ITEM No …5………..

REPORT TO: **PENSION SUB-COMMITTEE OF THE CITY GOVERNANCE COMMITTEE & PENSION BOARD – 24 JUNE 2024**

REPORT ON: **TAYSIDE PENSION FUND INTERNAL AUDIT REPORTS – ESG & TPR GENERAL CODE ADVISORY REVIEWS**

REPORT BY: **EXECUTIVE DIRECTOR OF CORPORATE SERVICES**

REPORT NO: **184-2024**

1 PURPOSE OF REPORT

To submit to the Audit Reports prepared by the Fund's Internal Auditor, PricewaterhouseCoopers (PwC).

2 RECOMMENDATIONS

Members are asked to note the content of the report on the audit exercises undertaken, and to approve the management response.

3 FINANCIAL IMPLICATIONS

None.

4 MAIN TEXT

4.1 Internal Audit Memo – ESG Workshop (Appendix A)

4.2 The Pensions Regulators General Code of Practice (the Code) requires that governing bodies should include consideration of ESG matters relating to fund investments and take an active role in exercising the whole range of rights and responsibilities given to them through its investments. The Pensions Regulator also launched an initiative in February 2023 to check whether trustees are publishing important data on ESG, and there is increased regulatory scrutiny to ensure trustees are meeting their ESG and climate change reporting duties.

As part of the 2023/24 Internal Audit, PwC conducted a workshop with the objective of understanding actions already taken by management, and also provide guidance as how to meet increasing requirements and best practice. The memo details findings and recommendations for the Fund.

4.3 Internal audit Memo - General Code Advisory Review (Appendix B)

The revised General Code of Practice (the "General Code") covering governance requirements for private and public sector pension schemes was issued by the Pensions Regulator ("TPR") in January 2024, to be effective from 27 March 2024.

The overriding legal requirement for a public scheme as set out in the General Code is principally to have effective internal controls in place for scheme management and to have processes in place for these controls to be reviewed. Pension funds are required (where applicable) to sufficiently demonstrate and show evidence for how main areas of risk are addressed within its operational activities in order to meet the applicable General Code requirements.

As part of the 2023/24 Internal Audit, PwC conducted a workshop focusing on key questionnaire responses that were most relevant as managers of a public sector scheme. A gap analysis was performed to assess current governance against new standards and good practice. The memo details findings and provides further guidance and considerations for industry good practice.

5 POLICY IMPLICATIONS

This report has been subject to the Pre-IIA Screening Tool and does not make any recommendations for change to strategy, policy, procedures, services or funding and so has not been subject to an Integrated Impact Assessment. An appropriate senior manager has reviewed and agreed with this assessment.

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

ROBERT EMMOTT
EXECUTIVE DIRECTOR OF CORPORATE SERVICES **14 JUNE 2024**

Internal audit memo 2024

ESG Workshop

Tayside Pension Fund
Final
May 2024

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Contents

Distribution list

For action / consideration: Tracey Russell (Senior Manager, Financial Services), Stuart Norrie (Senior Banking & Investment Officer)

Background and work performed

Background

In March 2023, Tayside Pension Fund (“TPF”) published its policy on Environmental, Social and Corporate Governance (“ESG”) which sets out the principles for embedding ESG in investment analysis and decision-making processes. TPF endeavour to incorporate ESG issues into ownership policies and practices through the following:

- Voting: Exercising voting rights globally in accordance with independent corporate governance and shareholder advisors and further engagement activity of investment managers.
- UK Stewardship Code: Asset managers and investment advisors must seek to be signatories to the code and fulfil reporting requirements.
- Membership of Key Investor Groups: To use collaborative powers as asset owners to support net-zero emissions transitions.

The general code of practice (the Code) requires that governing bodies should include consideration of ESG matters relating to fund investments and take an active role in exercising the whole range of rights and responsibilities given to them through its investments. Governing bodies required to prepare a Statement of Investment Principles must have a policy on the exercise of the rights attaching to its investments. The Pensions Regulator also launched an initiative in February 2023 to check whether trustees are publishing important data on ESG. There is increased regulatory scrutiny to ensure trustees are meeting their ESG and climate change reporting duties.

Taking this into account, it was agreed that as part of the 2023/24 Internal Audit plan a review, via a workshop, would be performed with the objective of understanding actions already taken by management; management's ongoing project plans; and provide feedback on management's articulation of plans.

Summary of work performed:

Documents reviewed (only for areas related to ESG):

- Socially Responsible Investment (SRI) report, 11 December 2023
- Environmental, Social & Corporate Governance (ESG) Policy, 20 March 2023
- Annual Report, 31 March 2023 including the Task Force on Climate-related Financial Disclosures (TCFD) report and annual governance statement
- Statement of Investment Principles Review, 20 March 2023
- Risk Management Policy & Strategy, 26 June 2023
- Risk Register, 11 December 2023
- Training & Attendance Policy and Training Plan 2023/24, 20 March 2023
- Treasury Management Strategy 2023/2024, 20 March 2023
- Treasury Policy Statement 2023/24, 20 March 2023

The workshop was held on 27 February 2024 and discussed the below ESG scope areas in relation to TPF, including how these apply to the fund, observations made in respect of existing documentation and strategy, as well as recommendations for potential areas of improvement:

- Scope and materiality
- Ambition and strategy
- Reporting, KPIs and data
- Governance

This memo provides a summary of the workshop outputs.

Summary of observations

Summary of observations

Through open discussions with the workshop attendees, we explored the areas above to understand TPF's approach to ESG risk and level of alignment with good practice as well as opportunities for enhancement. The discussions and insights from the workshop helped to inform the considerations presented in this memo. In conclusion, Management has been able to articulate:

- A clear understanding of how it currently considers / manages ESG risk;
- How it envisages enhancing its current approach and resulting strategy; and
- Its commitment to progressing such enhancement.

As a result of the workshop and information gleaned from the various supporting documents, we believe some improvement is required in order to align with industry requirements and good practice. We have summarised the areas we believe Management should provide focus to in order to enhance its approach to ESG:

- **ESG Scope and Materiality:** TPF has defined the scope of its ESG strategy, including a clear statement on its approach. However, in respect of identified material ESG risks, we believe additional analysis is required. For example, supporting documentation provides limited details regarding actions taken to mitigate climate-related risks. There is also a lack of clarity on what is in scope for the net zero commitment.

- **Ambition and Strategy:** TPF's TCFD disclosure states that whilst TPF has no explicit climate strategy, it is committed to ensuring that the investment strategy is consistent with achieving the goal of global net-zero emissions by 2050 if conditions allow. The SRI Policy and ESG Policy set out TPF's approach to ESG and how it is consistent with fiduciary duty. Notwithstanding, TPF's ESG strategy does not clearly set out its ambition and there is no tangible tracking of progress against its approach. TPF's plans in place to achieve its Net Zero commitment lacks detail and does not appear to be integral to TPF's ESG commitment.

