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London Pensions Fund Authority  
**Local Code of Corporate  
Governance**

August 2020



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# Contents

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<b>1. Introduction</b>	<b>2</b>
<b>2. About the LPFA</b>	<b>2</b>
<b>3. Defining Corporate Governance</b>	<b>3</b>
<b>4. Key principles of corporate governance</b>	<b>3</b>
A. Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law	3
B. Ensuring openness and comprehensive stakeholder engagement	4
C. Defining outcomes in terms of sustainable economic, social & environmental benefits	5
D. Determining the interventions necessary to optimise the achievement of the intended outcomes	5
E. Developing the authority's capacity, including the capability of its leadership and the individuals within it	6
F. Managing risks and performance through robust internal control and strong public financial management	7
G. Implementing good practices in transparency, reporting and audit to deliver effective and accountability	9
<b>5. Glossary</b>	<b>10</b>

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# London Pensions Fund Authority

## Local Code of Corporate Governance 2020

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### Introduction

**We, the London Pensions Fund Authority (LPFA) are a corporation established by statute to operate under a framework related to its primary function of administering a Local Government Pensions Scheme (LGPS). As such, we must comply with legislation, as applied, and the statutory regulations related to the administration of the Scheme.**

As a corporate body and single purpose local government pension fund, we are influenced in two ways: guidance in regard to local authorities; and guidance in pension fund management. We must also have regard to contractual or fiduciary relationships to our key stakeholders, including employers, scheme members and tax payers.

This Local Code of Corporate Governance (Code) has been developed in accordance with Delivering Good Governance in Local Government: Framework (CIPFA/Solace, 2016), which outlines the principles and standards for the proper conduct of business.

This document endeavours to reflect the guidance and best local government practice, where possible, whilst having regard to the requirements placed on pension funds to demonstrate effective scheme governance. The Code is comprised of seven core principles and is articulated in a number of published Governance documents on the LPFA.org.uk website under the Governance & Strategy Section of 'What we publish'.

The Code is reviewed regularly and monitored by the Audit & Risk Committee (ARC), prior to the inclusion of the Annual Governance Statement (AGS) in the Annual Statement of Accounts. In addition, an AGS annual action plan is devised to maintain best practice in corporate governance.

For further information on any of these please contact the LPFA CEO or Monitoring Officer on 020 7369 6006 or email [corporate@lpfa.org.uk](mailto:corporate@lpfa.org.uk)

### About the LPFA

#### Background

In April 2016, we collaborated with Lancashire County Council (LCC) to form the Local Pensions Partnership Ltd (LPP Group), a pensions services organisation. The implementation and delivery of many of our functions have been outsourced to the LPP Group including asset management, pension administration and risk management. A Service Level Agreement (SLA) is in place between us and the LPP Group to manage the delivery of these related functions as a Client. Our CEO, supported by the LPFA management team, and the LPFA Board has oversight of LPP and receives monitoring reports against the SLA on a quarterly basis. We also have influence over the LPP Group, as a 50% shareholder, through the Shareholder Agreement which states the key matters which are reserved for shareholder approval including remuneration, budget and strategy.

Since the establishment of the LPP Group, the LPFA retained a small Executive resource to act in a client role, to ensure the work carried out by LPP meet the SLA's and that sufficient support, guidance and advice is provided to enable LPFA's statutory functions to be met. A review was undertaken in 2018 into both the existing relationship with LPP as Shareholder and as a client. In 2019, following an earlier review on how the LPFA managed its responsibilities, the LPFA established four Executive roles: Funding and Risk Director; Commercial and Finance Director; Communications and Project Manager; and Corporate and Governance Director to provide specialist oversight.

#### Our mission

To provide a high-quality cost-effective pensions service that meets the needs of our different employers and members whilst playing a collaborative role in the wider pensions world.

#### Our vision

*"As a pension fund, we are stewards of the future. Primarily stewards of our members' financial future, ensuring robust pension provision. Furthermore, how our members' funds are invested also impacts the future of our economy, our environment, our society and therefore our members' future.*

*We take this broader responsibility seriously, as a commitment to future generations and to the shape of today's world. Consequently, we regularly look at the major environmental and social issues facing the world and work to ensure we are positively influencing them.*

*Our ongoing major focus is on the climate emergency and how we can invest member funds to mitigate the financial risk from climate change, influencing the broader economy via our engagement opportunities and clearly communicating both our approach and our progress." 11 September 2019*

## Our aims

### Paying pensions and operating efficiently

Our primary purpose as a pension fund is to ensure that members are paid their correct benefits at the correct time, principally when they retire. We also aim to deliver LGPS pension services to a high quality and in a cost effective and efficient way. In doing so, it is our intention that we continue to use LPP to deliver the majority of these services on our behalf. Assets held within the LPFA Fund will continue to be managed by LPP, alongside liability management, and our member administration. We will continue to use our position as an active shareholder of LPP to both support and oversee achievement of its strategic objectives.

