



Pension Fund Committee

Date **Thursday 6 September 2018**
Time **10.00 am**
Venue **Committee Room 2 - County Hall, Durham**

Business

Part A

**Items during which the Press and Public are welcome to attend.
Members of the Public can ask questions with the Chairman's
agreement.**

1. Apologies for Absence
2. Declarations of interest (if any)
3. The Minutes of the Meeting held on 14 June 2018 (Pages 5 - 12)
4. Overall Value of Pension Fund Investments to 30 June 2018 (Pages 13 - 18)
5. Performance Measurement of Pension Fund Investments to 30 June 2018 (Pages 19 - 30)
6. Short Term Investments for the Period Ended 30 June 2018 (Pages 31 - 32)
7. Audit Completion Report for the Year Ended 31 March 2018 (Pages 33 - 58)
8. Internal Audit Progress Report to 30 June 2018 (Pages 59 - 60)
9. Feedback from Local Pension Board
10. Such other business as, in the opinion of the Chairman of the Meeting is of sufficient urgency to warrant consideration
11. Any resolution relating to the exclusion of the public during the discussion of items containing exempt information

Part B

Items during which it is considered the meeting will not be open to the public (consideration of exempt or confidential information)

12. The Minutes of the Meeting held on 14 June 2018 (Pages 61 - 68)
13. Report of the Pension Fund Adviser (Pages 69 - 104)
14. Investment Strategy Review Update (Pages 105 - 106)
15. Pension Fund Committee Independent Investment Adviser (Pages 107 - 108)
16. Pension Fund Committee Training Needs Analysis (Pages 109 - 116)
17. Report of Aberdeen Standard (Pages 117 - 146)
18. Report of AB (Pages 147 - 164)
19. Report of BlackRock (Pages 165 - 180)
20. Report of BNY Mellon (Walter Scott) (Pages 181 - 190)
21. Report of CBRE Global Investment Partners (Pages 191 - 204)
22. Report of Mondrian Investment Partners Ltd (Pages 205 - 210)
23. Report of Royal London (Pages 211 - 212)
24. Such other business as, in the opinion of the Chairman of the meeting, is of sufficient urgency to warrant consideration

Helen Lynch

Head of Legal and Democratic Services

County Hall
Durham
29 August 2018

To: The Members of the Pension Fund Committee

County Council Members:

Councillors M Davinson, O Temple, J Atkinson, C Carr, J Carr,
J Lethbridge, S Hugill, B Kellett, J Nicholson, J Shuttleworth and
M Wilson

Darlington Borough Council Members

Councillor S Harker
Councillor I G Haszeldine

Scheme Member Representatives

A Delandre and J Taylor

Further Education Colleges Representative

A Broadbent

Scheduled Bodies Representative

(vacant)

Admitted Bodies Representative

(vacant)

Advisers: County Council Officers

Chief Executive	T Collins
Corporate Director of Resources	J Hewitt
Head of Legal and Democratic Services	H Lynch
Pensions Manager	N Orton

Independent Advisers

J Holden – Mercer
S Dickson - Mercer

Investment Managers

Aberdeen Standard
AB
BlackRock
BNY Mellon (Walter Scott)
CBRE Global Investment Partners
Mondrian Investment Partners Ltd
Royal London

Staff Observers

UNISON	N Hancock
GMB	D Clegg

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DURHAM COUNTY COUNCIL

PENSION FUND COMMITTEE

At a Meeting of **Pension Fund Committee** held in Council Chamber - County Hall, Durham on **Thursday 14 June 2018 at 10.00 am**

Present:

Councillor M Davinson (Chairman)

Members of the Committee:

Councillors O Temple (Vice-Chairman), J Atkinson, J Carr, S Hugill and J Nicholson

Further Education Colleges Representative

Andy Broadbent

Also Present:

John Hewitt – Corporate Director of Resources

Nick Orton – Pensions Manager

Beverley White – Finance Manager – Pensions and Technical

Independent Adviser:

Sandy Dickson – Mercer

Observers:

Neville Hancock – UNISON

David Clegg – GMB

Councillor Amanda Hopgood and Ian Densham – Local Pension Board

1 Apologies for Absence

Apologies for absence were received from Councillors C Carr, B Kellett, J Shuttleworth and M Wilson, and Darlington Borough Councillor S Harker.

Prior to the commencement of business the Chairman welcomed Andy Broadbent, the newly appointed Further Education Colleges representative to the Committee.

2 Declarations of interest

There were no declarations of interest.

3 Minutes

The Minutes of the meeting held on 15 March 2018 were agreed as a correct record, subject to David Clegg, GMB being added to the list of attendees. The Minutes were signed by the Chairman.

Matters Arising from the Minutes

Training Needs Analysis – Self-Assessment

Nick Orton advised that most self-assessment forms had been received from Members and that he would pursue the completion of the remaining. A meeting was to be held with the Chairman and Vice-Chairman of the Committee in early July 2018 to assess training needs arising from the gap analysis.

Committee Membership

Nick Orton gave an update regarding the filling of the vacant positions on the Committee. Members were informed that interviews for the appointment of two pensioner representatives would be held in the next few weeks, and the new members should therefore be in post in time for the next meeting.

4 Overall Value of Pension Fund Investments to 31 March 2018

The Committee considered a report of the Corporate Director of Resources which provided an update on the overall value of the Pension Fund's investments at 31 March 2018, the movement in the cash balance during the last four quarters and the projected cash flow position up to 30 June 2018 (for copy see file of Minutes).

With regard to cash flow, Councillor Temple asked Officers to consider whether it would be feasible to use dividend income as a means of maintaining the Fund's cash flow position as an alternative to dis-investing from Fund Managers. It was agreed that Beverley White and Sandy Dickson would explore this and report back to the Committee.

Resolved:

That the information contained in the report be noted, and a report on the feasibility of using dividend income to maintain the cash flow position be considered at a future meeting of the Committee.

5 Short Term Investments for the Period Ended 31 March 2018

The Committee considered a report of the Corporate Director of Resources which provided information on the performance of the Pension Fund's short term investments as at 31 March 2018 (for copy see file of Minutes).

In response to a question from Andy Broadbent, the Committee was informed that investments of short term cash balances were usually for a duration of between 3 and 6 months.

Resolved:

That the position at 31 March 2018 regarding the Pension Fund's short term investments where £23,166 net interest was earned in the three month period, be noted.

6 Performance Measurement of Pension Fund Investments to 31 March 2018

The Committee considered a report of the Corporate Director of Resources which provided Members with an overview of the performance of the Fund to 31 March 2018 (for copy see file of Minutes).

Resolved:

That the information contained in the report produced by JP Morgan be noted.

7 Statement of Accounts for the Year Ended 31 March 2018

The Committee considered a report of the Corporate Director of Resources which presented the Pension Fund Accounts for the year ended 31 March 2018 and raised any significant issues arising from the accounts (for copy see file of Minutes).

In response to a question from Councillor Temple the Committee was advised that the Pension Fund had provided loans in the 1970s to Durham County Council and Sunderland City Council. These were outstanding because of the rate of interest earned. Other investment balances of £1.2m were outstanding sales and purchases of Fund Managers at the year end.

Resolved:

That the content of the report be noted.

8 Internal Audit Progress Report to 31 March 2018

The Committee considered a report of the Corporate Director of Resources which outlined progress made in delivering the 2017/2018 internal audit plan relevant to the Pension Fund Committee (for copy see file of Minutes).

Andy Broadbent queried the limited assurance given in respect of Additional Voluntary Contributions, and was advised that a follow-up audit had commenced and a further report would be submitted to the Committee in due course. It was suggested that Andy Broadbent be provided with the report submitted to the last meeting which gave details of the control issues raised.

Resolved:

That the work undertaken by Internal Audit during the period ending 31 March 2018, be noted.

9 Local Government Pension Scheme (Amendment) Regulations 2018

The Committee considered a report of the Corporate Director of Resources which advised the Committee of changes made to the regulations governing the Local Government Pension Scheme by the introduction of the Local Government Pension Scheme (Amendment) Regulations 2018 (for copy see file of Minutes).

Following a question from Councillor Atkinson, the Member was informed that the assets and liabilities of Parish and Town Councils within the scheme were pooled and therefore there was no requirement to report pension fund liabilities in the Parish accounts.

Resolved:

That the information contained in the report be noted.

10 Feedback from Local Pension Board

There was no feedback from the Local Pension Board.

11 Exclusion of the Public

Resolved:

That under Section 100(A)(4) of the Local Government Act 1972, the public be excluded from the meeting for the following items of business on the grounds that they involved the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act.

12 Minutes

The Minutes of the meeting held on 15 March 2018 were agreed as a correct record, subject to David Clegg, GMB being added to the list of attendees. The Minutes were signed by the Chairman.

Matter Arising from the Minutes

Aberdeen Standard

Nick Orton informed Members of the meeting held with the Managers regarding the merger of Aberdeen with Standard Life.

