

ITEM No ...9.....

**REPORT TO: PENSION SUB-COMMITTEE OF THE POLICY & RESOURCES
COMMITTEE & PENSION BOARD – 21 MARCH 2022**

REPORT ON: INTERNAL AUDIT RISK ASSESSMENT & AUDIT PLAN 2022/23

REPORT BY: EXECUTIVE DIRECTOR OF CORPORATE SERVICES

REPORT NO: 86-2022

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 2022/23.

2 RECOMMENDATIONS

The Sub-Committee is asked to review and approve the Internal Audit plan by Pricewaterhouse Coppers (PwC) as detailed in appendix A.

3 FINANCIAL IMPLICATIONS

The cost for PwC services to undertake the annual internal audit requirements is £68,720. This is an increase of £35,000 which PwC believe, based on their risk assessment, to be the level of audit resource necessary to evaluate the effectiveness of risk management, control and governance processes for the purpose of providing an annual opinion.

4 MAIN TEXT

PwC have been appointed to provide a full internal audit service to fulfil the service requirements of annual audits for a 3-year period commencing 2021/22, with an option to extend for a further 2 years. The procurement exercise undertaken through Crown Commercial Services Framework.

The report in appendix A details the risk assessment they have undertaken and outlines the planned approach to the internal audit of Tayside Pension Fund for the financial year. The document outlines their key audit objectives and methodology, setting out information on the proposed audit approach focussing on the key issues and risks in relation to the audit universe and 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

**ROBERT EMMOTT
EXECUTIVE DIRECTOR OF CORPORATE SERVICES**

11 February 2021

Internal audit risk assessment and plan for 2022/2023



Tayside Pension Fund
FINAL
March 2022



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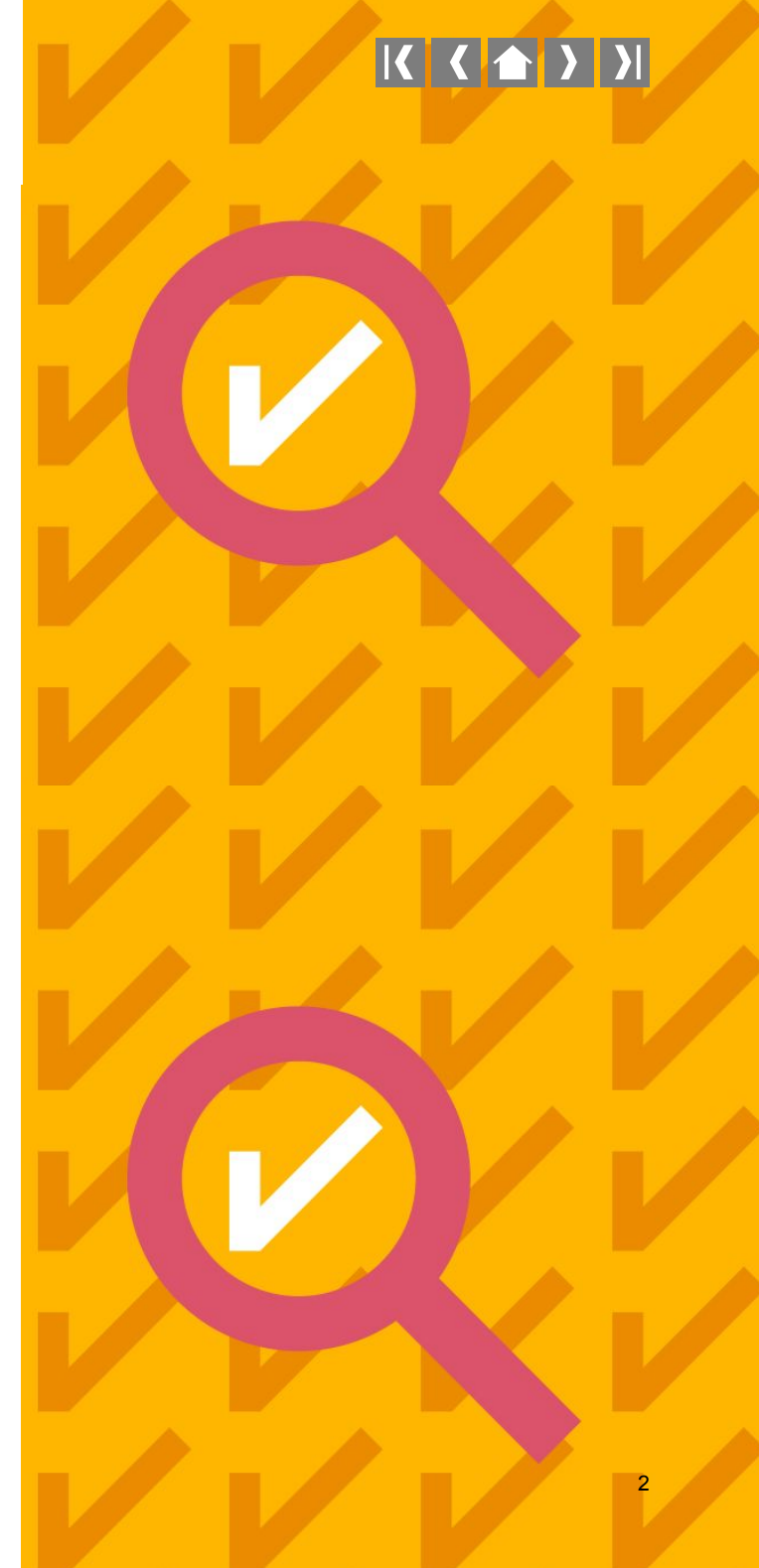
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Distribution list

