

REPORT TO: PENSION SUB-COMMITTEE OF THE POLICY & RESOURCES COMMITTEE & PENSION BOARD

REPORT ON: INTERNAL AUDIT RISK ASSESSMENT & AUDIT PLAN 2019/20 & 2020/21

REPORT BY: EXECUTIVE DIRECTOR OF CORPORATE SERVICES

REPORT NO: 151-2020

1 PURPOSE OF REPORT

This report sets out the risk assessment undertaken by PwC and details their internal audit plans for Tayside Pension Fund for 2019/20 and 2020/21.

2 RECOMMENDATIONS

The Sub-Committee is asked to review and approve the Internal Audit plans by PwC as detailed in appendix A.

3 FINANCIAL IMPLICATIONS

The cost for PwC services over the period of contract is £70,300.

4 MAIN TEXT

4.1 The Internal Audit service for Tayside Pension Fund had previously been provided internally, however in order to best meet the audit requirements recommended above, Dundee City Council as Administering Authority for Tayside Pension Fund made a direct award under the Crown Commercial Service Framework for the provision of a full internal audit service to fulfil the service requirements of annual audits for both 2019/20 and 2020/21.

4.2 Following the appointment of PwC to provide independent assurance on the overall risk management, internal control and corporate governance processes relating to the Fund (Article V of the Minute of Meeting of the Pension Sub-Committee of the Policy and Resources Committee and Pension Board of 23rd September 2019, Report No 306-2019 refers), they have produced a report detailing the risk assessment undertaken and outlining the planned approach to the internal audit of Tayside Pension Fund for the financial years 2019/20 and 2020/21. The document outlines their key audit objectives and methodology.

4.3 The report in appendix A sets out information on the proposed audit approach focussing on the key issues and risks in relation to the key risks assessed. The document also sets out the key stages of the planned internal audit process, together with a summary of the timetable and detail of how PwC intend to form their independent audit opinion.

5 POLICY IMPLICATIONS

This report has been screened for any policy implications in respect of Sustainability, Strategic Environmental Assessment, Anti-Poverty, Equality Impact Assessment and Risk Management. There are no major issues other than the risks contained within the Tayside Pension Fund Risk Register.

6 CONSULTATION

The Chief Executive and Head of Democratic and Legal Services have been consulted in the preparation of this report.

7 BACKGROUND PAPERS

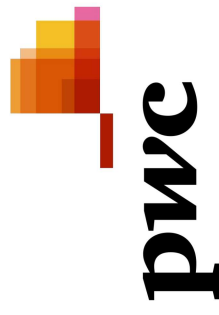
None

Internal audit risk assessment and plan for 2019/20 and 2020/21



Tayside Pension Fund

May 2020



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Introduction and approach

Introduction

This document sets out our risk assessment and internal audit plan for 2019/20 and 2020/21 for the Tayside Pension Fund ("TPF").

It should be noted that PwC were engaged to provide internal audit services on 30th April 2020, subsequent to the end of the financial year on 31st March 2020. PwC have been directed to carry out two internal audit reviews prior to having the 2019/20 internal audit plan approved by the Audit Committee.

This document sets out the proposed internal audit reviews to be completed for 2019/20 and 2020/21, developed through discussion with management, for approval by the Audit Committee.

The internal audit service will be delivered in accordance with the Internal Audit Charter.

A summary of our approach to undertaking the risk assessment and preparing the internal audit plan is set out below. The internal audit plan is driven by the TPF's strategic goals, and the risks that may prevent TPF from meeting those goals. A more detailed description of our approach can be found in Appendices 1 and 2.

To develop this plan, we have considered:

- The areas where we believe TPF would benefit from an internal audit review (the audit universe);
- The risks and control environment associated with each area included in the audit universe;
- The most significant risks faced by TPF and the sector more generally; and
- The requirements of the internal audit service to provide an annual report and opinion (in line with PwC's Internal Audit methodology which is aligned to the Institute of Internal Auditors International Standards for the Professional Practice of Internal Auditing).

Approach to preparing the internal audit plan

We have set out below, based on our discussions with management and review of the TPF risk register which was reported to the Pension sub-committee and Pension Board on 16 March 2020, a summary of the main risk factors which have driven our internal audit plan;

- Pension payments - An operational process review identified a failure to issue deferred benefit entitlement and options notifications within the two month statutory timescale. A report was submitted to the Pensions Regulator informing of the breach, and an improvement plan was put in place to ensure that sufficient resources were allocated to meet statutory requirements and prevent recurrence.