13 Report of the Pension Fund Adviser

The Committee considered a report of the Independent Adviser Sandy Dickson of Mercer (for copy see file of Minutes).

Resolved:

That the information given be noted.

14 Funding Level Update as at 31 March 2018

The Committee considered a report of the Corporate Director of Resources which advised the Committee of the latest funding level update provided by the Pension Fund Actuary (for copy see file of Minutes).

Resolved:

That the content of the report be noted.

15 Report of Aberdeen Standard

Consideration was given to a report from Aberdeen Standard which included:

- a) Manager's views on the economy and investment strategy for the future
- b) Investment Policy
- c) List and valuation of investment holdings.

Resolved:

That the information given be noted.

16 Report of AB

Consideration was given to a report from the Managers in attendance from AB which included:

- a) Manager's views on the economy and investment strategy for the future
- b) Investment Policy
- c) List and valuation of investment holdings.

Resolved:

That the information given be noted.

17 Report of BlackRock

Consideration was given to a report from BlackRock which included:

- a) Manager's views on the economy and investment strategy for the future
- b) Investment Policy
- c) List and valuation of investment holdings.

Resolved:

That the information given be noted.

18 Report of Bank of New York Mellon (Walter Scott)

Consideration was given to a report from Bank of New York Mellon (Walter Scott) which included:

- a) Manager's views on the economy and investment strategy for the future
- b) Investment Policy
- c) List and valuation of investment holdings.

Resolved:

That the information given be noted.

19 Report of CB Richard Ellis

Consideration was given to a report from CB Richard Ellis which included:

- a) Manager's views on the economy and investment strategy for the future
- b) Investment Policy
- c) List and valuation of investment holdings.

Resolved:

That the information given be noted.

20 Report of Mondrian

Consideration was given to a report from Mondrian which included:

- a) Manager's views on the economy and investment strategy for the future
- b) Investment Policy
- c) List and valuation of investment holdings.

Resolved:

That the information given be noted.

21 Report of Royal London

Consideration was given to a report of the Managers in attendance from Royal London which included:

- a) Manager's views on the economy and investment strategy for the future
- b) Investment Policy
- c) List and valuation of investment holdings.

Resolved:

That the information given be noted.

22 LGPS Investment Pooling

Nick Orton provided an update in relation to LGPS Investment Pooling.

Resolved:

That the information be noted and proposed actions be agreed.

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Pension Fund Committee

6 September 2018

Overall Value of Pension Fund Investments to 30 June 2018



John Hewitt, Corporate Director of Resources

Purpose of the Report

1. To provide an update to Members on the:
 - (a) overall value of the Pension Fund's investments at 30 June 2018;
 - (b) movement in the cash balance during the last four quarters;
 - (c) projected cash flow position up to 30 September 2019.

Value of the Pension Fund

2. Reports from the seven appointed Fund Managers, namely:
 - Aberdeen Standard
 - AB
 - BlackRock
 - Bank of New York Mellon (Walter Scott)
 - CB Richard Ellis
 - Mondrian
 - Royal London

are included in other papers within this agenda.

3. The value of the Fund at 30 June 2018 was £2.835 billion compared to £2.759 billion at 31 March 2018. This is an increase of £75.82 million (or 2.74%) in the first quarter of 2018/19.

Allocation of New Investment Money/ Withdrawal of Investment Money to Deal with Estimated Shortfall

4. New investment money is allocated to Fund Managers when the Pension Fund has cash which is not needed to be available as a working cash balance, for example for the payment of pensioners or fees.
5. When it is estimated that the Pension Fund will not have sufficient cash available as a working cash balance, cash is withdrawn from Fund Managers.
6. Appendix 1 details the working cash balance position of the Pension Fund and actual cash flow for the last four quarters. As at 30 June 2018 the cash balance held in the Durham County Council Pension Fund bank account was

£22.077 million. In addition to this, not included in this table, Fund Managers were holding cash of £77.418 million at 30 June 2018.

Cash Flow Forecast 2018/19

7. Appendix 2 shows the projected cash flow for the Pension Fund for the period July 2018 to September 2019. It should be noted that this is only in respect of cash held in the Pension Fund bank account and that income earned from investments is currently retained by Managers.
8. The forecast includes the recovery of £20 million from Fund Managers, in the quarters ending 30 September 2018, 31 March 2019 and 30 September 2019. Without the recovery of the aforementioned amounts, the Pension Fund is estimated to be in a cash negative position in all quarters to 30 September 2019.
9. The forecast indicates net cash outflows in future quarters of between £10 million and £11.5 million. The size of the outflows are exacerbated due to the early receipt of Durham County and Darlington Borough Councils' deficit contributions in April 2017, the impact of which is an apparent reduction in future contributions receivable of £6.598 million per quarter.
10. The following assumptions have been used to calculate the cash flow forecast:
 - (a) Annual dividend income receivable is estimated to be £28 million and profiled to be received as follows:

(i)	Quarter ended 30 September 2018	24%
(ii)	Quarter ended 31 December 2018	26%
(iii)	Quarter ended 31 March 2019	29%
(iv)	Quarter ended 30 June 2019	21%
 - (b) Increases in contributions are included in line with the actuarial valuation.
 - (c) Transfer values due in are estimated at £1.25 million per quarter. It is anticipated that transfers in will continue as the LGPS remains relatively attractive to employees.
 - (d) Pensions increase will be 3% with effect from 1 April 2018.
 - (e) Payroll paysheets (payments to pensioners) are forecast to increase by £0.25 million per quarter, from 1 April 2018. This figure will alter if there are large numbers of retirements from the employing authorities. It is anticipated however that the actual figure will not be materially different to the forecast since the position of the County Council, being the largest employer in the Fund, has been taken into account.

- (f) Payable paysheets are forecast on the basis of the previous year's profile and adjusted for known one-off payments, although this can be the most volatile figure as it includes payments of lump sums and fees to Managers. This assumption errs on the side of prudence, in that this is an average figure taken from previous quarterly payments.
11. Appendix 2 provides an early indication of the likely impact on the Pension Fund's cash flow position over the next 15 months. It is continuously under review and is refined to take any new information into account as it becomes available.

Fund Rebalancing

12. Fund rebalancing is the mechanism by which the Pension Fund would ensure that the asset allocation to Investment Managers is maintained at the target levels previously agreed by the Pension Fund Committee and as set out in the Investment Strategy Statement (ISS). It is also the means by which cash is moved to or from Managers as a consequence of the cash flow forecasts.
13. Due to the current suspension of fund rebalancing, there was no rebalancing exercise this quarter.

Recommendation

14. Members are asked to note the information contained in this report.

Contact: Beverley White Tel: 03000 261900

Actual Cash Flow – For the period 1 July 2017 to 30 June 2018

Quarter Ended	30.09.17		31.12.17		31.03.18		30.06.18	
	Estimate	Actual	Estimate	Actual	Estimate	Actual	Estimate	Actual
	£	£	£	£	£	£	£	£
Cash Inflows								
Contributions - DCC	13,805,000	13,689,270	13,775,000	13,793,663	13,775,000	13,821,664	13,800,000	14,026,059
Contributions - Other	8,610,000	8,496,465	8,665,000	8,659,201	8,665,000	8,539,955	8,925,000	9,435,259
Unfunded pensions recharges	1,145,000	1,168,998	1,145,000	1,111,703	1,135,000	1,127,645	1,170,000	1,095,967
Transfer Values	750,000	1,119,502	1,000,000	2,245,256	1,000,000	1,127,398	1,250,000	1,505,702
Other income	2,000,000	1,021,246	2,000,000	2,398,751	2,000,000	3,309,977	2,000,000	1,280,190
Funds recovered from Managers	0	0	15,000,000	15,000,000	20,000,000	20,000,000	0	0
Interest on short term investments	9,000	34,166	35,000	31,895	30,000	23,166	30,000	46,562
Total Cash Inflow	26,319,000	25,529,648	41,620,000	43,240,469	46,605,000	47,949,804	27,175,000	27,389,739
Cash Outflows								
Payroll Paysheets	24,000,000	24,164,845	24,400,000	24,294,397	24,600,000	24,489,507	25,500,000	25,076,412
Payables Paysheets (incl. Managers' fees)	11,250,000	12,798,593	12,000,000	12,225,874	12,000,000	10,303,580	12,000,000	15,369,235
Funds transferred to Managers	0	0	0	0	0	0	0	0
Other Expenditure	1,000	1,485	1,000	1,337	1,000	1,808	1,000	4,439
Total Cash Outflows	35,251,000	36,964,923	36,401,000	36,521,608	36,601,000	34,794,895	37,501,000	40,450,085
Net Cash Inflow / (-) Outflow	-8,932,000	-11,435,275	5,219,000	6,718,861	10,004,000	13,154,910	-10,326,000	-13,060,346
Balance at Bank (opening)		28,879,256		16,915,978		23,095,655		35,680,827
Balance at Bank (closing)		16,915,978		23,095,655		35,680,827		22,076,786