For action: Pension Sub-Committee

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





Introduction and approach

Introduction

This document sets out our risk assessment and internal audit plan for 2022/2023 for the Tayside Pension Fund ("TPF").

We have refreshed our risk assessment of TPF's audit universe for 2022/2023, taking into account the emerging risks in order to provide us with the foundation for the development of the internal audit plan. This document sets out the proposed internal audit reviews to be completed, developed through discussion with management, for approval by the Pension Sub-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 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 B and C.

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 pension 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).
- Previous areas of internal audit focus.

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 13 December 2021, a summary of the reviews which will be part of the 2022/23 internal audit plan. On the current budget we propose the following reviews:

- Employer contributions- A review to assess the adequacy of the design and operating effectiveness of the key controls supporting the employer contributions process.
- Business resilience – A review to assess the processes and controls in place including for the risk of overreliance on key officers.

Each year we 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. As such, considering emerging risks and based on our discussions with management, we are requesting approval for additional budget for the following two reviews to be added to the 2022/23 plan:

- New Consolidated Code of practice - Perform an assurance mapping exercise to assess compliance with the new consolidated code of practice, highlighting any potential gaps.
- Pension dashboard readiness - Advisory review to review and assess pension dashboard readiness.

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 level of require resources for the internal audit service for the period 2022/23 is 55.5 days or £68,720 as shown below:

	Days	Cost
Existing budget	30.5	£33,720
Additional reviews	25*	£35,000
Total	55.5	£68,720

*We will be utilising specialist resource to assist with the additional reviews.

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 Pension Sub-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 Pension Sub-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 any applicable thought leadership produced by PwC and through our interaction with stakeholders during the execution of our audit activities..

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.