- **Reporting, KPIs and Data:** The ESG Policy includes high level targets for companies held within the segregated equity mandates but there is no further detailed ESG metrics or targets. TPF's Net Zero target is limited in that it only applies to energy companies and TPF does not set out how it monitors investment manager's against targets set. There is also little mention of data quality or coverage. The progress towards targets is measured for its carbon emissions, but have not set out the methodologies used to do so. Emissions are disclosed year on year but there is no evidence of tracking progress against the Net Zero ambition.

- **Governance:** TPF should have in place effective governance structures in place to ensure appropriate oversight and monitoring of ESG strategy. TPF point to the Annual Governance Statement for information regarding the governance structure, but there is no specific mention of ESG governance in this statement. With regards to holding its investment managers to account on achievement of its ESG ambitions, Management were able to articulate its requirements**.** There is however limited documented evidence of how this is performed in practice, or how specific ESG metrics and targets are included within investment mandates.

Summary of observations

Where recommendations have been made, we have provided our view of where TPF should focus time and resources in order to align itself to industry and good practice. We have also provided a view as to the level of effort required to implement these recommendations. The numbers in the table below correspond to the recommendations numbered and detailed on pages 6 to 8 and the coloured dots align to the level of priority.

Ease of Implementation

Level of priority	Quick Wins	Medium term effort/implementation time taken to action	Longer term effort/implementation time taken to action
Higher	4, 5, 6, 17	2, 10, 12, 15	
Medium	9, 16	7, 11, 13, 18	3
Lower		1, 19	8, 14

Summary of Recommendations:

1. Materiality Assessment of ESG topics (double materiality assessment)
2. Material Climate-related risks analysis
3. ESG Scenario Analysis
4. Assets in scope for Net Zero by 2050
5. The fund commitment to ESG
6. Measures taken to address ESG-related risks
7. Collaboration with other investors on ESG issues
8. Member feedback on the fund's ESG approach
9. Sustainability and Climate Change paper
10. Recommended TPR metrics
11. Available data for assets
12. ESG-related measurable targets and progress reporting
13. Other high emitting sectors considerations
14. Transition plan for climate commitments
15. Governance Structure ESG alignment
16. Sub-committee ESG Risk Assessment
17. Sub-committee and Board Members' Skills and Experience
18. Investment Manager ESG Metrics and Targets
19. Opportunities to pursue ESG issues

Observations and recommendations

Scope Area	TPF Objectives	Observations	Recommendations
Scope and Materiality	• TPF has defined the scope of its ESG strategy, including a clear statement on its approach. • TPF has identified its material ESG risks and opportunities and set out measures to mitigate or manage these.	**Relevant Disclosures Considered:** • The SRI Policy and ESG Policy set out TPF's approach to ESG. • TCFD report includes high level summary of climate-related risks. • TCFD report includes high level summary of climate-related opportunities. • TPF's Risk Policy and Strategy Statement includes risk of "Failure to implement ESG policy", and associated controls. **Observations Noted:** • Documentation provides a brief summary of climate risks, but does not quantify the risks. Although there is a commitment to conduct scenario modelling in the future, documents do not include scenario analysis. • There is little mention of measures taken to mitigate climate-related risks. However, during the workshop, Management stated that climate risk is now considered within the triennial valuations. • There is a lack of clarity on what is in scope for the net zero commitment. • There is no assessment of materiality of ESG issues and its likely impact on the fund.	We recommend TPF to do the following: 1. Assess which ESG topics are most material to TPF (conduct a double materiality assessment) 2. Develop a more detailed analysis of the fund's material climate-related risks and opportunities, and their potential impact on the fund. 3. Conduct scenario analysis to quantify how these may impact the fund's investment and funding strategy over different time horizons (short, medium and long) and different temperature change scenarios (e.g. 1.5c, 2c and 4c.). 4. Detail which assets are in scope for the fund's commitment to align its investment strategy with Net Zero by 2050.
Ambition and Strategy	• TPF has clearly articulated its ESG ambition and strategy and how this aligns with its fiduciary duty to members. • TPF's ESG ambition has been considered relative to its peers / and relevant national goals. • TPF has plans in place to achieve its ESG ambition and strategy.	**Relevant Disclosures Considered:** • The TCFD disclosure states that whilst TPF has no explicit climate strategy, it is committed to ensuring that its investment strategy is consistent with achieving the goal of global net-zero emissions by 2050 if conditions allow. • The SRI Policy and ESG Policy set out TPF's approach to ESG and how it is consistent with fiduciary duty. This includes (i) integration into investment decision making and (ii) active ownership. • There is a requirement for investment managers to be PRI and Stewardship Code signatories.	We recommend TPF to do the following: 5. Articulate the fund's commitment to ensure its investment strategy is consistent with Net Zero by 2050 and report on this to members. 6. Set out the measures the fund is taking to mitigate its ESG-related risks and capitalise on the opportunities. 7. Seek further opportunities to collaborate with other investors on ESG issues such as the Net Zero Asset Owners Alliance. TPF should confirm that they are members of CA100+ and ensure they are listed on CA100's website.

Observations and recommendations

Scope Area	TPF Objectives	Observations	Recommendations
Ambition and Strategy (continued)		**Observations Noted:** • TPF does set out its ESG approach but does not clearly set out its ambition and there is no tangible tracking of progress against its approach. • TPF's Net Zero commitment lacks detail and does not appear to be integral to TPF's ESG commitment. • TPF is committed to monitoring investment manager's engagement on a bi-monthly basis. • TPF are members of IIGCC but whilst they also state that they are seeking membership of CA100+, they are not listed as members on CA100's website.	8. Seek members' views on the fund's approach to ESG. 9. Review this useful paper entitled "*Pension Fund Trustees and Fiduciary Duties – Decision-making in the context of Sustainability and the subject of Climate Change*" by the Financial Markets Law Committee.
Reporting, KPIs and Data	• TPF has clearly defined its metrics and targets and reports these publicly. • TPF has set out its methodologies and its rationale and has explained any data that it has been unable to obtain. • Progress towards targets is monitored, and steps taken to achieve the targets are reported publicly.	**Relevant Disclosures Considered:** • The ESG Policy includes a target for companies held within the segregated equity mandates to have agreed a Scope 1/ Scope 2 emission reduction target by December 2022. • Companies held within the segregated equity mandates to have a firm commitment to achieve net zero by 2050 by December 2024. • The TCFD report states that whilst TPF has no explicit climate strategy, it is committed to ensuring that its investment strategy is consistent with achieving the goal of global net-zero emissions by 2050, if conditions allow. **Observations Noted:** • TPF's Net Zero target only applies to energy companies. TPF does not set out how its investment manager's engagement activity supports this, what the consequences of inaction are and how they are tracking against it. • There is no further detailed ESG metrics or targets. • TPF have measured its carbon emissions, but have not set out the methodologies used to do so. There is little mention of data quality or coverage. • Whilst emissions are disclosed year on year, there is no evidence of tracking progress against the Net Zero ambition.	We recommend TPF to do the following: 10. Adopt recommended metrics (an absolute emissions metric, emissions intensity metric and an additional climate change metric) and explain the methodologies used to calculate each metric, as set out in The Pensions Regulator guidance. 11. State the proportion of assets for which data was available and indicate whether data was verified, reported or estimated. 12. Set at least one specific and measurable ESG-related target and report on the progress in achieving that target. 13. Currently energy companies in the segregated equity mandates are required to have a Net Zero commitment. TPF should consider extending this requirement to other high emitting sectors (eg agriculture, real estate, transport, industrial sectors) and set out how the engagement of its investment managers support this. 14. Develop a transition plan for how the fund intends to achieve its climate commitment. Transition plans are likely to become mandatory for regulated asset owners as part of the Sustainability Disclosure Requirements regime and as part of the Transition Plan Taskforce's disclosure framework.

