



## **Pension Fund Committee**

**Date**      **Thursday 5 December 2013**  
**Time**      **10.00 am**  
**Venue**     **Committee Room 2, County Hall, Durham**

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### **Business**

#### **Part A**

1. Apologies for Absence
2. Declarations of interest (if any)
3. The Minutes of the Meeting held on 5 September 2013 (Pages 1 - 4)
4. Graphs showing recent movements of the Stock and Share Indices (Pages 5 - 12)
5. Graphs showing recent movements of the major currencies against sterling (Pages 13 - 18)
6. Performance Measurement Report of Pension Fund Investments to 30 September 2013 (Pages 19 - 28)
7. Overall Value of Pension Fund Investments to 30 September 2013 (Pages 29 - 34)
8. Short Term Investments for the Period Ended 30 September 2013 (Pages 35 - 36)
9. Audit Completion Report for the Year Ended 31 March 2013 (Pages 37 - 68)
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 5 September 2013 (Pages 69 - 74)
13. Verbal Report of the Pension Fund Advisor
14. Report of BlackRock (Pages 75 - 88)
15. Report of AllianceBernstein (Pages 89 - 106)
16. Report of CBRE Global Investors (Pages 107 - 116)
17. Report of Royal London Asset Management (Pages 117 - 186)
18. Report of Barings Asset Management (Pages 187 - 194)
19. Investment in Capital North East No. 1 Limited Partnership (Pages 195 - 200)
20. Triennial Valuation (Pages 201 - 206)
21. Such other business as, in the opinion of the Chairman of the meeting, is of sufficient urgency to warrant consideration

**Colette Longbottom**

Head of Legal and Democratic Services

County Hall  
Durham  
**27 November 2013**

To: The Members of the Pension Fund Committee

**County Council Members:**

Councillors A Turner, W Stelling, C Carr, P Conway, M Davinson, S Forster, I Geldard, J Lethbridge, N Martin, G Richardson and R Todd

**Darlington Borough Council Members**

Councillor I G Haszeldine  
Councillor S Harker

**Scheduled Bodies Representative**

(vacancy)

**Admitted Bodies Representative:**

J Norton

**Pensioner Representative**

(vacancy)

**Active Members Representative**

(vacancy)

**Further Education Colleges Representative**

(vacancy)

**Advisers: County Council Officers**

Chief Executive	G Garlick
Corporate Director, Resources	D McLure
Head of Legal and Democratic Services	C Longbottom
Strategic Finance Manager – Corporate Finance	H Appleton

**Independent Advisers**

P J Williams  
R Bowker  
D Banks

**Investment Managers**

BlackRock  
AllianceBernstein  
CBRE Global Investors  
Royal London Asset Management  
Barings Asset Management

**Staff Observers**

UNISON	N Hancock
GMB	

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**Contact: Jill Errington**

**Tel: 03000 269703**

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**DURHAM COUNTY COUNCIL**

**PENSION FUND COMMITTEE**

At a Meeting of **Pension Fund Committee** held in Committee Room 1A, County Hall, Durham on **Thursday 5 September 2013 at 10.00 am**

**Present:**

**Councillor A Turner (Chairman)**

**Members of the Committee:**

Councillors C Carr, P Conway, M Davinson, J Lethbridge, N Martin and G Richardson

**Admitted Bodies Representative**

J Norton

**Scheduled Bodies Representative**

D Sanders

**Also Present:**

**County Council Advisers**

D McLure – Corporate Director, Resources

H Appleton – Strategic Finance Manager – Corporate Finance

N Orton – Payroll and Pensions Manager

**Independent Advisers**

P Williams – P J Williams

R Bowker – PSolve

D Banks - PSolve

**1 Apologies for Absence**

Apologies for absence were received from Councillors S Forster and I Geldard.

**2 Minutes**

The Minutes of the meeting held on 6 June 2013 were agreed as a correct record and were signed by the Chairman.

**3 Declarations of interest**

There were no declarations of interest.

#### **4 Graphs showing recent movements of the Stock and Share Indices**

Consideration was given to graphs showing movements in the Stock and Share Indices (for copy see file of Minutes).

**Resolved:**

That the information given be noted.

#### **5 Graphs showing recent movements of the major currencies against sterling**

Consideration was given to graphs showing movements of the major currencies against sterling (for copy see file of Minutes).

**Resolved:**

That the information given be noted.

#### **6 Performance Measurement Report**

Consideration was given to the report of the Corporate Director, Resources which gave an overview of the performance of the Fund up to 30 June 2013 (for copy see file of Minutes).

The report gave details of the Managers' performance against their benchmarks for the quarter, year to date and since inception of the Fund.

Members were advised that performance of the Plan this quarter was below the benchmark but this was not unexpected. Growth assets had fallen across the board with real yields rising. This therefore had resulted in a negative return in both index linked gilts and bonds. This was reflected in the performance of RLAM which fell 7% in quarter 2.

In response to a question from Councillor Martin regarding Edinburgh Partners the Committee was advised that the amount referred to in the report related to dividends and should disappear from the Plan by the end of the next transition period.

**Resolved:**

That the information given be noted.

#### **7 Pension Fund Investments**

Consideration was given to the report of the Corporate Director, Resources which gave details of the overall value of the Pension Fund as at 30 June 2013 and of any additional sums available to the Managers for further investment, or amounts to be withdrawn from Managers (for copy see file of Minutes).

In response to a comment from Councillor Conway, Daniel Banks advised that liabilities would have fallen between £100-£150m in the period but that it was difficult to give a specific figure. In accepting this the Councillor suggested that it would be useful to include an indicative statement on the performance of liabilities in future reports.

**Resolved:**

That the information given be noted and no further allocation of cash be made to Managers.

At this point Councillor Richardson entered the meeting.

**8 Short Term Investments for the period ended 30 June 2013**

Consideration was given to the report of the Corporate Director, Resources which gave details of the Pension Fund's short term investments for the quarter ended 30 June 2013 (for copy see file of Minutes).

A general discussion ensued regarding Bank Deposit Accounts and following questions from Members the Committee was advised that the amount invested with the Co-operative Bank was small but was being monitored closely.

**Resolved:**

That the position at 30 June 2013 regarding the Pension Fund's short term investments be noted.

**9 Statement of Accounts for the year ended 31 March 2013**

Consideration was given to the report of the Corporate Director, Resources which presented the Pension Fund Accounts for the year ended 31 March 2013 (for copy see file of Minutes).

**Resolved:**

That the information given be noted.

**10 Call for Evidence on the Future Structure of the Local Government Pension Scheme**

Consideration was given to the report of the Corporate Director, Resources which asked Members to agree a response to a recent call for evidence on the future structure of the Local Government Pension Scheme (for copy see file of Minutes).

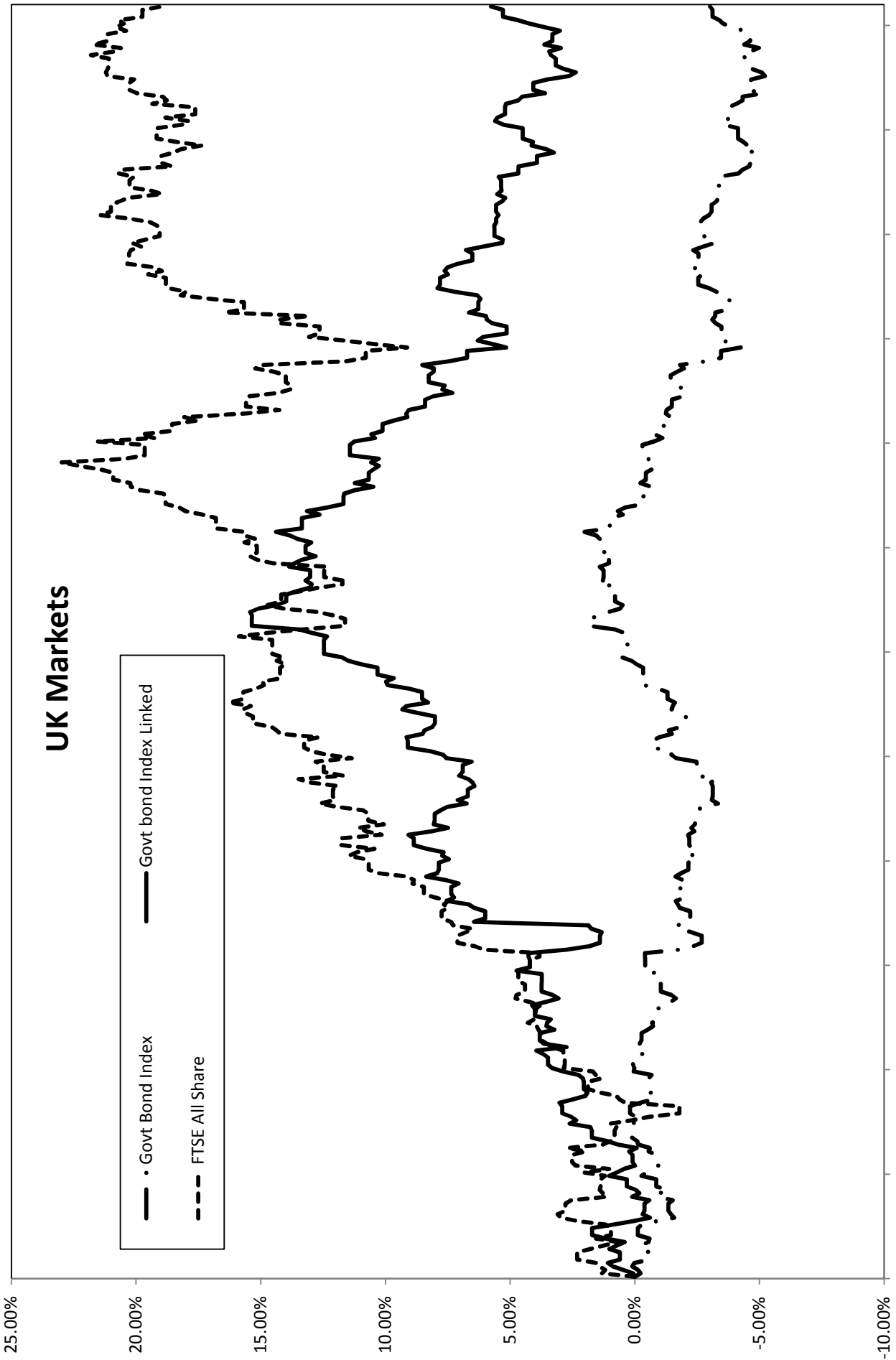
Councillor Carr asked if consideration had been given to merging the regional Pension Funds. Don McLure advised that this had been discussed at a regional meeting as part of the consultation process where it had been established that there was no appetite to merge at present.

