

ITEM No ...7.....

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

REPORT ON: TAYSIDE PENSION FUND INTERNAL ANNUAL AUDIT REPORTS 2020/2021

REPORT BY: EXECUTIVE DIRECTOR OF CORPORATE SERVICES

REPORT NO: 339-2020

1 PURPOSE OF REPORT

To submit to the Sub-Committee the Audit Reports prepared by the Fund's Internal Auditor, PricewaterhouseCoopers (PwC) following the reviews undertaken in line with the approved 2020/2021 Internal Audit plan (Article X of the Minute of Meeting of the Pension Sub-Committee of the Policy and Resources Committee and Pension Board of 21 September 2020, Report No 151-2020 refers).

2 RECOMMENDATIONS

The Sub-Committee is asked to note the contents of the of the appended reports on the individual audit exercises undertaken for the current financial year, and to approve the management responses.

3 FINANCIAL IMPLICATIONS

None.

4 MAIN TEXT

4.1 Internal Audit Report 2020/21 – Governance and Oversight (Appendix 1)

The report details the review of the current framework in place in order to ensure that the Fund is properly governed, in that the key processes and controls of the Fund's activities are appropriately overseen through continued effectiveness of the Pension Sub-Committee and Pension Board. Based on their findings, PwC rate the control environment as medium risk, having identified 2 medium risks, and 1 low risk. PwC classify medium risk as that a finding could have moderate impact on operational performance, reputation, financial impact, or regulatory breach.

4.3 Internal Audit Report 2020/21 – Investment Strategy & Investment Managers (Appendix 2)

The report details the review of the design and effectiveness of key controls in place over the Investment Strategy & Investment Managers. This included a review of the processes in place that allow the Pension Board and Sub-Committee to monitor the investment strategy and principles and ensure they are appropriate for the objectives of the fund, along with the oversight and monitoring of Investment Managers. Based on their findings, PwC rate the control environment as low risk, having identified 1 medium risk. PwC classify low risk as that a finding could have minor impact on operational performance, reputation, financial impact, or regulatory breach.

4.4 The findings of both individual audits and the respective recommendations have been discussed with management and their responses are contained within the reports. The implementation of the agreed management actions will be monitored, with progress being reported to the Sub-Committee in due course.

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.

6 CONSULTATIONS

The Chief Executive and Head of Democratic and Legal Services has been consulted on the content of this report and agree with the contents.