Observations and recommendations

Scope Area	TPF Objectives	Observations	Recommendations
Governance	• TPF has effective governance structures in place to ensure appropriate oversight and monitoring of ESG strategy. • TPF has the requisite skills and training to achieve its ESG strategy. • TPF holds its investment managers to account on achievement of its ESG ambitions.	**Relevant Disclosures Considered:** • TPF Sub-Committee has responsibility for agreeing investment objectives, strategy and structure, and for developing the Environmental, Social & Corporate Governance strategy. • Climate change is addressed in the quarterly risk register which is reported to both the Sub-Committee and Board. In addition, they receive bi-annual reports on TPF's ESG activities and engagement which includes the carbon footprinting of TPF's active equity portfolios. • The Executive Director of Corporate Services is the responsible officer who ensures that Sub-Committee decisions are implemented by the officers and service providers of TPF. It is the role of TPF's investment managers to incorporate analysis of ESG issues into its investment analysis. • Requires investment managers to be signatories of the PRI and UK Stewardship Code. **Observations Noted:** • TPF point to the Annual Governance Statement for info on the governance structure, but there is no specific mention of ESG governance in this statement. • There is little mention of whether the Board has the right skills and training in place to govern ESG. TPF conducted a 'learner needs analysis', however this did not include ESG considerations. Notwithstanding, it is noted that the 2023/24 training plan does refer to bespoke ESG training planned for 23/24. • TPF state that it is the role of investment managers to incorporate ESG, but there is little evidence provided to show how they hold investment managers accountable for this, or how specific ESG metrics and targets are included within investment mandates.	We recommend TPF to do the following: 15. Conduct a review of TPF's governance structures to ensure they are fit-for-purpose in an ESG context. 16. Describe how the TPF Sub-Committee assesses and manages ESG-related risks and opportunities, and how often such discussions take place. 17. Conduct a review to ascertain whether the Board and Sub-Committee have the required knowledge, skills and experience to govern ESG issues effectively. TPF should provide further training where skills gaps are identified. 18. Include specific ESG metrics and targets within the fund's investment manager mandates, ensure investment managers integrate these into its activities and report on progress against them. 19. Engage with stakeholders, industry bodies and wider stakeholders to share methodologies and identify further opportunities to collaborate in pursuit of ESG issues.

Appendices

Appendix A: Terms of reference

Scope and approach

During our workshop we will explore the sub-process areas below with the management team at TPF to understand actions already taken by management and ongoing project plans:

Sub-process	Objectives	Risks
Scope and materiality	• TPF has defined the scope of its ESG strategy, including a clear statement on its approach • TPF has identified its material ESG risks and opportunities and set out measures to mitigate or manage these	• ESG is a broad topic and can be defined differently depending on sector, geography and stakeholder perspectives. A lack of clarity on the definition and/or scope of its ESG ambitions can lead to ineffective strategy and misleading communications. • Lack of a clear understanding of materiality risks an inefficient use of resources and an inability to prioritise action on its most material ESG issues.
Ambition and strategy	• TPF has clearly articulated its ESG ambition and strategy and how this aligns with its fiduciary duty to members. • TPF's ESG ambition has been considered relative to its peers / and relevant national goals • TPF has plans in place to achieve its ESG ambition and strategy.	• Without an articulation of its strategy, TPF may be less able to manage its ESG risks and opportunities. • A lack of engagement with key stakeholders may lead to an unrefined strategy and direction. • An unclear plan may hinder successful implementation.
Reporting, KPIs and data	• TPF has clearly defined its metrics and targets and reports these publicly • TPF has set out its methodologies and its rationale and has explained any data that it has been unable to obtain. • Progress towards targets is monitored, and steps taken to achieve the targets are reported publicly.	• KPIs which are not clearly defined may lead to the ESG strategy not being driven effectively or being unable to track the progress of. • Challenges with data quality and coverage impact achievement of ESG strategy and heighten greenwashing risks.
Governance	• TPF has effective governance structures in place to ensure appropriate oversight and monitoring of ESG strategy. • TPF has the requisite skills and training to achieve its ESG strategy • TPF holds its investment managers to account on achievement of its ESG ambitions	• A lack of appropriate governance structures may expose the fund to greater ESG risks. • Without appropriate governance the fund may be less able to achieve its ESG ambitions.

Appendix A: Terms of reference

Scope and approach

- Obtain and review key ESG documents that support Tayside Pension Fund's implementation of the general code of practice (the Code) in advance of a workshop scheduled for 27 February 2024
- Preparing an initial draft high level slide deck to summarise the ESG requirements and good practice (as it relates to the scope), the Tayside Pension Fund's responses and, based on these, our recommendations.
- Attending a workshop with the Tayside Pension Fund on 27 February 2024. Our support and approach during this session will be as follows:
  - Provide an overview of the Code and its likely requirements;
  - Understand actions already taken by the Tayside Pension Fund in relation to ESG;
  - Discuss any gaps which have been identified through reviewing the documents provided; and
  - Provide feedback on plans to address those gaps.

The slide deck mentioned above in (ii) will be used during this workshop. The output of the workshop will be the IA memo detailing the expectations set by TPR around ESG and how the Tayside Pension Fund plans align to these expectations. The report will also provide a high level action plan to address any gaps that were identified.