Projected Cash Flow (including forecast dividends receivable by Fund Managers) - for the period 1 July 2018 to 30 September 2019

Quarter Ended	30.09.18	31.12.18	31.03.19	30.06.19	30.09.19
	Estimate	Estimate	Estimate	Estimate	Estimate
	£	£	£	£	£
Cash Inflows					
Contributions - DCC	13,810,000	13,810,000	13,810,000	13,810,000	13,810,000
Contributions - Other	9,055,000	9,055,000	9,055,000	9,055,000	9,055,000
Unfunded pensions recharges	1,170,000	1,170,000	1,170,000	1,170,000	1,170,000
Transfer Values	1,250,000	1,250,000	1,250,000	1,250,000	1,250,000
Other income	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Funds recovered from Managers	20,000,000	0	20,000,000	0	20,000,000
Interest on short term investments	40,000	35,000	35,000	35,000	30,000
Total Cash Inflow	47,325,000	27,320,000	47,320,000	27,320,000	47,315,000
Cash Outflows					
Payroll Paysheets	25,750,000	26,000,000	26,250,000	26,500,000	26,750,000
Payables Paysheets (incl. Managers' fees)	12,000,000	12,000,000	12,000,000	12,000,000	12,000,000
Funds transferred to Managers	0	0	0	0	0
Other Expenditure	1,000	1,000	1,000	1,000	1,000
Total Cash Outflows	37,751,000	38,001,000	38,251,000	38,501,000	38,751,000
Net Cash Inflow / (-) Outflow	9,574,000	-10,681,000	9,069,000	-11,181,000	8,564,000
Balance at Bank (opening)	22,076,786	31,650,786	20,969,786	30,038,786	18,857,786
Balance at Bank (closing)	31,650,786	20,969,786	30,038,786	18,857,786	27,421,786
Dividends Received by Managers	6,830,000	7,360,000	8,070,000	5,740,000	6,830,000

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**Pension Fund Committee
6 September 2018**



**Performance Measurement of
Pension Fund Investments to 30
June 2018**

John Hewitt, Corporate Director of Resources

Purpose of the Report

- 1 To provide an overview for Members of the performance of the Fund to 30 June 2018.

Background

- 2 The performance of the seven fund managers is measured against personalised benchmarks chosen at the inception of the fund. The attached report from JP Morgan, the Fund's custodian, shows:
 - (a) The fund managers' benchmarks;
 - (b) The total fund performance for the quarter to 30 June 2018, year to date and since inception;
 - (c) The managers' performance in absolute and relative terms against the relevant benchmarks, for the quarter to 30 June 2018, year to date and since inception;
 - (d) A portfolio comparison for the quarter ended 30 June 2018 and for the period since inception.

Recommendation

- 3 Members note the information contained in the attached report produced by JP Morgan.

Contact: Beverley White Tel: 03000 261900

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J.P.Morgan

***Durham Quarterly Report
Report Package***

Published 27-Jul-2018 05:30:52

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Index and Benchmark Report - Monthly
Durham CC (UK005)
As at June 2018

Name	Month Return
Business Unit Indices	
Equities	
FT-All Share +3%	0.06
FTSE-Ftse All-Share (Gross)	(0.18)
FTSE-Ftse Aw Developed (Gross)	0.59
MSCI AC World Index (Gross) + 2.5%	0.49
MSCI AC World Index (Gross) + 3%	0.53
MSCI EM (Emerging Markets) (Net)	(3.40)
MSCI EM (Emerging Markets) (Net) + 2.5%	(3.20)
MSCI-Acwi (Gross)	0.28
MSCI-Em (Emerging Markets) (Gross) + 2.5%	(3.13)
MSCI-World (Gross)	0.78
Fixed Income	
British Gov Index Linked over 5 Yr + 0.5%	(0.69)
Cash And Cash Equivalent	
3 MONTH GBP LIBOR	0.05
3Month GBP Libor +4%	0.38
3Month libor in GBP plus 3%	0.30
GBP Zero Return Index	0.00
RPI + 5%	0.69
Retail Price Index (UK)	0.29

Executive Summary
Durham CC (UK005)
As of June 2018
Gross of Fee
Total Fund Composite (0UK00501)

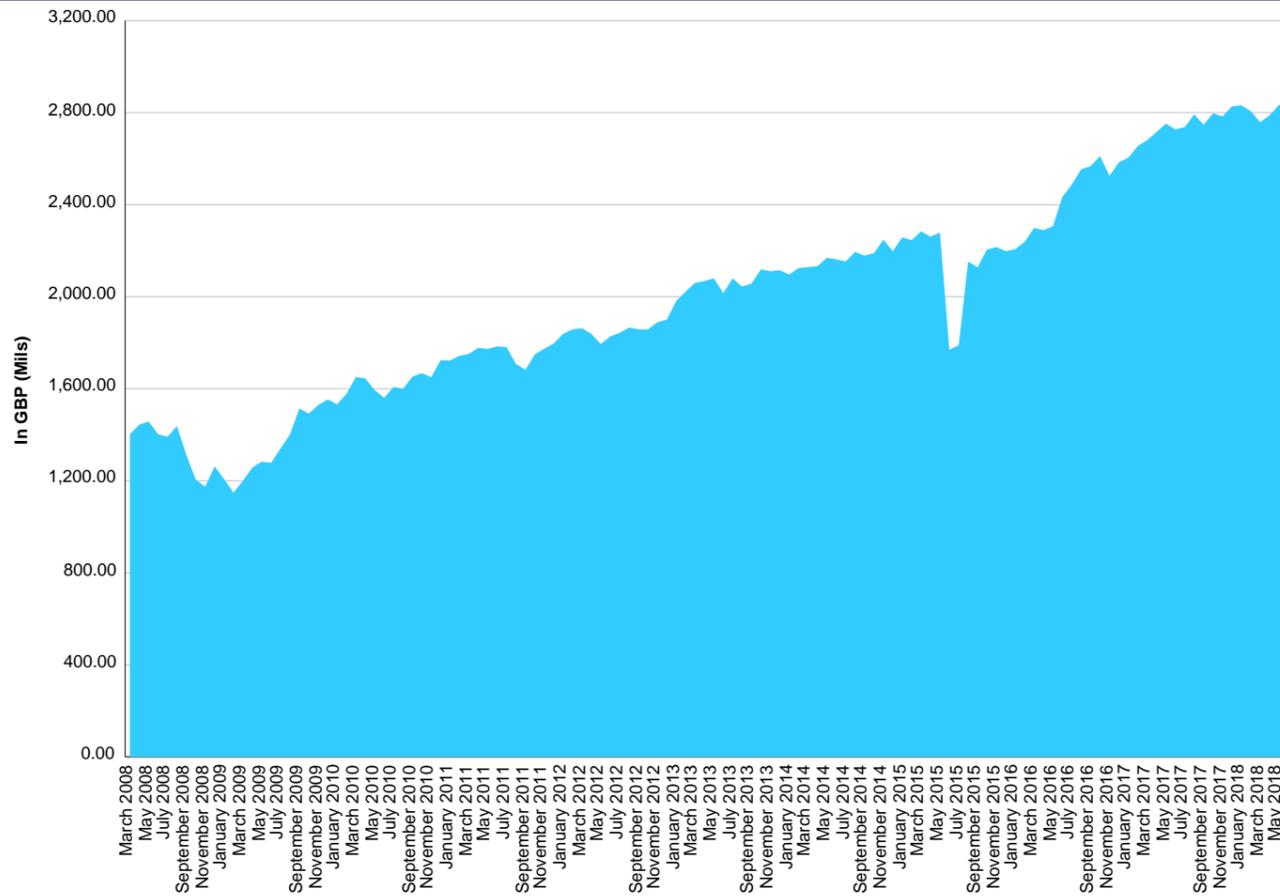
Market Value Overview

	In GBP (Mils)				
	June 2018	March 2018	December 2017	September 2017	June 2017
Market Value	2,834.64	2,758.82	2,827.45	2,747.63	2,727.25
Net Cash Flow	0.00	(20.00)	(14.98)	0.00	31.77
Net Income / Appreciation	75.82	(48.63)	94.79	20.38	14.74