7 **BACKGROUND PAPERS**

None

GREGORY COLGAN
EXECUTIVE DIRECTOR OF CORPORATE SERVICES

25 NOVEMBER 2020

Internal audit report 2020/2021 DRAFT



**Governance and Oversight
Tayside Pension Fund**

October 2020



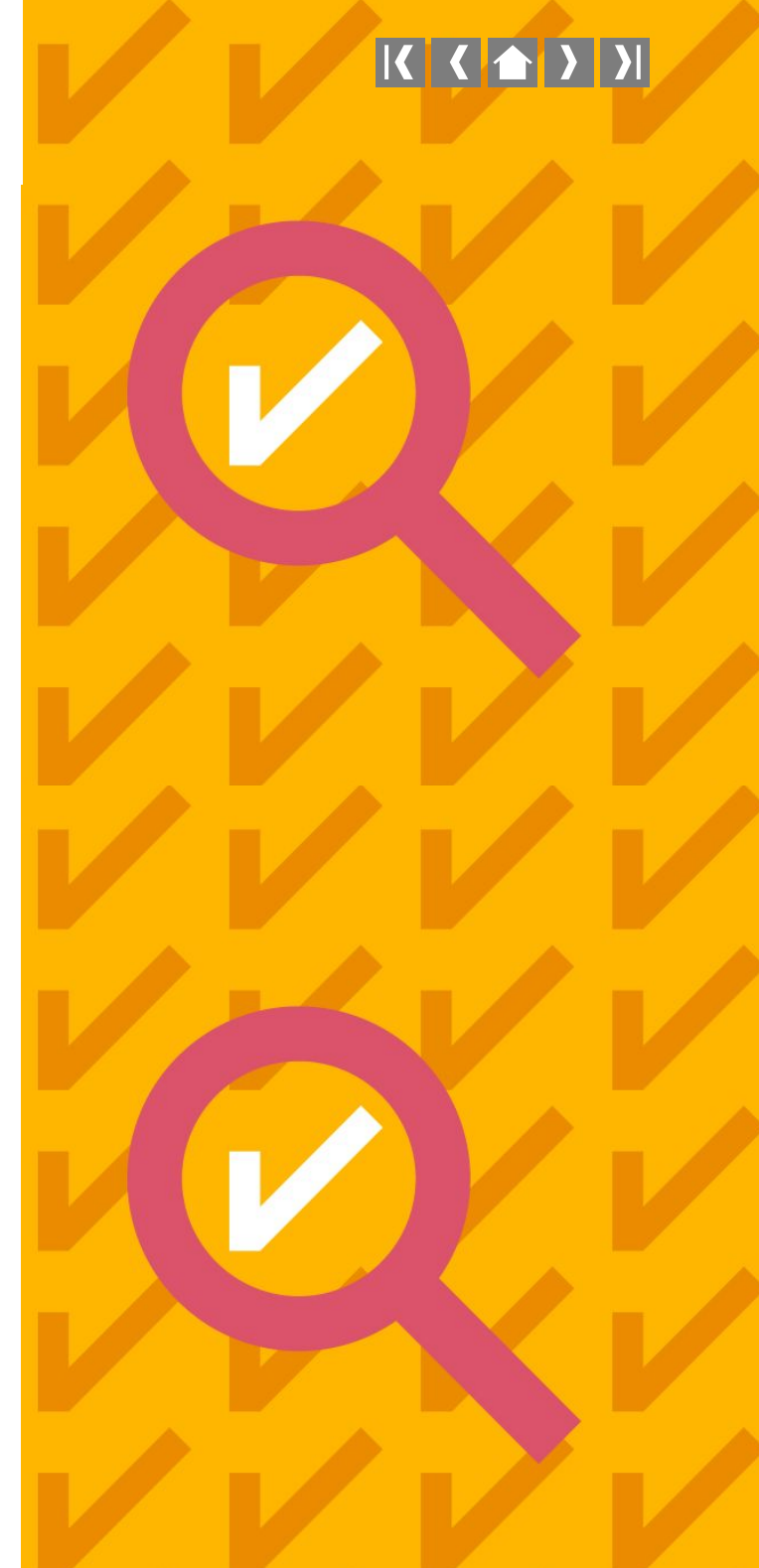
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Distribution list

For action:
Senior Manager Financial Services

For information:
Pension Board & Pension Sub-Committee
Executive Director Corporate Services
Head of Corporate Finance



Executive summary (1 of 2)

Report classification



Medium Risk

Trend

A review of this nature has not been performed in previous years.

Total number of findings

	Critical	High	Medium	Low	Advisory
Control design	-	-	2	1	-
Operating effectiveness	-	-	-	-	-
Total	-	-	2	1	-

Introduction

This review was undertaken in line with the 2020/2021 Internal Audit plan, as approved by the Pension Sub-Committee on 9 June 2020.

We reviewed the framework that is in place to ensure that the Fund is properly governed, and the key processes and controls which ensure the Fund's activities are appropriately overseen through the continued effectiveness of the Pension Board and Pension Sub-Committee.

Overall, we have rated the control environment as Medium Risk. We have raised two medium risk and one low risk finding. Further details are included in section 3 of this report.

Summary of key findings

Two medium risk findings raised are summarised below:

Finding 1 - No response was required for email approvals by Pension Board & Sub-Committee members [Medium Risk].

Revised arrangements were introduced in March 2020 to enable the Fund to operate in the Covid-19 environment. This included the cancellation of the scheduled March 2020 and June 2020 Pension Board and Sub-Committee meetings. Contingent procedures were introduced whereby Essential Committee Reports (including governance and compliance statements, accounts and audit reports) were circulated to committee members for approval via email.

No reply was required from committee and board members, rather it was assumed that where no response is obtained from the members within a specified timeline, this was taken as an approval.

Finding 2 - Missing conflict of interest declarations [Medium Risk].

As there have been no Pension Board and Sub-Committee meetings held up to September 2020, the conflict of interest declarations were not obtained until the September 2020 meeting.

Good practice noted

During the course of our review areas of good practice were noted including:

- Internal Audit attended the September 2020 Pension Board & Sub-Committee meeting which was held via video conference and noted a good level of engagement, with constructive questions on the agenda items and reports for consideration.
- Detailed management information, including pension administration reports and reports from external advisors, are provided to the Pension Board & Sub-Committee on a quarterly basis.
- Clearly defined roles and responsibilities and terms of reference are in place for the Pension Board & Sub-Committee.

Executive summary (2 of 2)

Management comments

Management recognise the findings contained in the report were largely due to the contingent measures in place due to national circumstances and will ensure that the recommendations made in the report are implemented for the future, should the need arise. Management also note the good practices highlighted in the report.

Background and scope

Background

Tayside Pension Fund has been administered by Dundee City Council since 1st April 1996. It is part of the Local Government Pension Scheme (LGPS), which is a statutory scheme established under the primary legislations of the Superannuation act 1972 and Public Service Pensions Act 2013.

