

REPORT TO: PENSION SUB-COMMITTEE OF THE POLICY & RESOURCES COMMITTEE & PENSION BOARD – 26 JUNE 2023

REPORT ON: TAYSIDE PENSION FUND INTERNAL ANNUAL AUDIT REPORT 2022/23

REPORT BY: EXECUTIVE DIRECTOR OF CORPORATE SERVICES

REPORT NO: 198-2023

1 PURPOSE OF REPORT

To submit to the Sub-Committee the Annual Audit Report for 2022/23 prepared by the Fund's Internal Auditor, PricewaterhouseCoopers (PwC).

2 RECOMMENDATIONS

The Sub-Committee is asked to note the content of the Annual Report as well as the content of the appended reports on specific audit exercises undertaken, and to approve the management response.

3 FINANCIAL IMPLICATIONS

None.

4 SUMMARY OF REPORT

The report contained in Appendix A outlines the internal audit work undertaken in the year to 31st March 2023 in conformance with Public Sector Internal Audit Standards. In-keeping with these requirements, PwC have provided an opinion, based on the following:

- Findings of audit work undertaken
- Adequacy and effectiveness of governance, risk management and control

Tayside Pension Fund has received an annual opinion of general satisfaction, with no reports or findings in work undertaken being high risk or critical. PwC did however note that there are some areas of weakness that could potentially put the achievement of objectives at risk, and which would benefit from improvement in order to enhance operational adequacy and effectiveness, and these have been addressed.

The findings of the individual audits carried out over the year and the respective recommendations have previously been reported to the Sub-Committee and the implementation of the agreed management actions is being monitored. Progress is reported to the Sub-Committee in due course.

5 POLICY IMPLICATIONS

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

6 CONSULTATIONS

The Chief Executive and Head of Democratic and Legal Services has been consulted on the content of this report and they agree with the contents.

7 BACKGROUND PAPERS

None

**ROBERT EMMOTT
EXECUTIVE DIRECTOR OF CORPORATE SERVICES**

15 JUNE 2023

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Internal audit annual report

2022/23

Tayside Pension Fund

June 2023



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Distribution list

For action: Pension Sub-Committee & Pension Board

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



Executive summary

Introduction

This report outlines the internal audit work we have carried out for the year ended 31st March 2023.

The Public Sector Internal Audit Standards require the Head of Internal Audit to provide an annual opinion, based upon and limited to the work performed, on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control (i.e. the organisation's system of internal control). This is achieved through a risk-based plan of work, agreed with management and approved by the Pension Sub-Committee, which should provide a reasonable level of assurance, subject to the inherent limitations described below and set out in Appendix A. The opinion does not imply that Internal Audit has reviewed all risks relating to the organisation.

The Pension Sub-Committee agreed to a level of internal audit input of 55.5 days. Whilst this report is a key element of the framework designed to inform the Annual Governance Statement there are also a number of other important sources to which the Pension Sub-Committee should look to gain assurance. This report does not override the Pension Sub-Committee's responsibility for forming their own view on governance, risk management and control.

Internal audit work was performed in accordance with PwC's Internal Audit methodology which is in conformance with the Public Sector Internal Audit Standards.

Head of internal audit opinion

Tayside Pension Fund (TPF) has processes that are delivered by Dundee City Council and we expect that these areas are considered as part of the wider Dundee City Council Internal Audit programme. In view of the limited number of reviews that we have performed in the year, our opinion is based upon and limited to the three internal audit reviews performed by PwC solely for the TPF. In giving this opinion, it should be noted that assurance can never be absolute. The most that the internal audit service can provide is reasonable assurance that there are no major weaknesses in the system of internal control.

Opinion

Our opinion is as follows:

Generally satisfactory with some improvements required

Governance, risk management and control in relation to the three internal audit reviews performed is generally satisfactory. However, there are some areas of weakness in the framework of governance, risk management and control which potentially put the achievement of objectives at risk.

