

Pension Sub-Committee, 23 September 2024

Tayside Pension Fund – Audit of 2023/24 Annual Report and Accounts

Independent auditor's report

1. Our work on the 2023/24 annual report and accounts is now substantially complete. Subject to receipt of a revised set of annual report and accounts for final review, we anticipate being able to issue unmodified audit opinions in the independent auditor's report on 23 September 2024 (the proposed report is attached at [Appendix A](#)).

Annual Audit Report

2. Under International Standards on Auditing in the UK, we report specific matters arising from the audit of the annual report and accounts to those charged with governance of an audited body in sufficient time to enable appropriate action. For the Tayside Pension Fund, those charged with governance are the Dundee City Council Pension Sub-committee. We present for the committee's consideration our proposed Annual Audit Report on the 2023/24 audit. Exhibit 3 titled "Significant findings and key audit matters from the audit of the annual report and accounts" sets out the issues identified in respect of the Tayside Pension Fund Annual Report and Accounts 2023/24.

3. The report also sets out conclusions on the wider scope areas that frame public audit as set out in the Code of Audit Practice.

4. Our Annual Audit Report will be issued in final form after the Tayside Pension Fund Annual Report and Accounts 2023/24 have been certified.

Unadjusted misstatements

5. We also report to those charged with governance all unadjusted misstatements in the annual accounts which we have identified during our audit, other than those below our reporting threshold, and request that these misstatements be corrected. We have no unadjusted misstatements to report.

Fraud, subsequent events and compliance with laws and regulations

6. In presenting this report to the Pension Sub-committee we seek confirmation from those charged with governance of any instances of any actual, suspected, or alleged fraud; any subsequent events that occurred since the date of the financial statements; or material non-compliance with laws and regulations affecting the entity that should be brought to our attention.

Representations from Section 95 Officer

7. As part of the completion of our audit, we seek written representations from the Section 95 Officer on aspects of the annual accounts, including the judgements and estimates made.

8. A template letter of representation is attached at [Appendix B](#). This should be signed and returned to us by the Section 95 Officer with the signed annual accounts prior to the independent auditor's report being certified.

Acknowledgement

9. We would like to thank elected members, management and staff, particularly those in finance, for their cooperation and assistance during the audit.

Appendix A: Proposed Independent Auditor's Report

Independent auditor's report to the members of Dundee City Council as administering authority for Tayside Pension Fund and the Accounts Commission

Reporting on the audit of the financial statements

Opinion on financial statements

I certify that I have audited the financial statements in the annual report and accounts of Tayside Pension Fund (the fund) for the year ended 31 March 2024 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Fund Account, the Net Assets Statement and the notes to the financial statements, including a summary of material accounting policy information. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards, as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2023/24 (the 2023/24 Code).

In my opinion the accompanying financial statements:

- give a true and fair view of the financial transactions of the fund during the year ended 31 March 2024 and of the amount and disposition at that date of its assets and liabilities;
- have been properly prepared in accordance with UK adopted international accounting standards, as interpreted and adapted by the 2023/24 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)), as required by the [Code of Audit Practice](#) approved by the Accounts Commission for Scotland. My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I was appointed by the Accounts Commission on 3 April 2024. My period of appointment is four years, covering 2023/24 to 2026/27. I am independent of the fund in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the council as administering authority for the fund. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern basis of accounting

I have concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from when the financial statements are authorised for issue.

These conclusions are not intended to, nor do they, provide assurance on the fund's current or future financial sustainability. However, I report on the fund's arrangements for financial sustainability in a separate Annual Audit Report available from the [Audit Scotland website](#).

Risks of material misstatement

I report in my Annual Audit Report the most significant assessed risks of material misstatement that I identified and my judgements thereon.

Responsibilities of the Executive Director of Corporate Services and the Pension Sub-Committee for the financial statements

As explained more fully in the Statement of Responsibilities, the Executive Director of Corporate Services is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Executive Director of Corporate Services is responsible for assessing the fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention to discontinue the fund's operations.

The Pension Sub-Committee is responsible for overseeing the financial reporting process.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. I design procedures in line with my responsibilities outlined above to detect material misstatements in respect of irregularities, including fraud. Procedures include:

- using my understanding of the local government sector to identify that the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, the Local Government in Scotland Act 2003, and The Local Government Pension Scheme (Scotland) Regulations 2018 as amended are significant in the context of the fund;
- inquiring of the Executive Director of Corporate Services as to other laws or regulations that may be expected to have a fundamental effect on the operations of the fund;
- inquiring of the Executive Director of Corporate Services concerning the fund's policies and procedures regarding compliance with the applicable legal and regulatory framework;
- discussions among my audit team on the susceptibility of the financial statements to material misstatement, including how fraud might occur; and
- considering whether the audit team collectively has the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.

The extent to which my procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of the fund's controls, and the nature, timing and extent of the audit procedures performed.

Irregularities that result from fraud are inherently more difficult to detect than irregularities that result from error as fraud may involve collusion, intentional omissions, misrepresentations, or the override of internal control. The capability of the audit to detect fraud and other irregularities

depends on factors such as the skilfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Reporting on other requirements

Other information

The Executive Director of Corporate Services is responsible for the other information in the annual report. The other information comprises the Management Commentary, Annual Governance Statement, Governance Compliance Statement, Statement of Responsibilities and other reports included in the annual report other than the financial statements and my auditor's report thereon.

My responsibility is to read all the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or my knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on the Management Commentary, Annual Governance Statement and Governance Compliance Statement to the extent explicitly stated in the following opinions prescribed by the Accounts Commission.

Opinions prescribed by the Accounts Commission on the Management Commentary, Annual Governance Statement and Governance Compliance Statement

In my opinion, based on the work undertaken in the course of the audit:

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003;
- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016); and
- the information given in the Governance Compliance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with The Local Government Pension Scheme (Scotland) Regulations 2018.

Matters on which I am required to report by exception

I am required by the Accounts Commission to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit.

I have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

In addition to my responsibilities for the annual report, my conclusions on the wider scope responsibilities specified in the Code of Audit Practice are set out in my Annual Audit Report.

Use of my report

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 108 of the Code of Audit Practice, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

**Rachel Browne CPFA
Audit Director
Audit Scotland
102 West Port
Edinburgh
EH3 9DN**

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Appendix B: Template Letter of Representation (ISA 580)

To be reproduced on Tayside Pension Fund's headed paper, signed by Section 95 Officer and provided to appointed auditor with signed 2023/24 Annual Report and Accounts

Rachel Browne
Audit Director
Audit Scotland
4th Floor
102 West Port
Edinburgh
EH3 9DN

23 September 2024

Dear Rachel

Tayside Pension Fund Annual Report and Accounts 2023/24

10. This representation letter is provided about your audit of the annual report and accounts of Tayside Pension Fund for the year ended 31 March 2024 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view and have been properly prepared, and for expressing other opinions on the Remuneration Report, Management Commentary, Annual Governance Statement and Governance Compliance Statement.

11. I confirm to the best of my knowledge and belief and having made appropriate enquiries of relevant officers, the following representations given to you in connection with your audit of Tayside Pension Fund's annual report and accounts for the year ended 31 March 2024.

General

12. Tayside Pension Fund and I have fulfilled our statutory responsibilities for the preparation of the 2023/24 annual report and accounts. All the accounting records, documentation, and other matters which I am aware are relevant to the preparation of the annual accounts have been made available to you for the purposes of your audit. All transactions undertaken by Tayside Pension Fund have been recorded in the accounting records and are properly reflected in the financial statements.

13. I confirm that the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as a whole. I am not aware of any uncorrected misstatements other than those reported by you.

Financial Reporting Framework

14. The annual report and accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2023/24 (2023/24 accounting code), and the requirements of the Local Government (Scotland) Act 1973, the Local Government in Scotland Act 2003, and The Local Authority Accounts (Scotland) Regulations 2014.

15. In accordance with the 2014 Regulations, I have ensured that the financial statements give a true and fair view of the financial position of the Tayside Pension Fund at 31 March 2024 and the amount and disposition at that date of its assets and liabilities.

Accounting Policies and Estimates

16. All material accounting policies applied are as shown in the notes to the financial statements. The accounting policies are determined by the 2023/24 accounting code where applicable. Where the accounting code does not specifically apply, I have used judgement in developing and applying an accounting policy that results in information that is relevant and reliable. All accounting policies applied are appropriate to Tayside Pension Fund's circumstances and have been consistently applied.

17. The significant assumptions used in making accounting estimates are reasonable and properly reflected in the financial statements. Judgements used in making estimates have been based on the latest available, reliable information. Estimates have been revised where there are changes in the circumstances on which the original estimate was based or as a result of new information or experience.

Going Concern Basis of Accounting

18. I have assessed Tayside Pension Fund's ability to continue to use the going concern basis of accounting and have concluded that it is appropriate. I am not aware of any material uncertainties that may cast significant doubt on Tayside Pension Fund's ability to continue to adopt the going concern basis of accounting.

Contributions – Pension Strain

19. All contributions due to the fund have been properly identified and accounted for. In particular the 'strain on the fund' costs have been properly recharged to relevant services and bodies.