As at 31st March 2020, Tayside Pension Fund had investment assets of £3.703 billion, and a membership of 51,004 across 46 participating employers. These participating employers include 3 local authorities, as well as their subsidiary companies and contractors; a number of universities and colleges; and a range of organisations with funding or service links to local government.

There are approximately 100 LGPS funds in the UK, with 11 of these in Scotland. Tayside is the 4th largest of the 11 Scottish LGPS funds in asset size. The LGPS is a multi-employer defined benefit scheme, whose benefits up until 31st March 2015 was based upon final salary. Since this date, benefits are based upon career average.

The rules by which the LGPS scheme operates by are set out in the Local Government Pension Scheme (Scotland) Regulations which are Scottish Statutory Instruments (SSIs). Separate regulations set out scheme benefits, investment and governance requirements

An audit of Governance and Oversight is included in the 2020/2021 Internal Audit plan approved by the Pension Sub-Committee on 9 June 2020.

Limitations of Scope

The audit focused on reviewing the framework that is in place to ensure that the Fund is properly governed, and the key processes and controls which ensure the Fund's activities are appropriately overseen through the continued effectiveness of the Pension Board and Pension Sub-Committee, specifically the scope is limited to the objectives noted in the Terms of Reference which are included in Appendix B.

Current year findings (1 of 3)

1 No response was required for email approvals by Pension Board & Sub-Committee members
Control Design

Finding rating

Rating

Medium

Finding and root cause

Revised arrangements were introduced in March 2020 to enable the Fund to operate in the Covid-19 environment. This included the cancellation of the scheduled March 2020 and June 2020 Pension Board and Sub-Committee meetings.

Contingent procedures were introduced whereby Essential Committee Reports (including governance and compliance statements, accounts and audit reports) were circulated to committee members for approval.

No reply was required from committee and board members, rather it was assumed that where no response is obtained from the members within a specified timeline, this was taken as an approval.

Potential implications

Where there is no positive confirmation of receipt and approval, there is a risk that Essential Committee Reports have not been received, read and approved by all committee and board members.

Decisions may have been taken without sufficient scrutiny and challenge or without the appropriate and timely approval of all board and committee members.

Recommendation

Should contingent procedures be required in future, Board & Sub-Committee meetings should be held by call/ video conferencing. If email approval is required, members should provide a confirmation of receipt and approval.

Management action plan

This was a contingent short term measure. To ensure that essential reports were approved, these were presented at meeting of 21st September 2020. This confirmed that approval had been given and that Board and Committee were aware. The minutes of these meetings are available for public scrutiny.

Should contingent measures have to be adopted in future, this will be accommodated.

Responsible person/title:

Tracey Russell

Target date:

30 November 2020

Current year findings (2 of 3)

2 Missing conflict of interest declarations

Control Design

Finding rating

Rating

Medium

Finding and root cause

A conflicts of interest register is maintained by Dundee City Council Committee Services. Each member of the Pension Sub-Committee and Pension Board is required to declare any financial and non-financial interests they have in the items of business for consideration at each meeting, identifying the relevant agenda item and the nature of their interest.

This is documented in the meeting minutes and recorded by Dundee City Council Committee Services.

As there have been no Pension Board and Sub-Committee meetings held up to September 2020, the conflict of interest declarations were not obtained until the September 2020 meeting.

Potential implications

Where conflict of interest declarations are not obtained, there is a risk that a conflict of interest has not been identified and mitigated.

Recommendation

Should contingent procedures be required in future, conflict of interest declarations should be obtained from Board and Sub-Committee members.

Management action plan

Risk identified and noted, but confirmed at meeting of 21st September 2020 that no report content presented any conflict of interest. Should contingent measures have to be adopted in future, this will be accommodated.

Responsible person/title:

Tracey Russell

Target date:

30 November 2020

Current year findings (3 of 3)

3

There is no formal evidence of action tracking or monitoring

Control Design

Finding rating

Rating

Low

Finding and root cause

Where no approval is provided and further information is required for a decision, this will be discussed during the committee meeting. Prior meeting minutes are discussed and approved during the next meeting. There is no action tracker in place which details Board & Sub-Committee actions, action owners, and their status.

Potential implications

Where actions are not recorded, assigned an owner and their status monitored, there is an increased risk that they are not completed, or not completed within expected time frames.

Recommendation

Management should ensure a formal action tracker is put in place, which monitors the timely completion of committee actions

Management action plan

Although this has never been presented as an issue as any actions required are overseen by Senior Officers, formalising any action requirement will demonstrate good governance

Request to Committee Services to formally note actions if required and minutes to reflect.

