MEETING
PENSION FUND COMMITTEE
DATE AND TIME
TUESDAY 16TH OCTOBER, 2018
AT 7.00 PM
VENUE
HENDON TOWN HALL, THE BURROUGHS, LONDON NW4 4AX

Dear Councillors,

Please find enclosed additional papers relating to the following items for the above mentioned meeting which were not available at the time of collation of the agenda.

Item No	Title of Report	Pages
7	EXTERNAL AUDITOR'S REPORT - Appendix A – updated	3 - 42
16	ANY ITEM(S) THAT THE CHAIRMAN DECIDES IS URGENT - London CIV Governance Changes	43 - 60

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LONDON BOROUGH OF BARNET PENSION FUND

AUDIT COMPLETION REPORT

Audit for the year ended 31 March 2018

10 October 2018

AGENDA ITEM 7

CONTENTS

WELCOME

We have pleasure in presenting our Audit Completion Report to the Pension Fund Committee. This report is an integral part of our communication strategy with you, a strategy which is designed to ensure effective two way communication throughout the audit process with those charged with governance.

It summarises the results of completing the planned audit approach for the year ended 31 March 2018, specific audit findings and areas requiring further discussion and/or the attention of the Pension Fund Committee. At the completion stage of the audit it is essential that we engage with the Pension Fund Committee on the results of audit work on key risk areas, including significant estimates and judgements made by management, critical accounting policies, any significant deficiencies in internal controls, and the presentation and disclosure in the financial statements.

We look forward to discussing these matters with you at the next Pension Fund Committee meeting, and to receiving your input.

In the meantime, if you would like to discuss any aspects in advance of the meeting we would be happy to do so.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and use of resources. This report has been prepared solely for the use of the Pension Fund Committee. In preparing this report we do not accept or assume responsibility for any other purpose or to any other person.

We would also like to take this opportunity to thank the management and staff of the pension fund for the co-operation and assistance provided during the audit.

OVERVIEW

This summary provides an overview of the audit matters that we believe are important to the Pension Fund Committee in reviewing the results of the audit of the financial statements of the pension fund for the year ended 31 March 2018.

It is also intended to promote effective communication and discussion and to ensure that the results of the audit appropriately incorporate input from those charged with governance.

AUDIT SCOPE AND OBJECTIVES	
Audit status	We have completed our audit procedures in accordance with the planned scope and our objectives have been achieved, subject to resolution of matters, which are largely procedural, set out in the outstanding matters section below.
Audit risks update	No additional significant audit risks were identified during the course of our audit procedures subsequent to our Audit Plan dated 30 May 2018.
Materiality	Our final materiality is £10.9 million for the net asset statement and £2.95 million for the fund account. This has been updated from our Audit Plan to reflect final amounts in the financial statements.
Changes to audit approach	There were no significant changes to our planned audit approach nor were any restrictions placed on our audit.
KEY AUDIT AND ACCOUNTING MATTERS	
Material misstatements	Our audit identified no material misstatements.
Unadjusted audit differences	There are five unadjusted audit differences identified by our audit work which if corrected, would decrease the net assets of the Fund by £0.301 million to £1,096.267 million. These are detailed at Appendix I.
Control environment	Our audit identified one significant deficiency in internal controls.
AUDIT OPINION	
Financial statements	We propose issuing an unmodified opinion on the financial statements for the year ended 31 March 2018.
Pension fund annual report	We confirmed that the financial statements in the pension fund annual report are consistent with the Statement of Accounts.
OTHER MATTERS FOR THE ATTENTION OF THE PENSION FUND COMMITTEE	
Audit independence	Our observations on our audit independence and objectivity and related matters are set out in Appendix IV.
Letter of representation	The draft management letter of representation, to be approved and signed, is set out in Appendix VI.

OUTSTANDING MATTERS

The following matters are outstanding at the date of this report. We will update you on their current status at the Pension Fund Committee meeting at which this report is considered:

1. Quality control review sign-off
2. Final review and approval by you of the pension fund financial statements
3. Subsequent events review to the date of the opinion
4. Management letter of representation, as attached in Appendix VI to be approved and signed

KEY AUDIT AND ACCOUNTING MATTERS

AUDIT RISKS

We have assessed the following as audit risks from our audit planning. We set out how these risks have been addressed and the outcomes of our work.

Key: ■ Significant risk ■ Normal risk

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
1	Management override of controls	Auditing standards presume that a risk of management override of controls is present in all entities and require us to respond to this risk by testing the appropriateness of accounting journals and other adjustments to the financial statements, reviewing accounting estimates for possible bias and obtaining an understanding of the business rationale of significant transactions that appear to be unusual. By its nature, there are no controls in place to mitigate the risk of management override.	We have: • Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.	Our testing of a sample of journal entries identified no evidence of fraud due to management override of controls. We have highlighted one deficiency in controls in respect of the processing of journals and included a recommendation within Appendix II of this report.
			• Reviewed accounting estimates for biases and evaluated whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud.	We have not identified bias in accounting estimates. Our views on significant management estimates are set out within this report.
			• Obtained an understanding of the business rationale for significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual.	No significant transactions were identified which were outside the normal course of business or that otherwise appeared to be unusual.

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
2	Membership data	Membership information including the number of current contributors, deferred beneficiaries and pensioners by employer is required to be disclosed in the financial statements. During last year's audit we identified issues within the membership data and we noted this as a significant control deficiency. We have therefore recognised a significant risk that the membership database may not be accurate and up to date to support this disclosure this year.	We have: • Obtained membership records and review the controls over the maintenance of these records.	We have seen evidence that a significant data cleansing exercise has taken place which resulted in a large number of outdated records being updated. Our testing in this area identified one error as set out below, which indicates that there is still further cleansing work to be done.
			• Tested a sample of movements of members to transactions recorded in the fund account, and other underlying supporting documentation.	Our substantive testing of a sample of active members from membership records found 1 individual (out of 30 tested) who was recorded active and accruing benefits and still employed but had ceased paying pension contributions as they had left the scheme.
			• Checked the membership numbers disclosure in the draft financial statements to the membership database	Our testing also included a comparison of the membership data to the first draft accounts and identified variances. From discussion with management the variances are owing to late notifications of change of membership status. The membership data we used to compare to the draft accounts included changes that were only processed in 2018/19 but actually relate to the 2017/18 year. Management has since revised the draft accounts to reflect the most up to date position of membership at 31 March 2018.

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
3	Cash and bank	In previous audits, we noted delays in the receipt of bank reconciliations, and a number of errors when reconciliations were eventually received. As a result, we reported a significant control deficiency around the bank reconciliation process. We also noted three 'off-ledger' bank accounts with nil balances. We have therefore recognised a significant risk over the existence, completeness and accuracy of cash at bank.	We have: • Reviewed these bank accounts to check that all transactions are properly recorded in the ledger and reconciled at year end.	These bank accounts have now been closed and there were no transactions in these accounts during the year.
4	Pension liability assumptions	An estimate of the pension fund liability to pay future pensions is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate is based on the 2016 triennial membership data, rolled forward, and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation at 31 March 2018 when calculating the liability. There is a risk the valuation is not based on accurate membership data or uses inappropriate assumptions to value the liability.	We have: • Reviewed the controls in place to ensure that the data provided from the fund to the actuary is complete and accurate.	Our review of the controls highlighted a number of deficiencies including the draft data specification from the actuary was used rather than the final and the dataset did not meet the actuary's requirements. There was no evidence that where changes. The actuary has confirmed that the valuations at 31 March 2018 use the 'roll forward' of membership data at 31 March 2016 used in the triennial valuations and therefore these membership data errors do not impact on the valuation of the liabilities provided at 31 March 2018. We identified a number of differences, which would impact on the pension fund liability calculation however, these were within level of tolerance used by actuary and therefore these were considered reasonable. We have detailed recommendations in the action plan in Appendix II.
			• Reviewed the reasonableness of the key assumptions used to value the liability to pay future pensions by reference to expected benchmarks.	Our review on the reasonableness of the assumptions used is shown on the following page.

KEY AUDIT AND ACCOUNTING MATTERS

SIGNIFICANT ESTIMATE | **IMPACT**

The key assumptions include estimating future expected cash flows to pay pensions including inflation, salary increases and mortality of members; and the discount rate to calculate the present value of these cash outflows

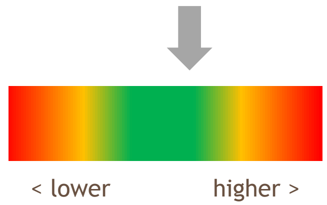
The liability to pay future pensions has increased by £35 million to £1,864 million at 31 March 2018. This is principally due to an increase in the current service cost on the prior year due to an increase in the RPI, partially offset by an increase in the discount rate used to value future liabilities (from 2.5% to 2.6%).

We compared the assumptions and estimates used by the actuary with the expected ranges provided by an independent consulting actuary.