Assets

Investments

20. For the year ended 31 March 2024, the amounts included in the net assets statement reflect investments managed externally by appointed fund managers and the global custodian on behalf of the fund. Amounts have been calculated in accordance with approved bases of valuation and fairly represent the values at 31 March 2024. In making these assertions I am reliant on the opinions of the appointed fund managers. As far as we can reasonably ascertain, all assets are free from any lien, encumbrance or charge except as disclosed in the financial statements.

Banking and Cash Flow Arrangements

21. The pension fund maintains a separate bank account and while these accounts form part of Dundee City Council's treasury management arrangements, the pension fund can demonstrate that there is no borrowing from the administering authority. Amounts due to the administering authority to cover daily cash flows such as payments through the council's systems are reimbursed on a regular basis.

Other Current Assets

22. On realisation in the ordinary course of the Fund's business, the other current assets in the Net Assets Statement are expected, in my opinion, to produce at least the amounts at which they are stated. In particular adequate provision has, in my opinion, been made against all amounts owing which are known or may be expected to be irrecoverable.

Actuarial Assumptions

23. The pension assumptions made by the actuary in the IAS26 report as at 31 March 2024 have been reviewed and I confirm that they are consistent with management's own view.

Liabilities

24. All liabilities at 31 March 2024 of which I am aware have been recognised in the annual accounts.

Provisions

25. There are no provisions included in the financial statements of the Tayside Pension Fund for 2023/24.

Commitments

26. There are no significant commitments or obligations including financial guarantees and offers of financial support which might adversely affect the fund.

Carrying Value of Assets and Liabilities

27. The assets and liabilities have been recognised, measured, presented and disclosed in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2023/24. There are no plans or intentions that are likely to affect the carrying value of classification of the assets and liabilities within the financial statements.

Contingent liabilities/assets

28. There are no significant contingent liabilities or contingent assets other than those disclosed in the notes to the accounts.

Fraud

29. I understand my responsibilities for the design, implementation, and maintenance of internal control to prevent fraud and I believe I have appropriately fulfilled those responsibilities.

30. I have provided you with all information in relation to:

- my assessment of the risk that the financial statements may be materially misstated because of fraud
- any allegations of fraud or suspected fraud affecting the financial statements, and
- fraud or suspected fraud that I am aware of involving management, employees who have a significant role in internal control, or others that could have a material effect on the financial statements.

Laws and Regulations

31. I have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

Related Party Transactions

32. All material transactions with related parties have been appropriately accounted for and disclosed in the financial statements in accordance with the 2023/24 accounting code. I have made available to you the identity of all the Tayside Pension Fund's related parties and all the related party relationships and transactions of which I am aware.

Management Commentary

33. I confirm that the Management Commentary has been prepared in accordance with the statutory guidance and the information is consistent with the financial statements.

Corporate Governance

34. I confirm that Tayside Pension Fund has undertaken a review of the system of internal control during 2023/24 to establish the extent to which it complies with proper practices set out in the Delivering Good Governance in Local Government: Framework 2016. I have disclosed to you all deficiencies in internal control identified from this review or of which I am otherwise aware.

35. I confirm that the Annual Governance Statement has been prepared in accordance with the Delivering Good Governance in Local Government: Framework 2016 and the information is consistent with the financial statements. I confirm that the Governance Compliance Statement has been prepared in accordance with applicable regulations. There have been no changes in the corporate governance arrangements or issues identified, since 31 March 2024, which require to be reflected.

Events Subsequent to the Date of the Net Assets Statement

36. There have been no material events since the date of the Net Assets Statement which necessitate revision of the figures in the financial statements or notes thereto including contingent assets and liabilities, other than those already reflected in the audited financial statements.

37. Since the date of the Net Assets Statement no events or transactions have occurred which, though properly excluded from the financial statements, are of such importance that they should be brought to your notice.

Other Matters

38. Except as disclosed in the financial statements, the results for the period were not materially affected by:

- (i) transactions of a sort not usually undertaken by Tayside Pension Fund;
- (ii) circumstances of an exceptional or non-recurrent nature;
- (iii) charges or credits relating to prior periods; and
- (iv) any change in the basis of accounting.

Yours sincerely

Robert Emmott
Executive Director of Corporate Services, Dundee City Council

Tayside Pension Fund

Proposed 2023/24 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the members of the Pension Sub-Committee and the Controller of Audit
23 September 2024

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Key messages

2023/24 annual report and accounts

- 1 Audit opinions on the annual report and accounts are unmodified.
- 2 The 2023/24 annual report and accounts were certified on 23 September 2024, in line with the agreed audit timetable.

Financial management and sustainability

- 3 The Fund has appropriate and effective financial management arrangements in place which includes comprehensive reporting of administration and investment performance.
- 4 The value of the Fund increased by 14 per cent to £5.5 billion during 2023/24, with overall investment performance outperforming the benchmark return set for the year. However, we would caution that the longer-term outlook remains uncertain with a risk of market volatility and negative fluctuations in the value of investments in future years.
- 5 The 2023 triennial valuation showed a marginally improved position with the Fund 110 per cent funded, having been assessed as 109 per cent funded in the 2020 valuation. This enabled the Fund to reduce the employers' common contribution rate to 15.7 per cent for the period 2024-2027.
- 6 The Fund has made reasonable progress in diversifying its investment portfolio to reflect the investment strategy asset allocation approved after the 2020 triennial valuation and increased its proportion of alternative investments from 0.2 per cent to 4.7 per cent during 2023/24.
- 7 Overall membership has increased over the last five years but the ratio of active members to pensioners has continued to reduce over the same period. This contributed to the Fund reporting a £28.8 million deficit from dealings with members in 2023/24 and this is likely to increase over the next 3 years due to the reduction in the rate of employer contributions.
- 8 Based on the Fund being 110 per cent funded, and the healthy net asset position at 31 March 2024, we currently have no concerns about the financial sustainability of the Fund or the viability of the funding strategy.

Vision, leadership and governance

- 9** The Fund has appropriate arrangements in place to support good governance and scrutiny of decision-making and conducts its business in an open and transparent manner.
- 10** The Fund had no reportable breaches of the Pensions Regulator Public Service Code regulations during 2023/24. Management now needs to identify and implement the changes required to ensure compliance with the Pensions Regulator's new General Code of Practice.

Use of resources to improve outcomes

- 11** Tayside Pension Fund was the second best performing Scottish fund in 2023/24 and was the only fund to outperform its benchmark for the year. Performance of the Fund's individual investment managers over the last 12 months was generally in line with expectations, but the Baillie Gifford Positive Change fund performed significantly below its benchmark during 2023/24. Longer-term investment performance shows above benchmark returns for the Fund over the last five and ten years.
- 12** The number of pension administration cases increased during 2023/24, and the average days taken to process these cases nearly doubled due to an increase in the level of complex cases. This was partly attributable to the administrative impact of implementing the remedy to fix unlawful discrimination in public service pension schemes. The Fund should review its administrative staffing capacity to deal with the increased volume and complexity of pension administration cases.
- 13** The administering authority has appropriate arrangements in place for securing Best Value at Tayside Pension Fund.

Introduction

1. This report summarises the findings from the 2023/24 annual audit of Tayside Pension Fund (the Fund) and will be published on Audit Scotland's website: www.audit-scotland.gov.uk

2. The scope of the audit was set out in our annual audit plan which was presented to the March 2024 meeting of the Pension Sub-Committee. This annual audit report comprises the significant matters arising from an audit of the Fund's annual report and accounts and conclusions on the wider scope areas set out in the [Code of Audit Practice](#).

3. We would like to thank elected members, management and staff, particularly those in finance, for their cooperation and assistance during the audit.

Responsibilities and reporting

4. The administering authority (Dundee City Council) of the Fund has responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and accounts for the Fund in accordance with proper accounting practices. Dundee City Council is also responsible for compliance with legislation and putting arrangements in place for governance and propriety that enable the Fund to successfully deliver its objectives.

5. The responsibilities of the independent auditor are established by the Local Government (Scotland) Act 1973, the [Code of Audit Practice](#) and supplementary guidance and International Standards on Auditing in the UK.

6. This report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers, and dates for implementation. Weaknesses or risks identified in this report are only those which have come to our attention during our audit work and may not be all that exist. Communicating these does not absolve management of the administering authority of its responsibility to address the issues raised and to maintain adequate systems of control.

Auditor Independence

7. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2023/24 audit fee of £32,180, as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity or independence.

1. Audit of 2023/24 annual report and accounts

Public bodies are required to prepare an annual report and accounts comprising financial statements and other related reports. These are the principal means of accounting for the stewardship of public funds.

Audit opinions on the annual report and accounts are unmodified.

The 2023/24 annual report and accounts were certified on 23 September 2024, in line with the agreed audit timetable.

Audit opinions on the annual report and accounts are unmodified

8. The Pension Sub-Committee approved the annual report and accounts for the Fund for the year ended 31 March 2024 on 23 September 2024. The independent auditor's report included the following audit opinions on the annual report and accounts:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- the management commentary, annual governance statement and governance compliance statement were consistent with the financial statements and properly prepared in accordance with the applicable requirements.

