internal controls, governance, and compliance (6.4); internal audit (6.5); and external audit (6.6).

Statutory financial reporting

Review any statements requiring LPFA Board approval that contain financial information, ideally in advance of the next appropriate LPFA Board meeting.

Monitor the integrity of the financial statements of LPFA and any other formal announcements relating to the LPFA's financial performance, reviewing and reporting to the LPFA Board on significant financial

reporting issues and judgements they contain, having regard to matters communicated to it by the auditor.

Review and challenge where necessary:

- a) The consistency of, and any changes to, significant accounting policies both on a year-on-year basis and across LPFA;
- b) The methods used to account for significant or unusual transactions where different approaches are possible;
- c) Whether LPFA has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
- d) The clarity and completeness of disclosure in the LPFA's financial reports and the context in which statements are made; and
- e) All material information presented with the financial statements, such as the corporate governance statements relating to the audit and to risk management.

Narrative reporting

Review the content of the pension fund annual report and accounts and advise the LPFA Board on whether, taken as a whole, it is fair, balanced, and understandable and provides the information necessary to assess LPFA's performance, business and strategy.

Review and approve the statements to be included in the annual report concerning internal controls, governance and risk management.

Provide at least annually an assessment of significant risks facing the LPFA and the effectiveness of risk management and internal control policies to the LPFA Board (matters reserved (3.3)). This assessment is to be included within the Committee annual report (see item 8.3).

Where the Committee is not satisfied with any aspect of the proposed financial reporting, it shall report its views to the LPFA Board.

Risk management systems

Risk Framework

Review and confirm the effectiveness and robustness of the risk management principles and the LPFA's overall risk assessment processes that inform the LPFA Board's decision making, ensuring both qualitative and quantitative metrics.

Advise the LPFA Board on LPFA's overall risk appetite statement, tolerance, and strategy, taking into account all relevant factors.

Review the LPFA's capability to identify and manage new risks and emerging risks.

Receive and, where appropriate, endorse proposals to amend the LPFA's risk management principles, policies, or any other risk-related documents; and make onward recommendations for approval to the LPFA Board.

Risk Oversight

Oversee and advise the LPFA Board on the future risk strategy and the current risk exposures, including those arising from services provided by LPPI and LPPA

Advise the LPFA Board on risks related to strategic transactions, alliances, co-investment processes, or joint working arrangements. Where necessary, obtain external advice on any significant partnership risks.

Review reports on any material breaches of risk limits and the adequacy of the proposed actions.

Review any specific risks relating to employer covenant and liability risks.

Internal controls, governance and compliance

Provide assurance to the LPFA Board on the effectiveness of internal control policies, ensuring robust internal controls are in place across the LPFA, as reported on, in executive reports and auditor findings.

Provide assurance to the LPFA Board that appropriate policies and processes are in place, adhered to, and aligned with LPFA's legal and regulatory framework.

Review governance and compliance reports concerning the LPFA's formal codes of practice, policies, and procedures, including Treasury Management and other ethical standards. The Committee shall keep these policies under review to ensure their adequacy and effectiveness. At least annually, the Committee shall review assurance statements, and advise the LPFA Board accordingly on:

- a) The adequacy and security of arrangements for employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The Committee shall ensure that these arrangements allow proportionate and independent investigations and appropriate follow-up actions;
- b) The LPFA's fraud detection and whistleblowing procedures;
- c) The LPFA's systems and controls for the prevention of bribery and corruption, including receiving reports on non-compliance;
- d) The adequacy and effectiveness of the LPFA's anti-money laundering systems and controls;
- e) The management of residual liabilities (asbestosis);
- f) Any breaches of LPFA's compliance policies;
- g) Assurance statements regarding the contract register, the gifts and hospitality register, travel and expenses register, related party transactions and the declaration of interest registers. This includes reviewing security arrangements for assets to ensure appropriate custody arrangements are in place; and
- h) The adequacy and operation of LPFA's AVC arrangements. The adequacy, operation, and ongoing governance of LPFA's AVC (Additional Voluntary Contributions) arrangements, including investment offerings, charging structures, and default fund provisions. The Committee is responsible for reviewing and approving necessary changes to AVC arrangements, with only material strategic decisions requiring Board approval.

Receive and, where appropriate, endorse proposals to amend the LPFA's internal control framework, policy statements, or related documents making onward recommendations of approval to the LPFA Board.

Internal audit

Appointments and effectiveness

Approve the appointment or termination of the internal auditors and advise the LPFA Board accordingly.

Ensure internal auditors have direct access to the LPFA Board Chair and the Committee Chair, ensuring their independence from officers and accountability to the Committee.