	Actual	Expected / acceptable range	Comments
RPI increase	3.4%	3.4%	Reasonable
CPI increase	2.4%	2.4%	Reasonable
Salary increase	2.7%	--	Reasonable (1% to 2020 then derived from RPI)
Pension increase	2.4%	2.4%	Reasonable
Discount rate	2.6%	2.6-2.7%	Reasonable (tends to lower of range to reflect liability cashflow matching)
Mortality - LGPS:			
- Male future	23.9 years	23.7-24.4	Reasonable
- Female future	26.5 years	26.2-26.9	Reasonable
- Male current	21.9 years	21.5-22.8	Reasonable
- Female current	24.3 years	24.1-25.1	Reasonable
Commutation:			
- Pre 2008	50%	25% - 75%	Reasonable
- Post 2008	50%	25% - 75%	Reasonable

We are satisfied that the assumptions used are reasonable.

Our consulting actuary has noted that a 0.1% reduction in the discount rate results in an increase in the liability of approximately 2%, suggesting that the actuary has tended to use strong assumptions (higher liabilities) in this estimate when compared to the acceptable range.



KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
5	Fair value of investments	The fair value of funds (principally pooled investments) is provided by individual fund managers and reviewed by Hyman's Investment Advisory team, and reported on a quarterly basis. There is a risk that investments may not be appropriately valued and correctly recorded in the financial statements.	We have: • Obtained direct confirmation of all investment valuations from the fund managers. • Obtained independent assurance reports over the controls operated by both the fund managers and custodian for valuations and existence of underlying investments in the funds.	All required fund manager valuation reports have been received and were agreed to the financial statements. We obtained independent assurance reports for all ten fund managers. Our review of these reports did not identify any audit findings to report on over the valuation and existence of underlying investments in the fund. The investment note was misstated by £0.105 million owing to the Clearant Europe Direct Lending fund manager statements received after preparation of the first draft of accounts.
6	Contributions receivable (normal / deficit and strain / augmented pensions)	Employers are required to deduct amounts from employee pay based on tiered pay rates and to make employer contributions in accordance with rates agreed with the actuary. Additional contributions are also required against pension strain for early retirements and augmentation of pensions. There is a risk that employers may not be calculating contributions correctly or paying over the full amount due to the pension fund.	We have: • Checked a sample of active members to evidence relevant to the amounts of normal / deficit contributions receivable to the fund including checking to employer payroll records, where relevant. • Reviewed contributions receivable to ensure that income is recognised in the correct accounting period where the employer is making payments in the following month.	We obtained evidence to corroborate individuals recorded as active members on Hartlink at the year-end. No issues identified. Testing confirmed that contributions have been correctly calculated and recorded in respect of individuals tested.

KEY AUDIT AND ACCOUNTING MATTERS

AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
	Continued	• Reviewed contributions income in accordance with the Actuary's Rates and Adjustments Certificate, including specified increased rates to cover the minimum contributions to be paid as set out in the Certificate.	We do not have any issues to report.
		• Tested a sample of retiring members during the year where the employer had augmented the accrued pension or where the member had retired before the normal retirement age with unreduced pension, to confirm that the cost to the pension fund had been charged to the employer.	We identified that £1.5 million augmentation contributions due from Middlesex University had been recovered from HEFCE. Management has written off augmentation contributions receivable and current assets by £1.5 million in the financial statements. Our testing of early retirements with unreduced pensions and augmented pensions found instances where we could not locate evidence of the employer being charged for these additional capital costs. A review by the pensions team has identified potential under charging for strain and augmentation costs in 2017/18 of £0.329 million. We have reported this as an uncorrected error in Appendix I. Management will issue retrospective invoices to employers for this amount and will also review 2016/17 retirements to assess the potential billing in previous years.
		• Reviewed the disclosures in the financial statements for pension contributions.	Our testing of the disclosure for contributions by type identified errors in the analysis between normal, deficit and augmentation contributions as follows: • £1.744 million HFCE contribution was initially recorded as a normal contribution. Management reclassified to augmentation contribution. • £0.312 million deficit accrual was re-allocated to normal contributions. Where the employer is making additional payments for deficit (secondary) contributions as part of the overall payroll charge, it is not clear how much relates to the normal (primary) or deficit contribution.

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
7	Investment management expenses	Fund managers do not ordinarily provide information on other fees included in investing contributions. These fees are deducted when the investment is made by the fund manager and hence is included in the change in market value of investments. This disclosure is a mandatory requirement for the 2017/18 financial statements. We consider there to be a risk in the presentation of investment management expenses in the fund accounts where these 'hidden' fees are not identified and separately reported.	We have: • Reviewed the arrangements put in place by management to identify all relevant investment management fees, and responses provided by fund managers, to ensure that the true costs are disclosed appropriately in the fund accounts. • For a sample of investment management expense we agreed amount to year end confirmations received from the fund managers by the pension fund.	Fund managers have provided additional information on fees this year. Investment management fees have been agreed to fund manager invoices. We agreed investment management expenses to fund manager invoices and did not identify any issues.
8	Consideration of related party transactions	We consider if the disclosures in the financial statements concerning related party transactions are complete, accurate and in line with the requirements of the accounting standards.	We have: • Discussed with management and reviewed members' and Senior Management declarations to ensure that there are no potential related party transactions which have not been disclosed.	We did not identify any issues with the completeness and accuracy of related party transactions.
9	Remuneration of key management personnel	In the previous year we identified that the Council recharged amounts to the Pension Fund in respect of key management personnel services which had not been disclosed within the financial statements. However, management did make the necessary adjustments in the accounts.	We have: • Re-performed the calculation of Senior Management remuneration using the monthly payroll report and compared it with that of management's workings and accounts disclosures.	We identified that there was an overstatement in the Key Management Personnel note of £7,000 and Barnet Council payroll recharge which was not corrected by Management. We did not identify any further issues with the disclosure of remuneration of key management personnel.

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
10	Fair value hierarchy disclosure	In the draft financial statements, there was a change to the fair value hierarchy analysis compared to the previous year and a significant amount of Level 2 was classified as either Level 1 or Level 3 with no justification.	We have: • Checked fair value hierarchy disclosures against the with pension fund guidance for the type of asset held.	We identified that the fair value hierarchy disclosed in the draft accounts was not in line with the guidance. This has been amended by Management.
11	Benefits payable	Benefits payable may not be correct based on accrued benefits of members or may not be in calculated in accordance with the scheme regulations. Payment to wrong or non-existent members will result in loss of assets and risk of reputational damage.	We have: • For members leaving the scheme and deferring their pension and members becoming entitled to receive pension during the year, checked a sample of calculations of pension entitlement.	No issues were found in our testing of a sample of employees leaving the scheme including the calculation of the deferred pensions or lump sum and pension benefit for retiring members.
			• Checked the correct application of annual pension uplift for members in receipt of benefits.	The correct 1% uplift was applied to pensioner benefits.
			• Checked a sample of pensioners in receipt of pensions to underlying records to confirm the existence of the member and also review the results of the checks undertaken by ATMOS on the existence of pensioners.	No issues noted from the testing of existence of members. We reviewed the checks undertaken by ATMOS in relation to deceased individuals and noted that payment was stopped on the month the individual died. If payment was made after the date of death due to the Council not being informed, steps were taken to recover the costs where it was greater than £50.

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
11		Continued	• Checked payroll reports for benefits paid to the expenditure recorded in the ledger.	A breakdown of the pension payments for the year was obtained and compared to the amounts recorded in the ledger. We noted a difference of £225,000. Management stated the variance represents the difference between the pensions reported in the accounts (£43.16 million) and P60 (£42.93 million). There are items included in the P60 that may be paid in an earlier or later year. There may be a potential understatement of benefits paid, however management have not been able to substantiate what this difference relates to.

KEY AUDIT AND ACCOUNTING MATTERS

OTHER ISSUES

We comment below on other issues identified in the course of our audit, of which we believe you should be aware:

	AUDIT AREA	AUDIT FINDINGS
12	Financial statements disclosures	We have suggested a number of changes to the financial statements, in respect of formatting, ensuring consistency between disclosures and arithmetic accuracy. Management have included additional disclosure around the equities and bonds held within pooled funds between the UK and overseas. However, comparative information was not available for this note.
13	Other disclosure issues	We identified a number of other disclosure issues within the first draft accounts: • The Benefits Payable by Authority did not disclose analysis of benefits between employers. • The analysis of strain costs by employer type had not been confirmed and all costs were allocated to the Council. • The current 2017/18 audit fee included additional fees for the year 2016/17 financial year. • Inconsistency in the classification of Cash and Cash Equivalents across the Classification of Financial Instruments and Fair Value Hierarchy note. • We noted some casting errors in the primary statements and some of the supporting notes. • The comparative figures within the Key Management Personnel note did not agree to the prior year amounts. • The Additional Voluntary Contributions note did not disclose the amount paid to Aviva. These have been corrected by management.

