ITEM No …7……..

REPORT TO: **PENSION SUB-COMMITTEE OF THE CITY GOVERNANCE COMMITTEE & PENSION BOARD – 17 MARCH 2025**

REPORT ON: **INTERNAL AUDIT RISK ASSESSMENT & AUDIT PLAN 2025/26**

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

REPORT NO: **96-2025**

1 PURPOSE OF REPORT

This report sets out the risk assessment undertaken by Pricewaterhouse Coopers (PwC) and details their internal audit plans for Tayside Pension Fund for 2025/26.

2 RECOMMENDATIONS

The Sub-Committee is asked to review and approve the Internal Audit plan by Pricewaterhouse Coopers (PwC) as detailed in appendix A and note that the outcomes of these audits will be reported to the Sub-Committee at a future date.

3 FINANCIAL IMPLICATIONS

The cost for Pricewaterhouse Coopers (PwC) services to undertake the annual internal audit requirements is £79,000 which is funded by Tayside Pension Fund.

4 MAIN TEXT

Pricewaterhouse Coopers (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 though 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 2025/26 are summarised below:

- Member data quality - assessment of data quality using specialised software which will include ability to quantify the number of members who will pass / fail the Dashboard Find requirements.
- GDPR - review of the design of key controls in respect of GDPR regulations.
- McCloud post implementation - review of the design of controls related to the project approach taken, including data management; approach to calculations and proformas; and the check review process. Review will also encompass member communications and training provided to staff.

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 2025**

Internal audit plan 2025/26

Tayside Pension Fund

Draft

March 2025

pwc

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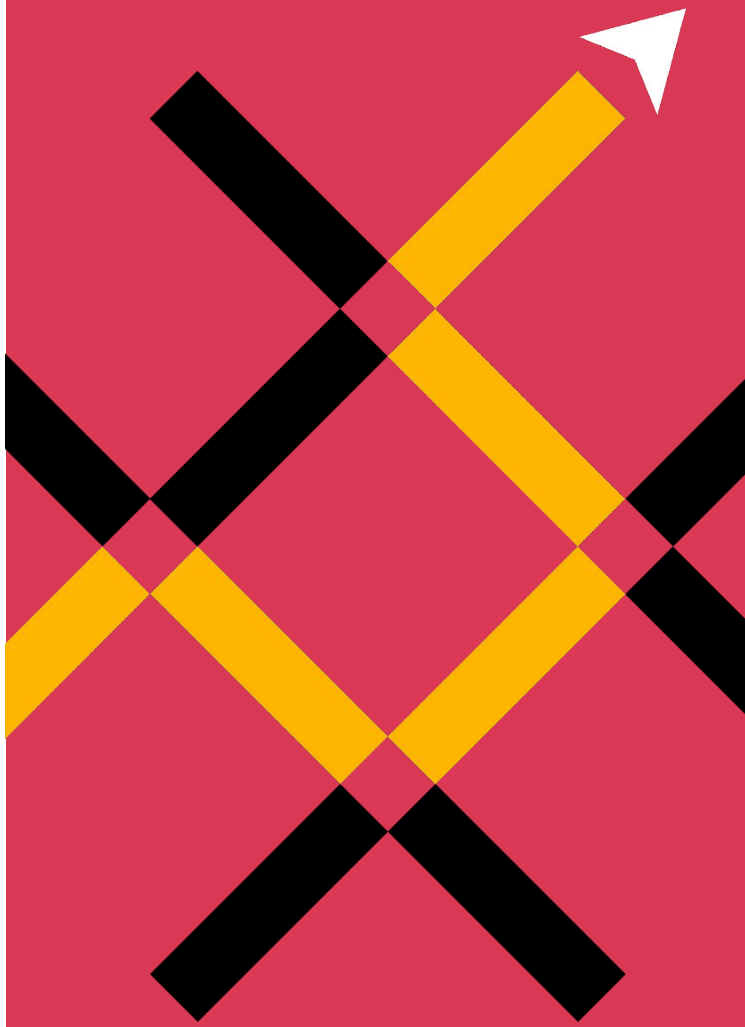
For action: Pension Sub-Committee

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



Introduction and approach

Introduction

This document sets out our risk assessment and internal audit plan for 2025/2026 for the Tayside Pension Fund ("TPF").

