

**REPORT TO: PENSION SUB-COMMITTEE OF THE CITY GOVERNANCE
COMMITTEE & PENSION BOARD – 18 MARCH 2024**

REPORT ON: INTERNAL AUDIT RISK ASSESSMENT & AUDIT PLAN 2024/25

REPORT BY: EXECUTIVE DIRECTOR OF CORPORATE SERVICES

REPORT NO: 75-2024

1 PURPOSE OF REPORT

This report sets out the risk assessment undertaken by PwC and details their internal audit plans for Tayside Pension Fund for 2024/25.

2 RECOMMENDATIONS

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

3 FINANCIAL IMPLICATIONS

The cost for PwC services to undertake the annual internal audit requirements is £78,000 which is funded by Tayside Pension Fund.

4 MAIN TEXT

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

The report in appendix A details the risk assessment undertaken and outlines the planned approach to the internal audit of Tayside Pension Fund for the financial year, outlining the key audit objectives and methodology, setting out information on the proposed audit approach focussing on the key issues and risks in relation to the audit universe and key risks assessed. The document also sets out the key stages of the planned internal audit process, together with a summary of the timetable and detail of how PwC intend to form their independent audit opinion.

The proposed audits for 2024/25 are summarised below:

- Investment Strategy - Review of the design of key controls and governance that lead to advising on and setting the investment strategy.
- Outsourcing / 3rd Party Management - Review of the design and operating effectiveness of key controls in respect of third party management.
- Risk Management and Regulatory Compliance – Review of the design and operating effectiveness of key controls in respect of the Fund's risk management framework.

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 CONSULTATION

The Chief Executive and Head of Democratic and Legal Services have been consulted in the preparation of this report.

7 **BACKGROUND PAPERS**

None

ROBERT EMMOTT
EXECUTIVE DIRECTOR OF CORPORATE SERVICES

8 MARCH 2024

DRAFT FOR APPROVAL

75-2024 APPENDIX A

Internal audit plan 2024/25

Tayside Pension Fund

March 2024



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Distribution list

For action: Pension Sub-Committee

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



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Introduction and approach

Introduction

This document sets out our risk assessment and internal audit plan for 2024/2025 for the Tayside Pension Fund ("TPF").

We have refreshed our risk assessment of TPF's audit universe for 2024/2025 to provide us with the foundation for the development of the internal audit plan. This document sets out the proposed internal audit reviews to be completed, developed through discussion with management, for approval by the Pension Sub-Committee.

The internal audit service will be delivered in accordance with the Internal Audit Charter (See Appendix D). A summary of our approach to undertaking the risk assessment and preparing the internal audit plan is set out below. The internal audit plan is driven by TPF's strategic goals, and the risks that may prevent TPF from meeting those goals. A more detailed description of our approach can be found in Appendix A.

To develop this plan, we have considered:

- The areas where we believe TPF would benefit from an internal audit review (the audit universe);
- The risks and control environment associated with each area included in the audit universe;
- The most significant risks faced by TPF and the sector more generally; and
- The requirements of the internal audit service to provide an annual report and opinion (in line with PwC's Internal Audit methodology which is aligned to the Institute of Internal Auditors International Standards for the Professional Practice of Internal Auditing).
- Previous areas of internal audit focus.

Approach to preparing the internal audit plan

We have set out below, based on our discussions with management and review of the TPF risk register, a summary of the reviews which will be part of the 2024/25 internal audit plan. On the current budget we propose the following reviews:

- Investment strategy
- Outsourcing / Third Party Management
- Risk Management

We will continue to keep this plan under review to ensure that it remains relevant and aligned to TPF's risks.