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	AUDIT FINDINGS
14	Analysis of operational expenses	During the audit, we queried the analysis of administration and governance and oversight expenditure. Governance tends to include expenditure required to support the 'Board' (Pension Fund Committee) in its oversight role and legal reporting requirements. Administration costs include all other costs that are mainly anything to do with running the pension scheme. Governance costs appear high against administration expenses and it appears that the full amount of the recharge costs from the Council are classified as governance costs whereas we consider that a significant amount is likely to relate to administration and support costs. Management will review the allocation of costs in 2018/19.
15	Aged debts	A review of the aged debtor list noted that there are many older debts including amounts outstanding since 2015 and little evidence of credit control or recovery procedures in place. In our view, there is a risk regarding recovery of some of these older debts and we have estimated that up to £0.405 million of debt is now at risk of non-collection. We have reported this as a potential misstatement in Appendix I. We have raised a recommendation in relation to the review of the aged debtor analysis and the requirement for appropriate credit control and the chasing of debts.
16	Fraud	Whilst the Director of Finance and members have ultimate responsibility for prevention and detection of fraud, we are required to obtain reasonable assurance that the financial statements are free from material misstatement, including those arising as a result of fraud. Our audit procedures did not identify any fraud in the pension fund.

OTHER REPORTING MATTERS

We comment below on other reporting required to be considered in arriving at the final content of our audit report:

	MATTER	COMMENT
1	Pension fund annual report	We confirmed that the financial statements in the pension fund annual report are consistent with the Statement of Accounts.

CONTROL ENVIRONMENT

We are required to report to you, in writing, significant deficiencies in internal control that we have identified during the audit. These matters are limited to those which we have concluded are of sufficient importance to merit being reported to the Pension Fund Committee.

As the purpose of the audit is for us to express an opinion on the pension fund's financial statements, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist. As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

Significant deficiencies

Our audit has identified one significant deficiency in relation to controls over membership data which would assure data quality and identify errors on an ongoing basis, for example the reconciliation of information provided by employers on contributions by individual each month to membership records.

Further details are included within the action plan at Appendix II.

Other deficiencies

We have also identified other deficiencies in controls which have been discussed with management and included in the action plan at Appendix II.

APPENDICES

APPENDIX I: AUDIT DIFFERENCES

We are required to bring to your attention audit differences identified during the audit, except for those that are clearly trivial, that the Pension Fund Committee is required to consider. This includes: audit differences that have been corrected by management; and those that remain uncorrected along with the effect that they have individually, and in aggregate, on the financial statements.

ADJUSTED AUDIT DIFFERENCES

Our audit has not identified any material misstatements.

UNADJUSTED AUDIT DIFFERENCES

There are three unadjusted audit differences identified by our audit work which, if corrected, would decrease the net assets of the Fund by £0.301 million to £1,096.267 million.

The fund performance for the year was an increase in net assets of £44.411 million.

You consider these misstatements to be immaterial in the context of the financial statements taken as a whole. We concur with this judgement, however, we also request that you correct them even though not material.

		FUND ACCOUNT		NET ASSETS	
		DR	CR	DR	CR
	£’000	£’000	£’000	£’000	£’000
Net Assets before adjustments	**1,096,568**				
DR Benefits payable		225			
CR Current liabilities					(225)
(1) Unexplained difference between payroll report and financial statements	(**225**)				

APPENDIX I: AUDIT DIFFERENCES

		FUND ACCOUNT		NET ASSETS	
		DR	CR	DR	CR
	£'000	£'000	£'000	£'000	£'000
DR Bad debt provision		405			
CR Current assets - debtors					(405)
(2) Provision for unrecovered debt more than two years old	**(405)**				
DR Current assets				329	
CR Contributions			(329)		
(3) Identification of strain costs that had not been invoiced or accrued	**329**				
TOTAL UNADJUSTED AUDIT DIFFERENCES	**(301)**	**630**	**(329)**	**329**	**630**
Net assets if adjustments accounted for	**1,096,267**				

UNADJUSTED DISCLOSURE MATTERS

The following unadjusted disclosure matters were noted:

- Within the financial instruments note (note 15), the interest rate risk disclosure did not include details on effects of a change in interest rate on the valuation of pooled investment vehicle assets. Management had not included a quantitative disclosure in the draft accounts for currency risk arising from pooled investment vehicles containing foreign currency investments.
- Within the contributions note (note 6) by category, deficit contributions are not split appropriately. We consider the footnote to not be appropriate and the contents of the footnote should be reflected in the actual note. So that normal contributions are reduced and deficit contributions are increased (and comparatives) accordingly.

APPENDIX I: AUDIT DIFFERENCES

		FUND ACCOUNT		NET ASSETS	
		DR	CR	DR	CR
IMPACT ON CURRENT YEAR FUND ACCOUNT OF PREVIOUS YEAR ERRORS	£’000	£’000	£’000	£’000	£’000
DR Net assets brought forward				627	
CR Changes in market value			(262)		
CR Payments to and on behalf of leavers			(365)		
(4) Impact of brought forward adjusted misstatements	**627**				
TOTAL UNADJUSTED AUDIT DIFFERENCES	627		(627)	627	

APPENDIX II: RECOMMENDATIONS AND ACTION PLAN

Key: ■ Significant deficiency in internal control ■ Other deficiency in internal control

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
Membership data	Over the last year two years we reported a significant deficiency in internal control in respect of delays in updating membership records. This year, we have seen evidence that a data cleansing exercise has taken place and further improvements have been made. However, our testing of a sample of membership records and individual contributions has highlighted that errors remain within the Fund's membership data. We therefore consider that there remains a significant deficiency in this area. If up to date membership data cannot be provided by the Fund, there is a risk this could impact materially upon triennial funding valuations, which increases the risk that the Fund may not be able to meet future liabilities.	We recommend that management completely review the internal controls in place around the maintenance and quality assurance of membership data, to ensure that this can be kept up to date and sufficiently accurate. Whilst periodic data cleansing may form one part of the control environment, we would expect stronger controls to be put into place to assure data quality and identify errors on an ongoing basis, for example the reconciliation of information provided by employers on contributions by individual each month to membership records, perhaps on a sample or rolling basis. Although it is recognised that the Pension Fund relies on individual employers to notify it of changes, it should be more proactive in identifying and following up apparent discrepancies when they arise.	A workshop has been held during September 2018 with the Pensions / Finance Teams that included a review of the end to end control process and monthly reconciliations. Revised control processes will be implemented during Q4, 2018. In addition, data cleanse activities remain ongoing as agreed with the Council.	Keith Barker / Mark Richardson	Q4, 2018

APPENDIX II: RECOMMENDATIONS AND ACTION PLAN

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMIMG
Ownership of the accounts preparation function	We noted some improvement in the quality of the accounts prepared this year compared to the prior year, however, greater ownership of the accounts production process is required in relation to the information which is generated outside of the core finance team and the following up of audit queries. A lack of ownership can lead to delays in completion of the audit and increased the risk of material misstatement through error.	We recommend that a clear work flow is set up with the non-centralised team so that high quality financials are provided on a timely basis and that delivery of this can be monitored so as not to impact of audit delivery.	A workshop has been held during September 2018 and this included a review to ensure roles and responsibilities are clearly defined to support any future audit engagements. This will be communicated with BDO as part of the audit completion to help improve processes for future years.	Keith Barker / Mark Richardson	Sept 2018
Journals in Integra	The Integra system allows journals to be prepared and approved by the same user. We identified a number of journals processed where the preparer and approver in the Integra system were the same person and where there was no approver. No evidence of independent review was provided. The lack of segregation of duties in journals posting may result in an increased risk of fraud and/or error.	Remind the user concerned of the requirement to obtain independent approval in Integra of all journals they prepare. Change system design to ensure all journals, including journals which reallocate cash from suspense have to be independently authorised.	The process to require independent approval of journals was implemented during December 2017 and has operated without exception subsequently. Allocating cash in suspense is not a journal and does not require independent approval.	George Bruce, Head of Treasury	N/A - already in place.

APPENDIX II: RECOMMENDATIONS AND ACTION PLAN

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMIMG
Review of debtor recoverability	We noted invoices where payment had not been received dating back to the 2014-15 financial year. There were debtors totalling £2.6 million that were more than 1 year old. Management could not provide a recoverability assessment as a review of the aged debtor report had not been performed. This increases the risk of non-recoverability of debtors and overstatement of the debtors in the statement of accounts.	We recommend that management performs a timely review of debtors to identify any that are long outstanding, perform an assessment for non-recovery of debtors and provide for these debtors where appropriate.	A full review will be undertaken during 2018-19 and unless these debts can be collected during the year, they will be written off.	George Bruce Head of Treasury	31 December 2018
Employers leaving the pool	We identified that 4 employers had left the pool, but not removed from the pool on the basis of immateriality to the net pension fund liability, subject to consultation with the scheme actuary. We agreed with this assessment, however, we noted that there was not a process in place to monitor leavers from the Barnet pool and the cumulative effect on the net liability in the intervening years between valuations. If unmonitored leavers from the Barnet Pool, cumulatively, could result in a material overstatement of the Barnet Pool Net Liability within the IAS 19 report.	Management should monitor the employers leaving the pool and their allocation of assets and liabilities to ensure that the cumulative effect is not material to the Council Pool. The Council should make this assessment based on information presented by the actuary, with consideration of the impact on the financial statements of the Council.	Revised control processes, including production of a 'Master' employer document will be implemented during Q4, 2018 and formally monitored.	Keith Barker	Q4, 2018