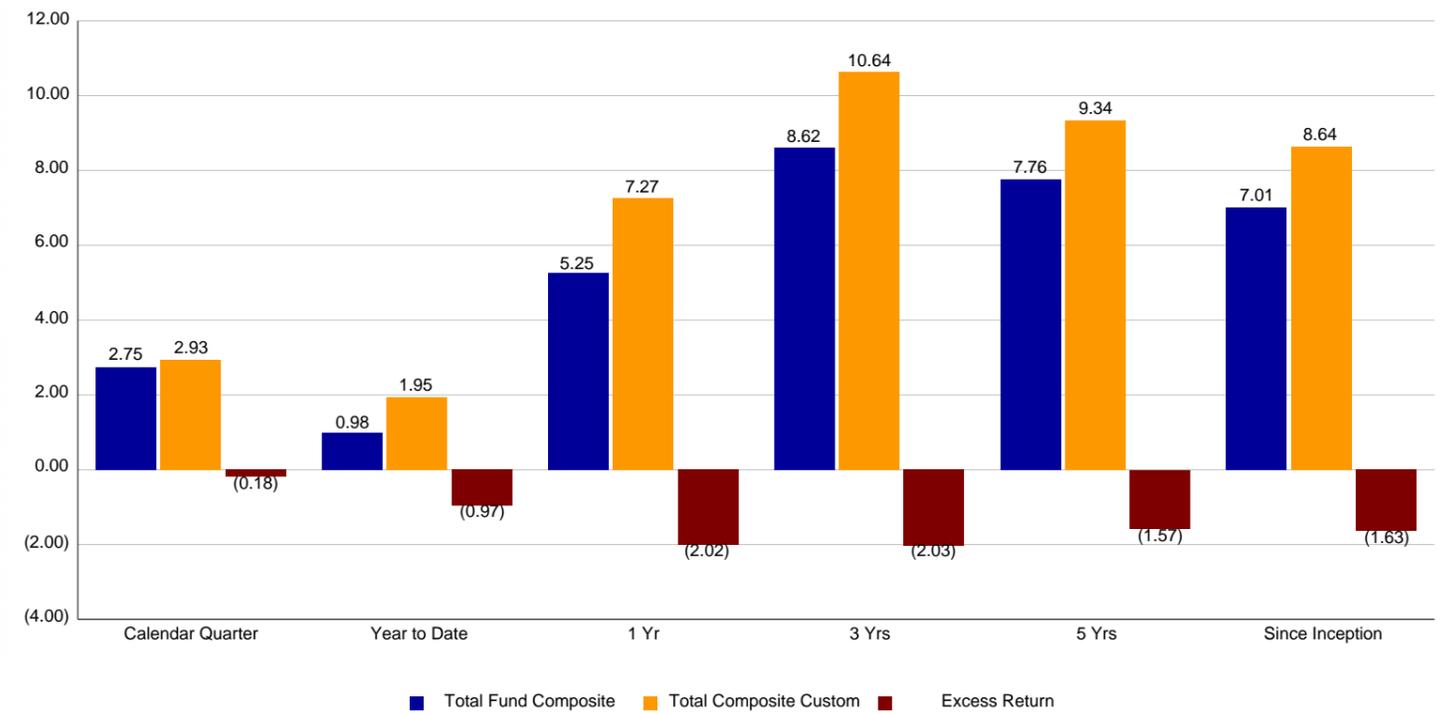
Performance Overview

	Performance (Annualised > 1 Year)					
	Calendar Quarter	Year to Date	1 Yr	3 Yrs	5 Yrs	Since Inception
Total Fund Composite	2.75	0.98	5.25	8.62	7.76	7.01
Total Composite Custom	2.93	1.95	7.27	10.64	9.34	8.64
Excess Return	(0.18)	(0.97)	(2.02)	(2.03)	(1.57)	(1.63)

Development of Market Value - Since Inception



Performance Returns



Portfolio Comparison

Durham CC (UK005)

As of June 2018

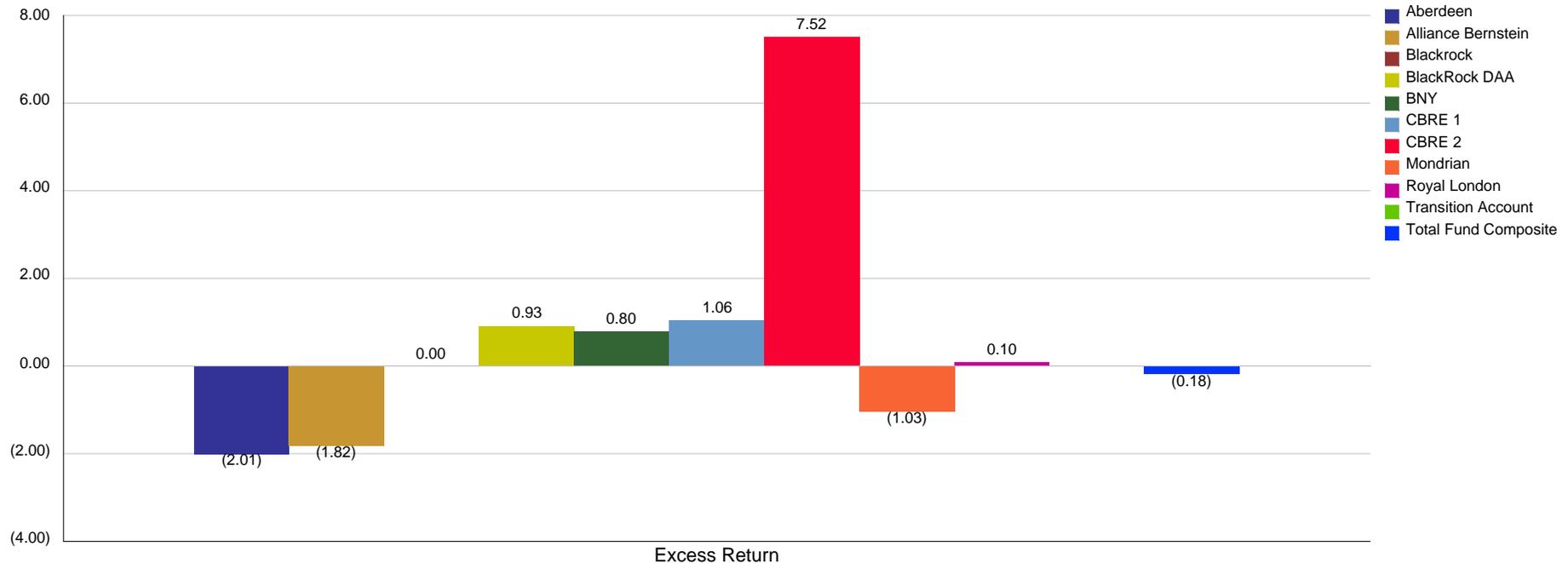
Gross of Fee

Excess Return - Additive

Primary - Pound Sterling

Manager	Benchmark	Market Value (mils)	Weight	Trailing 3 Months Return	Benchmark Trailing 3 Months Return	Excess Returns	Current Contribution to Return
Aberdeen	MSCI-Acwi (Gross) + 3%	472.44	16.67	5.80	7.81	(2.01)	0.97
Alliance Bernstein	3 Month Libor in GBP +3% pa	392.78	13.86	(0.91)	0.91	(1.82)	(0.13)
Blackrock	Zero Return - Historically FTSE All Share (Gross) +3% pa	0.01	0.00	0.00	0.00	0.00	0.00
BlackRock DAA	3 Month Libor in GBP +3% pa	487.37	17.19	1.84	0.91	0.93	0.32
BNY	MSCI World Index (Gross) + 2.5%	511.58	18.05	9.77	8.97	0.80	1.76
CBRE 1	Headline RPI +5% pa (CBRE1)	198.42	7.00	3.45	2.39	1.06	0.24
CBRE 2	Headline RPI +5% pa (CBRE2)	37.11	1.31	9.90	2.39	7.52	0.13
Mondrian	MSCI EM (Emerging Markets) (Gross) + 2.5%	200.14	7.06	(2.52)	(1.48)	(1.03)	(0.18)
Royal London	FTSE index Linked more than 5 years +0.5% pa	534.76	18.87	(1.03)	(1.13)	0.10	(0.19)
Transition Account	Not Applicable	0.02	0.00	0.00	-	-	0.00
Total Fund Composite	Total Composite Custom	2,834.64	100.00	2.75	2.93	(0.18)	2.75

Excess Returns - Trailing 3 Months



Relative Performance

Durham CC (UK005)

For Period Ending June 2018

Gross of Fee

Excess Return - Additive

Primary - Pound Sterling

Total Fund Composite (0UK00501)

ID	Name	Market Value	Month Return	Trailing 3 Months	Year to Date	Trailing 1 Year	Trailing 3 Years	Trailing 5 Years	Since Inception
00047880	Blackrock	10,317.74	0.00	0.00	0.00	0.00	0.00	2.50	4.31
	Zero Return - Historically FTSE All Share (Gross) +3% pa		0.00	0.00	0.00	0.00	0.00	2.51	5.72
	Excess Return		0.00	0.00	0.00	0.00	0.00	0.00	(1.42)
00047881	Royal London	534,760,932.12	(0.68)	(1.03)	(0.69)	2.72	8.94	9.42	8.69
	FTSE index Linked more than 5 years +0.5% pa		(0.69)	(1.13)	(1.00)	2.01	8.75	9.42	8.67
	Excess Return		0.02	0.10	0.32	0.71	0.19	0.00	0.02
00047882	Alliance Bernstein	392,784,030.57	0.05	(0.91)	(1.09)	(0.23)	2.51	2.56	3.60
	3 Month Libor in GBP +3% pa		0.30	0.91	1.80	3.51	3.46	3.50	4.07
	Excess Return		(0.25)	(1.82)	(2.89)	(3.74)	(0.96)	(0.94)	(0.47)
00047885	CBRE 1	198,419,362.69	0.54	3.45	5.15	8.47	8.14	9.07	4.08
	Headline RPI +5% pa (CBRE1)		0.69	2.39	3.72	8.53	7.96	7.54	7.94
	Excess Return		(0.15)	1.06	1.43	(0.06)	0.18	1.52	(3.86)
00051183	CBRE 2	37,111,664.65	2.20	9.90	1.79	4.77	9.77	8.11	6.07
	Headline RPI +5% pa (CBRE2)		0.69	2.39	3.72	8.53	7.96	7.54	7.94
	Excess Return		1.51	7.52	(1.93)	(3.76)	1.81	0.57	(1.87)
00082265	Transition Account	21,574.70	0.00	0.00	0.00	0.00	0.00	0.00	2.42
	Not Applicable		-	-	-	-	-	-	-
	Excess Return		-	-	-	-	-	-	-

