

REPORT TO: PENSION SUB-COMMITTEE OF THE POLICY & RESOURCES COMMITTEE & PENSION BOARD – 8 MARCH 2021

REPORT ON: TAYSIDE PENSION FUND INTERNAL ANNUAL AUDIT REPORT 2020/21

REPORT BY: EXECUTIVE DIRECTOR OF CORPORATE SERVICES

REPORT NO: 74-2021

1 PURPOSE OF REPORT

To submit to the Sub-Committee the Annual Audit Report for 2020/21 prepared by the Fund's Internal Auditor, PricewaterhouseCoopers (PwC).

2 RECOMMENDATIONS

The Sub-Committee is asked to note the content of the Annual Report as well as the content of the appended reports on specific audit exercises undertaken, and to approve the management response.

3 FINANCIAL IMPLICATIONS

None.

4 SUMMARY OF REPORT

The report contained in Appendix A outlines the internal audit work undertaken in the year to 31st March 2021 in conformance with Public Sector Internal Audit Standards. In-keeping with these requirements, PwC have provided an opinion, based on the following:

- Findings of audit work undertaken
- Adequacy and effectiveness of governance, risk management and control

Tayside Pension Fund has received an annual opinion of general satisfaction, with no reports or findings in work undertaken being high risk or critical. PwC did however note that there are some areas of weakness that could potentially put the achievement of objectives at risk, and which would benefit from improvement in order to enhance operational adequacy and effectiveness, and these have been addressed.

The findings of the individual audits carried out over the year and the respective recommendations have previously been reported to the Sub-Committee and the implementation of the agreed management actions is being monitored. Progress is 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 they are in agreement with the contents.

7 BACKGROUND PAPERS

None

**ROBERT EMMOTT
EXECUTIVE DIRECTOR OF CORPORATE SERVICES**

26 FEBRUARY 2021

Internal audit annual report 2020/2021 DRAFT



Tayside Pension Fund

March 2021



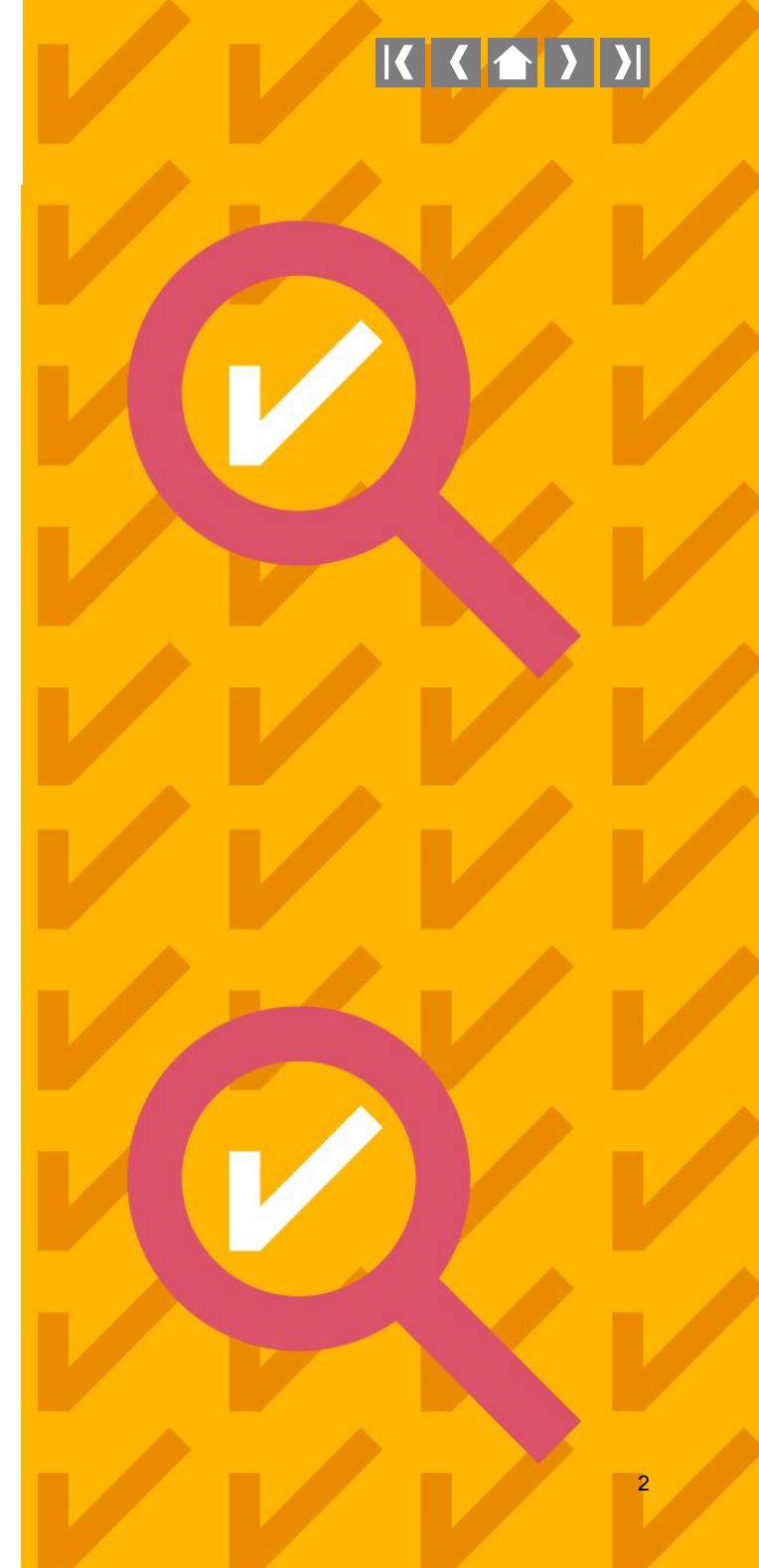
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Distribution list