APPENDIX II: RECOMMENDATIONS AND ACTION PLAN

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMIMG
Submission of cash flow data for IAS19 purposes	We identified the following deficiencies in the submission process for contribution cash flows data to the actuary: Robust employer records were not in place or unavailable to complete the submission, resulting in 4 employers being incorrectly included within the Barnet Employer Pool. The submission was not completed to the Hyman's specification we have seen elsewhere. The submission is made prior to the end of the year, resulting in some estimation being applied in the final months of the year, however in the case of the pension fund the estimation was not made on the submission, it showed incomplete months and unallocated suspense amounts. This should be estimated by the pension fund based on local knowledge. There was insufficient review of the submission by an officer with sufficient knowledge of the pension fund to identify incorrect bodies included in the pool and errors in the figures within the submission. Errors in the submission directly result in errors in the actuary's IAS 19 report in respect of contributions, as well as allocation of the pension fund's assets and liabilities.	We recommend that: Accurate employer records are maintained and consulted in the production of the cash flow submission. The submission is fully completed with any estimation formulated by the pension fund based on local knowledge of the fund. The draft cash flow data is subject to review and approval by the responsible officer at the employer and the head of pensions.	We have meet with the Actuary and agreed that these issues will be resolved prior to the submission of data. Cash flow data will be subject to formal evidenced review and approval.	Keith Barker	Q4, 2018

APPENDIX II: RECOMMENDATIONS AND ACTION PLAN

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMIMG
Preparing and Submitting Membership Data for the 2016 Triennial Valuation	We identified the following deficiencies in the preparation of the membership data set for the triennial valuation: The draft actuary's data specification was used rather than the final version. Changes to the data set were made manually on the data submission rather than through updating system records. There was no version control maintained to monitor changes to the data set. The data set did not meet the actuary's requirements in order to form a valuation, as result a number of assumptions has to be applied to the data in order to form a valuation. E.g. Active members with no salary information were assumed to have left their employer. There is no evidence that where changes or assumptions were made to the data that this was methodically reviewed and queried with employers to resolve the issues and update the membership system going forwards. The membership data submitted for the triennial valuation forms the building block for the subsequent two IAS 19 valuations, as such material issues in the data would affect the subsequent IAS 19 valuations until the next full valuation.	We recommend that: The Management stress the importance of accurate membership returns to the scheme employers ahead of the 2019 valuation. Ensure that the final data specifications and actuary briefings are adhered to in full. Make provision to share data with employers where practicable and obtain positive confirmation that it is accurate. Avoid making manual amendments to the extracted data set, instead processing genuine changes through the membership system. Where changes are made manually to the data submission this should be logged on a version control document. Following submission changes should be followed up with employers and specific data issues resolved on the system going forwards. Significant assumptions made on the membership dataset should be agreed with the respective employer prior to finalising the valuation.	A workshop has been held during September 2018 with the Pensions / Finance Teams and a separate plan will be produced, in conjunction with the Scheme Actuary, to support key activities for the 2019 valuation and this will capture recommendations from this audit. Key requirements will be emphasised to employers as part of next Employer Forum scheduled for October 2018.	Mark Richardson	Q4, 2018

APPENDIX II: RECOMMENDATIONS AND ACTION PLAN

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMIMG
Maintenance of Membership Data	We identified that controls around the annual updating of membership records are weak, such that we could not rely on them for assurance over the membership data provided to the actuary. Employers are required to complete an annual return detailing their members within the scheme and their pertinent member details, however these returns are often received too late (5 not received in 2015/16) with errors that require manual correction by the failure to maintain adequate membership and employer data could result in an inaccurate valuation of the scheme liabilities, and consequently an incorrect employer contribution rate applied. This may limit the fund's ability to manage the level of funding in the short term.	Management should consider reviewing the annual return format and process to improve the timeliness and quality of returns. Reviewing return formats and instructions. Building in validation checks and requiring explanations and sign off from senior management of employers. For example, FTE and salary combinations that results in less than minimum wage; missing critical fields. Feeding back and resolving inconsistencies between returns and data currently held on the membership system. Scoring and feeding back on the quality of returns to the senior management of employers.	Revised control processes were implemented to support the 2017 / 2018 annual return from employers. Additional training will be provided to employers as part of the next Employer Forum scheduled for October 2018. Areas of employer non-compliance are reported to the Local Pensions Board.	Mark Richardson	Q4, 2018

APPENDIX III: MATERIALITY

MATERIALITY - FINAL AND PLANNING

	FINAL	PLANNING
Pension fund overall materiality	£10.9 million	£10.5 million
Fund account specific materiality	£2.95 million	£2.9 million
Clearly trivial threshold • Pension fund overall • Fund account	 £219,000 £59,000	 £210,000 £58,000

Planning materiality for the pension fund financial statements was based on 1% of prior year net assets. Specific materiality was set of 5% of prior year contributions for the fund account. These were updated for actual amounts reported in the draft financial statements.

APPENDIX IV: INDEPENDENCE

Under ISAs (UK) and the FRC's Ethical Standard, we are required as auditors to confirm our independence.

We have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. Our internal procedures require that audit engagement leads are made aware of any matters which may reasonably be thought to bear on the integrity, objectivity or independence of the firm, the members of the engagement team or others who are in a position to influence the outcome of the engagement. This document considers such matters in the context of our audit for the year ended 31 March 2018.

We have not provided any non-audit services to the pension fund during the period and up to the date of this report.

Details of rotation arrangements for key members of the audit team and others involved in the engagement were provided in our Audit Plan.

We have not identified any other relationships or threats that may reasonably be thought to bear on our objectivity and independence.

We confirm that the firm, the engagement team and other partners, directors, senior managers and managers conducting the audit comply with relevant ethical requirements including the FRC's Ethical Standard and are independent of the pension fund.

Should you have any comments or queries regarding any independence matters we would welcome their discussion in more detail.

APPENDIX V: FEES SCHEDULE

	2017/18 FINAL £	2017/18 PLANNED £	2016//17 FINAL £	EXPLANATION FOR VARIANCES
Code audit fee	21,000 [1]	21,000	36,249 [2]	[1] The 2017/18 Code audit fee remains subject to amendment to reflect the additional resources required to complete the audit. [2] The 2016/17 Code audit fee includes an additional £15,249 to reflect the additional resources required to resolve the issues identified during the audit.
TOTAL AUDIT	21,000	21,000	36,249	
Fees for other non-audit services	-	-	-	
TOTAL ASSURANCE SERVICES	21,000	21,000	36,249	

APPENDIX VI: DRAFT LETTER OF REPRESENTATION

TO BE TYPED ON CLIENT HEADED NOTEPAPER
BDO LLP
55 Baker Street
London
WIU 7EU

[XX] October 2018

Dear Sirs

Financial statements of London Borough of Barnet Pension Fund for the year ended 31 March 2018

We confirm that the following representations given to you in connection with your audit of the pension fund's financial statements for the year ended 31 March 2018 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other officers and members of the Council.

The Director of Finance has fulfilled his responsibilities for the preparation and presentation of the financial statements as set out in the Accounts and Audit Regulations 2015 and Statement of Responsibilities of Auditors and Audited Bodies within Chapter 2 of the Code of Audit Practice published by the National Audit Office in April 2015, and in particular that the financial statements give a true and fair view of the financial position of the pension fund as of 31 March 2018 and of its income and expenditure and cash flows for the year then ended in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

We have fulfilled our responsibilities on behalf of the pension fund, as set out in the Accounts and Audit Regulations 2015, to make arrangements for the proper administration of the pension fund's financial affairs, to conduct a review at least once in a year of the effectiveness of the system of internal control and approve the Annual Governance Statement, to approve the Statement of Accounts (which include the financial statements), and for making accurate representations to you.

We have provided you with unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence. In addition, all the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the pension fund have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all management and other meetings have been made available to you.

In relation to those laws and regulations which provide the legal framework within which the pension fund's business is conducted and which are central to our ability to conduct our business, we have disclosed to you all instances of possible non-compliance of which we are aware and all actual or contingent consequences arising from such instances of non-compliance.

There have been no events since the balance sheet date which either require changes to be made to the figures included in the financial statements or to be disclosed by way of a note. Should any material events of this type occur, we will advise you accordingly.

We are responsible for adopting sound accounting policies, designing, implementing and maintaining internal control, to, among other things, help assure the preparation of the financial statements in conformity with generally accepted accounting principles and preventing and detecting fraud and error.

APPENDIX VI: DRAFT LETTER OF REPRESENTATION

We have considered the risk that the financial statements may be materially misstated due to fraud and have identified no significant risks.

To the best of our knowledge we are not aware of any fraud or suspected fraud involving management or employees impacting on the pension fund. Additionally, we are not aware of any fraud or suspected fraud involving any other party that could materially affect the financial statements.

To the best of our knowledge we are not aware of any allegations of fraud or suspected fraud affecting the financial statements that have been communicated by employees, former employees, analysts, regulators or any other party.