Responsible person/title:

Tracey Russell

Target date:

30 November 2020

Appendices

Appendix A: Basis of our classifications

Individual finding ratings

Critical

A finding that could have a:

- **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.

High

A finding that could have a:

- **Significant** impact on operational performance; or
- **Significant** monetary or financial statement impact; or
- **Significant** breach in laws and regulations resulting in significant fines and consequences; or
- **Significant** impact on the reputation or brand of the organisation.

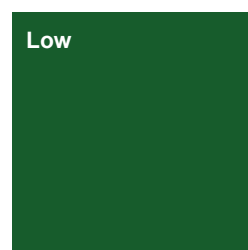
Medium

A finding that could have a:

- **Moderate** impact on operational performance; or
- **Moderate** monetary or financial statement impact; or
- **Moderate** breach in laws and regulations resulting in fines and consequences; or
- **Moderate** impact on the reputation or brand of the organisation.

Appendix A: Basis of our classifications

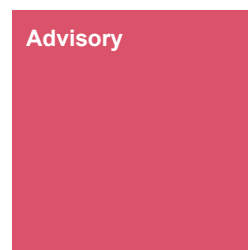
Individual finding ratings



Low

A finding that could have a:

- **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.







Advisory

A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.

Report classifications

The report classification is determined by allocating points to each of the findings included in the report.

Findings rating	Points	Report classification	Findings rating	Points
Critical	40 points per finding		Low risk	6 points or less
High	10 points per finding		Medium risk	7 – 15 points
Medium	3 points per finding		High risk	16 – 39 points
Low	1 point per finding		Critical risk	40 points and over

Appendix B: Terms of reference

This review is being undertaken as part of the 2019//2020 internal audit plan, as approved by the Executive Director Corporate Services, Head of Corporate Finance and Senior Manager Financial Services on 12 May 2020 and the Pension Sub-Committee on 9 June 2020.

Background

Tayside Pension Fund has been administered by Dundee City Council since 1st April 1996. It is part of the Local Government Pension Scheme (LGPS), which is a statutory scheme established under the primary legislations of the Superannuation act 1972 and Public Service Pensions Act 2013.

As at 31 st March 2020, Tayside Pension Fund had investment assets of £3.703 billion, and a membership of 51,004 across 46 participating employers. These participating employers include 3 local authorities, as well as their subsidiary companies and contractors; a number of universities and colleges; and a range of organisations with funding or service links to local government.

There are approximately 100 LGPS funds in the UK, with 11 of these in Scotland. Tayside is the 4th largest of the 11 Scottish LGPS funds in asset size. The LGPS is a multi-employer defined benefit scheme, whose benefits up until 31st March 2015 was based upon final salary. Since this date, benefits are based upon career average.

The rules by which the LGPS scheme operates by are set out in the Local Government Pension Scheme (Scotland) Regulations which are Scottish Statutory Instruments (SSIs). Separate regulations set out scheme benefits, investment and governance requirements

An audit of Governance and Oversight is included in the 2020/2021 Internal Audit plan approved by the Pension Sub-Committee on 9 June 2020. This audit will focus on assessing the design adequacy and operating effectiveness of the governance framework and governance delivery.

Audit Objectives

- To review the framework that is in place to ensure that the Fund is properly governed, and that Fund's activities are appropriately overseen through the continued effectiveness of the Pension Board and Pension Sub-Committee.
- To review the processes and controls which ensure the effective delivery of governance.

Appendix B: Terms of reference

Scope

We will review the design and operating effectiveness of key controls in place relating to Governance and Oversight during the 12 month period to 31st August 2020.

The sub-processes, risks and related control objectives included in this review are:

Process	Objectives	Risks
Governance Framework Design	<p>To review the framework that is in place to ensure that the Fund is properly governed, and that Fund's activities are appropriately overseen through the continued effectiveness of the Pension Board and Pension Sub-Committee. This will include a review of</p> <ul style="list-style-type: none"> • Terms of Reference for Pension Board and Pension Sub-Committee; • Board and Committee composition; • Board and Committee operating arrangements, including; <ul style="list-style-type: none"> ○ Board reporting processes, ○ Roles and responsibilities. ○ Timetable for the review and approval of policies and procedures in place for the management of the fund 	<ul style="list-style-type: none"> • Lack of appropriate governance structure could result in inadequate oversight of the activities of the Fund. • Insufficient Pension Board and Committee operating arrangements could lead to poor decision making and risk management.
Governance Delivery process	<p>To review the processes and controls which ensure the delivery of governance. This will include a review of:</p> <ul style="list-style-type: none"> • Board and Sub-Committee papers and minutes; • Board and Sub-Committee communication with stakeholders and service providers; • Delivery of governance processes: <ul style="list-style-type: none"> ○ Management information is reported to the Pension Board and/or relevant committee on a regular basis. ○ Attendance and participation at board and committee meetings ○ Decision taken are clearly documented ○ Action tracking and monitoring 	<ul style="list-style-type: none"> • Lack of appropriate governance delivery processes could result in inadequate oversight of the activities of the Fund. • Insufficient Pension Board and Committee governance processes could lead to poor decision making and risk management.