Relative Performance

Durham CC (UK005)

For Period Ending June 2018

Gross of Fee

Excess Return - Additive

Primary - Pound Sterling

Total Fund Composite (0UK00501)

ID	Name	Market Value	Month Return	Trailing 3 Months	Year to Date	Trailing 1 Year	Trailing 3 Years	Trailing 5 Years	Since Inception
00301582	BlackRock DAA	487,371,984.87	(0.20)	1.84	1.34	5.14	3.15	-	2.92
	3 Month Libor in GBP +3% pa		0.30	0.91	1.80	3.51	3.71	-	3.80
	Excess Return		(0.50)	0.93	(0.46)	1.62	(0.56)	-	(0.88)
00301629	Mondrian	200,138,560.93	(2.99)	(2.52)	(5.26)	0.82	8.43	-	4.76
	MSCI EM (Emerging Markets) (Gross) + 2.5%		(3.13)	(1.48)	(3.01)	9.49	15.13	-	12.43
	Excess Return		0.13	(1.03)	(2.25)	(8.68)	(6.70)	-	(7.67)
00301630	Aberdeen	472,443,783.67	0.53	5.80	(0.20)	4.90	12.10	-	9.21
	MSCI-Acwi (Gross) + 3%		0.53	7.81	3.84	12.80	18.77	-	17.14
	Excess Return		0.00	(2.01)	(4.04)	(7.90)	(6.67)	-	(7.93)
00301691	BNY	511,576,668.10	1.41	9.77	6.35	14.14	16.95	-	15.29
	MSCI World Index (Gross) + 2.5%		0.98	8.97	4.87	13.63	18.68	-	17.08
	Excess Return		0.43	0.80	1.48	0.50	(1.73)	-	(1.80)
0UK00501	Total Fund Composite	2,834,638,880.04	0.03	2.75	0.98	5.25	8.62	7.76	7.01
	Total Composite Custom		0.05	2.93	1.95	7.27	10.64	9.34	8.64
	Excess Return		(0.02)	(0.18)	(0.97)	(2.02)	(2.03)	(1.57)	(1.63)

Relative Performance
Durham CC (UK005)
For Period Ending June 2018
 Gross of Fee
 Excess Return - Additive
 Primary - Pound Sterling

CBRE Composite (0UK00502)

ID	Name	Market Value	Month Return	Trailing 3 Months	Year to Date	Trailing 1 Year	Trailing 3 Years	Trailing 5 Years	Since Inception
00047885	CBRE 1	198,419,362.69	0.54	3.45	5.15	8.47	8.14	9.07	4.08
	Headline RPI +5% pa (CBRE1)		0.69	2.39	3.72	8.53	7.96	7.54	7.94
	Excess Return		(0.15)	1.06	1.43	(0.06)	0.18	1.52	(3.86)
00051183	CBRE 2	37,111,664.65	2.20	9.90	1.79	4.77	9.77	8.11	6.07
	Headline RPI +5% pa (CBRE2)		0.69	2.39	3.72	8.53	7.96	7.54	7.94
	Excess Return		1.51	7.52	(1.93)	(3.76)	1.81	0.57	(1.87)
0UK00502	CBRE Composite	235,531,027.34	0.80	4.41	4.60	7.87	8.49	8.91	4.78
	CBRE Composite Custom		0.69	2.39	3.72	8.53	7.96	7.54	7.94
	Excess Return		0.11	2.03	0.88	(0.66)	0.53	1.37	(3.16)



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Pension Fund Committee

6 September 2018



Short Term Investments for the period ended 30 June 2018

John Hewitt, Corporate Director of Resources

Purpose of Report

1. To provide the Committee with information on the performance of the Pension Fund's short term investments as at 30 June 2018.

Short Term Investments

2. Durham County Council (the Council) invests the short term cash balances on behalf of the Pension Fund; this is done in line with the Council's Treasury Management Policy and Annual Investment Strategy. This investment strategy sets out the maximum amounts and time limits in respect of deposits which can be placed with each financial institution.
3. The Pension Fund's surplus cash holding as at 30 June 2018 was £22.077 million, which was held in the institutions listed in the table below, alongside their credit rating at 30 June 2018.

Financial Institution	Short-term Rating	Amount Invested £m
Bank Deposit Accounts Handelsbanken	F1+	0.369
Fixed Term Deposits		
Bank of Scotland	F1	4.616
Goldman Sachs	F1	1.847
Santander UK Plc	F1	1.847
First Bank of Abu Dhabi	F1+	0.462
Sumitomo Mitsui Banking Corp	F1	0.462
UK Local Authorities	N/A	10.244
National Savings & Investments	N/A	0.092
Money Market Funds	N/A	2.138
Total		22.077

4. The following table provides information on the net interest earned during the three month period to 30 June 2018, the average daily investment balance and the average return earned in comparison to the average bank base rate. The interest paid to the Pension Fund is based upon the average three month rate of return earned by the Council and is net of the fees of £2,600 paid for the Council undertaking the Treasury Management function for the Pension Fund.

	Total
Net Interest Earned	£46,562
Average Return Earned	0.60%
Average Bank of England base rate	0.50%
Average Daily Balance of Investments	£32.864m

Recommendation

5. Members are asked to note the position at 30 June 2018 regarding the Pension Fund's short term investments where £46,562 net interest was earned in the three month period.

Contact: Beverley White Tel: 03000 261900

Pension Fund Committee

6 September 2018



Audit Completion Report for the year ended 31 March 2018

John Hewitt, Corporate Director of Resources

Purpose of the Report

- 1 To inform Members of the completion of the audit of the Pension Fund Accounts and to present the Audit Completion Report for the financial year ended 31 March 2018.

Background

- 2 A report to the Pension Fund Committee on 14 June 2018 included the draft Pension Fund Statement of Accounts. At that time, the Accounts were subject to review by our external Auditor, Mazars LLP.
- 3 The Statement of Accounts was approved by the Audit Committee on 31 July 2018 and the External Auditor has expressed his opinion on the County Council and Pension Fund Accounts.
- 4 The Annual Report and Accounts of the Pension Fund, which contains the audited Statement of Accounts, has been published on the County Council's website. The intention is to circulate the Pension Fund Annual Report and Accounts 2017/18 to Members for presentation at the annual meeting of the Pension Fund on 5 November 2018.

Audit Completion Report

- 5 The Audit Completion Report and the letter from the External Auditor presented to the Audit Committee on 31 July 2018 are attached at Appendix 1 and 2 for information.
- 6 Appendix B of the Audit Completion Report provides the Auditor's unqualified opinion on the Pension Fund's Financial Statements and the Annual Report stating:

"In our opinion the financial statements:

- *give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2018 and the amount and disposition of the fund's assets and liabilities as at 31 March 2018 other than liabilities to pay pensions and other benefits after the end of the scheme year; and*

- *have been properly prepared in accordance with the CIPFA/ LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.”*
- 7 Appendix C of the Audit Completion Report gives the Auditor’s opinion on the consistency of the Pension Fund’s Annual Report with the County Council’s Statement of Accounts.
- “In our opinion, the Pension Fund financial statements are consistent with the audited financial statements of Durham County Council for the year ended 31 March 2018 and comply with applicable law and the CIPFA/ LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.”*
- 8 Section 4 of the Audit Completion Report outlines the misstatements identified during the course of the audit.
- 9 There were no material adjustments made to the draft accounts, and only one non-trivial adjustment which relates to fund manager transaction costs. This information had not been received from fund managers in time to be included in the draft accounts produced for the 31 May 2018 deadline. The amendment did not impact on the net assets available for benefits and therefore the value of assets as reported to Committee in June remains the same.
- 10 The financial statements have also been amended for a small number of minor errors, omissions, rounding error corrections, clarifications and typographical errors.
- 11 The External Auditor reports that no significant difficulties were encountered and that they had the full co-operation of management during the audit.

Recommendation

- 12 Members are asked to note the contents of this report.