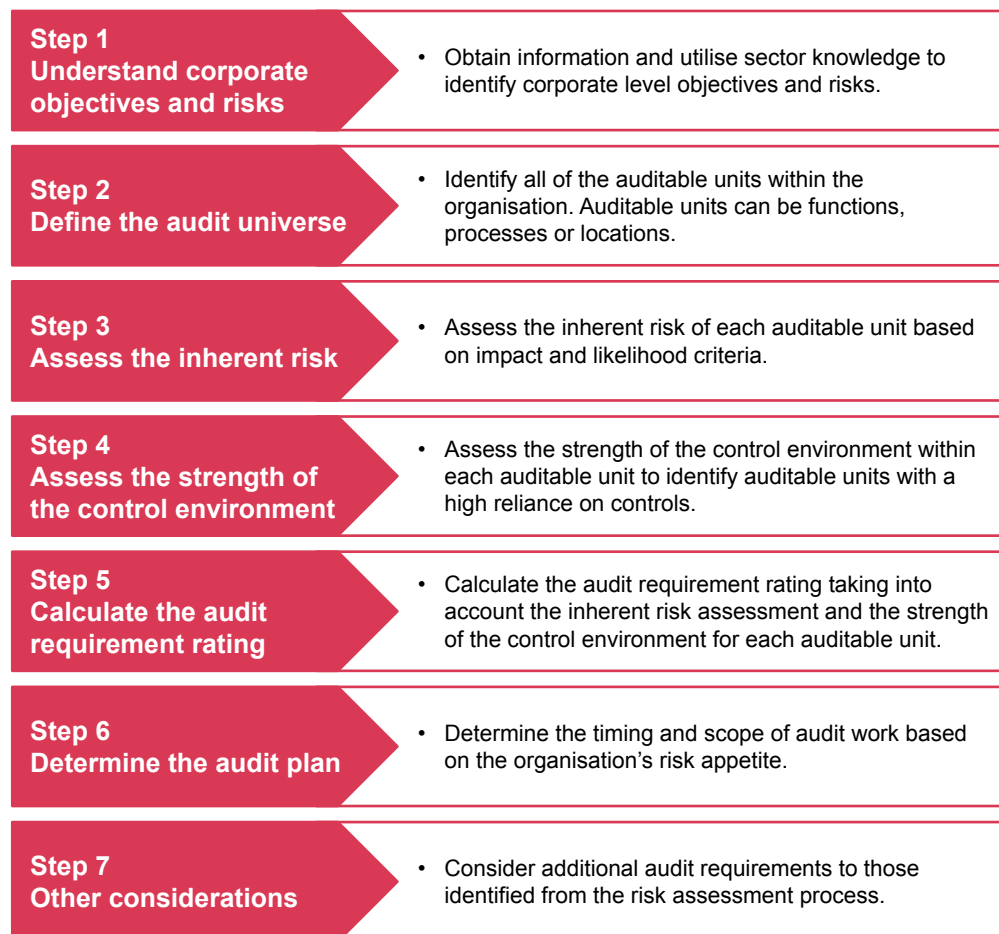
Costs and resources

The level of required resources for the internal audit service for the period 2024/25 is 47 days (£78,000).

Based on our risk assessment, this is the level of resource that we believe would be necessary to evaluate the effectiveness of risk management, control and governance processes for the purpose of providing an annual opinion. This plan is performed on a frequency basis and therefore the plan does not purport to address all key risks identified across the audit universe as part of the risk assessment process every year. Accordingly, the level of internal audit activity represents a deployment of internal audit resources sufficient to cover some of the key risks each year, and in approving the risk assessment and internal audit plan, the Pension Sub-Committee recognises this limitation. The internal audit plan will be updated, where required, throughout the year to reflect any changes in the organisation, risk profile and areas of focus. We will agree all amendments with management and ensure that any changes are communicated to the Pension Sub-Committee as part of our regular progress monitoring.

Introduction and approach

PwC internal audit methodology



Other sources of assurance

Internal Audit is only one of a number of sources of assurance over the risks Tayside Pension Fund faces. In developing our internal audit risk assessment and plan we have taken into account other sources of assurance and have considered the extent to which reliance can be placed upon these other sources. Summary of other sources of assurance is given below.

The other key sources of assurance for Tayside Pension Fund include:

- Audit Scotland as External Auditors;
- Dundee City Council Internal Audit;
- Annual Progress Review exercise; and
- National Fraud Initiative.

We do not intend to place formal reliance upon these other source of assurance but would not seek to duplicate the work they do.

Insight

We will provide insight by sharing any applicable thought leadership produced by PwC and through our interaction with stakeholders during the execution of our audit activities.