The 2023/24 annual report and accounts were certified on 23 September 2024, in line with the agreed audit timetable

9. We received the unaudited annual report and accounts on 24 June 2024, in line with the agreed audit timetable. The accounts and working papers presented for audit were of a good standard and management and finance staff provided excellent support to the team during the audit process. This helped ensure that the final accounts audit was completed in line with the audit timetable, with the 2023/24 annual report and accounts certified on 23 September 2024.

Our audit approach and testing were informed by the overall materiality level of £110 million

10. The concept of materiality is applied by auditors to determine whether misstatements identified during the audit could reasonably be expected to influence the economic decisions of users of the financial statements, and impact the opinion set out in the independent auditor's report. Auditors set a monetary threshold when considering materiality although some issues may be considered material by their nature, and it is ultimately a matter of the auditor's professional judgement.

11. Our initial assessment of materiality was carried out during the planning phase of the audit and was based on the financial results reported in the Fund's audited 2022/23 annual report and accounts. These materiality levels were reported in our annual audit plan to the March 2024 meeting of the Pension Sub-Committee.

12. On receipt of the unaudited 2023/24 annual report and accounts we recalculated our materiality levels based in the financial results for the year ended 31 March 2024. These are detailed in [Exhibit 1](#).

Exhibit 1

Materiality levels for the 2023/24 audit

Materiality level	Amount
Overall materiality: This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set based on our assessment of the needs of the users of the financial statements and the nature of the Fund's operations.	£110 million
Performance materiality: This is used by auditors when undertaking work on individual areas of the financial statements. It is a lower materiality threshold, set to reduce the probability of aggregated misstatements exceeding overall materiality. Performance materiality was set at 65 per cent of overall materiality, reflecting the scale of previous year's adjustments, the extent of estimation in the accounts and the planned testing in proportion to the scale of the organisation.	£71.5 million
Reporting threshold: We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£1.0 million

Source: Audit Scotland

Our audit identified and addressed the risks of material misstatement

13. [Exhibit 2](#) sets out the significant and non-significant risks of material misstatement to the financial statements. It also summarises the further audit

procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 2

Significant and non-significant risks of material misstatement

Nature of risk	Audit Response	Conclusion
Significant risks of material misstatement		
<p>1. Risk of material misstatement due to fraud caused by the management override of controls</p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> • Assessed the design and implementation of controls over journal entry processing. • Made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. • We used data analytics to consider all journals and substantively tested a sample of higher risk year end journals. • Considered the need to test journal entries and other adjustments during the period. • Evaluated any significant transactions outside the normal course of business. • Assessed any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. • Substantively tested income and expenditure transactions around the year-end to confirm they were accounted for in the correct financial year. • Focussed testing of accounting accruals and prepayments. 	<p>We did not identify any instances of management override of controls during our audit.</p>
Other risks of material misstatement		
<p>2. Actuarial valuation of future retirement benefits</p>	<ul style="list-style-type: none"> • Assessed the competence, capabilities, and objectivity of the actuary in line with ISA 500. 	<p>We did not identify any issues with the competence, capabilities, and</p>

Nature of risk	Audit Response	Conclusion
<p>The valuation is based on a range of financial and demographic estimations about the future including investment returns, contribution rates, commutation assumptions, pensioner mortality, discount rates and earning assumptions. The subjectivity around these estimates gives rise to a risk of material misstatement in the financial statements.</p>	<ul style="list-style-type: none"> • Reviewed the information provided to the actuary by the Fund. • Reviewed the assumptions used by the actuary to reach the valuation of future retirement benefits. • Reviewed officers' arrangements for ensuring the completeness and accuracy of professional estimations for pensions. 	<p>objectivity of the actuary. Our audit work also did not identify any issues with the completeness and accuracy of the information used in the valuation, or the appropriateness of the assumptions applied by the actuary.</p>

Source: Audit Scotland

We reported the significant findings from the audit prior to the annual report and accounts being approved and certified

14. Under International Standard on Auditing (UK) 260, we are required to communicate significant findings from the audit, including our view about the qualitative aspects of the body's accounting practices, to those charged with governance prior to the audited annual report and accounts being approved and certified.

15. The Code of Audit Practice also requires us to highlight key audit matters which are defined in ISA (UK) 701 as those matters judged to be of most significance.

16. The significant findings are summarised in [Exhibit 3](#). Our audit also identified other presentation and disclosure issues which were discussed with management. These were all adjusted in the audited annual report and accounts, and none were significant enough to require to be separately reported under ISA 260.

Exhibit 3

Significant findings and key audit matters from the audit of the annual report and accounts

Issue	Resolution
<p>1. Valuation of unobservable inputs in Level 2 and Level 3 investments</p> <p>Unobservable inputs are used in investment valuations when there is no open market data available. These carry an inherently higher risk of misstatement in value due to the inability for open market comparison.</p> <p>As part of the audit we discussed with management what arrangements the Fund has in place to gain independent assurance over the accuracy of valuations of Level 2 and Level 3 investments.</p> <p>We were advised that the Fund do not currently carry out any procedures to gain independent assurance over these valuations.</p>	<p>Due to the low value of Level 3 investments held by the Fund at 31 March 2024, and the majority of Level 2 investments not containing unobservable inputs, these valuations did not represent any risk of material misstatement for the 2023/24 annual accounts. However, due to the diversification of the Fund's investment portfolio, discussed at paragraphs 43. to 45., the Fund will have a higher value of Level 3 investments at 31 March 2025.</p> <p>Management should ensure that adequate arrangements are in place to gain independent assurance over the fund manager valuations of investments containing unobservable inputs at 31 March 2025. This could include the Fund:</p> <ul style="list-style-type: none"> • Reviewing fund manager controls reports which provide assurance that valuation techniques used by the fund manager are appropriate and consistent with industry standards. • Engaging with an independent third party to provide assurance over the valuation provided by fund managers in relation to wider market trends. • Conducting sensitivity analyses to assess the reasonableness of changes in value between years for investments relying on unobservable valuation techniques and seeking explanations from the fund manager for unusual or unexpected movements. <p>This was judged to be a key audit matter.</p> <p>Recommendation 1 at Appendix 1</p>

Issue	Resolution
<p>2. Investments and derivatives disclosures</p> <p>The CIPFA Local Government Pension Scheme (LGPS) model accounts reflect the reporting requirements for LGPS funds under the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). This includes the presentation and disclosure requirements for the primary financial statements and the notes the accounts.</p> <p>As part of our audit we reviewed Tayside Pension Fund's 2023/24 Annual Report and Accounts against these requirements and identified that <i>Note 10. Investments</i> and <i>Note 12. Fair Value</i> did not fully reflect the suggested disclosures in the CIPFA model accounts.</p>	<p>Management advised that it would not be possible to include the additional disclosures in the 2023/24 annual report and accounts as the required information would need to be provided by the custodian, Northern Trust. However, the Fund will discuss the requirements with the custodian to ensure this information can be obtained and included in the 2024/25 annual report and accounts.</p> <p>As the disclosure issues identified do not represent material departures from the disclosure requirements for LGPS funds under the Code of Practice on Local Authority Accounting in the United Kingdom, we are content for these to be addressed in 2024/25.</p> <p>Recommendation 2 at Appendix 1</p>

Source: Audit Scotland

Our audit did not identify any misstatements within the financial statements

17. It is our responsibility to request that all misstatements, other than those below our reporting threshold, are corrected but the final decision on making the correction lies with those charged with governance.

18. Our audit did not identify any misstatements above our reporting threshold.

Limited progress was made on prior year recommendations

19. Our [2022/23 annual audit report](#) included three recommendations for improvement, including one issue carried forward from the 2021/22 audit. The Fund has made limited progress in implementing these and all three recommendations have still to be fully addressed. An update on progress with these issues is set out in [Appendix 1](#).

2. Financial management

Financial management means having sound budgetary processes, and the ability to understand the financial environment and whether internal controls are operating effectively.

The Fund has appropriate and effective financial management arrangements in place which includes comprehensive reporting of administration and investment performance.

The value of the Fund increased by 14 per cent to £5.5 billion during 2023/24, with overall investment performance outperforming the benchmark return set for the year. However, we would caution that the longer-term outlook remains uncertain with a risk of market volatility and negative fluctuations in the value of investments in future years.

The Fund has appropriate and effective financial management arrangements in place which includes comprehensive reporting of administration and investment performance

20. The Executive Director of Corporate Services for Dundee City Council is the Proper Officer responsible for Tayside Pension Fund. The financial regulations of Dundee City Council, as administering authority, apply to the Fund. We consider these to be current, comprehensive and support good financial management.

21. The Pension Fund Sub-Committee receives administration and performance reports at its quarterly meetings. These reports are comprehensive and include administration caseload and processing time performance information, fund performance trends, investment manager performance against benchmarks and movements in asset allocations. From our attendance at committee meetings, we concluded that reports presented to members are subject to appropriate review and scrutiny.

Financial systems of internal control operated effectively during 2023/24

22. As part of our audit we identify and inspect the key internal controls in those accounting systems which we regard as significant to producing the financial statements (including those relating to IT). Our objective is to gain assurance that Tayside Pension Fund has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

23. Our work in 2023/24 covered the key controls over the systems used for pension administration activity and the pension fund's investments. The Fund also uses the financial systems of the administering authority, Dundee City Council. The main council systems used by the Fund are the general ledger system and the payroll system. Our review of the controls in operation within these systems was conducted as part of our audit of Dundee City Council.