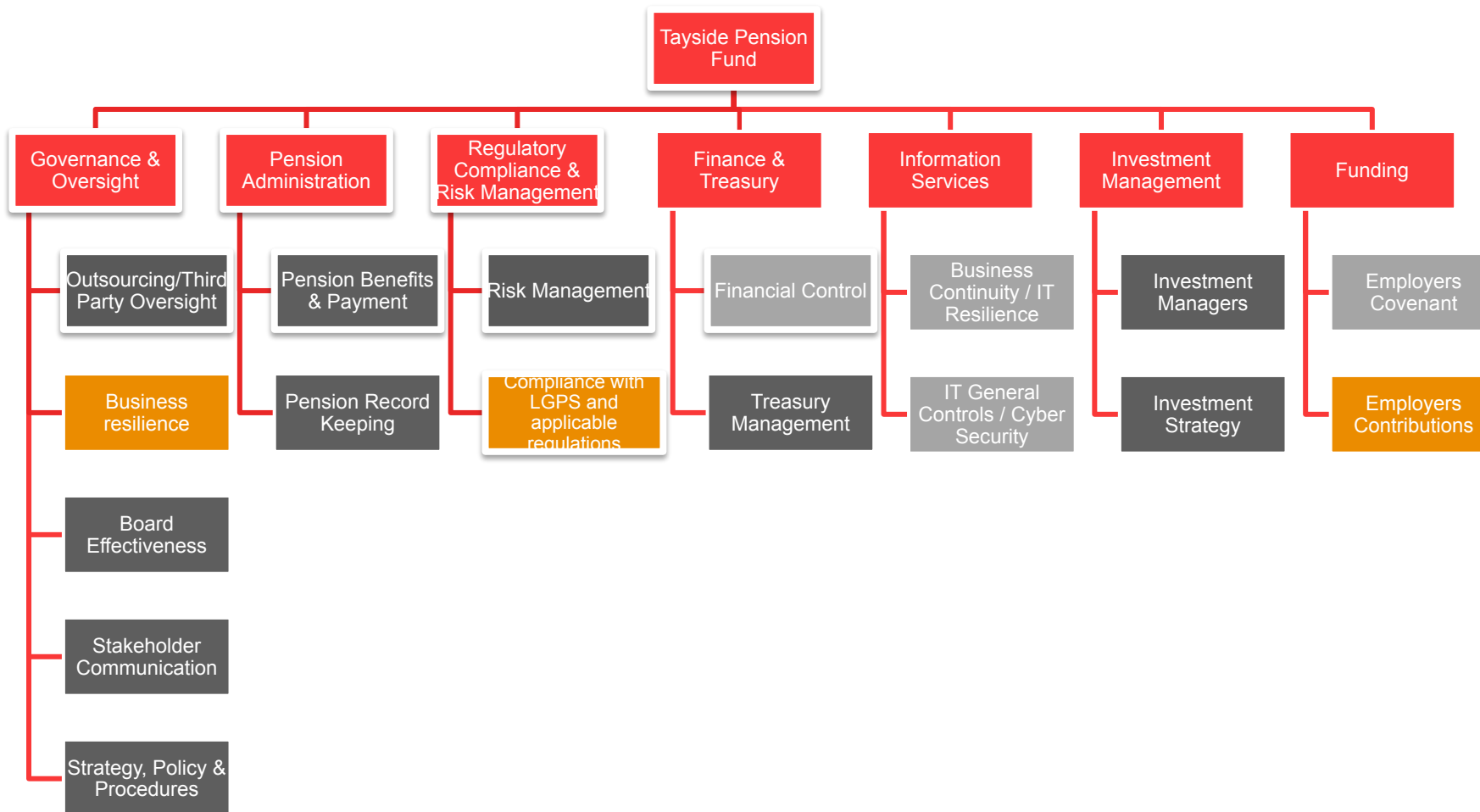
Key:

Audit units are included within the 2022/23 internal audit plan

Audit units are not included within our plan of work for 2022/23:

Components of these audit units were considered as part of reviews carried out within the 2020/21 to 2021/22 internal audit plans

Components of these audit units are considered as part of work carried out by other providers. These audit units may be considered in future internal audit plans



Annual plan and indicative timetable

The following table sets out the internal audit work planned for the period 1 April 2022 - 31 March 2023.

Ref	Auditable Unit	Indicative number of audit days	Audit timing	Audit sponsor/Executive lead	Focus of review ¹
A.1.	Business resilience	14	Q2	Senior Manager Financial Services	The review will be performed to assess the processes and controls in place to mitigate the risk of overreliance on key officers.
G.2.	Employers Contributions	10	Q1	Senior Manager Financial Services	A review to assess the adequacy of the design and operating effectiveness of the key controls supporting the employer contributions process.
C.2.	Compliance with LGPS and applicable regulations – New consolidated code of practice	15	Q4	Senior Manager Financial Services	Perform an assurance mapping exercise to assess compliance with the new consolidated code of practice, highlighting any potential gaps.
C.2.	Compliance with LGPS and applicable regulations – Pension dashboard readiness	10	Q3	Senior Manager Financial Services	Advisory review to review and assess pension dashboard readiness.
Total audit reviews		49			
	Annual Audit Plan and Reporting, Contract Management Attendance at Pension Sub-Committees Contingency	6.5			Annual Audit Plan and Reporting (3) Contract Management (1.5 days), Attendance at Pension Sub-Committee (1 day), Contingency (1 day)
Total internal audit days		55.5			