Annual plan and indicative timetable

The following table sets out the proposed internal audit work planned for the period 1 April 2024 - 31 March 2025.

| Auditable Units | Audit title | Indicative number of audit days | Audit timing | Audit sponsor/Executive lead | Focus of review ¹ |
|--|---|---------------------------------|------------------------|-----------------------------------|--|
| Investment strategy | Investment strategy | 18 | October/ November 2024 | Senior Manager Financial Services | Review of the design of key controls and governance that lead to advising on and setting the investment strategy. |
| Outsourcing/ Third Party Management, Investment Managers | Outsourcing / Third Party Management | 10 | September 2024 | Senior Manager Financial Services | Review of the design and operating effectiveness of key controls in respect of third party management. |
| Risk Management | Risk Management and Regulatory Compliance | 10 | January 2025 | Senior Manager Financial Services | Review of the design and operating effectiveness of key controls in respect of the fund's risk management framework. |
| Internal Audit management time | | 9 | Ongoing | | Annual Audit Planning, Reporting, Contract Management, Attendance at Pension Sub-Committee |
| Total internal audit days | | 47 | | | |

¹Each of the individual reviews will be agreed with management and will be based upon a detailed terms of reference. For the purposes of our audit planning we have completed initial work to identify the potential scope of our review, but these will be revisited prior to commencing each audit to ensure that it is still relevant.

Basis of our annual internal audit opinion/conclusion

Internal audit work will be performed in accordance with PwC's Internal Audit methodology which is aligned to Institute of Internal Auditors International Standards for the Professional Practice of Internal Auditing. As a result, our work and deliverables are not designed or intended to comply with the International Auditing and Assurance Standards Board (IAASB), International Framework for Assurance Engagements (IFAE) and International Standard on Assurance Engagements (ISAE) 3000.

Our annual internal audit opinion will be based on and limited to the internal audits we have completed over the year and the control objectives agreed for each individual internal audit. In developing our internal audit risk assessment and plan we have taken into account the requirement to produce an annual internal audit opinion by determining the level of internal audit coverage over the audit universe and key risks. We do not believe that the level of agreed resources will impact adversely on the provision of the annual internal audit opinion.

Mapping of internal audit opinion

Below we set out how our 2024/25 internal audit plan maps to the reporting requirements as set out in the Institute of Internal Auditors International Standards.

| Review | Governance | Risk management | Control | Value for Money | Data quality |
|---|------------|-----------------|---------|-----------------|--------------|
| Investment strategy | X | | X | X | |
| Outsourcing / Third Party Management | X | | X | X | |
| Risk Management and Regulatory Compliance | X | X | X | | X |

Audit universe and risk assessment

The following table sets out the proposed internal audit work planned for the period 1 April 2024 - 31 March 2025.

| 3 year plan key: | |
|----------------------------|---|
| Reviews proposed for 24/25 | Area to be considered in future IA plan |

| Audit Universe | | Risk register mapping and risk ratings | | | PwC risk assessment methodology | | | |
|---------------------------------|--|---|----------------------------|----------------------------|---------------------------------|------------------|------------|--------------------------|
| Processes | | Trustee risks | TPF risk rating (Inherent) | TPF risk rating (Residual) | Inherent Risk | Control Strength | Audit need | Frequency (3 year cycle) |
| Governance and oversight | | | | | | | | |
| 1 | Business resilience | Inability to maintain service due to loss of main office, computer system or staff | Very High | Medium | 4 | 3 | 2.5 | Every three years |
| | | Over reliance on key officers | | | | | | |
| 2 | Board effectiveness | Lack of expertise on Pension Committee, Pension Board or amongst officers Failure to comply with governance best practice. | Very High | Medium | 4 | 3 | 2.50 | Every three years |
| 3 | Stakeholder communication | Failure to communicate adequately with stakeholders | High | Medium | 3 | 3 | 1.50 | Every three years |
| 4 | Outsourcing/ Third Party Management | Loss of funds through fraud or misappropriation Risks in relation to use of 3rd party service providers | High | Medium | 4 | 3 | 2.50 | Every three years |
| Funding | | | | | | | | |
| 5 | Employers Contributions | Failure to collect and account for contributions from employers and employees on time | High | Medium | 5 | 4 | 3.00 | Every three years |