24. Our review of the systems used by the Fund and the administering authority did not identify any significant control weaknesses which could affect the Fund's ability to record, process, summarise and report financial and other relevant data to result in a material misstatement in the financial statements.

The value of the Fund increased by 14 per cent to £5.5 billion during 2023/24, with overall investment performance outperforming the benchmark return set for the year

25. The Fund's performance in 2023/24 is summarised in [Exhibit 4](#). This shows that the net assets of the Fund increased from £4.834 billion at 31 March 2023 to £5.494 billion at 31 March 2024. This £0.660 billion (13.7 per cent) increase in net assets was mainly attributable to increases in the value of equities (£0.265 billion), fixed income unit trust investments (£0.238 billion), equity unit trust investments (£0.203 billion) and cash deposits (£0.195 billion), offset by a reduction in the value of bonds (£0.359 billion) during the year. These market value changes contributed to a positive annual fund investment return for the year of 14.59 per cent, which was above the benchmark return set for the year of 13.14 per cent.

26. [Exhibit 4](#) also shows that the overall funding level of the Fund has increased to 110 per cent at 31 March 2024 using assumptions consistent with those adopted for the 2023 triennial valuation. Further commentary on this is included within the [Financial sustainability](#) section of this report.

Exhibit 4

Assets, funding level and investment performance

Increase in net assets	Funding level	Investment performance
<p>£5.494 billion</p> <p>Closing net assets as at 31 March 2024 (+13.7%)</p>	<p>110%</p> <p>At 31 March 2024 (interim valuation using assumptions consistent with those adopted for the 2023 triennial valuation)</p>	<p>14.59%</p> <p>Return on investments 2023/24</p>
<p>£4.834 billion</p> <p>Opening net assets as at 1 April 2023</p>	<p>109%</p> <p>At 31 March 2023 (interim valuation based on roll forward approximation from 2020 triennial valuation)</p>	<p>7.94%</p> <p>Average annual return on investments over 5 years</p>

Source: Tayside Pension Fund 2023/24 Annual Report and Accounts

The value of the fund's assets increased by 14 per cent during 2023/24 but the longer-term outlook remains uncertain with a risk of negative fluctuations in the Fund value in future years

27. When considering the overall investment performance of the Fund during 2023/24, as shown in [Exhibit 4](#), it is important to recognise the impact of world events on financial markets and investments. The global impact of the ongoing conflict in Ukraine and other events has significantly increased market volatility.

28. While the Fund's current financial position is still strong, we would caution that the value of the fund's assets decreased by 5 per cent during 2022/23 and the longer-term outlook remains uncertain. There is a risk that there will be further market volatility and fluctuations in the value of investments in future years as the long-term impact of recent world events becomes clearer.

The Fund reported a deficit from dealings with members of £28.8 million for 2023/24

29. The Fund reported a deficit from dealings with members of £28.8 million in 2023/24 (£19.3 million in 2022/23 and £17.6 million in 2020/21). This means that pension payments exceeded member contributions and investment income was used to ensure pensions were paid.

Internal audit has given a satisfactory opinion on the Fund's governance, risk management and control framework for 2023/24

30. Tayside Pension Fund's internal audit function is carried out by PwC under the Crown Commercial Service Framework for the provision of a full internal audit service to fulfil the service requirements of annual audits. They have now completed their 2023/24 audit work and presented their Annual Audit Report to the June 2024 Pension Sub-Committee. This provided a satisfactory opinion on the Fund's governance, risk management and control framework for 2023/24. The report also noted 2 medium risk findings (both relating to pension administration) and 5 low risk findings (2 relating to pension administration and 3 relating to liquidity) across the internal audit reviews completed during the year, that would enhance the adequacy and effectiveness of the framework of governance, risk management and control.

The Fund has appropriate arrangements in place to prevent and detect fraud, error and irregularities, bribery, and corruption

31. In the public sector there are specific fraud risks, including those relating to pension claimants and other claims made by individuals and organisations. Public sector bodies are responsible for implementing effective systems of internal control, including internal audit, which safeguard public assets and prevent and detect fraud, error and irregularities, bribery, and corruption.

32. We assessed the Fund's arrangements for the prevention and detection of fraud as part of our 2023/24 audit. The Fund relies on the administering authority's arrangements for the prevention and detection of fraud and corruption.

These include a Code of Conduct for members and officers, Whistleblowing Policy and an Anti-Fraud Strategy.

33. We concluded that the Fund has appropriate arrangements in place to prevent and detect fraud, error and irregularities, bribery, and corruption. We are also not aware of any specific issues during 2023/24 that we require to bring to your attention.

3. Financial sustainability

Financial Sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs.

The 2023 triennial valuation showed a marginally improved position with the Fund 110 per cent funded, having been assessed as 109 per cent funded in the 2020 valuation. This enabled the Fund to reduce the employers' common contribution rate to 15.7 per cent for the period 2024-2027.

The Fund has made reasonable progress in diversifying its investment portfolio to reflect the investment strategy asset allocation approved after the 2020 triennial valuation and increased its proportion of investments in alternatives from 0.2 per cent to 4.7 per cent during 2023/24.

Overall membership has increased over the last five years but the ratio of active members to pensioners has continued to reduce over the same period. This contributed to the Fund reporting a £28.8 million deficit from dealings with members in 2023/24 and this is likely to increase over the next 3 years due to the reduction in the rate of employer contributions.

Based on the Fund being 110 per cent funded, and the healthy net asset position at 31 March 2024, we currently have no concerns about the financial sustainability of the Fund or the viability of the funding strategy.

The 2023 triennial valuation showed a marginally improved position with the Fund 110 per cent funded, having been assessed as 109 per cent funded at the time of the 2020 valuation

34. There is a statutory requirement for local government pension funds to undertake a full actuarial valuation of assets and liabilities every three years. This is referred to as a triennial valuation.

35. The most recent triennial funding valuation took place across Local Government Pension Scheme funds in 2023/24 based on data as at 31 March 2023. The main purpose of the valuation is to review the financial position of each fund and to set appropriate contribution rates for each employer for the upcoming three-year period as part of the fund's overall funding strategy.

36. The results of the triennial valuation of Tayside Pension Fund were reported to the Pension Sub-Committee in March 2024. As required by Regulation 60 of the Local Government Pension Scheme (Scotland) Regulations 2014, Barnett

Waddingham (the Fund's appointed actuary) considered the following four factors when conducting the valuation:

- the existing and prospective liabilities
- the desirability of maintaining as nearly constant a primary rate as possible
- the current version of the administering authority's funding strategy
- the requirement to secure the solvency of the pension fund and the long-term cost efficiency of the Scheme, so far as relating to the pension fund.

37. While the Fund was valued at 31 March 2023, it is worth noting that for the purposes of the valuation, the actuary used a smoothed value of the assets with the market value over the period 1 January 2023 to 30 June 2023 informing the asset valuation. This methodology is used to ensure that the assets are valued in a consistent way to the liabilities and guards against any market volatility around the valuation date resulting in the assets being over or under-valued.

38. The results of the valuation showed the Fund to be 110 per cent funded, including a volatility reserve of 10 per cent which is in place to protect the Fund from future volatility of investment returns. This means that, overall, the Fund had a surplus of assets over liabilities. This represented a marginally improved position from the 2020 valuation when the Fund was assessed as 109 per cent funded.

The Fund reduced the employers' common contribution rate to 15.7 per cent for the period 2024/25-2026/27

39. The results of the 2023 valuation enabled the Fund to reduce the employer's common contribution rate from 17.0 per cent to 15.7 per cent for the period 2024/25-2026/27. While this reduced contribution rate will decrease the amount paid in to the Fund through employer contributions over the next three years, we do not believe this presents a risk to the long-term financial sustainability of the Fund.

The Fund has made reasonable progress in diversifying its investment portfolio to reflect the investment strategy asset allocation approved after the 2020 triennial valuation

40. The investment strategy is set for the long-term but is monitored continually and reviewed every three years using asset-liability modelling to ensure that it remains appropriate to the profile of the Fund's liabilities.

41. Following each triennial valuation, the Fund is required to review its investment strategy. This review is undertaken by ISIO, the Fund's Investment Consultants. ISIO's review after the 2020 valuation recommended that the Fund should further diversify its investments via investment in alternative class assets, as well as further global equity diversification, with increased focus on sustainability within the portfolios in order to help manage equity and inflation risk over the short to medium term. The Pension Sub-Committee approved the review recommendations at its meeting in June 2021 and agreed that the

implementation of the related actions should be taken forward when market conditions are suitable.

42. Over the last 3 years the Fund has made reasonable progress in diversifying its investment portfolio to reflect the investment strategy asset allocation, as shown in [Exhibit 5](#). However, the Fund still needs to reduce its level of equities and increase the proportion of investments in alternatives.

