

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

REPORT ON: TAYSIDE PENSION FUND INTERNAL ANNUAL AUDIT REPORT 2021/22

REPORT BY: EXECUTIVE DIRECTOR OF CORPORATE SERVICES

REPORT NO: 88-2022

1 PURPOSE OF REPORT

To submit to the Sub-Committee the Annual Audit Report for 2021/22 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 2022 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**

11 MARCH 2022

Internal audit annual report 2021/2022



Tayside Pension Fund
FINAL
March 2022



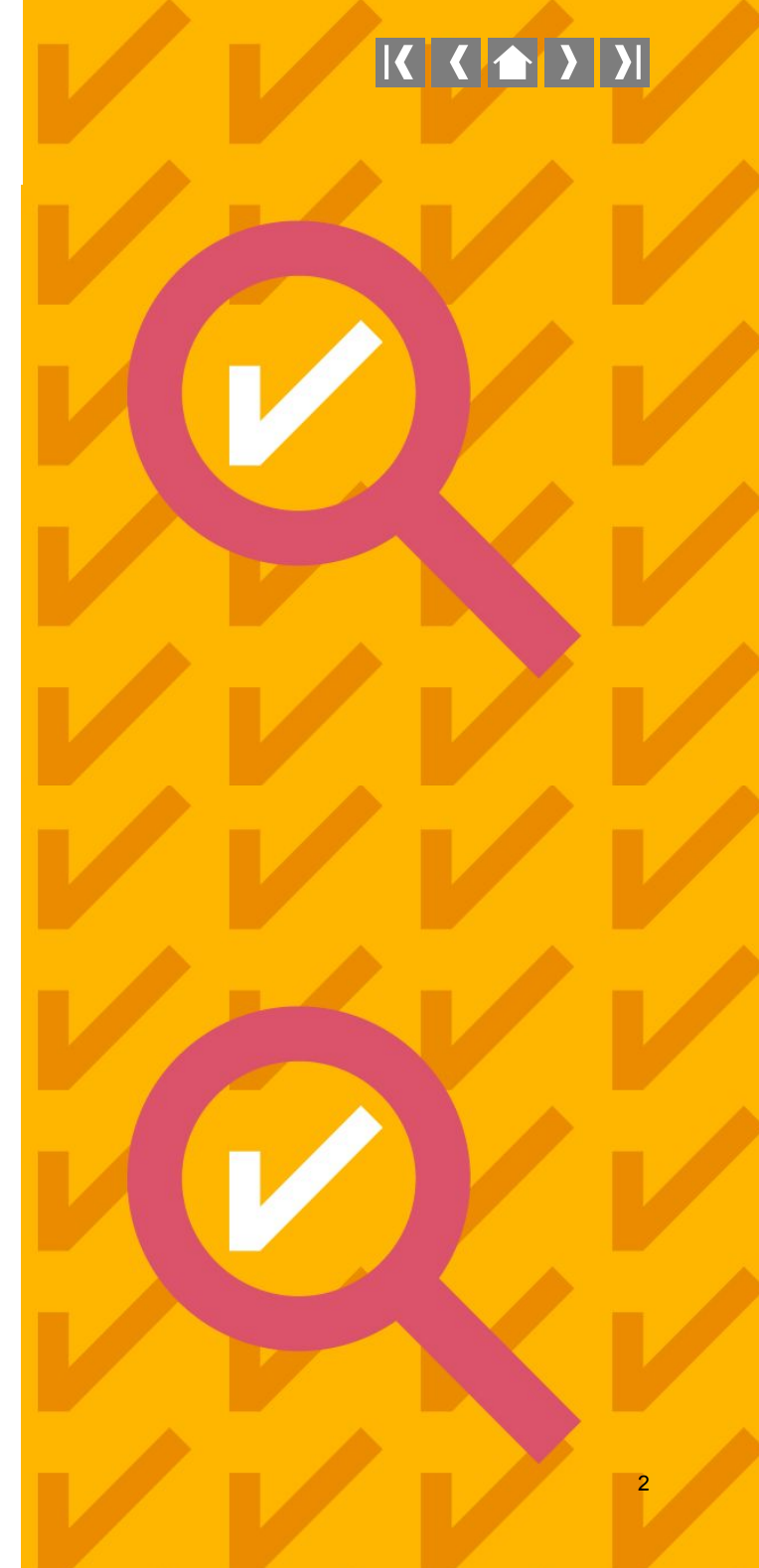
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Distribution list

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 2022.