Appendix B: Terms of reference

Limitations of scope

This audit will focus on assessing the design adequacy and operating effectiveness of the governance framework and governance delivery of Tayside Pension Fund, specifically the scope is limited to the objectives noted above.

Audit approach

Our audit approach is as follows:

- Obtain an understanding of the governance framework through discussions with key personnel, review of the terms of reference for the Pension Board and Pension Sub-Committee, board composition and operating arrangements in place.
- Identify the key processes and controls which ensure the delivery of governance.
- Evaluate the design of the key processes and controls in place.
- Test the operating effectiveness of the key processes and controls in place.

Appendix C: Limitations and responsibilities

Limitations inherent to the internal auditor's work

We have undertaken this review subject to the limitations outlined below:

Internal control

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Future periods

Our assessment of controls is for the period specified only. Historic evaluation of effectiveness is not relevant to future periods due to the risk that:

- The design of controls may become inadequate because of changes in operating environment, law, regulation or other changes; or
- The degree of compliance with policies and procedures may deteriorate.

Responsibilities of management and internal auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

We endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist.

Thank you

pwc.co.uk

This document has been prepared only for Tayside Pension Funds and solely for the purpose and on the terms agreed with Tayside Pension Funds in our agreement dated 30 April 2020. We accept no liability (including for negligence) to anyone else in connection with this document, and it may not be provided to anyone else.

In the event that, pursuant to a request which Tayside Pension Funds has received under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004 (as the same may be amended or re-enacted from time to time) or any subordinate legislation made thereunder (collectively, the "Legislation"), Tayside Pension Funds is required to disclose any information contained in this document, it will notify PwC promptly and will consult with PwC prior to disclosing such document. Tayside Pension Funds agrees to pay due regard to any representations which PwC may make in connection with such disclosure and to apply any relevant exemptions which may exist under the Legislation to such. If, following consultation with PwC, Tayside Pension Funds discloses any this document or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

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Internal audit report 2020/2021 DRAFT