Exhibit 5

Asset distribution of the Fund's investment portfolio over time

Asset class	Asset allocation					Variance from target at 31 March 2024 (%)
	Target (%)	31 March 2021 (%)	31 March 2022 (%)	31 March 2023 (%)	31 March 2024 (%)	
Equities	65.0	67.3	71.7	73.4	72.8	+7.8
Bonds, Gilts	13.0	19.9	16.8	15.9	13.1	+0.1
Property	12.0	12.7	11.4	10.5	9.4	-2.6
Alternatives	10.0	0.1	0.1	0.2	4.7	-5.3

Source: Tayside Pension Fund Annual Report and Accounts 2021/22 to 2023/24

The Fund increased its proportion of investments in alternatives from 0.2 per cent to 4.7 per cent during the year

43. To achieve further diversification and investment in alternative asset classes, the Fund officers and advisors undertook a large-scale procurement exercise to seek appropriate investment managers during 2023/24. The change in asset allocation between 31 March 2023 and 31 March 2024, [Exhibit 5](#), reflects the outcome of this procurement exercise which resulted in the Fund appointing three new investment managers during 2023/24.

44. The Fund appointed Apollo Global Management, Partners Group and Legal & General Investment Management, with Goldman Sachs Asset Management's appointment terminated to fund these new investment mandates, along with the rebalancing of other portfolios. The asset transitions were undertaken in February and March 2024, prior to the end of the financial year, and the new appointments included the Fund's first significant investment in alternatives. This resulted in the proportion of alternatives investments increasing from 0.2 per cent at 31 March 2023 to 4.7 per cent at 31 March 2024.

45. ISIO is still concluding its review of the Fund's investment strategy after the 2023 valuation. However, it is not anticipated that this will recommend any significant changes to the target investment portfolio asset distribution from that identified after the 2020 valuation.

Recommendation 3

Management should continue to take action to diversify the Fund's investment portfolio to better reflect the investment strategy asset allocation, taking account of any changes resulting from the review of the investment strategy conducted after the 2023 valuation.

Overall membership has increased over the last five years but the ratio of active members to pensioners has continued to reduce over the same period

46. The Fund is a multi-employer fund with 41 employers at 31 March 2024, comprising 12 scheduled bodies (including Dundee City, Angus and Perth & Kinross Councils) and 29 admitted bodies. The current membership profile is shown at [Exhibit 6](#).

Exhibit 6

Tayside Pension Fund membership

The ratio of active members to pensioners has reduced over the last five years



Source: Tayside Pension Fund Annual Report and Accounts 2019/20 to 2023/24

47. The Fund gives its members a guarantee that in exchange for contributions during their employment, it will pay a pension until the end of each member's life. It is important that the Fund maintains the capacity to meet the current and future pension entitlements of its members.

48. Membership of the fund increased by 1,323 (2.4 per cent) to 56,905 members during 2023/24 and has increased by 5,901 (11.6 per cent) since 2019/20. However, although the number of active members continues to exceed the number of pensioners, the ratio of active members to pensioners has steadily reduced in recent years from 1.149:1 in 2019/20 to only 1.006:1 in 2023/24. This, combined with increasing life expectancy over this period, continues to place

additional pressure on the Fund. However, we do not believe this presents any immediate risk to the financial sustainability of the Fund.

There have been negative cash flows from member activity in recent years and the annual deficit is likely to increase over the next 3 years due to the reduction in the rate of employer contributions

49. The Fund reported a £28.8 million deficit from dealings with members in 2023/24. This reflects the trend of negative cash flows from member activity over recent years, [Exhibit 7](#). The level of the annual deficit from dealings with members is also likely to increase over the next 3 years due to the reduction in the rate of employer contributions from 2024/25, paragraph [39](#). However, the Fund continues to actively monitor its cash-flow position and based on the actuarial maturity profile, management is content that there is no immediate need to consider investment changes due to the cash flow position.

Exhibit 7

Member transactions over the last five years

	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
Employer contributions	73.736	76.211	81.286	84.524	91.564
Employee contributions	25.890	27.091	28.363	30.210	32.200
Transfer in	4.551	3.635	6.221	3.954	8.008
Lump sums paid	(24.369)	(23.026)	(26.132)	(27.481)	(35.073)
Pension paid	(91.639)	(96.061)	(99.574)	(105.447)	(118.462)
Transfer out	(5.825)	(12.503)	(5.757)	(5.076)	(4.676)
Administration costs	(1.884)	(1.655)	(1.968)	(1.867)	(2.339)
Net withdrawals	(19.540)	(26.308)	(17.561)	(21.183)	(28.778)

Source: Tayside Pension Fund Annual Report and Accounts 2019/20 to 2023/24

We currently have no concerns about the financial sustainability of the Fund or the viability of the funding strategy

50. Based on the actuary's interim valuation which showed that the Fund is 110 per cent funded (paragraphs [34](#) to [38](#)), and the healthy net asset position at 31 March 2024 (paragraph [25](#) and [Exhibit 4](#)), we currently have no concerns about the financial sustainability of the Fund or the viability of the funding strategy.

4. Vision, leadership and governance

Public sector bodies must have a clear vision and strategy and set priorities for improvement within this vision and strategy. They work together with partners and communities to improve outcomes and foster a culture of innovation.

The Fund has appropriate arrangements in place to support good governance and scrutiny of decision-making and conducts its business in an open and transparent manner.

The Fund had no reportable breaches of the Pensions Regulator Public Service Code regulations during 2023/24. Management now needs to identify and implement the changes required to ensure compliance with the Pensions Regulator's new General Code of Practice.

The Fund has appropriate arrangements in place to support good governance and scrutiny of decision-making

51. The Fund's overall governance arrangements are set out in the Annual Governance Statement and Governance Compliance Statement included in the annual report and accounts. The responsibilities of the Executive Director of Corporate Services, the Pension Sub-Committee and the Pension Board are set out in the Statement of Investment Principles which is also included within the annual report and accounts.

52. Dundee City Council is the administering authority for Tayside Pension Fund. The Council has delegated the responsibility for governance to the Pension Sub-Committee of the Policy and Resources Committee. This Sub-Committee, supported by the Pension Board, is responsible for establishing arrangements that ensure the proper conduct of the affairs of Tayside Pension Fund. It is also responsible for ensuring that decisions are made within the terms of the Local Government Pension Scheme.

53. The main functions of the Fund are the management of investments and the administration of scheme benefits. These functions are carried out in accordance with the Local Government Pension Scheme (Scotland) regulations which are statutory instruments made under the Superannuation Act 1972 and Public Service Pensions Act 2013.

54. All meetings of the Pension Sub-Committee and Pension Board were held remotely via Microsoft Teams throughout 2023/24. However, we have not noted any adverse impact on the level of scrutiny at meetings due to these meetings being held remotely.

The Fund conducts its business in an open and transparent manner

55. Openness and transparency means that the public, in particular members of the Fund, have access to understandable, relevant and timely information about how decisions are being taken and how resources are being used.

56. Public sector governance guidance indicates that an organisation that is transparent shows the basis for its decisions and shares information about performance and outcomes, including when targets have and have not been achieved as well as how it is using its resources such as money, people and assets.

57. There is evidence from several sources which demonstrate the Fund's commitment to transparency. For example, the Pension Sub-Committee and Pensions Board meetings can be observed remotely by the public via Teams or YouTube, and the minutes of all meetings are available on the administering authority's website. The Fund's Annual Report and Accounts is also available on the administering authority's website, along with investment and administration performance information, and key governance documents.

The management commentary in the 2023/24 Annual Report and Accounts provided a fair, balanced and reasonable analysis of the organisation's financial performance for the year

58. In addition to the consistency opinion on the management commentary covered in Part 1 of this report, we also consider the qualitative aspects of the management commentary included in the annual report and accounts. The purpose of the management commentary is to provide information on the Fund, its main objectives and strategies, and the principal risks that it faces. It must provide a fair, balanced and reasonable analysis of a body's performance and is essential in helping stakeholders understand the financial statements. We concluded that the management commentary in the 2023/24 Annual Report and Accounts satisfied these requirements.

The Fund included climate change financial disclosures within the 2023/24 annual report and accounts

59. The Scottish Parliament has set a legally binding target of becoming net zero by 2045. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impacts of climate change. For the pension fund, the responsibility for meeting these targets lies with Dundee City Council as the administering authority.

60. While the administering authority is responsible for meeting the above targets, the Fund should be working towards monitoring and reporting on climate-related disclosures. The Scottish Local Government Pension Scheme (LGPS) Advisory Board's working group discussed the Taskforce for Climate Related Financial Disclosures (TCFD) in February 2022 and have engaged with all eleven Scottish LGPS funds on TCFD. This highlighted that four funds already report in line with TCFD recommendations and a further five funds, including Tayside Pension Fund, were preparing to do so over the next two

years. The working group concluded that all funds are fully aware of the evolving landscape and the vast majority are already preparing to report in line with TCFD recommendations voluntarily.

Good practice – Climate related financial disclosures

Tayside Pension Fund included climate change financial disclosures within the investment section of the 2023/24 annual report and accounts. These were reported in line with the Taskforce for Climate Related Financial Disclosures recommendations and covered governance, strategy, risk management, and metrics and targets, related to the Fund's climate related risks and opportunities.

The Fund requires all fund managers to be signatories to the United Nations Principles for Responsible Investing Initiative

61. Corporate governance and corporate social responsibility have developed significantly in recent years in response to both legislative and stakeholder demands. Funds have a fiduciary duty to incorporate Environmental, Social and Corporate Governance (ESG) factors as an active and embedded principle of risk and return assessment in managing and determining its investment portfolio and ensuring that any managers appointed by the Funds are doing likewise.

