

# Audit Completion Report

Durham County Council Pension Fund –  
Year ended 31 March 2022

November 2022



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Mazars LLP  
The Corner  
Bank Chambers  
26 Mosley Street  
Newcastle upon Tyne  
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September 2022

Dear Committee Members

## **Audit Completion Report – Year ended 31 March 2022**

We are pleased to present our Audit Completion Report for the year ended 31 March 2022. 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 28 February 2022. 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:   
Mark Kirkham (Nov 16, 2022 15:28 GMT)

Mark Kirkham

Mazars LLP

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# 01

Section 01:

**Executive summary**

# 1. Executive summary

## Principal conclusions and significant findings

The detailed scope of our work as your appointed auditor for 2021/22 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 and, as outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards on Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

In section 4 of this report we have set out our conclusions and significant findings from our audit. This section includes our conclusions on the audit risks and areas of management judgement in our Audit Strategy Memorandum, which include:

- management override of controls; and
- valuation of level 3 investments.

## Misstatement and internal control recommendations

Section 5 sets out internal control recommendations and section 6 sets out audit misstatements; unadjusted misstatements total £9.0m.

## Status and audit opinion

We have substantially completed our audit in respect of the financial statements for the year ended 31 March 2022.

At the time of preparing this report the significant matters remaining outstanding are outlined in section 2.

We will provide an update to you in relation to the significant matters outstanding through issuance of a follow up letter.

Subject to the satisfactory conclusion of the remaining audit work, we have the following conclusions:



### Audit opinion

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 the Pension Fund financial statements within 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 Fund and to consider any objection made to the accounts. No such contact was made with us.

Executive summary

Status of audit

Audit approach

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Appendices

# 02

Section 02:

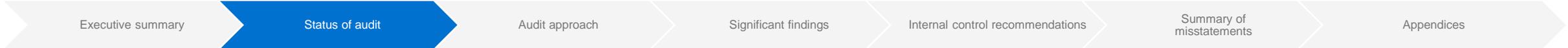
**Status of the audit**

# 2. Status of the audit

Our work is substantially complete and there are currently no matters of which we are aware that would require modification of our audit opinion, subject to the outstanding matters detailed below.

Audit area	Status	Description of the outstanding matters
Audit closure procedures		We have several audit closure procedures to complete. This includes reviewing the final version of the Statement of Accounts and Annual Report.

-  Likely to result in material adjustment or significant change to disclosures within the financial statements.
-  Potential to result in material adjustment or significant change to disclosures within the financial statements.
-  Not considered likely to result in material adjustment or change to disclosures within the financial statements.



# 03

Section 03:

**Audit approach**

# 3. Audit approach

## Changes to our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum in February 2022. We have not made any changes to our audit approach since we presented our Audit Strategy Memorandum.

## Materiality

Our provisional materiality at the planning stage of the audit was set at £36.1m using a benchmark of 1% of net assets available to pay benefits. We set a provisional specific materiality for the fund account of £13.1m at the planning stage of the audit using a benchmark of 10% of benefits payable.

Our final assessment of materiality, based on the final financial statements and qualitative factors, was set using the same benchmarks:

- statement materiality £36.0m; and
- fund account specific materiality £13.8m.

## Service organisations

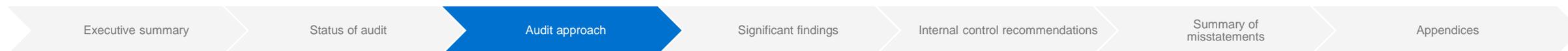
The table below summarises the service organisations used by the Pension Fund and our planned audit approach. There has been no change to the service organisations used or our planned audit approach since the ASM was issued:

Items of account	Service organisation	Audit approach
Investment valuations and related disclosures Investment income and related disclosures	Investment Managers	Substantive testing of in year transactions and valuations applied to investments at the year end.
	Custodian	

## Use of experts

As detailed in our Audit Strategy Memorandum, management makes use of experts in specific areas when preparing the financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account. There have been no changes to our or management's use of experts since the Audit Strategy Memorandum was issued:

Item of account	Management's expert	Our expert
Disclosure notes on funding arrangements and actuarial present value of promised retirement benefits.	Aon Hewitt	NAO's consulting actuary (PWC)
Financial instrument disclosures	Mercer Limited	None



# 04

## Section 04: **Significant findings**

# 4. Significant findings

In this section we outline the significant findings from our audit. These findings include:

- our audit conclusions regarding other 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 14 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

