

**REPORT TO: PENSION SUB-COMMITTEE OF THE CITY GOVERNANCE COMMITTEE
& PENSION BOARD – 23 JUNE 2025**

REPORT ON: TAYSIDE PENSION FUND INTERNAL ANNUAL AUDIT REPORT 2024/25

REPORT BY: EXECUTIVE DIRECTOR OF CORPORATE SERVICES

REPORT NO: 164-2025

1 PURPOSE OF REPORT

To submit to the Sub-Committee the Annual Audit Report for 2024/25 prepared by the Fund's Internal Auditor, PricewaterhouseCoopers (PwC).

2 RECOMMENDATIONS

The Sub-Committee is asked to note the content of the Annual Report.

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 2025 in conformance with Public Sector Internal Audit Standards. In-keeping with these requirements, PwC have provided an opinion, based on the following:

- Audits undertaken during the year
- Follow up actions taken in respect of audits from previous periods
- Overall understanding of the Tayside Pension Fund and the issues it faces

Tayside Pension Fund has received a Reasonable Assurance opinion. Across the reviews, there were four medium-risk and five low-risk findings. PwC inform that governance, risk management and control in relation the internal audit reviews performed is generally satisfactory, and whilst a limited number of medium risk rated weaknesses may have been identified, generally only low risk rated weaknesses have been found in individual reviews. They conclude that some improvements are required in those areas identified 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 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

**PAUL THOMSON
EXECUTIVE DIRECTOR OF CORPORATE SERVICES**

17 JUNE 2025

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Internal audit annual report

2024/25

Tayside Pension Fund

June 2025



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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



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Executive summary

Introduction

This report outlines the internal audit work we have carried out for the year ended 31st March 2025.

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 47 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 two 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:

Reasonable assurance

Governance, risk management and control in relation to the two internal audit 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 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 Investment Strategy & Objectives Review and one 'Satisfactory' rated report for the Third Party Management review. This resulted in four medium and five low risk rated findings across these internal audit reviews completed in the period.

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 four medium and five 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 investment strategy and objectives setting processes and third party management processes. Key findings (medium rated) raised in the year include the following:

Investments strategy and objectives setting review

Formalise the Investment Strategy Process: There is a clear opportunity to enhance the governance and transparency of the Fund's investment strategy by developing a formal, documented process for its setting, implementation, and monitoring. Areas where further clarity and structure could add value include: Defining roles and responsibilities to support accountability and collaboration; Introducing procedural guidance to ensure consistency and alignment with strategic objectives; and Documenting review and challenge mechanisms by TPF to reinforce oversight and continuous improvement.

Formalise Investment Manager Oversight Framework: While quarterly meetings with investment managers are reported to take place, there is an opportunity to enhance consistency and effectiveness by developing a formal oversight framework. Introducing a structured and documented approach would help: Clarify expectations around review frequency and engagement; Define assessment criteria to support objective evaluation of manager performance; and Strengthen governance through clear escalation procedures and relationship management protocols.

Establish a Formal Asset Transition Framework: Asset transitions are currently managed by third-party providers such as Northern Trust or LGIM, and while these transitions are being executed, there is an opportunity to strengthen internal oversight by developing a formal, documented framework. Introducing a structured process would help: Clarify roles and responsibilities across all parties involved; Outline procedures for planning, execution, sign-off, and reporting; and Enhance oversight and risk management during high-impact transition events.

Third party management review

Absence of formal policy for outsourcing and third-party management: TPF does not have a comprehensive and documented policy for managing third-party relationships throughout their lifecycle, which is essential for effective governance and compliance. There is also no training in place for staff. Although established practices, such as utilizing the Norfolk Framework for supplier recruitment, are in place, there is no overarching policy which governs the third party management process.

Follow up: During the year TPF Management has undertaken follow up work on previously agreed actions. Out of 24 actions being monitored, 14 actions have been closed and 10 actions 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
Investment Strategy & Objectives Review	Satisfactory with Exceptions	-	-	3	2
Third party management review	Satisfactory	-	-	1	3
Risk Management framework	N/A - Review deferred to next year	-	-	-	-
Total number of findings raised		-	-	4	5

Comparison of planned and actual activity

Audit unit	Budgeted days	Actual days
Investment Strategy & Objectives Review	18	18
Third party management review	10	10
Risk Management framework	10	-
Sub total	38	28
Annual Audit Plan and Reporting, Contract Management, Attendance at Pension Sub-Committee, Contingency	9	9
Total days	47	37

Follow up work conducted

Introduction

The table below summarises TPF Management's work in implementing agreed actions. Actions are validated by internal audit when the subject matter is next reviewed as part of the annual internal audit plan.

Audit unit	Report classification	Number of agreed actions	Implemented	Overdue	Not yet due	Date extended
22/23: Contributions Monitoring	Satisfactory with Exceptions	4	4	-	-	-
22/23: Business Resilience	Satisfactory with Exceptions	3	2	-	-	1
23/24: Pensions Administration	Satisfactory with Exceptions	5	5	-	-	-
23/24: Liquidity	Satisfactory	3	3	-	-	-
24/25: Investment Strategy & Objectives Review	Satisfactory with Exceptions	5	-	-	5	-
24/25: Third party management	Satisfactory	4	-	-	4	-
Total:		24	14	-	9	1

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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

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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 2025. 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
Substantial assurance	<ul style="list-style-type: none"> 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 None of the individual assignment reports have an overall report classification of either high or critical risk.
Reasonable assurance / moderate assurance	<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.
Limited assurance	<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.
No assurance	<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.

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Thank you

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This document has been prepared only for Tayside Pension Fund and solely for the purpose and on the terms agreed with Tayside Pension Fund in our agreement dated 20 January 2025. 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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