- Data Accuracy and Security - The accuracy and completeness of member data have a significant impact on pension payments records, incorrect member data could lead to incorrect estimates being issued and potentially incorrect pensions being paid. Insufficient security of data could lead to the loss of sensitive data and unauthorised access to sensitive data. This could result in the risk of the GDPR breaches, leading to reputational risk and financial loss.

- Investment Management - The fund has long term investment objectives and strategies to mitigate the risk of the impact of significant asset shocks. Nonetheless, contributions from employees/employers could be too low, resulting in the failure of investment strategy to deliver adequate returns. There is therefore a risk that the investment assets of the pension fund will be less than the pension liabilities.

- Employer Covenant - The TPF regularly carry out employer covenant reviews to obtain key financial and non-financial information about employers. The results of the covenant reviews are passed to the Fund's Actuary at each actuarial valuation and may be factored into setting any individual employer contributions. Employers could be unable to provide for actuarially calculated cessation liability in event of being required to exit the fund, which could have a negative impact on overall funding level with remaining employers required to accommodate the shortfall

Each year we will update our risk assessment to ensure that it continues to be focused on the risks that are relevant and important to the TPF and reflects the latest changes and developments. We will continue to keep this plan under review to ensure that it remains relevant and aligned to TPF's risks.

Costs and resources

The TPF has determined a budget for the delivery of internal audit resource. The level of agreed resources for the internal audit service for the period 2019/20 is 32 days at a cost of £36,320 and for 2020/21 is 30.5 days at a cost of £33,980. Based on our risk assessment, this is the level of resource that we believe would be necessary to evaluate the effectiveness of risk management, control and governance processes for the purpose of providing an annual opinion.

This plan is performed on a frequency basis and therefore the plan does not purport to address all key risks identified across the audit universe as part of the risk assessment process every year. Accordingly, the level of internal audit activity represents a deployment of internal audit resources sufficient to cover some of the key risks each year, and in approving the risk assessment and internal audit plan, the Audit Committee recognises this limitation. The internal audit plan will be updated, where required, throughout the year to reflect any changes in the organisation, risk profile and areas of focus. We will agree all amendments with management and ensure that any changes are communicated to the Audit Committee as part of our regular progress monitoring.

Introduction and approach

PwC internal audit methodology

Step 1 Understand corporate objectives and risks

- Obtain information and utilise sector knowledge to identify corporate level objectives and risks.

Step 2 Define the audit universe

- Identify all of the auditable units within the organisation. Auditable units can be functions, processes or locations.

Step 3 Assess the inherent risk

- Assess the inherent risk of each auditable unit based on impact and likelihood criteria.

Step 4 Assess the strength of the control environment

- Assess the strength of the control environment within each auditable unit to identify auditable units with a high reliance on controls.

Step 5 Calculate the audit requirement rating

- Calculate the audit requirement rating taking into account the inherent risk assessment and the strength of the control environment for each auditable unit.

Step 6 Determine the audit plan

- Determine the timing and scope of audit work based on the organisation's risk appetite.

Step 7 Other considerations

- Consider additional audit requirements to those identified from the risk assessment process.

Other sources of assurance

Internal Audit is only one of a number of sources of assurance over the risks Tayside Pension Fund faces. In developing our internal audit risk assessment and plan we have taken into account other sources of assurance and have considered the extent to which reliance can be placed upon these other sources. Summary of other sources of assurance is given below.

The other key sources of assurance for Tayside Pension Fund include:

- Audit Scotland as External Auditors;
- Dundee City Council Internal Audit;
- Annual Progress Review exercise; and
- National Fraud Initiative.

We do not intend to place formal reliance upon these other source of assurance but would not seek to duplicate the work they do.

Insight

We will provide insight by sharing the thought leadership produced by PwC.