Following a question from Councillor Conway about the viability of 'pooling' Investment Managers, the Advisers stated that Managers would be reluctant to invest such large sums of money as they become too big to remain effective and were more difficult to manage.

**Resolved:**

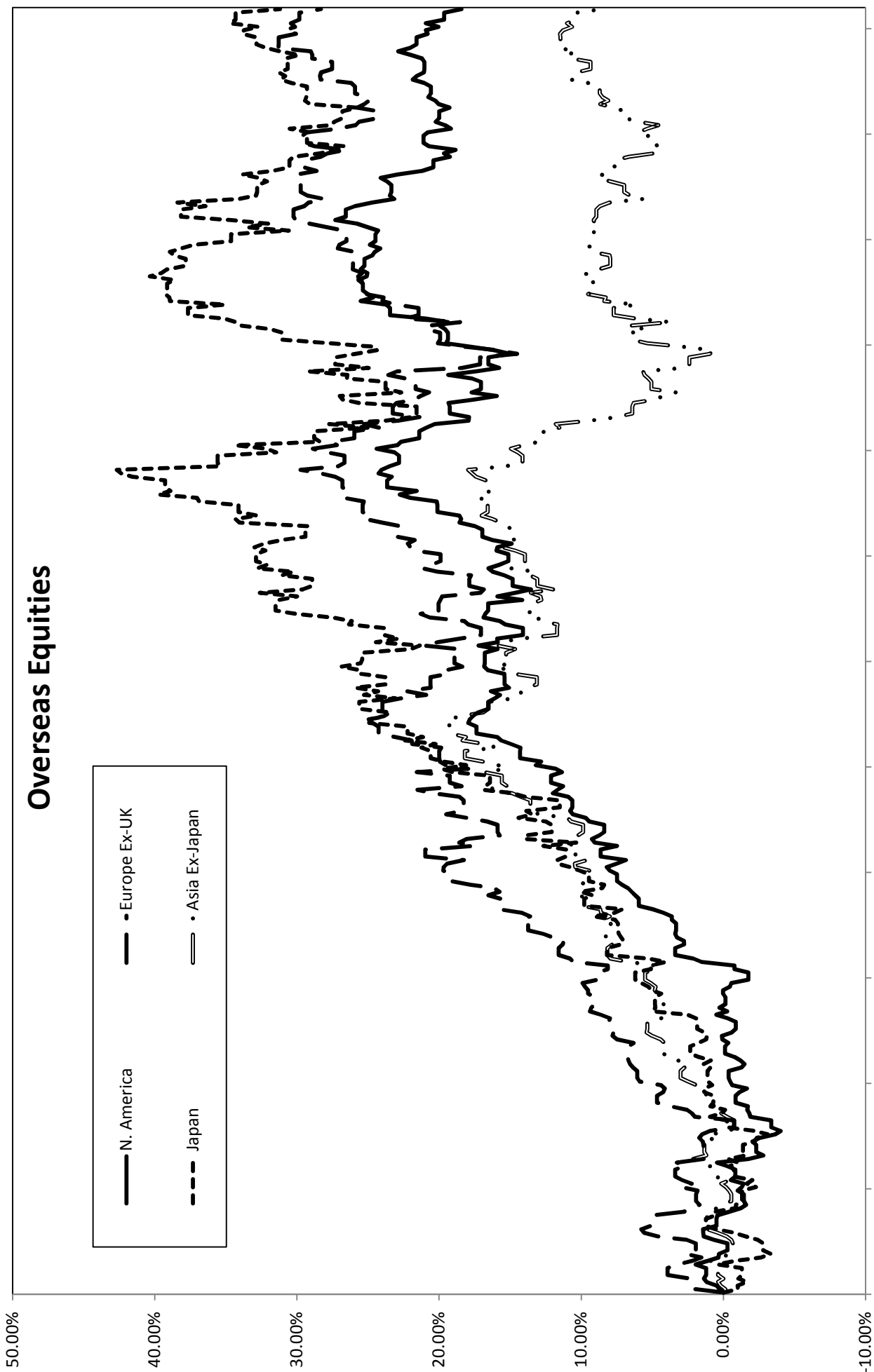
That the response set out in Appendix B be agreed and Members submit any suggested changes by no later than 20 September 2013.