### Supporting collaboration in the industry

We also seek to contribute to the wider London, LGPS and Local Authority community and particularly assist, where possible, any facilitation of growth in LGPS collaborations. There may be instances where we are the natural home for new employers and the LPFA Board will encourage the Government to view us as such. More widely, we will be much more collaborative in sharing experiences, our learning and best practice with other LGPS Funds, as well as the Pools and the wider UK pensions industry to help achieve our vision and deliver for our stakeholders.

### Investing responsibly

We are committed to being a responsible investor. Investing in companies with well governed assets to obtain long term sustainable returns. Integrating Environmental, Social and Governance (ESG) factors in our investment approach is good risk management and part of our duty to members and employers of the fund. Investments which exploit the environment or otherwise give rise to risk arising from poor or unsustainable business practices are not consistent with the longer term investment goals of the Fund. These issues can impact on profitability and so, ultimately, on our fund's financial health. Our Responsible Investment (RI) principles aim to reduce the financial risk to our fund through active ownership practices. This is a recognition that the long-term health of society, the planet and the market are all connected.

### Our behaviours

The Board, in 2018, discussed and refined our behaviours based on an acknowledgement that the Executive management team supporting the Fund were fewer in number. It was also a reflection that the Board itself had undergone changes in personnel and maturity as an effective governance body. In addition to the Board's vision above, we recommitted at the 2019 Away Day to the following as the foundation of our behaviours for the foreseeable future:

#### Be the best

- Strive to deliver the best for all our stakeholders.

#### Deliver results

- Focused on performance; be it from the Board, Officers, or wider LPFA suppliers and stakeholders.

#### Our people matter

- We will set clear expectations and encourage people to deliver against these.

#### Accentuate collaboration

- Adopt a collaborative approach both internally and externally.

#### Act with integrity

- Build trust and promote openness.

## Defining corporate governance

This document will use the same definition as the CIPFA/SOLACE (2016) for Governance:

*"Governance comprises the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved." (Page 8, CIPFA/IFAC, 2014)*

The arrangements refer to the systems, processes and values in place which guide how the LPFA engage with their stakeholders'. The LPFA is committed to achieving the best interest of its stakeholders through adopting the key principles of Good Governance and they outlined in the following section.

### Key principles of corporate governance

This Code sets out how the we have adopted the fundamental principles of good governance and follows the seven core principles of good governance as outlined in the CIPFA/Solace 2016 guidance. When the supporting principles clarify a principle and/or are in addition to a principle, they are included after the primary principle.

#### A. Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law

The LPFA Board recently recommitted to the set of behaviours (page 4) which they identified as being integral to the success of the organisation. Acting with integrity underpins the guiding approach. Our vision demonstrates a commitment to stewardship and seeking to deliver the best for all stakeholders.

#### Incorporating our commitment to ethical values and respecting the rule of law through good governance arrangements and communication through collaboration

The Strategic Policy Statement (SPS) outlines the authority's strategic objectives and vision for a rolling three year period and is annually reviewed by the Board. In addition, our CEO meets with representatives from LPP Group monthly, both from a client and shareholder perspective, encompassing reviews of areas such as SLA's and updates on the LPP Group as a business, alongside more strategic matters.

We have an important role in ensuring that the LPP Group remains accountable and provides the necessary assurance to the Authority as engaged shareholders. We have a Shareholder Director position on the LPP Group Board. Our CEO attends Shareholder meetings with LPP Shareholder representatives and is an Observer at LPP Board meetings. All major decisions or those which relate to the LPFA as an administering authority under LGPS regulations, are reserved to the LPFA Board for approval.

Some examples of the principles of good governance in practise as part of collaborative relationships (e.g. with other LGPS funds, agency contracts or our relationship with LPP) include:

- Comprehensive and agreed SLA with clear escalation routes and amendment procedures;
- Promoting the LGPS procurement frameworks whenever possible;
- Encouraging regular meetings covering day-to-day issues, contractual/SLA issues, and wider pensions/local authority issues;

- Monthly updates published to inform and invite comment;
- All significant changes to processes and documentation are passed to clients for consultation.

We have effective arrangements to ensure compliance with all applicable statutes and regulations, including Anti-Bribery and other relevant guidance or best practice. Internal financial controls are in place to ensure lawful expenditure. These include:

- financial regulations;
- authority levels for placing orders or approving payments;
- spend within an agreed budget; and
- reconciliation of invoices with orders.