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 2022/23 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.	Business resilience	X	X	X	X	
G.2.	Employers Contributions	X		X	X	X
C.2.	Compliance with LGPS and applicable regulations – New code of practice	X	X	X		
C.2.	Compliance with LGPS and applicable regulations – Pension dashboard readiness	X	X	X		X

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 B and C. The results are summarised in the table below. Our internal audit work will be only one source of assurance that these risks are being mitigated. In approving this plan, we ask the Pension Sub-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	Frequency	Rationale for inclusion/exclusion
A	Governance and Oversight						
A.1	Business resilience	Inability to keep service going due to loss of main office, computer system or staff	3	3	2	Every three years	We will perform a review to assess the processes and controls in place to mitigate the risk of overreliance on key officers as part of the 2022/23 plan.
A.2	Board effectiveness	Over reliance on key officers Lack of expertise on Pension Committee, Pension Board or amongst officers	4	4	2	Every three years	This was considered as part of the Governance and Oversight review in FY20/21.
A.3	Stakeholder communication	Failure to Communicate properly with stakeholders	3	3	2	Every three years	This was considered as part of the Governance and Oversight review in FY20/21.
A.4	Strategy, Policy and Procedures	Failure to Communicate properly with stakeholders Failure to implement ESG Policy and furthermore to address and limit exposure to climate change risk	3	3	2	Every three years	This was considered as part of the Governance and Oversight review in FY20/21. New risk for 2022/23. This will be considered in the next 3 year Internal Audit plan cycle.
A.5	Outsourcing/ Third Party Management	Loss of funds through fraud or misappropriation (Fraud review not 3 rd party)	4	3	3	Every two years	Outsourcing/ Third Party Management review was performed in FY21/22.

Risk assessment

Ref	Auditable Unit	Corporate risks	Inherent Risk Rating	Control Environment Indicator	Audit Requirement Rating	Frequency	Rationale for inclusion/exclusion
B Pension Administration							
B.1	Pension Benefits & Payment	Failure to process pension payments and lump sums on time	3	3	2	Every three years	Pension Benefit and Payments review was performed in FY20/21.
B.2	Pension Record Keeping	Failure to keep pension records up-to-date and accurate Failure to process pension payments and lump sums on time Failure to hold personal data Securely	3	3	2	Every three years	Pension Benefit and Payments review was performed in FY20/21.
C Regulatory Compliance and Risk Management							
C.1	Risk management	Failure to comply with LGPS and other regulations	4	3	3	Every two years	A Risk Management review was performed in FY21/22.
C.2	Compliance with LGPS & other regulations	Failure to comply with LGPS and other regulations	4	3	3	Every three years	Reviews will be performed to assess the pension dashboard and new consolidated code of practice readiness, highlighting any potential gaps in FY22/23.

Risk assessment

Ref	Auditable Unit	Corporate risks	Inherent Risk Rating	Control Environment Indicator	Audit Requirement Rating	Frequency	Rationale for inclusion/exclusion
D Finance & Treasury							
D.1	Financial Control	Failure to collect and account for contributions from employers and employees on time Loss of funds	3	3	2	Every three years	Excluded in the current year - The external audit plan includes a significant focus on financial control. Financial controls were also considered where relevant to the FY20/21 Pension Benefits and Payments Review. We are also performing the contributions review as part of the FY22/23 plan. In addition, some of the financial controls go through the Council's channels (e.g. payments) and are included as part of the Council's Internal audit programme.
D.2	Treasury Management	Insufficient funds to meet liabilities as they fall due	3	3	2	Every three years	This was considered as part of the Governance and Oversight review in FY20/21.
E Information Services							
E.1	Business Continuity / DR / IT Resilience	Inability to keep service going due to loss of main office, computer system or staff	4	3	2	Every two years	Excluded in the current year - TPF use the information services of Dundee City Council, and are considered as part of the wider Dundee City Council Internal Audit programme.
E.2	IT General controls / Cyber security	Failure to hold personal data Securely (Incorporating Cyber Crime)	4	3	3	Every two years	Excluded in the current year - TPF use the information services of Dundee City Council, and are considered as part of the wider Dundee City Council Internal Audit programme.