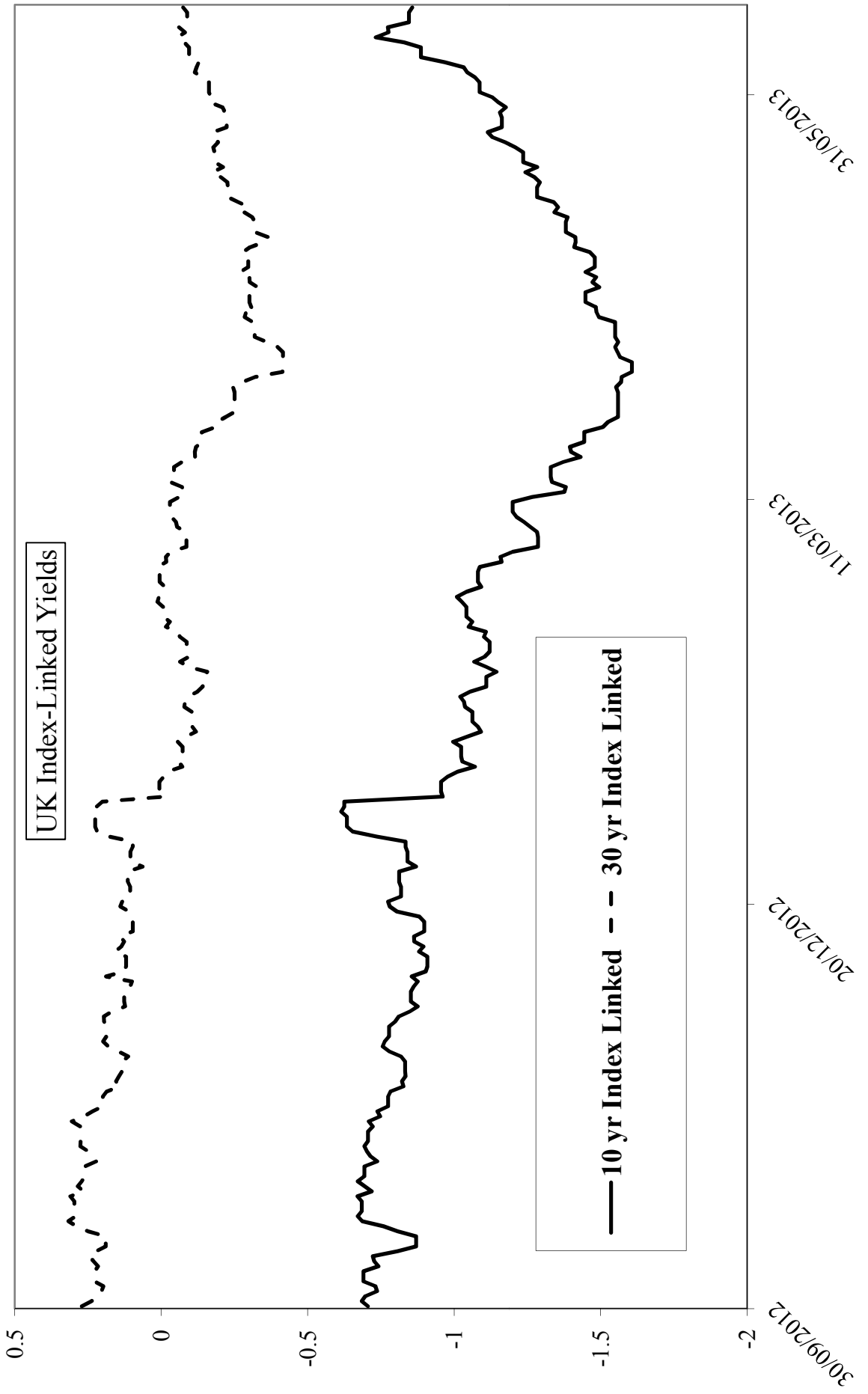


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# Overseas Equities

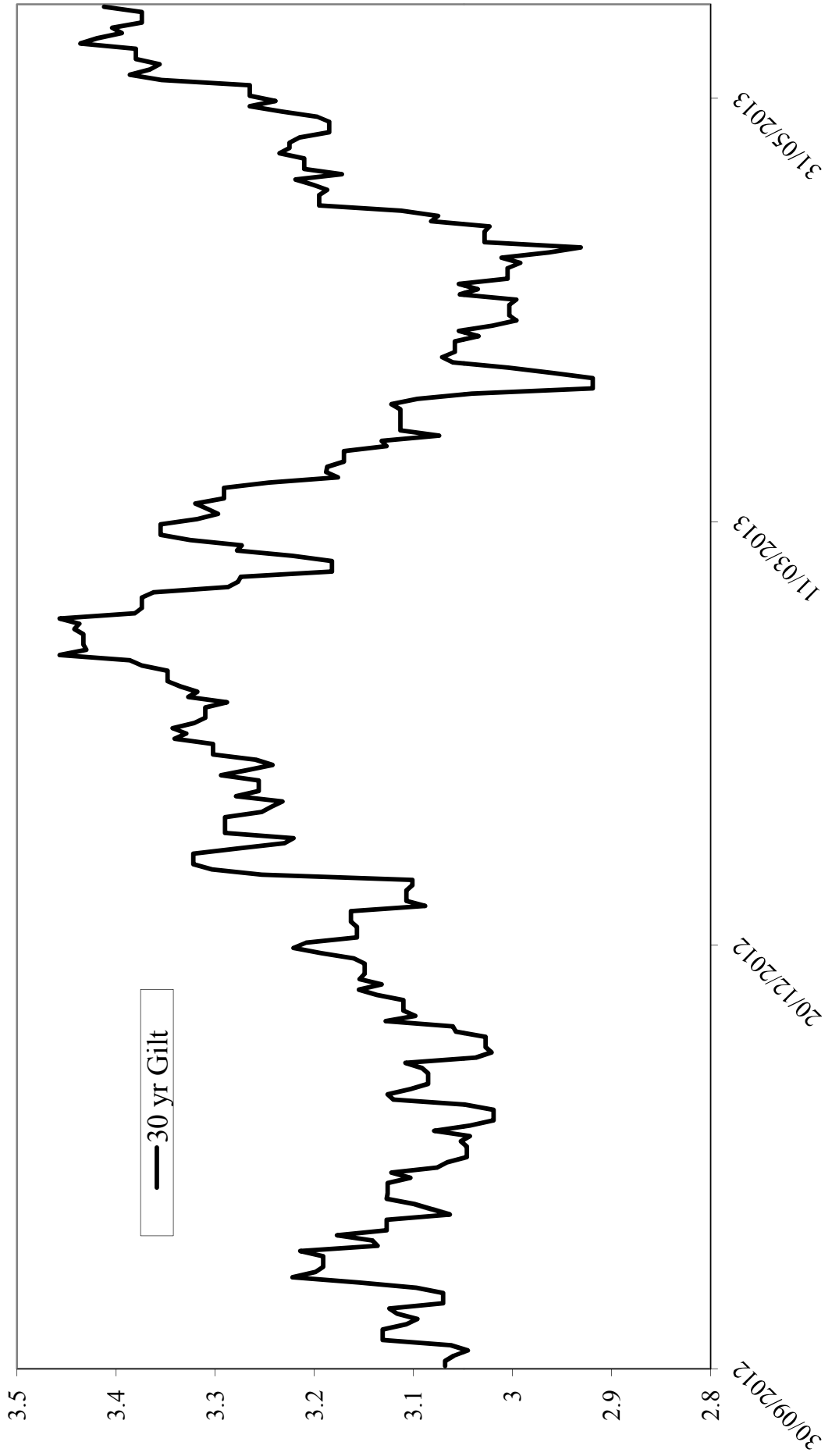


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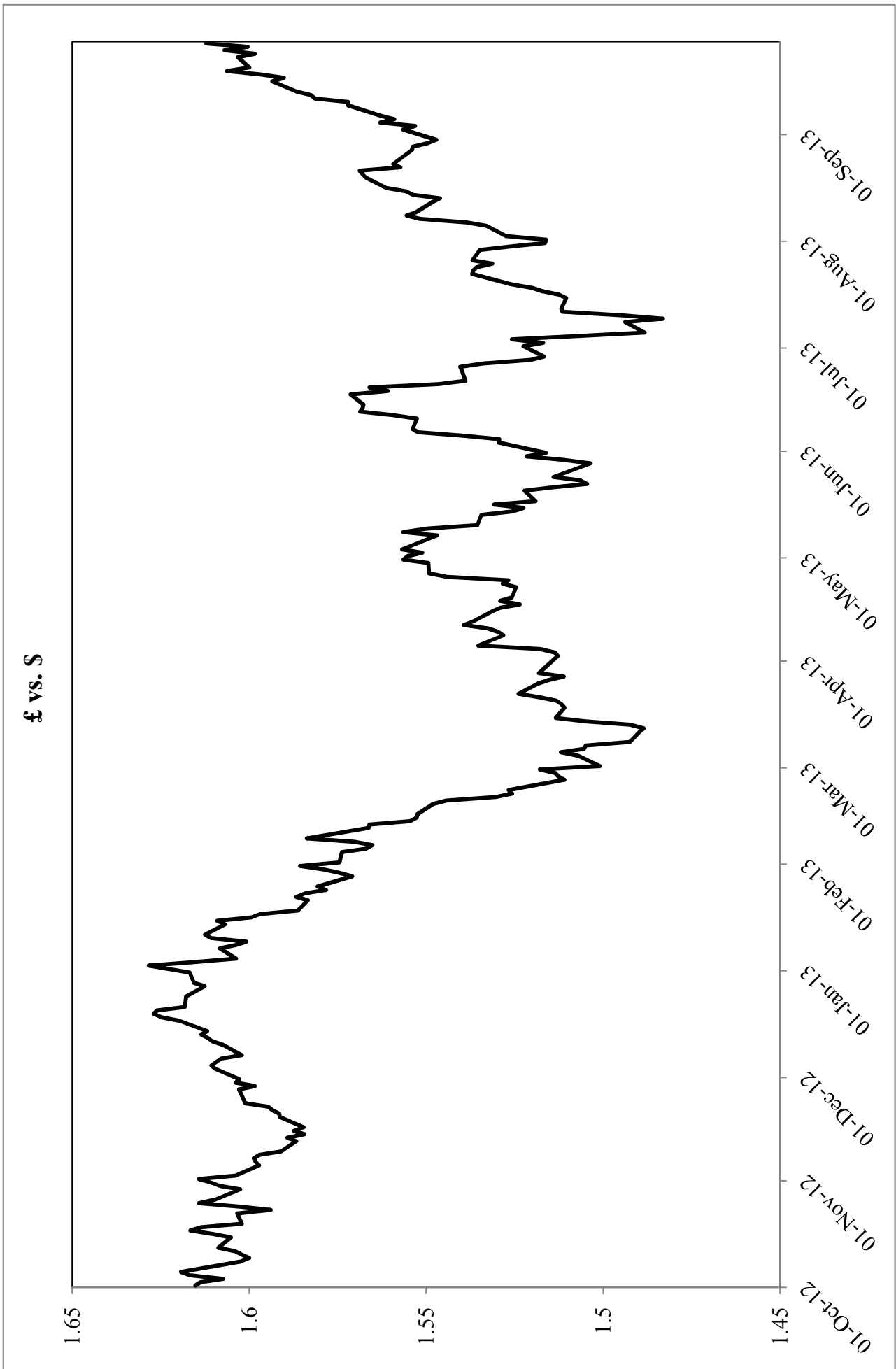
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30 yr Gilt



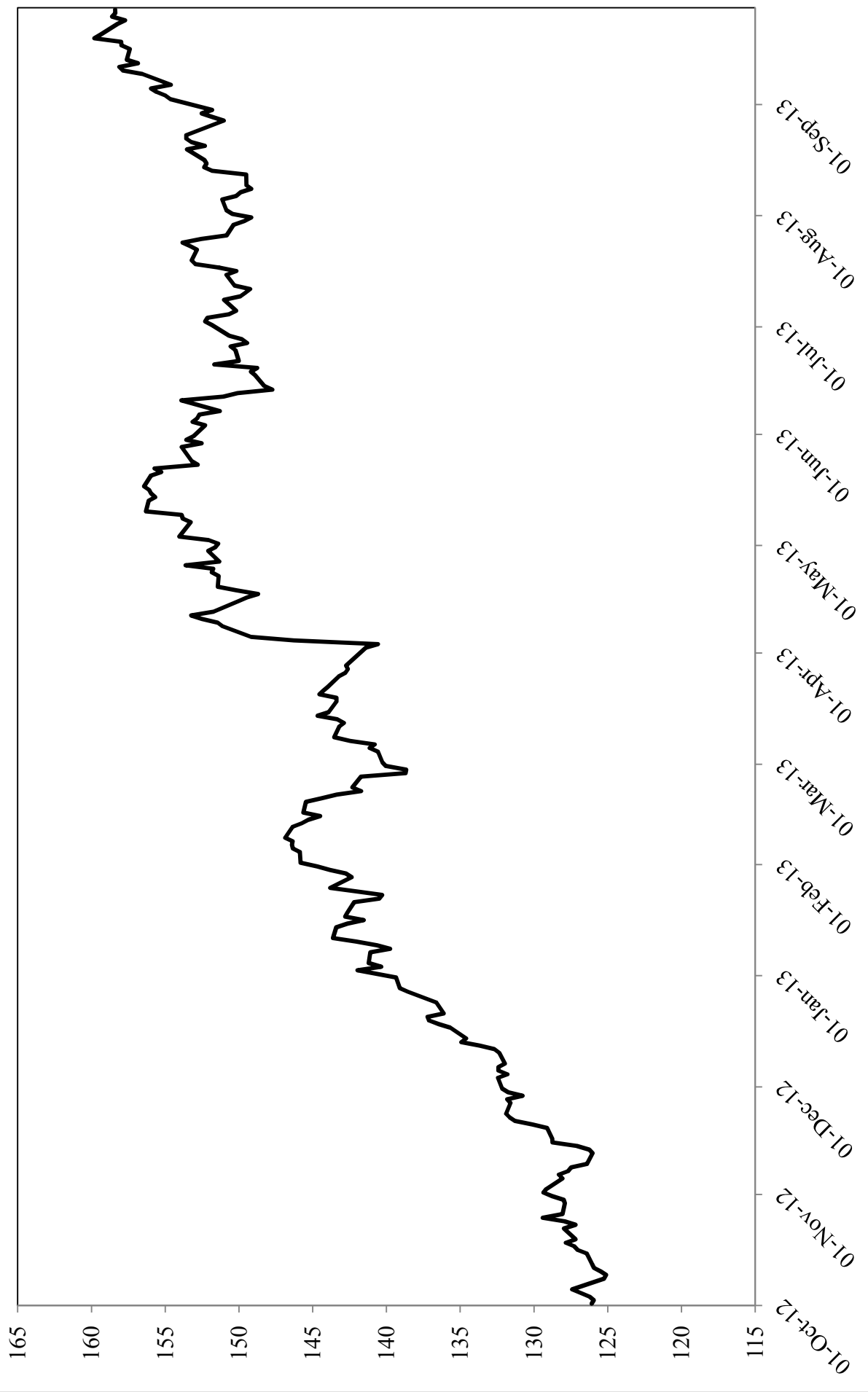
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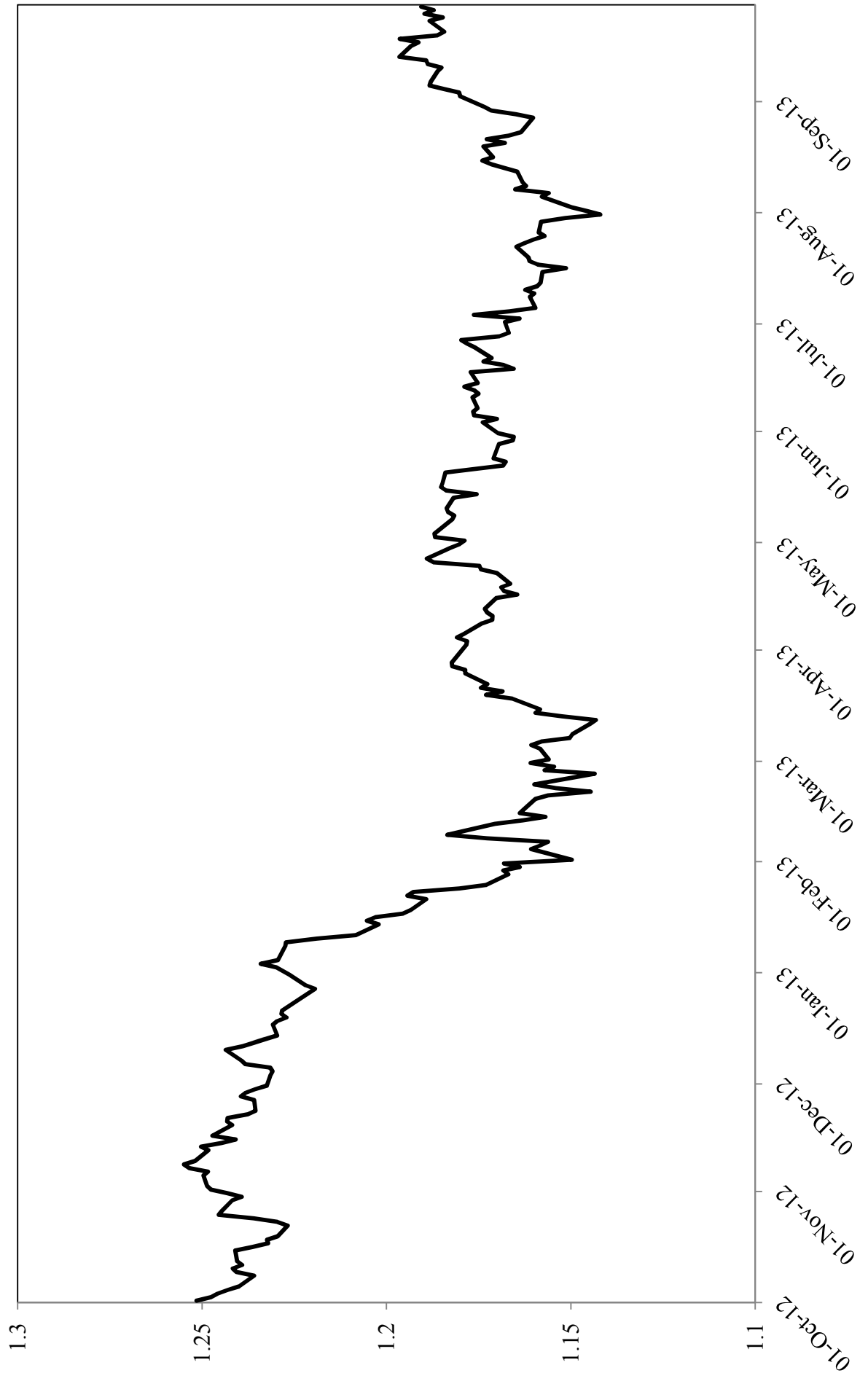
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**£ vs. Yen**