Limitations of scope

Our support will be limited to the areas noted above and will not include the following:

- Our work will be limited to the areas noted above, namely the ESG requirements, under the Code, and will not include any other requirements of the Code or should the Code be substantially changed once finalised in these areas.
- Please note that we will not be reviewing documentary evidence for the purposes of this deliverable. If you would like us to carry out a more comprehensive gap analysis based on a review of the current governance documentation and associated policies, this will need to be agreed separately.
- Our work will not provide a comprehensive review of TPF's compliance with regulations, guidance or legal requirements.

Appendix B: 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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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 30 November 2023 . 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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184-2024-APPENDIX B

Internal audit memo 2024

General Code Advisory Review

Tayside Pension Fund

June 2024

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Contents

Distribution list

For action / consideration: Tracey Russell (Senior Manager, Financial Services), Stuart Norrie (Senior Banking & Investment Officer)

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Background and work performed

Background

The revised General Code of Practice (the "**General Code**") covering governance requirements for private and public sector pension schemes was issued by the Pensions Regulator ("**TPR**") in January 2024, to be effective from 27 March 2024. The General Code amends multiple provisions of the Draft Single Code of Practice which had been published in 2021 ("**Draft Code**").

The overriding legal requirement for a public scheme as set out in the General Code is principally to have effective internal controls in place for scheme management and to have processes in place for these controls to be reviewed. As identified in the 'Key Observations and Considerations' section, the General Code identifies aspects of the Effective System of Governance (ESOG) which would be either a legal requirement or good practice for a public sector arrangement to follow. It also recommends that public sector schemes have an Own Risk Assessment (ORA) which is not a mandatory requirement for them (although there is a necessity to review internal controls, and aspects of an ORA may assist Tayside Pension Fund ("**TPF**") with establishing an effective annual review of internal controls). Interspersed throughout the General Code are comments that pension schemes (both in the the public and private sector) should be proportionate in adopting/adapting governance structures to meet compliance standards. As a result, whilst all of the General Code is not mandatory for TPF, it should have a clear stance on how it has assessed each component of the General Code.

The internal controls requirements principally involve identifying, monitoring and controlling risk to the Scheme, together with demonstrating effective management and administration. Whilst not an exhaustive list, the main areas of Risk to a scheme considered are set out by TPR on page 44 of the General Code as follows:

- Scheme investments, including asset-liability management (where applicable)
- Those affecting operational resilience, including where those risks belong to service providers
- Insurances, compensation funds, and other risk-mitigation techniques
- Environmental, social, and governance risks (where applicable)
- Scheme funding and the strength of the employer covenant (where applicable)
- Fraud
- Failure to comply with the law and/or scheme rules
- Poor record-keeping, poor administration, and IT and database failures
- Cyber security risks
- Governance and decision making, or existing controls are not operating to the standard required by pensions legislation
- Actual or potential conflicts of interest (the module on conflicts of interest sets out the actions that governing bodies should take in relation to these matters)

Pension funds, such as TPF, are required (where applicable) to sufficiently demonstrate and show evidence for how these main areas of Risk are addressed within its operational activities in order to meet the applicable General Code requirements.

Summary of work performed

Internal Audit shared a questionnaire with Management on the basis of the Draft Code and TPF subsequently completed this. Internal Audit reviewed the answers provided by TPF in light of the TPR's clarifications on the new governance requirements for public service pension schemes as set out in the General Code, now published and effective 27 March 2024. Internal Audit facilitated a workshop with TPF focusing on key questionnaire responses that were most relevant as managers of a public sector scheme. A gap analysis was performed to assess current governance against new standards and good practice. The resulting feedback in this memo is to provide TPF with further guidance and considerations for industry good practice.

The 'Key Observations and Considerations' section of this memo details: which sections of the General Code were included in scope for this review; associated requirements that expressly relate to TPF as a public service pension scheme; and areas of good practice which TPF may wish consider to align itself to wider pension scheme industry good practice.

Summary of observations

Summary of observations

Through open discussions with the workshop attendees and the questionnaire responses, we explored certain areas of the General Code to understand TPF's approach to compliance. In conclusion, Management has been able to articulate:

- A clear understanding of how it currently considers / manages its compliance obligations;
- How their compliance obligations are embedded in TPF's Governance activities; and
- Its processes and controls in place to stay up to date and informed on any emerging and/or new regulatory changes.

As a result of the workshop and information obtained from the various supporting documents, we believe TPF has a good foundation and approach to meeting the requirements of the General Code that are applicable to it. In addition, there are components of the code that TPF are not required to comply with, but it still follows, in order to maintain better industry practice.

From the work performed, we identified the following areas where additional work should be performed in order to further align governance arrangements with the requirements of the General Code and with good practice. The sections 'Management of Activities' and 'Stewardship and Climate change' observations identified aligned to previously raised observations from other reviews recently performed by Internal Audit and the 'Own risk assessment' section observations have not previously been raised until this review:

- **Management of Activities:** The observations identified in this review align to previously raised observations by Internal Audit in the 'Business Resilience: Key person risk and succession planning' review, covering annual performance review and key person identification processes. Our report (issued 12 June 2023) provided a summary of observations and recommendations. The observations made (of which management are working on) support alignment with expectations as per the code. We encourage management to consider these observations and recommendations in line with our report released on 12 June 2023.
- **Stewardship and Climate change:** The observations identified in this review align to previously raised observations by Internal Audit in the ESG Memo. Internal Audit facilitated a workshop (held on 27 February 2024) with TPF management and discussed the below ESG scope areas in relation to TPF, including how these apply to the fund, observations made in respect of existing documentation and strategy, as well as recommendations for potential areas of improvement: Scope and materiality; Ambition and strategy; Reporting, KPIs and data; and Governance. Our memo (issued 10 May 2024) provided a summary of workshop outputs and observations. We encourage management to consider these observations in line with our memo released on 10 May 2024.
- **Own risk assessment ("ORA"):** Although not mandated, we believe establishing an "Own risk assessment" process to compliment current risk management procedures at TPF would be of value and good practice. In summary, this would allow management and the Pensions Board to take a step back and challenge itself in respect of:the effectiveness of its risk management framework. This would enable the fund to further answer the following key questions:
    - How have those charged with governance assessed the effectiveness of the fund's policies and procedures?
    - Do those charged with governance consider the operation of the policies and procedures to be effective and why?

Please refer to the following 'Key Observations and Considerations' section for further details.