Risk assessment

Ref	Auditable Unit	Corporate risks	Inherent Risk Rating	Control Environment Indicator	Audit Requirement Rating	Frequency	Rationale for inclusion/exclusion
F Investment Management							
F.1	Investment Managers	<p>Failure of Investment Manager Active Manager Risk</p> <p>Significant rises in employer contributions due to poor/negative investment returns</p> <p>Failure of global custodian</p>	4	4	2	Every three years	Investment Managers and Strategy review performed in FY20/21.
F.2	Investment Strategy	<p>Equity Risk</p> <p>Unable to participate in scheme</p>	4	4	2	Every three years	Investment Managers and Strategy review performed in FY20/21.
G Funding							
G.1	Employers Covenant	Employer Covenant Risk	4	3	3	Every two years	Excluded in the current year - independent covenant review and financial assessments are carried out on behalf of TPF.
G.2	Employers Contributions	Failure to collect and account for contributions from employers and employees on time	3	3	2	Every three years	A contribution monitoring review will be delivered in 2022/23 as this has not been previously looked at. We will assess the adequacy of the design and operating effectiveness of the key controls supporting the employer contributions process.

Key to frequency of audit work

Frequency approach

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

Performance of internal audit

Key performance indicators

To ensure your internal audit service is accountable to the Pension Sub-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 issued promptly	Maximum 3 weeks from completion of review	
Progress and other papers to Pension Sub-Committee	14 days before each meeting	
Attendance at Pension Sub-Committee	100%	Every Pension Sub-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: Corporate objectives and risks

Appendix B: Detailed methodology

Appendix C: Risk assessment criteria

Appendix D: Independence

Appendix E: Internal audit charter

Appendices

Appendix A: Corporate objectives and risks

Management has provided us with the Tayside Pension Fund Business Plan which we have used to capture the corporate level objectives (goals). Management also provided the risk register from November 2021 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. The analysis is intended to help the Pension Sub-Committee understand how your overall risk management approach links to the Audit Universe, which is used as the basis for our preparing the internal audit plan.

Tayside Pension Fund Objectives (TPF Business Plan - March 2021)

Mapping to relevant Auditable Entities within the Audit Universe

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

Governance and Oversight
Pension Administration
Information Systems
Finance & Treasury
Regulatory Compliance and Risk Management

Keeping employer contribution rates as stable as possible

Funding
Investment Management

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

Investment Management
Regulatory Compliance and Risk Management

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

Investment Management
Funding
Governance and Oversight
Regulatory Compliance and Risk Management

Appendix A: Corporate objectives and risks

Risk Area (TPF Risk Register - November 2021)	Risk(s) (TPF Risk Register - November 2021)	Mapping to relevant Auditable Entities within the Audit Universe
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. Risk of additional workload & new staff undertaking duties	Pension benefit and payments Pension 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.	Employers Contributions Financial Control Pension Record Keeping
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	Investment Strategy Employers Contributions Treasury Management
4 Inability to keep service going due to loss of main office, computer system or staff	Fire, bomb, flood, etc. Risk of staff unable to access building/office	Business Continuity /IT Resilience
5 Loss of funds through fraud or misappropriation	Fraud or misappropriation of funds by an employer, agent or contractor	Governance and Oversight Outsourcing /Third Party Oversight Financial Control
6 Unable to participate in scheme	Scheme liabilities Increase disproportionately as a result of increased longevity, falling bond yields, changing retirement patterns, etc	Investment Managers 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	Investment Managers Investment Strategy Employer Contributions
8 Failure of global custodian	Financial collapse of global custodian or failure to safeguard assets or records.	Outsourcing /Third Party Oversight

