

Audit Committee (Informal Virtual Meeting)

15 September 2022: 10:30am

Location: Informal Meeting via Microsoft Teams

Contact Officer: Alan Edwards

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Agenda items

1. Apologies for Absence	-
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Exclusion of the Press & Public (Exempt) <i>The Chair to ask the removal of the press and public since the following items would be exempt from the Access to Information Regulations. Local Government Act 1972 Schedule 12(a) (as amended) Section 3 Information relating to the financial or business affairs of any particular person (including the authority holding that information).</i>	
E1. Exempt Minutes of the Audit Committee Meeting held on 16 June 2022	1

** Appendices attached separately

* Declarations of Interests

If you are present at a meeting of London Councils' or any of its associated joint committees or their sub-committees and you have a disclosable pecuniary interest* relating to any business that is or will be considered at the meeting you must not:

- participate in any discussion of the business at the meeting, or if you become aware of your disclosable pecuniary interest during the meeting, participate further in any discussion of the business, or
- participate in any vote taken on the matter at the meeting.

These prohibitions apply to any form of participation, including speaking as a member of the public.

It is a matter for each member to decide whether they should leave the room while an item that they have an interest in is being discussed. In arriving at a decision as to whether to leave the room they may wish to have regard to their home authority's code of conduct and/or the Seven (Nolan) Principles of Public Life.

*as defined by the Relevant Authorities (Disclosable Pecuniary Interests) Regulations 2012

If you have any queries regarding this agenda or are unable to attend this meeting, please contact:

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Minutes of the Informal Meeting of the Audit Committee held on 16 June 2022 in Meeting Room 5, 59½ Southwark Street, London, SE1 0AL

Councillor Stephen Alambritis MBE nominated Councillor Peray Ahmet (LB Haringey) to be the new Chair of the London Councils' Audit Committee. This was seconded by Councillor Robin Brown (LB Richmond). Councillor Peray Ahmet was elected to be the new Chair of the Audit Committee

Members Present:

Cllr Peray Ahmet (LB Havering)
Cllr David Gardner (RB Greenwich)
Cllr Stephen Alambritis MBE (LB Merton) (virtual)
Cllr Robin Brown (LB Richmond)
Cllr Jonathan Cook (LB Wandsworth)

In Attendance:

Matt Lock, Head of Audit & Risk Management, City of London Corporation (virtual)
Ciaran T McLaughlin, Engagement Lead, Grant Thornton UK LLP
Ibukun Oluwasegun, Audit Manager, Grant Thornton UK LLP
London Councils' officers were in attendance.

1. Apologies for Absence

There were no apologies for absence.

2. Declarations of Interest

There were no declarations of interest.

3. Minutes of the Audit Committee meeting held on 17 March 2022

The minutes of the meeting held on 17 March 2022 were agreed to be an accurate record of the meeting.

4. Role of the Audit Committee

The Audit Committee received a report that provided an overview of the role of London Councils Audit Committee. It included the Committee's Terms of Reference, the City of London Internal Audit Charter and the cycle of reports

David Sanni, Director of Corporate Resource, London Councils, introduced the report which gave an overview of the role of the Audit Committee, which is a sub-committee of London Councils' Leaders Committee and consists of five Members. The Audit Committee plays a key role in the good governance, strong financial management and effective audit arrangements at London Councils and its Terms of Reference could be found at Appendix A of the report. David Sanni said that the Terms of Reference sets out the Committee's role in governance arrangements, audit processes, review of fraud and corruption policies, approval of the accounts and external audit plan.

David Sanni said that Appendix B of the report provided details of the City of London Corporation's Internal Audit Charter, which sets out the role of internal audit. Matt Lock (Head of Audit and Risk Management) provides the internal audit service for London Councils through an SLA with the City of London Corporation. A five-year programme and audit plan that was presented at the last Audit Committee meeting in March 2022 could be found at the end of the report.

The Audit Committee noted the contents of the report on the role of London Councils' Audit Committee and the appendices.

5. Review of the Annual Governance Statement (AGS)

The Audit Committee received a report that: (i) reviewed each element of the current Annual Governance Statement (AGS), (ii) highlighted any continuing and potentially new areas for development (and those from previous years that had been addressed), and (iii) made recommendations for revisions that would be contained in the AGS to be included in the audited accounts for 2021/22.

David Sanni introduced the report that presented the revised Annual Governance Statement (AGS) to be included in the 2021/22 accounts. London Councils was required to publish the AGS in accordance with the CIPFA/SOLACE Framework – Delivering Good Governance in Local Government". David Sanni said that the key changes were the reference to "shared ambitions", which had been agreed with Group Leaders, the change of date for constitutional documents and the outcome of internal audit reviews. David Sanni confirmed that there were no significant governance issues to report.