| Previous assurance | | | 3 year plan | | |
|---|---|---|-------------|----------|----------|
| 21/22 | 22/23 | 23/24 | 24/25 | 25/26 | 26/27 |
| Excluded in the current year - TPF use the information services of Dundee City Council, and are considered as part of the wider Dundee City Council Internal Audit programme. | | | | | |
| | Review: Succession planning (Satisfactory with Exceptions) | | | Consider | |
| | | Consolidated code of practice IA workshop and memo | | | Consider |
| | | Review: Member Admin (Satisfactory with Exceptions) | | | Consider |
| Outsourcing and Third Party Management (Medium Risk) | | | Proposed | | |
| | Review: Contributions monitoring (Satisfactory with Exceptions) | | | Consider | |

Audit universe and risk assessment

| Audit Universe | | Risk register mapping and risk ratings | | | PwC risk assessment methodology | | | |
|--|--|--|----------------------------|----------------------------|---------------------------------|------------------|------------|--------------------------|
| Processes | | Trustee risks | TPF risk rating (Inherent) | TPF risk rating (Residual) | Inherent Risk | Control Strength | Audit need | Frequency (3 year cycle) |
| Pension administration | | | | | | | | |
| 6 | Pension Benefits & Payment | Failure to process pension payments and lump sums on time | High | Medium | 5 | 4 | 3.00 | Every three years |
| | | Failure to provide quality service to members | High | High | | | | |
| 7 | Pension Record Keeping | Failure to keep pension records up-to-date and accurate | Very High | Medium | 5 | 3 | 3.00 | Every three years |
| | | Failure to process pension payments and lump sums on time | | | | | | |
| | | Failure to hold personal data securely | | | | | | |
| | | Failure to provide quality service to members | | | | | | |
| Regulatory Compliance and Risk Management | | | | | | | | |
| 8 | Risk management | Failure to comply with changes to LGPS regulations and other new regulations / legislation | Very High | Medium | 4 | 3 | 2.50 | Every three years |
| 9 | Compliance with LGPS & other regulations | Failure to comply with changes to LGPS regulations and other new regulations / legislation Failure to implement ESG Policy (specifically in relation to Climate Change and incoming requirements of TCFD) | Very High | Medium | 4 | 3 | 2.50 | Every three years |

| Previous assurance | | | 3 year plan | | |
|---|-------|---|-------------|----------|----------|
| 21/22 | 22/23 | 23/24 | 24/25 | 25/26 | 26/27 |
| | | | | | |
| | | Review: Member Admin (Satisfactory with Exceptions) | | | Consider |
| | | | | | Consider |
| | | | | | |
| | | | | | |
| Risk Management and Regulatory Compliance (Medium Risk) | | | Proposed | | |
| Risk Management and Regulatory Compliance (Medium Risk) | | Consolidated code of practice IA workshop and memo | | Consider | |

Audit universe and risk assessment

| Audit Universe | | Risk register mapping and risk ratings | | | PwC risk assessment methodology | | | |
|-------------------------------|--|--|----------------------------|----------------------------|---------------------------------|------------------|------------|--------------------------|
| Processes | | Trustee risks | TPF risk rating (Inherent) | TPF risk rating (Residual) | Inherent Risk | Control Strength | Audit need | Frequency (3 year cycle) |
| Finance & Treasury | | | | | | | | |
| 10 | Financial Control | Loss of funds through fraud or misappropriation | High | Medium | 4 | 3 | 2.50 | Every three years |
| 11 | Treasury Management | Insufficient funds to meet liabilities as they fall due | High | Medium | 5 | 3 | 3.50 | Every two years |
| Information Services | | | | | | | | |
| 12 | Business Continuity / DR / IT Resilience | Inability to maintain service due to loss of main office, computer system or staff | High | Medium | 4 | 3 | 2.50 | Every three years |
| 13 | IT General controls / Cyber security | Failure to hold personal data securely Cybercrime | Very High | Medium | 4 | 3 | 2.50 | Every three years |
| Investment Management | | | | | | | | |
| 14 | Investment Managers | Failure of Investment Manager Significant rises in employer contributions due to poor/negative investment returns Failure of global custodian | High | High | 5 | 3 | 3.5 | Every two years |
| 15 | Investment Strategy | Equity Risk Employers unable to participate in scheme Failure to implement ESG Policy (specifically in relation to Climate Change and incoming requirements of TCFD) | High | High | 5 | 3 | 3.5 | Every two years |