We attach a schedule showing accounting adjustments that you have proposed, which we acknowledge that you request we correct, together with the reasons why we have not recorded these proposed adjustments in the financial statements. In our opinion, the effects of not recording such identified financial statement misstatements are, both individually and in the aggregate, immaterial to the financial statements.

We have disclosed to you the identity of all related parties and all the related party relationships and transactions of which we are aware. We have appropriately accounted for and disclosed such relationships and transactions in accordance with the applicable financial reporting framework.

We have no plans or intentions that may materially affect the carrying value and where relevant, the fair value measurement, or classification of assets or liabilities reflected in the financial statements.

The value at which investment assets are recorded in the net assets statement is the market value. We are responsible for the reasonableness of any significant assumptions underlying the valuations, including consideration of whether they appropriately reflect our intent and ability to carry out specific courses of action on behalf of the scheme. Any significant changes in those values since the year end date have been disclosed to you.

None of the assets of the scheme has been assigned, pledged or mortgaged.

The following key assumptions have been used to calculate the actuarial present value of future pension benefits disclosed in the financial statements:

- CPI increase 2.4%
- Salary increase 2.7%
- Pension increase 2.4%
- Discount rate 2.6%
- Mortality: Current pensioners - male 21.9 years and female 24.3 years / future pensioners - male 23.9 years and female 26.5 years
- Commutation: pre-April 2008 - 50% / post-April 2008 - 50%

We consider these assumptions to be appropriate for the purposes of estimating the pension liability in accordance with the Code and IAS 26.

We consider that the pension fund is able to continue to operate as a going concern and that it is appropriate to prepare the financial statements on a going concern basis.

We have disclosed all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and these have been disclosed in accordance with the requirements of accounting standards.

APPENDIX VI: DRAFT LETTER OF REPRESENTATION

We confirm that the above representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

We confirm that the financial statements are free of material misstatements, including omissions.

We acknowledge our legal responsibilities regarding disclosure of information to you as auditors and confirm that so far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware. The Director of Finance and each member has taken all the steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

Kevin Bartle
Director of Finance
[Date]

Councillor Mark Shooter
Pension Fund Committee Chair
Signed on behalf of the Pension Fund Committee
[Date]

APPENDIX VII: DRAFT AUDIT REPORT

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LONDON BOROUGH OF BARNET

Opinion on pension fund financial statements

We have audited the pension fund financial statements of London borough of Barnet ("the pension fund") for the year ended 31 March 2018 which comprise the fund account, the net assets statement and related notes to the pension fund financial statements, including a summary of significant accounting policies. The framework that has been applied in the preparation of the pension fund financial statements is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2018 and the amount and disposition of the fund's assets and liabilities as at 31 March 2018, other than the liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been properly prepared in accordance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

Basis for opinion on the financial statements

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)), the Code of Audit Practice issued by the National Audit Office in April 2015 ("Code of Audit Practice") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the pension fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director of Finance's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director of Finance has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the pension fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Director of Finance is responsible for the other information. The other information comprises the Narrative report together with all other information included in the Statement of Accounts, other than the pension fund financial statements and our auditor's report thereon. Our opinion on the pension fund financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

APPENDIX VII: DRAFT AUDIT REPORT

In connection with our audit of the pension fund financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the pension fund financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the pension fund financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of the Director of Finance and London Borough of Barnet ("the Council") as administering authority of the pension fund

As explained more fully in the Statement of the Director of Finance's Responsibilities, the Director of Finance is responsible for the preparation of the Statement of Accounts, which comprises the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that the financial statements give a true and fair view.

In preparing the pension fund financial statements, the Director of Finance is responsible for assessing the pension fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Council intends to wind up the scheme or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

In respect of our audit of the pension fund financial statements our objectives are to obtain reasonable assurance about whether the pension fund financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the Financial Reporting Council's website at: https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

APPENDIX VII: DRAFT AUDIT REPORT

Use of our report

This report is made solely to the members of London Borough of Barnet, as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in the Responsibilities of the Audited Body and Responsibility of the Auditor within Chapter 2 of the Code of Audit Practice published by the National Audit Office in April 2015. Our audit work has been undertaken so that we might state to the members of the Council those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council and the Council's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Leigh Lloyd-Thomas
For and on behalf of BDO LLP, Appointed Auditor
London, UK

XX October 2018

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

APPENDIX VIII: AUDIT QUALITY

BDO is totally committed to audit quality

It is a standing item on the agenda of BDO's Leadership Team who, in conjunction with the Audit Stream Executive (which works to implement strategy and deliver on the audit stream's objectives), monitor the actions required to maintain a high level of audit quality within the audit stream and address findings from external and internal inspections.

BDO welcomes feedback from external bodies and is committed to implementing all necessary actions to address their findings.

We recognise the importance of continually seeking to improve audit quality and enhancing certain areas. Alongside reviews from a number of external reviewers, the AQR (the Financial Reporting Council's Audit Quality Review team), QAD (the ICAEW Quality Assurance Department) and the PCAOB (Public Company Accounting Oversight Board who oversee the audits of US companies), the firm undertakes a thorough annual internal Audit Quality Assurance Review and as a member firm of the BDO International network we are also subject to a quality review visit every three years.

We have also implemented additional quality control review processes for all listed and public interest audits.

More details can be found in our Transparency Report at www.bdo.co.uk

FOR MORE INFORMATION:

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The matters raised in our report prepared in connection with the audit are those we believe should be brought to the attention of the organisation. They do not purport to be a complete record of all matters arising. No responsibility to any third party is accepted.

BDO LLP is a corporate establishment under the Limited Liability Partnership Act 2000 and a UK Member Firm of BDO International. BDO Northern Ireland, a separate partnership, operates under a licence agreement. BDO LLP and BDO Northern Ireland are both separately authorised and regulated by the Financial Conduct Authority to conduct investment business.

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AGENDA ITEM 16

Pension Fund Committee

16 October 2018

Title	**London CIV Governance Changes**
Report of	Director of Finance
Wards	n/a
Status	Public
Urgent	No
Key	No
Enclosures	Appendix 1 – London CIV CEO's letter Appendix 2 – Notice of Dissolution
Officer Contact Details	George Bruce, Head of Treasury, CSG george.bruce@barnet.gov.uk - 0208 359 7126

Summary

LB Barnet Pension Fund is required by Government over an extended timescale to transfer its investments to oversight by the London CIV. London Authorities are being asked to approve new governance arrangements for the LCIV as detailed in this paper.

Recommendations

The Pension Fund Committee recommends that Council agrees to:

a) Revoke the Council's delegation of the joint discharge of the relevant functions to the Pensions CIV Joint Committee ("PCSJC").

b) Endorse the new governance arrangements referred to in the paper and in the letter signed by the Chief Executive of London CIV and the Chief Executive of London Councils dated 13 June 2018 (appendix 1) "New Arrangements").

c) Confirm and accept that the new governance arrangements supersede the PCSJC, support the dissolution of the PCSJC, and the making of appointments to the new Shareholder Committee and additional non-executive appointments and a Treasurer observer.

1. WHY THIS REPORT IS NEEDED.

Background

1.1 London Borough of Barnet together with all the other London Authorities is a shareholder in the London CIV, the entity set up collectively to select investment managers on behalf of the London Authorities.

1.2 When the LCIV was established the main forum for shareholder engagement was the Pensions CIV Joint Committee ("PCSJC") to which one representative from each borough attended. Their role included the appointment of the Board of the LCIV, approving the budgets and charges to London Authorities, approving the annual accounts and other statutory functions. The PCSJC meet quarterly.

1.3 The current LCIV governance structure was noted by the Pension Fund Committee on 18th March 2014. It was then agreed by Council on 8th April 2014, when the following resolution was passed:

RESOLVED - That the Council

1. *Agree to become a shareholder in a private company limited by shares which will be incorporated to be the Authorised Contractual Scheme Operator (the ACS Operator") of the Common Investment Vehicle;*

2. *Contribute £1 to the ACS Operator as initial capital;*

3. *Agree to join the London Boroughs "Pensions CIV Joint Committee", to be formed under section 102 of the Local Government Act 1972 and to delegate to such Joint Committee those functions necessary for the proper functioning of the ACS Operator, including the effective oversight of the ACS Operator and the appointment of Directors*.

1.4 Since establishment, it has become evident that the PCSJC attended by over 30 representatives was excessively large for engagement between the LCIV and London Authorities. Therefore, following consultation with London authorities, the LCIV proposed that it be replaced by two entities:

a) Two Shareholder General Meetings (one the AGM) each year that comprises one representative of each borough whose role is to take those decisions previously delegated to the PCSJC.

b) A shareholders committee of 12 comprising of both Councillors and Officers (S151 officers) who engage with the LCIV on behalf of all London Authorities. This Committee has no formal powers. The Chairman of the Barnet Pension Fund Committee is on the Shareholders Committee.

1.5 Each London Authority was asked to approve the Governance changes. These have been the subject of consultation and were agreed by the PCSJC on 14 March 2018, the Leaders Committee on 20 March 2018 and the London CIV AGM on 12 July 2018. The changes were also agreed by the Society of London Treasurers. The new governance arrangements do not alter the rights of London CIV shareholders under the existing Shareholders Agreement.