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£ vs. €



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**Pension Fund Committee**

**5 December 2013**



**Performance Measurement Report  
of Pension Fund Investments to  
30 September 2013**

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**Don McLure, Corporate Director, Resources**

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**Purpose of the Report**

- 1 The purpose of the report is to provide an overview for Members of the performance of the Fund to 30 September 2013.

**Background**

- 2 The performance of the five Managers is measured against personalised benchmarks chosen at the inception of the Fund. The attached report from JPMorgan, the Fund's custodian, shows:-
  - (a) The Managers' benchmarks.
  - (b) The total Fund performance for the quarter to 30 September 2013, year to date and since inception.
  - (c) The Managers' performance in absolute and relative terms against the relevant benchmarks for the quarter to 30 September 2013, year to date and since inception.
  - (d) A portfolio comparison for the quarter ended 30 September 2013 and for the period since inception.

**Recommendation**

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

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**Contact: Hilary Appleton Tel: 0191 3833544**

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# J.P.Morgan

**Worldwide Securities Services**

**Performance Measurement Report  
for  
Durham County Council Pension Fund**

*for period ending  
September 30, 2013*

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## Benchmark Association Table

PORTFOLIO	INDEX	TARGET	WEIGHT %
Edinburgh Partners	Zero Return - Historically MSCI AC World Index (Gross)	+3% pa	100.00
Blackrock	FTSE All Share (Gross)	+3% pa	100.00
Blackrock Passive Equity	FTSE-Ftse Aw Developed (Gross)	Not Applicable	100.00
Alliance Bernstein	GBP Libor (3 month)	+3% pa	100.00
Royal London	FTSE index Linked >5 years	+0.5% pa	100.00
Barings	GBP Libor (3 month)	+4% pa	100.00
CBRE 1	Headline RPI	+5% pa	100.00
CBRE 2	Headline RPI	+5% pa	100.00
Total Plan Composite	Manager Weighted Benchmark	Not Applicable	100.00

## Executive Summary of Total Plan as at 30/09/2013

### Overview

During the quarter the total market value of the Durham County Council Pension Plan increased by +£41.12m to £2,057.09m. There was a total outflow from the plan of -£826.99 in the quarter meaning the plan experienced net gains of +£41.12m.

The performance return for the Plan over the third quarter of 2013 was +2.04%, compared to the Plan benchmark return of +1.99. The Plan therefore outperformed the benchmark by +0.05%.

Equity markets were up this quarter with the FTSE All Share (+3% pa) rising +6.37% and the FTSE Aw Developed also up by +1.54% in Sterling terms. Index Linked bonds were up with the FTSE index linked over 5 years index (+0.5% pa) increasing by +0.65%.

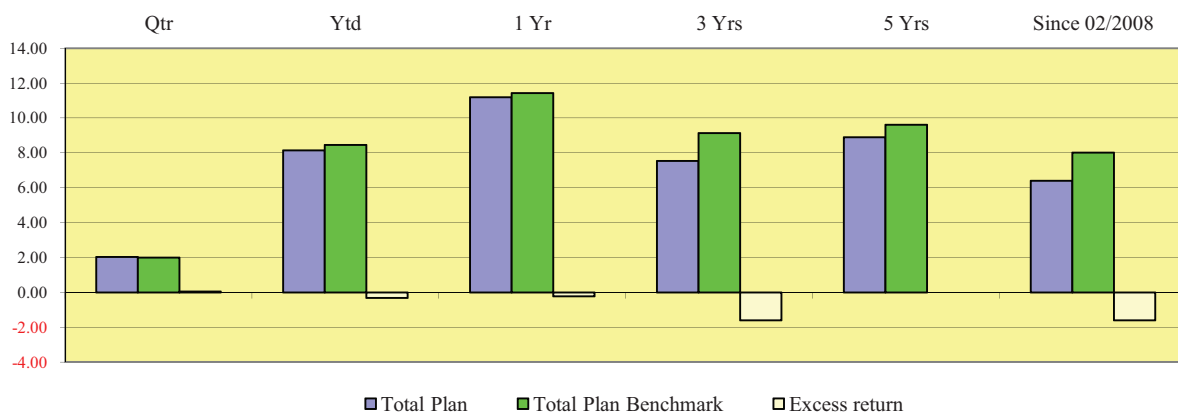
### Market Values

	In GBP mil's			
	Qtr 3 - 13	Qtr 2 - 13	Qtr 1 - 13	Qtr 4 - 12
<b>Total Plan</b>	<b>2,057.09</b>	<b>2,015.97</b>	<b>2,060.34</b>	<b>1,900.66</b>

### Performance

	Performance (%) *					
	Qtr	Ytd	1 Yr	3 Yrs	5 Yrs	Since 02/2008
<b>Total Plan</b>	2.04	8.15	11.20	7.5	8.9	6.40
Total Plan Benchmark	1.99	8.46	11.43	9.1	9.6	8.01
<i>Excess return</i>	<i>0.05</i>	<i>-0.31</i>	<i>-0.23</i>	<i>-1.60</i>		<i>-1.61</i>

### Total Plan Performance

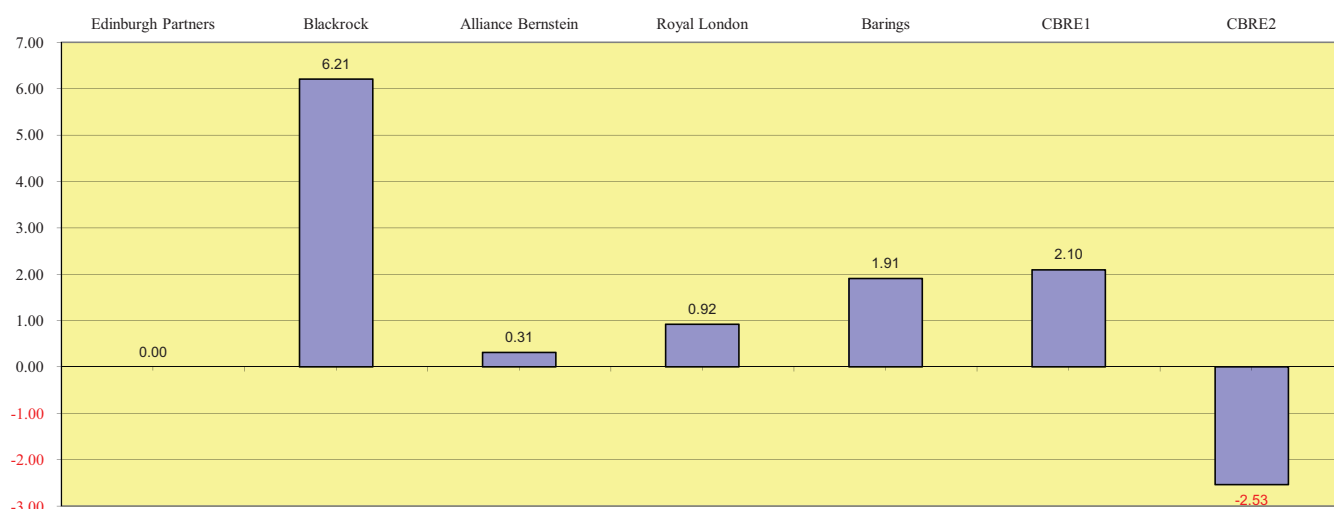


**Total Plan Performance Returns as at 30/09/13**

Currency GBP		Performance (%) *					
	Mkt. Val. in Mil's	Qtr	Ytd	1 Year	2 Years	3 Years	Since 02/2008
<b>Total Plan</b>	<b>2057.1</b>	2.04	8.15	11.20	11.01	7.53	6.40
Total Plan Benchmark		1.99	8.46	11.43	11.53	9.13	8.01
<i>Excess return</i>		0.05	-0.31	-0.23	-0.52	-1.60	-1.61