Formal codes of conduct are in place that define the standards of personal behaviour required from Board members and employees. Members and officers are asked to disclose any personal or prejudicial interests and our constitutional document sets out the following codes of conduct under LPFA's standing orders:

### **i. Code of best practice for members**

The Code of best practice is enforced under the Authority's power of self-regulation and sets out the rules relating to disclosure of personal interests and related-party transactions. It incorporates the 'seven principles of public life' (Nolan principles) and is further underpinned by local guidance on gifts and hospitality for Board members.

The registers of interests declared by Board Members and Principal Officers are available for public inspection and are reviewed regularly by the Audit & Risk Committee.

The registers of gifts, hospitality and expenses for Board Members and Principal Officers are published on the LPFA website on a quarterly basis.

### **ii. Conflicts Policy**

This policy supports the code of best practice for Board Members and seeks to identify and manage conflicts associated with the investment of the fund. The Monitoring Officer is responsible for assessing any perceived or actual conflicts and ensuring that the Conflicts Policy is followed. Legal Counsel's opinion was received when developing the policy. Annually, Board Members are required to complete a statement declaring their compliance with the Policy. It is their responsibility to keep the Monitoring Officer updated of their personal interests. Board Members interests are publicly available on our website.

### **iii. Code of Conduct for Staff**

Similar to that of Board members, this incorporates the Nolan principles. Staff are required to carry out their work in accordance with several formal codes of practice and standing orders as approved by the Board. Failure to comply with these codes may invoke disciplinary action.

### **iv. Redress**

We operate a customer complaints procedure which is publicly available to all scheme members: <https://www.lpfa.org.uk/what-we-publish/governance-strategy>.

The LGPS administration is also subject to a regulatory Internal Disputes Resolution Procedure (IDRP). The Pensions Advisory Service (TPAS) can help any member in seeking redress.

These procedures are open to high-level independent review, as relevant, by TPAS, the Pensions Ombudsman, and the Local Government Ombudsman.

The codes of conduct above will be enforced by the Board under the Authority's power of self-regulation and by recommendation to the Mayor of London (the Mayor) where the Board believes that a member of the Board is no longer suitable to continue as a Board member.

## **B. Ensuring openness and comprehensive stakeholder engagement**

Including supporting principles:

- Engaging comprehensively with institutional stakeholders
- Engaging with individual citizens and service users effectively

We have established clear channels of communication with all stakeholders on its strategic aims, objectives, and performance. Procedures are in place to monitor effectiveness and we are seeking continuous improvement in what we do. A Communication Policy Statement is available on our website and our stakeholders include fund members, employers, government, Communities and Local Government, taxpayers, and industry influencers such as Pensions and Lifetime Savings Association (PLSA). Arrangements are in place with LPP to encourage online membership and to engage with, contribute to and participate in the activities of the LPFA. This is generally via newsletters, forums, and public Board meetings. In addition, we have a representative body, the Local Pension Board (LPB), which comprises of representatives from employers and members of the Fund and has an Independent Chair. The LPB meets throughout the year and reports to the main LPFA Board on an annual basis (see below).

The LPFA Board member appointments are made by the Mayor under an open and transparent process operated by the Greater London Authority (GLA). We make the names and relevant interests of our Board members available to the public on our website. We also publish a series of statutory and other documents on our website.

Public Board meetings and other open meetings are held both for members of the scheme and for employers.

We communicate to our different stakeholders in different ways:

- LPP – Annual General Meeting, Shareholder Engagement quarterly meetings, Shareholder Engagement Forum (Annual), Investor Forum (Twice a year), Management meetings with LPP, Quarterly SLA reports to the Board and CEO.
- Members of the scheme – newsletters, guides, a member portal and the LPFA.org.uk website provide information, whilst the annual Fund Members' Forum, Local Pension Board and regular surveys, provide the opportunity to give feedback.
- Scheme employers – Regular newsletters, guides, an employer portal and the LPFA.org.uk website provide updated information. An annual employer forum, Local Pension Board and meeting programme provide opportunities for feedback. A practitioners conference and regular training sessions are held to support employers.

- Greater London Authority (GLA) – There are monthly meetings between the GLA with the LPFA CEO and the LPFA SPS and Medium Term Financial Plan (MTFP) are submitted for comment annually. These are supplemented by quarterly strategic meetings between the Chair, the LPFA CEO and the Mayors’ Chief of Staff. Other engagement occurs between LPFA and GLA on Housing, Climate Change and Treasury Management and other subjects.
- Wider pensions community – LPFA has representation on national and local forums, specifically the Local Authority Pension Fund Forum, CIPFA Pensions Panel, Local Authority Committee of the PLSA. In addition, LPFA attend all major pensions conferences to provide an opportunity to learn and exchange information. We have also implemented a media relations programme to ensure that LPFA developments are communicated to relevant stakeholders.
- Wider community – publication of annual report and accounts, website (browse aloud enabled).