1.6 In addition to the above changes, two London Authority representatives have been appointed as non-executive directors of the London CIV Board.

1.7 If the Pension Fund Committee is content with the revised governance structure, a resolution will be made to Council to revoke their previous resolution and endorse the new governance structure.

2. REASONS FOR RECOMMENDATIONS

2.1 To endorse the governance structure in line with the outcomes of consultation with all London Authorities.

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

3.1 The option of retaining the current governance arrangements has been rejected by all London Authorities.

4. POST DECISION IMPLEMENTATION

4.1 The decision requires ratification by Council.

5. IMPLICATIONS OF DECISION

5.1 Corporate Priorities and Performance

5.1.1 To ensure that the Pension Fund is being invested prudently and to the best advantage to achieve the required funding level. Effective monitoring of the Pension Fund will ensure that long term investment targeted returns are achieved and will provide support towards the Council's corporate priorities (2015-2020).

5.2 Resources (Finance and Value for Money, Procurement, Staffing, IT, Property, Sustainability)

5.2.1 There are no direct resources issues for the council. Improved Pension Fund performance or reduced costs will in the lower term impact favourably on contributions paid by employers (including the Council) to the Pension Fund.

5.2.2 Pooling is intended to save costs and fees will be considered as part of the evaluation of the LCIV offerings.

5.3 Social Value

5.3.1 The Public Services (Social Value) Act came into force on 31 January 2013. It requires people who commission public services to think about how they can also secure wider social, economic and environmental benefits.

5.3.2 Before they start the procurement process, commissioners should think about whether the services they are going to buy, or the way they are going to buy them, could secure these benefits for their area or stakeholders.

5.3.3 The Act is a tool to help commissioners get more value for money out of procurement. It also encourages commissioners to talk to their local provider market or community to design better services, often finding new and innovative solutions to difficult problems.

5.3.4 There are no specific social value issues arising out of this report, however membership of the Pension Fund ensures the long term financial health of contributing employees on retirement.

5.4 **Legal and Constitutional References**

5.4.1 The Council's Constitution – Article 7, details the responsibilities of the Committee, including to the appointment of Pension Fund investment managers.

5.4.2 Regulation 9 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 permits the appointment of investment managers after taking into consideration proper advice. Regulation 8 provides powers of direction for the Secretary of State. The Local Government Pension Scheme: Investment Reform Criteria and Guidance issued by the Dept. for Communities and Local Government (November 2015) requires LGPS funds to pool their investment for manager selection and monitoring purposes.

5.5 **Risk Management**

5.5.1 Risk management is central to the Local Government Pension Scheme (LGPS). LGPS pension funds are in themselves risk management tools, managing the risk that future employer income streams will be able to meet future pensions liabilities by creating a reserve from which future liabilities will be met.

5.5.2 One of the stated purposes of the LCIV is to improve governance relating to fund manager appointments and monitoring thereby reducing the risk of poor investment performance to the Pension Fund and employers.

5.6 **Equalities and Diversity**

5.6.1 Pursuant to the Equalities Act 2010, the Council is under an obligation to have due regard to eliminating unlawful discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act; advancing equality of opportunity between persons who share a relevant 'protected characteristic' and those who do not share it; and fostering good relations between persons who share a relevant 'protected characteristic' and persons who do not share it. The 'protected characteristics' are: age, disability, gender reassignment, pregnancy, and maternity, race, religion or belief, sex and sexual orientation, marriage and civil partnership.

5.6.2 The rules governing admission to and participation in the Pension Fund are in keeping with the public sector equality duty. The Public Sector Equality Duty requires public authorities in carrying out their functions, to have due regard to the need to achieve the objectives set out under s149 of the Equality Act 2010. Good governance arrangements and monitoring of the Pension Fund's managers will benefit everyone who contributes to the fund.

5.7 **Consultation and Engagement**

5.7.1 N/A.

5.8 **Insight**

5.8.1 Not applicable

6. BACKGROUND PAPERS

6.1 Criteria and Guidance for Pooling

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/479925/criteria_and_guidance_for_investment_reform.pdf

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By email only

13 June 2018

Dear Chief Executive

New governance arrangements for London LGPS CIV Limited (London CIV)

Now we are at the stage of implementing the new London CIV governance arrangements we are writing to update you about next steps and to seek your ongoing support for the next phase of implementation. This follows Lord Kerslake's letter to Leaders of 17 April 2018.

Background

These arrangements were the subject of consultation earlier in the year and received support from both the Pensions CIV Sectoral Joint Committee ("PCSJC") and the London Councils Leaders' Committee in March 2018. The next milestone is the London CIV AGM on 12 July 2018 which is the same day as the PCSJC AGM.

The key components of the new governance framework are summarised below, together with next steps. A more comprehensive note about the framework is enclosed as Appendix A, together with detailed Terms of Reference for the Shareholder Committee and General Meeting and for key roles.

We would be grateful for your ongoing support in achieving the key next steps, which are already well in hand with input from other interested parties:

- confirmation of the new governance arrangements at the AGM on 12 July 2018 followed by the transition to new arrangements beginning with the September Board and Shareholder Committee meetings;
- ratification of the appointment of new Non-Executive Directors and members of the Shareholder Committee at the 12 July 2018 AGM, following nomination via the London Councils collective political processes;
- any feedback on the Terms of Reference which will be confirmed at the London CIV AGM;
- signing of the written notice revoking the delegation to the joint sectoral committee (the PCSJC).

Governance Framework, Key Components

The key changes to the London LGPS CIV Limited governance framework are summarised in this section.

The composition and experience on the London CIV board will be enhanced by the appointment of two more Non-Executive Directors, representative of the shareholders (expected to be Leaders of London Local Authorities). The first nominations will be made via the London Councils collective political processes for ratification at the London CIV AGM on 12 July 2018, subject to formal appointment by the Board in accordance with the articles and FCA approval. The appointment is expected to be for a three year term. A Treasurer will be nominated as an Observer, but not a member of the London CIV Board.

The Shareholders will meet at two General Meetings of London CIV each year, one to approve the budget, and an AGM.

There will be a Shareholder Committee of the London CIV ("the Committee"), which will act on behalf of the Shareholders as a consultative body, including on the Company's business plans and financial performance, and topics such as Responsible Investment. There will be 12 Committee Members made up of 8 Local Authority Pension Committee Chairs (or Leaders of London Local Authorities) and 4 Local Authority Treasurers. The Chair of the Board of London CIV will also be a member of the Committee. The first nominations of elected members (Local Authority Pension Committee Chairs or Leaders) will be made via the London Councils collective political processes and the Society of London Treasurers in the case of Treasurers, for ratification at the London CIV AGM on 12 July 2018. A Trade Union Representative will be nominated as an Observer in consultation with London Councils and the Joint Secretaries (Greater London Provincial Council) .

These arrangements will replace the PCSJC which will be dissolved. Written notice is required to be given by participating London Local Authorities to London Councils revoking the delegation of the discharge of the relevant functions to the sectoral joint committee. The notice is enclosed for signature in accordance with the authorisation procedures required by each individual London Local Authority.

To complement these new Shareholder governance arrangements there will be an improved framework for client services, informed by Shareholder consultation, including a Service Level Agreement and programme of events for clients collectively.

Timeline for implementing the change

In summary the key steps in implementing the change are set out below.

June

- Two additional Non-Executive Directors nominated for appointment by the Board subject to FCA approval, formal nomination to be made by the London Councils collective political processes. One Treasurer Observer nominated via the Society of London Treasurers. Appointments expected to take effect in August 2018 (subject to FCA approvals).
- 12 members of the Shareholder Committee nominated for appointment via the London Councils collective political processes and the Society of London Treasurers in the case of Treasurers. The Chair of London CIV will also be a Committee member. Appointments are expected to take effect from 1 August 2018. One Trade Union Observer to be nominated as an Observer in consultation with London Councils and the Joint Secretaries (Greater London Provincial Council).

July

- PCSJC and London CIV AGMs held on 12 July 2018 ratifying nominations and other AGM business
- Shareholder Committee Terms of Reference agreed at the London CIV AGM, subject to on-going review
- General Meeting Framework endorsed at the London CIV AGM

Mid July/August

- Induction of new Board members and Shareholder Committee members from July onwards

September

- New Board members attend first Board meeting in early September
- First meeting of new Shareholder Committee 19th September, subject to PCSJC dissolution

Questions

If you have any questions in respect of the proposals please email them to Kristina Ingate, Chief of Staff, London CIV Kristina.ingate@londonciv.org.uk preferably before the 12 July 2018 AGM with a copy to Christiane Jenkins Director of Corporate Governance London Council christiane.jenkins@londoncouncils.gov.uk

Yours sincerely

Mark Hyde-Harrison
Chief Executive London CIV

John O'Brien
Chief Executive London Councils

This letter has been copied to Treasurers, Pension Chairs and Pension Managers of the London Local Authorities and equivalent at the City of London.

Appendix A

London LGPS CIV Limited ("London CIV")Governance Framework Overview

General

London CIV is a company limited by shares, whose shareholders are the London Local Authorities. In addition to the Memorandum and Articles of Association there is a Shareholder Agreement which reserves certain matters to the Shareholders in General Meeting.

