

## **AUDIT & RISK COMMITTEE**

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### **Annual Report from Audit & Risk Committee to Board 2019-20:**

**By Christina Thompson, Chair of the Committee**

#### **Introduction:**

The Audit & Risk Committee (ARC or Committee) is chaired by Christina Thompson and its members are appointed by the LPFA Board.

#### **Responsibility of ARC:**

The function of the ARC is to monitor the operation of the Authority's internal controls, governance, risk and compliance arrangements, financial reporting, and partnership service oversight matters relating to Local Pensions Partnership Ltd (LPP), to review reports on these, and to make recommendations to the Board as necessary. The Committee also provides assurance to the Board on the adequacy of internal and external audits and their respective auditor appointments and remuneration.

#### **Committee Membership and Attendance:**

- Christina Thompson has been the Chair of the ARC since 1 January 2019.
- Details of attendance at Committee meetings during 2019-20 has been included within the Governing the Fund section of LPFA's Pension Fund Annual Report.
- Nigel Topping resigned from the LPFA Board and ARC with effect from 31 January 2020. The membership of the Committee will be reviewed as part of a wider Board and Committee governance review in the Autumn of 2020.

#### **The work of the Committee during 2019-20:**

The Committee formally met four times during the year. The report below seeks to advise details of key activities undertaken in 2019-20 and to summarise the Committee's work. Governance highlights have also been included within the Governing the Fund section of LPFA's Pension Fund Annual Report.

#### **Audit**

##### **External Audit, Statement of Accounts & Governance Statements:**

The Committee considered and approved the Annual Governance Statement for inclusion in the Statement of Accounts and Governing the Fund section for inclusion of the Pension Fund Annual Report. The draft accounts were issued to the auditors and published on LPFA's website for public inspection by 31 May 2019. In July 2019, the Committee reviewed the Statement of Accounts and provided assurance which resulted in the LPFA Board providing in principle approval to allow the document to be published on 31 July 2019. However, there was a delay in finalising details with the Auditor which resulted in the Statement of Accounts being finalised in September 2019. An unqualified opinion was issued by Grant Thornton LLP for the 2018-19 accounts on the presentation of the year's accounts.

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## Internal Audit

During the financial year, the Committee received and considered internal audit reports produced by Deloitte LLP on Investment Governance, Member Complaints – LPP, Receipt of Contributions and Core Financial Controls. The findings are reviewed by LPFA Management and reported to the Committee quarterly. The Committee approved a revised year 2 and 3-year internal audit plan to reflect LPFA's requirement to have more oversight of LPP's operations and outsourced functions. The LPP Director of Pension Administration attended the February 2020 Committee meeting to address concerns raised in the member complaints internal audit report and advised how LPP pension administration were now in a stronger position to proactively respond to queries from members.

A procurement exercise was undertaken in Q4 2019/20 to source a new internal auditor and concluded with PricewaterhouseCoopers (PwC) being appointed from 1 April 2020 for a three-year period.

## Risk

In January 2020, the LPFA appointed a Funding and Risk Director (Peter Ballard) to undertake executive oversight on risk related matters and regular reporting on risk management to ARC.

### Risk Appetite Framework & Risk Appetite Statement

The Risk Appetite framework and Risk Appetite statement will be reviewed in early 2020-21 as part of an initial assessment. A more detailed appraisal will be then undertaken a part of the Investment Strategy review led by the Funding and Risk Director.

An Investment and Funding Risk Report is prepared on a quarterly basis providing the Committee with the context of managing the Fund's Triennial balance sheet. Feedback on suggested improvements were provided in February 2020 to allow the Committee a more insightful overview of risks. To allow for a more timely review of the quarterly investment and Funding Risks, report, from 2020-21, the report is published on the LPFA Performance Reading Room for Committee members to review.

### Risk Management

A quarterly report is issued to the Committee on risk management and a summary of key risks facing the Authority. The review of the risk register was finalised in 2019-20 with workshops taking place with representatives of the LPFA Board in November 2019, January 2020, and March 2020.

ARC received a demonstration of the proposed Enterprise Risk Management Software (CAMMS) which was proposed to provide users with direct access to LPFA Risk Register reports during 2020/21.

### Employer Covenant & Liability Risks

The Committee continued to regularly review key employer risks and mitigations. In July 2019, the High-Risk Employers dashboard was revised to identify key movement and provide a clearer more visual report. Regular updates on the progress of the 2019 Triennial Valuation process were received as part of quarterly Employer Covenant and Liability Risk reporting.