For action:
Pension Sub-Committee & Pension Board

For information:
Executive Director Corporate Services
Head of Corporate Finance
Senior Manager Financial Services



Executive summary

Introduction.

This report outlines the internal audit work we have carried out for the year ended 31st March 2021.

The Public Sector Internal Audit Standards require the Head of Internal Audit to provide an annual opinion, based upon and limited to the work performed, on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control (i.e. the organisation's system of internal control). This is achieved through a risk-based plan of work, agreed with management and approved by the Audit Committee, which should provide a reasonable level of assurance, subject to the inherent limitations described below and set out in Appendix 1. The opinion does not imply that Internal Audit has reviewed all risks relating to the organisation.

The Pension Sub-Committee agreed to a level of internal audit input of 31 days which were delivered. Whilst this report is a key element of the framework designed to inform the Annual Governance Statement there are also a number of other important sources to which the Pension Sub-Committee should look to gain assurance. This report does not override the Pension Sub-Committee's responsibility for forming their own view on governance, risk management and control.

Internal audit work was performed in accordance with PwC's Internal Audit methodology which is in conformance with the Public Sector Internal Audit Standards.

Head of internal audit opinion

We are satisfied that sufficient internal audit work has been undertaken to allow an opinion to be given as to the adequacy and effectiveness of governance, risk management and control. In giving this opinion, it should be noted that assurance can never be absolute. The most that the internal audit service can provide is reasonable assurance that there are no major weaknesses in the system of internal control.

Opinion

Our opinion is as follows:

Generally satisfactory with some improvements required

Governance, risk management and control in relation to business critical areas is generally satisfactory. However, there are some areas of weakness in the framework of governance, risk management and control which potentially put the achievement of objectives at risk.

Some improvements are required in those areas to enhance the adequacy and effectiveness of the framework of governance, risk management and control. Please see our Summary of Findings in Section 2.

Executive summary

An explanation of the types of opinion that may be given can be found in Appendix 2.

Basis of opinion

Our opinion is based on:

- The audits undertaken during the year.
- Any follow up action taken in respect of audits from previous periods.
- Our overall understanding of the Tayside Pension Fund and the issues it faces.

The commentary below provides the context for our opinion and together with the opinion should be read in its entirety.

Commentary

The key factors that contributed to our opinion are summarised as follows:

- No reports pertaining to the governance, risk management and control have received an overall rating of high or critical risk.
- No individual findings identified through the internal audit work completed in the period have been rated as high or critical risk.
- We have issued 1 medium risk and 1 low risk rated report; with 3 medium and 1 low risk rated findings across the internal audit reviews completed in the period.

Acknowledgement

We would like to take this opportunity to thank the Senior Manager, Financial Services and all the staff at Dundee City Council, for their cooperation and assistance provided during the period.

