

ITEM No ...9.....

**REPORT TO: PENSION SUB-COMMITTEE OF THE POLICY & RESOURCES
COMMITTEE & PENSION BOARD – 20 MARCH 2023**

REPORT ON: INTERNAL AUDIT RISK ASSESSMENT & AUDIT PLAN 2023/24

REPORT BY: EXECUTIVE DIRECTOR OF CORPORATE SERVICES

REPORT NO: 91-2023

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 2023/24.

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 £69,220. This is an increase of £35,500 which PwC believe, based on their risk assessment, to be the level of audit resource necessary to evaluate the effectiveness of risk management, control and governance processes for the purpose of providing an annual opinion.

4 MAIN TEXT

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

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

5 POLICY IMPLICATIONS

This report has been 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**

10 MARCH 2023

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FINAL: Internal audit plan 2023/24

Tayside Pension Fund

March 2023



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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 2023/2024 for the Tayside Pension Fund ("TPF").

We have refreshed our risk assessment of TPF's audit universe for 2023/2024 to provide us with the foundation for the development of the internal audit plan. This document sets out the proposed internal audit reviews to be completed, developed through discussion with management, for approval by the Pension Sub-Committee.

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

To develop this plan, we have considered:

- The areas where we believe TPF would benefit from an internal audit review (the audit universe);
- The risks and control environment associated with each area included in the audit universe;
- The most significant risks faced by TPF and the 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 2023/24 internal audit plan. On the current budget we propose the following reviews:

- Liquidity management: A review to assess the adequacy of the design and operating effectiveness of the key controls supporting liquidity management.

Each year we update our risk assessment to ensure that it continues to be focused on the risks that are relevant and important to the TPF and reflects the latest changes and developments. As such, considering emerging risks and based on our discussions with management, we are requesting approval for additional budget for the following two reviews to be added to the 2023/24 plan:

- Pensions administration: A review to assess the adequacy of the design and operating effectiveness of the key controls supporting key administration processes.
- ESG Policy: Advisory review to provide an overview of industry practice; understand actions already taken by Management; understand Management's ongoing project plans; and provide feedback on management's articulation of plans.

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 2023/24 is 60.5 days or £69,220 as shown below:

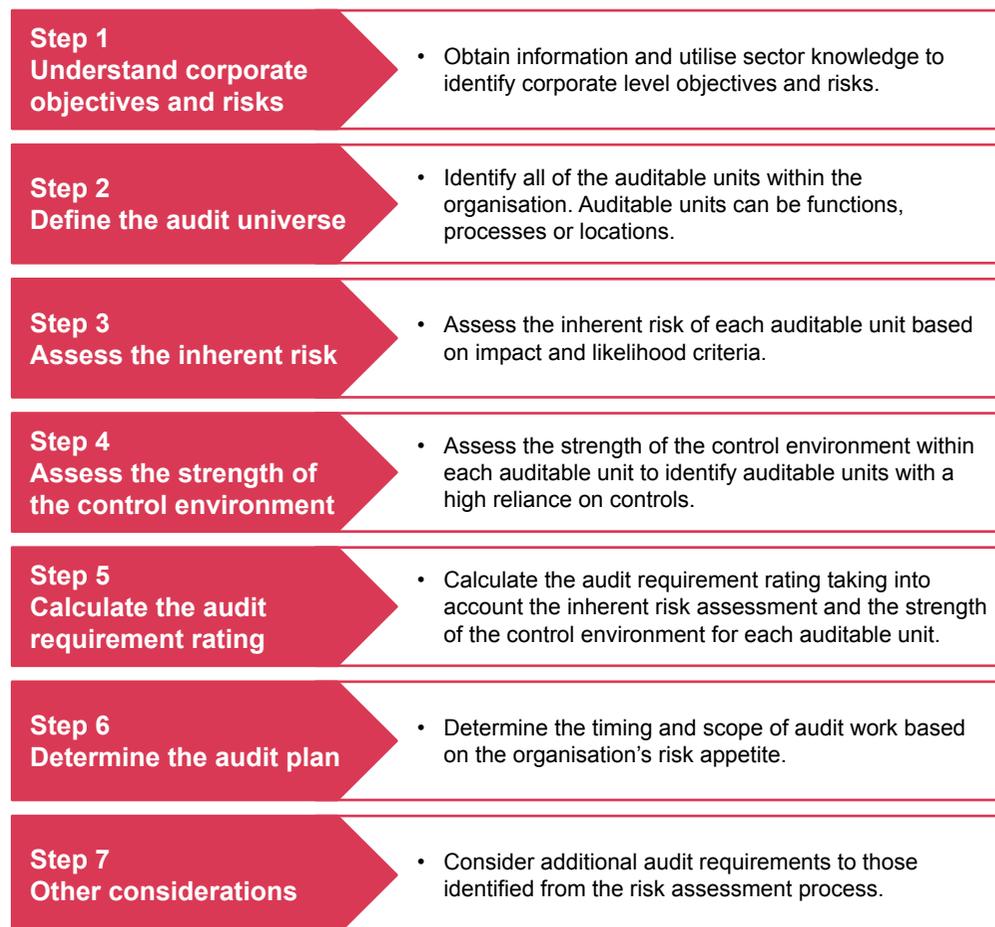
	Days	Cost
Existing budget	30.5*	£33,720
Additional reviews	30*	£35,500
Total	60.5	£69,220