Audit universe

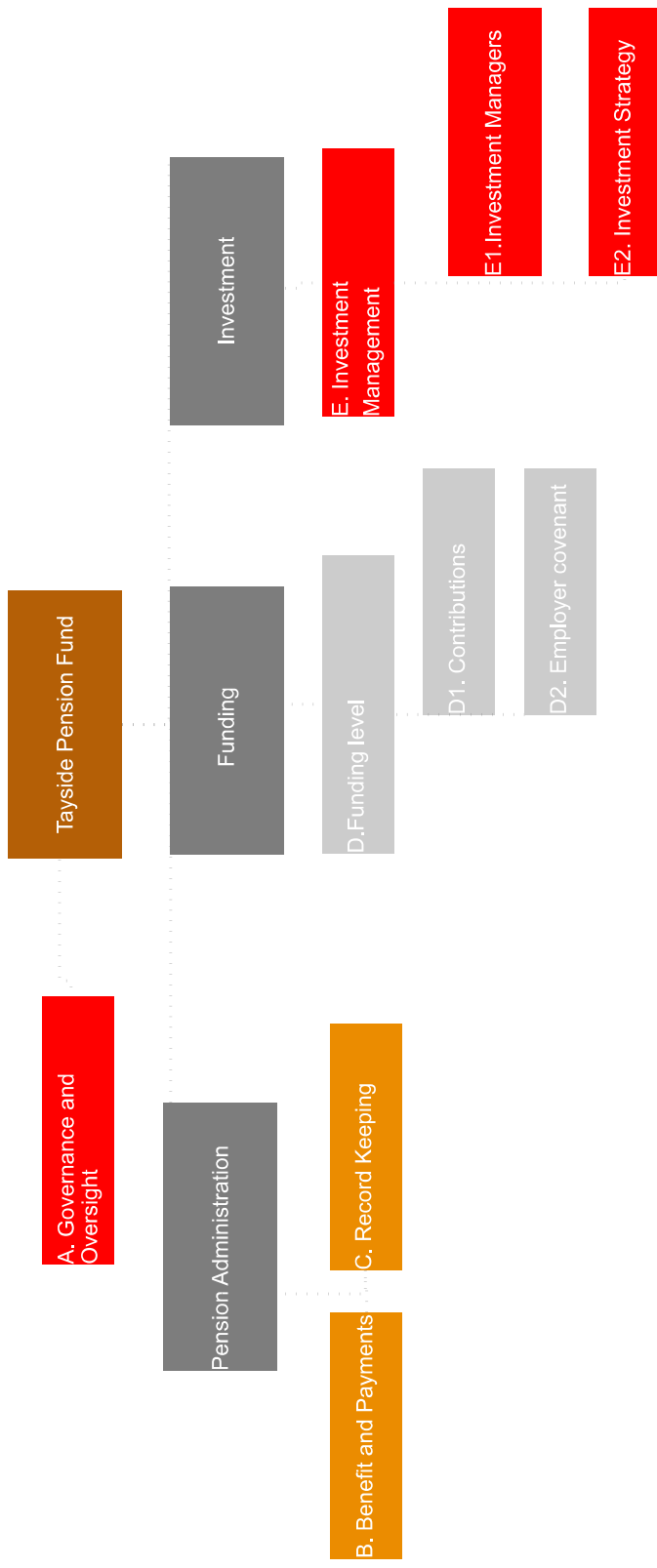
The diagram below represents the high level auditable units within the audit universe of TPF. These units form the basis of the internal audit plan.

Key:

Audit units are in scope for our 2019/20 internal audit plan

Audit units are in scope for our 2020/21 internal audit plan

Audit units not included within the 2019/20 or 2020/21 plans





Corporate objectives and risks

Management has provided us with the Tayside Pension Fund Business Plan from March 2020 which we have used to capture the corporate level objectives (goals). Management has provided the risk register from March 2020 which we have used to capture the risks in our planning procedures along side:

- Routine systems that require periodic internal audit to support the internal audit opinion;
- Areas of concern or risk you have raised with us in discussions to date; and
- Issues and risks faced by the sector as a whole.

The findings are recorded in the table below and have been considered when preparing the internal audit plan. Our internal audit work will be only one source of assurance to cover these risks. The analysis below is intended to help the Audit Committee understand how our work will link into your overall risk management approach.

Tayside Pension Fund Objectives (TPF Business Plan - March 2020)

[Link to our risk assessment or explanation as to why excluded from internal audit scope](#)

To provide for scheme members' pension and lump sum benefits on their retirement or for their dependants on death before or after retirement, on a defined benefits basis

- A. Governance and Oversight
- B. Pension benefit and payments
- C. Record Keeping

Keeping employer contribution rates as stable as possible

- D. Funding level - This audit unit is not included within the 2019/20 or 2020/21 IA plan

To maximise the overall return whilst maintaining a prudent and balanced investment exposure

- E2. Investment Strategy

To be 100% funded and to that end individual performance targets are set for each manager

- E1. Investment Managers

Corporate objectives and risks

Risk Area
(TPF Risk Register - March 2020)

Risk(s)

[Link to our risk assessment or explanation as to why excluded from internal audit scope](#)