	Mkt. Val. in Mil's	Qtr	Ytd	1 Year	2 Years	3 Years	Since 02/2008
<b>Edinburgh Partners</b>	<b>0.3</b>	0.00	0.00	0.00	3.69	-0.21	1.75
Zero Return - Historically MSCI AC World Index (Gross) +3% pa		0.00	0.00	0.00	7.29	4.24	5.84
<i>Excess return</i>		0.00	0.00	0.00	-3.60	-4.46	-4.09
<b>Blackrock</b>	<b>335.1</b>	6.21	12.87	15.80	17.02	9.60	6.89
FTSE All Share (Gross) +3% pa		6.37	17.12	22.50	21.78	13.54	9.63
<i>Excess return</i>		-0.17	-4.24	-6.70	-4.75	-3.94	-2.73
<b>Blackrock (Passive Equity)</b>	<b>492.0</b>	1.61	18.08	20.56	-	-	13.38
FTSE-Ftse Aw Developed (Gross)		1.54	17.85	20.42	-	-	13.42
<i>Excess return</i>		0.08	0.23	0.13	-	-	-0.04
<b>Alliance Bernstein</b>	<b>298.0</b>	0.31	0.26	2.40	5.29	3.95	4.43
GBP Libor +3% pa		0.87	2.64	3.54	3.76	3.78	4.56
<i>Excess return</i>		-0.56	-2.38	-1.14	1.53	0.17	-0.13
<b>Royal London</b>	<b>388.2</b>	0.92	1.48	6.83	6.28	8.69	7.82
FTSE index Linked >5 years +0.5% pa		0.65	1.90	7.16	6.35	8.96	7.73
<i>Excess return</i>		0.26	-0.43	-0.34	-0.07	-0.27	0.09
<b>Barings</b>	<b>402.8</b>	1.91	6.64	8.17	7.51	6.02	7.35
GBP Libor +4% pa		1.12	3.39	4.55	4.77	4.78	5.58
<i>Excess return</i>		0.79	3.25	3.62	2.74	1.23	1.78
<b>CBRE1</b>	<b>116.3</b>	2.10	7.91	8.48	8.07	8.38	-0.00
Headline RPI +5% pa		2.12	5.86	8.30	8.04	8.96	8.34
<i>Excess return</i>		-0.02	2.05	0.18	0.03	-0.58	-8.34
<b>CBRE2</b>	<b>24.5</b>	-2.53	4.42	9.24	14.21	5.43	3.52
Headline RPI +5% pa		2.12	5.86	8.30	8.04	8.96	8.34
<i>Excess return</i>		-4.65	-1.44	0.94	6.17	-3.53	-4.82

**Manager Quarterly Returns**

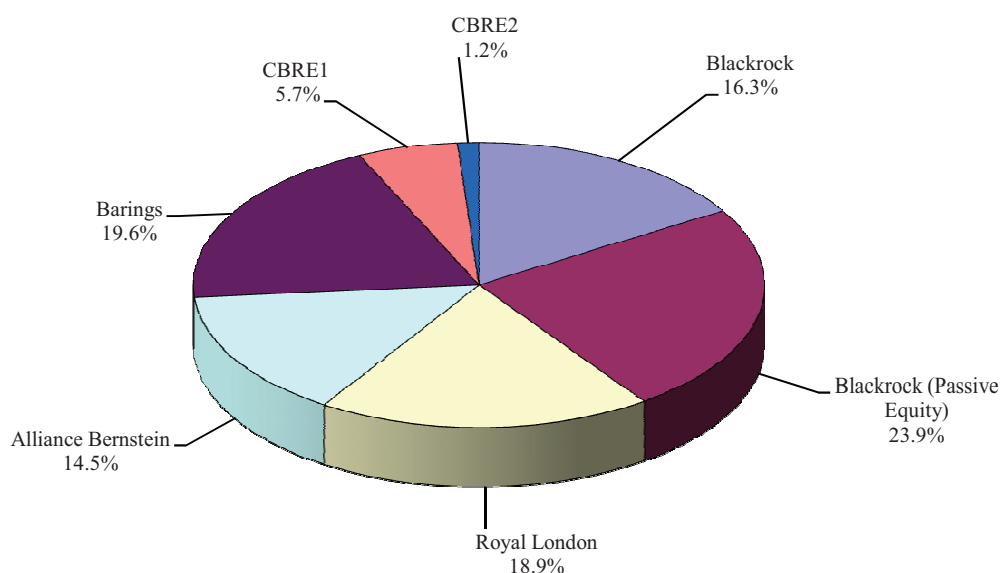


\*All Portfolio and Composite returns are Gross of Fees. For time periods in excess of 1 year the performance returns are annualised.

## Portfolio Comparison for Quarter 3, 2013

Portfolio Name	Current Market Value	Portfolio Weight	Portfolio Return (%)	Benchmark Return (%)	Excess Return (%)	Current Contribution to Return
<b>Total Plan</b>	<b>2,057,094,251</b>	<b>100.00%</b>	<b>2.04</b>	<b>1.99</b>	<b>0.05</b>	<b>2.04</b>
Edinburgh Partners	292,162	0.01%	0.00	0.00	0.00	(0.00)
Blackrock	335,051,400	16.29%	6.21	6.37	(0.17)	0.97
Blackrock (Passive Equity)	491,958,160	23.92%	1.61	1.54	0.08	0.39
Royal London	388,222,854	18.87%	0.92	0.65	0.26	0.18
Alliance Bernstein	297,960,082	14.48%	0.31	1.12	(0.80)	0.05
Barings	402,787,959	19.58%	1.91	1.12	0.79	0.37
CBRE1	116,324,410	5.65%	2.10	2.12	(0.02)	0.12
CBRE2	24,489,556	1.19%	(2.53)	2.12	(4.65)	(0.03)
JPMSL Transition Account	7,641	0.00%	0.00	-	-	(0.00)
Transition Account	25	0.00%	0.00	-	-	(0.00)

### Manager Allocation



## Portfolio Comparison for Year to Date, 2013

Portfolio Name	Current Market Value	Portfolio Weight	Portfolio Return (%)	Benchmark Return (%)	Excess Return (%)	Current Contribution to Return
<b>Total Plan</b>	<b>2,057,094,251</b>	<b>100.00%</b>	<b>8.15</b>	<b>8.46</b>	<b>(0.31)</b>	<b>8.15</b>
Edinburgh Partners	292,162	0.01%	0.00	0.00	0.00	0.00
Blackrock	335,051,400	16.29%	12.87	17.12	(4.24)	2.01
Blackrock (Passive Equity)	491,958,160	23.92%	18.08	17.85	-	3.96
Royal London	388,222,854	18.87%	1.48	1.90	(0.43)	0.30
Alliance Bernstein	297,960,082	14.48%	0.26	3.39	(3.13)	0.04
Barings	402,787,959	19.58%	6.64	3.39	3.25	1.32
CBRE1	116,324,410	5.65%	7.91	5.86	2.05	0.43
CBRE2	24,489,556	1.19%	4.42	5.86	(1.44)	0.08
JPMSL Transition Account	7,641	0.00%	0.00	-	-	(0.00)
Transition Account	25	0.00%	0.00	-	-	0.00

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## Pension Fund Committee

5 December 2013

### Overall Value of Pension Fund Investments to 30 September 2013



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**Don McLure, Corporate Director Resources**

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#### Purpose of the Report

1. The purpose of the report is to inform Members of the overall value of the Pension Fund as at 30 September 2013 and of any additional sums available to the Managers for further investment or amounts to be withdrawn from Managers.

#### Value of the Fund

2. Reports from the five appointed Managers:

- AllianceBernstein
- Barings
- BlackRock
- CBRE
- Royal London

are included in other papers within this agenda. The value of the Fund at 30 September 2013 was £2,057,090,000.

3. The value of the Fund as at 30 June 2013 was £2,015,970,000. The value of the Fund therefore increased by £41,120,000 in the second quarter of 2013/14.

#### Allocation of New Money

4. Appendix 1 details the working cash balance position of the Fund, cash flow for the last four quarters, and an estimated cash flow for the quarter ending 30 September 2013. This table includes only cash held by Durham County Council Pension Fund Bank Account. It does not include cash balances held by the Managers of £ 21,645,541 as at 30 September 2013.
5. In determining the amount of cash to be allocated to Managers at the quarter ended 30 September, the un-invested cash balance at the end of the previous quarter, together with interest received in that quarter, is considered. This does not include cash currently held by Fund Managers.
6. The amount allocated to each Manager is subject to the need to retain money, in the Durham County Council Pension Fund Bank account to meet the Fund's net cash outflow. After taking these issues into account, it is

recommended that £15m be withdrawn from the sums allocated to the Managers for investment in the quarter. In order to reduce transaction costs, pending a full re-balancing upon completion of the review, it is recommended that this amount be withdrawn from the BlackRock Pooled Fund.