New governance arrangements have been agreed in principle, which are intended to be implemented from 12 July 2018, which replace the existing Pensions CIV Sectoral Joint Committee of the London Councils with a new framework for Shareholder engagement. The Shareholder rights under the existing Agreement are not changed.

The new arrangements include:

1. The appointment of two more Non-Executive Directors (NEDs), who are expected to be Leaders, to the London CIV Board to enhance its composition so that it is more representative of London CIV shareholders and stakeholders, has more experience of the environment in which London CIV operates, and enhances stakeholder and shareholder engagement. A Treasurer will also be nominated as an Observer.

2. The creation of a Shareholder Committee of 12 Members from the London Local Authorities plus the Chair of the London CIV Board , 8 being Pension Committee Chairs (or equivalent) and 4 Treasurers (or equivalent). A Trade Union Representative will also be nominated as an Observer in consultation with London Councils and the Join Secretaries (Greater London Provincial Council).

3. Two General Meetings of Shareholders, one to agree the budget and the other being the Annual General Meeting which considers the annual report and financial statements, regulatory capital statement, and appointments. Both meetings therefore provide an opportunity to review and comment on the corporate and financial performance of the company.

Appointments Process Generally

The process for nominating individuals for appointment is via the collective political processes of the London Councils or the Society of London Treasurers in the case of Treasurers, and in line with the process for other external bodies. Nominations for the Trade Union Observer to the Shareholder Committee will be made in consultation with the London Councils and the Joint Secretaries (Greater London Provincial Council). The London CIV Chief of Staff is the contact point within London CIV, supporting the Chair and CEO of London CIV. The route for making requests for nominations from the Shareholders is via the CEO of the London Councils or Secretary of the Society of London Treasurers as appropriate.

London CIV Board

Non-Executive Directors

The London CIV is responsible for the strategic direction of the company, key business and financial decisions, oversight of its performance, and governance. It is comprised of a mix of Executive and Non-Executive Directors. The current Chair is Lord Kerslake.

All NEDs have the same responsibilities under the Companies Acts and other relevant legislation, with collective responsibility as a board and to promote the success of the company for members (Shareholders) as a whole. London CIV is regulated by the Financial Conduct Authority (FCA) and the role of director is a "controlled function" so appointments are subject of FCA approval. The formal appointment of the nominee, subject to FCA approval, is by the Board in line with the company's Articles of Association. All director appointments are subject to (re)-ratification at the AGM.

To enhance the expertise available on the Board, and shareholder/stakeholder engagement, the two additional NEDs are expected to be Leaders of London Local Authorities who are Shareholders and nominated via the Leaders Committee of the London Councils.

There is a service agreement for the NED role which includes the role description and summary of director duties. It also includes the fee payable (currently £15,000 per annum), time commitment, induction and ongoing development expectations and obligations. These obligations take account of FCA requirements.

Treasurer Observer

The Treasurer Observer is expected to be nominated by the Society of London Treasurers. They will attend meetings of the London CIV Board in an observer capacity as part of stakeholder engagement arrangements, but without any decision-making or advisory role. [1]

Shareholder Committee

The Terms of Reference for the Committee are set out in full in Appendix B. These will be ratified at the London CIV AGM to be held on 12 July 2018 and have been updated from those circulated at the March 2018 meeting to take account of discussions at that meeting, practice to date, and improve clarity e.g. about appointment arrangements.

The Committee acts as a representative body of the shareholders, and its members are appointed by the shareholders. It is a Committee of the London CIV. Its key aims are to be consulted on and provide the views of the Committee members, acting always collectively on behalf of the Shareholders, to the Company's Board in respect of matters such as:

1.The strategy, business plan, corporate and financial performance of the Company;

2.Emerging issues and opportunities facing Shareholders which may impact the Company;

3. Topics such as Responsible Investment, and Reporting and Transparency;

4. Matters reserved for the approval of the shareholders, as and when appropriate in accordance with the terms of the Shareholders Agreement.

The Terms of Reference set out the objectives of the new Committee, as well as detail on the membership and reporting to the Board and Shareholders collectively. The Committee membership ("Members") is 8 Pension Committee Chairs/Leaders (or equivalent), 4 Treasurers, and the Chair of the London CIV Board. There will be a Trade Union Observer.

In future years the Terms of Reference will be reviewed every two years, and agreed between, Committee Members and the Board. This year the AGM will be requested to endorse the Terms of Reference, subject to any final review by the new Committee and London CIV Board with the Terms of Reference of the Committee being formally adopted at its first meeting.

General Meeting Framework

The General Meeting Framework has been updated from the document circulated in March 2018 to: reflect discussion at that meeting and subsequently; clarify the matters to be discussed at the two General Meetings; and include information about appointment arrangements.

Dissolving the PCSJC, The Articles and Shareholders Agreement

The new arrangements do not alter any of the existing Shareholder rights under the Shareholders' Agreement.

The PCSJC was established under the London Council's Governing Agreement. The new arrangements replace the PCSJC and written notice is required to be given by all participating London Local Authorities to London Councils revoking the delegation of the discharge of the relevant functions to the sectoral joint committee. The notice is enclosed and is to be signed in accordance with the authorisation procedures required by each individual London Local Authority

The Shareholders Agreement currently refers to the PCSJC, but only in that it provides that the Shareholder representative at AGMs will be the same person as the shareholder has appointed to represent it within the PCSJC. It also provides that the chairman of the PCSJC will chair the General Meetings of the London CIV unless another person is appointed by the Shareholders.

A Deed of Amendment will be drafted to update the Shareholders Agreement to remove references to the PCSJC and include a reference to the new Shareholder Committee.

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[1] It will be important to take account of formal guidance on Stakeholder Engagement and on Shadow Directorships to ensure an appropriate balance between company law requirements in respect of shadow directors and good practice on stakeholder engagement

Dated: 2018

(1) London LGPS CIV Limited (Company Number: 09136445)

WRITTEN NOTICE in respect of delegation by the [London Borough/Royal Borough/City of London Corporation] in respect of the Pensions CIV Joint Committee ("PCSJC") constituted under the London Councils Governance Arrangements for the purposes of collective engagement by shareholders in the London LGPS CIV Limited

WRITTEN NOTICE in respect of delegation by the [London Borough/Royal Borough/City of London Corporation] in respect of the Pensions CIV Sectoral Joint Committee ("PCSJC") constituted under the London Councils Governance Arrangements

WHEREAS:

A. The Pensions CIV Joint Committee ("PCSJC") is a sectoral joint committee operating under the London Councils governance arrangements (further to an agreement entered into by all the London local authorities dated 13 December 2001 (as amended)), the terms of reference of which sectoral joint committee are set out in Schedule A.

B. Each London local authority which is a shareholder in the London LGPS CIV Limited (Company Number: 09136445) ("London CIV") agreed to appoint a representative to the PCSJC.

C. New governance arrangements for collective shareholder engagement in and with the London CIV have been agreed in principle by the London CIV shareholders following consultation and approval by the PCSJC on 14 March 2018, and the Leaders Committee on 20 March 2018 and the London CIV AGM on 12 July 2018.

D. Those new governance arrangements do not alter the rights of London CIV shareholders under the existing Shareholders Agreement.

E. Those new governance arrangements provide for an Annual General Meeting and General Meeting and Shareholder Committee which together provide forums to approve the budget and forward plan of London CIV, review its performance and consult on matters of interest to the shareholders. A copy of the proposed terms of reference for the Shareholder Committee are set out in Schedule B.

F. To enable the new governance arrangements to properly take effect it is necessary for all the London local authorities to each, in accordance with their own constitution and governance, revoke the delegation of the joint exercise of functions to the PCSJC as referred to in Recital A. and B. above, and to each formally agree to adopt the new governance arrangements.

G. The revocation of the delegation of the joint exercise of functions by the PCSJC, and the dissolution of that sectoral joint committee, will take effect on the date that notice of the revocation is received by London Councils from every London local authority. The dissolution of the PCSJC is sought by the 31 July 2018 to allow the Shareholder Committee appointments to take effect in August and the first meeting of the new Shareholder Committee to take place in September. As part of these arrangements, additional non-executive directors nominated via the collective political processes of London Councils will be made in accordance with the Articles of Association of the London LGPS CIV Limited, subject to approval by the FCA .

WE HEREBY GIVE NOTICE THAT:

1. We revoke our delegation of the joint discharge of the relevant functions to the Pensions CIV Joint Committee ("PCSJC").

2. We accept and agree the new governance arrangements referred to above and in the letter signed by the Chief Executive of London LGPS CIV Limited (Company Number: 09136445) ("London CIV") and the Chief Executive of London Councils dated 13 June 2018 accompanying this written notice (the "New Arrangements").

3. We confirm and accept that the new governance arrangements supersede the PCSJC, that we support the dissolution of the PCSJC, and the making of appointments to the new Shareholder Committee and additional non-executive appointments and a Treasurer observer enabling the first meeting under the new arrangements to take place in September 2018.