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

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

Introduction and approach

PwC internal audit methodology



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 2023 - 31 March 2024.

Auditable Units	Audit title	Indicative number of audit days	Audit timing	Audit sponsor/Executive lead	Focus of review ¹
Stakeholder Communication; Pension Benefits & Payment; and Pension record keeping.	Pensions administration	24	Q3	Senior Manager Financial Services	Review of the design and operating effectiveness of key controls in respect of: <ul style="list-style-type: none"> Member events Calculations and communications Complaints and disputes Member payments Call centre
Treasury Management and Investment strategy, Investment managers	Liquidity management	17	Q2	Senior Manager Financial Services	Review of the design and operating effectiveness of key controls in respect of: <ul style="list-style-type: none"> How management determine cash flow requirements in the short and longer term; Identifying liquidity requirements and position; How management determine cash flow / liquidity requirements as part of strategic planning; Using the cash flow model to analyse and determine position; and Using model outputs to determine / inform actions.
Strategy, Policy and Procedures	ESG policy	13	Q4	Senior Manager Financial Services	Advisory review to provide an overview of industry practice; understand actions already taken by Management; understand Management's ongoing project plans; and provide feedback on management's articulation of plans. We will also inspect a sample of Investment Maager third party assurance reports to understand the extent to which TPF obtains assurance.
Annual Audit Plan and Reporting, Contract Management Attendance at Pension Sub-Committees Contingency		6.5			Annual Audit Plan and Reporting (3) Contract Management (1.5 days), Attendance at Pension Sub-Committee (1 day), Contingency (1 day)
Total internal audit days		60.5			

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

Basis of our annual internal audit opinion/conclusion

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

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

Mapping of internal audit opinion

Below we set out how our 2023/24 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
Pensions administration	X		X	X	X
Liquidity management	X	X	X		X
ESG Policy	X	X	X		

Audit universe and risk assessment

The following table sets out the proposed internal audit work planned for the period 1 April 2023 - 31 March 2024.

3 year plan key:	
Reviews proposed for 23/24	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	High	Medium	3	2	2.00	Every three years
		Over reliance on key officers						
2	Board effectiveness	Lack of expertise on Pension Committee, Pension Board or amongst officers	Very High	Medium	4	3	2.50	Every two years
		Failure to comply with governance best practice; Specifically: - TPR New Draft Code of Practice - TPR Good Governance project outcomes						
3	Stakeholder communication	Failure to communicate adequately with stakeholders	High	Medium	3	3	1.50	Every three years
4	Strategy, Policy and Procedures	Failure to implement ESG Policy (specifically in relation to Climate Change and incoming requirements of TCFD)	High	Medium	3	3	1.50	Every three years
		Failure to communicate adequately with stakeholders						
5	Outsourcing/ Third Party Management	Loss of funds through fraud or misappropriation	High	Medium	3	3	1.50	Every three years
		Risks in relation to use of 3rd party service providers						

Previous assurance			3 year plan		
20/21	21/22	22/23	23/24	24/25	25/26
		Succession planning (rating TBC)			Consider
Governance and Oversight		Consolidated code of practice IA workshop and memo		Consider	
Governance and Oversight			Admin review		
Governance and Oversight			ESG Workshop		
	Outsourcing and Third Party Management (Medium Risk)			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 Failure to provide quality service to members	High	Medium	4	2	3.00	Every two years
7	Pension Record Keeping	Failure to keep pension records up-to-date and accurate Failure to process pension payments and lump sums on time Failure to hold personal data securely Failure to provide quality service to members	Very High	High	4	3	2.50	Every two years
Regulatory Compliance and Risk Management								
8	Risk management	Failure to comply with changes to LGPS regulations and other new regulations / legislation Specifically: GMP McCloud Pensions Dashboard	Very High	High	3	3	1.50	Every three years
9	Compliance with LGPS & other regulations	Failure to comply with changes to LGPS regulations and other new regulations / legislation Specifically: GMP McCloud Pensions Dashboard	Very High	High	4	3	2.50	Every two years