David Sanni informed Members that there were three appendices in the report, namely:

Appendix A - changes to the AGS were highlighted in red,
Appendix B – 2021/22 Annual Internal Audit Report & Head of Internal Audit Opinion, and
Appendix C – a "clean" version of the accounts for approval by the Audit Committee

Matt Lock said that he had nothing further to report and said that a satisfactory audit opinion had been given.

Councillor Brown asked if more background information could be given on the new Shared Ambitions and re-organisation of London Councils, that was mentioned in the AGS. David Sanni informed Members that the new Chief Executive of London Councils, Ali Griffin, had worked with colleagues to come up with a set of Shared Ambitions for London Councils that were agreed with the Group Leaders. These ambitions included political leadership, being a trusted partner and having a pan-London focus as set out in the AGS. There has been a re-organisation to London Councils' structures to help deliver the Shared Ambitions.

David Sanni said that one of the overarching aims of London Councils was to promote best practice across the boroughs and to improve the lives of Londoners. Councillor Brown asked whether this included reorganising the finance team at London Councils. David Sanni said that there were three directorates which had now been split into various "teams". Each member of the Corporate Management Team (CMT) has a team. The Corporate Resources team, along with the Corporate Governance team, was previously part of the Chief Executive's Directorate but was now a separate team. David Sanni said that the changes had no direct impact on the finance team but did have an impact on the Policy and Public Affairs Directorate which has been broken down into smaller teams.

Councillor Cook asked about the two additional areas for development in relation to the Parking and Traffic Services and cyber security that were included in the AGS following the review of the internal audit work. David Sanni informed Members that the outcome of the reviews included

“amber” or “red” rated recommendations and it was normal practice to include such reviews in the AGS.

The Audit Committee:

- Noted the opinion of the Head of Audit and Risk Management at the City of London on the overall control environment, as detailed in Appendix B; and
- Approved the recommended changes to the AGS for 2020/21, as detailed in Appendix A, to produce the AGS for 2021/22 for inclusion in London Councils’ accounts for 2021/22, as detailed in Appendix C.

6. Internal Audit Update

The Audit Committee received a report that provided the Committee with an update in relation to the work of the Internal Audit since the last update report made to the March 2022 Audit Committee meeting. The report also provided an overall status update on progress against the 2022/23 Internal Audit Plan, work against which was underway with one assignment completed to draft report stage.

Matt Lock informed Members that work on declarations of interest and gifts and hospitality was now finalised and would be reported to the Audit Committee meeting on 15 September 2022. He said that the audit on “Financial Management” had been started and was planned for Quarter 1. The remainder of the plan would be picked-up as detailed in the schedule on page 47 of the report. Matt Lock said that there was nothing further to comment on at this stage.

Councillor Brown asked whether there were any matters arising from the review of gifts and hospitality and declarations of interest. Matt Lock said that the review found that there was not a consistent process to managing declarations of interests, as Members made their declarations to their home boroughs. Matt Lock said that London Councils had to consider whether it is appropriate and proportionate to request and retain Members’ declaration of interests given that they already make declarations to their home boroughs.

Councillor Brown asked about the cyber security review in light of the recent cyber hack that took place in the London Borough of Hackney. Matt Lock said that he was content with the commitment received from London Councils’ management to implement the recommendations and a follow-up exercise would be carried out in due course. He informed the Committee that there was no need for concern regarding cyber security at London Councils, although it needed to be taken seriously. David Sanni said that the review of cyber security had come up with seven recommendations, one of which had a “red” rating and had now been implemented. He confirmed that four other recommendations had been implemented before the end of the year. Out of the two outstanding recommendations, one had been partially completed and just needed London Councils’ Corporate Management Team (CMT) to sign it off. David Sanni said that cyber security was taken very seriously by London Councils.

Councillor Gardner said that boroughs had different thresholds when it came to declaring interests and accepting gifts. He said that what was applicable to London Councils may well be different to other boroughs. Matt Lock said that the internal audit did not look into what other boroughs did with regards to declarations, gifts and hospitality. He said that any declarations needed to be relevant to London Councils. Members made their declarations to their own local authorities and set limits for gifts and hospitalities that the local authority felt was appropriate.

The Audit Committee noted the internal audit update report.

7. London Councils' Pension Scheme

The Committee considered a report that informed Members of the London Pension Fund Authority's (LPFA) response to concerns on its investment performance during the 2020/21 financial year.

