



Internal Audit

North East Scotland Pension Fund Annual Assurance Report and Chief Internal Auditor's Opinion 2024/25

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1 Executive Summary

1.1 Introduction and background

Internal Audit's (IA) primary role is to provide independent and objective assurance on the North East Scotland Pension Fund's (NESPF), and Aberdeen City Council's (whose systems the NESPF relies on) risk management, control, and governance processes. Where this report focuses on the NESPF specifically, consideration has been given and reference will be made to the work IA has carried out with the Council overall.

This role of IA requires a continuous rolling review and appraisal of the internal controls of NESPF involving the examination and evaluation of the adequacy of systems of risk management, control, and governance, making recommendations for improvement where appropriate. Reports are produced relating to each audit assignment and presented when finalised to the Pensions Committee. Along with other evidence, these reports are used in forming an annual opinion on the adequacy of risk management, control, and governance processes.

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Public Sector Internal Audit Standards set the mission of IA as to enhance and protect organisational value by providing risk-based and objective assurance, advice, and insight.

1.2 Purpose of this report

Public Sector Internal Audit Standards require that IA produce an annual report on the adequacy and effectiveness of NESPF's framework of governance, risk management and control. It is one of the functions of the Pensions Committee to review the activities of the IA Service, including its annual work programme.

This report is designed to meet three objectives; to present to Pensions Committee, and through them, the Board:

- A formal opinion on the adequacy and effectiveness of the NESPF's arrangements for:
 - Governance
 - Risk Management
 - Internal Control
- A narrative over the key findings from the assurance work undertaken by IA during 2024/25, drawing out key lessons to be learned.
- An account of the assurance activities and resources of IA during the period 2024/25.

This report covers the period from 1 April 2024 to 31 March 2025 and any work finalised during the 2024/25 assurance period. It also takes account of work undertaken up to the date of the issue of this report. The report is grounded in the whole activity and work of IA, whether in terms of formal audit evidence and work, management assurance and consultancy activity, or evidence gathered throughout wider engagement across the NESPF or the Council.

1.3 Conclusion

The overall Chief Internal Auditor's opinion is:

In my opinion the NESPF had an adequate and effective framework for governance, risk management and control, covering the period 1 April 2024 to 31 March 2025.

For further commentary see the Annual Assurance Opinion section below.

1.4 Action requested of the Pensions Committee

The Pensions Committee is requested to note the contents of this report and the assurance opinion, to inform its annual report and its review of the financial statements, in particular the governance statement.

2 Annual Assurance Opinion

2.1 Basis of annual assurance opinion

In accordance with the Public Sector Internal Audit Standards, IA's assessment, and opinion over the framework of governance, risk management and control is based upon the whole activity and work of IA including:

- The results of internal audits completed up to the date of this report.
- Any follow-up action taken in respect of audits from previous periods.
- The effects of any significant changes in control environment.
- Matters arising from previous annual reports to the NESPF.
- Any limitations that may have been placed on the scope of IA – there are no restrictions to declare in this report.
- Reports issued by External Audit.
- IA's knowledge of the NESPF and the Council's Governance, Risk Management and Performance Monitoring arrangements.
- The assessment of risk completed during the formation of the 2025-28 Audit Plan.
- The results of other assurance activities completed during the year.

The Standards also require that IA confirms to the Committee, at least annually, that it is organisationally independent. The organisational independence of IA is established through Financial Regulations (approved by full Council) and the Internal Audit Charter (approved by the Audit, Risk and Scrutiny Committee). Other factors which help ensure IA's independence are that: the Internal Audit plan for the NESPF is approved by the Pensions Committee; and Internal Audit reports its outputs to Committee in the name of the Chief Internal Auditor. The Chief Internal Auditor considers that Internal Audit is organisationally independent.

2.2 Annual assurance opinion 2024/25

IA is satisfied that sufficient audit and assurance work has been undertaken to allow a reasonable conclusion to be drawn as to the adequacy and effectiveness of the NESPF's framework for governance, risk management and control. NESPF had an adequate and effective framework for governance, risk management and control, covering the period 1 April 2024 to 31 March 2025.

2.3 Rationale for the opinion

It is the responsibility of the Pension Fund's Management to establish an appropriate and sound system of internal control and to monitor the continuing effectiveness of that system. It is the responsibility of the Chief Internal Auditor to provide an annual overall assessment of the robustness of the internal control system.

The main objectives of the Pension Fund's/Council's internal control systems are to:

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- Ensure adherence to management policies and directives to achieve the organisation's objectives.
 - Safeguard assets.
 - Ensure the relevance, reliability, and integrity of information, so ensuring as far as possible the completeness and accuracy of records.
 - Ensure compliance with statutory requirements.

Any system of control can only ever provide reasonable and not absolute assurance that control weaknesses or irregularities do not exist or that there is no risk of material errors, losses, fraud, or breaches of laws or regulations. Accordingly, the NESPF is continually seeking to improve the effectiveness of its systems of internal control.

IA undertakes an annual programme of work agreed with Management and the Pensions Committee. The audit plan is based on a risk assessment process that is revised on an ongoing basis to reflect evolving risks and changes within the Pension Fund and Aberdeen City Council.