We have refreshed our risk assessment of TPF's audit universe for 2025/2026 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.

Other assurance

TPF Internal Audit is only one of a number of sources of assurance over the risks the 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.

- Audit Scotland as External Auditors;
- Dundee City Council Internal Audit (see further details adjacent);
- 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.

The Pension Fund Management team and the Fund's administration service operate within Dundee City Council. This means that certain Fund operations are integrated into the Council's operations and supporting infrastructure. By virtue of this, some of these operations / infrastructure fall into the scope / remit of the in-house internal audit team of Dundee City Council. In order to ensure key risks are: included in assurance plans; and to avoid duplication of assurance, TPF's internal audit team met with the Dundee City Council internal audit function to understand the extent to which assurance is derived from the Council's internal audit plan. This is summarised below:

Risk area	Dundee City Council internal audit coverage	**Impact on TPF audit plan**
Admin IT controls	Considered in Council's audit universe - however not audited in last 5 years.	Include for audit consideration
Data protection	Considered in Council's audit universe - however not audited in last 5 years.	Include for audit consideration
Cyber	Considered in Council's audit universe. Two reviews conducted in last 5 years.	Excluded in the current year - TPF use the services of Dundee City Council, and are considered as part of the wider Council's Internal Audit programme.
BCP and ITDR	Considered in Council's audit universe - the Council are working to remediate this area as part of a wider project. Risk area to be considered in the Council's own audit plan.	
Committee governance	Considered in Council's audit universe - Annual local code governance review.	
HR	Considered in Council's audit universe. Reviews conducted in last 5 years.	
Financial control: Payments, capital planning and monitoring	Considered in Council's audit universe. Reviews conducted in last 5 years.	

Introduction and approach

Approach to preparing the internal audit plan

Step 1 **Understand corporate objectives and risks**	• Obtain information and utilise sector knowledge to identify corporate level objectives and risks.
Step 2 **Define the audit universe**	• Identify all of the auditable units within the organisation. Auditable units can be functions, processes or locations.
Step 3 **Assess the inherent risk**	• Assess the inherent risk of each auditable unit based on impact and likelihood criteria.
Step 4 **Assess the strength of the control environment**	• Assess the strength of the control environment within each auditable unit to identify auditable units with a high reliance on controls.
Step 5 **Calculate the audit requirement rating**	• Calculate the audit requirement rating taking into account the inherent risk assessment and the strength of the control environment for each auditable unit.
Step 6 **Determine the audit plan**	• Determine the timing and scope of audit work based on the organisation's risk appetite.
Step 7 **Other considerations**	• Consider additional audit requirements to those identified from the risk assessment process.

Costs and resources

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 2025/26 internal audit plan. On the current budget we propose the following reviews:

- Member data quality
- Data Protection
- McCloud Post Implementation

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

The level of required resources for the internal audit service for the period 2025/26 is 46 days (£79,000).

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 four year 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.

NOTE: The following areas have not been reviewed by internal audit. We ask the Committee to assess the below in line with its risk appetite:

- **Asset safeguarding / Custodian oversight:** To be next considered in 2027
- **Foreign currency management:** To be next considered in 2028
- **Derivatives management:** To be next considered in 2028
- **Data Quality:** Proposed for 2025
- Administrator IT general controls: To be next considered in 2026
- **Data Protection:** Proposed for 2025
- **Project Management - McCloud:** Proposed for 2025

Annual plan and indicative timetable

The following table sets out the proposed internal audit work planned for the period 1 April 2025 - 31 March 2026.