62. The [United Nations Principles for Responsible Investing Initiative](#) is intrinsic within the global investment community, and Tayside Pension Fund requires all fund managers be signatories to the principles. These principles widen socially responsible investing to cover ESG, setting out guidance on how this can be met.

63. The Fund's overall approach to environmental, social and corporate governance was reported within the investment section of the 2023/24 annual report and accounts.

The Fund had no reportable breaches of the Pensions Regulator Public Service Code regulations during 2023/24

64. The Public Sector Pensions Act 2013 provided for extended regulatory oversight by the Pensions Regulator. The Pensions Regulator issued a code on the governance and administration of public service pension schemes in January 2015 which funds are expected to comply with.

65. The Pension Fund Manager and Senior Financial Services Manager monitor any potential breaches of the Pensions Regulator Public Service Code regulations. If any such incidents occur, they are discussed with the Head of Corporate Finance to establish if they are material breaches that require to be reported to the regulator.

66. Management has confirmed that there were no reportable breaches during 2023/24.

The Fund needs to identify and implement the changes required to ensure compliance with the Pensions Regulator's new General Code of Practice

67. The Pensions Regulator's new [General Code of Practice](#) sets out the standards and expectations for the governance and management of occupational pension schemes in the UK. The code, which came into force on 28 March 2024, consolidated and replaced 10 previous codes of practice. This comprehensive code aims to ensure that pension schemes are managed effectively and in the best interests of their members. Key aspects of the code include:

- **Governance Requirements:** It outlines the necessary governance structures, systems, and controls that pension schemes should have in place.
- **Funding and Investment:** It details investment governance and strategy requirements, including environmental and social duties.
- **Administration:** It covers the handling of information, record-keeping, and monitoring contributions.
- **Communications and Disclosure:** It specifies the communications that governing bodies must produce for scheme members and the information that should be publicly available.
- **Reporting:** It includes requirements for reporting to The Pensions Regulator, such as scheme returns and breaches of the law.

68. The Fund is aware that it needs to assess the suitability of existing governance arrangements against the new Code and has already been working with internal auditors and other advisors to analyse the key areas of governance, administration and investment. Over the coming year, the Fund officers are focussed on improvements and developing a revised structure and operating model.

Recommendation 4

Management needs to identify and implement the changes required to ensure the Fund's compliance with the Pensions Regulator's new General Code of Practice.

5. Use of resources to improve outcomes

Public sector bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities.

Tayside Pension Fund was the second best performing Scottish fund in 2023/24 and was the only fund to outperform its benchmark for the year. Performance of the Fund's individual investment managers over the last 12 months was generally in line with expectations, but the Baillie Gifford (Positive Change) fund performed significantly below its benchmark during 2023/24. Longer-term investment performance shows above benchmark returns for the Fund over the last five and ten years.

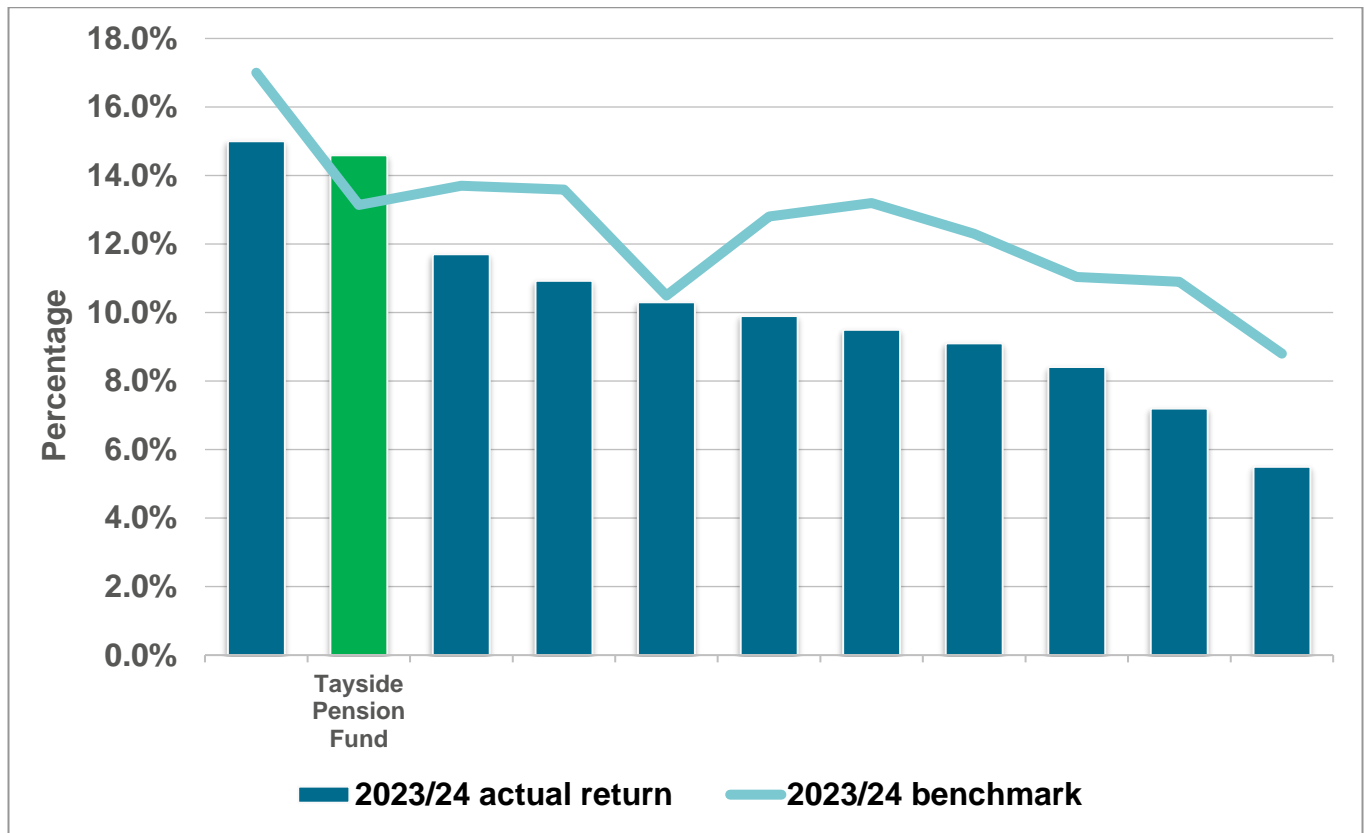
The number of pension administration cases increased during 2023/24, and the average days taken to process these cases nearly doubled due to an increase in the level of complex cases. This was partly attributable to the administrative impact of implementing the remedy to fix unlawful discrimination in public service pension schemes. The Fund should review its administrative staffing capacity to deal with the increased volume and complexity of pension administration cases.

The administering authority has appropriate arrangements in place for securing Best Value at Tayside Pension Fund.

Tayside Pension Fund was the second best performing Scottish fund in 2023/24, and was the only fund to outperform its benchmark for the year

69. 2023/24 was a more positive year for Scottish Local Government Pension Schemes in terms of returns on investments, after a challenging year in 2022/23 when most industry benchmarks delivered negative performance. Across Scottish funds investment performance ranged from 5.5 per cent to 15 per cent (compared to returns ranging from minus 6 per cent to 1 per cent in 2022/23).

70. As shown in [Exhibit 8](#), Tayside Pension Fund was the second best performing Scottish fund in 2023/24 and was the only fund to outperform its benchmark for the year, reporting a return of 14.6 per cent against a benchmark of 13.1 per cent.

Exhibit 8**Scottish Local Government Pension Schemes performance against benchmark 2023/24**

Source: Tayside Pension Fund 2023/24 Scottish LGPS pension funds annual accounts

Performance of the Fund's individual investment managers over the last 12 months was generally in line with expectations, but the Baillie Gifford Positive Change fund performed significantly below its benchmark during 2023/24

71. Investment manager performance for each portfolio is reported on a quarterly basis to the Pension Sub-Committee. The Fund's external investment advisor attends the meetings in an advisory capacity, when required. The external investment advisor also provides an annual report to the Pension Sub-Committee each March covering the performance of each portfolio, and the full fund, for the previous calendar year.