Management override of controls]	Description of the risk
	In all entities, management at various levels within an organisation is in a unique position to perpetrate fraud because of the ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Because of 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.
	<p><b>How we addressed this risk</b></p> <p>We addressed this risk by carrying out audit work in the following areas:</p> <ul style="list-style-type: none"> <li>• accounting estimates impacting amounts included in the financial statements;</li> <li>• consideration of identified significant transactions outside the normal course of business; and</li> <li>• journals recorded in the general ledger and other adjustments made in preparation of the financial statements.</li> </ul>
	<p><b>Audit conclusion</b></p> <p>Our work has provided the required assurance and we have no matters to report.</p>



## 4. Significant findings

### Significant risks

Valuation of level 3 investments	Description of the risk
	As at 31 March 2022, the fair value of investments classified within level 3 of the fair value hierarchy was £304.0m, accounting for 8.5% of the Fund's net investment assets. These investments are not quoted on an active market, and their value is estimated using unobservable inputs, which increases the risk of material misstatement. The values of level 3 investments are provided by fund managers.

#### How we addressed this risk

In addition to our standard program for investments, we performed the following additional procedures:

- agreed holdings from fund manager reports to the global custodian's report;
- agreed the valuation to supporting documentation including the investment manager valuation statements and cash flows for any cash adjustments made to the investment manager valuation;
- agreed the investment manager valuation to audited accounts or other independent supporting documentation, where available;
- where audited accounts were available, checked that they are supported by an unmodified opinion;
- reviewed the valuation methodologies for reasonableness through review of accounting policies within audited financial statements and challenge of the fund manager, where necessary; and
- compared valuations used in the accounts to more up-to-date valuations available at the time of audit which incorporate information up to 31 March.2022, where available.

#### Audit conclusion

Our work provided the required assurance.

### 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.

### Qualitative aspects of the Fund's accounting practices

We have reviewed the Fund's accounting policies and disclosures and concluded they comply with the 2021/22 Code of Practice on Local Authority Accounting, appropriately tailored to the Fund's circumstances.

### Significant difficulties during the audit

During the course of the audit we encountered some difficulty in our audit of investments valuations and investment transactions managed by BCPP. BCPP changed the format of their reports during the year, the format of the revised reports being more complex than the prior reports and requiring additional communication with management and with BCPP on order to aide our understanding. We have had the full co-operation of management throughout.

### 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 2021/22 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. No such objections have been raised.

# 05

Section 05:

**Internal control recommendations**

# 5. Internal control recommendations

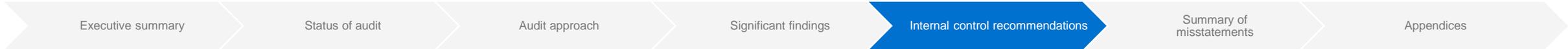
## Internal control

The purpose of our audit was 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 in order to design audit procedures to allow us to express an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of internal control or 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.	1
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.	5
3 (low)	In our view, internal control should be strengthened in these additional areas when practicable.	0



# 5. Internal control recommendations

## Deficiencies in internal control – Level 1

### Description of deficiency

No segregation of duties within the Oracle change environment. Same group of IT personnel from Finance Team have both access to develop and implement changes to Oracle.

### Potential effects

Data integrity and functionality provided by the application may be compromised. Unauthorised or inappropriate changes may be migrated to production environment, which may compromise system stability. This may further lead to system downtime and business disruption.

### Recommendation

Management should ensure that the access to production, test and development environments is segregated. IT access to production databases should be restricted and monitored on regular basis.

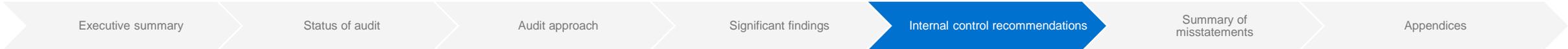
IDs should be created for the programmers without having access to the production environment. Changes should be implemented in the production environment after testing by the person independent of development responsibilities to prevent any unauthorized changes being made.

A Segregation of Duties (SOD) matrix should also be maintained which lists the users and their profiles. SOD matrix should be updated and reviewed on periodic basis.

### Management response

All changes are documented and reviewed independently of the developer by the Principal Accountant (Systems) prior to implementation and depending upon the change, the required action may be and is in many cases undertaken by another member of staff such as the applications DBA. However, to address the weakness identified changes will be applied to production by a staff member other than by the person who developed/requested the change. This will be recorded on the change request register. Developers require production access to assist the support team with debugging issues and working with support partners running scripts etc.

A SOD matrix will be created and maintained setting out users and the duties they are responsible for.



# 5. Internal control recommendations

## Deficiencies in internal control – Level 2

**Description of deficiency**

No reconciliation of holdings reported by fund managers to those reported by the custodian.