EXECUTION SECTION

Notice is hereby authorised on behalf of [*INSERT FULL NAME OF AUTHORITY*]

Signed: ……………………………………………

Name/s and ……………………………………………

Status of signatory/ies: ……………………………………………

Date:

Please sign and return this Written Notice to:

Alan Edwards:
alan.edwards@londoncouncils.gov.uk

Address :

London Councils
59½ Southwark Street
London SE1 0AL
Direct line: 020 7934 9540

Schedule A

Terms of Reference of the PCSJC

To act as a representative body for those London local authorities that have chosen to take a shareholding in the Authorised Contractual Scheme (ACS) Operator company established for the purposes of a London Pensions Common Investment Vehicle (CIV).

To exercise functions of the participating London local authorities involving the exercise of sections 1 and 4 of the Localism Act 2011 where that relates to the actions of the participating London local authorities as shareholders of the ACS Operator company.

To act as a forum for the participating authorities to consider and provide guidance on the direction and performance of the CIV and, in particular, to receive and consider reports and information from the ACS Operator particularly performance information and to provide comment and guidance in response (in so far as required and permitted by Companies Act 2006 requirements and FCA regulations).

In addition, members of the Pensions CIV Joint Committee will meet at least once each year at an Annual General Meeting of the ACS Operator to take decisions on behalf of the participating London local authorities in their capacity as shareholders exercising the shareholder rights in relation to the Pensions CIV Authorised Contractual Scheme operator (as provided in the Companies Act 2006 and the Articles of Association of the ACS Operator company) and to communicate these decisions to the Board of the ACS Operator company. These include:

- the appointment of directors to the ACS Operator board of directors;
- the appointment and removal of auditors of the company;
- agreeing the Articles of Association of the company and consenting to any amendments to these;
- receiving the Accounts and Annual Report of the company;
- exercising rights to require the directors of the ACS Operator company to call a general meeting of the company.

SCHEDULE B

London LGPS CIV Limited (the "Company")
Shareholders Committee: Terms of Reference

1. **Objective of the Shareholders Committee**

1.1 The role of the Shareholders Committee (the "**Committee**"), which is a Committee of the London CIV, and acts collectively, is to :

1.1.1 the strategy, business plan, financial and corporate performance of the Company as mandated by the Board of Directors of the Company (the "**Board**");and

1.1.2 Company policies such as Responsible Investment and Reporting and Transparency; and

1.1.3 matters reserved for approval of the Shareholders, as and when appropriate in accordance with the terms of the Shareholders Agreement; and

1.1.4 to identify, assess and discuss emerging issues and opportunities facing Shareholders which may impact the Company, and discuss solutions proposed by the Company; and

to express views on the above to the Board and Shareholders collectively as appropriate.

1.2 The Board will have the opportunity to consider any views presented to it by the Committee but will not be obliged to take any action in respect of such views unless the Board believes this to be in the best interests of the Shareholders and the Company.

2. **Membership**

2.1 The Committee will be comprised of 12 members from London Local Authorities made up of eight Leaders (or Pension Chairs or equivalent) and four Treasurers, plus the Chair of the Board (the "**Members**"). The members of the Committee will be agreed by the Shareholders acting collectively and nominated for appointment by the collective political processes of London Councils or in the case of the Treasurers by the Society of London Treasurers

2.2 Any Member, other than the Chair of the Board, must also be a Shareholder of the Company in good standing.

2.3 No more than one Leader (or equivalent) and one Treasurer can be from a London Local Authority without direct investments in the London LGPS CIV Authorised Contractual Scheme or other pooling structure established by the Company from time to time.

2.4 London Local Authorities which have Directors on the Board may not be Members.

2.5 The initial Members will be ratified at the Annual General Meeting of the London CIV held in July 2018

3. **The Chair**

3.1 The Committee Chair (the "**Chair**") will be appointed by the Members at the first Committee meeting.

3.2 The Chair can nominate a deputy, who must also be a Member (the "**Nominated Deputy**"). In the absence of the Chair or the Nominated Deputy the remaining Members present will elect one of themselves to chair the meeting.

3.3 The Chair can step-down as Chair at any time. The Members will appoint a new chair at the next Committee meeting. In the absence of any appointment, the Nominated Deputy will act as Chair.

4. **The Secretary**

4.1 An appropriate individual will be the Secretary and will be made available to the Committee by the Company.

4.2 In the event that the Secretary is not able to attend a Committee meeting the Members in attendance at that Committee meeting will appoint one of their own to act as Secretary for that meeting.

5. **Length of appointment**

5.1 Members will be put forward for re-appointment at each Annual General Meeting of the Company.

5.2 No Member can be a Member for a continuous period of nine years unless approved at the Annual General Meeting of the Company.

5.3 The term of the Chair will be four years. The Chair may be re-appointed for a second four year term.

5.4 In the event that a Member ceases to be a Leader (or equivalent), Treasurer or Chair of the Board, as applicable, their membership of the Committee will cease at that same time and a new Member will be appointed at the next Committee meeting.

5.5 A Member may, at any time, provide written notice to all other Members of his/her, as applicable, intention to resign from the Committee. The date of resignation will be determined by the Chair. In the event of such resignation a new Member will be appointed at the next Committee meeting.

5.6 In the event that a unanimous decision is taken by the Members to terminate the appointment of one or more Members, such termination will be effective immediately and a new Member or Members, as applicable, will be appointed at the next meeting of the Committee.

6. **Attendance at meetings**

6.1 Only Members are entitled to attend Committee meetings.

6.2 The Committee may, however, at the Chair's discretion, invite individuals including Board members (including the Chief Executive), representatives from the Company, or from appropriate third parties to attend any meeting or meetings ("**Non-members**"). Any such attendance is granted on a meeting by meeting basis and no automatic right to attend any subsequent meetings will be deemed given to any Non-member as a result of attendance at any one meeting. Any Non-members must agree to keep any discussions held at the meeting or meetings which they attend confidential.

6.3 The Committee may, however at the Chairs discretion invite a trade union representative to attend any meeting or meetings (**Trade Union Observer**). Any such attendance is granted on a meeting by meeting basis and no automatic right to attend any subsequent meetings will be deemed given to any Trade Union Observer as a result of attendance at any one meeting. Any Trade Union Observer must agree to keep any discussions held at the meeting or meetings which they attend confidential.

7. **Quorum for Committee meetings**

The quorum for Committee meetings is seven Members.

8. **Frequency of meetings**

8.1 The Committee will meet quarterly at dates agreed by the Members.

8.2 Meetings will usually be held at the offices of the Company.

8.3 Ad hoc meetings will be convened by the Secretary at the request of any Member. However, the timing of any such meeting will be at the discretion of the Chair.

9. **Documents**

10. The agenda for each meeting will be set by the Chief Executive of the Company and provided, together with any associated papers, by the Secretary to the Members, and to any invited Trade Union Observer and invited Non-Members by email, at least three business days prior to the relevant meeting.

11. **Minutes of meetings**

11.1 The Secretary will take a written record of the discussions held at each meeting, and record the names of those present and in attendance. The record will include an up-to-date log of the views and recommendations of the Committee and any actions to be taken (the "**Minutes**").

11.2 The Secretary will ascertain, at the beginning of each meeting, the existence of any conflicts of interest and record them accordingly in the Minutes.

11.3 Minutes of Committee meetings will be circulated by the Secretary, by email, promptly following the relevant meeting to all Members and will be available for review by the Board. If any Member would like any amendment made to the Minutes these must be raised by the Member within one week of receipt and notified to the Secretary.

11.4 The Members agree that unless, the Chair agrees that the Minutes (or a section of the Minutes) should be made available more widely than the Committee the discussions and Minutes at, or resulting from, all Meetings will be kept confidential by the Members. [The Minutes will also be sent to any invited Trade Union Observer and invited Non-Member who shall be under the same duty of confidentiality as if they were a Member .]

12. **Reporting procedures and Review of the Committee**

12.1 The Secretary will use the Minutes from the relevant meeting to prepare a note setting out an overview of the discussions held at that meeting. This note will be reviewed and commented on, as applicable, by the Chair and then sent by the Secretary, by email, to the usual contact for each Shareholder within one month of the relevant meeting. The Chair of the London CIV Board will ensure that this note is used as the basis of a report to the London CIV Board. The Minutes will not be sent to the Shareholders unless this is expressly agreed by the Chair.

12.2 The Committee will be subject to the continuous review of the Shareholders. In the event that proposals are put forward, or concerns are raised, by one or more of the Shareholders in relation to the Committee, or any one or more of its Members, the Chair will consider these and take any further action as appropriate.

13. **Review of these Terms of Reference**

These Terms of Reference will be reviewed every two years by the Members and any changes proposed to the Board. Following a reasonable period for review, the Board will provide any comments, and once these have been agreed between the Board and the Committee, a revised Terms of Reference will be made available.

14. **Dissolution of the Committee**

The Board may, at any time, propose to the Members, in writing, that the Committee is dissolved. In such cases the Board and Committee will work together to form a new committee or structure to undertake the objective which has been set for the Committee, or similar objective deemed appropriate in the circumstances.