Key Observations and Considerations

Requirements of the General Code: Management of activities

Module name	Applicability	Summary requirements and examples of how TPF considers alignment to the code
Role of the governing body p.9-11	Applicable	**Summary requirements:** The governing body in a public pension scheme is the scheme manager (s4 Public Service Pensions Act 2013). The pensions board is set up as required by s5 of the same Act to assist the scheme manager with the matters set out in that section. The governance of a public service pension scheme will need to take into account: ● the differing responsibilities of the scheme manager, pension board and pension committee (where appropriate) ● each public service pension scheme should determine who fulfils the role of scheme manager according to their regulations and local arrangements ● A pension board must have an equal number of employer and member representatives Section 5 of the Public Service Pensions Act dictates how the governing body is made up, who can be a member, and how members are appointed. For instance, a pension board must have an equal number of employer and member representatives. Local Government Pension Schemes do not need to comply with paragraph 6,page 10, as it applies to 'trustees of trust schemes'. However, paragraph 5, page 9, states that paragraph 6 lists the 'appropriate standards for the governing body of other schemes' (meaning that it would be good practice to comply). **Examples of how TPF considers alignment to the code:** ● TPF is administered by the Dundee City Council as the administering authority. TPF also has a Pension Committee (responsible for management) and a Pension Board (responsible for compliance). ● TPF's internal governance structure is set out at page 4 of the Business Plan and pages 14-15 of the Annual Report. In short, the TPF has a Pension Committee (decision-makers) and Pension Board (oversight of compliance, with a 50/50 split in the board). Above those sit the Chief Executive of the Council and the Section 95 Officer. ● Responsibilities for the day-to-day management of the TPF are agreed and documented.
Internal Audit observations (where relevant)		**None**

Module name	Applicability	Summary requirements and examples of how TPF considers alignment to the code
Meetings and decision - making p.20-22	Applicable	**Summary requirements:** The Code specifies that arrangements for meetings and decision-making for councils acting as Local Government Pension Scheme authorities are set out in: ● Local Government Act 1972 ● Local Government and Housing Act 1989 ● Scotland is governed by Local Government etc. (Scotland) Act 1994 Local Government Pension Schemes should also consider the items listed at paragraph 6 on page 21. WIth regard to written meeting records, the Code specifies that governing bodies of public pension schemes must include the items listed in paragraph 5. **Examples of how TPF considers alignment to the code:** ● All regulatory / legislative changes in quarter are reported to committee. ● Statutory requirements are reported quarterly. ● Any rescheduling is undertaken by DCC Committee services who have process for this as well as other council meetings.
Internal Audit observations (where relevant)		**None**

Key Observations and Considerations

Requirements of the General Code: Management of activities (continued)

Module name	**Applicability**	**Summary requirements and examples of how TPF considers alignment to the code**
Remuneration and fee policy p.23	Good practice	**Summary requirements:** Public service schemes ‘may wish to adopt these principles as good practice’ (paragraph 1). **Examples of how TPF considers alignment to the code:** Not applicable
Internal Audit observations (where relevant)		**None**

Module name	**Applicability**	**Summary requirements and examples of how TPF considers alignment to the code**
Dispute resolution procedures p.151-154	Applicable	**Summary requirements:** Public service pension schemes are included in the definition for ‘occupational pension schemes’ (s176 Pensions Act 1995 (as defined in s1 Pension Schemes Act 1993)). None of the exemptions in s50(8) Pensions Act 1995 (as further defined in reg 3 of the Occupational Pension Schemes (Internal Dispute Resolution Procedures Consequential and Miscellaneous Amendments) Regulations 2008)) apply. Therefore, the pension board must put formal procedures and processes in place to investigate and decide upon pension schemes disputes (as defined in s50(3) and which are not an exempted dispute under s50(9) Pensions Act 1995). The TPR’s expectations are set out in paragraphs 7-12 (pages 152-153). Provisions in relation to ‘informing members’ are a matter of ‘good practice’ for all schemes (paragraph 12). **Examples of how TPF considers alignment to the code:** ● Dispute resolution procedures are documented ● The Scheme Manager undertakes investigation with relevant section and the S95 provides review and challenge. ● Disputes are reported.
Internal Audit observations (where relevant)		**None**

<table>
<tr><th>Module name</th><th>Applicability</th><th>Summary requirements and examples of how TPF considers alignment to the code</th></tr>
<tr><td>Knowledge and understanding
p.25-31</td><td>Applicable</td><td rowspan="3">Summary requirements: Requirements for knowledge and understanding fall on pension board members. Scheme managers (or delegates) should achieve at least basic competence in the working knowledge of the items listed in 9-15 in pages 27-30 (as applicable to public service schemes, therefore excluding item 12). Working knowledge is defined as ‘sufficient knowledge of the items, so that they can be used effectively when required to do so’.

Governance of knowledge and understanding module applies ‘to the pension boards of public service pension schemes’ (paragraph 1, page 32). The pension board must demonstrate that, as a group, it possesses the ‘skills, knowledge, and experience’ to run the scheme effectively (paragraph 2). As a matter of good practice, we understand members of pension boards should work towards completing the TPR’s public service toolkit for members (paragraph 7).

Pension boards are also required to meet the expectations set out in paragraph 3 of the Scheme continuity planning module (as applicable). To enable the pensions board to ensure that the members’ knowledge and understanding is established and maintained, members of the pension scheme should demonstrate the items listed in paragraph 8 of the Code. ‘Good practice’ for scheme managers of public service pension schemes to consider carrying out continuity planning in the same way (paragraph 2).
Continued on next page</td></tr>
<tr><td>Governance of knowledge and understanding
p.32-33</td><td>Applicable</td></tr>
<tr><td>Scheme continuity planning
p.53-54</td><td>Good practice</td></tr>
</table>

Key Observations and Considerations

Requirements of the General Code: Management of activities (continued)

Module name	Applicability	Summary requirements and examples of how TPF considers alignment to the code
Knowledge and understanding p.25-31	Applicable	**(continued)** **Examples of how TPF considers alignment to the code:** ● The risk policy and framework is set out in the publicly available quarterly risk register (that goes to the Pension Committee) and the annual report. PwC Audit assists the TPF with its risk scoring. ● Annual report offers scheme-specific metrics and information on data scoring. This allows TPF to gain an understanding of where it would score (in percentages) in relation to the TPR return. ● Additional provisions include auditing any issues and the TPF's regular cleaning regime which it undertakes as part of the triennial valuation process. ● In terms of review of skills, TPF carries out background checks and measures performance against fund indicators (e.g. investment metrics for investment advisers). Additionally, it conducts employee performance reviews and mandatory training (if any gaps are identified), as well as TPR training for all TPF officers. ● TPF also conducts quarterly reviews with advisers and service providers. ● The audit teams assess TPF's performance and controls, and sets these out in their reports. The information is also captured in TPF's quarterly and annual reports (as well as the quarterly, bi-annual, and annual reports that are provided to the Pension Committee and Pension Board and that these are publicly available). ● They also publish a governance compliance statement every year in the accounts. ● The TPF consults the Local Governance Association and the Scottish Public Pensions Agency ("SPPA") to find out about things coming through the pipeline. TPF ● also issues a quarterly administration report which addresses what was going on in that quarter and how TPF might be affected. ● The Business Continuity Plan (BCP) was put in force during COVID. All performance on quarterly review and report is considered as part of the TPF BCP. TPF's BCP focuses mainly on essential priority tasks prescribed by the Pensions Regulator
Governance of knowledge and understanding p.32-33	Applicable	
Scheme continuity planning p.53-54	Good practice	
Internal Audit observations (where relevant)		The observations identified in this review align to previously raised observations by Internal Audit in the 'Business Resilience: Key person risk and succession planning' review, covering annual performance review and key person identification processes. Our report (issued 12 June 2023) provided a summary of observations and recommendations. The observations made (of which management are working on) support alignment with expectations as per the code. These include the following: ● **Lack of documented Role Replacement Plans:** Role replacement plans are not in place. It is clear that senior staff members know who would replace them in the event that they leave or are no longer able to work, however, required actions, guidance and protocol is not in place to aid this. In the event of needing to exercise the succession plan, an absence of formalised role replacement plans could prevent / slow down an effective transition into role. ● **No formal review of job descriptions and person specifications:** Job descriptions and person specifications are not periodically reviewed and may not reflect the current roles and responsibilities at TPF. If job descriptions and person specifications are out of date, TPF is at risk of recruiting an individual who does not have the appropriate qualifications or skill levels to fulfil the actual role expected of them. We encourage management to consider these observations and recommendations in line with our report released on 12 June 2023.