Auditable Units	Audit title	Indicative number of audit days	Audit timing	Audit sponsor/Executive lead	Focus of review[1]
Member data quality	Member data quality	12	Q1	Senior Manager Financial Services	Assessment of data quality using our Data Pass tool, including: ● Ability to quantify the number of members who will pass / fail the Dashboard Find requirements. ● Data gap analysis.
Data protection	GDPR	12.5	Q2	Senior Manager Financial Services	Review of the design of key controls in respect of GDPR regulations.
Regulatory compliance change control	McCloud Post implementation	14.5	Q3	Senior Manager Financial Services	A post-implementation review of TPF's McCloud project. This review could include areas such as: ● Review of the design of controls related to the project approach taken, including: data management; approach to calculations and proformas; and the check review process. ● Member communications. ● Training provided to staff. Once project plans are in place and understood by internal audit, a detailed audit scope will be agreed with Management, taking into account available budget. **NOTE:** This review will not include testing / validating the accuracy of calculations performed.
Internal Audit management time		7	Ongoing		Annual Audit Planning, Reporting, Contract Management, Attendance at Pension Sub-Committee
Total internal audit days		**46**			

[1]Each 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 2025/26 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
Data Quality	x		x		x
Administrator IT Controls	x		x	x	
GDPR	x	x	x		x
McCloud Implementation	x		x	x	

Audit universe and IA risk assessment

Audit Universe				Useful Information	PwC risk assessment methodology (fully outsourced)								4 year plan			
Processes		Fund Risks	TPF risk rating (Current)	Previous IA results	Impact	Likelihood	Inherent Risk	Control Environment Indicator	Audit need	3 year cycle	4 year cycle	Year last reviewed by IA	25/26	26/27	27/28	28/29
Investment and funding																
1	Investment Governance and risk management including: • Objective and investment strategy setting; • Asset allocation; and • Annual planning; and • Monitoring	Failure to implement ESG Policy (specifically in relation to Climate Change and incoming requirements of TCFD)	High	2023/24 ESG Workshop Memo 2024/25 Investment Strategy review in progress	5	4	5	3	3.50	Annual	Every three years	2024/25			Consider	
		Equity Risk	High													
2	Cash flow and Liquidity (Long term strategic planning and daily management)	Insufficient funds to meet liabilities as they fall due	Medium	2023/24 Liquidity review (Satisfactory with Exceptions)	4	3	4	3	2.50	Every two years	Every four years	2023/24			Consider	
3	Asset safeguarding / Custodian oversight	Failure of global custodian	High	None	3	3	5	3	3.50	Annual	Every three years	None		Consider		
4	Scheme Liabilities, Actuarial Valuations and funding models (Model Governance)	Insufficient funds to meet liabilities as they fall due	Medium	The Committee historically have not sought assurance from IA due to the involvement and assurance provided by the independent third party actuary.												
5	Employer contributions, relationship and covenant monitoring	Employers unable to participate in scheme	High	Contributions monitoring: 2022/23 (Satisfactory with Exceptions)	4	3	4	3	2.50	Every two years	Every four years	2022/23			Consider	
		Failure to collect and account for contributions from employers and employees on time	Medium													
		Significant rises in employer contributions due to poor/negative investment returns	High													
6	Portfolio Construction and Investment decision making Investment implementation / transition (including investment manager selection and onboarding)	Significant rises in employer contributions due to poor/negative investment returns	High	2024/25 Investment Strategy review in progress	5	4	5	3	3.50	Annual	Every three years	2024/25			Consider	