## **Fund Rebalancing**

7. Normally 'fund rebalancing' takes place on a quarterly basis, but it has been suspended until the results of the Strategy Review are put into operation.

## **Cash Flow Forecast 2013/14**

8. Appendix 2 shows the forecasted cash flow for the Pension Fund for 2013/14
9. This table shows that the Pension Fund Bank Account is estimated to be in deficit in each quarter of the year. However, it should be noted that this is only in respect of the bank account held by the Pension Fund; income received from investments is currently held by Managers. When this is taken into account, the Pension Fund has a positive cash flow.
10. The quarterly rebalancing exercise will be the mechanism by which cash can be moved from Managers to the Pension Fund if the assumptions that have been used in calculating the forecasted cash flow are realised.
11. The assumptions which have been used to calculate the cash flow forecast are:
  - Income for 2013/14 estimated at £32m based on last year's actual figures to March 2013.
  - Income is profiled to be received in the same pattern as last year i.e.

○ Quarter ended 30 June	34%
○ Quarter ended 30 September	27%
○ Quarter ended 31 December	18%
○ Quarter ended 31 March	21%.
  - Increases in contributions in line with the Actuarial Valuation are included.
  - 'Transfers in' estimated at £500k per quarter. It is anticipated that transfers in will continue as LGPS will remain relatively attractive to employees.
  - Pensions increase will be at broadly the same level as 2012/13.
  - Payroll Paysheets are forecast to increase by £100k per quarter. This is the line that records payments to pensioners. This line will alter if there are large numbers of retirements in the employing authorities, but it is anticipated that as the County Council's position has been taken

into account, as the largest employer in the Fund, this should not be materially different to forecast.

- Payable Paysheets are forecast at a constant level throughout the year, but this can be the most volatile line. Included in this line are Fund Managers' fees and payments of lump sums. The assumption here errs on the side of prudence, in that this is an average figure taken from previous quarterly payments.
12. This is an early indication of the likely impact on the Pension Fund's cash flow forecast which will be reviewed each quarter and refined to take into account new information as it becomes available.

### **Recommendation**

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

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**Contact: Hilary Appleton      Tel: 03000 266239**

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## Cash Flow – Estimated and Actual for the period 31 December 2012 to 31 December 2013

Quarter Ended (1)	31.12.12		31.03.13		30.06.13		30.09.13		31.12.13
	Estimate (2)	Actual (3)	Estimate (4)	Actual (5)	Estimate (6)	Actual (7)	Estimate (8)	Actual (9)	Estimate (10)
	£	£	£	£	£	£	£	£	£
Contributions - DCC	16,400,000	16,056,854	16,000,000	18,102,207	18,500,000	18,650,306	18,500,000	16,500,466	16,500,000
- Other	6,800,000	7,285,052	7,100,000	5,358,443	5,200,000	5,376,269	5,300,000	7,592,559	7,300,000
Pensions Increase	1,200,000	1,242,263	1,200,000	1,150,005	1,000,000	919,281	1,000,000	1,221,180	1,000,000
Transfer Values	1,000,000	451,820	500,000	1,008,627	700,000	742,328	500,000	607,420	500,000
Month end uncleared items	1,000,000	2,125,200	2,000,000	404,953	400,000	428,496	1,000,000	1,300,000	1,000,000
Gross Dividend & Interest	120,000	139,171	65,000	117,192	75,000	78,593	80,000	22,751	23,000
Total Income	26,520,000	27,300,360	26,865,000	26,141,427	25,875,000	26,195,273	26,380,000	27,244,376	26,323,000
Payroll Paysheets	20,500,000	20,621,401	20,700,000	20,382,254	20,500,000	20,978,262	21,000,000	21,128,081	21,200,000
Payables Paysheets (incl. Managers' fees)	9,000,000	5,714,831	9,000,000	10,421,168	8,000,000	6,637,706	8,000,000	6,623,383	7,000,000
Total Expenditure	29,500,000	26,336,232	29,700,000	30,803,422	28,500,000	27,615,968	29,000,000	27,751,464	28,200,000
Surplus / (Deficit)	( 2,980,000)	964,128	(2,835,000)	(4,661,995)	(2,625,000)	(1,420,695)	(2,620,000)	(507,088)	(1,877,000)
Net Capital payments/(receipts)		0		0		1,600,000		0	
Balance at Bank (opening)		14,024,338		24,538,401		21,217,826		14,369,891	
Balance at Bank (closing)		24,538,401		21,217,826		14,369,891		12,515,667	
Money paid/(recovered) to/(from Manager)		(10,000,000)		0		0		0	

**Projected Cash Flow** – including dividends received by Fund Managers for the period 31 December 2013 to 31 December 2014

<b>Quarter Ended</b>	<b>31.12.13</b>	<b>31.03.14</b>	<b>30.06.14</b>	<b>30.09.14</b>	<b>31.12.14</b>
	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Contributions - DCC	16,500,000	16,500,000	16,700,000	16,800,000	16,800,000
- Other	7,300,000	7,300,000	7,400,000	7,400,000	7,400,000
Pensions Increase	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Transfer Values	500,000	500,000	500,000	500,000	500,000
Month end uncleared items	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Gross Dividend & Interest	23,000	25,000	25,000	25,000	25,000
<b>Total Income</b>	<b>26,323,000</b>	<b>26,325,000</b>	<b>26,625,000</b>	<b>26,725,000</b>	<b>26,725,000</b>
Payroll Paysheets	21,200,000	21,300,000	21,400,000	21,500,000	21,600,000
Payables Paysheets (incl. Managers' fees)	7,000,000	10,000,000	10,000,000	10,000,000	10,000,000
<b>Total Expenditure</b>	<b>28,200,000</b>	<b>31,300,000</b>	<b>31,400,000</b>	<b>31,500,000</b>	<b>31,600,000</b>
<b>Surplus / (Deficit)</b>	<b>(1,877,000)</b>	<b>(4,975,000)</b>	<b>(4,775,000)</b>	<b>(4,775,000)</b>	<b>(4,875,000)</b>
Dividends Received by Managers	5,760,000	6,720,000	10,880,000	8,640,000	5,760,000
<b>Net Cash Flow Position</b>	<b>3,883,000</b>	<b>1,640,000</b>	<b>6,105,000</b>	<b>3,865,000</b>	<b>885,000</b>

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## Pension Fund Committee

5 December 2013



### Short Term Investments for the Period Ended 30 September 2013

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**Don McLure, Corporate Director Resources**

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#### Purpose of Report

1. To provide the Committee with information on the performance of the Pension Fund's short term investments for the 3 month period ended 30 September 2013.

#### Short Term Investments

2. Durham County Council (DCC) invests the short term cash balances on behalf of the Pension Fund; this is done in line with DCC'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 September 2013 was £12.516m which was held in the institutions listed in the table below alongside their credit rating at 30 September 2013.

Financial Institution	Rating	Amount Invested £m
Bank Deposit Accounts		
Barclays	A	2.176
Natwest Bank	A	4.117
Santander UK Plc	A	0.044
Fixed Term Deposits		
Bank of Scotland	A	5.222
Nationwide Building Society	A	0.870
National Savings and Investments	N/A	0.087
<b>Total</b>		<b>12.516</b>

4. The following table provides information on the interest earned during the 3 month period, the average daily investment balance and the average return earned in comparison to the average bank base rate:

	<b>Total</b>
Interest Earned	£11,545
Average Return Earned	0.388%
Average Bank of England base rate	0.500%
Average Daily Balance of Investments	£15.897m

### **Recommendation**

5. Members are asked to note the position at 30 September 2013 regarding the Pension Fund's short term investments.

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**Contact: Hilary Appleton      Tel: 03000 266239**

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## Pension Fund Committee

5 December 2013



## Audit Completion Report for the year ended 31 March 2013

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**Don McLure, Corporate Director Resources**

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### 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 2013.

### Background

- 2 A report to the Pension Fund Committee on 5 September 2013 included the Pension Fund Statement of Accounts. At that time, the Accounts were subject to audit by our external Auditor, Mazars LLP.
- 3 The Statement of Accounts has now been approved by the Audit Committee 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, was circulated to Members and was presented to the Annual Meeting of the Pension Fund on 19 November 2013. The Report is available on the County Council's [website](#).

### Audit Completion Report

- 5 The Audit Completion Report and the letter from the External Auditor presented to the Audit Committee on 30 September are attached to the report for Members' information.
- 6 Appendix 3a to the Audit Completion Report gives the Auditor's unqualified opinion on the Pension Fund's Financial Statements and the Annual Report:

*"In our opinion the financial statements:*

- *give a true and fair view of the financial position of the Durham County Council Pension Fund as at 31 March 2013 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 2012/13.*

### **Opinion on other matters**

*In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.”*

- 7 Section 9 to the Audit Completion Report details the adjusted errors. There were no significant errors found in the accounts that have not been corrected. The letter to the Audit Committee concludes the issues outstanding at the time of the publication of the Audit Completion Report as detailed in Section 4 of the report.
- 8 Overall, the External Auditor had no significant issues to highlight in respect of the qualitative aspects of the Pension Fund’s accounting practices.
- 9 However, as there were a number of amendments to disclosures, which were made in order to enhance clarity and consistency, the External Auditor has highlighted some areas for the Pension Fund to review in 2013/14. These are.
  - The project management of the statement of accounts production is important, the managers of the Pension Fund should continue to monitor the closedown timetable and review processes to see if there are any areas for improvement.
  - Focusing work on the following two areas may help reduce the amendments to disclosures (and the number of audit queries):
    - developing further the quality assurance review of the draft statement of accounts (in the context of the challenging timetable); and
    - carrying out a more detailed analytical review of the primary statements.
- 10 These areas will be addressed during the 2013/14 closing of accounts process.

### **Summary**

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

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**Contact: Hilary Appleton Tel: 03000 266239**

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Members of the Audit Committee  
 Durham County Council  
 County Hall  
 Durham  
 DH15UE

Direct line +44 (0)191 383 6314

Email [cameron.waddell@mazars.co.uk](mailto:cameron.waddell@mazars.co.uk)

30 September 2013

Dear Members

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

As required by International Standards on Auditing (UK and Ireland), I am writing to communicate the conclusion of those matters that are marked as outstanding on page 2 of our Audit Completion Report which we will be presenting to the Audit Committee on 30 September 2013.