Key Observations and Considerations

Requirements of the General Code: Organizational Structure

Module named	Applicability	Summary requirements and examples of how TPF considers alignment to the code
Appointment and role of the chair p.18-19	Good practice	**Summary requirements:** Public service schemes 'may wish to adopt these principles as good practice' (paragraph 7, p.69). **Examples of how TPF considers alignment to the code:** Not applicable
Internal Audit observations (where relevant)		**None**

Module named	Applicability	Summary requirements and examples of how TPF considers alignment to the code
Conflicts of interest p. 55-60	Partially applicable	**Summary requirements:** Scheme managers need to consider 'conflicts of interest' as part of their assessment of internal controls under s249B of the Pensions Act 2004 (paragraph 4). Specifically, scheme managers should take into consideration conflicts of interest when identifying and evaluating risks as conflicts may arise when a member of the governing body: a. is obliged to act in the best interests of the members; and b. has or may have a separate personal interest or other fiduciary duty/duty. The scheme managers should adopt control procedures to manage conflicts and mitigate the risks of tainted decision making (paragraph 10). The TPR 'expects' that scheme managers will comply with paragraphs 6-8 on page 56 when identifying and recording conflicts of interest. Scheme managers must also meet the requirements under s5 of the Public Service Pensions Act 2013, and these are also detailed in paragraphs 22 to 24 of page 59. All other paragraphs in the module do not apply to public sector pension schemes, but it 'is good practice for them to adopt those measures' (paragraph 3(b), page 55). **Examples of how TPF considers alignment to the code:** ● Members need to agree to be bound by the Dundee City Council's Code of Conduct and to declare interests at the start of any meeting. Additionally, TPF administrators are required to carry out the TPR training on interests. ● Individuals are contractually required to declare any conflicts of interests before meetings, or to the Committee. TPF follows the TPR's procedure for dealing with conflicts of interest to resolve the conflict. TPF also has a public register of interests listing all elected members.
Internal Audit observations (where relevant)		**None**

Key Observations and Considerations

Requirements of the General Code: Organizational Structure (continued)

Module name	Applicability	Summary requirements and examples of how TPF considers alignment to the code
Managing advisers and service providers p.38-41	Good practice	**Summary requirements:** This module only applies to governing bodies of schemes with 100+ members and which are required to maintain an ESOG (paragraphs 1 and 2). Public service schemes 'may wish to adopt these principles as good practice' (paragraph 1). **Examples of how TPF considers alignment to the code:** ● TPF uses the Norfolk Pension TPF to provide the procurement framework document. It then assesses the skillsets of advisers and service providers against the criteria in the framework. ● Northern Trust is TPF's global Custodian. Quarterly service review and document any changes. This is in addition to a regular review of contracts. They outsource the monitoring of expiring contracts to the procurement team. ● TPF asks the relevant service providers for clarifications on advice if this is unclear. ● Additionally, TPF is divided into two specialist groups: (1) administration and (2) technical. ● TPF also meet every quarter with 11 Scottish funds at the SLGPS Investment & Governance Group where: ○ they have a plenary session for LG associations; ○ they have a Scottish Pensions Liaison Group (Pension Administration) where all funds assess the information from the SPPA.
Risk management function p.65-66	Good practice	
Internal Audit observations (where relevant)		**None**

Key Observations and Considerations

Requirements of the General Code: Investment matters

<table>
<tr><th>Module name</th><th>Applicability</th><th>Summary requirements and examples of how TPF considers alignment to the code</th></tr>
<tr><td>Investment governance
p.73-75</td><td>Good practice</td><td rowspan="3">Summary requirements: ‘Scheme managers of Local Government Pension Schemes do not have the same obligations as occupational pension schemes in pensions legislation, but it is good practice for them to approach investment governance in the same way’. However, as part of the ‘Knowledge and understanding’ requirements, they must understand the investment powers and duties they have under the scheme trust deed, rules, and legislation (paragraph 4, page 73).

Examples of how TPF considers alignment to the code:
● TPF has a defined framework in place for setting the investment strategy, objectives and asset allocations.
● Input from external advisors and wider stakeholders is considered.
● TPF has established performance metrics for the investment strategy, including reporting on these.
● There is timely reporting in place which allows the monitoring of performance against the investment strategy objectives (and investment manager performance).
● There is reporting in place to monitor overall scheme performance, risks, costs and compliance with investment guidelines.
● There is a formal governance process in place for setting the investment strategy which includes the review of data / inputs which inform the strategy, and the translation of this into both legal and internal documentation.
● Investment decision making roles and responsibilities are defined.
● Scenario planning and stress tests are carried out by the actuary as part of the triennial valuation.</td></tr>
<tr><td>Investment decision-making
p.76-78</td><td>Good practice</td></tr>
<tr><td>Investment monitoring
p.79-80</td><td>Good practice</td></tr>
<tr><td colspan="2">Internal Audit observations (where relevant)</td><td>None</td></tr>
</table>

<table>
<tr><th>Module name</th><th>Applicability</th><th>Summary requirements and examples of how TPF considers alignment to the code</th></tr>
<tr><td>Statement of investment principles
p.87-91</td><td>Good practice</td><td>Summary requirements: Local Government Pension Schemes are exempt from the requirement to produce a Statement of Investment Principles by virtue of reg 6(1)(b)(ii) of The Occupational Pension Schemes (Investment) Regulations 2005 which disapplies s35 of the Pensions Act 1995.