1 Failure to process pension payments and lump sums on time	Non-availability of Altair pension System ResourceLink payroll system, key staff or error omission, etc.	B. Pension benefit and payments C. Record Keeping
2 Failure to collect and account for contributions from employers and employees on time	Non Availability of Authority Financials system, key staff, error, omission, failure of employers & financial systems, failure to communicate with Employers effectively. Failure of employer to provide required information.	D. Funding level - This unit is not included within the 2019/20 or 2020/21 IA plan
3 Insufficient funds to meet liabilities as they fall due	Contributions from employees/employer is too low. Failure of investment strategy to deliver adequate returns Significant increases in longevity, etc	E2. Investment Strategy
4 Inability to keep service going due to loss of main office, computer system or staff	Fire, bomb, flood, etc.	Risk is identified as low, and will therefore not be included in the Internal Audit scope
5 Loss of funds through fraud or misappropriation	Fraud or misappropriation of funds by an employer, agent or contractor	Risk and inherent risk are identified as low, and will therefore not be included in the Internal Audit scope
6 Unable to participate in scheme	Scheme liabilities Increase disproportionately as a result of increased longevity, falling bond yields, changing retirement patterns, etc	E1. Investment Managers E2. Investment Strategy
7 Significant rises in employer contributions due to poor/negative investment returns	Poor economic conditions, incorrect investment strategy. Poor selection of Investment managers	E1. Investment Managers E2 Investment Strategy
8 Failure of global custodian	Financial collapse of global custodian or failure to safeguard assets or records.	Risk and inherent risk are identified as low, and will therefore not be included in the Internal Audit scope

Corporate objectives and risks

Risk Area
(TPF Risk Register - Mar/20)

Risk(s)

[Link to our risk assessment or explanation as to why excluded from internal audit scope](#)

9	Failure of Investment Manager	Market sector falls substantially	E1. Investment Managers
10	Equity Risk	Market sector falls substantially	E2. Investment Strategy
11	Active Manager Risk	Investment manager underperforms.	E1. Investment Managers
12	Failure to comply with LGPS and other regulations	Lack of technical expertise/staff resources to research regulations IT systems not updated to reflect current legislation, etc	A. Governance and Oversight
13	Failure to hold personal data Securely (incorporating Cyber Crime)	Insufficient security of data (including Cybercrime Prevention measures) Inadequate data retention policy, backup and recovery Procedures. Incoming new regulations	C.2. Data retention
14	Failure to keep pension records up-to-date and accurate	Incorrect records leading to incorrect estimates being issued and potentially incorrect pensions being paid	C.1. Records B. Pension benefit and payments
15	Lack of expertise on Pension Committee, Pension Board or amongst officers	Lack of training and Continuous Professional development.	A. Governance and Oversight



Corporate objectives and risks

Risk Area (TPF Risk Register - Mar/20)

[Link to our risk assessment or explanation as to why excluded from internal audit scope](#)

Risk Area (TPF Risk Register - Mar/20)	Risk(s)	Link to our risk assessment or explanation as to why excluded from internal audit scope
16 Over reliance on key officers	Specialist nature of work means there are relatively few experts in investments and the LGPS regulations.	A.1 Board and Committees
17 Failure to Communicate properly with stakeholders	Lack of clear communication of policy and actions particularly with employers and scheme members	A.2. Stakeholder communication A.3. Strategy, Policy and Procedures
18 Employer Covenant Risk	Employers being unable to provide for actuarially calculated cessation liability in event of being required to exit the fund.	D. Funding level - This unit is not included within the 2019/20 or 2020/21 IA plan

Risk assessment

Each auditable unit has been assessed for inherent risk and the strength of the control environment, in accordance with the methodology set out in Appendix 1 and 2. The results are summarised in the table below. In approving this plan, we ask the Audit Committee to consider whether where other sources of assurance are noted that these are sufficient to provide the required degree of confidence over the underlying risk(s), such that they are not in scope for Internal Audit.

Ref	Auditable Unit	Corporate risks	Inherent Risk Rating	Control Environment Indicator	Audit Requirement Rating	Colour code	Frequency	Rationale for inclusion/exclusion
A	Governance and Oversight							
A.1	Board and committees	15 Lack of expertise on Pension Committee,						
A.2	Stakeholder communication	Pension Board or amongst officers	4	3	2	●	Every 3 years	Governance and Oversight provided by Pension Boards is identified as a key sector risk. We will look to provide Assurance over effectiveness of Board and Senior Management's oversight, which will include a review stakeholder communication.
A.3	Strategy, Policy and Procedures	16 Over reliance on key officers 17 Failure to communicate properly with stakeholders						
B	Benefits and Payments							
B.1.	Benefit notices, calculation, and Pension payments	1 Failure to process pension payments and lump sums on time	3	4	2	●	Every 3 years	To provide assurance over timeliness, and accuracy of payments and benefits.