**Potential effects**

As the fair value of investments is derived from multiplying by the number of units (holdings) by the price, incorrect holdings could result in an under or overstatement of fair values.

**Recommendation**

A quarterly review of holdings should be undertaken between the fund managers and the custodian.

**Management response**

We agree to discuss the differences in the reporting of holding values, firstly with NT as our Custodian and will include an action plan to understand wider reporting information and advise of any reporting change requirements to ensure more informative and consistent data. A quarterly review will be undertaken by the Principal Accountant against the holding information received from CBRE.

**Description of deficiency**

No reconciliation of cash movements for investments managed by BCPP

**Potential effects**

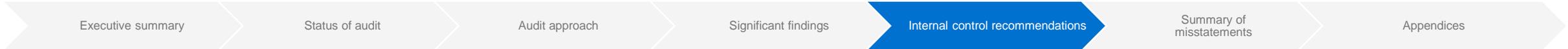
As cash movements form part of the book cost and potentially the asset value, this could result in an under or overstatement of book cost and fair values.

**Recommendation**

A quarterly reconciliation should be undertaken between BCPP cash movements recorded by the pension fund and those reported by BCPP.

**Management response**

DCCPF will discuss with BCPP as part of the review work to be undertaken. A quarterly review will be undertaken to ensure consistency of information.



# 5. Internal control recommendations

## Deficiencies in internal control – Level 2 continued

**Description of deficiency**

Interpreting the revised BCPP report format required additional input by officers.

**Potential effects**

A misinterpretation of the report could lead to an under or overstatement of fair values.

**Recommendation**

Management should seek to better understand the new format or liaise with BCPP to agree a report format that is less complex.

**Management response**

Work with BCPP will be undertaken regarding the format and consistency of reports to ensure an ease of understanding and interpretation

Drawdowns processed and paid to BCPP in March were accounted in DCCPF accounts in March, however whilst the drawdowns were requested, they were not invested until April 22.

Timing differences such as this will need to be communicated between DCCPF and BCPP and this will be included in the review work to be undertaken with BCPP.

**Description of deficiency**

Investment purchases and sales transactions were not received from BCPP during the year as a result of which the net transactions have been allocated to purchases.

**Potential effects**

BCPP purchases and sales were understated, which could also impact on book cost and change in market value.

**Recommendation**

Management should ensure that BCPP provide gross figures for purchases and sales.

**Management response**

DCCPF will discuss with BCPP as part of the review work to be undertaken. A quarterly review will be undertaken to ensure consistency of information.



# 5. Internal control recommendations

## Deficiencies in internal control – Level 2 continued

**Description of deficiency**

IT Auditors were unable to obtain a formally documented and approved policy/procedure documents around the controls for change management, user access management, password management, backup and restoration and incident management.

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**Potential effects**

Lack of standardised procedures may weaken the overall control environment

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**Recommendation**

Management should define formal policies and procedures covering the key IT process areas in the organisation. The formalised processes and procedures should be implemented to standardise operations and monitored to identify any deviations.

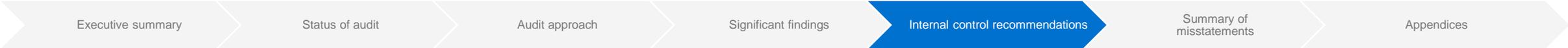
A periodic review of these documents should be performed (at least once a year) to ensure their alignment to the management's intent and industry best practices.

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**Management response**

Agreed, formal policy documents will be created and maintained.

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# 5. Internal control recommendations

## Follow up on control deficiencies identified in previous year

### Description of deficiency

As part of the controls in place to identify related party transactions, members of the Audit Committee and Pension Fund Committee are requested to complete annual declarations of interests. There were a total of five instances where these forms were not completed for 2019/20. In 2020/21 three members did not submit declarations of interest. For two members there were mitigating circumstances and the members had not attended committee meetings in year. For one Pension Fund Committee member, no declaration of interest was received and the member both attended meetings and had voting rights in the year ended 31 March 2021. This was due to the member experiencing IT difficulties and therefore posting their return to County Hall after speaking to management confirming he had no interests to declare. Due to Covid restrictions and officers working from home until recently, the form had not been located at the date on which the audit opinion on the 2020/21 financial statements was issued.

### Potential effects

Declared interests are not captured or up to date. This increases the risk the related party disclosures are inaccurate and potential conflicts of interest are not identified. This could have an impact on public perception of transparency.

### Recommendation

Management should ensure that all committee members bring declarations at least annually.

### 2021/22 Update

No issues identified.