Examples of how TPF considers alignment to the code: Not applicable</td></tr>
<tr><td colspan="2">Internal Audit observations (where relevant)</td><td>None</td></tr>
</table>

Key Observations and Considerations

Requirements of the General Code: Investment matters (continued)

<table>
<tr><th>Module name</th><th>Applicability</th><th>Summary requirements and examples of how TPF considers alignment to the code</th></tr>
<tr><td>Stewardship
p.81-83</td><td>Good practice</td><td rowspan="2">Summary requirements: As Local Government Pension Schemes are not required to produce a Statement of Investment Principles (see below), they do not have to include their policies in relation to financially and non-financially material ESG considerations, and they do not have to produce an annual implementation statement. However, in relation to ESG and climate change:
● Paragraph 12,page 83, recommends ‘that governing bodies with investment responsibilities follow the expectations set out in paragraph 13, even if they are not legally required’.
● Paragraph 9, page 85, states that ‘other governing bodies may wish to consider these as good practice’ (paragraph 8).
● Paragraph 7, page, clarifies that governing bodies that are required to establish internal controls should, as part of their risk assessment, ‘assess the risks and opportunities associated with climate change.

Examples of how TPF considers alignment to the code:
● The TCFD disclosure states that whilst TPF has no explicit climate strategy, it is committed to ensuring that its investment strategy is consistent with achieving the goal of global net-zero emissions by 2050 if conditions allow.
● The SRI Policy and ESG Policy set out TPF’s approach to ESG and how it is consistent with fiduciary duty. This includes (i) integration into investment decision making and (ii) active ownership.
● There is a requirement for investment managers to be PRI and Stewardship Code signatories.
● Companies held within the segregated equity mandates to have a firm commitment to achieve net zero by 2050 by December 2024.
● The TCFD report states that whilst TPF has no explicit climate strategy, it is committed to ensuring that its investment strategy is consistent with achieving the goal of global net-zero emissions by 2050, if conditions allow.</td></tr>
<tr><td>Climate change
p.84-86</td><td>Good practice</td></tr>
<tr><td colspan="2">Internal Audit observations (where relevant)</td><td>The observations identified in this review align to previously raised observations by Internal Audit in the ESG Memo. Internal Audit facilitated a workshop (held on 27 February 2024) with TPF management and discussed the below ESG scope areas in relation to TPF, including how these apply to the fund, observations made in respect of existing documentation and strategy, as well as recommendations for potential areas of improvement: Scope and materiality; Ambition and strategy; Reporting, KPIs and data; and Governance.

Our memo (issued 10 May 2024) provided a summary of workshop outputs and observations. These observations were made to support alignment with expectations as per the code. These included the following:
● ESG Scope and Materiality: TPF has defined the scope of its ESG strategy, including a clear statement on its approach. However, in respect of identified material ESG risks, we believe additional analysis is required. For example, supporting documentation provides limited details regarding actions taken to mitigate climate-related risks. There is also a lack of clarity on what is in scope for the net zero commitment.
● Ambition and Strategy: TPF’s TCFD disclosure states that whilst TPF has no explicit climate strategy, it is committed to ensuring that the investment strategy is consistent with achieving the goal of global net-zero emissions by 2050 if conditions allow. The SRI Policy and ESG Policy set out TPF’s approach to ESG and how it is consistent with fiduciary duty. Notwithstanding, TPF’s ESG strategy does not clearly set out its ambition and there is no tangible tracking of progress against its approach. TPF’s plans in place to achieve its Net Zero commitment lacks detail and does not appear to be integral to TPF’s ESG commitment.
● Reporting, KPIs and Data: The ESG Policy includes high level targets for companies held within the segregated equity mandates but there is no further detailed ESG metrics or targets. TPF’s Net Zero target is limited in that it only applies to energy companies and TPF does not set out how it monitors investment manager’s against targets set. There is also little mention of data quality or coverage. The progress towards targets is measured for its carbon emissions, but have not set out the methodologies used to do so. Emissions are disclosed year on year but there is no evidence of tracking progress against the Net Zero ambition.
Continued on next page</td></tr>
</table>

Key Observations and Considerations

Requirements of the General Code: Investment matters (continued)

<table>
<tr><th>Module name</th><th>Applicability</th><th>Summary requirements and examples of how TPF considers alignment to the code</th></tr>
<tr><td>Stewardship
p.81-83</td><td>Good practice</td><td rowspan="2">Internal Audit observations (continued)
● Governance: TPF should have in place effective governance structures in place to ensure appropriate oversight and monitoring of ESG strategy. TPF point to the Annual Governance Statement for information regarding the governance structure, but there is no specific mention of ESG governance in this statement. With regards to holding its investment managers to account on achievement of its ESG ambitions, Management were able to articulate its requirements. There is however limited documented evidence of how this is performed in practice, or how specific ESG metrics and targets are included within investment mandates.

We encourage management to consider these observations in line with our memo released on 10 May 2024.</td></tr>
<tr><td>Climate change
p.84-86</td><td>Good practice</td></tr>
</table>

Communications and disclosure

<table>
<tr><th>Module name</th><th>Applicability</th><th>Summary requirements and examples of how TPF considers alignment to the code</th></tr>
<tr><td>General principles for member communications

p.130, 137-138</td><td>Applicable</td><td>Summary requirements: Local Government Pension Schemes fall within the definition of Schedule 1 of The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013. Therefore, the regulations apply to them by virtue of reg 4(1). When preparing communications to members, the scheme manager should consider all items outlined in paragraph 3 of page 130. Additionally, scheme managers of public service pension schemes must provide all active members with an annual benefit information statement. They must also provide annual benefit information statements to deferred members and pension credit members of the scheme, where this is required by scheme regulations. Local Government Pension Schemes are DB Schemes.

Therefore, for active members, scheme managers must issue the information set out in paragraph 4 of page 137. For active, deferred, or pension credit members, scheme managers must issue the information in paragraph 5 of page 137 and any further information required under reg 16(2) of the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013.

Where applicable in relation to Additional Voluntary Contributions, scheme managers must also issue the information in accordance with paragraph 6 on page 138, and reg 17. There are also requirements for scheme managers of public service pension schemes to publish certain information about the pension board (paragraphs 1-7 on page 149).