Some improvements are required in those areas to enhance the adequacy and effectiveness of the framework of governance, risk management and control. Please see our Summary of Findings in Section 2.

Executive summary

An explanation of the types of opinion that may be given can be found in Appendix B.

Basis of our opinion

Our opinion is based on:

- Two audits and one workshop based review undertaken during the year.
- Any follow up action taken in respect of audits from previous periods.
- Our overall understanding of the Tayside Pension Fund and the issues it faces.

The commentary below provides the context for our opinion and together with the opinion should be read in its entirety.

Commentary

The key factors that contributed to our opinion are summarised as follows:

- For the two audits undertaken during the year, none pertaining to the governance, risk management and control have received an overall rating of high or critical risk.
- We have produced two 'Satisfactory with exceptions' rated reports; with four medium and 3 low risk rated findings across the internal audit reviews completed in the period.
- We have completed one workshop based review resulting in an audit memorandum containing our observations made with regards to TPF's approach to the Pensions Dashboards Programme. This looked to provide an overview of the relevant requirements; understand actions already taken by Management; understand Management's plans to address the requirements; and provide feedback on management's articulation of plans. Our observations are that TPF continues to progress towards pensions dashboards compliance and has commissioned a Dashboard Data Readiness review. There are areas to progress (including development of a formal project plan post receipt of the data readiness outcome). We did not observe any significant concerns during the workshop.

Acknowledgement

We would like to take this opportunity to thank the Senior Manager, Financial Services and all the staff at Dundee City Council, for their cooperation and assistance provided during the period.

Summary of findings

Our annual internal audit report is timed to inform the organisations Annual Governance Statement. A summary of key findings from our programme of internal audit work for the year work is recorded in the table below:

Description

Overview

We completed two internal audit reviews. This resulted in the identification of 4 medium and 3 low risk rated findings to improve weaknesses in the design of controls and operating effectiveness.

Internal control issues and other weaknesses

Weaknesses were identified within the organisation's contributions monitoring and business resilience resulting in 4 medium risk and 3 low risk across the 2 internal audits completed in the 2022/23 year. Key findings (medium rated) raised in the year include the following:

Contributions Monitoring

- Records of breaches should be kept in the breach log regardless of materiality. However, the breach log only records material breaches and records of internal discussion are not kept in an easily accessible format.
- TPF does not have documented policies and procedures in place to ensure the contributions process is conducted consistently.

Business Resilience

- Formalised role replacement plans are not in place specifically for TPF to aid effective succession planning. Role replacement plans should detail what actions an organisation should take in the event of an employee leaving and where a succession plan needs to be triggered. Through discussions with management it is clear that senior staff members know who would replace them in the event that they leave or are no longer able to work, however, required actions, guidance and protocol is not in place that would support the successor.
- TPF does not have a mechanism in place to obtain and assess employee satisfaction; for example: to determine and measure this and to collect insights on different work-related issues like compensation, benefits, appraisals, policies and retention.

Follow up

During the year we have undertaken follow up work on previously agreed actions. Five actions are outstanding from the prior year. From the current year reviews, 1 action has been implemented, 3 are outstanding and 3 are not yet due.

Internal audit work conducted

Introduction

The table below sets out the results of our internal audit work along with a comparison of planned and actual internal audit activity.

Results of individual assignments

Review	Report classification	Number of findings			
		Critical	High	Medium	Low
Contributions Monitoring	Satisfactory with Exceptions	-	-	2	2
Business Resilience	Satisfactory with Exceptions	-	-	2	1
Pensions Dashboard Workshop	N/A - Memo	-	-	-	-
Code of Practice Workshop*	N/A - Review deferred	-	-	-	-
Total number of findings raised		-	-	4	3

*The Code of Practice workshop has been deferred to June/July 2023 in order to provide Management with additional time to complete year end reporting.

