

**REPORT TO: PENSION SUB-COMMITTEE OF THE CITY GOVERNANCE COMMITTEE
& PENSION BOARD – 29 JUNE 2026**

REPORT ON: TAYSIDE PENSION FUND INTERNAL ANNUAL AUDIT REPORT 2025/26

REPORT BY: EXECUTIVE DIRECTOR OF CORPORATE SERVICES

REPORT NO: 160-2026

1 PURPOSE OF REPORT

To submit to the Sub-Committee the Annual Audit Report for 2025/26 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

There are no financial implications arising from the agreed recommendations in this report.

4 SUMMARY OF REPORT

The report outlines the internal audit work undertaken in the year to 31st March 2026 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 Moderate Assurance opinion. Across three of the reviews, there were two high, seven medium-risk and one low-risk findings. The fourth review was "Not Rated" as this was a data gap analysis / advisory review. PwC inform that governance, risk management and control in relation the internal audit reviews performed requires some improvements and these weaknesses are considered material to the overall framework. However, certain discrete elements of the system of internal control remain effective and unaffected. They concluded that improvements are required in the 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

24 JUNE 2026



Internal Audit Annual report FY 26

Tayside Pension Fund

23 June 2026

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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 2026 and over the contract extension period till 30th June 2026.

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 61 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:

Moderate assurance

Governance, risk management and control in relation to the four reviews performed requires some improvement. Across the three rated internal audit reviews, high and medium risk rated weaknesses have been identified which, in aggregate, are material to the framework of governance, risk management and control; however, discrete parts of the system of internal control remain unaffected.

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:

- Four 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 summarized as follows:

- For the four 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' reports for the Risk Management framework and McCloud Post-Implementation review and one 'Needs Improvement' rated report for the GDPR review. This resulted in two high, seven medium and one low risk rated findings across these internal audit reviews completed in the period.
- The fourth review, Data Quality review was "Not Rated" as this was a data gap analysis / advisory 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 organisation's 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 four internal audit reviews. This resulted in the identification of one high, seven medium and one 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 organization's risk management framework, GDPR and McCloud Post-Implementation processes. Key findings (High and medium rated) raised in the year include the following:

❑ Risk Management framework review

- **Enhancing risk governance oversight:** The Fund's risk governance arrangements operate in practice but require greater formalisation to support clearer accountability, escalation and follow-up. Key areas requiring enhancement include explicit ownership of key risks, documented escalation routes and thresholds, formal tracking of risk-related actions, and approved Pension Sub-Committee Terms of Reference covering risk oversight responsibilities.
- **Inconsistent articulation of risk policy and appetite:** The Fund has an approved Risk Management Policy and documented risk appetite; however, the framework has not been sufficiently refreshed to explain how risk appetite should be interpreted, governed and applied. Further clarity is required on how appetite informs governance oversight, escalation and decision-making, including annual confirmation and validation against the Risk Register.
- **Limited maturity in the risk identification and assessment framework:** The Fund maintains a comprehensive Risk Register; however, risk identification and assessment are largely based on periodic review rather than a clearly defined, forward-looking framework. Areas for improvement include defining a risk taxonomy, formalising emerging-risk identification, improving consistency of risk descriptions and controls, and introducing validation of the Risk Register against the Fund's evolving risk profile.
- **Limited integration and visibility across risk reporting:** Risk information is reported to governance bodies, but it is spread across multiple reports and does not provide a consolidated or forward-looking view of the Fund's overall risk profile. Key improvements include developing a single risk dashboard, defining Key Risk Indicators, introducing trend analysis, improving linkage with performance and compliance reporting, and formally tracking mitigation actions.

❑ GDPR review

- **Absence of a Record of Processing Activities (RoPA) [High]:** TPF was not aware of whether Dundee City Council maintains a RoPA, and no RoPA was provided during the review. As Dundee City Council is the data controller, the absence of a structured and centrally governed RoPA limits the ability to demonstrate Article 30 accountability and creates a risk that TPF's processing activities are not fully documented, understood or aligned to lawful bases, purposes and retention requirements.
- **Opportunity to uplift Data Protection Procedures:** TPF relies on Dundee City Council's high-level Information Governance Policy and local staff knowledge to manage data subject access requests, data breaches, DPIAs and lawful basis assessments. Fund-specific operational procedures are not formally documented, which creates a risk to consistency, resilience and onboarding if key staff are unavailable or new staff join.
- **Training and cultural awareness measures require strengthening:** TPF relies on Dundee City Council's GDPR e-learning module, completed on a two-to-three-year cycle, with no role-based training for staff with enhanced data protection responsibilities. Additional privacy awareness activity is also limited, increasing the risk that staff knowledge becomes outdated and that privacy requirements are not consistently embedded into day-to-day operations.
- **Insufficient management information:** Quarterly reporting to senior management is in place, but it does not include structured KPIs or KRIs for areas such as policy reviews, training completion, RoPA maintenance, DPIA completion or data subject rights performance. TPF also lacks a formal data protection governance forum with Dundee City Council, reducing visibility over shared responsibilities, risks and compliance activity.