Audit universe and IA risk assessment

Audit Universe				Useful Information	PwC risk assessment methodology (fully outsourced)								4 year plan			
Processes		Trustee Risks	TPF risk rating (Current)	Previous IA results	Impact	Likelihood	Inherent Risk	Control Environment Indicator	Audit need	3 year cycle	4 year cycle	Year last reviewed by IA	25/26	26/27	27/28	28/29
Investment and funding (continued)																
7	Investment performance monitoring and oversight (including Investment Manager oversight)	Failure of Investment Manager	High	2024/25 Third party monitoring	5	4	4	3	2.50	Every two years	Every four years	2024/25				Consider
		Risks in relation to use of 3rd party service providers	Medium													
8	Foreign currency (strategy development and daily management)	Significant rises in employer contributions due to poor/negative investment returns	High	None	4	4	4	3	2.50	Every two years	Every four years	None			Consider	
		Failure of Investment Manager	High													
9	Derivatives (strategy development and daily management)	Significant rises in employer contributions due to poor/negative investment returns	High	None	4	4	4	3	2.50	Every two years	Every four years	None			Consider	
		Failure of Investment Manager	High													
Administration services																
10	Benefit calculation and procedures (Inc. data quality)	Failure to process pension payments and lump sums on time	Medium	2023/24 Pensions Administration review (Satisfactory with Exceptions)	4	3	4.5	3	3.00	Every two years	Every three years	2023/24		Consider		
11	Data Quality	Failure to keep pension records up-to-date and accurate	Medium	None	4	4	4	2	3.00	Every two years	Every three years	None	AUDIT 1			
12	Member Payroll and contributions	Failure to collect and account for contributions from employers and employees on time	Medium	As above	4	4	4	2	3.00	Every two years	Every three years	2023/24		Consider		
		Failure to process pension payments and lump sums on time	Medium	As above												
13	Member communications	Failure to communicate adequately with stakeholders	Medium	As above	4	2	3	2	2.00	Every three years	Every four years	2023/24			Consider	

Audit universe and IA risk assessment

Audit Universe				Useful Information	PwC risk assessment methodology (fully outsourced)								4 year plan			
Processes		Trustee Risks	TPF risk rating (Current)	Previous IA results	Impact	Likelihood	Inherent Risk	Control Environment Indicator	Audit need	3 year cycle	4 year cycle	Year last reviewed by IA	25/26	26/27	27/28	28/29
14	Pensioner customer service (Inc. complaints and disputes)	Failure to provide quality service to members	Medium	As above	4	2	3	2	2.00	Every three years	Every four years	2023/24			Consider	
		Failure to communicate adequately with stakeholders	Medium													
15	Administrator IT general controls (Cloud risk, Logical access, Change and IT operations	Refer to audit units #28 & #29	Medium	None	4	2	3	2	2.00	Every three years	Every four years	None		Consider		
16	Data Protection	Refer to audit unit #30	Medium	None								None	AUDIT 2			
Operations																
17	Trustee Governance / Committee effectiveness	Lack of expertise on Pension Committee, Pension Board or amongst officers	Medium	2023/24 Consolidated code of practice IA workshop and memo	Considered in Council's audit universe - Annual local code governance review.											
		Failure to comply with governance best practice.	Medium													
18	HR	Over reliance on key officers	Medium	2022/23 Succession Planning review (Satisfactory with Exceptions)	Considered in Council's audit universe. Reviews conducted in last 5 years.											
		Inability to maintain service due to loss of main office, computer system or staff	Medium													
		Lack of expertise on Pension Committee, Pension Board or amongst officers	Medium													
19	Third party advice and management	Risks in relation to use of 3rd party service providers	Medium	024/25 Third party monitoring	4	2	4	3	2.50	Every three years	Every four years	2024/25				Consider