David Sanni said that a letter had been written to Councillor Ruth Dombey, who was on the Board at the LPFA, regarding London Councils' IAS19 Net Pension Liability for the 2020/21 financial year. The London Councils' pension liability had increased from £24 million to £42 million in this year. David Sanni said that Members were concerned about the investment performance of the LPFA fund. A response had been received back from the LPFA, although no real detail was given regarding the fund's investment performance. London Councils' officers would continue to monitor this situation closely. David Sanni said that an IAS19 valuation report for March 2022 had been received and pension assets had increased by £9 million.

Councillor Cook said that there was a lack of detail in the letter that had been received from the LPFA. He felt that more detailed information should be provided on the fund's investment performance as the net pension liability figure was quite high. Councillor Gardner asked what measures were being taken to address this issue. He said that this had an impact on the overall value of the pension scheme and needed to be pursued further. Councillor Brown asked what Members views were on the letter received back from Robert Branagh the CEO at the LPFA. He said that the fund includes London Councils' pension assets and agreed that the letter did not provide sufficient information on the funds investment performance.

Councillor Alambritis said that he was on the LPFA from 2010 to 2018 and that there had been pressure to pool pension funds (eg with Lancashire County Council). He said that the LPFA was a long-term investor and the pooled pension fund was in its infancy. Councillor Alambritis felt that more investment was needed in housing and more probing needed to be carried out, especially when it came to how well the Local Pensions Partnership Investments (LPPI) was performing. Councillor Alambritis said that London Councils officers should pursue this matter further with the leadership of LPPI and the LPFA. David Sanni said that he would be happy to pursue this further on behalf of the Audit Committee. He informed Members that the letter was just the start of the conversation and did not provide any detailed information. David Sanni said that he would take on board the comments from Members and go back to the LPFA on this.

The Audit Committee:

- Noted the response from the LPFA that could be found at Appendix B of the report; and
- Agreed that London Councils officers should pursue the matter of the LPFA's investment performance with the leadership of the LPPI and LPFA.

8. Informing the Audit Risk Assessment

The Audit Committee received a report that presented the responses provided by London Councils' officers to the external auditor's questionnaire on "Informing the Audit Risk Assessment for London Councils" in connection with its audit of the 2021/22 financial statements.

David Sanni introduced the report, which was a response to the external auditor's questionnaire on the audit risk assessment. The questionnaire sought to gain an understanding of London Councils' oversight arrangements on specific areas like fraud, laws and regulations and accounting estimates. Ciaran McLaughlin, Engagement Lead, Grant Thornton UK, explained that was a requirement of the auditing standards. Councillor Cook asked whether any issues had arisen

regarding fraud in the past 3 to 4 years. Ciaran McLaughlin confirmed that no material fraud issues had arisen in this period.

The Audit Committee considered and noted the responses to the external auditors Informing the Audit Risk assessment to London Councils” questionnaire.

The meeting finished at 11:29am

Action Points

	Action	Progress
7. London Councils’ Pension Scheme	<i>London Councils officers should pursue the matter of the LPFA's investment performance with the leadership of the LPPI and LPFA.</i>	Ongoing

Audit Committee

Financial Accounts 2021/22

Item no: 04

Report by:	David Sanni	Job title:	Chief Accountant
Date:	15 September 2022		
Contact Officer:	David Sanni		
Telephone:	020 7934 9704	Email:	david.sanni@londoncouncils.gov.uk

Summary

This report presents the pre-audited statement of accounts for 2021/22 for approval. The accounts to be approved comprise of London Councils Consolidated Statement of Accounts for 2021/22, London Councils Transport and Environment Committee Statement of Accounts for 2021/22 and London Councils Grants Committee Statement of Accounts for 2021/22.

Recommendations

The Audit Committee is asked:

- To note the statement of accounts, as detailed at Appendices A to C of this report subject to the satisfactory conclusion of audit work. (*The Statement of Accounts would be agreed via the London Councils' Urgency Procedure following the meeting*).

Introduction

1. This report presents the pre-audited annual statements of accounts for approval. The accounts to be approved comprise of London Councils Consolidated Statement of Accounts for 2021/22, London Councils Transport and Environment Committee Statement of Accounts for 2021/22 and London Councils Grants Committee Statement of Accounts for 2021/22.
2. London Councils' financial regulations require the Director of Corporate Resources to present the audited statement of accounts to the Audit Committee for approval by 30 September each year. The audit of the accounts is due to commence in October 2022 as set out in external audit plan presented to the Committee in March 2022.
3. The Audit Committee is asked to approve the pre-audited annual accounts subject to the satisfactory conclusion of the audit work. The Committee will be informed of any recommended changes to the statement of accounts following completion of the audit.