Investment Strategy & Investment Managers
Tayside Pension Fund

October 2020



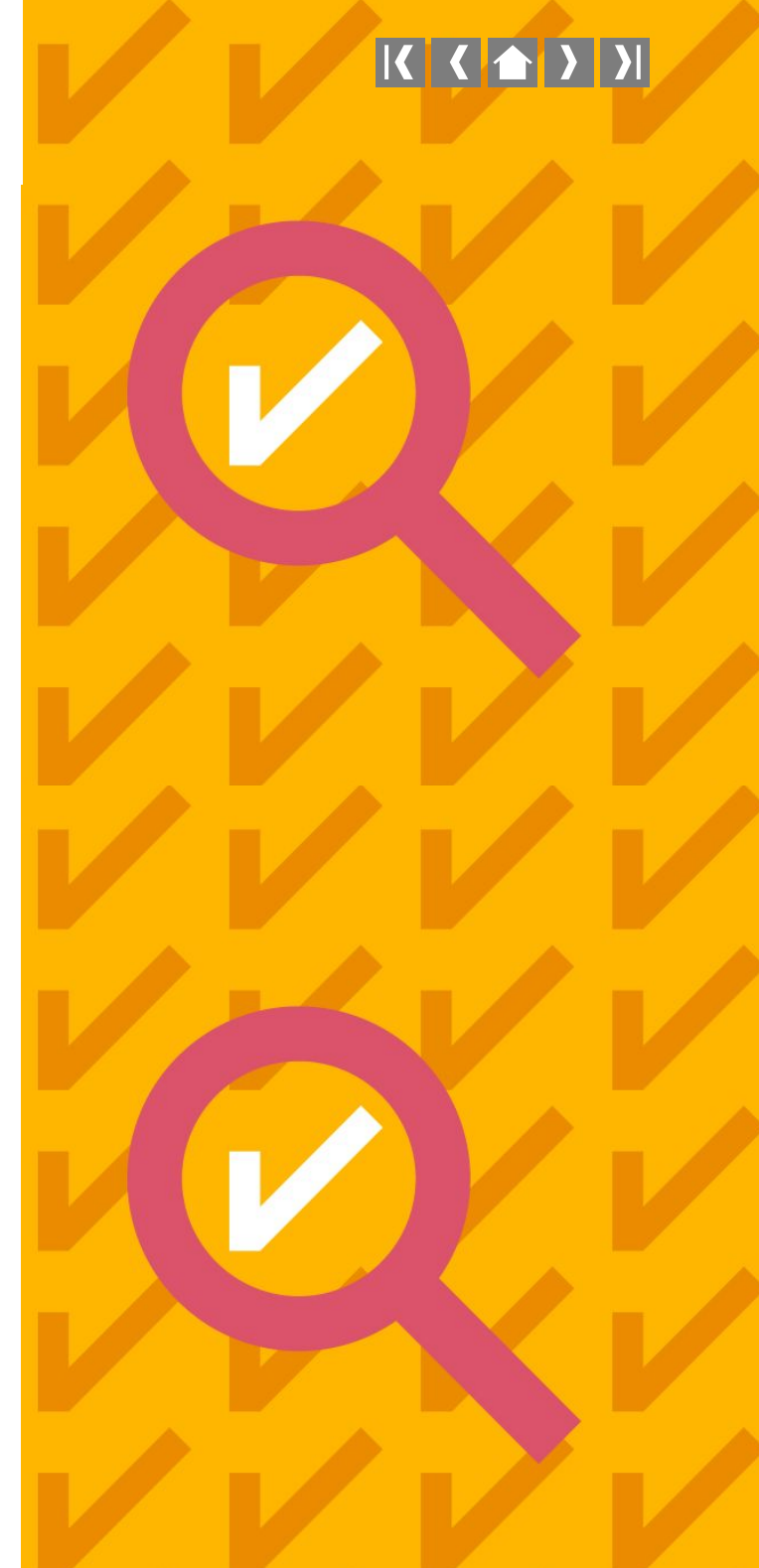
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Distribution list

For action:
 Senior Manager Financial Services
 Senior Banking & Investment Officer

For information:
 Pension Sub-Committee & Pension Board
 Executive Director Corporate Services
 Head of Corporate Finance



Executive summary (1 of 2)

Report classification



Low Risk

Trend

A review of this nature has not been performed in previous years.

Total number of findings

	Critical	High	Medium	Low	Advisory
Control design	-	-	1	-	-
Operating effectiveness	-	-	-	-	-
Total	-	-	1	-	-

Introduction

This review was undertaken in line with the 2020/2021 Internal Audit plan, as approved by the Pension Sub-Committee on 9 June 2020.

We reviewed the design and operating effectiveness of key controls in place over the Investment Strategy & Investment Managers. This included a review of the processes in place that allow the Pension Board and Sub-Committee to monitor the investment strategy and principles and ensure they are appropriate for the objectives of the fund, along with the oversight and monitoring of Investment Managers.

Overall, we have rated the control environment as Low Risk. We have raised one medium risk finding during this review. Further details are included in section 3 of this report.

Summary of key finding

Finding 1 - No timetable in place for the review and approval of policies [Medium Risk]. There is no timetable in place for the review and approval of policies, although certain policies, such as the investment policies and strategy, are required to be reviewed and approved by the Local Government Pension Scheme Regulations.

It was noted that policies are reviewed on an adhoc basis and when there are specific changes which would impact them. However there is no formal record of who is responsible for updating each policy, the level of review and approval, and when this is required.

Good practice noted

During the course of our review several areas of good practice were noted, including:

- There is ongoing monitoring and oversight of Investment Managers (IMs). Officers of the fund receive quarterly reports from each IM and meet to discuss their performance.
- IMs appear at the quarterly Pension Sub-Committee meetings on a rotational basis. The September 2020 Board and Sub-Committee meeting was attended by Internal Audit, and we noted a good level of engagement and challenge between members of the Sub-Committee and the IM.
- The investment performance of the IMs is reviewed by the Investment Advisor quarterly and is formally reported on an annual basis to the Pension Sub-Committee.
- The Investment Strategy and Statement of Investment Principles are in place, have been clearly defined in the annual report and have been reviewed and approved by the Board and Sub-committee.

Executive summary (2 of 2)

Management comments

Management note the findings contained in the report and will ensure that the recommendations are implemented.

Background and scope

Background

Tayside Pension Fund has been administered by Dundee City Council since 1st April 1996. It is part of the Local Government Pension Scheme (LGPS), which is a statutory scheme established under the primary legislations of the Superannuation act 1972 and Public Service Pensions Act 2013.