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 30.5 days which has been 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

Tayside Pension Fund (TPF) has processes that are delivered by Dundee City Council and we expect that these areas are considered as part of the wider Dundee City Council Internal Audit programme. In view of the limited number of reviews that we have performed in the year, our opinion is based upon and limited to the two internal audit reviews performed by PwC solely for the TPF. 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 the two internal audit reviews performed 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 two 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:

- For the two audits undertaken during the year, none 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 2 medium risk rated reports; with 5 medium and 2 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 5 medium and 2 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 2021/22 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 5 medium risks findings and 2 low risks finding across the 2 internal audit completed in the 2021/22 year. Key findings (Medium rated) raised in the year included the following:

- We noted opportunities for further enhancement of the risk register to ensure the risk management monitoring procedures are appropriate, for example, the current risk register format is not comprehensive enough as it does not include information which helps to improve the risk monitoring process.
- From our review, we noted that TPF does not have a risk assessment matrix and risk appetite statement of its own, as it uses the ones for the Dundee City Council. Without an appropriate risk assessment matrix and risk appetite statement which are tailored for TPF's specific risks, there is a risk that wrong decisions could be made which could prevent TPF from achieving its strategic objectives.
- There is no overarching policy or procedures in place that cover the key aspects of the outsourcing lifecycle; initial risk assessment, ongoing oversight and business continuity planning.
- Although value for money is considered as part of the procurement process and performance reviews, the Fund does not have a formal policy in place which sets out the required criteria for assessing the value for money of the functions and activities outsourced to third parties, or the required frequency of assessment.
- There is no register in place to identify, record and categorise all third party service providers. The current listing does not consider the criticality of services, impact of failure, contract renewal dates, frequency of required reporting or service level review.

Follow up

During the year we have undertaken follow up work on previously agreed actions. The agreed management actions from the prior period have been implemented. For the current year reviews, two of the seven management actions have been implemented and five actions not yet due at the time of drafting this annual report (Feb 2022). Please see slide 7 for further detail.

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
Outsourcing & Third Party Management	Medium Risk	-	-	3	1
Risk Management & Regulatory Compliance	Medium Risk	-	-	2	1
Total number of findings raised		-	-	5	2

Comparison of planned and actual activity

Audit unit	Budgeted days	Actual days
Outsourcing & Third Party Management	10	10
Risk Management & Regulatory Compliance	14	14
Sub total	24	24
Annual Audit Plan and Reporting, Contract Management, Attendance at Pension Sub-Committee, Contingency	6.5	6.5
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
Oversight & Third Party Management	Medium Risk	4	2	-	-	2
Risk Management & Regulatory Compliance	Medium Risk	3	-	-	-	3

Summary

Two of the seven agreed management actions have been implemented, with 5 not yet due. These Oversight & Third Party Management and Risk Management & Regulatory Compliance audit reports were issued towards the end of 2021 (3 to 4 months have passed since the reports were issued) hence most of the agreed actions are not yet due. Details of these not due yet actions have been provided below:

Oversight & Third Party Management:

- **Managing outsourcing and third party service providers** - Management action plan includes: A formal third party outsourcing policy will be put in place which documents the required standards for managing outsourcing and third party service providers.
- **Criteria for assessing value for money** - Management action plan includes: The formal third party outsourcing policy which will be put in place to address finding 1, will include the criteria for assessing value for money of the functions and activities outsourced to third parties.

Follow up work conducted - continued

Summary (Continued)

Risk Management & Regulatory Compliance:

- **Risk register requires improvements to enhance risk monitoring** - Management action plan includes: Reviewing the risk register report and making the suggested changes which include: updating the current risk descriptions to use cause, event and consequence format, that are specific to TPF. And developing a systematic process in order to help identify risks to ensure that the risk register contains all the risks that TPF is exposed to. TPF will consider conducting risk identification and assessment workshops in order to help embed a productive risk management culture.
- **Risk appetite statement and risk assessment mechanism** - Management action plan includes: developing a risk assessment matrix and risk appetite statement which are specific to TPF. The risk appetite statement will be linked to the risk scoring matrix in a way which would allow identification of instances where residual risk is above the set risk appetite level.
- **Risk training and awareness** - Management action plan includes: development of an awareness and training program that will be reviewed, signed off, and monitored for implementation by the Pension Committee and Pensions board. And a training log that will be maintained to monitor the training program. TPF should consider conducting risk identification and assessment workshops in order to help embed a productive risk management culture.

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 2023. 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
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)	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. The guarantee will then be compared and contrasted to the strength of the proposed guarantor (McGill's Bus Service Ltd), and PwC will provide an assessment on their ability to stand behind TPTC's obligations to the Fund. The Deals team is a completely separate team from the internal audit team.

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 28 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.

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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