Financial Results 2021/22

4. The London Councils' Executive noted the pre-audited financial results for 2021/22 at its meeting on 21 June 2022. This report details the provisional levels of income and expenditure for the year and compares the results against the approved budget. The movement in the provisional surplus of £260,000 from £1.639 million, as reported to that meeting, and the surplus of £1.38 million included in the statement of accounts, is summarised in Table 1 below:

Table 1 – Movement in surplus position for 2021/22

	£000
Provisional surplus reported to the Executive	(1,639)
Transfer to the Freedom Pass Renewal Reserve	139
Additional Grant Committee year-end creditor	47
Adjustment to year-end RUCA debtor in relation to 2019/20	74
Rounding Difference	(1)
Pre-audited surplus reported in the accounts	(1,380)

5. The version of accounts that will be presented to Grant Thornton for their final audit includes adjustments to reflect the movements above which relate to:
 - the TEC sub-committee's approval of the transfer of £139,000 to the Freedom Pass Renewal Reserve at its meeting on 14 July 2022;
 - a creditor raised to reflect an additional grant payment made to Tender Education and Arts in April 2022 which related to previously held back payments on the extended 2017/18 to 2021/22 grants programme; and
 - an adjustment to a 2019/20 debtor within TEC to reflect actual fixed cost income received from GLA/TfL in respect of the Road User Charging Adjudication (RUCA) service.

6. The finalised revenue outturn for 2021/22, split across the three funding streams, is highlighted in Table 2 below:

Table 2 - Surplus for 2021/22 split across funding streams

	Grants	TEC	Core	Consolidated
	£000	£000	£000	£000
Total Expenditure	7,374	42,530	11,169	61,073
Total Income	(6,679)	(41,680)	(9,156)	(57,515)
Interest income/expense	31	245	619	895
Deficit for the year before transfer from reserves	726	1,095	2,632	4,453
Transfer from General Reserves	(627)	(867)	(984)	(2,478)
Net transfer from Specific Reserves	-	(185)	-	(185)
Transfer from Unusable Reserves	(108)	(858)	(2,204)	(3,170)
Surplus for the year after transfers from reserves	(9)	(815)	(556)	(1,380)

7. In accordance with Local Authority Accounting (LAA), the use of reserves during the year is excluded from each of the Comprehensive Income and Expenditure Statements featured in the audited accounts so that the statements only reflect the income and expenditure due in the relevant financial year. LAA also requires that actuarial gains or losses on the pension scheme during the year are included in the statement to derive the Total Comprehensive Income and Expenditure. These gains or losses which have not been realised arise due to the actual experience or events differing from the assumptions adopted by the actuary at the previous valuation. The effect of these requirements on the audited accounts is summarised in Table 3 below:

Table 3 – Adjusted position 2021/22 as shown in the statutory accounts

	Grants	TEC	Core	Consolidated
	£000	£000	£000	£000
Deficit for the year before transfer from reserves	726	1,095	2,632	4,453
Actuarial gain on pension assets/liabilities	(256)	(4,888)	(9,400)	(14,544)
Total Comprehensive Income and Expenditure	470	(3,793)	(6,768)	(10,091)

8. London Councils set a balanced budget for all three funding streams for 2021/22. An analysis of the main variances was included in the pre-audited report presented to the Executive in June. An update on the audited position will be presented at the next meeting of the Executive. An analysis of the main variances that contributed to the surplus of £1379 million is included for information for the Committee in Table 4 below:

Table 4 – Analysis of revenue account surplus 2021/22

	£000
Grants Committee	
Underspend on payments to providers of commissioned services	(53)
Overspend on administration costs	44
Transport & Environment Committee	
Underspend on Freedom Pass non-TfL bus services	(326)
Net surplus on Lorry Control Scheme administration & PCN income	(490)
Core Joint Committee	
Underspend on employee costs	(453)
Underspend on commissioning and other priority work	(227)
Underachievement on room hire and tenant income	214
Residual variances across all funding streams	(89)
Surplus for the year	(1,380)

9. Detailed explanation of these variances can be found in the Narrative Report on pages 6 to 9 of the Consolidated Statement of Accounts at Appendix A.
10. Another requirement of LAA is the separation of reserves between Usable Reserves and Unusable Reserves. Usable Reserves comprise of resources that can be used in the provision of services including reserves with spending restrictions. London Councils' Usable Reserves consist of the General Reserve, the Freedom Pass Renewal Specific Reserve and the TEC Special Projects Reserve. The Unusable Reserves cannot be used in the provision of services and are set up to deal with instances where income and expenditure are recognised against General Fund balances on a statutory basis which is different from that expected by accounting standards adopted by LAA. London Councils' Unusable Reserves consist of the Pensions Reserve and the Accumulated Absence Reserve which serve to offset the impact of the IAS19 Pension Liability and Accumulated Absence Liability on the General Reserve.
11. The level of Usable Reserves for each funding stream as at 31 March 2022 has been confirmed as follows:

Table 5 –Usable Reserves as at 31 March 2022

	Grants	TEC	Core	Consolidated
	£000	£000	£000	£000
Usable Reserves at 1 April 2021	1,363	6,006	6,344	13,713
Transfer from General Reserve	(627)	(867)	(984)	(2,478)
Net transfer from Specific Reserves	-	(185)	-	(185)
Surplus for the Year	9	815	556	1,380
Usable Reserves at 31 March 2021	745	5,769	5,917	12,431

12. The Unusable Reserves at 31 March 2022 amounted to a negative balance of £31.354 million consisting of a Pension Reserve of £31.189 million and an Accumulated Absences Reserve of £165,000. As mentioned in paragraph 10 above, the reserves offset the impact of their associated liabilities on the General Reserve.
13. The Pension Liability has decreased from £42.496 million as at 31 March 2021 to £31.189 million as at 31 March 2022, a reduction of £11.307 million. The reason for this change in the pensions liability is an increase in the discount rate which reduces the value of the pension obligation offset by an increase in the rate of inflation which increases the value of the obligation. The net effect of these changes to the financial assumptions contributes to the overall decrease in the defined benefit obligation of £2.286 million. The return on pension scheme assets during the period was higher than the discount rate assumed at 31 March 2022 which contributed to an increase in asset values of £9.021 million. This liability will continue to be recovered through future employers' pension contribution rates and anticipated improved returns on existing pension fund assets and will not, therefore, be a first call on existing London Councils General Reserves

The Audited Accounts

14. The audited accounts can be found at Appendices A – C. The accounts consist of the following core statements:
- **Comprehensive Income and Expenditure Statement**
This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices.
 - **Movement in Reserves Statement**
This statement shows the movement in the year on the different reserves held by the Committee, analysed into usable reserves and unusable reserves.
 - **Balance Sheet**
The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Committee. The net assets of the Committee (assets less liabilities) are matched by the reserves held by the Committee.
 - **Cash Flow Statement**
The Cash Flow Statement shows the changes in cash and cash equivalents of the Committee during the reporting period.
15. The statement of accounts include a number of notes that provide further detail to the cost, income and balances shown within the core statements.
16. Each statement also contains a Narrative Report which provides a review of the Committee's activities during the year, and a summary of the financial outturn. It also includes an Annual Governance Statement (AGS) which is a description of the key elements of the systems and processes that comprise the governance arrangements and the procedures applied to maintain and review their effectiveness. The pre-audited AGS for 2021/22 was approved by the Audit Committee at its meeting on 16 June 2022.

Financial Implications

The financial implications are contained in the body of the report.

Legal Implications

London Councils' financial regulations require the Director of Corporate Resources to present the audited statement of accounts to the Audit Committee for approval by 30 September each year.

Equalities Implications

None

Appendices

- Appendix A: London Councils Joint Committee Consolidated Statement of Accounts for the year ended 31 March 2022
- Appendix B: London Councils Transport and Environment Committee Statement of Accounts for the year ended 31 March 2022
- Appendix C: London Councils Grants Committee Statement of Accounts for the year ended 31 March 2022

Background papers

2021/22 Final accounts working files

Audit Committee

Internal Audit Update

Item no: 05

Report by: Matt Lock

Job title: Head of Audit & Risk Management
(City of London Corporation)

Date: 15 September 2022

Contact Officer: Martha Franco Murillo, Senior Auditor (City of London Corporation)
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Matt Lock, Head of Audit & Risk Management (City of London Corporation)

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Summary

The purpose of this report is to provide the Committee with an update in relation to the work of Internal Audit since the last update report made to the June 2022 meeting.

The report provides an overall status update on progress against the 2022/23 Internal Audit Plan and a summary of the findings from the completed review of Declarations of Interests & Gifts and Hospitality (Amber Assurance Opinion).

Recommendations The Audit Committee is asked to note and comment on the contents of the report.