As at 31st March 2020, Tayside Pension Fund had investment assets of £3.703 billion, and a membership of 51,004 across 46 participating employers. These participating employers include 3 local authorities, as well as their subsidiary companies and contractors; a number of universities and colleges; and a range of organisations with funding or service links to local government.

There are approximately 100 LGPS funds in the UK, with 11 of these in Scotland. Tayside is the 4th largest of the 11 Scottish LGPS funds in asset size. The LGPS is a multi-employer defined benefit scheme, whose benefits up until 31st March 2015 was based upon final salary. Since this date, benefits are based upon career average.

The rules by which the LGPS scheme operates by are set out in the Local Government Pension Scheme (Scotland) Regulations which are Scottish Statutory Instruments (SSIs). Separate regulations set out scheme benefits, investment and governance requirements

An audit of the Investment Strategy and Investment Managers is included in the 2020/2021 Internal Audit plan approved by the Pension Sub-Committee on 9 June 2020.

Limitations of Scope

The audit is not an assessment of the appropriateness of the Investment Strategy, or a review of the performance of Tayside Pension Fund's Investment Managers.

The review is limited to the processes and controls in place to allow the Pension Board and Sub-Committee to monitor the Investment Strategy and oversight of Investment Managers, specifically the scope is limited to the objectives noted in the Terms of Reference which are included in Appendix B.

Current year finding (1 of 1)

1

No formal timetable in place for the review and approval of policies

Control Design

Finding rating

Rating

Medium

Finding and root cause

There is no timetable in place for the review and approval of policies, although certain policies, such as the Investment policies and strategy, are required to be reviewed by the Local Government Pension Scheme Regulations.

It was noted that policies are reviewed on an adhoc basis and when there are specific changes which would impact them. However there is no formal record of who is responsible for updating each policy, the level of review and approval, and when this is required.

Potential implications

Where policy review timetables are not in place, there is a risk of insufficient and untimely review , leading to the application of inappropriate policies and breach of regulations.

Recommendation

Policy review time tables should be formally defined and monitored. The accomplishment of the defined timetable should be communicated to the Board on a regular basis.

Management action plan

Although policies are presented in a rolling agenda, formalising a policy review timetable will demonstrate good governance.

Formal schedule of policy review to be incorporated into the annual committee meetings timetable which is presented at each December meeting for approval of the forthcoming years meetings.

Responsible person/title:

Tracey Russell

Target date:

31 December 2020

Appendices

Appendix A: Basis of our classifications

Individual finding ratings

Critical

A finding that could have a:

- **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.

High

A finding that could have a:

- **Significant** impact on operational performance; or
- **Significant** monetary or financial statement impact; or
- **Significant** breach in laws and regulations resulting in significant fines and consequences; or
- **Significant** impact on the reputation or brand of the organisation.

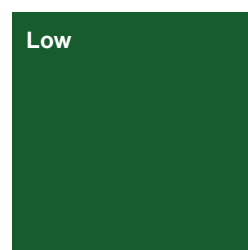
Medium

A finding that could have a:

- **Moderate** impact on operational performance; or
- **Moderate** monetary or financial statement impact; or
- **Moderate** breach in laws and regulations resulting in fines and consequences; or
- **Moderate** impact on the reputation or brand of the organisation.

Appendix A: Basis of our classifications

Individual finding ratings

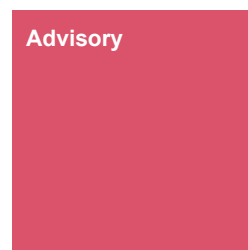


Low



A finding that could have a:

- **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.







Advisory



A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.

Report classifications

The report classification is determined by allocating points to each of the findings included in the report.

Findings rating	Points	Report classification	Findings rating	Points
Critical	40 points per finding		Low risk	6 points or less
High	10 points per finding		Medium risk	7 – 15 points
Medium	3 points per finding		High risk	16 – 39 points
Low	1 point per finding		Critical risk	40 points and over

Appendix B: Terms of reference

This review is being undertaken as part of the 2020/2021 Internal Audit plan, which was approved by the Pension Sub-Committee on 9 June 2020.

Background

Tayside Pension Fund has been administered by Dundee City Council since 1st April 1996. It is part of the Local Government Pension Scheme (LGPS), which is a statutory scheme established under the primary legislations of the Superannuation act 1972 and Public Service Pensions Act 2013.

As at 31st March 2020, Tayside Pension Fund had investment assets of £3.703 billion, and a membership of 51,004 across 46 participating employers. These participating employers include 3 local authorities, as well as their subsidiary companies and contractors; a number of universities and colleges; and a range of organisations with funding or service links to local government.