Comparison of planned and actual activity

Audit unit	Budgeted days	Actual days
Contributions Monitoring	10	10
Business Resilience	14	12
Pensions Dashboard Workshop	10	7.5
Code of Practice Workshop	15	Review deferred
Sub total	49	29.5
Annual Audit Plan and Reporting, Contract Management, Attendance at Pension Sub-Committee, Contingency	6.5	6.5
Total days	55.5	36

Follow up work conducted

Introduction

In order for the organisation to derive maximum benefit from internal audit, agreed actions should be implemented. In accordance with our internal audit plan, we followed up on the recommendations made in prior years to ascertain whether action had been taken. The table below summarises the follow up work performed.

Results of follow up work

Audit unit	Report classification	Number of agreed actions	Implemented	Ongoing	Outstanding	Not yet due
21/22: Oversight & Third Party Risk Management	Medium	4	2	-	2	-
21/22: Risk Management & Regulatory Risk Compliance	Medium	3	-	-	3	-
22/23: Contributions Monitoring	Satisfactory Exceptions	4	1	-	3	-
22/23: Business Resilience*	Satisfactory Exceptions	3*	-	-	-	3

*The Business Resilience report has not yet been issued as final.

Summary

Three of the fourteen agreed management actions have been implemented, with 3 not yet due. The Business Resilience was only issued as final in June 2023, hence all of the agreed actions are not yet due.

Appendix A: Limitations and responsibilities

Appendix B: Opinion types

Appendix C: Basis of our classifications

Appendix D: Conformance with code of ethics and Internal Audit standards

Appendix E: Independence

Appendices

Appendix A: Limitations and responsibilities

Limitations inherent to the internal auditor's work

Our work has been performed subject to the limitations outlined below.

Opinion

The opinion is based solely on the work undertaken as part of the agreed internal audit plan. There might be weaknesses in the system of internal control that we are not aware of because they did not form part of our programme of work, were excluded from the scope of individual internal audit assignments or were not brought to our attention. As a consequence management and the Audit Committee should be aware that our opinion may have differed if our programme of work or scope for individual reviews was extended or other relevant matters were brought to our attention.

Internal control

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Future periods

Our assessment of controls relating to Tayside Pension Fund for the year ended 31st March 2023. Historic evaluation of effectiveness may not be relevant to future periods due to the risk that:

- The design of controls may become inadequate because of changes in operating environment, law, regulation or other; or
- The degree of compliance with policies and procedures may deteriorate.

The specific time period for each individual internal audit is recorded within section 3 of this report.

Responsibilities of management and internal auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

We endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we shall carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected, and our examinations as internal auditors should not be relied upon to disclose all fraud, defalcations or other irregularities which may exist.

Appendix B: Opinion types









The table below sets out the four types of opinion that we use, along with an indication of the types of findings that may determine the opinion given. The Head of Internal Audit will apply his/her judgement when determining the appropriate opinion so the guide given below is indicative rather than definitive.

Type of opinion	Indication of when this type of opinion may be given
Satisfactory	<p>A limited number of medium risk rated weaknesses may have been identified, but generally only low risk rated weaknesses have been found in individual assignments; and</p> <ul style="list-style-type: none"> • None of the individual assignment reports have an overall report classification of either high or critical risk.
Generally satisfactory with some improvements required	<ul style="list-style-type: none"> • Medium risk rated weaknesses identified in individual assignments that are not significant in aggregate to the system of internal control; and/or • High risk rated weaknesses identified in individual assignments that are isolated to specific systems or processes; and • None of the individual assignment reports have an overall classification of critical risk.
Major improvement required	<ul style="list-style-type: none"> • Medium risk rated weaknesses identified in individual assignments that are significant in aggregate but discrete parts of the system of internal control remain unaffected; and/or • High risk rated weaknesses identified in individual assignments that are significant in aggregate but discrete parts of the system of internal control remain unaffected; and/or • Critical risk rated weaknesses identified in individual assignments that are not pervasive to the system of internal control; and • A minority of the individual assignment reports may have an overall report classification of either high or critical risk.
Unsatisfactory	<ul style="list-style-type: none"> • High risk rated weaknesses identified in individual assignments that in aggregate are pervasive to the system of internal control; and/or • Critical risk rated weaknesses identified in individual assignments that are pervasive to the system of internal control; and/or • More than a minority of the individual assignment reports have an overall report classification of either high or critical risk.
Disclaimer opinion	<ul style="list-style-type: none"> • An opinion cannot be issued because insufficient internal audit work has been completed. This may be due to either: <ul style="list-style-type: none"> – Restrictions in the audit programme agreed with the Audit Committee, which meant that our planned work would not allow us to gather sufficient evidence to conclude on the adequacy and effectiveness of governance, risk management and control; or – We were unable to complete enough reviews and gather sufficient information to conclude on the adequacy and effectiveness of arrangements for governance, risk management and control.