### C. Defining outcomes in terms of sustainable economic, social & environmental benefits

Our proactive approach to addressing ESG issues in our investment policies has been developed over several years and is reflected in our RI policy.

We focus on our own community through a targeted approach to service delivery and accountability to the Fund membership and other stakeholders. As the day-to-day investment implementation and management has been outsourced to Local Pensions Partnership Investments Ltd (LPPI), LPPI is conscious of the potential impact on the environment, and regularly considers LPFA’s RI and Climate Change Policies. These policies aim to manage the risks to the fund from issues like Climate Change and while also producing an overall positive impact on stakeholders and society.

For the next strategic period, sustainability (in all senses), responsible investment and collaboration - both internally and externally - are key themes for LPFA. Future sustainable investment requires additional focus as LPFA seeks to build on the progress made on its climate change and RI policies.

Our RI strategic approach and priorities reflect conviction about the importance of evaluating risks and opportunities with potential to materially impact the value of our investment portfolio. This belief is embedded within the stewardship arrangements we have agreed with LPPI. We are in the process of further testing our LPFA RI beliefs and future activities during 2020 and will seek to engage with LCC on RI.

### D. Determining the interventions necessary to optimise the achievement of the intended outcomes

Including supporting principle:

- Planning interventions

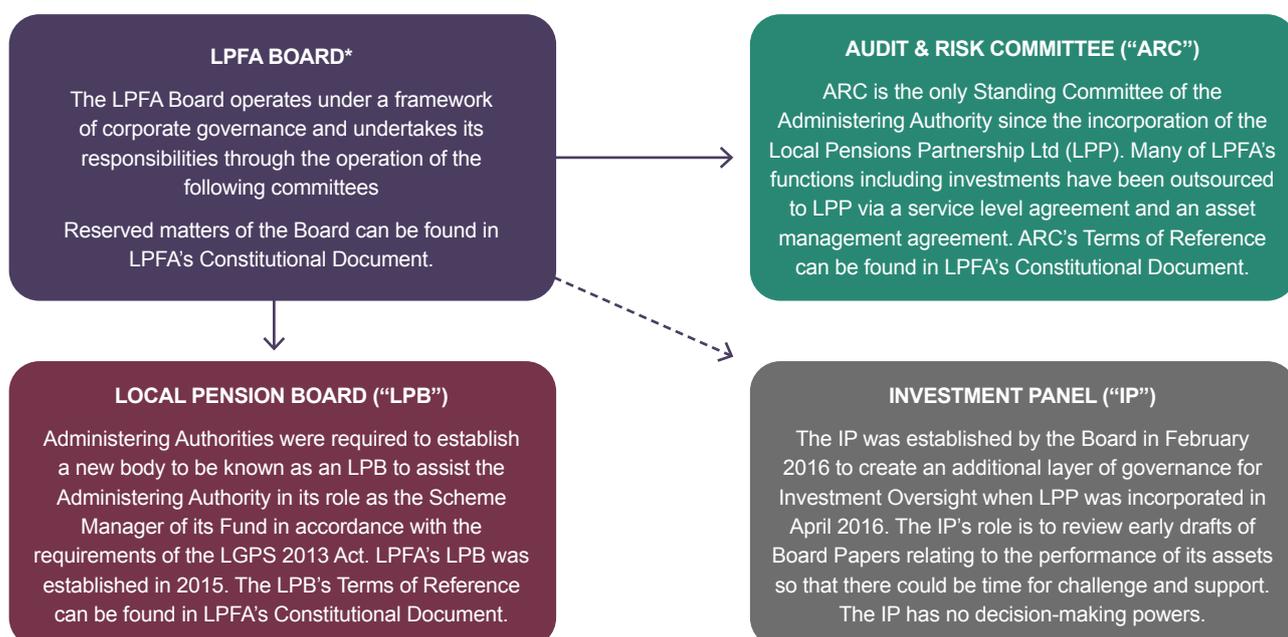
Our objectives are reviewed annually by the Board and key responsibilities and actions are identified for the ensuing three-year period. Our mission statement, aims and objectives, and key performance indicators are contained within the SPS, which is shared annually with the Mayor before publication. Both documents sets out our direction which is agreed and tested during a Strategy Away day with the Board and Principal Officers. These discussions become the SPS and MTFP, set the objectives for the Board and our Principal Offices and allows our Board to assess our governance arrangements. .

The SPS sets out our three strategic objectives:

- evolution in investments and liability management;
- partnership working and wider collaboration; and
- operational efficiency and a robust shareholder role.

The LPFA Board meets regularly to consider plans, actions and the strategic direction of the organisation through formal quarterly monitoring against the SPS. The Constitutional Document clearly documents the responsibility of the decision making of the Board and Principal Officers in relation to the partnership.