Audit universe and IA risk assessment

Audit Universe				Useful Information	PwC risk assessment methodology (fully outsourced)								4 year plan			
Processes		Trustee Risks	TPF risk rating (Current)	Previous IA results	Impact	Likelihood	Inherent Risk	Control Environment Indicator	Audit need	3 year cycle	4 year cycle	Year last reviewed by IA	25/26	26/27	27/28	28/29
20	Risk management framework	Failure to comply with changes to LGPS regulations and other new regulations / legislation	Medium	2021/22 Risk Management and Regulatory Compliance (Medium Risk) 2024/25 Risk Management Framework review in progress	4	4	4	2	3.00	Every two years	Every three years	2024/25			Consider	
21	Regulatory compliance	Failure to comply with changes to LGPS regulations and other new regulations / legislation	Medium	2021/22 Risk Management and Regulatory Compliance (Medium Risk)	4	4	4	2	3.00	Every two years	Every three years	2021/22				Consider
		Failure to implement ESG Policy (specifically in relation to Climate Change and incoming requirements of TCFD)	Medium													
22	Key financial controls including payments, expenses, cash and bank account management and fraud risk	Loss of funds through fraud or misappropriation	Medium		4	4	4	2	3.00	Every two years	Every three years	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.				
23	Change control	Inability to maintain service due to loss of main office, computer system or staff	Medium		4	3	3.5	2	2.50	Every two years	Every four years	Never audited	AUDIT 3: Proposed: McCloud Implementation review			
24	Cyber (inc. oversight of third parties)	Cyber crime	Medium	Considered in Council's audit universe. Two reviews conducted in last 5 years.												

Audit universe and IA risk assessment

Audit Universe				Useful Information	PwC risk assessment methodology (fully outsourced)								4 year plan			
Processes		Trustee Risks	TPF risk rating (Current)	Previous IA results	Impact	Likelihood	Inherent Risk	Control Environment Indicator	Audit need	3 year cycle	4 year cycle	Year last reviewed by IA	25/26	26/27	27/28	28/29
31	Business continuity and IT disaster recovery (inc. oversight of key third parties)	Inability to maintain service due to loss of main office, computer system or staff	Medium	2022/23 Succession Planning review (Satisfactory with Exceptions)	Considered in Council's audit universe - the Council are working to remediate this area as part of a wider project. Risk area to be considered in the Council's own audit plan.											
		Over reliance on key officers	Medium													

Audit universe and IA risk assessment

Key to frequency of audit work

Audit universe

In order that the internal audit plan reflects your management and operating structure we have identified the audit universe made up of a number of auditable units. Auditable units include functions, processes, systems, products or locations.

In identifying auditable units, we have determined where key activities are performed and by who. This level of detail will better enable the scoping of individual audits - allowing internal audit to determine where audit resource should be focussed taking into account risk ownership and roles and responsibilities in managing risks.

Each auditable unit has been assessed for inherent risk and the strength of the control environment, in accordance with the methodology set out in **Appendix A**.

Each auditable area has been allocated an “audit requirement rating”. The audit requirement rating drives the frequency of internal audit work for each auditable unit. The approach adopted by TPF i to audit over a 4 year cycle, based on the following:

Audit requirement rating	Frequency
5+	Annual
4 - 4.5	Every two years
3 - 3.5	Every three years
1 - 2.5	Every four years

Appendices

Appendix A: Detailed methodology

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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, every three years or every four 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 mandate and 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 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 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. The internal audit function shall also have free and unrestricted access to the Pension Sub Committee.

Responsibility

The Chief Audit Executive is responsible for preparing the annual audit plan, using a risk-based methodology, 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.

If risks change during the year, Internal Audit may propose an in year adjustment to the annual audit plan to the Pension Sub Committee.

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 activities shall remain free of influence by any element in the organization, including matters of audit scope, procedures, frequency, timing, and report content to permit maintenance of independence necessary in rendering objective audit reports. Internal auditors shall have no direct operational responsibility or authority over any of the activities within the scope of an internal audit project.

Because of the importance of Pension Sub Committee visibility to internal auditing to support independence and objectivity of the internal audit activity, the Pension Sub Committee should be involved in:

- Approving the internal audit charter;
- Approving the risk based internal audit plan;
- Receiving communications from Internal Audit on its performance relative to its plan and other matters,
- Approving decisions regarding major changes in the Internal Audit program; and
- Making appropriate inquiries of management and Internal Audit to determine whether there are inappropriate scope or resource limitations.

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 align to the Global Internal Audit Standards that are published by the Institute of Internal Auditors and the principles of the UK Internal Audit Code of Practice published by the Chartered 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.

Periodically, the Chief Audit Executive will meet with senior management in private to discuss internal audit matters.

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

Appendix 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.

Thank you

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