Risk assessment

Ref	Auditable Unit	Corporate risks	Inherent Risk Rating	Control Environment Indicator	Audit Requirement Rating	Colour code	Frequency	Rationale for inclusion/exclusion
C Record keeping								
C.1	Records	14 Failure to keep pension records up-to-date and Accurate 12 Failure to comply with LGPS and other regulations	3	4	2	●	Every 3 years	To provide assurance over accuracy of records and effectiveness of data retention policies.
C.2	Data retention	13 Failure to hold personal data securely	3	4	2	●	Every 3 years	To provide assurance over the effectiveness of the data retention policies.
D Funding Levels								
D.1	Employer covenant	18 Employer Covenant Risk	4	4	3	●	Every 2 years	Excluded - independent covenant review and financial assessments are carried out by the fund.
D.2.	Contributions	2 Failure to collect and account for contributions from employers and employees on time	4	4	3	●	Every 2 years	Excluded - The external audit plan includes a review of receipt of returns against the formal timetable and sample testing of year-end employer contributions returns.



Risk assessment

Ref	Auditable Unit	Corporate risks	Inherent Risk Rating	Control Environment Indicator	Audit Requirement Rating	Colour code	Frequency	Rationale for inclusion/exclusion
E.	Investment Management							
E.1	Investment Managers	<ul style="list-style-type: none"> 9 Failure of Investment Manager 11 Active Manager Risk 	4	4	3	●	Every 2 years	To provide assurance over the oversight of Investment Managers to ensure they are carrying out their work competently and are complying with applicable statutory requirements.
E.2	Investment Strategy	<ul style="list-style-type: none"> 3 Insufficient funds to meet liabilities as they fall due 7 Significant rises in employer contributions due to poor/negative investment returns 10 Equity Risk 	4	4	3	●	Every 2 years	To provide assurance that an appropriate investment strategy, statement of investment principles and investment policies are in place.

Key to frequency of audit work

Frequency approach

Audit requirement rating	Frequency – PwC standard approach	Colour code
6	Annual	●
5	Annual	●
4	Annual	●
3	Every two years	●
2	Every three years	●
1	No further work	●

Annual plan and indicative timetable

The following table sets out the internal audit work planned for the period 1 April 2019 - 31 March 2020.

Ref	Auditable Unit	Indicative number of audit days	Audit sponsor/Executive lead	Focus of review ¹
B.1.	Benefit notices, calculation, and Pension payments	13	Tracey Russell	Annual benefit notices are accurate and are distributed to existing active members on a timely basis.
C.1. & C.2	Records and Data Retention	12	Tracey Russell	Controls over Joiners, Leavers, Amendments, Ongoing accuracy and verification.
Total audit reviews		25		
	Annual Audit Plan and Reporting, Contract Management	7		Annual Audit Plan and Reporting (3.5) Contract Management (2 days), Attendance at Audit Committees (0.5 days), Contingency (1 day)
	Attendance at Audit Committees Contingency			
Total internal audit days		32		

¹Each of the individual reviews will be agreed with management and will be based upon a detailed terms of reference. For the purposes of our audit planning we have completed initial work to identify the potential scope of our review, but these will be revisited prior to commencing each audit to ensure that it is still relevant.

Annual plan and indicative timetable

The following table sets out the internal audit work planned for the period 1 April 2020 - 31 March 2021, together with indicative start dates for each audit.

Ref	Auditable Unit	Indicative number of audit days	Q1-4	Audit sponsor/Executive lead	Focus of review ¹
E.1 & E.2	Investment Managers & Investment Strategy	10.5	Q3	Tracey Russell	Investment strategy and oversight of manager and asset performance
A.1, A.2 & A3	Board and committees, Stakeholder communication & Strategy, Policy and Procedures	15	Q3	Tracey Russell	Assurance on the effectiveness of the governance framework and policies & procedures.
Total audit reviews		25.5			
Annual Audit Plan and Reporting, Contract Management Attendance at Audit Committees Contingency		5			Annual Audit Plan and Reporting (1) Contract Management (2 days), Attendance at Audit Committees (1 day), Contingency (1 day)
Total internal audit days		30.5			

¹Each of the individual reviews will be agreed with management and will be based upon a detailed terms of reference. For the purposes of our audit planning we have completed initial work to identify the potential scope of our review, but these will be revisited prior to commencing each audit to ensure that it is still relevant.

Basis of our annual internal audit opinion/conclusion

Internal audit work will be performed in accordance with PwC's Internal Audit methodology which is aligned to Institute of Internal Auditors International Standards for the Professional Practice of Internal Auditing;. As a result, our work and deliverables are not designed or intended to comply with the International Auditing and Assurance Standards Board (IAASB), International Framework for Assurance Engagements (IFAE) and International Standard on Assurance Engagements (ISAE) 3000.