There are approximately 100 LGPS funds in the UK, with 11 of these in Scotland. Tayside is the 4th largest of the 11 Scottish LGPS funds in asset size. The LGPS is a multi-employer defined benefit scheme, whose benefits up until 31st March 2015 was based upon final salary. Since this date, benefits are based upon career average.

The rules by which the LGPS scheme operates by are set out in the Local Government Pension Scheme (Scotland) Regulations which are Scottish Statutory Instruments (SSIs). Separate regulations set out scheme benefits, investment and governance requirements

An audit of Investment Strategy and Investment Managers is included in the 2020/2021 Internal Audit plan approved by the Pension Sub-Committee on 9 June 2020. This audit will focus on assessing the design adequacy and operating effectiveness of controls in place over the Investment Strategy and the oversight and monitoring of Investment Managers.

Audit Objectives

Review the processes and controls in place that allow the Pension Board and Sub-Committee to:

- Monitor the Investment Strategy and principles and ensure they are appropriate for the objectives of the fund, and that the strategy has been prepared and reviewed in line with regulatory requirements.
- Ensure that Investment Managers have the appropriate knowledge and experience required to manage the scheme's investments.
- Ensure that Investment Managers are carrying out their work competently and monitoring their performance.

Appendix B: Terms of reference

Scope

We will assess the design adequacy and operating effectiveness of key controls in place over the Investment Strategy and the oversight and monitoring of Investment Managers during the 12 month period to 31st August 2020.

The sub-processes, risks and related control objectives included in this review are:

Process	Objectives	Risks
Investment Strategy	<ul style="list-style-type: none"> To determine that an investment strategy and statement of investment principles are in place. To review the processes and controls in place to allow the Pension Board and Sub-Committee to monitor the investment strategy and principles and ensure they are appropriate for the objectives of the fund, and that the strategy has been prepared and reviewed in line with regulatory requirements. 	<ul style="list-style-type: none"> Failure of investment strategy to deliver adequate returns. Risk of financial loss Risk of significant rises in employer contributions due to poor/negative investment returns
Investment Managers	<p>To review the processes and controls in place to allow the Pension Board and Sub-Committee to ensure that:</p> <ul style="list-style-type: none"> Investment Managers have the appropriate knowledge and experience required to manage the scheme's investments. Investment Managers are carrying out their work competently and monitoring their performance. 	<ul style="list-style-type: none"> Failure of investment manager to execute the investment strategy of the fund. Risk of financial loss Risk of significant rises in employer contributions due to poor/negative investment returns

Appendix B: Terms of reference

Limitations of scope

The audit is not an assessment of the appropriateness of the Investment Strategy, or a review of the performance of Tayside Pension Fund's Investment Managers.

The review is limited to the processes and controls in place to allow the Pension Board and Sub-Committee to monitor the Investment Strategy and oversight of Investment Managers, specifically the scope is limited to the objectives noted above.

Audit approach

Our audit approach is as follows:

- Obtain an understanding of the relevant units through discussions with key personnel, review of systems documentation and walkthrough tests.
- Identify the key risks within the processes.
- Evaluate the design of the controls in place to address the key risks.
- Test the operating effectiveness of the key controls.

Appendix C: Limitations and responsibilities

Limitations inherent to the internal auditor's work

We have undertaken this review subject to the limitations outlined below:

Internal control

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Future periods

Our assessment of controls is for the period specified only. Historic evaluation of effectiveness is not relevant to future periods due to the risk that:

- The design of controls may become inadequate because of changes in operating environment, law, regulation or other changes; or
- The degree of compliance with policies and procedures may deteriorate.

Responsibilities of management and internal auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

We endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist.

Thank you

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This document has been prepared only for Tayside Pension Funds and solely for the purpose and on the terms agreed with Tayside Pension Funds in our agreement dated 30 April 2020. We accept no liability (including for negligence) to anyone else in connection with this document, and it may not be provided to anyone else.

This is a draft prepared for discussion purposes only and should not be relied upon; the contents are subject to amendment or withdrawal and our final conclusions and findings will be set out in our final deliverable.

In the event that, pursuant to a request which Tayside Pension Funds has received under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004 (as the same may be amended or re-enacted from time to time) or any subordinate legislation made thereunder (collectively, the "Legislation"), Tayside Pension Funds is required to disclose any information contained in this document, it will notify PwC promptly and will consult with PwC prior to disclosing such document. Tayside Pension Funds agrees to pay due regard to any representations which PwC may make in connection with such disclosure and to apply any relevant exemptions which may exist under the Legislation to such. If, following consultation with PwC, Tayside Pension Funds discloses any this document or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

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