Background

Internal Audit Plan 2022/23

1. At its meeting on 17 March 2022 the Audit Committee approved the Internal Audit Plan for 2022/23 that was proposed by the City of London's Internal Audit section under the terms of the service level agreement for financial support services. This report provides an update on the overall status of delivery of the Audit Plan. The table below summarises the overall status of the plan:

Planned Audits	Days	Status
Declarations of Interests and Gifts and Hospitality	5	Completed
Financial Management (including budget setting, budget monitoring and income control)	10	In progress
ICT Strategy	10	Planned for quarter 3
Procurement of Goods and Services	15	Planned for quarter 3
Information Governance and Data Security	10	Planned for quarter 4
Follow Up of Audit Recommendations	5	Planned for quarter 4

Internal Audit Reviews Completed Since the Last Update Report

Declarations of Interests and Gifts and Hospitality – Amber Assurance Rating (six recommendations raised)

2. The objectives of this Internal Audit review were to evaluate the adequacy of the arrangements in place to ensure that:
 - A policy for declarations of interest and Gifts and Hospitality for Members and Officers is available, in line with good practice (the Nolan Principles) and is properly disseminated.
 - Up to date registers of interests and gifts and hospitality for Members and Officers are maintained and have been completed in accordance with the timescales set out in the London Councils codes and protocols.
 - Members have adequate opportunities to declare pecuniary interests, and that new, relevant interests declared are recorded on the register in a timely fashion, as prescribed in the London Councils codes and protocols.

3. The Audit review found that:

- London Councils policies and procedures in respect of Declarations of Interests and Gifts and Hospitality for Members and Officers are in place, in line with the Nolan Principles of Public Life and are properly disseminated.
- Arrangements to ensure that registers of interests are maintained, up to date and have been completed in accordance with the timescales set out in the London Councils codes and protocols are not sufficient to ensure compliance. It is recommended that current London Councils' requirements, in respect of Members Declarations of Interests, be considered in light of legal obligations and proportionality within the context of the organisation, to help decide whether to either adapt the approach or improve existing mechanisms to ensure compliance with current rules – Audit recommendations have been formulated to support compliance with the latter option.
- Arrangements in respect of gifts and hospitality for officers were found to be well controlled.
- London Councils protocols offer adequate opportunities for Members to declare any new, relevant personal interests. Agendas for London Councils Committee meetings include "Declarations of Interests" as a standard item and any interests declared, are recorded in the minutes for that meeting.

4. Internal Audit is aware that the Governance team are discussing with Senior Leadership to evaluate requirements, the outcome of their discussion will inform next steps. The Audit Committee may wish to comment on this.

Conclusion

5. Work on the 2022/23 Internal Audit Plan is in progress, with one audit review completed and one audit initiated, in accordance with the timescales agreed with Senior Leadership. The findings of Audit reviews will be presented to this Committee following their completion.

Financial Implications for London Councils

None

Legal Implications for London Councils

None

Equalities Implications for London Councils

None

Appendices

None

Audit Committee

External Auditor Appointment

Item no: 06

Report by: David Sanni

Job title: Director, Corporate Resources

Date: 15 September 2022

Contact Officer: David Sanni

Telephone: 020 7934 9704

Email: david.sanni@londoncouncils.gov.uk

Summary

This report provides an update on the appointment of an external auditor for London Councils.

Recommendations

The Audit Committee is asked to note the content of the report.

Introduction

1. At its meeting on 16 June 2022, the Audit Committee agreed to proposals to retender the external audit service. London Councils' governing agreement requires annual audited accounts to be produced for its three joint committees. In addition, there are statutory requirements to audit the annual accounts of the limited company and the employers' association annual return.

Procurement Process

2. An open tender exercise was published for the procurement of an external audit service to audit the accounts and annual returns for the 2022/23 to 2025/26 financial years. A decision to proceed with an open tender procedure rather than a procurement framework, as used in previous exercises, was taken in order to open up the process to allow more competition so that a wider number of firms would bid for the contract. A previous requirement for local government experience was removed in order to attract more interest from audit firms. The tender was advertised on the government Find a Tender portal for 30 day period in accordance with the procurement regulations. The tender was also advertised on London Councils website. Despite a reasonable number of views of the tender advert on the portal, there were no bids received by the submission deadline.
3. As no bids were received, officers sought legal advice from the City of London Solicitor's department on whether the negotiated procedure without prior publication allowed under Regulation 32 of the Public Contracts Regulations 2015 could be used to procure an auditor. The legal team confirmed that Regulation 32 permitted London Councils to negotiate a contract without prior publication as no bids were submitted in response to the open tender procedure. The negotiations under this process are subject to certain conditions which include no substantial changes to the contract terms and conditions set out in the advertised tender.

4. The legal team also advised that London Councils could consider issuing a Voluntary Ex-ante Transparency Notice (VEAT Notice) to mitigate the risk of any challenge to the procurement process. A VEAT notice is normally used where a contracting authority has awarded a contract to a supplier without first having published a tender notice. The legal team acknowledge that the risk of any challenge is highly likely to be very remote as no bids were received in response to the original open tender.