Our annual internal audit opinion will be based on and limited to the internal audits we have completed over the year and the control objectives agreed for each individual internal audit.

In developing our internal audit risk assessment and plan we have taken into account the requirement to produce an annual internal audit opinion by determining the level of internal audit coverage over the audit universe and key risks. We do not believe that the level of agreed resources will impact adversely on the provision of the annual internal audit opinion.

Mapping of internal audit opinion

Below we set out how our 2019/2020 internal audit plan maps to the reporting requirements as set out in the Institute of Internal Auditors International Standards.

Ref	Review	Governance	Risk management	Control	Value for Money	Data quality
B.1	Benefit notices, calculation, and Pension payments	x	x	x	x	x
C.1.	Records	x		x		x
C.2	Data Retention	x	x	x		x

Basis of our annual internal audit opinion/conclusion

Internal audit work will be performed in accordance with PwC's Internal Audit methodology which is aligned to Institute of Internal Auditors International Standards for the Professional Practice of Internal Auditing;. As a result, our work and deliverables are not designed or intended to comply with the International Auditing and Assurance Standards Board (IAASB), International Framework for Assurance Engagements (IFAE) and International Standard on Assurance Engagements (ISAE) 3000.

Our annual internal audit opinion will be based on and limited to the internal audits we have completed over the year and the control objectives agreed for each individual internal audit.

In developing our internal audit risk assessment and plan we have taken into account the requirement to produce an annual internal audit opinion by determining the level of internal audit coverage over the audit universe and key risks. We do not believe that the level of agreed resources will impact adversely on the provision of the annual internal audit opinion.

Mapping of internal audit opinion

Below we set out how our 2021/22 internal audit plan maps to the reporting requirements as set out in the Institute of Internal Auditors International Standards.

Ref	Review	Governance	Risk management	Control	Value for Money	Data quality
A.1	Board and committees	x	x	x	x	x
A.2	Stakeholder communication	x	x	x		
A.3	Strategy, Policy and Procedures	x	x	x		
E1	Investment Strategy	x	x	x		
E.2	Investment Managers	x	x	x	x	x

Performance of internal audit

Key performance indicators

To ensure your internal audit service is accountable to the Audit Committee and management, we have proposed the following key performance indicators.

Quality assurance and improvement programme

Our internally focused quality assurance system and service quality standards are outlined below:

Internal quality review programme - We undertake internal quality reviews of our audit engagements on a sample basis.

Engagement compliance reviews (ECR) - On an annual basis, files are selected for review to ascertain compliance with internal auditing standards and PwC quality standards.

Staff performance - Development of our people is underpinned by a careful evaluation of their performance. Each member of staff must set performance objectives prior to an internal audit assignment and a project appraisal form is completed at the end

KPI	Target	Comments
Planning		
% of audits with Terms of Reference	100%	
Terms of Reference agreed promptly	No less than 2 weeks prior to review	2 weeks prior to review, unless the timing of the review is brought forward with the agreement of management
Fieldwork		
% of audits with an exit meeting	100% of reviews	
Reporting		
Draft reports issues promptly	Maximum 3 weeks from completion of review	
Progress and other papers to Audit Committee	14 days before each meeting	
Attendance at Audit Committee	100%	Every audit committee to be attended by a senior member of your engagement team (engagement senior manager or engagement leader)
Relationships		
Response times to requests for information	Requests for information from TPF responded to within 48 hours	Subject to annual leave/staff absence
Client Satisfaction Surveys	Annually	



Appendix A: Detailed methodology

Appendix B: Risk assessment criteria

Appendix C: Independence

Appendix D: Internal audit charter

Appendices

Appendix A: Detailed methodology

Step 1 – Understand corporate objectives and risks

In developing our understanding of your corporate objectives and risks, we have:

- Reviewed your strategy and risk register;
- Drawn on our knowledge of the sector; and
- Held discussions with a number senior management members.

Step 2 – Define the audit universe

In order that the internal audit plan reflects your management and operating structure we have identified the audit universe for the Tayside Pension Fund made up of a number of auditable units. Auditable units include functions, processes, systems, products or locations. Any processes or systems which cover multiple locations are separated into their own distinct cross cutting auditable unit.

Step 3 – Assess the inherent risk

The internal audit plan should focus on the most risky areas of the business. As a result each auditable unit is allocated an inherent risk rating i.e. how risky the auditable unit is to the overall organisation and how likely the risks are to arise. The criteria used to rate impact and likelihood are recorded in Appendix 2.

The inherent risk assessment is determined by:

- Mapping the corporate risks to the auditable units;
- Our knowledge of your business and the sector; and
- Discussions with management.