| Previous assurance | | | 3 year plan | | |
|--|-------|--|--|----------|----------|
| 21/22 | 22/23 | 23/24 | 24/25 | 25/26 | 26/27 |
| Excluded in the current year - The external audit plan includes a significant focus on financial control. Financial controls were also considered where relevant to the FY25 Pension admin review. In addition, some of the financial controls go through the Council's channels (e.g. payments) and are included as part of the Council's Internal audit programme. | | | | | |
| | | Review: Liquidity (Satisfactory with Exceptions) | | Consider | |
| Excluded in the current year - TPF use the information services of Dundee City Council, and are considered as part of the wider Dundee City Council Internal Audit programme. | | | | | |
| Excluded in the current year - TPF use the information services of Dundee City Council, and are considered as part of the wider Dundee City Council Internal Audit programme. | | | | | |
| | | | Inspection of investment manager third party assurance reporting | | Consider |
| | | ESG workshop memo | Proposed | | Consider |

Audit universe and risk assessment

Key to frequency of audit work

| Audit requirement rating | Frequency |
|--------------------------|-------------------|
| 6 - 4.5 | Annual |
| 4 - 3.5 | Every two years |
| 3 - 1.5 | Every three years |
| 1 | No further work |

Performance of internal audit

Key performance indicators

To ensure your internal audit service is accountable to the Pension Sub-Committee and management, we have in place the following key performance indicators.

Quality assurance and improvement programme

Our internally focused quality assurance system and service quality standards are outlined below:

Internal quality review programme - We undertake internal quality reviews of our audit engagements on a sample basis.

Engagement compliance reviews (ECR) - On an annual basis, files are selected for review to ascertain compliance with internal auditing standards and PwC quality standards.

Staff performance - Development of our people is underpinned by a careful evaluation of their performance. Each member of staff must set performance objectives prior to an internal audit assignment and a project appraisal form is completed at the end

| KPI | Target | 2023/24 performance |
|--|--|---|
| Planning | | |
| % of audits with Terms of Reference | 100% | 100% |
| Terms of Reference agreed promptly | No less than 2 weeks prior to review | Minimum 2 weeks prior to review |
| Fieldwork | | |
| % of audits with an exit meeting | 100% of reviews | 100% |
| Reporting | | |
| Draft reports issues promptly | Maximum 3 weeks from completion of review | Maximum 3 weeks from completion of review |
| Progress and other papers to Pension Sub-Committee | 14 days before each meeting | On track |
| Attendance at Pension Sub-Committee | 100% | On track |
| Relationships | | |
| Response times to requests for information | Requests for information from TPF responded to within 48 hours | On track |

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Appendices

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Appendix A: Detailed methodology

Step 1 – Understand corporate objectives and risks

In developing our understanding of your corporate objectives and risks, we have:

- Reviewed your strategy and risk register;
- Drawn on our knowledge of the sector; and
- Held discussions with a number senior management members.

Step 2 – Define the audit universe

In order that the internal audit plan reflects your management and operating structure we have identified the audit universe for Tayside Pension Fund made up of a number of auditable units. Auditable units include functions, processes, systems, products or locations. Any processes or systems which cover multiple locations are separated into their own distinct cross cutting auditable unit.

Step 3 – Assess the inherent risk

The internal audit plan should focus on the most risky areas of the business. As a result each auditable unit is allocated an inherent risk rating i.e. how risky the auditable unit is to the overall organisation and how likely the risks are to arise. The criteria used to rate impact and likelihood are recorded in Appendix B.

The inherent risk assessment is determined by:

- Mapping the corporate risks to the auditable units;
- Our knowledge of your business and the sector; and
- Discussions with management.