Summary of findings

Description

❑ McCloud Post-Implementation review

- **McCloud BAU Control Framework Documentation (High):** TPF has designed practical controls to support McCloud BAU processing, including eligibility assessment, data review, calculation processing, review, communications, exception handling and escalation. However, these controls are not consistently captured in the BAU McCloud Process Notes and related manual processing guidance, creating gaps in documentation over end-to-end processing, roles and responsibilities, calculation QA, manual interventions, communications, exceptions, training, governance oversight and future document review arrangements.

❑ Data Quality review

Based on the review, it was ascertained that scheme data is generally in good shape given the limited number of tests with failures that are classified as critical gaps. The critical gaps are mostly related to inconsistencies between pension tranches and members' service dates for deferred and pensioner members, inconsistencies in retirement type for pensioners and several duplicate entries in the dependant member data. Recommended data cleansing actions have been communicated to management:

- **Deferred population:** The deferred population review identified data quality issues mainly relating to inconsistencies between pension tranches and members' service dates, including some cases where deferred members were over age 75 at the date of the data extract. Further issues were noted around missing personal details, inconsistent membership dates, transfers-in data and a duplicate member record.
- **Pensioner population:** The pensioner population review identified the most significant data gaps, primarily relating to inconsistencies between pension tranches and members' service dates, particularly GMP pension tranches. Other issues included missing or invalid postcodes, transfers-in data, inconsistent retirement dates and types, retirement ages outside expected ranges, members above age 100 and trivial pensions.
- **Dependant population:** The dependant population review identified data quality issues mainly relating to duplicated Member IDs, missing or invalid postcodes and inconsistencies in the sum of pension tranches. Further issues were noted around dependant member ages falling outside expected ranges for spouse and child dependants.

Follow up: During the year TPF Management has undertaken follow up work on previously agreed actions. Out of 22 actions being monitored, 2 actions have been closed, due dates have been extended for 10 actions with appropriate senior management approvals, 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.

Review Name	Report Classification	Number of Findings			
		Critical	High	Medium	Low
Risk Management framework	Satisfactory with Exceptions	-	-	4	1
GDPR	Needs Improvement	-	1	3	-
McCloud Post-Implementation	Satisfactory with Exceptions	-	1	-	-
Data Quality	Not Rated	-			
Total Observations		-	2	7	1

Comparison of planned and actual activity

Audit unit	Budgeted days	Actual days
Risk Management framework	10	17
GDPR	12	12
McCloud Post-Implementation	15	15
Data Quality	12	15
Sub total	49	59
Annual Audit Plan and Reporting, Contract Management, Attendance at Pension	12	12
Sub-Committee, Contingency		
Total days	61	71

Follow up work conducted

Introduction

The table below summarizes 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: Business Resilience	Satisfactory with Exceptions	3	2	-	-	1
24/25: Investment Strategy & Objectives Review	Satisfactory with Exceptions	5	-	-	-	5
24/25: Third party management	Satisfactory	4	-	-	-	4
25/26: Risk Management Framework	Satisfactory with Exceptions	5	-	-	5	-
25/26: GDPR	Needs Improvement	4	-	-	4	-
25/26: McCloud Post-Implementation	Satisfactory with Exceptions	1	-	-	1	-
25/26: Data Quality Review	Not Rated - Gap Summary shared with the management	NA				
	Grand Total	22	2	-	10	10

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 2026 and over the contract extension period till 30th June 2026. 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.

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 endeavor 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.

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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	- 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	- 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	- 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	- 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	- An opinion cannot be issued because insufficient internal audit work has been completed. This may be due to either: - 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.

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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	A finding that could have a: • 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 organization which could threaten its future viability.
 High	A finding that could have a: • 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 organization.
 Medium	A finding that could have a: • 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 organization.
 Low	A finding that could have a: • Minor impact on the organization'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 organization.
 Advisory	A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.

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 standardize 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.

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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 organization 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 1st April 2026. We accept no liability (including for negligence) to anyone else in connection with this document, and it may not be provided to anyone else.

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