### Board and Committee Structure



All Board and Committee reports have a governance 'compliance checklist' as part of the corporate governance framework. This is to ensure full consideration is given to:

- regulatory and statutory compliance;
- strategic, operational, and financial risks;
- social, environmental, RI and ethical issues
- equality and Diversity policies; and
- communication issues.

We publish an annual report each year, on our website, presenting an objective and clear account of our achievements, financial position and performance.

We continuously review our procedures to ensure that cost effective performance is maintained and that services delivered by LPP support our objectives. Our investment strategy is designed for the long term and investments are monitored on a quarterly basis. Asset allocation strategies are as efficient as possible in providing the best returns for the appropriate amount of risk.

## **E. Developing the authority's capacity, including the capability of its leadership and the individuals within it.**

### **Board**

The Constitutional Document brings together an underlying set of legislative requirements, reserved matters of the Board, including Shareholder reserved matters in connection with the partnership, governance principles and management processes. This underpins the Board's confidence that there is an effective system in place to ensure the Board complies with its responsibilities. The Board Members carry out an annual self-assessment and appraisal process with the Chairman.

### **Audit & Risk Committee (ARC)**

ARC reviews the internal and external financial statements and reports, to ensure they reflect best practice. ARC also discusses with the appointed external and internal auditors the nature and scope of our audits and monitors the implementation of audit recommendations. It is responsible for ensuring an appropriate risk management framework is in place. ARC also monitors the risks and internal controls to ensure that LPP is accountable and provides assurance to the Authority that services are being delivered. The Committee's duties are highlighted in its terms of reference and form part of the published constitutional document.

### **Local Pension Board (LPB)**

Under the LGPS 2013 Governance Regulations, all LGPS authorities are required to have in place an LPB containing member and employer representatives. The principal function of the LPB is to assist the administering authority in complying with the Regulations, any other legislation relating to the governance and administration of the Scheme, and any requirements imposed by the Pensions Regulator. This can include the performance of the following duties: reviewing compliance monitoring reports, the risk register, administrative and governance processes; improving scheme member and employer communications; monitoring trends in authority discretions; and assisting with the development of improved customer services.

The LPB's remit is primarily one of review rather than decision making, and it reports back to the LPFA Board on an annual basis. It acts as a second pair of eyes by regularly reviewing internal and external assurance statements to ensure compliance with regulations. It also acts as an objective partner, reviewing key performance indicators, and providing advice and recommendations on the efficient management of the Fund.

### **Board member training and induction**

The LPFA Board meets five times a year and has time set aside for training and familiarisation after each session. The latter tends to be a formal presentation on specific topics relevant to all Board members. At the start of each financial year, LPFA's Chair meets with Board members individually after they have completed a self-assessment form to identify their strengths and weaknesses against an in-house skills matrix. The Chair also sets objectives for the following year for members where this is required.

The Chair and CEO then agree the programme of collective and individual training, communicating with each Board member accordingly. The Board's training plan is also reviewed against the CIPFA Code of Practice Public sector Pensions finance knowledge and skills. The training plan is reviewed and approval by the Board on an annual basis.

New Board members complete a self-assessment form as part of a tailored induction process and are encouraged to complete The Pensions Regulator Public Service Toolkit within six months of their effective appointment date. Members are also recommended to observe Committee meetings during the early months of their appointment to develop relationships and understand our operational processes.

All Board members attend an annual Board member away-day where current challenges to LPFA are discussed, priorities and future strategy developed. These events are off-site and include external speakers who are relevant to the topic to be discussed. Any decisions taken at the away-day are ratified by the Board at its next meeting.

### **LPB member training and induction**

LPFA has an induction and training programme in place for the members of the LPB. Where possible, LPB Members are invited to attend the main Board's training sessions if the topic is relevant. New members complete a self-assessment form as part of their induction process, the outcome of which is fed into an individual training plan and used to identify areas of collective and individual LPB members training. Training sessions are held at the beginning of each LPB meeting. Additionally, as part of their induction process, they are also encouraged to complete The Pensions Regulator Public Sector Toolkit within six months of their effective appointment date.

### **Staffing and administration**

In 2019, we expanded our executive management team to assist the Principal Officers and provide oversight of LPP. The Principal Officers review the business planning and budget process annually, including the governance framework and lead on generating improvements in risk management and monitoring audit recommendations.

Administration of the business is supported by a series of internal codes of practice approved by the Board, some of which are subject to disciplinary action on default and by detailed procedure notes and computerised systems.

## Conduct of Board Business

LPFA Standing Orders, similar to those found in all local authorities, prescribe all activities relating to the conduct of Board business. Standing Orders represent the fundamental underpinning of corporate governance and may only be amended by formal approval of the Board.

The Board may set up standing committees to consider more detailed aspects of the business. There are formal terms of reference and key responsibilities defined for these committees, but there is no delegation of executive powers outside the specific terms of reference. The quarterly ARC is the current Standing Committee of the Board.