Impact Rating

Likelihood rating

| | 6 | 5 | 4 | 3 | 2 | 1 |
|---|---|---|---|---|---|---|
| 6 | 6 | 6 | 5 | 5 | 4 | 4 |
| 5 | 6 | 5 | 5 | 4 | 4 | 3 |
| 4 | 5 | 5 | 4 | 4 | 3 | 3 |
| 3 | 5 | 4 | 4 | 3 | 3 | 2 |
| 2 | 4 | 4 | 3 | 3 | 2 | 2 |
| 1 | 4 | 3 | 3 | 2 | 2 | 1 |

Appendix A: Detailed methodology

Step 4 – Assess the strength of the control environment

- In order to effectively allocate internal audit resources we also need to understand the strength of the control environment within each auditable unit. This is assessed based on:
- Our knowledge of your internal control environment;
- Information obtained from other assurance providers; and
- Discussions with management.

Step 5 – Calculate the audit requirement rating

The inherent risk and the control environment indicator are used to calculate the audit requirement rating. The formula ensures that our audit work is focused on areas with high reliance on controls or a high residual risk.

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

Step 6 – Determine the audit plan

Your risk appetite determines the frequency of internal audit work at each level of audit requirement. Auditable units may be reviewed annually, every two years or every three years.

In some cases it may be possible to isolate the sub-process (es) within an auditable unit which are driving the audit requirement. For example, an auditable unit has been given an audit requirement rating of 5 because of inherent risks with one particular sub-process, but the rest of the sub-processes are lower risk. In these cases it may be appropriate for the less risky sub-processes to have a lower audit requirement rating be subject to reduced frequency of audit work. These sub-processes driving the audit requirement areas are highlighted in the plan as key sub-process audits.

Step 7 – Other considerations

In addition to the audit work defined through the risk assessment process described above, we may be requested to undertake a number of other internal audit reviews such as regulatory driven audits, value enhancement or consulting reviews. These have been identified separately in the annual plan.

Appendix B: Risk assessment criteria

Determination of inherent risk

We determine inherent risk as a function of the estimated **impact** and **likelihood** for each auditable unit within the audit universe as set out in the tables below.

| Likelihood rating | Assessment rationale |
|-------------------|---|
| 6 | Has occurred or probable in the near future |
| 5 | Possible in the next 12 months |
| 4 | Possible in the next 1-2 years |
| 3 | Possible in the medium term (2-5 years) |
| 2 | Possible in the long term (5-10 years) |
| 1 | Unlikely in the foreseeable future |

| Impact rating | Assessment rationale |
|---------------|---|
| 6 | Critical impact on operational performance; or Critical monetary or financial statement impact; or Critical breach in laws and regulations that could result in material fines or consequences; or Critical impact on the reputation or brand of the organisation which could threaten its future viability. |
| 5 | Significant impact on operational performance; or Significant monetary or financial statement impact; or Significant breach in laws and regulations resulting in large fines and consequences; or Significant impact on the reputation or brand of the organisation. |
| 4 | Major impact on operational performance; or Major monetary or financial statement impact; or Major breach in laws and regulations resulting in significant fines and consequences; or Major impact on the reputation or brand of the organisation. |
| 3 | Moderate impact on the organisation's operational performance; or Moderate monetary or financial statement impact; or Moderate breach in laws and regulations with moderate consequences; or Moderate impact on the reputation of the organisation. |
| 2 | Minor impact on the organisation's operational performance; or Minor monetary or financial statement impact; or Minor breach in laws and regulations with limited consequences; or Minor impact on the reputation of the organisation. |
| 1 | Insignificant impact on the organisation's operational performance; or Insignificant monetary or financial statement impact; or Insignificant breach in laws and regulations with little consequence; or Insignificant impact on the reputation of the organisation. |

Appendix C: 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**.

Appendix D: Internal audit charter

Purpose and scope

This Internal Audit Charter provides the framework for the conduct of the Internal Audit function in Tayside Pension Fund and has been approved by the Pension Sub Committee. It has been created with the objective of formally establishing the purpose, authority and responsibilities of the Internal Audit function.

Purpose

Internal Auditing is an independent, objective assurance and consulting activity designed to add value to and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes.

Scope

All of Tayside Pension Fund's activities (including outsourced activities) and legal entities are within the scope of Internal Audit. Internal Audit determines what areas within its scope should be included within the annual audit plan by adopting an independent risk based approach. Internal Audit does not necessarily cover all potential scope areas every year. The audit program includes obtaining an understanding of the processes and systems under audit, evaluating their adequacy, and testing the operating effectiveness of key controls. Internal Audit can also, where appropriate, undertake special investigations and consulting engagements at the request of the Pension Sub Committee.