Appendix A: Corporate objectives and risks

Risk Area (TPF Risk Register - November 2021)	Risk(s) (TPF Risk Register - November 2021)	Mapping to relevant Auditable Entities within the Audit Universe
9 Failure of Investment Manager	Market sector falls substantially	Investment Managers
10 Equity Risk	Market sector falls substantially	Investment Strategy
11 Active Manager Risk	Investment manager underperforms.	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	Governance and Oversight Regulatory Compliance and Risk Management
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	Business Continuity /IT Resilience IT General controls / Cyber security Regulatory Compliance and Risk Management
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	Pension Record Keeping Pension benefit and payments
15 Lack of expertise on Pension Committee, Pension Board or amongst officers	Lack of training and Continuous Professional development.	Governance and Oversight Board Effectiveness

Appendix A: Corporate objectives and risks

Risk Area (TPF Risk Register - November 2021)	Risk(s) (TPF Risk Register - November 2021)	Mapping to relevant Auditable Entities within the Audit Universe
16 Over reliance on key officers	Specialist nature of work means there are relatively few experts in investments and the LGPS regulations.	Governance and Oversight Board Effectiveness
17 Failure to Communicate properly with stakeholders	Lack of clear communication of policy and actions particularly with employers and scheme members	Governance and Oversight Stakeholder communication 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.	Employer Covenant
19 Failure to implement ESG Policy and furthermore to address and limit exposure to climate change risk	Failing to understand consequences of changing legislation, consumer demand, and taking appropriate action as a result of weak policy, lack of knowledge, lack of transparency or poor practices	Strategy, Policy and Procedures

Appendix B: 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 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 B: 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.

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.

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

Appendix C: 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 D: 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
PwC deals team are performing a financial assessment of the Fund's employers' change in guarantor.	£9,000.00. TPF has not been billed as yet (at the date of drafting this on 24/02/2022)	<p>The PwC Deals team is carrying out work for a proposed change in guarantor. This involves an assessment of the strength of covenant provided to the Fund by Tayside Public Transport Company Ltd (TPTC), and the extent to which the Fund is reliant on the parent company (Taybus Holdings Ltd) guarantee. Then compare and contrast the strength with that of the proposed guarantor (McGill's Bus Service Ltd), and comment on their ability to stand behind TPTC's obligations to the Fund. The deals team is separate from the internal audit team.</p> <p>No reviews over Employer Covenant are included within the 22/23 Internal Audit Plan.</p>

Appendix E: 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 Pension Sub-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 Pension Sub-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 E: 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 Pension Sub-Committee. The Chief Audit Executive is authorised by the Pension Sub-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 Pension Sub-Committee and senior management, submitting the audit plan, internal audit budget, and resource plan for review and approval by the Pension Sub-Committee, implementing the approved audit plan, and issuing periodic audit reports on a timely basis to the Pension Sub-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 Pension Sub-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 Pension Sub-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 Pension Sub-Committee, as soon as these issues become apparent so that appropriate safeguards can be put in place.

Appendix E: 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 Pension Sub-Committee.

The Pension Sub-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 Pension Sub-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 Pension Sub-Committee.

Appendix E: Internal audit charter

Definitions

Board	<p>The highest level of governing body charged with the responsibility to direct and/or oversee the activities and management of the organisation.</p> <p>Throughout this document, the term 'Board' refers to the Tayside Pension Board.</p>
Pension Sub-Committee	<p>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.</p> <p>Throughout this document the term 'Pension Sub-Committee' refers to the Tayside Pension Fund Pension Sub-Committee.</p>
Senior management	<p>The individuals at the highest level of organisational management who have day-to-day responsibility for managing the organisation.</p> <p>Throughout this document, the term 'Senior Management' refers to the Executive Director of Corporate Services, Head of Corporate Finance Senior Financial Services Manager</p>
Chief audit executive	<p>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.</p> <p>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.</p>

Thank you

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In the event that, pursuant to a request which the Tayside Pension Fund ("TPF") 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"), TPF 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. TPF 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 document. If, following consultation with PwC, TPF 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.

This document has been prepared only for the TPF and solely for the purpose and on the terms agreed with the TPF in our agreement dated 28th January 2021 . We accept no liability (including for negligence) to anyone else in connection with this document, and it may not be provided to anyone else.

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