The Board, Principal Officers and Executive Officers use specialist advisors on an ad hoc basis. To ensure value for money, here is a preference for the Board to have skills within LPFA or its delivery partner LPP, as opposed to always procuring external advice. However, at times, external advice and skills are necessary.

Our Principal Officers have certain statutory and formal responsibilities which are described in LPFA's constitutional document. Executive powers are delegated to the CEO under a scheme of delegation. This sets the parameters within which the officers can implement Board decisions and operate the day-to-day business of LPFA. In addition, a number of powers are reserved as matters to be purely considered by Board.

## Board appointments and responsibilities

Appointments to the Board are the responsibility of the Mayor in accordance with the provisions of SI 1989 No. 1815 which require there to be between seven to eleven members. Of that, at least, one half (excluding the Chairman) are to be appointed following consultation with representatives of local government in London. The Mayor may also appoint a deputy Chairman.

The appointment process is administered by the Greater London Authority (GLA). The process is by open advertisement and subject to independent scrutiny. The terms and conditions of appointment are set out in a formal letter which includes the length of appointment, remuneration, and details of the role and responsibilities. Board members are usually appointed for a period of 3-4 years and usually serve two appointment periods.

We require each Board member to complete a competency statement outlining their skills and experience relevant to the appointment and to undergo regular training.

## Board as an employer

Although there is a small number of Principal Officers, Executive Officers and support staff at the LPFA, the Board has certain moral and legal responsibilities to those who work for it and a duty to develop the skills, experience and potential of those individuals to further the objectives of the organisation. The Board as an employer is responsible for ensuring that the organisation:

- complies with employment law;
- avoids discrimination of any kind against potential or actual employees;

- has a statement of terms and conditions of employment and clear policies on a wide range of human resource management issues such as promotion, disciplinary and grievance procedures, and staff development; and
- observes health and safety and environmental requirements.

The Board is also responsible for the recruitment of the CEO and senior employee succession. Any Board member taking part in such a recruitment exercise will need to be familiar with employment legislation as well as any codes of best practice in relation to equal opportunities issues. He or she should receive training in recruitment and selection before serving in that capacity.

## Principal Officer appointments and responsibilities

LPFA's Constitutional Document clearly defines the functions of the Officers, Board members and LPB members via:

- Matters reserved for the Board;
- ARC terms of reference;
- LPB terms of reference;
- Delegated authority to officers; and
- LPFA's Code of Best Practice (defining the respective roles and responsibilities of the Board members and officers of the Authority) are published on the LPFA website - <http://www.lpfa.org.uk/What-we-publish/GOVERNANCE-STRATEGY.aspx>

Principal Officer responsibilities and powers are regularly reviewed by and distributed to those occupying these positions. Any new recruitment to the team will be subject to the same review and monitoring of compliance.

The Section 151 Officer is charged with monitoring financial processes, liaising with external and internal audit and maintaining links with the Society of London Treasurers (SLT). LPFA seeks to comply with the principles set out in CIPFA's The Role of the Chief Finance Officer in Local Government and ensures effective arrangements are in place for the discharge of the Head of Paid Service function exercised by the CEO.

Clear job descriptions for all staff, together with staff handbooks, financial regulations and relevant Codes of Practice are communicated as the basis upon which the LPFA conducts operations. They authorise Officers to act on behalf of the LPFA within a defined framework of procedural governance.

## F. Managing risks and performance through robust internal control and strong public financial management

Including supporting principle:

- Managing data

### Risk management

The operational aspects of Risk Management have been outsourced to LPP but the LPFA Board retains responsibility for the robustness and monitoring of these arrangements. Board members hold an annual session to set the risk appetite and risk culture of the organisation and review the risk management framework. High level risks are identified by the Executive Officers, and thereafter discussed with the ARC. These are identified, along with appropriate control measures, in the Risk Register.

The ARC has responsibility for ensuring that the procedures are appropriate and that key risks are being identified, monitored and managed effectively and economically. These processes are reviewed by both Internal and External Audit on behalf of the ARC. This is done as part of the overall internal control framework and supports the Annual Governance Statement, published in the Statement of Accounts. The ARC undertakes a thorough review to ensure the arrangements in relation to risk management are robust and functioning to provide assurance to the Board and the details of the review are reported in the ARC draft minutes to Board.

The CEO and ARC reviews the risk register quarterly and considers any new risks to LPFA.

### **Ensuring Compliance with legal requirements, LPFA's standing orders and delegations, and the processes and internal controls required to manage risks.**

LPFA's Constitutional Document sets out the standing orders, a scheme of delegation and other governance arrangements. Elements of this document are amended throughout the year as required. The constitutional framework is a cornerstone of good governance at LPFA.