Background Papers

- (a) Pension Fund Committee – 14 June 2018 - Statement of Accounts for the year ended 31 March 2018
- (b) Audit Committee – 31 July 2018 - External Audit: Audit Completion Report 2017/18 – Pension Fund

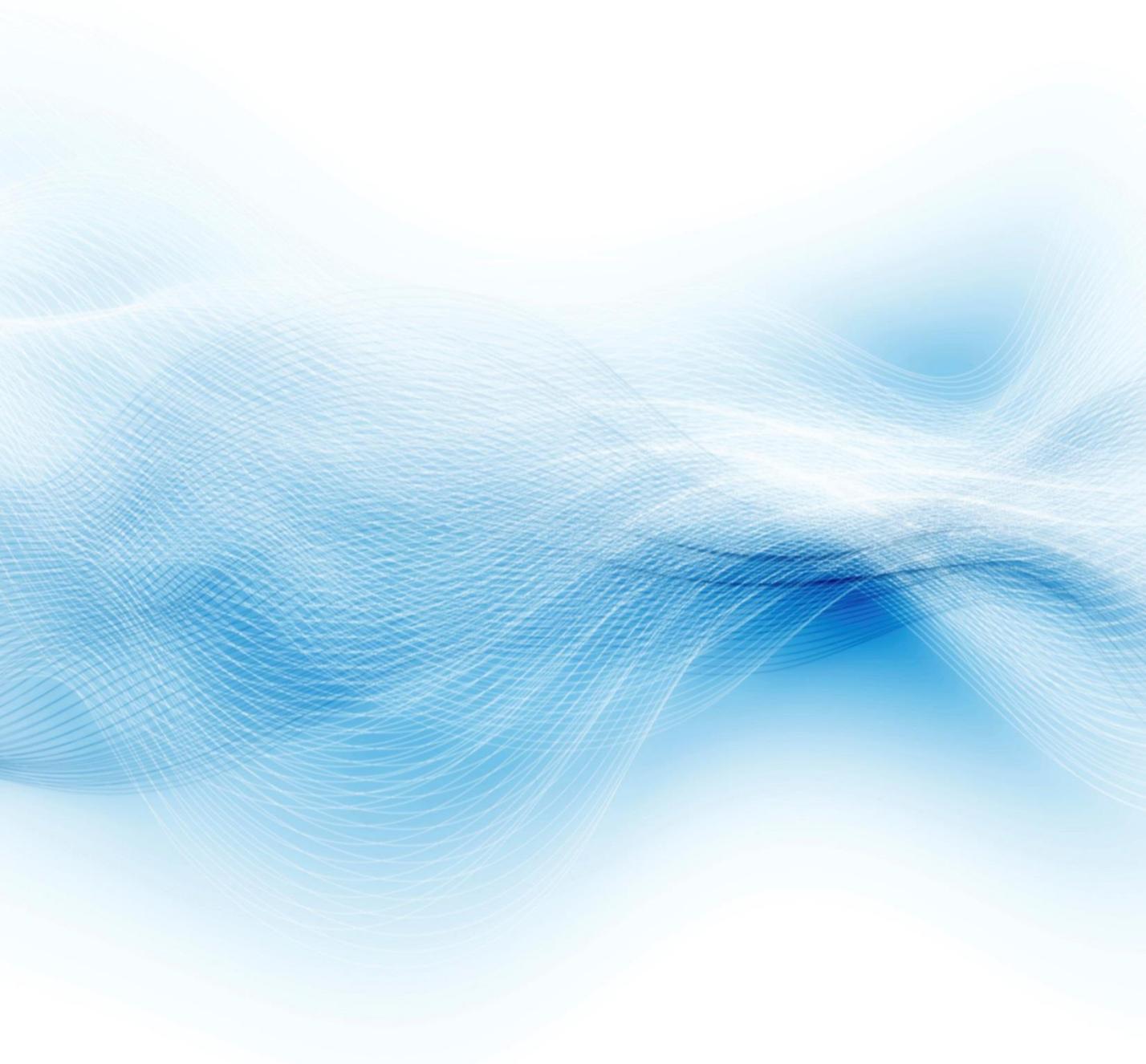
Contact: Beverley White Tel: 03000 261900



Audit Completion Report

Durham County Council Pension Fund
Year ending 31 March 2018

APPENDIX 1



CONTENTS

1. Executive summary
2. Significant findings
3. Internal control recommendations
4. Summary of misstatements

Appendix A – Draft management representation letter

Appendix B – Draft audit report

Appendix C – Draft consistency report

Appendix D – Independence

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Members of the Audit Committee
Durham County Council
County Hall
Durham
DH1 5UE

31 July 2018

Dear Members

Audit Completion Report – Year ended 31 March 2018

We are pleased to present our Audit Completion Report for Durham County Council Pension Fund for the year ended 31 March 2018. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks and other areas of management judgement, was outlined in our Audit Strategy Memorandum which we presented on 13 March 2018. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate.

We would like to express our thanks for the assistance of your team during our audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 0191 383 6300.

Yours faithfully

Signed: {{_es_:signer1:signature}}

Mark Kirkham
Partner
Mazars LLP

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1. EXECUTIVE SUMMARY

Purpose of this report and principle conclusions

The Audit Completion Report sets out the findings from our audit of Durham County Council Pension Fund ('the Pension Fund') for the year ended 31 March 2018, and forms the basis for discussion at the Audit Committee meeting on 31 July 2018.

The detailed scope of our work as your appointed auditor for 2017/18 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014.

Section 2 of this report outlines the detailed findings from our work on the financial statements. As we outline on the following page, our work is substantially complete and, subject to the satisfactory completion of the outstanding work, at the time of issuing this report we have the following conclusions:

Opinion on the financial statements

We anticipate issuing an unqualified opinion, without modification, on the financial statements. Our proposed audit opinion is included in the draft auditor's report in Appendix B.

Consistency report

We anticipate concluding that the Pension Fund financial statements within the Pension Fund's annual report are consistent with Pension Fund financial statements with the statement of accounts of Durham County Council. Our draft consistency report is provided in Appendix C

Wider powers

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Pension Fund and consider any objection made to the accounts.

Misstatements and internal control recommendations

Section 3 sets out the internal control recommendations that we make, together with an update on any prior year recommendations.

Section 4 outlines the misstatements noted as part of our audit as at the time of issuing this report.

1. EXECUTIVE SUMMARY

Status of our audit work

We have substantially completed our work on the financial statements for the year ended 31 March 2018. At the time of preparing this report there are no significant matters outstanding, but we have not reviewed the Pension Fund annual report. We will provide the Audit Committee with an update in relation to this outstanding matter in a follow-up letter, prior to signing the auditor's report.

Our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum in March 2018. We have not made any changes to our audit approach since we presented our Audit Strategy Memorandum.

Materiality

We set overall materiality at the planning stage of the audit at £27.69m using a benchmark of 1% of net assets available to pay benefits. We set a specific materiality for the fund account of £15.75m at the planning stage of the audit using a benchmark of 10% of contributions receivable.

Our final assessment of overall materiality, based on the final financial statements is £28.02m, and our final specific materiality for the fund account is £15.64m, using the same benchmarks. We set our trivial threshold (the level under which individual errors are not communicated to the Audit Committee) at £0.84m based on 3% of overall materiality.

2. SIGNIFICANT FINDINGS

Set out below are the significant findings from our audit. These findings include:

- our audit conclusions regarding significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 7 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year; and
- any significant difficulties we experienced during the audit.

Significant risks and key areas of management judgement

As part of our planning procedures we considered the risks of material misstatement in the Pension Fund's financial statements that required special audit consideration. Although we report identified significant risks at the planning stage of the audit in our Audit Strategy Memorandum, our risk assessment is a continuous process and we regularly consider whether new significant risks have arisen and how we intend to respond to these risks. No new risks have been identified since we issued our Audit Strategy Memorandum.

Significant risk

Management override of controls

Description of the risk

In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.

How we addressed this risk

We addressed this risk by performing audit work in the following areas:

- accounting estimates impacting on amounts included in the financial statements;
- consideration of identified significant transactions outside the normal course of business; and
- journals recorded in the general ledger and other adjustments made in preparation of the financial statements.

Audit conclusion

Based on work completed to date, our work has provided us with the assurance we sought and has not highlighted any material issues to bring to your attention.

2. SIGNIFICANT FINDINGS (CONTINUED)

Significant risk	Description of the risk
Valuation of unquoted investments for which a market price is not readily available	As at 31 March 2018, the fair value of investments which were not quoted on an active market was £158 million, which accounted for 6% of the Fund's net investment assets. As prices for these investments are not quoted in active markets, the values used in the accounts are estimated by fund managers, mostly based on Net Asset Value statements, updated for cash movements where appropriate. This results in an increased risk of material misstatement.