Impact Rating

Likelihood rating

	6	5	4	3	2	1
6	6	6	5	5	4	4
5	6	5	5	4	4	3
4	5	5	4	4	3	3
3	5	4	4	3	3	2
2	4	4	3	3	2	2
1	4	3	3	2	2	1

Appendix A: Detailed methodology

Step 4 – Assess the strength of the control environment

- In order to effectively allocate internal audit resources we also need to understand the strength of the control environment within each auditable unit. This is assessed based on:
- Our knowledge of your internal control environment;
- Information obtained from other assurance providers; and
- Discussions with management..

Step 5 – Calculate the audit requirement rating

The inherent risk and the control environment indicator are used to calculate the audit requirement rating. The formula ensures that our audit work is focused on areas with high reliance on controls or a high residual risk.

Inherent Risk Rating	6	5	4	3	2	1
6	6	5	4	3	2	1
5	5	4	3	2	n/a	n/a
4	4	3	2	n/a	n/a	n/a
3	3	2	n/a	n/a	n/a	n/a
2	2	n/a	n/a	n/a	n/a	n/a
1	1	n/a	n/a	n/a	n/a	n/a

Step 6 – Determine the audit plan

Your risk appetite determines the frequency of internal audit work at each level of audit requirement. Auditable units may be reviewed annually, every two years or every three years.

In some cases it may be possible to isolate the sub-process (es) within an auditable unit which are driving the audit requirement. For example, an auditable unit has been given an audit requirement rating of 5 because of inherent risks with one particular sub-process, but the rest of the sub-processes are lower risk. In these cases it may be appropriate for the less risky sub-processes to have a lower audit requirement rating be subject to reduced frequency of audit work. These sub-processes driving the audit requirement areas are highlighted in the plan as key sub-process audits.

Step 7 – Other considerations

In addition to the audit work defined through the risk assessment process described above, we may be requested to undertake a number of other internal audit reviews such as regulatory driven audits, value enhancement or consulting reviews. These have been identified separately in the annual plan.

Appendix B: Risk assessment criteria

Determination of inherent risk

We determine inherent risk as a function of the estimated **impact** and **likelihood** for each auditable unit within the audit universe as set out in the tables below.

Likelihood rating Assessment rationale

6	Has occurred or probable in the near future
5	Possible in the next 12 months
4	Possible in the next 1-2 years
3	Possible in the medium term (2-5 years)
2	Possible in the long term (5-10 years)
1	Unlikely in the foreseeable future

Impact rating Assessment rationale

6	Critical impact on operational performance; or Critical monetary or financial statement impact; or Critical breach in laws and regulations that could result in material fines or consequences; or Critical impact on the reputation or brand of the organisation which could threaten its future viability.
5	Significant impact on operational performance; or Significant monetary or financial statement impact; or Significant breach in laws and regulations resulting in large fines and consequences; or Significant impact on the reputation or brand of the organisation.
4	Major impact on operational performance; or Major monetary or financial statement impact; or Major breach in laws and regulations resulting in significant fines and consequences; or Major impact on the reputation or brand of the organisation.
3	Moderate impact on the organisation's operational performance; or Moderate monetary or financial statement impact; or Moderate breach in laws and regulations with moderate consequences; or Moderate impact on the reputation of the organisation.
2	Minor impact on the organisation's operational performance; or Minor monetary or financial statement impact;; or Minor breach in laws and regulations with limited consequences;; or Minor impact on the reputation of the organisation.
1	Insignificant impact on the organisation's operational performance; or Insignificant monetary or financial statement impact; or Insignificant breach in laws and regulations with little consequence; or Insignificant impact on the reputation of the organisation.



Appendix C: Independence

We confirm that in our professional judgement, as at the date of this document, Internal Audit staff have had no direct operational responsibility or authority over any of the activities planned for review. We can confirm that as an organisation we are independent from **Tayside Pension Fund**.

Appendix D: Internal audit charter

Purpose and scope

This Internal Audit Charter provides the framework for the conduct of the Internal Audit function in the Tayside Pension Fund and is presented for approved by the Audit Committee. It has been created with the objective of formally establishing the purpose, authority and responsibilities of the Internal Audit function.

Purpose

Internal Auditing is an independent, objective assurance and consulting activity designed to add value to and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes.

Scope

All of the Tayside Pension Fund's activities (including outsourced activities) and legal entities are within the scope of Internal Audit. Internal Audit determines what areas within its scope should be included within the annual audit plan by adopting an independent risk based approach. Internal Audit does not necessarily cover all potential scope areas every year. The audit program includes obtaining an understanding of the processes and systems under audit, evaluating their adequacy, and testing the operating effectiveness of key controls. Internal Audit can also, where appropriate, undertake special investigations and consulting engagements at the request of the Audit Committee, senior management and regulators.