All IA reports identifying system weaknesses, non-compliance with expected controls, and / or assurance of satisfactory operation are brought to the attention of Management and include appropriate recommendations and agreed action plans. It is Management's responsibility to ensure that proper consideration is given to IA reports and that appropriate action is taken on audit recommendations. IA is required to ensure that appropriate arrangements are made to determine whether action has been taken on internal audit recommendations or that management has understood and assumed the risk of not acting.

Analysis of the findings within the year highlights positively that the audited area was operating as anticipated. This reflects a strong control environment and the need for IA to only make limited recommendations.

During the year IA issued one specific NESPF report:

- **Pension Fund Payroll** – The North East Scotland Pension Fund (NESPF) administers the Local Government Pension Scheme (LGPS) for 41 employers in the North and North East of Scotland, including Aberdeen City Council. In 2023/24, NESPF paid out £198.3m in retirement pensions, lump sums, and death benefits. The audit assessed the control framework for the Pension Fund Payroll and found it provided reasonable assurance over the Council's approach. Key areas reviewed included ongoing pensions, new pensions, transfers out, data quality, committee oversight, breaches register, reconciliations, and exception reporting. While reasonable assurance was available in these areas, some weaknesses were identified, such as gaps in written procedures, unnecessary system access, and risks related to deceased members and bank account details. Recommendations were made to address these risks and enhance controls over pensioner identification, bank account verification, and write-offs.

Management accepted all recommendations and are working on implementation presently as part of timebound actions plans, with some already implemented.

2.4 Follow up of audit recommendations

Public Sector Internal Audit Standards require that IA report the results of its activities to the Committee and establishes a follow-up process to monitor and ensure that management actions have been effectively implemented.

As at the 31 March 2025, no audit recommendations were due.

As has been reported to the Committee previously, implementation of agreed actions is a strength of the Pension Fund.

3 Audit Results

3.1 In year audit results

Across the year, IA issued one audit report – Pension Fund Payroll.

3.2 2024/25 Audits

Council Area	Audit Area	Overall Rating
NESPF	Pension Fund Payroll	Moderate

3.3 Counter Fraud

IA does not have a dedicated responsibility across the NESPF or Council to lead on Counter Fraud activities, this is instead within the remit of a separate inhouse team. The potential for fraud is however considered as part of all reviews carried out by IA from a control framework perspective.

4 IA Performance

4.1 Quality assurance and improvement plan

The Public Sector Internal Audit Standards (PSIAS) require that the annual report must also include a statement on conformance with the PSIAS and the results of the quality assurance and improvement programme (QAIP).

In previous reports IA has updated the Committee on work to address previously noted issues; the main driver for these being the internal quality assessment, any external quality assessments and recommendations made by External Audit.

IA is pleased to confirm an internal review of the control framework has concluded that IA fully conforms with PSIAS.

Complete details of the QAIP (including KPIs) have been presented to the Audit, Risk and Scrutiny Committee as part of the Council's overall Annual Audit Report and Opinion. This includes details of Internal Audit's work to ensure compliance with the Global Internal Audit Standards (GIAS), which were introduced in 2025.

4.2 Staffing

At present IA is operating with a 12.8 FTE, 0.2 FTE under budget. This 0.2 variance is reflective of flexible working within the Service.

5 Appendix 1 – Grading of Recommendations

Risk level	Definition
Corporate	This issue / risk level impacts the Fund as a whole. Mitigating actions should be taken at the Senior Leadership level.
Function	This issue / risk level has implications at the functional level and the potential to impact across a range of services. They could be mitigated through the redeployment of resources or a change of policy within a given function.
Cluster	This issue / risk level impacts a particular Service or Cluster. Mitigating actions should be implemented by the responsible officers.
Programme and Project	This issue / risk level impacts the programme or project that has been reviewed. Mitigating actions should be taken at the level of the programme or project concerned.

Net risk rating	Description	Assurance assessment
Minor	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.	Substantial
Moderate	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified, which may put at risk the achievement of objectives in the area audited.	Reasonable
Major	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.	Limited
Severe	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.	Minimal

Individual issue / risk	Definitions
Minor	Although the element of internal control is satisfactory there is scope for improvement. Addressing this issue is considered desirable and should result in enhanced control or better value for money. Action should be taken within a 12 month period.
Moderate	An element of control is missing or only partial in nature. The existence of the weakness identified has an impact on the audited area's adequacy and effectiveness. Action should be taken within a six month period.
Major	The absence of, or failure to comply with, an appropriate internal control, such as those described in the Scheme of Governance. This could result in, for example, a material financial loss, a breach of legislative requirements or reputational damage to the Fund. Action should be taken within three months.
Severe	This is an issue / risk that is likely to significantly affect the achievement of one or many of the Fund's objectives or could impact the effectiveness or efficiency of the Fund's activities or processes. Examples include a material recurring breach of legislative requirements or actions that will likely result in a material financial loss or significant reputational damage to the Fund. Action is considered imperative to ensure that the Fund is not exposed to severe risks and should be taken immediately.