### Liability Driven Investment Hedging Strategy (LDI)

A review of LPFA's LDI Hedging Strategy by Local Pensions Partnership Investments Ltd (LPPI) was presented in July 2019. The ARC delegated to the Investment Panel (IP) the consideration of controls around how much repo was rolled in any one day, particularly in

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times of market stress and on Insight's use of non FI counterparties. The IP concluded their consideration in March 2020 and upon IP's recommendation the LPFA Board agreed to tighter controls being implemented and a reduction in counterparty risk.

### 2019 Triennial Valuation

The Committee received assurance from the LPFA Managing Director that a review had been completed on the covenant categorisations for all participating LPFA employers in April 2019 with engagement prioritised for those identified as category C. The Committee reviewed and challenged the valuation assumptions prior to the Board making a formal decision in July 2019. The valuation process and employer engagement were reported to ARC to provide assurance that the timetable of activity would be delivered by the end of the 2019-20 financial year.

## Governance

### Terms of Reference (ToR)

The review of the Committee's own performance and ToR was postponed to Autumn 2020 to allow time for the newly appointed LPFA Chair in January 2020 to be onboarded. A copy of the Committee's Terms of Reference can be found in LPFA's Constitutional Document.

### Local Code of Corporate Governance

The Local Code of Corporate Governance was reviewed by the Committee as part of an annual undertaking. The planned governance changes being led by the Strategic Advisory Board and Hymans Robertson and consolidation of the Codes of Practice by the Pensions Regulator were highlighted as key future developments during 2020/21.

### Finance Review

The LPFA engaged PwC to review the Finance services provided by the LPP and the outcome was reported in July 2019, along with LPP responses to the recommendations. As a short term measure the LPFA MD and Section 151 Officer were delegated by ARC the authority to implement the action plan to embed improvements. The findings and resulting options are regularly reported upon at ARC by the Commercial and Finance Director (recruited in September 2019).

### Closed session of the Committee with External Auditors and Internal Auditors

The Committee held a closed session to provide the auditors with an opportunity to raise any concerns in November 2019. The collaborative session resulted in three actions for officers which have now been resolved.

## Compliance Activities

### LPPI Compliance

To reassure LPFA that LPPI was operating in line with regulatory requirements, the Committee received an annual report from the LPP Director of Strategic Programmes & Group Company Secretary on LPPI's systems and controls environment which concluded that anti-money laundering requirements were effective and proportionate to the activities undertaken. Further details were advised to provide detailed assurance that LPPI fulfilled their Systems and Controls handbook (SYSC) requirements related to compliance, risk management and oversight arrangements. The role of Operational Due Diligence (ODD) function and ODD assessment approach was highlighted.

The Committee received an update from LPP on the implementation of the appropriate policies across the LPP Group, including wider governance and compliance activities; such as monitoring of Environmental, Social and Governance issues; LPP's Internal Audit; and cyber

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security. An overview of the Senior Manager and Certification Regime (SM&CR) and LPPI's readiness to implement by 9 December 2019 was provided to the Committee in November 2019.

#### LPFA Compliance

An update on related party transactions the year ending 31 March 2019, quarterly gifts, hospitality & expenses (GHE) register assurance statements, annual review of residual liabilities in relation to asbestosis claims in 2018-19 and review of its contract register was reported to the Committee. The Committee reviewed the Whistleblowing procedure prior to formal Board approval in July 2019.

The Committee received its annual report on Write-Off's in November 2019 and recommended for further delegations to be made to LPFA executive and principles officers to allow smaller financial sums to be resolved. The Committee recommended a revised Write off policy which was approved by the Board in March 2020.

The GHE framework had a thorough review to reflect recent tax advice, correct approval channels and consideration of the Greater London Authority's (GLA) policy. The Board approved the framework in July 2019, considering the Committee's recommendation, and concurred with the subsequent 6-month review in March 2020.

#### Fraud awareness

The Fraud Control Framework, including the Anti-Bribery Policy was updated and published in December 2019. The Committee reviewed the action plan for 2019-20 which included LPFA's Internal auditors review of internal controls since the establishment of LPP. The LPFA Compliance and Governance Director, when recruited, will be responsible for the framework.

**Looking ahead** The Committee continues to have a busy agenda during the 2020-21 financial year, with the key activities being: assisting the Board in finalising the risk register, risk framework and CAMMS Reporting implementation; taking part in a Committee performance effectiveness and governance review; Finance Review; Employer Relationship and Covenant Assessments; and SLA Review of key services provided by LPP.