Previous assurance			3 year plan		
20/21	21/22	22/23	23/24	24/25	25/26
Pension administration					
Pension Benefit and Payments (Medium Risk)			Admin review		
Pension Benefit and Payments (Medium Risk)			Admin review		
Regulatory Compliance and Risk Management					
	Risk Management and Regulatory Compliance (Medium Risk)			Consider	
	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	3	3	1.50	Every three years
11	Treasury Management	Insufficient funds to meet liabilities as they fall due	High	Medium	3	3	1.50	Every three 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 two years
13	IT General controls / Cyber security	Failure to hold personal data securely Cybercrime	Very High	Medium	4	3	2.50	Every two 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	4	2	3.00	Every two years
15	Investment Strategy	Equity Risk Employers unable to participate in scheme	Very High	High	4	2	3.00	Every two years
Funding								
16	Employers Covenant	Employer Covenant Risk	Very High	High	4	3	2.50	Every two years
17	Employers Contributions	Failure to collect and account for contributions from employers and employees on time	High	Medium	3	2	2.00	Every three years

Previous assurance			3 year plan		
20/21	21/22	22/23	23/24	24/25	25/26
<p>Excluded in the current year - The external audit plan includes a significant focus on financial control. Financial controls were also considered where relevant to the FY20/21 Pension Benefits and Payments Review. We are also performing the contributions review as part of the FY22/23 plan. In addition, some of the financial controls go through the Council's channels (e.g. payments) and are included as part of the Council's Internal audit programme.</p>					
Governance and Oversight			Liquidity		
<p>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.</p>					
<p>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.</p>					
Investment Managers and Strategy (Medium Risk)			Inspect third party assurance reporting		Consider
Investment Managers and Strategy (Medium Risk)			Liquidity		Consider
		Contributions monitoring 2023 (TBC rating)			Consider

Audit universe and risk assessment

Key to frequency of audit work

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

Performance of internal audit

Key performance indicators

To ensure your internal audit service is accountable to the Pension Sub-Committee and management, we have 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	2022/23 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
Client Satisfaction Surveys	Annually	To be completed April 2023

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Appendices

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Appendix A: Corporate objectives and risks

Management has provided us with the Tayside Pension Fund Business Plan which we have used to capture the corporate level objectives (goals). Management also provided the risk register which we have used to capture the risks in our planning procedures along side:

- Routine systems that require periodic internal audit to support the internal audit opinion;
- Areas of concern or risk you have raised with us in discussions to date; and
- Issues and risks faced by the sector as a whole.

The findings are recorded in the table below. The analysis is intended to help the Pension Sub-Committee understand how your overall risk management approach links to the Audit Universe, which is used as the basis for our preparing the internal audit plan.

Tayside Pension Fund Objectives

Mapping to relevant Auditable Entities within the Audit Universe

To provide for scheme members' pension and lump sum benefits on their retirement or for their dependants on death before or after retirement, on a defined benefits basis

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

Keeping employer contribution rates as stable as possible

Funding
 Investment Management

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

Investment Management
 Regulatory Compliance and Risk Management

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

Investment Management
 Funding
 Governance and Oversight
 Regulatory Compliance and Risk Management

