

**REPORT TO: PENSION SUB-COMMITTEE OF THE CITY GOVERNANCE COMMITTEE
& PENSION BOARD – 26 JUNE 2024**

REPORT ON: TAYSIDE PENSION FUND INTERNAL ANNUAL AUDIT REPORT 2023/24

REPORT BY: EXECUTIVE DIRECTOR OF CORPORATE SERVICES

REPORT NO: 185-2024

1 PURPOSE OF REPORT

To submit to the Sub-Committee the Annual Audit Report for 2023/24 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 2024 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 a Satisfactory Opinion of the Fund's governance, risk management and control, based upon the two internal audit reviews undertaken in the year, and two advisory reviews performed. There were 2 medium and 5 low risk rated findings across the internal audit reviews completed in the period. PwC advise that some improvements are required to enhance the adequacy and effectiveness of the framework of governance, risk management and control.

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 JULY 2024

Internal audit annual report

2023/24

Tayside Pension Fund

June 2024



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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 2024.

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 75.5 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 four 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:

Satisfactory

Governance, risk management and control in relation to the two internal audit reviews and two advisory reviews performed is generally satisfactory. A limited number of medium risk rated weaknesses may have been identified, but generally only low risk rated weaknesses have been found in individual reviews.

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](#) section.

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 two advisory based reviews 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 one 'Satisfactory with exceptions' report for the Pensions Administration review and one 'Satisfactory' rated report for the Liquidity review. This resulted in 2 medium and 5 low risk rated findings across these internal audit reviews completed in the period. The coverage period for these reviews was January 2023 to December 2023.
- We have completed two advisory based reviews resulting in audit memorandums containing our observations made with regards to:
 - TPF's approach to the General Code. There are areas to progress to align with best practice, however we did not observe any significant concerns during the review.
 - TPF's approach to Environmental, Social and Corporate Governance ("ESG") policy. Some improvement is required in order to align with industry requirements and good practice, however we did not observe any significant concerns during the review.

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 and two advisory based reviews. This resulted in the identification of 2 medium and 5 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 pensions administration and liquidity processes resulting in 2 medium risk and 5 low risk across the 2 internal audits reviews completed in the 2023/24 year. Key findings (medium rated) raised in the year include the following:

Pensions Administration Review

1. **No QA process for key administration tasks:** There is no formal QA process in place whereby sample testing of the key administration processes occurs. TPF are reliant on the Team Lead reviewing aged cases / tasks by generating a weekly spreadsheet report of outstanding live cases. There is no sample testing of the population of cases for these administration processes to give assurance over the quality of completeness, accuracy, timeliness and documentation for these processes.
2. **Lack of system audit trail for approvals:** There is a separate audit trail in the Altair system which shows when each stage is complete, anybody within the team has access to edit this commentary box and add their initials to say that it has been approved. Therefore, there is an absence of preventative controls to stop an incorrect user from documenting an approval and incorrectly editing the audit trail of the case. Additionally, when the payments for refunds and retirement benefits are approved in the Sundry system, there is no audit trail maintained within the Sundry system that records the approval.

Follow up

During the year we have undertaken follow up work on previously agreed actions. Out of 22 actions being monitored, from the prior years, 8 actions have been implemented and 7 actions are overdue. From the current year reviews, 8 actions has been agreed upon, 1 action has been implemented and the remaining 7 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 |
| Pensions Administration | Satisfactory with Exceptions | - | - | 2 | 2 |
| Liquidity | Satisfactory | - | - | - | 3 |
| General Code | N/A - Memo | - | - | - | - |
| ESG | N/A - Memo | - | - | - | - |
| Total number of findings raised | | - | - | 2 | 5 |

Comparison of planned and actual activity

| Audit unit | Budgeted days | Actual days |
|--|---------------|-------------|
| Pensions Administration | 24 | 24 |
| Liquidity | 17 | 17 |
| General Code | 15 | 15 |
| ESG | 13 | 13 |
| Sub total | 69 | 69 |
| Annual Audit Plan and Reporting, Contract Management, Attendance at Pension Sub-Committee, Contingency | 6.5 | 6.5 |
| Total days | 75.5 | 75.5 |

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 and validated a sample of 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 | Overdue | Not yet due |
|---|------------------------------|--------------------------|-------------|----------|-------------|
| 21/22: Oversight & Third Party Risk Management | Medium | 4 | 4 | - | - |
| 21/22: Risk Management & Regulatory Risk Compliance | Medium | 3 | 2 | 1 | - |
| 22/23: Contributions Monitoring | Satisfactory with Exceptions | 4 | 1 | 3 | - |
| 22/23: Business Resilience | Satisfactory with Exceptions | 3 | - | 3 | - |
| 23/24: Pensions Administration | Satisfactory with Exceptions | 5 | 1 | - | 4 |
| 23/24: Liquidity | Satisfactory | 3 | - | - | 3 |
| | Total: | 22 | 8 | 7 | 7 |

Summary

Out of 22 actions being monitored, 8 actions have been implemented, 7 are outstanding and overdue, and 7 are not yet due. The Pension Administration and Liquidity reports were issued as final in March 2024, hence all of the agreed actions are not yet due.

The overdue action from the 21/22 Risk Management & Regulatory Compliance review is in relation to risk training, which will be incorporated into the 2024/25 TPF training plan. The overdue actions from the 22/23 Business Resilience review will be addressed by TPF in the 2024/25 year as part of a wider project being implemented. The overdue actions from the 22/23 Contributions Monitoring review are expected to be completed by the end of June 2024.

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 2024. 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 the [Executive Summary](#) section 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 Classification | Points Range |
|---|-----------------------|--|--------------------|
|  Critical | 40 points per finding |  Unsatisfactory | 40 points and over |
|  High | 10 points per finding |  Needs Improvement | 16–39 points |
|  Medium | 3 points per finding |  Satisfactory with Exceptions | 7–15 points |
|  Low | 1 point per finding |  Satisfactory | 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 30 November 2023. We accept no liability (including for negligence) to anyone else in connection with this document, and it may not be provided to anyone else.

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

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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