How we addressed this risk

In addition to our standard programme of work in this area we have:

- agreed holdings from fund manager reports to the global custodian's report;
- agreed the valuation to supporting documentation including investment manager valuation statements and cashflows for any adjustments made to the investment manager valuation;
- agreed the investment manager valuation to audited accounts. Where these were not available, we agreed the investment manager valuation to other independent supporting documentation;
- where audited accounts were available, we checked that they were supported by a clear opinion; and
- agreed the price to independent evidence, for those valuations not supported by valuation statements.

Audit conclusion

Our work has provided the assurance we sought and has not highlighted any material issues to bring to your attention.

Key areas of management judgement

Key areas of management judgement include accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement. We have not identified any such judgements.

2. SIGNIFICANT FINDINGS (CONTINUED)

Qualitative aspects of the entity's accounting practices

We have reviewed the Pension Fund's accounting policies and disclosures and concluded they comply with the requirements of the Code of Practice on Local Authority Accounting (the Code), appropriately tailored to the Pension Fund's circumstances.

Draft accounts were received from the Pension Fund on 23 May 2018 and were of a good quality. Producing high-quality working papers is a crucial part of compiling financial statements that are complete and materially accurate. They also support the delivery of an efficient audit. The supporting working papers were readily available to the audit team and were also of a good standard.

Significant difficulties during the audit

During the course of the audit we did not encounter any significant difficulties and we have had the full co-operation of management.

Wider responsibilities

Our powers and responsibilities under the 2014 Act are broad and include the ability to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these powers as part of our 2017/18 audit.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account.

3. INTERNAL CONTROL RECOMMENDATIONS

The purpose of our audit is to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place relevant to the preparation of the financial statements. We do this in order to design audit procedures to allow us to express an opinion on the financial statement and not for the purpose of expressing an opinion on the effectiveness of internal control, nor to identify any significant deficiencies in their design or operation.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Our findings and recommendations are set out below. We have assigned priority rankings to each of them to reflect the importance that we consider each poses to your organisation and, hence, our recommendation in terms of the urgency of required action. In summary, the matters arising fall into the following categories:

Priority ranking	Description	Number of issues
1 (high)	In our view, there is potential for financial loss, damage to reputation or loss of information. This may have implications for the achievement of business strategic objectives. The recommendation should be taken into consideration by management immediately.	0
2 (medium)	In our view, there is a need to strengthen internal control or enhance business efficiency. The recommendations should be actioned in the near future.	1
3 (low)	In our view, internal control should be strengthened in these additional areas when practicable.	0

3. INTERNAL CONTROL RECOMMENDATIONS (CONTINUED)

Other deficiencies in internal control – Level 2

Description of deficiency

IT user access testing for leavers identified that in three cases (from 25 tested) employees still had access to Council IT systems after their leaving date.

Potential effects

Leavers are not deactivated in a timely manner, meaning that inappropriate access to business critical systems would be possible.

We do note, however, that this had not occurred in any case tested – no leavers had accessed the network, or any business critical system, following their leave date.

Recommendation

Processes should be in place to ensure that, once the HR list has been submitted to the Service Direct team:

- 1) Service Direct team monitors the timely removal of all leavers requiring deactivation, for example by adding an additional column to the deactivation spreadsheets to confirm which member of the team has deactivated each leaver, and on what date.
 - 2) No-one in HR is able to make further amendments to the list once submitted to Service Direct.
-

Management response

[Insert description]

Follow up of previous internal control points

The only internal control point raised in the prior year was in relation to the IT leaver access deficiency which has not been resolved and has been raised as a deficiency in the current year as highlighted above. It is noted that there was no inappropriate access to systems in either year.

4. SUMMARY OF MISSTATEMENTS

We set out below the misstatements identified for adjustment during the course of the audit, above the level of trivial threshold of £0.84m.

The first table outlines the misstatements that were identified during the course of our audit which management has assessed as not being material either individually or in aggregate to the financial statements and does not currently plan to adjust.

The second table outlines the misstatements that have been adjusted by management during the course of the audit.

Unadjusted misstatements 2017/18

	Fund Account		Net Assets Statement	
	Dr (£m)	Cr (£m)	Dr (£m)	Cr (£m)
1 Investment assets			2.049	
Profit and loss on disposal of investments and change in market value of investments		2.049		

This is the extrapolated difference between the fair value of unquoted investments included within the accounts compared to the fair value provided at the time of audit, due to more up to date information available at the time of audit. The actual difference on the sampled items was £2.033m.

Adjusted misstatements 2017/18

	Fund Account		Net Assets Statement	
	Dr (£m)	Cr (£m)	Dr (£m)	Cr (£m)
1 Management expenses	4.744			
Profit and loss on disposal of investments and change in market value of investments		4.744		

Inclusion of transaction costs which fund managers had not made available to officers when the accounts were drafted. The prior year has figures have been amended by £2.279m for transaction costs. This amendment has also resulted in amendment to the corresponding notes to the accounts; Note 12 Management expenses, Note 15 Investments reconciliation, and Note 16 Net gains and losses on financial instruments.

4. SUMMARY OF MISSTATEMENTS (CONTINUED)

Disclosure amendments

The following disclosure amendments were made:

Note 3, Accounting Standards issues but not yet adopted: Inclusion of note omitted from the draft financial statements.

Note 15, Investments: Reclassification of one investment with a fair value of £4.285m (comparator £5.111m) from 'Managed funds – non property – overseas quoted' to 'Managed funds – non property – UK quoted' in the analysis of investments..

Note 15, Investments: Amendment to reduce forward foreign currency purchases and sales by £13.664m and £27.059m respectively in the reconciliation of movement in investments, to remove duplicated transactions. This has also resulted in an increase in change in market value of forward foreign currency and a decrease in change in market value of other cash deposits of £13.395m in the same reconciliation..

Note 16, Financial Instruments: As a result of the amendment detailed above, the net gain on financial assets at fair value through profit and loss has decreased by £13.395m, with a corresponding decrease in the net loss on financial asset loans and receivables.

Note 16, Financial Instruments: Reclassification of exchange traded derivatives of £2.022m from level 2 to level 1 within 'Financial Assets at fair value through profit and loss'.

Note 20, Additional voluntary contributions: Inclusion of information not available at the time the financial statements were drafted.

General: A number of other minor changes were made to the financial statements not requiring individual analysis.

APPENDIX A

DRAFT MANAGEMENT REPRESENTATION LETTER

Durham County Council Pension Fund
County Hall
Durham
DH1 5UL

[Date]

Dear Mark

Durham County Council Pension Fund - audit for year ended 31 March 2018

This representation letter is provided in connection with your audit of the financial statements of Durham County Council Pension Fund ("the Pension Fund") for the year ended 31 March 2018 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (the Code).

I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy ourselves that I can properly make each of the following representations to you.

My responsibility for the financial statements and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the financial statements in accordance with the Code.

My responsibility to provide and disclose relevant information

I have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within the Pension Fund you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Corporate Director Resources that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information.

As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

Accounting records

I confirm that all transactions that have a material effect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Pension Fund and Committee meetings, have been made available to you.

Accounting policies

I confirm that I have reviewed the accounting policies applied during the year in accordance with the Code and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the Pension Fund's financial position, financial performance and cash flows.

Accounting estimates, including those measured at fair value

I confirm that any significant assumptions used by the Pension Fund in making accounting estimates, including those measured at fair value, are reasonable.

Contingencies

There are no material contingent losses including pending or potential litigation that should be accrued where:

- information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

APPENDIX A

DRAFT MANAGEMENT REPRESENTATION LETTER

(CONTINUED)

Contingencies - continued

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the Pension Fund have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the Code.

Laws and regulations

I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom. The Pension Fund has complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

Fraud and error

I acknowledge my responsibility as Corporate Director Resources for the design, implementation and maintenance of internal control to prevent and detect fraud and error. I have disclosed to you:

- all the results of my assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the Pension Fund involving:
 - management and those charged with governance;
 - employees who have significant roles in internal control; and
 - others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the Pension Fund's statement of accounts communicated by employees, former employees, analysts, regulators or others.

Assets

I confirm that all assets held are free from liens, charges or any other encumbrance.

Related party transactions

I confirm that all related party relationships, transactions and balances have been appropriately accounted for and disclosed in accordance with the requirements of the Code.

I have disclosed to you the identity of the Pension Fund's related parties and all related party relationships and transactions of which I am aware.

Future commitments

I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the Code requires adjustment or disclosure have been adjusted or disclosed. Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

APPENDIX A

DRAFT MANAGEMENT REPRESENTATION LETTER

(CONTINUED)

Going concern

To the best of my knowledge there is nothing to indicate that the Pension Fund will not continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

Unadjusted misstatements

I confirm that the effects of the uncorrected misstatements as included in the auditor's draft Audit Completion Report are immaterial, both individually and in aggregate, to the statement of accounts as a whole.

Specific representation on unquoted investments

Unquoted investments are included in the net assets statement at the value provided by our fund managers which have been estimated in accordance with the guidelines used by the industry, and based on the latest information to hand at the time of the valuation. I am satisfied, based on the knowledge I have, with the valuations, and am not aware of any subsequent events that would have a material impact on the estimated value of the unquoted investments.