The key area for operational compliance from an operational point of view is compliance with the LGPS Regulations 2013. Compliance is assured by the LPP Group through staff training programmes, a dedicated technical team who are members of the industry-wide Technical Group and a pensions administration computer system specifically designed for the LGPS. Our investments are managed in line with the LGPS (Management and Investment of Funds) Regulations 2016 with compliance monitored by the Board and CEO through appropriate reporting and Investment Management Agreements with LPP.

Other laws applicable to most organisations are managed via a combination of specific Principal Officer accountabilities. Our CEO, with support from the LPP Group, provides an overarching view of new legislation and reports actions to the Board when required. The LPP Group, is tasked with keeping LPFA updated of significant legislative changes and their impact.

The system of financial compliance is based on the internal control framework, practice and procedure notes, administration (including segregation of duties), management supervision and a system of delegation and accountability. The system includes comprehensive budgeting systems, regular reviews of periodic and annual performance reports which indicate actual performance against plans plus targets to measure financial and specific performance. We are assisted in fulfilling this activity via an SLA with the LPP Group.

The system of internal financial control can provide only reasonable and not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected in a timely period. Any breaches or errors occurred by the LPP Group are reported to the Principal Officers, ARC and thereafter the Board. The ARC also receives reports on the Funds' financial performance at the end of each quarter.

To ensure the internal controls in place are appropriate, governance reviews are undertaken on a regular basis and schedule of planned audit work agreed with LPFA's Internal Auditors. The outcome of the audits are shared with the Principal Officers and reported to ARC.

The CEO, LPB and the Board receives regular updates from LPP on the quality of the data it uses and maintains. These can include a central electronic performance reporting system integrated with quality checks; employers' data cleansing exercise and monthly returns; member online service that reduces risk of human error; and data monitoring against The Pensions Regulator Record-Keeping Guidance 2010 on Common and Conditional Data. The Pensions Regulator Code of Practice 14 also obliges LPFA to maintain certain standards of data management, risk management processes and communication with members and employers.

### **Budget setting process**

There is a formal process and timetable set internally for determination of the annual budget requirements which is prepared as part of the MTFP. The draft MTFP is reported to the Board for approval prior to submission to the Mayor by 31 December. The submission is also circulated to London boroughs for information and comment on the levy implications. Any comments received from the Mayor by 31 January are considered by the Board when it approves the final budget in early March. The annual levy must be set by 14 February. The final budget is published when the levy notices are issued to each borough.

Role of the internal and external audit in ensuring scrutiny of decisions of the authority and the partnership.

### **External audit**

The Local Audit and Accountability Act 2014 introduced a new local audit regime in England, abolishing the Audit Commission. The Commission had previously commissioned the auditing of most local public bodies, however under the new framework, Public Sector Audit Appointments Ltd (PSAA) were specified as an appointed person under the Act. Following the transitional arrangements during 2017-18, PSAA proposed to reappoint Grant Thornton (UK) LLP to audit the accounts of LPFA for a further five years from 2018/19 with effect from 1 April 2018. The LPFA endorsed PSAA's proposal to reappoint Grant Thornton LLP. Audit work is performed to comply with international auditing standards. The auditors take a risk-based approach to audit planning as set out in the Code of Audit Practice.

An Annual Governance Report provides Grant Thornton's opinion on the financial statements and a value for money conclusion for 2018/19. As part of the audit plan for 2019/20, Grant Thornton will consider: the possible wider political uncertainty due to impact of Brexit and pressures on local government funding; governance changes from the Scheme Advisory Board and the focus on improving data quality from The Pensions Regulator; the Financial Reporting Council expectation of improved financial reporting and auditors to undertake more detailed testing; and the possible changes to the LPP finance function. In addition, Covid-19 (Coronavirus) has been added as a risk which will present challenges in both the preparation of the accounts but also cause increased uncertainty of assumptions applied, valuation of assets and a review of disclosures.

## Internal Audit

In 2020, LPFA undertook a procurement exercise and appointed PricewaterhouseCoopers, replacing Deloitte LLP as its Internal Auditor for three years with effect from 1 April 2020 to undertake specified internal audit work. The relationship with the appointed firm takes into account the requirements of the CIPFA Statement on the Role of the Head of Internal Audit (2010). The work is performed to standards defined in the Government Internal Audit Standards and meets the requirements of the Chartered Institute of Public Finance and Accountancy. The work of internal audit is informed by an analysis of the risks to which LPFA is exposed. The internal audit plan is developed with LPFA Officers each financial year. The resulting internal audit plan is presented to and authorised by the Audit & Risk Committee.

The Annual Internal Auditor's Report and Opinion was received from Deloitte (Year to 31 March 2020) which included the internal auditor's independent opinion on the adequacy and effectiveness of LPFA's system of control during the year.