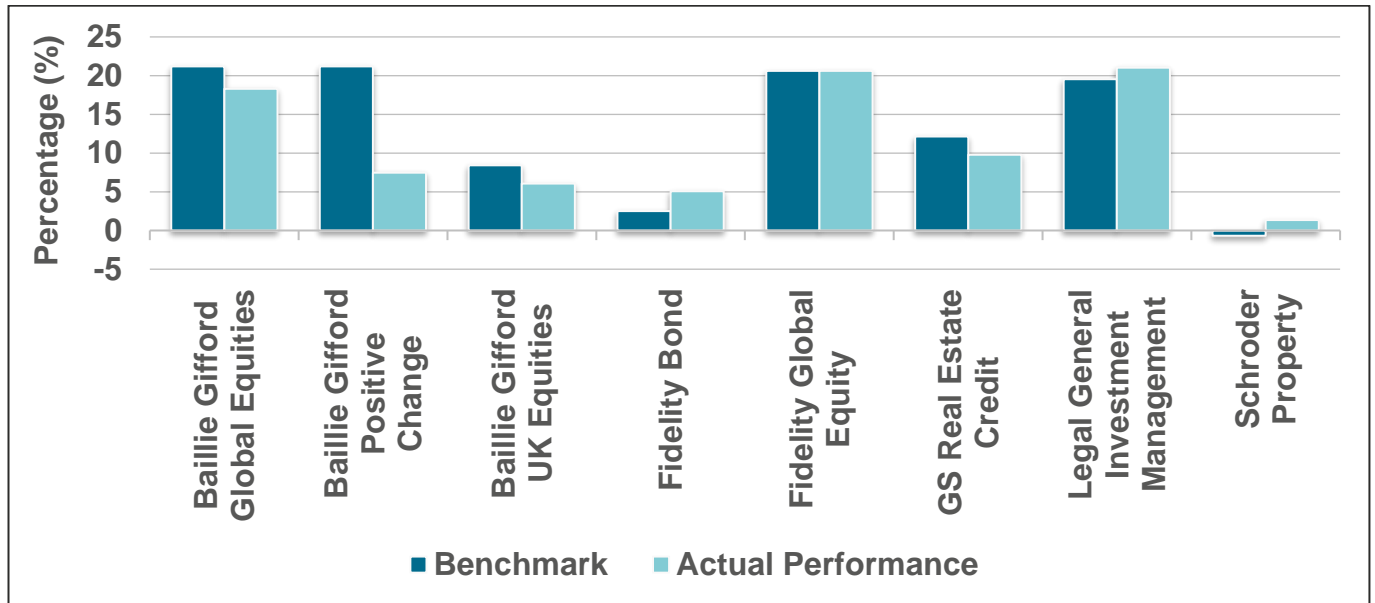
72. The performance summaries presented to each meeting of the Sub-Committee include details of performance of individual portfolios against benchmark for each quarter of the current year, and over the last three and five years. This allows members of the Sub-Committee to scrutinise investment performance and to question officers on the reasons for any under-performance.

73. The Fund's overall performance for 2023/24, discussed at paragraph [70.](#), reflected the performance of the investment managers for the year. During 2023/24 the year the Fund used five external investment managers managing eight distinct mandates (a set of instructions laying out how a pool of assets

should be invested). As shown in [Exhibit 9](#), four of the eight investment mandates reported above benchmark returns, and four reported below benchmark returns, for the year.

Exhibit 9

Investment mandate performance against benchmark 2023/24



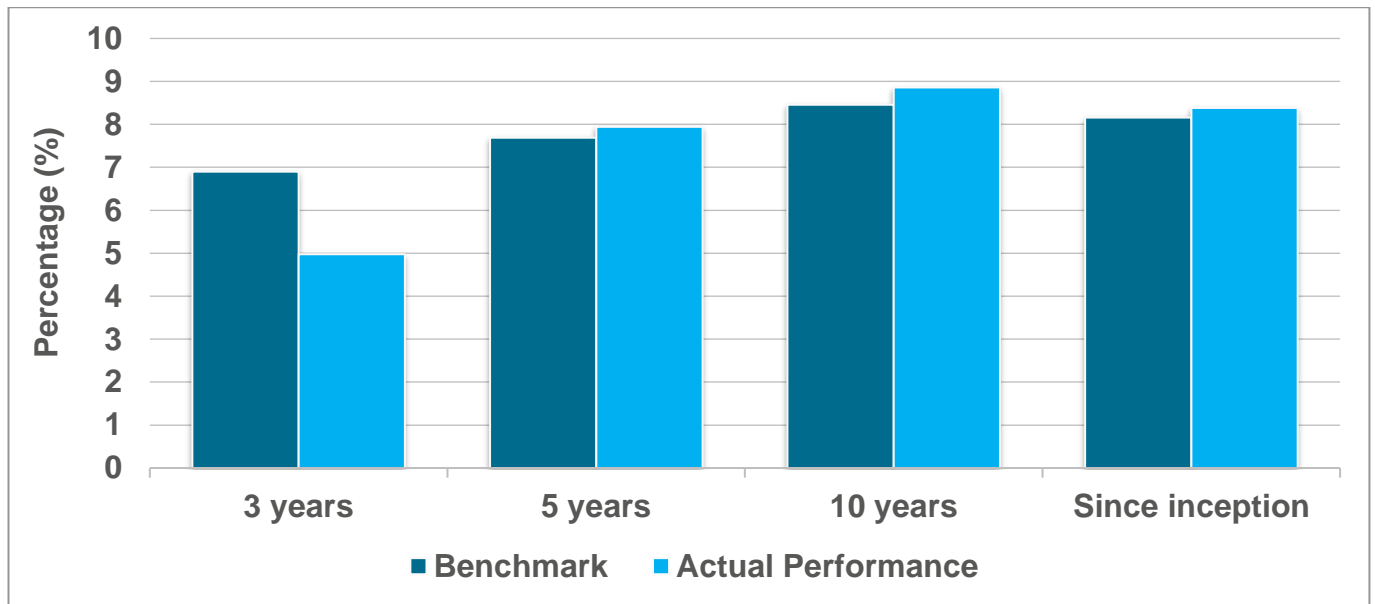
Source: Tayside Pension Fund Annual Report and Accounts 2023/24

74. Performance of the investment mandates was generally in line with expectations during 2023/24 with reported returns just above or just below the benchmark set, [Exhibit 9](#). However, the Baillie Gifford Positive Change fund performed significantly below its benchmark, reporting returns of only 7.48 per cent against a benchmark of 21.18 per cent. Despite this poor annual return in 2023/24, management still expects this fund to deliver attractive longer-term returns due to its investment in companies that look to contribute to a more sustainable and inclusive world.

Longer-term investment performance shows above benchmark returns for the Fund over the last five and ten years

75. [Exhibit 8](#) on page [26](#) shows that the Fund outperformed its benchmark over the last 12 months, generating a rate of return of 14.6 per cent against the benchmark of 13.1 per cent. [Exhibit 10](#) shows that medium and long-term performance is also strong with the Fund performing above benchmark over the last five years (7.9 per cent against the benchmark of 7.7 per cent), ten years (8.9 per cent against the benchmark of 8.5 per cent), and since the inception of the Fund (8.4 per cent against the benchmark of 8.2 per cent).

Exhibit 10 Longer-term Fund investment performance



Source: Tayside Pension Fund Annual Report and Accounts 2023/24

The number of pension administration cases increased during 2023/24, and the average days taken to process these cases nearly doubled due to an increase in the level of complex cases

76. The Pension Fund Committee receives administration reports at its quarterly meetings. These reports include administration caseload and processing time performance information and also highlight any emerging pressures or areas of risk, including potential non-compliance with statutory processing deadlines, for members attention.

77. As shown in [Exhibit 11](#), there was a 22 per cent increase in the total pension administration caseload from 10,122 cases in 2022/23 to 12,381 in 2023/24. The average days taken to process cases also increased significantly (96 per cent) from 38.24 days last year to 74.88 days in 2023/24. The increase in processing time was mainly attributable to the additional time taken to process clerical tasks and payroll cases during the year.

78. Management advised that the increase in processing times partly reflects the increased complexity of cases, as well as ongoing resource challenges due to staff absence. Another factor has been the ongoing training required for less experienced staff to enable them to be able to deal more quickly with more complex cases, coupled with the impact of more experienced staff having to focus their time on the implementation of age discrimination legislation, paragraphs [79.](#) and [80.](#), and preparation for the launch of the Pension Dashboard, paragraphs [81.](#) to [83.](#)

Exhibit 11**Administration case processing volumes and performance**

Task	Case volume 2022/23	Average days to process	Case volume 2023/24	Average days to process
Clerical tasks	3,010	87.29	5,291	138.53
Death grant	126	65.29	130	69.57
Divorce	50	47.80	57	65.11
Estimates	4,460	13.01	2,725	17.72
Payroll related	1,476	25.37	3,035	36.88
Retirements	1,000	18.23	1,143	18.46
Total caseload	10.122	38.24	12,381	74.88

Source: Tayside Pension Fund Annual Report and Accounts 2023/24

Implementing the remedy to fix unlawful discrimination in public service pension schemes is placing a significant additional administrative burden on the Fund

79. The McCloud Case resulted in a high court judgement that found the protection given to older members of public service pension schemes, when the schemes reformed in 2014 and 2015, was age discriminatory. A remedy to this came into force on 1 October 2023 extending the statutory underpin to all members who would have been eligible if no age restriction had applied. This is to be applied retrospectively to 1 April 2015 and will have cost and administration implications.

80. Applying the remedy to the large volume of Tayside Pension Fund members affected by this ruling will continue to place a significant additional administrative burden on the Fund, and the complexity of these cases will also necessitate input from more experienced staff which reduces their availability to deal with other administration cases.

Recommendation 5

The Fund should review its administrative staffing capacity to deal with the increased volume and complexity of pension administration cases, alongside implementing the remedy to fix unlawful discrimination in public service pension schemes. Consideration should be also given to what contingency measures can be put in place to ensure that these activities are completed in line with the relevant statutory requirements and deadlines.