Notwithstanding Internal Audit's responsibilities to be alert to indications of the existence of fraud and weaknesses in internal control which would permit fraud to occur, the Internal Audit activity will not undertake specific fraud-related work.

Internal Audit will coordinate activities with other internal and external providers of assurance and consulting services to ensure proper coverage and minimise duplication of efforts.

Appendix D: Internal audit charter

Authority, responsibility and independence

Authority

The Internal Audit function of Tayside Pension Fund derives its authority from the Pension Sub Committee. The Chief Audit Executive is authorised by the Pension Sub Committee to have full and complete access to any of the organisation's records, properties and personnel. The Chief Audit Executive is also authorised to designate members of the audit staff to have such full and complete access in the discharging of their responsibilities, and may engage experts to perform certain engagements which will be communicated to management. Internal Audit will ensure confidentiality is maintained over all information and records obtained in the course of carrying out audit activities.

Responsibility

The Chief Audit Executive is responsible for preparing the annual audit plan in consultation with the Pension Sub Committee and senior management, submitting the audit plan, internal audit budget, and resource plan for review and approval by the Pension Sub Committee, implementing the approved audit plan, and issuing periodic audit reports on a timely basis to the Pension Sub Committee and senior management.

The Chief Audit Executive is responsible for ensuring that the Internal Audit function has the skills and experience commensurate with the risks of the organisation. The Pension Sub Committee should make appropriate inquiries of management and the Chief Audit Executive to determine whether there are any inappropriate scope or resource limitations.

It is the responsibility of management to identify, understand and manage risks effectively, including taking appropriate and timely action in response to audit findings. It is also management's responsibility to maintain a sound system of internal control and improvement of the same. The existence of an Internal Audit function, therefore, does not in any way relieve them of this responsibility.

Management is responsible for fraud prevention and detection. As Internal Audit performs its work programs, it will be observant of manifestations of the existence of fraud and weaknesses in internal control which would permit fraud to occur or would impede its detection.

Independence

Internal Audit staff will remain independent of the fund and they shall report to the Chief Audit Executive who, in turn, shall report functionally to the Pension Sub Committee and administratively to the Senior Manager (Financial Services).

Internal Audit staff shall have no direct operational responsibility or authority over any of the activities they review. Therefore, they shall not develop nor install systems or procedures, prepare records or engage in any other activity which they would normally audit. Internal Audit staff with real or perceived conflicts of interest must inform the Chief Audit Executive, then the Pension Sub Committee, as soon as these issues become apparent so that appropriate safeguards can be put in place.

Appendix D: Internal audit charter

Professional competence, reporting and monitoring

Professional competence and due care

The Internal Audit function will perform its duties with professional competence and due care. Internal Audit will adhere to the Definition of Internal Auditing, Code of Ethics and the Standards for the Professional Practice of Internal Auditing that are published by the Institute of Internal Auditors.

Internal Audit will also adhere to the requirements of the Public Sector Internal Audit Standards (PSIAS).

Reporting and monitoring

At the end of each audit, the Chief Audit Executive or designee will prepare a written report and distribute it as appropriate.

The Pension Sub Committee will be updated regularly on the work of Internal Audit through periodic and annual reports. The Chief Audit Executive shall prepare reports of audit activities with significant findings along with any relevant recommendations and provide periodic information on the status of the annual audit plan.

The performance of Internal Audit will be monitored through the implementation of a Quality Assurance and Improvement Programme, the results of which will be reported periodically to Senior Management and the Pension Sub Committee.

Appendix D: Internal audit charter

Definitions

**Pension Sub
Committee**

The governance group charged with independent assurance of the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting.

**Senior
management**

The individuals at the highest level of organisational management who have day-to-day responsibility for managing the organisation.

**Chief audit
executive**

Chief Audit Executive describes a person in a senior position responsible for effectively managing the internal audit activity. The specific job title of the Chief Audit Executive may vary across organisations.

Throughout this document, the term 'Chief Audit Executive' refers to Fraser Wilson, PwC Partner.

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Thank you

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This document has been prepared only for Tayside Pension Fund and solely for the purpose and on the terms agreed with Tayside Pension Fund in our agreement dated 30 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.

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

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