Appendix A: Corporate objectives and risks

Risk Title	Mapping to audit universe
Failure to process pension payments and lump sums on time	Pension Benefits & Payment
Failure to collect and account for contributions from employers and employees on time	Employers Contributions
Insufficient funds to meet liabilities as they fall due	Treasury management
Inability to maintain service due to loss of main office, computer system or staff	Business resilience
Loss of funds through fraud or misappropriation	FinancialControl
Employers unable to participate in scheme	Investment Strategy
Significant rises in employer contributions due to poor/negative investment returns	Investment Managers
Failure of global custodian	Investment Managers
Failure of Investment Manager	Investment Managers
Equity Risk	Investment Strategy
Failure to comply with changes to LGPS regulations and other new regulations / legislation. Specifically: GMP; McCloud; and Pensions Dashboard.	Compliance with LGPS & other regulations
Failure to comply with governance best practice. Specifically: TPR New Draft Code of Practice; and TPR Good Governance project outcomes	Board effectiveness
Failure to provide quality service to members	Pension Benefits & Payment
Failure to hold personal data securely	Pension Record Keeping
Cybercrime	IT General controls / Cyber security
Failure to keep pension records up-to-date and accurate	Pension Record Keeping
Lack of expertise on Pension Committee, Pension Board or amongst officers	Board effectiveness
Over reliance on key officers	Business resilience
Failure to communicate adequately with stakeholders	Stakeholder communication
Employer Covenant Risk	Employers Covenant
Risks in relation to use of 3 rd party service providers	Outsourcing Third Party Management
Failure to implement ESG Policy (specifically in relation to Climate Change and incoming requirements of TCFD)	Strategy, Policy and Procedures

Appendix B: Detailed methodology

Step 1 – Understand corporate objectives and risks

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

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

Step 2 – Define the audit universe

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

Step 3 – Assess the inherent risk

The internal audit plan should focus on the most risky areas of the business. As a result each auditable unit is allocated an inherent risk rating i.e. how risky the auditable unit is to the overall organisation and how likely the risks are to arise. The criteria used to rate impact and likelihood are recorded in Appendix 2.

The inherent risk assessment is determined by:

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

Impact Rating

Likelihood rating

	6	5	4	3	2	1
6	6	6	5	5	4	4
5	6	5	5	4	4	3
4	5	5	4	4	3	3
3	5	4	4	3	3	2
2	4	4	3	3	2	2
1	4	3	3	2	2	1

Appendix B: Detailed methodology

Step 4 – Assess the strength of the control environment

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

Step 5 – Calculate the audit requirement rating

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

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 C: Risk assessment criteria

Determination of inherent risk

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

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

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

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Appendix D: Independence

We confirm that in our professional judgement, as at the date of this document, Internal Audit staff have had no direct operational responsibility or authority over any of the activities planned for review. We can confirm that as an organisation we are independent from **Tayside Pension Fund**.

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Appendix E: 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 Pensions 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 and to protect the assets, reputation and sustainability of the organisation. 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 Pensions 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 E: Internal audit charter

Authority, responsibility and independence

Authority

The Internal Audit function of Tayside Pension Fund derives its authority from the [Board through the Audit Committee]. The Chief Audit Executive is authorised by the Audit 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 Audit Committee and senior management, submitting the audit plan, internal audit budget, and resource plan for review and approval by the Audit Committee, implementing the approved audit plan, and issuing periodic audit reports on a timely basis to the Audit 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 Audit Committee should make appropriate inquiries of management and the Chief Audit Executive to determine whether there are any inappropriate scope or resource limitations.

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

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

Independence

Internal Audit staff will remain independent of the business and they shall report to the Chief Audit Executive who, in turn, shall report functionally to the Pensions Sub Committee and administratively to the Finance Director.

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

Appendix E: Internal audit charter

Professional competence, reporting and monitoring

Professional competence and due care

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

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

Internal Audit will also adhere to the recommendations from the Chartered Institute of Internal Auditors' Guidance (Effective Internal Audit in the Financial Services Sector) published in September 2017.

Reporting and monitoring

At the end of each audit, the Chief Audit Executive or designee will prepare a written report and distribute it as appropriate. Internal Audit will be responsible for appropriate follow-up of audit findings and recommendations. All significant findings will remain in an open issues file until cleared by the Chief Audit Executive or the Pensions Sub Committee.

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

Periodically, the Chief Audit Executive will meet with the Chair of the Pensions Sub Committee in private to discuss internal audit matters.

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

Appendix E: Internal audit charter

Definitions

Board	Typically, this includes an independent group of directors (e.g. a board of directors, a supervisory board or a board of governors or trustees). If such a group does not exist, the 'board' may refer to the head of the organisation. 'Board' may refer to an audit committee to which the governing body has delegated certain functions. If 'Board' refers to the audit committee at your client, state this in the sentence below, change the definition above to incorporate both the Board and Audit Committee definition (i.e. 'The highest level of governing body charged with the responsibility to direct and/or oversee the activities and management of the organisations. This body is also charged with independent assurance of the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting'), and delete the Audit Committee row below.
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 the Head of Internal Audit and this role is fulfilled by Fraser Wilson, PwC Partner.

Thank you

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