The Fund is taking action to ensure its data is ready for the launch of the Pension Dashboard in 2025

81. The Pension Dashboard for the Local Government Pension Scheme (LGPS) in Scotland is expected to go live towards the end of 2025 and will provide a comprehensive and secure way for members to access their pension information online. The dashboard's key features will include:

- **Personalised information:** Members will be able to view their pension details, including contributions, benefits, and projected retirement income.
- **Calculators and tools:** The dashboard will provide members with various calculators to help them understand how their pension will grow, the impact of additional contributions, and options for taking lump sums.
- **Planning resources:** It will provide members with resources to help them plan for their retirement, understand their pension options, and make informed decisions about when to take their pension.
- **Support and guidance:** It will provide members with answers to frequently asked questions, explanatory videos, and other resources to help them better understand their pension scheme.

82. In preparation for the launch of the dashboard, the pension system provider undertook an assessment of the Fund's current dashboard data readiness during 2023/24. This involved analysing the Fund's data to determine onboarding readiness and giving exception items a red or amber rating based on both the impact of the specific issue (on members and the administration team) and the volume of data that the issue affected. The assessment did not grade any of the exceptions as red, but it identified amber gradings in relation to the following areas:

- **“Find Data”** – This is the personal data which will be used to match a member who has logged into the dashboard to their records held by the Fund. The specific issues identified by the assessment were:
 - Member names: Middle and previous names are not necessarily held on the Fund's records which could result in dashboard searches not returning any record for those members if the names don't match.
 - Unlinked Members: All records for the same member should be automatically linked on the system but the assessment identified instances where this has not occurred and so the records remain unlinked. This would result in dashboard searches only returning partial records for those members.
- **“View Data”** – This is the information about a member's pension benefits which will be returned to the user via the Pension Dashboard when they search for their records. The specific issue identified by the assessment related to:

- Missing previous employer data: This was identified in records which had been converted from a previous system onto the current pension system and would result in members searches not returning pension data relating to their previous employment.

83. To ensure that the Fund's data is dashboard ready, management is taking action to address the issues noted above. Alongside this the Fund is also undertaking ongoing data cleansing as it recognises that data quality is the key to delivering a smooth experience for both members and the Fund.

The administering authority has appropriate arrangements in place for securing Best Value at Tayside Pension Fund

84. The administering authority (Dundee City Council) has responsibility for the ensuring that its business, including that of the Fund, is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The council also has a statutory duty to make arrangements to secure Best Value, which are subject to audit.

85. The outcome of audit work on the administering authority's Best Value arrangements is reported in the Dundee City Council Annual Audit Report. There were no findings from this work that suggested weaknesses in the arrangements in place to secure Best Value that are directly applicable to the pension fund.

86. As set out in this section of the report, the Fund should continue to focus on maximising investment returns for members and reducing administration case processing times, while ensuring it complies with all statutory requirements and deadlines.

Appendix 1: Action plan

2023/24 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Valuation of unobservable inputs in Level 2 and Level 3 investments</p> <p>The Fund does not currently carry out any procedures to gain independent assurance over the accuracy of valuations of Level 2 and Level 3 investments.</p> <p>Risk: The investment assets balance may be over or undervalued in the annual accounts due to the incorrect valuation of investments containing unobservable inputs.</p>	<p>Management should ensure that adequate arrangements are in place to gain independent assurance over the fund manager valuations of Level 2 and Level 3 investments at 31 March 2025.</p> <p>Issue 1 in Exhibit 3</p>	<p>Fund officers will liaise with Investment Advisors to seek assurance over asset values and level classifications.</p> <p>Responsible officer: Senior Banking and Investment Officer</p> <p>Agreed date: 30 June 2025</p>
<p>2. Investments and derivatives disclosures</p> <p><i>Note 10. Investments</i> and <i>Note 12. Fair Value</i> in the 2023/24 Annual Report and Accounts do not fully reflect the disclosure requirements for LGPS funds under the Code of Practice on Local Authority Accounting in the United Kingdom.</p> <p>Risk: Investments and fair values disclosures do not include all the information that may be of interest to readers of the accounts to understand the Fund's investment asset holdings.</p>	<p>The Fund should engage with the custodian to ensure that the additional investments and fair value information required is obtained and disclosed in the 2024/25 annual report and accounts.</p> <p>Issue 2 in Exhibit 3</p>	<p>2024/25 unaudited accounts will incorporate necessary investment disclosures in compliance with Code of Practice.</p> <p>Responsible officer: Senior Banking and Investment Officer</p> <p>Agreed date: 30 June 2025</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>3. Investment portfolio asset allocation</p> <p>Over the last 3 years the Fund has made reasonable progress in diversifying its investment portfolio to reflect the investment strategy asset allocation but still needs to reduce its level of equities and increase the proportion of investments in alternatives.</p> <p>Risk: The Fund's investment portfolio has greater exposure to equity and inflation risk over the short to medium term.</p>	<p>Management should continue to take action to diversify the Fund's investment portfolio to better reflect the investment strategy asset allocation, taking account of any changes resulting from the review of the investment strategy conducted after the 2023 valuation.</p> <p>Paragraphs 40. to 45.</p>	<p>Fund officers will continue to work with Investment Advisors to deliver recommendations from investment strategy reviews.</p> <p>Responsible officer: Senior Manager – Financial Services</p> <p>Agreed date: 30 June 2025</p>
<p>4. Pensions Regulator General Code of Practice</p> <p>The Pensions Regulator's new General Code of Practice sets out the standards and expectations for the governance and management of occupational pension schemes in the UK. The code, which came into force on 28 March 2024, consolidated and replaced 10 previous codes of practice. This comprehensive code aims to ensure that pension schemes are managed effectively and in the best interests of their members.</p> <p>Risk: The Fund's existing governance arrangements, structure and operating model do not meet the requirements of the new Code.</p>	<p>Management needs to identify and implement the changes required to ensure the Fund's compliance with the Pensions Regulator's new General Code of Practice.</p> <p>Paragraphs 67. and 68.</p>	<p>The new code requirements are noted and a review will be undertaken during the year and any necessary amendments to existing governance and policies will be made thereafter to ensure these are compliant with these arrangements.</p> <p>Responsible officer: Senior Manager – Financial Services</p> <p>Agreed date: 31 March 2025</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>5. Administrative staffing capacity</p> <p>The number of pension administration cases increased during 2023/24, and the average days taken to process these cases nearly doubled due to an increase in the level of complex cases. This was partly attributable to the impact of implementing the remedy to fix unlawful discrimination in public service pension schemes which is placing a significant additional administrative burden on the Fund.</p> <p>Risk: There is a risk that the Fund will have insufficient staff capacity to complete administrative activities in line with the relevant statutory requirements and deadlines in the future.</p>	<p>The Fund should review its administrative staffing capacity to deal with the increased volume and complexity of pension administration cases, alongside implementing the remedy to fix unlawful discrimination in public service pension schemes. Consideration should be given to what contingency measures can be put in place to ensure that these activities are completed in line with the relevant statutory requirements and deadlines.</p> <p>Paragraphs 76. to 80.</p>	<p>A structure review is currently underway of our existing staffing resources. This review will focus on comparing resources, structure and processes with other Scottish LGPS. The review findings will be reported to sub-committee.</p> <p>Responsible officer: Senior Manager – Financial Services</p> <p>Agreed date: 31 March 2025</p>

Follow-up of prior year recommendations

Recommendation	Agreed management action / timing	Progress
<p>PY1. Ad hoc payments reconciliation</p> <p>A year end reconciliation of ad hoc payments between the Altair pension system and the general ledger should be carried out to ensure completeness and accuracy of these payments.</p>	<p>This recommendation will be implemented for the end of the 2023/24 financial year and will be undertaken on a quarterly basis thereafter.</p> <p>Responsible officer: Senior Banking and Investment Officer</p> <p>Agreed date: 31 December 2023</p>	<p>Ongoing</p> <p>Some progress has been made with the reconciliation during 2023/24 but this has still to be fully concluded. Officers advised that this will be progressed during 2024/25 and will be in place for 31 March 2025.</p>
<p>PY2. KPI reporting</p> <p>Performance reporting should be improved to provide additional details on Key Performance Indicators (KPIs) such as progress against target.</p>	<p>This recommendation will be implemented for the end of the 2023/24 financial year and will be included in the annual report.</p> <p>Responsible officer: Service Manager – Financial Services</p> <p>Agreed date: 31 December 2023</p>	<p>Ongoing</p> <p>The Fund is still considering which performance measures represent KPIs for readers of the accounts and will include these within the <i>Administration Events and Performance</i> section of the 2024/25 Annual Report and Accounts. These are likely to include performance against statutory targets and deadlines and other internal processing targets.</p>
<p>PY3. Pension administration case processing times (Recommendation carried forward from 2021/22)</p> <p>The Fund should develop additional guidance and support to help pension administration staff understand the more complex cases and enable the team to build a larger pool of staff who are able to process these cases with limited assistance.</p>	<p>Update reported in 2022/23 Annual Audit Report: Six staff were employed to assist with this, but there was still work to be completed.</p>	<p>Ongoing</p> <p>The number of pension administration cases increased during 2023/24, and the average days taken to process these cases nearly doubled due to an increase in the level of complex cases. This was partly attributable to the impact of implementing the remedy to fix unlawful discrimination in public service pension schemes which is placing a significant additional administrative burden on the Fund.</p> <p>See Recommendation 5 above</p>

Tayside Pension Fund

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