Review, assess, and agree the scope of the annual internal audit work plan to ensure alignment with key risks. Report this to the LPFA Board for discussion.

Plan

Review, assess and approve the annual internal audit plan, reporting this to the LPFA Board for discussion.

Reports

Consider reports on internal audit findings and monitor the implementation of agreed recommendations.

Review and monitor the responsiveness of both LPFA's management and outsourced providers to internal auditor findings and recommendations.

Meet with the internal auditor at least once a year without the presence of management.

External Audit

Appointments and effectiveness

Keep under review the appointment, re-appointment, termination and performance of LPFA's external auditor. The Committee is to advise to the LPFA Board accordingly on the appropriate course of action.

Ensure external auditors have direct access to the LPFA Board Chair and to the Committee Chair, providing independence from the officers and are accountable to the Committee.

Investigate the issues leading to an auditors' resignation and determine any necessary actions.

Oversee the relationship with the external auditor, including but not limited to:

- a) Approval of their terms of engagement where these are set locally, including any engagement letter issued at the start of each audit and the scope of the audit;
- b) Satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the auditor and LPFA (other than in the ordinary course of business) which could adversely affect the auditor's independence and objectivity;
- c) Monitoring the auditor's compliance with relevant ethical and professional guidance on the rotation of audit partner, the level of fees paid by LPFA compared to the overall fee income of the firm, and other related requirements;
- d) Assessing annually the qualifications, expertise and resources of the auditor and the effectiveness of the audit process, which shall include a report from the external auditor on their own internal quality procedures;
- e) Review use of external auditors to provide non-audit services, identifying improvements and making recommendations;
- f) Seek to ensure coordination, as appropriate, of the external audit with the activities of the internal audit function;
- g) Evaluate the risks to the quality and effectiveness of the financial reporting process in the light of the external auditor's communications with the Committee.

Plan

Meet regularly with the external auditor (including once at the planning stage before the audit and once after the audit at the reporting stage) and at least once a year, without management being present if required, to discuss the auditor's remit and any issues arising from the audit.

Review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement, having regard to the seniority, expertise and experience of the audit team.

Report

Review the findings of the audit with the external auditor. This shall include but not be limited to, the following:

- a) A discussion of any major issues which arose during the audit;
- b) The auditor's explanation of how the risks to audit quality were addressed;
- c) Key accounting and audit judgements;
- d) The auditor's view of their interactions with senior management;
- e) Levels of errors identified during the audit;
- f) The effectiveness of the audit process;
- g) Review any representation letter(s) requested by the external auditor before they are signed by management;
- h) Review the management letter and management's response to the auditor's findings and recommendations and
- i) Review all relevant reports including reports on the accounts, achievement of value for money and the response to external audit recommendations and management letters.

LPP Group Partnership Oversight

The Committee shall:

- a) Receive reports on the adequacy and effectiveness of LPP Group's compliance and anti-money laundering systems and controls.
- b) Receive reports on any significant breaches of any of the material compliance policies of LPP Group and its subsidiaries.
- c) Have the ability to request and review LPP Group policies and procedures; and internal audit reports.

Reporting responsibilities

The Committee Chair shall formally report to the LPFA Board on proceedings after each meeting and how the Committee has discharged its responsibilities.

The Committee shall recommend any necessary actions or improvements within its remit, including those concerning the LPFA, major shareholder undertakings and LPPI/LPPA oversight arrangements.

Other matters

The Committee shall:

- a) Have access to sufficient resources in order to carry out its duties, including access to the Monitoring Officer and their nominee for assistance, as required.
- b) Receive appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members.
- c) Work and liaise as necessary with all other LPFA Board Committees.
- d) Arrange for periodic reviews of its own performance and, at least annually, review its terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the LPFA Board.
- e) Consider any other matters when requested to do so by the LPFA Board.
- f) Seek any information it requires from any employee of LPFA, or of a major shareholding entity or the Partnership in order to perform its duties.

Change history and distribution list

Policy name: LPFA Audit and Risk Committee Terms of Reference						
Version no.	Description of change	Owner	Date approved	Approved by	Date of issue	Next review date
01.	Initial version	Governance Manager	Dec 2018	ARC & Board	Dec 2018	Dec 2020
02.	Second version	Governance Manager	Dec 2020	ARC & Board	Dec 2020	Dec 2022
03.	Third version	Governance Manager	Mar 2023	ARC & Board	Mar 2023	Mar 2025
04.	Fourth version / Minor Amendments	Governance Manager	Mar 2025	ARC & Board	Mar 2025	Mar 2027