Summary of findings

Our annual internal audit report is timed to inform the organisations Annual Governance Statement. A summary of key findings from our programme of internal audit work for the year work is recorded in the table below:

Description

Overview

We completed **two** internal audit reviews. This resulted in the identification of **3 medium and 1 low** risk findings to improve weaknesses in the design of controls and operating effectiveness.

No high or critical rated reports were issued and no high or critical rated findings were raised in the 2020/21 year.

Internal control issues

During the course of our work we have not identified control weaknesses that we consider should be reported in your Annual Governance Statement.

Other weaknesses

Other weaknesses were identified within the organisation's governance, risk management and control resulting in 3 medium risk findings and 1 low risk finding across the 2 internal audit completed in the 2020/21 year. Key findings raised in the year included the following:

- 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 meetings. Emergency 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, it is taken as an approval.
- 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.
- There is no timetable in place for the review and approval of policies, although certain policies, such as the Investment policy and strategy, are required to be kept under review and revised at least every three years 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 the policies, the level of review and approval, and when this is required.

Follow up

During the year we have undertaken follow up work on previously agreed actions. Five of the six agreed management actions from the prior period have been implemented, with one not yet due.

Good practice

We identified a number of areas of good practice:

- 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.
- 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.

Internal audit work conducted

Introduction

The table below sets out the results of our internal audit work along with a comparison of planned and actual internal audit activity.

Results of individual assignments

Review	Report classification	Number of findings			
		Critical	High	Medium	Low
Governance and Oversight	Medium Risk	-	-	2	1
Investment Strategy & Managers	Low Risk	-	-	1	-
Total number of findings raised		-	-	3	1

Comparison of planned and actual activity

Audit unit	Budgeted days	Actual days
Governance and Oversight	15	16
Investment Strategy & Managers	10.5	10.5
Sub total	25.5	26.5
Other IA activity (planning, coordination, reporting, Audit Committee, contingency)	5	4
Total days	30.5	30.5

Follow up work conducted

Introduction

In order for the organisation to derive maximum benefit from internal audit, agreed actions should be implemented. In accordance with our internal audit plan, we followed up on the recommendations made in prior years to ascertain whether action had been taken. The table below summarises the follow up work performed.

Results of follow up work

Audit unit	Report classification	Number of agreed actions	Status of agreed actions			
			Implemented	Ongoing	Outstanding	Not yet due
Pension Benefits and Payments	Medium Risk	3	3			
Record keeping and amendments to standing data	Medium Risk	3	2			1

Summary

Five of the six agreed management actions have been implemented, with one not yet due. Details of this action not yet due have been provided below:

- **Record keeping and amendments to standing data - Recommendation** - Management should conduct a review into the operational effectiveness of the Pension Administration Strategy on an annual basis. The reviewed strategy should be discussed with the Pension Sub-committee & Board. Changes to the strategy should be communicated to employers and members.
- **Agreed Management Action** - Annual review of the Pension Administration Strategy and review by the Pension Sub-Committee & Board will be undertaken and communicated to members & employers.
- **Management Update** - The review has been undertaken and the updated Pension Administration Strategy will be presented at the March 2021 meeting of the Pension Sub-Committee & Board.

Appendix 1: Limitations and responsibilities

Appendix 2: Opinion types

Appendix 3: Basis of our classifications

Appendix 4: Conformance with code of ethics and Internal Audit standards

Appendix 5: Independence

Appendices

Appendix 1: Limitations and responsibilities

Limitations inherent to the internal auditor's work

Our work has been performed subject to the limitations outlined below.

Opinion

The opinion is based solely on the work undertaken as part of the agreed internal audit plan. There might be weaknesses in the system of internal control that we are not aware of because they did not form part of our programme of work, were excluded from the scope of individual internal audit assignments or were not brought to our attention. As a consequence management and the Audit Committee should be aware that our opinion may have differed if our programme of work or scope for individual reviews was extended or other relevant matters were brought to our attention.

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 relating to Tayside Pension Fund for the year ended 31st March 2020. Historic evaluation of effectiveness may not be 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; or
- The degree of compliance with policies and procedures may deteriorate.

The specific time period for each individual internal audit is recorded within section 3 of this report.