The outstanding matters and the conclusions reached are detailed in the table below.

Outstanding matter	Conclusion reached
Purchases and sales of investments	<p>Testing has been completed and highlighted the need for amendments to Note 15 Investments - 'Reconciliation of Movements in Investments 2012/13' as a result of errors in accounting for the transfer of investments from one fund manager to another. Purchases amended from £5,990 million to £5,711 million and Sales from £5,945million to £5,665million.</p> <p>In addition, a net amount of £0.81m has been allocated to loss on sale of investments which represents differences in trades caused by foreign exchanges and other sundry items. We have been unable to agree this amount to the custodians report as it is spread over a number of accounts.</p>
Annual report checking	Testing completed and no matters to report to members.

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Outstanding matter	Conclusion reached
Checking the revised statement of accounts	The revised statements have been checked and agreed. Amendment made to Note 16 comparatives for valuation of Financial instruments carried at Fair value. No further matters to report to members.

If you wish to discuss these or any other points discussed at the meeting then please do not hesitate to contact me or Catherine Banks. ([Catherine.Banks@mazars.co.uk](mailto:Catherine.Banks@mazars.co.uk)).

Yours sincerely

**Cameron Waddell**

Director

cc Mr Don McLure, Corporate Director Resources

Durham County Council  
Pension Fund

Audit Completion Report  
Year ended 31 March 2013

September 2013

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*Our reports are prepared in the context of the Audit Commission's 'Statement of responsibilities of auditors and audited bodies'. Reports and letters prepared by appointed auditors and addressed to Members or Officers are prepared for the sole use of the audited body and we take no responsibility to any Member or Officer in their individual capacity or to any third party.*

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## 1. Purpose of this document

This report includes the findings of our audit for the year ended 31 March 2013 and forms the basis for discussion at the Audit Committee on 30 September 2013.

Our communication with you is important in:

- sharing information to assist both the auditor and those charged with governance (i.e. Members of the Audit and Governance Committee) to fulfil their respective responsibilities;
- providing constructive observations arising from the audit process to those charged with governance;
- ensuring as part of the two-way communication process we, as external auditors, gain an understanding of the attitude and views of those charged with governance at Durham County Council (the Council) of the internal and external operational, financial, compliance and other risks which might affect the statement of accounts, including the likelihood of those risks materialising and how they are managed; and
- receiving feedback from those charged with governance on the performance of the engagement team.

## 2. Independence

As part of our on-going risk assessment, we monitor our relationships with you to identify any new actual or perceived threats to our independence. No

further threats to our independence have been identified since we issued our Audit Strategy Memorandum (see appendix 1).

## 3. Our audit approach

Our audit has been conducted in accordance with International Standards of Auditing (UK and Ireland) issued by the Auditing Practices Board.

## 4. Overall conclusion, opinion and recommendations

At the time of issuing this report we anticipate issuing an unqualified opinion on your statement of accounts.

My work to review the Annual Report is on-going. I expect to complete all my work, including my final review procedures, before the Audit Committee on 30 September 2013. I will update the Committee as necessary as part of my oral report.

We ask the Audit Committee to:

- take note of the adjustments to the financial statements included in this report (Section 10); and
- approve the letter of representation (Appendix 2) on behalf of the Council before we issue our opinion and conclusion.

We would also like to take this opportunity to thank officers and Members for their continued co-operation and support in our first year of audit.

## 5. Limitations

Our audit procedures, which have been designed to enable us to express an opinion on the statement of accounts, have included the examination of the relevant transactions and controls. The International Standards on Auditing (UK and Ireland) do not require us to design audit procedures for the purpose of identifying supplementary matters to communicate with those charged with governance.

Our audit included consideration of internal controls relevant to the preparation of the statement of accounts in order to design audit procedures that are appropriate in the circumstances, but not for expressing an opinion on the effectiveness of internal control or to identify any significant deficiencies in their design or operation.

We have included in this report only those matters that have come to our attention as a result of our normal audit procedures and, consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

## 6. Audit status

We have substantially completed our audit of the statement of accounts for the year ended 31 March 2013.

As at the time of preparing this report, the following significant matters remain outstanding:

- Completion of testing of the transition purchases and sales transactions; and

- Pension Fund Annual Report - the Pension Fund prepared its draft Annual Report in early September 2013. I have not yet completed my review and report on the financial statements included in the Annual Report.

I expect to report on the financial statements included in the Annual Report by 30 September 2013. I will provide an oral update on my work on the report to the Audit Committee on 30 September 2013.

We expect to be able to certify the closure of the 2012/13 audit by 30 September 2013. We have not received any objections to the Council's 2012/13 statement of accounts from electors and have no outstanding matters or correspondence with electors.



## 7. Significant risks identified during planning

Set out below are the significant risks from our Audit Strategy Memorandum. We paid particular attention to these risks in reducing the risk of material misstatement in the financial statements and the table below details how we addressed each risk and our conclusions.

Significant audit risks	How we addressed this risk	Audit conclusion
<p><b>Management override of controls</b></p> <p>Auditing standards state that management is in a unique position to perpetrate fraud, because of management’s ability to directly or indirectly potentially manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>Whilst the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in <i>all</i> entities. It is therefore an inherent significant risk of material misstatement due to fraud.</p>	<p>We updated our understanding and evaluation of internal control procedures as part of our audit planning, including assessing the risk of fraud in the financial statements.</p> <p>We sought written assurances from the Audit Committee and management on their controls and processes for assessing the risk of fraud in the financial statements and arrangements in place to identify, respond to and report fraud. We challenged the responses against our cumulative knowledge of the Council and identified no significant omissions or issues.</p> <p>Our testing strategy included:</p> <ul style="list-style-type: none"> <li>• general ledger journal testing;</li> <li>• consideration and review of material accounting estimates;</li> <li>• consideration and review of any unusual or significant business transactions; and</li> <li>• consideration of any other local factors.</li> </ul>	<p>Our testing has not identified any significant issues that we need to communicate to you.</p>

Significant audit risks	How we addressed this risk	Audit conclusion
<p><b>Valuation of unquoted investments</b></p> <p>The fair value of investments in the Net Assets Statement includes unquoted investments, the fair value of which totalled £244m (12.9% of total assets) as at 31 March 2013.</p> <p>The values of these investments are not quoted in an active market for securities and unitised investments. The values used in the accounts are those provided by fund managers based on forward looking estimates and judgements involving many factors.</p> <p>This results in an increased risk of material misstatement.</p>	<p>We have discussed the valuation of unquoted investments with key contacts involved and we have evaluated management controls over the valuation process.</p> <p>For investments managed by fund managers who fall within the remit of the global custodian, we have:</p> <ul style="list-style-type: none"> <li>• agreed holdings from fund manager reports to the global custodian's report; and</li> <li>• agreed the price to independent evidence.</li> </ul> <p>For investments managed by Alliance Bernstein, who are not within the remit of the global custodian, we have:</p> <ul style="list-style-type: none"> <li>• obtained a reconciliation of opening holding of units (and £) to closing holding of units (and £), taking account of purchases and sales during the year and agreed to quarterly reports from the investment managers;</li> <li>• agreed allocation of total fund allocated to DCCPF; and;</li> <li>• agreed the price to independent evidence.</li> </ul>	<p>Our testing has not identified any significant issues that we need to communicate to you.</p>

## Audit findings

It is a requirement of ISA 260 that significant findings from the audit are communicated to those charged with governance.

### Significant qualitative aspects of accounting practices

ISA 260 requires us to communicate with those charged with governance our views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures. This communication may include the matters set out below.

#### ACCOUNTING POLICIES

- The appropriateness of the accounting policies to the particular circumstances of the entity. Where acceptable alternative accounting policies exist, this communication may include identification of the financial statement items that are affected by the choice of significant accounting policies.
- Any changes in significant accounting policies, including the application of new accounting pronouncements.

#### ACCOUNTING ESTIMATES

- For items which estimates are significant, issues communicated could include: management's identification of accounting estimates, management's process for making accounting estimates, risks of material misstatement, indicators of possible management bias and disclosure of estimation uncertainty in the statement of accounts.

#### FINANCIAL STATEMENT DISCLOSURES

- The issues involved, and related judgements made, in formulating particularly sensitive financial statement disclosures (for example, disclosures related to revenue recognition, remuneration, going concern, subsequent events, and contingency issues).
- The overall neutrality, consistency and clarity of the disclosures in the statement of accounts.

**Overall, we have no significant issues to highlight in respect of the qualitative aspects of your accounting practices. However, there have been a number of amendments to disclosures to enhance clarity and consistency. We have highlighted some areas for the Council to review in 2013/14 below.**

**Significant qualitative aspects of accounting practices**

The Council is aware that project management of the statement of accounts production is important. The Council continues to monitor the closedown timetable and review processes to see if there are any areas for improvement.

Focusing work on the following two areas may help reduce the amendments to disclosures (and the number of audit queries):

- developing further the Council's own quality assurance review of the draft statement of accounts (in the context of the challenging timetable); and
- carrying out a more detailed analytical review of the primary statements.

## 8. Internal control

We are required to report to you any significant deficiencies in the accounting and internal controls systems identified during the course of the audit.

We have no issues to report in this respect.

There are no other recommendations in respect of internal controls, noting the recommendations included under the previous section in respect of qualitative issues.

The purpose of our audit was to express an opinion on the statement of accounts. As part of our audit we have considered the internal controls in place relevant to the preparation of the statement of accounts, in order to design audit procedures to allow us to express an opinion on the statement of accounts, but not for the purpose of expressing an opinion on the effectiveness of internal control.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our audit and that we consider are 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.

## 9. Adjusted and unadjusted misstatements

We are required to bring to your attention the significant misstatements found during the course of audit that have been corrected and those that have not been corrected, unless they are clearly trivial. In summary;

- there are no significant unadjusted misstatements (either cumulative or individually); and
- there has been one material adjustment which impacts only on the analysis within the creditors note to the Net Assets Statement.

Significant adjusted misstatements are summarised in the table below. In addition to these, there were also a number of minor presentational amendments made to disclosure notes.