Notwithstanding Internal Audit's responsibilities to be alert to indications of the existence of fraud and weaknesses in internal control which would permit fraud to occur, the Internal Audit activity will not undertake specific fraud-related work.

Internal Audit will coordinate activities with other internal and external providers of assurance and consulting services to ensure proper coverage and minimise duplication of efforts.

Appendix D: Internal audit charter

Authority, responsibility and independence

Authority

The Internal Audit function of the Tayside Pension Fund derives its authority from the Head of Finance through the Audit Committee. The Chief Audit Executive is authorised by the Audit Committee to have full and complete access to any of the organisation's records, properties and personnel. The Chief Audit Executive is also authorised to designate members of the audit staff to have such full and complete access in the discharging of their responsibilities, and may engage experts to perform certain engagements which will be communicated to management. Internal Audit will ensure confidentiality is maintained over all information and records obtained in the course of carrying out audit activities.

Responsibility

The Chief Audit Executive is responsible for preparing the annual audit plan in consultation with the Audit Committee and senior management, submitting the audit plan, internal audit budget, and resource plan for review and approval by the Audit Committee, implementing the approved audit plan, and issuing periodic audit reports on a timely basis to the Audit Committee and senior management.

The Chief Audit Executive is responsible for ensuring that the Internal Audit function has the skills and experience commensurate with the risks of the organisation. The Audit Committee should make appropriate inquiries of management and the Chief Audit Executive to determine whether there are any inappropriate scope or resource limitations.

It is the responsibility of management to identify, understand and manage risks effectively, including taking appropriate and timely action in response to audit findings. It is also management's responsibility to maintain a sound system of internal control and improvement of the same. The existence of an Internal Audit function, therefore, does not in any way relieve them of this responsibility. Management is responsible for fraud prevention and detection. As Internal Audit performs its work programs, it will be observant of manifestations of the existence of fraud and weaknesses in internal control which would permit fraud to occur or would impede its detection.

Independence

Internal Audit staff will remain independent of the business and they shall report to the Chief Audit Executive who, in turn, shall report functionally to the Audit Committee and administratively to the Finance Director.

Internal Audit staff shall have no direct operational responsibility or authority over any of the activities they review. Therefore, they shall not develop nor install systems or procedures, prepare records or engage in any other activity which they would normally audit. Internal Audit staff with real or perceived conflicts of interest must inform the Chief Audit Executive, then the Audit Committee, as soon as these issues become apparent so that appropriate safeguards can be put in place.

Appendix D: Internal audit charter

Professional competence, reporting and monitoring

Professional competence and due care

The Internal Audit function will perform its duties with professional competence and due care. Internal Audit will adhere to the Definition of Internal Auditing, Code of Ethics and the Standards for the Professional Practice of Internal Auditing that are published by the Institute of Internal Auditors.

Reporting and monitoring

At the end of each audit, the Chief Audit Executive or designee will prepare a written report and distribute it as appropriate. Internal Audit will be responsible for appropriate follow-up of audit findings and recommendations. All significant findings will remain in an open issues file until cleared by the Chief Audit Executive or the Audit Committee.

The Audit Committee will be updated regularly on the work of Internal Audit through periodic and annual reports. The Chief Audit Executive shall prepare reports of audit activities with significant findings along with any relevant recommendations and provide periodic information on the status of the annual audit plan.

Periodically, the Chief Audit Executive will meet with the Chair of the Audit Committee in private to discuss internal audit matters.

The performance of Internal Audit will be monitored through the implementation of a Quality Assurance and Improvement Programme, the results of which will be reported periodically to Senior Management and the Audit Committee.

Appendix D: Internal audit charter

Definitions

Board

The highest level of governing body charged with the responsibility to direct and/or oversee the activities and management of the organisation.

Throughout this document, the term 'Board' refers to the Tayside Pension Board.

Audit committee

The governance group charged with independent assurance of the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting.

Throughout this document the term 'Audit Committee' refers to the Tayside Pension Sub-Committee.

Senior management

The individuals at the highest level of organisational management who have day-to-day responsibility for managing the organisation.

Throughout this document, the term 'Senior Management' refers to the Executive Director of Corporate Services, Head of Corporate Finance Senior Financial Services Manager

Chief audit executive

Chief Audit Executive describes a person in a senior position responsible for effectively managing the internal audit activity. The specific job title of the Chief Audit Executive may vary across organisations.

Throughout this document, the term 'Chief Audit Executive' refers to the Head of Internal Audit and this role is fulfilled by Fraser Wilson, PwC Partner.



Thank you

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