Appendix C: Basis of our classifications





Report classifications

The report classification is determined by allocating points to each of the findings included in the report.

Individual Finding Rating	Points Allocated	Report Risk Rating	Points Range
 Critical	40 points per finding	 Critical risk	40 points and over
 High	10 points per finding	 High risk	16–39 points
 Medium	3 points per finding	 Medium risk	7–15 points
 Low	1 point per finding	 Low risk	6 points or less

Appendix C: Basis of our classifications

Individual finding ratings

Finding rating	Assessment rationale
 Critical	<p>A finding that could have a:</p> <ul style="list-style-type: none">• Critical impact on operational performance; or• Critical monetary or financial statement impact; or• Critical breach in laws and regulations that could result in material fines or consequences ; or• Critical impact on the reputation or brand of the organisation which could threaten its future viability.
 High	<p>A finding that could have a:</p> <ul style="list-style-type: none">• Significant impact on operational performance; or• Significant monetary or financial statement impact ; or• Significant breach in laws and regulations resulting in significant fines and consequences; or• Significant impact on the reputation or brand of the organisation.
 Medium	<p>A finding that could have a:</p> <ul style="list-style-type: none">• Moderate impact on operational performance; or• Moderate monetary or financial statement impact; or• Moderate breach in laws and regulations resulting in fines and consequences; or• Moderate impact on the reputation or brand of the organisation.
 Low	<p>A finding that could have a:</p> <ul style="list-style-type: none">• Minor impact on the organisation's operational performance; or• Minor monetary or financial statement impact; or• Minor breach in laws and regulations with limited consequences; or• Minor impact on the reputation of the organisation.
 Advisory	<p>A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.</p>

Appendix D : Conformance with the code of ethics and internal audit standards

Code of Ethics and Internal Audit Standards

We have a firm wide internal audit methodology which is aligned to the Institute of Internal Auditors International Standards for the Professional Practice of Internal Auditing. This is designed to standardise the approach to conducting internal audit engagements. All our work is documented in our dedicated internal audit software which sets out the procedures to be performed to achieve compliance with the standards. The inbuilt workflow functionality ensures that work is adequately documented and reviewed before results are shared. This is further supported by relevant training, supervision and review of the work performed by those with adequate experience and skill in the relevant areas. We also review a random selection of engagements to ensure they comply with the firm's requirements and have appropriately followed the internal audit methodology.

We can confirm that our work has been performed in accordance with this methodology.

Appendix E: 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.

Thank you

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This document has been prepared only for Tayside Pension Fund and solely for the purpose and on the terms agreed with Tayside Pension Fund in our agreement dated 28 January 2021. We accept no liability (including for negligence) to anyone else in connection with this document, and it may not be provided to anyone else.

Internal audit work was performed in accordance with PwC's Internal Audit methodology which is aligned to public sector internal audit standards. As a result, our work and deliverables are not designed or intended to comply with the International Auditing and Assurance Standards Board (IAASB), International Framework for Assurance Engagements (IFAE) and International Standard on Assurance Engagements (ISAE) 3000.

If you receive a request under freedom of information legislation to disclose any information we provided to you, you will consult with us promptly before any disclosure.

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