## Fraud and Irregularity

Through a code of practice on Irregular Conduct in the Workplace, LPFA operates a policy on fraud and irregularity, including independent reporting arrangements. A Fraud Control Framework, reviewed annually by the ARC, is in place and serves to increase awareness amongst stakeholders of actions taken to mitigate the risk of fraud. Our employees are made aware of the provisions of the above documents, their rights and protections, and irregularity reporting channels (whistleblowing) through Public Concern at Work, the Chair of ARC, the Section 151 Officer, and the Monitoring Officer.

Complaint handling is carried out in line with the IDRP and is available on LPFA's member website. The procedure sets out the channels available for stakeholders wishing to raise an issue, and the timescale in which we are expected to provide a full reply. All complaints are reported to the LPB and the Board quarterly.

## Role of the ARC in review

ARC, functions are in line with the CIPFA's Audit Committees: Practical Guidance for Local Authorities and with the UK Code of Corporate Governance, is responsible for reviewing internal and external financial statements, and for monitoring the effectiveness of internal control arrangements. Both internal and external auditors report to the ARC and have direct access to the Chair of ARC, if required. A review of effectiveness of the ARC is undertaken every three years and the resulting action plan is implemented.

## G. Implementing good practices in transparency, reporting and audit to deliver effective and accountability

Including supporting principle:

- Assurance and effective accountability

## Review of effectiveness: Annual review and reporting

Each year, we carry out a review of its governance arrangements to ensure compliance with this Code, the delivery of good governance within the local government framework and current good practice.

The purpose of the review is to provide assurance that governance arrangements are adequate and operating effectively, or to identify action which is needed to ensure effective governance in the future.

The outcome of the review takes the form of an Annual Governance Statement prepared on behalf of the CEO.

The preparation and publication of the Annual Governance Statement meets the statutory requirement of the Accounts and Audit Regulations which requires us to conduct a review at least once in a year of the effectiveness of its system of internal control and to prepare a statement on internal control in accordance with proper practices.

- Principal Officers are given responsibility for: overseeing the implementation; and monitoring the operation of the Code;
- reviewing the operation of the Code in practice on an annual basis;
- reporting annually to ARC on compliance with the Code and any changes that may be necessary to maintain it and ensure its effectiveness in practice; and
- preparing an Annual Governance Statement and action plan to be made available annually.

## Annual report and accounts

There is a statutory requirement for us to prepare an annual statement of accounts for public inspection and audit. The full documentation of the annual report and accounts is published on our website. It comprises Pension Fund Annual Report, Statement of Accounts, Audit of Accounts, and Policy Statements. References of the partnership would be made throughout the Pension Funds Annual Report.

## Public policy statements

The following policy statements are an integral part of the Code of Corporate Governance. These documents are initially reviewed by LPP, prior to being submitted to the LPFA for updating. This is to ensure the functions outsourced to LPP are still relevant or applicable. The policies are considered on a regular basis with key policies subject to an annual review. The policies are either a statutory requirement or comply with best practice. Publication is made primarily on our website. The policy documents include:

- Investment Strategy Statement (ISS)
- Climate Change Policy
- Responsible Investment Policy
- Statement of Commitment to the UK Stewardship Code
- Constitutional document
- Treasury Management Strategy
- Gifts, Hospitality & Expenses Framework
- Strategic Policy Statement & Medium Term Financial Plan
- CIPFA Code of Practice
- Pensions Administration Strategy
- Funding Strategy Statement
- LGPS Governance Statement
- Communications Policy Statement
- Fraud Control Framework, including Anti-Bribery Policy
- Equality and Diversity Policy
- Environmental Plan
- Health & Safety
- Freedom of Information Publication Scheme
- Information Security
- Complaints & IDRP
- Pay Policy
- Risk management Framework

## Glossary

AGS	Annual Governance Statement
ARC	Audit and Risk Committee
CIPFA	Chartered Institute of Public Finance and Accountancy
ESG	Environmental, Social and Governance
GLA	Greater London Authority
GLA	Local Government Association
IDRP	Internal Disputes Resolution Procedure
IFAC	International Federation of Accountants
LCC	Lancashire County Council
LGPC	Local Government Pensions Committee
LGPS	Local Government Pensions Scheme
LPB	Local Pension Board
LPFA	London Pensions Fund Authority
LPP	Local Pensions Partnership Ltd
LPPI	LPP Investments Ltd
Mayor	Mayor of London
MTFP	Medium Term Financial Plan
PLSA	Pensions and Lifetime Savings Association
PSAA	Public Sector Audit Appointments Ltd
RI	Responsible Investment
SLA	Service Level Agreement
SOLACE	The Society of Local Authority Chief Executives and Senior Managers
SPS	Strategic Policy Statement
TPAS	The Pensions Advisory Service

For more information, please contact:  
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