Yours sincerely

Corporate Director Resources

APPENDIX B

DRAFT AUDITOR'S REPORT

Independent auditor's report to the Members of Durham County Council

Opinion on the Council's financial statements

We have audited the financial statements of Durham County Council ('the Council') for the year ended 31 March 2018 under the Local Audit and Accountability Act 2014. The financial statements comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund, and notes to the financial statements, including the summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of Durham County Council as at 31 March 2018 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

Opinion on the Pension Fund financial statements

We have audited the financial statements of Durham County Council Pension Fund for the year ended 31 March 2018 under the Local Audit and Accountability Act 2014. The Pension Fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes, including the summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2018 and the amount and disposition of the fund's assets and liabilities as at 31 March 2018 other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

Basis for opinions

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities section of our report. We are independent of the Council in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Corporate Director of Resources use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Corporate Director of Resources has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Council's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Corporate Director of Resources is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

APPENDIX B

DRAFT AUDITOR'S REPORT (CONTINUED)

Responsibilities of the Corporate Director of Resources for the financial statements

As explained more fully in the Statement Responsibilities, the Corporate Director of Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, and for being satisfied that they give a true and fair view. The Corporate Director of Resources is also responsible for such internal control as the Corporate Director of Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Corporate Director of Resources is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 and prepare the financial statements on a going concern basis, unless the Council is informed of the intention for dissolution without transfer of services or function to another entity. The Corporate Director of Resources is responsible for assessing each year whether or not it is appropriate for the Council to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

Auditor's responsibilities for the audit of the financial statements

Our 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 our 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 economic decisions of users taken on the basis of these financial statements.

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

Conclusion on Durham County Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that, in all significant respects, Durham County Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Basis for conclusion

We have undertaken our review in accordance with the Code of Audit Practice issued by the Comptroller and Auditor General, having regard to the guidance on the specified criterion issued in November 2017, as to whether the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Responsibilities of the Council

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities in relation to review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We are required under section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Comptroller and Auditor General requires us to report to you our conclusion relating to proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

APPENDIX B

DRAFT AUDITOR'S REPORT (CONTINUED)

Matters on which we are required to report by exception under the Code of Audit Practice

We are required by the Code of Audit Practice to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under sections 28, 29 or 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Use of the audit report

This report is made solely to the members of Durham County Council, as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members of the Council those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Council, as a body, for our audit work, for this report, or for the opinions we have formed.

Certificate

We certify that we have completed the audit of Durham County Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Mark Kirkham
For and on behalf of Mazars LLP

Salvus House
Aykley Heads
Durham
DH1 5TS

31 July 2018

APPENDIX C

DRAFT CONSISTENCY REPORT

Independent Auditor's Statement to the Members of Durham County Council on the Pension Fund Financial Statements included within Durham County Council Pension Fund Annual Report

We have examined the Pension Fund financial statements for the year ended 31 March 2018 included within the Durham County Council Pension Fund annual report, which comprise the Fund Account, the Net Assets Statement and the related notes.

Opinion

In our opinion, the Pension Fund financial statements are consistent with the audited financial statements of Durham County Council for the year ended 31 March 2018 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

Respective responsibilities of the Corporate Director Resources and the auditor

As explained more fully in the Statement of the Corporate Director Resources' Responsibilities, the Corporate Director Resources is responsible for the preparation of the Pension Fund's financial statements in accordance with applicable United Kingdom law.

Our responsibility is to report to the Members of Durham County Council as a body, whether the Pension Fund financial statements within the Pension Fund annual report are consistent with the financial statements of Durham County Council.

We conducted our work in accordance with Auditor Guidance Note 07 – Auditor Reporting, issued by the National Audit Office. Our report on the Pension Fund financial statements contained within the audited financial statements of Durham County Council describes the basis of our opinions on the financial statements.

Use of this auditor's statement

This report is made solely to the members of Durham County Council, as a body, in accordance with Part 5 paragraph 20(5) of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our work has been undertaken so that we might state to the members of Durham County Council those matters we are required to state to them and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Durham County Council and Durham County Council's members as a body, for our audit work, for this statement, or for the opinions we have formed.

Mark Kirkham
For and on behalf of Mazars LLP

Salvus House,
Aykley Heads,
Durham
DH1 5TS
31 July 2018

APPENDIX D INDEPENDENCE

As part of our ongoing risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent.

CONTACT

Mark Kirkham

Partner

Phone: 0113 387 8850

Mobile: 07747 764 529

Email: mark.kirham@mazars.co.uk

Sharon Liddle

Assistant Manager

Phone: 0191 383 6311

Mobile: 07881 283 343

Email: sharon.liddle@mazars.co.uk

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Members of the Audit Committee
Durham County Council
County Hall
Durham
DH1 5UE

Direct line +44 (0)191 383 6314

Email Mark.kirkham@mazars.co.uk

31 July 2018

Dear Members

Conclusion of pending matters – Durham County Council Pension Fund Audit Completion Report

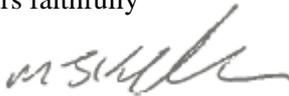
As required by International Standards on Auditing (UK and Ireland), I am writing to communicate an update on those matters that were marked as outstanding within our Audit Completion Report.

The outstanding matters identified and the current status of each are detailed below.

Outstanding matter	Conclusion reached
Review of Pension Fund annual report.	No additional matters identified which require reporting.
Unquoted investments	No additional matters identified which require reporting.
Completion of our review procedures and checking the revised statement of accounts.	No additional matters identified which require reporting.

If you wish to discuss these or any other points then please do not hesitate to contact me.

Yours faithfully



Mark Kirkham
Mazars LLP

cc John Hewitt, Corporate Director Resources

Mazars LLP – Salvus House - Aykley Heads - Durham - DH1 5TS
Tel: +44 (0) 191 383 6300 – Fax: +44 (0) 191 383 6350 – www.mazars.co.uk

Mazars LLP is the UK firm of Mazars, an integrated international advisory and accountancy organisation. Mazars LLP is a limited liability partnership registered in England and Wales with registered number OC308299 and with its registered office at Tower Bridge House, St Katharine's Way, London E1W 1DD.

We are registered to carry on audit work in the UK and Ireland by the Institute of Chartered Accountants in England and Wales. Details about our audit registration can be viewed at www.auditregister.org.uk under reference number C001139861.

VAT number: 839 8356 73



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Pension Fund Committee

06 September 2018



Internal Audit Progress Report to 30 June 2018

Report of Paul Bradley, Chief Internal Auditor & Corporate Fraud Manager

Purpose of the report

- 1 To outline progress made in delivering the 2018/19 internal audit plan relevant to the Pension Fund Committee, including:
 - (a) Providing a high level of assurance, or otherwise, on internal control systems operated in the areas that have been subject to audit;
 - (b) Advising on any significant issues where controls need to improve in order to effectively manage risks;
 - (c) Advising of any other types of audit work carried out, such as consultancy reviews where an assurance opinion on the control environment may not be applicable;
 - (d) Advising of any unplanned work carried out or due to be carried out and any changes to the audit process.

Progress against 2018/19 planned work

- 2 A summary of the approved audit plan, with the status of each audit, is shown below:

Audit Title	Audit Type	Status	Opinion
Audits brought forward from 2017/18			
Payroll	Assurance	Final Report	Substantial
Bank Reconciliation	Assurance	Final Report	Substantial
2018/19 audits			
Pension System ICT Controls, Data Quality and Performance	Assurance	Preparation	
Transfers in/out	Assurance	Terms of Reference Issued	
Additional Voluntary Contributions (Follow Up)	Assurance	Draft Report	
Governance Arrangements	Assurance	Preparation	
Bank reconciliation	Assurance	Not yet started	
Debt Recovery	Assurance	In Progress	
National Fraud Initiative – Data matching to identify potential error/fraud	Counter Fraud	Preparation	N/A
Ad hoc advice & guidance	Advice/Consultancy	In Progress	N/A

- 3 The status shows that, of the eight assurance reviews planned to be completed in 2018/19, two final reports were issued in the first quarter.
- 4 A summary of the scope of the two final reports is given below. No significant issues were raised in either of these reports.

Audit Area	Brief Scope	Assurance Opinion
Payroll	Assurance review of the arrangements in place to mitigate against the risks of; <ul style="list-style-type: none"> - The Pensions Team not being notified when pensioners become active; - Pension calculations being inaccurate; - Pension payments being inaccurate or not being made promptly. 	Substantial
Bank Reconciliation	Assurance review of the arrangements in place to mitigate against the risks of; <ul style="list-style-type: none"> - Material errors or fraudulent activities within the bank account or the general ledger are not identified and corrected in a timely manner; - Theft or misuse of Pension Fund funds and/or bank accounts - Inaccurate or misleading financial information; - Performance is not properly managed or monitored. 	Substantial

Recommendation

- 5 Members are asked to note the work undertaken by Internal Audit during the period ending 30 June 2018.

Contact: Paul Monaghan Tel: 03000 269662

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