<b>Adjusted misstatements</b>					
	Fund account		Net assets statement		
	Dr £'000	Cr £'000	Dr £'000	Cr £'000	Cr £'000
1	1,358				
			1,358		
<b>Being amendment to disclosure of the net payment made to Teesside Pension Fund relating to two separate group transfers was disclosed in the accounts. This adjusts the entries to show both the TV out and the TV in to Durham Pension Fund from Teesside Pension Fund.</b>					
2				38,889	
					38,889
<b>Being misclassification between central government creditors and Other entities</b>					

<b>Adjusted misstatements</b>				
3	Creditors - central government departments		1,343	
	Creditors - other local authorities			1,343
<b>Being misclassification between central government creditors and Other local authorities.</b>				
4	Creditors - central government		39,881	
	Creditors - other entities			39,881
<b>Misclassification between central gov creditors and Other entities</b>				
5	Note 16 - Valuation of FI carried at FV - Level 2		202,768	
	Note 16 - Valuation of FI carried at FV - Level 1			202,768
<b>Misclassification of unquoted investments in Valuation of Financial Instruments Carried at Fair Value note.</b>				
6	Note 16 - Valuation of FI carried at FV - Level 1		29,874	
	Note 16 - Valuation of FI carried at FV - Level 3			29,874
<b>Misclassification of quoted investments in Valuation of Financial Instruments Carried at Fair Value note.</b>				
7	Note 16 - Valuation of FI carried at FV - Level 2		480,022	
	Note 16 - Valuation of FI carried at FV - Level 3			480,022
<b>Misclassification of Aquila fund in Valuation of Financial Instruments Carried at Fair Value note.</b>				

## Appendices





## Appendix 1 – Independence

We confirmed our compliance with relevant ethical standards regarding independence in our Audit Strategy Memorandum. However independence is an on-going consideration and, as such, we monitor it throughout the audit process. No new issues arose during the audit which could be perceived as a threat to our independence.

## Appendix 2 – Management Representation

**To:**

Cameron Waddell  
Director  
Mazars LLP  
The Rivergreen Centre  
Aykley Heads  
Durham  
DH1 5TS

**Durham County Council - audit for year ended 31 March 2013**

This representation letter is provided in connection with your audit of the financial statements of Durham County (the Council) for the year ended 31 March 2013 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (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 and relevant legislation and International Financial Reporting Standards.

**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 Council you determined it was necessary to contact in order to obtain audit evidence.
- I confirm as Chief Finance Officer 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 affect 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 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 Council'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 Council 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.

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 Council 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 and relevant legislation and International Financial Reporting Standards (IFRSs).

**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.

I confirm the Council has complied with all aspects of contractual agreements that would have a material effect on the financial statements 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 Council's financial statements 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 Council's financial statements communicated by employees, former employees, analysts, regulators or others.

**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 and relevant legislation and International Financial Reporting Standards.

I have disclosed to you the identity of the Council'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, relevant legislation and International Financial Reporting Standards require 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.

**Unadjusted misstatements**

I confirm that the effects of the uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to this letter as an Appendix.

**Going concern**

To the best of my knowledge there is nothing to indicate that the Council 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 financial statements.

**Specific representations**

I confirm the following specific representations:

Signed

For and on behalf of Durham County Council.

## Appendix 3a – Draft audit report on the Council’s financial statements

### INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF DURHAM COUNTY COUNCIL

#### Opinion on the Authority financial statements

We have audited the financial statements of Durham County Council for the year ended 31 March 2013 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. 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 2012/13.

This report is made solely to the members of Durham County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

#### Respective responsibilities of the Corporate Director Resources and 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 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, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

#### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority’s circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Corporate Director Resources and the overall presentation of the financial statements. In addition, we read all the financial and non-financial

information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

#### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the financial position of Durham county Council as at 31 March 2013 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 2012/13.

#### **Opinion on other matters**

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

#### **Matters on which we report by exception<sup>1</sup>**

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007 and the December 2012 addendum;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

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### **Opinion on the pension fund financial statements**

We have audited the pension fund financial statements for the year ended 31 March 2013 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. 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 2012/13.

This report is made solely to the members of Durham County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

### **Respective responsibilities of the Corporate Director Resources and 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 Authority's Statement of Accounts, which includes the pension fund 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, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Corporate Director Resources and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for my report.

### **Opinion on financial statements**

In our opinion the pension fund's financial statements:



- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2013 and the amount and disposition of the fund's assets and liabilities as at 31 March 2013; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

#### **Opinion on other matters**

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

#### **Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources**

##### **Respective responsibilities of the Authority and the auditor**

The Authority 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.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

##### **Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources**

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission on 1 November 2012, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

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 Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

#### **Conclusion**

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission on 1 November 2012, 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 2013.

#### **Delay in certification of completion of the audit**

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

Cameron Waddell

For and on behalf of Mazars LLP, Appointed Auditors

## Appendix 3b – Draft audit report on the Pension Fund Annual Report

### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DURHAM COUNTY COUNCIL

#### Opinion on the pension fund financial statements

I have audited the pension fund financial statements for the year ended 31 March 2013 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. 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 2012/13. This report is made solely to the members of Durham County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in March 2010.

#### Respective responsibilities of the Corporate Director Resources and 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 and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Corporate Director Resources; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

#### Opinion on financial statements

In my opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2013 and the amount and disposition of the fund's assets and liabilities as at 31 March 2013; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

**Opinion on other matters**

In my opinion, the information given in the annual report for the financial year for which the financial statements are prepared is consistent with the financial statements.

**Matters on which I report by exception**

I report to you if, in my opinion the governance compliance statement does not reflect compliance with the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance. I have nothing to report in this respect.

[Signature]

Cameron Waddell

For and on behalf of Mazars LLP, Appointed Auditors

## Appendix 4 – Required communication

ISA 260 'Communication with Those Charged with Governance' and ISA 265 'Communicating Deficiencies in Internal Control to Those Charged with Governance and Management' requires the auditor to communicate a number of matters with those charged with governance (i.e. Members of the Audit Committee). These are set out below along with our approach.

Required communication	When and how we will communicate
<p>Respective responsibilities of auditor and those charged with governance.</p> <p>Our responsibility for performing the audit is in accordance with International Standards on Auditing (UK and Ireland), which is directed towards forming and expressing an opinion on the statement of accounts.</p> <p>The audit of the statement of accounts does not relieve management or those charged with governance of their responsibilities.</p>	<p>This information was included in the Audit Strategy Memorandum.</p>
<p>Communication of the planned scope and timing of the audit.</p> <p>Matters communicated include:</p> <ul style="list-style-type: none"> <li>▪ significant audit risks and how we will address them;</li> <li>▪ our approach to internal control relevant to the audit;</li> <li>▪ the application of the concept of materiality in the context of an audit;</li> <li>▪ our use of the work of internal audit;</li> <li>▪ your approach to internal control and how you oversee the effectiveness of internal control procedures;</li> <li>▪ the attitude, awareness and action of those charged with governance concerning the detection or possibility of fraud; and</li> <li>▪ your response to new accounting standards, corporate governance practices and related matters.</li> </ul>	<p>This information was included in the Audit Strategy Memorandum.</p>

Required communication	When and how we will communicate
<p>Our views on significant qualitative aspect of accounting practices including accounting policies, accounting estimates and financial statement disclosures.</p> <p>When applicable, why we consider a significant accounting practice not to be appropriate to the entity.</p>	<p>Section 9 of this report.</p>
<p>Significant difficulties, if any, encountered during the audit.</p> <p>Significant difficulties encountered during the audit may include such matters as:</p> <ul style="list-style-type: none"> <li>▪ significant delays in management providing required information;</li> <li>▪ an unnecessarily brief time within which to complete the audit;</li> <li>▪ extensive unexpected effort required to obtain sufficient appropriate audit evidence;</li> <li>▪ the unavailability of expected information;</li> <li>▪ restrictions imposed on the auditor by management; and</li> <li>▪ management’s unwillingness to make or extend its assessment of the entity’s ability to continue as a going concern.</li> </ul>	<p>No significant difficulties were encountered.</p>
<p>Details of significant matters discussed with, or subject to correspondence with management.</p>	<p>No significant matters.</p>
<p>Details of written representations we require for our audit.</p>	<p>Appendix to this report.</p>
<p>Any other matters which we consider to be significant to the oversight of the financial reporting process.</p>	<p>No significant matters.</p>
<p>Statement that the engagement team and the firm have complied with relevant ethical requirements regarding independence.</p> <p>Written disclosure of relationships which have a bearing on our independence and</p>	<p>The Audit Strategy Memorandum and appendix 1 of this report.</p> <p>No non-audit services have been provided and there has been no change to</p>

Durham County Council Pension fund  
Audit Completion Report – Year ended 31 March 2013

Required communication	When and how we will communicate
safeguards we have put in place, details of non-audit services provided and written confirmation of our independence.	the original 2012/13 planned audit fee of £144,180.
Form, timing and general content of communications.	We issue this Audit Completion Report along with reports during the year (Audit Strategy Memorandum and regular Audit Progress Reports), regular meetings with senior officers and meetings with those charged with governance (Members) as required. Should you require us to communicate in a different way please let us know.
<p>Our evaluation of the adequacy of the communication process between ourselves and those charged with governance. This may include observations on:</p> <ul style="list-style-type: none"> <li>• the appropriateness and timing of action taken by you in response to matters we have raised the openness of your communication with us;</li> <li>• your willingness and capacity to meet with us without management being present;</li> <li>• your opportunity to fully comprehend matters we have raised;</li> <li>• the extent to which you probe issues raised and our recommendations;</li> <li>• any communication we have had in establishing with you the form, timing and general content of communications;</li> <li>• your awareness of how our discussions impact on your governance and management responsibilities and whether your communication with us meets legal and regulatory requirements.</li> </ul>	<p>We are satisfied with the adequacy of two-way communication; i.e. between ourselves and those charged with governance or management.</p>
Any significant deficiencies and other control recommendations in respect of internal control that we have identified during the audit.	Section 10 of this report.

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of the Local Government Act 1972.

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## **Agenda Item 15**

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## **Agenda Item 18**

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