Examples of how TPF considers alignment to the code:
● Communications are provided by letter, leaflet and via website and Member Self Service Portals. Where requested TPF provide large font documents and can a sign language interpreter.
● All communications are issued to senior management for review and amendment prior to issue.
● Communications are reviewed at such times as amendments are required, i.e. where legislation is amended or any such details as are shown in the communication.
● Annual Benefit Statements are issued by 31st August annually. For those active members who have signed up for Member Self Service, they have the ability to review their record and “model” their retirement benefits.</td></tr>
<tr><td colspan="2">Internal Audit observations (where relevant)</td><td>None</td></tr>
</table>

Key Observations and Considerations

Own risk assessment

<table>
<tr><th>Module name</th><th>Applicability</th><th>Summary requirements and examples of how TPF considers alignment to the code</th></tr>
<tr><td>Own risk assessment
p.61-64</td><td>Good practice</td><td>Summary requirements: No requirement for public service pension schemes to establish and operate an own risk assessment (as there is no requirement for public service pension schemes to have an ESOG).

Examples of how TPF considers alignment to the code:
Defined processes are used to support the identification, assessment and treatment of risk, including risk and control documentation. Processes include:
Risk identification and assessment;
Risk horizon scanning;
Risk events; and
Risk reporting
NOTE: The 2024 internal audit plan includes a review of the TPF risk management framework and associated processes and controls.</td></tr>
<tr><td colspan="2">Internal Audit observations (where relevant)</td><td>Although not mandated, we believe establishing an “Own risk assessment” process to compliment current risk management procedures at TPF would be of value and good practice. In summary, this would allow management and the Pensions Board to take a step back and challenge itself in respect of:
Is the Scheme’s Risk Management policy followed?
What management information is used to report on risk?
Does management and committee reporting reflect a mix of metrics to measure risks, risk limit tolerances and trend analysis.
Does MI measure both outward-looking measures of potential harm and inward-looking measures relating to controls.
Do reports provide both quantitative and qualitative information along with supporting commentary to enable challenge.
Who receives and uses this information to assess risk and provide challenge?
Based on this oversight, how are actions recorded, resolved and reported on?
Internal controls: What independent assurance has been received and how was this used to assess controls in place that manage this risk? Based on this oversight, how are actions recorded, resolved and reported on?
Internal controls: What management assessment activities / checks / tasks have been performed to assess the design and operating effectiveness of controls in pace that mitigate the risk? Based on this oversight, how are actions recorded, resolved and reported on?
How have risk events/reported breaches been treated (recorded, resolved and reported on)?
This would enable the fund to answer the following key questions:
How have those charged with governance assessed the effectiveness of the fund’s policies and procedures?
Do those charged with governance consider the operation of the policies and procedures to be effective and why?</td></tr>
</table>

Appendices

Appendix A: Terms of reference*

This review is being undertaken as part of the 2022/23 internal audit plan approved by the Audit Committee.

Background and audit objectives

In March 2021, the Pensions Regulator ("TPR") published a draft combined code of practice (the "Draft Code"). The Draft Code is intended to consolidate a number of existing codes of practice and introduce new requirements on pension scheme trustees. The consultation period closed on 26 May 2021. The most notable of these requirements are for trustees to adopt effective systems of governance ("ESOGs"), carry out regular reviews of these ESOGs and separately carry out trustee own risk assessments ("ORAs").

A number of industry bodies provided detailed feedback and there have been challenges to some of the elements of the Code, with TPR publishing an interim response in August 2021. The now-termed 'General Code' is awaiting DWP sign-off, and is expected to be laid before parliament in Spring 2023. TPR has noted the final code has been updated for some areas where legislation has moved on since the original consultation. Even though the detail of the Code may change, it is unlikely that the structure will change and there are significant steps that can be taken now in order to prepare.

Taking this into account, it was agreed that as part of the 2022/23 Internal Audit plan a review, via a workshop, would be performed with the objective of understanding and assessing TPF's approach to preparing for the code of practice. We will also share insights and good practices that can help management bring improvements.

*At the time of writing this terms of reference, the General Code had not yet been published. Due to the workshop occurring after the release of the General Code, the work performed and output of the memo has applied the information available in the General Code instead of the Draft code.

Appendix A: Terms of reference*

During our workshop we will explore the sub-process areas below with the management team at TPF to understand progress (regarding the new consolidated code of practice readiness) made to date and areas for further action:

Process	Sub-process	Objectives
Effective system of governance (ESOG)	Management of activities:	• Role of the governing body (managers and/or pension boards of public service schemes regulated by TPR) • Meetings and decision making • Working knowledge of pensions • Governance of knowledge and understanding • Building and maintaining knowledge • Dispute resolution procedures • Continuity planning
	Organisational structure	• Role of the chair • Conflicts of interest • Managing advisers and service providers
	Investment matters	• Investment governance • Investment decision making • Investment monitoring • Stewardship • Climate change
	Communications and disclosure	• General principles for member communications
Own Risk Assessment (ORA)	Governance	(1) Documentation (2) Policies for the governing body (3) Risk management policies (4) Investment (5) Additional investment matters for DB schemes (6) Administration (7) Payment of benefits, where applicable

*At the time of writing this terms of reference, the General Code had not yet been published. Due to the workshop occurring after the release of the General Code, the work performed and output of the memo has applied the information available in the General Code instead of the Draft code.

Appendix A: Terms of reference*

Scope and approach

i. Preparing a questionnaire to cover the requirements under the Draft Code ESOG and ORA to share with the Tayside Pension Fund in advance of a workshop.

ii. Reviewing the Tayside Pension Fund's responses to the above questionnaire.

iii. Preparing an initial draft high level slide deck to summarise the ESOG and ORA requirements, the Tayside Pension Fund's responses and, based on these, our recommendations.

iv. Attending a workshop with the Tayside Pension Fund. Our support and approach during this session will be as follows:

- Provide an overview of the Draft Code's ESOG and ORA and their likely requirements;
- Understand actions already taken by the Tayside Pension Fund in relation to their ESOG and ORA;
- Discuss any gaps which have been identified as part of the Tayside Pension Fund's responses to our initial questionnaire; and
- Provide feedback on plans to address those gaps.

The slide deck mentioned above in (iii) will be used during this workshop. The output of the workshop will be the IA report detailing the likely expectations set by TPR around ESOG and ORA requirements and how the Tayside Pension Fund plans align to these expectations. The report will also provide a high level action plan to address any gaps that were identified.

Limitations of scope

Our support will be limited to the areas noted above and will not include the following:

- Our work will be limited to the areas noted above, namely the ESOG and ORA requirements, under the Draft Code, and will not include any other requirements of the Draft Code or should the Draft Code be substantially changed once finalised in these areas.
- Please note that we will not be reviewing documentary evidence for the purposes of this deliverable. If you would like us to carry out a more comprehensive gap analysis based on a review of the current governance documentation and associated policies, this will need to be agreed separately.

*At the time of writing this terms of reference, the General Code had not yet been published. Due to the workshop occurring after the release of the General Code, the work performed and output of the memo has applied the information available in the General Code instead of the Draft code.

Appendix B: 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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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 30 November 2023 . 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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