Next Steps

5. Officers have started discussions with a number of mid-tier firms to identify ones interested in providing an external audit service to London Councils. Firms that have expressed an interest will be asked to submit bids for the work to test the market and ensure value for money is achieved. The outcome of this exercise will be reported to this Committee to consider and make a recommendation to the Leaders' Committee on the appointment of the external auditor.
6. The next meeting of this Committee will be held in March 2023. Therefore, it is proposed that the Director of Corporate Resources inform members, by correspondence, of the outcome of the procurement exercise and recommend that the Committee make a further recommendation to the Leaders' Committee to approve the appointment of the successful audit firm. Members of this Committee should confirm their agreement by correspondence. It is anticipated that the procurement exercise will be completed by the end of October 2022. This will allow the recommendation on the appointment of the auditor to be presented to the Leaders' Committee meeting in December 2022.

Financial Implications for London Councils

The cost of the audit of the 2022/23 financial accounts will be met from existing budgetary provisions.

Legal Implications for London Councils

The legal implications are included in the body of the report.

Equalities Implications for London Councils

None

Appendices

None

Background Papers

Audit Committee Report on External Audit Fee 2021/22 dated 16 June 2022
Audit Committee, Terms of Reference

Audit Committee

London Councils' Pension Scheme

Item no: 07

Report by: David Sanni

Job title: Director, Corporate Resources

Date: 15 September 2022

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Summary

This report provides an update on discussions with the London Pension Fund Authority (LPFA) on its investment performance since the last Committee meeting on 16 June 2022.

Recommendations

The Audit Committee is asked to note the content of the report.

Background

1. At its meeting on 17 March 2022, the Audit Committee received a report that provided an overview of London Councils' pension scheme. It also included the outcome of officers' review of the reason for the significant increase in the value of the IAS19 net pension liability included in the 2020/21 financial accounts. The net liability had increased by £18 million from £24 million to £42 million during 2020/21. The percentage increase of 75% was higher than that of other local authority bodies.
2. A comparison to a sample of member boroughs schemes revealed two main reasons for the higher percentage increase. The first was London Councils had a longer average duration of pension liabilities compared to the sample of boroughs. This is primarily due to the age profile of employees, pensioners and deferred pensioners. The second reason was a lower increase in the value of pension assets over the financial year. The lower increase in asset values over the 2020/21 financial year was reflected in the LPFA's annual report which states that its fund delivered a 16.6% investment return which was below its policy portfolio benchmark of 25.2%.
3. A letter was sent to Councillor Ruth Dombey, the Leader of the London Borough of Sutton, who sits on the LPFA board and is the group leader of the Liberal Democrats at London Councils. The letter set out the Committee's concerns on the fund's investment performance. Councillor Dombey received the letter with interest and discussed the Committee's concerns with the Chair and Chief Executive Officer of the LPFA and asked them to provide a timely response.
4. Robert Branagh, the Chief Executive Officer of LPFA, provided a response on the investment performance for 2020/21 stating that its Investment Committee had explored the reasons for not achieving its portfolio benchmark and that the LPFA was satisfied that it was a consequence of the Local Pensions Partnership Investments Ltd's (LPPI) investment approach of which they support. He also stated that the investment approach has provided impressive

returns of long-term horizons. LPPI manages the LPFA's assets and is part of a pension asset pooling arrangement with Lancashire County Council.

5. The Committee discussed the contents of the letter at its meeting on 16 June 2022 and concluded that it lacked sufficient information on the fund's investment performance. The Committee asked officers to continue to pursue the matter with the leadership of the LPFA and LPPI.

Outcome of Further Engagement with the LPFA

6. The feedback received from the Committee was shared with LPFA officers. Both Robert Branagh and Peter Ballard, the Funding and Risk Director, acknowledge the Committee's concerns and have offered to meet with members of the Committee to discuss the fund's investment performance.
7. Peter Ballard informed officers that the LPFA receive a number of reports from LPPI on a regular basis that are scrutinised and challenged as appropriate against the backdrop of being a long-term investor. The actuarial valuation also assists in ensuring the financial sustainability of the fund, taking into account the risk and return profile of investments in a prudent manner.
8. The LPFA seeks to understand how the LPPI performs against its peers and the wider market as part of its oversight role. It has recently subscribed to a benchmarking service carried out independently by the Pension and Investment Research Consultants (PIRC). PIRC undertakes an annual exercise of comparing investment returns across LGPS funds. Its 2021/22 Local Authority Pension Performance Analytics (LAPPA) report showed that the LPFA's returns of 13.5% put it at the top of the ranking of the 62 LGPS funds included in the benchmark study. The report also showed that the LPFA was in the top quartile of LGPS funds by performance over 1, 3 and 5 years. The returns over these periods were all in excess of the actuarial discount rate benchmark, which was most recently set at 5.3% pa as at the 31 March 2019 actuarial valuation of the fund. Overall, the data shows that the LPFA fund performs well in comparison to its LGPS peers.