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

Appendix 2: Opinion types

The table below sets out the four types of opinion that we use, along with an indication of the types of findings that may determine the opinion given. The Head of Internal Audit will apply his/her judgement when determining the appropriate opinion so the guide given below is indicative rather than definitive.

Type of opinion	Indication of when this type of opinion may be given
Satisfactory	<ul style="list-style-type: none"> A limited number of medium risk rated weaknesses may have been identified, but generally only low risk rated weaknesses have been found in individual assignments; and None of the individual assignment reports have an overall report classification of either high or critical risk.
Generally satisfactory with some improvements required	<ul style="list-style-type: none"> Medium risk rated weaknesses identified in individual assignments that are not significant in aggregate to the system of internal control; and/or High risk rated weaknesses identified in individual assignments that are isolated to specific systems or processes; and None of the individual assignment reports have an overall classification of critical risk.
Major improvement required	<ul style="list-style-type: none"> Medium risk rated weaknesses identified in individual assignments that are significant in aggregate but discrete parts of the system of internal control remain unaffected; and/or High risk rated weaknesses identified in individual assignments that are significant in aggregate but discrete parts of the system of internal control remain unaffected; and/or Critical risk rated weaknesses identified in individual assignments that are not pervasive to the system of internal control; and A minority of the individual assignment reports may have an overall report classification of either high or critical risk.
Unsatisfactory	<ul style="list-style-type: none"> High risk rated weaknesses identified in individual assignments that in aggregate are pervasive to the system of internal control; and/or Critical risk rated weaknesses identified in individual assignments that are pervasive to the system of internal control; and/or More than a minority of the individual assignment reports have an overall report classification of either high or critical risk.
Disclaimer opinion	<ul style="list-style-type: none"> An opinion cannot be issued because insufficient internal audit work has been completed. This may be due to either: <ul style="list-style-type: none"> Restrictions in the audit programme agreed with the Audit Committee, which meant that our planned work would not allow us to gather sufficient evidence to conclude on the adequacy and effectiveness of governance, risk management and control; or We were unable to complete enough reviews and gather sufficient information to conclude on the adequacy and effectiveness of arrangements for governance, risk management and control.

Appendix 3: Basis of our classifications

Report classifications

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

Individual Finding Rating	Points Allocated	Report Risk Rating	Points Range
Critical	40 points per finding	Critical risk	40 points and over
High	10 points per finding	High risk	16–39 points
Medium	3 points per finding	Medium risk	7–15 points
Low	1 point per finding	Low risk	6 points or less

Appendix 3: Basis of our classifications

Individual finding ratings

Finding rating	Assessment rationale
Critical	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • 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	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • 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	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • 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.
Low	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • 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	<p>A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.</p>

Appendix 4 : Conformance with the code of ethics and internal audit standards

Code of Ethics and Internal Audit Standards

We have a firm wide internal audit methodology which is aligned to the Institute of Internal Auditors International Standards for the Professional Practice of Internal Auditing. This is designed to standardise the approach to conducting internal audit engagements. All our work is documented in our dedicated internal audit software which sets out the procedures to be performed to achieve compliance with the standards. The inbuilt workflow functionality ensures that work is adequately documented and reviewed before results are shared. This is further supported by relevant training, supervision and review of the work performed by those with adequate experience and skill in the relevant areas. We also review a random selection of engagements to ensure they comply with the firm's requirements and have appropriately followed the internal audit methodology.

We can confirm that our work has been performed in accordance with this methodology.

Appendix 5: 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.

In particular, in making this statement we have considered the following services:

Support provided by PwC	Value	Safeguards in place
Project Alexandria - PwC performed financial assessments of the Fund's employers to aide in assessing the strength of the Employer Covenant. 18 employers were reviewed as part of this project and the report was issued in January 2020.	£62,000	The PwC Project Alexandria team carried out a financial assessment of the employers, they were not involved in the design of any controls, and had no operational responsibility or authority. No reviews over Employer Covenant are included within the 2020/21 or 21/22 Internal Audit Plan.

Thank you

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This document has been prepared only for Tayside Pension Fund and solely for the purpose and on the terms agreed with Tayside Pension Fund 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.

Internal audit work was performed in accordance with PwC's Internal Audit methodology which is aligned to public sector internal audit standards. 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.

If you receive a request under freedom of information legislation to disclose any information we provided to you, you will consult with us promptly before any disclosure.

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