9. Whilst the LPFA has not provided comparison to funds in other sectors, its investment strategy sets out its primary objective of ensuring that over the long-term, the fund will have sufficient assets to meet all pension liabilities as they fall due. It has adopted the following investment objectives in order to achieve this primary objective:

- optimise the net returns from investments whilst keeping risk within acceptable levels and ensuring liquidity requirements are at all times met;
- contribute towards achieving and maintaining a sustainable future funding level; and
- enable employer contribution rates to be kept as stable as possible.

10. The LPFA Board has adopted a range of metrics to assess the likelihood of these objectives being achieved in practice. The LPFA sets its strategic asset allocation and risk parameters with full delegation given to LPPI to invest within that strategy. The LPPI's investment approach is built on three pillars:

- *“Scale – enables it to access a broader range of investment opportunities*
- *Governance – delegated, independent decision making, and governance structures enable effective investment management.*
- *In-house investment and risk management – deep and broad in-house investment expertise across major asset classes in both public and private markets, enabling us to better understand clients' liabilities and funding needs and to develop appropriate investment strategies to meet these requirements.”*

Performance Measurement

11. The LPFA's current investment strategy sets out its performance measures as follows:

“At the highest level, the Board has set a Return Objective of UK CPI +3.6% pa. LPPI will seek to manage the Fund with a view to achieving the Return Objective. The Board recognises that the Return Objective is intended to apply only over the very long-time horizons over which the Fund’s liabilities will be paid. The Board also notes that the achievement or otherwise of the Return Objective is not necessarily a good measure of LPPI’s performance.

The performance of the Fund is also measured relative to the returns on the notional Policy Portfolio. The performance of the Policy Portfolio is calculated based on:

- allocations to each asset class in line with the Strategic Asset Allocation, and*
- returns on each asset class in line with the benchmark for that class.*

The performance of the pooling arrangements is monitored via regular reporting and through periodic meetings. Performance for LPPI is measured against the Policy Portfolio. LPPI seeks to outperform the Policy Portfolio on a risk adjusted basis by tilting asset weights in an opportunistic manner, via active sub-asset class selection, and selecting the best stocks/managers for each of the pooled funds.

The Board also monitors the performance of each asset class relative to the benchmark for that asset class. Where performance falls short of expectations the Board will identify the cause of this underperformance and will respond appropriately. The Board’s response could include:

- altering the Strategic Asset Allocation (for example where asset allocation is the underlying cause);*
 - requesting changes to the management of the pooled funds (for example where management skill within LPPI is the underlying cause);*
- or*

- *withdraw approval of any of the LPPI pooled funds from the list of approved funds for use within the Policy Portfolio.*

In practice LPFA would expect to work collaboratively with LPPI to identify and remedy the cause of any underperformance.”

12. As with other LGPS funds the LPFA publishes information on its arrangements and performance, however, the oversight process carried out by its Investment Committee and Board involves the use of a great deal of technical data which is not all in the public domain.

Meeting with LPFA

13. London Councils officers will liaise with the LPFA to identify a suitable date for members of the Committee to meet with LPFA officers.

Financial Implications for London Councils

None

Legal Implications for London Councils

None

Equalities Implications for London Councils

None

Appendices

None

Background Papers

Audit Committee report on London Councils Pension Scheme 16 June 2022
PIRC Local Authority Pension Performance Analytics (LAPPA) report 2021/22
LPFA Investment Strategy Statement – September 2021
Final accounts working papers 2020/21 and 2021/22

Audit Committee

Dates of Audit Committee Meetings for 2023/24

Item no: 08

Report by: Alan Edwards **Job title:** Governance Manager
Date: 15 September 2022
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Summary This report notifies members of the proposed Audit Committee meeting dates for 2023/24.

Recommendations It is recommended that members discuss/note the proposed dates for 2023/24.

Audit Committee Dates for 2023/24

- Thursday 16 March 2023 (at 10.30am)
- Thursday 15 June 2023 (at 10.30am)
- Thursday 14 September 2023 (at 10.30am)
- Thursday 14 March 2024 (at 10.30am)

The above meetings are scheduled to take place at London Councils, 59½ Southwark Street, London SE1 0AL (start times are in brackets).