### Description of deficiency

Backup restoration and disaster recovery tests were not performed during the period. Management explained that undertaking business continuity tests in 2019/20 and 2020/21 had been a challenge, due to Covid controls and social distancing restrictions but that a full backup/disaster recovery plan was being developed for 2021/22.

### Potential effects

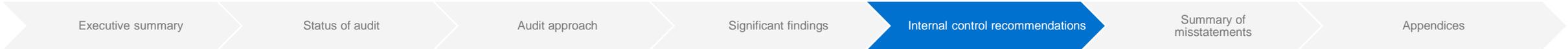
A lack of testing of backup restoration and disaster recovery could lead to deficiencies in the effectiveness of the Fund's resilience to go undetected for extended periods..

### Recommendation

Backups and disaster recovery should be tested at least annually, the results captured and any deficiencies identified remediated in a timely manner.

### 2021/22 Update

Outstanding as IT work still in progress. A update will be provided in the ACR follow up letter provided to members.



# 06

Section 06:

**Summary of misstatements**

# 6. Summary of misstatements

This section outlines the misstatements identified during the course of the audit, above the trivial threshold for adjustment of £1.1m.

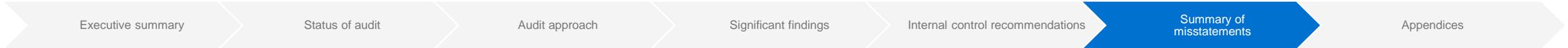
The table below outlines the misstatements that were identified during the course of our audit which management has assessed as not being material either individually or in aggregate to the financial statements and does not currently plan to adjust.

No misstatements have been made to the Fund Account or Net Assets Statement by management during the course of the audit.

## Unadjusted misstatements

	Fund Account		Net Assets Statement	
	Dr (£m)	Cr (£m)	Dr (£m)	Cr (£m)
1 Dr: Pooled investment vehicles (Private equity)			1.2	
Dr: Pooled investment vehicles (Infrastructure)			4.9	
Dr: Pooled investment vehicles (Private credit)			0.5	
Dr: Pooled investment vehicles (Property)			3.1	
Cr: Profits and losses on disposal of investments and change in market value		9.7		

Actual and extrapolated difference between the fair value of level 3 investments included within the Pension Fund accounts and third party confirmations provided to auditors as a result of more up to date information being available at the time of the audit than was available to officers when preparing the draft accounts. The actual difference on the tested items was £9.6m. This would also impact on fair values disclosed in Note 15 Investments, Note 16 Financial Instruments and Note 17 Nature and Extent of Risk Arising From Financial Instruments.

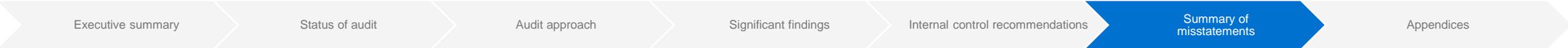


# 6. Summary of misstatements

## Unadjusted misstatements

		Fund Account		Net Assets Statement	
		Dr (£m)	Cr (£m)	Dr (£m)	Cr (£m)
2	Cr: Pooled investment vehicles (Private equity)				0.5
	Dr: Pooled investment vehicles (Infrastructure)			2.6	
	Cr: Pooled investment vehicles (Private credit)				0.2
	Dr: Pooled investment vehicles (Property)				2.6
	Dr: Profits and losses on disposal of investments and change in market value	0.7			

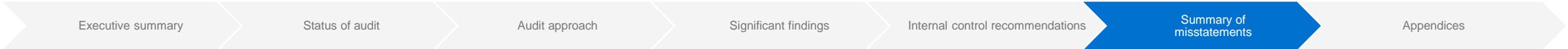
Actual and extrapolated difference in fair value due to differences in the number of units held by custodian and the fund managers for level 3 investments. The actual difference on the tested items was £0.3m. This would also impact on fair values disclosed in Note 15 Investments, Note 16 Financial Instruments and Note 17 Nature and Extent of Risk Arising From Financial Instruments .



# 6. Summary of misstatements

## Unadjusted misstatements

	Fund Account		Bet Assets Statement	
	£m	£m	£m	£m
3				
Dr: Transaction costs	3.1			
Cr: Profits and losses on disposal of investments and change in market value		3.1		
Actual difference in book cost of infrastructure assets between that included in the Fund's general ledger and that reported by BCPP. This would also impact on Note 12 Management Expenses, Note 15 Investments, Note 16 Financial Instruments and Note 17 Nature and Extent of Risk Arising From Financial Instruments .				
4				
Cr: Pooled investment vehicles (Private equity)				1.6
Cr: Pooled investment vehicles (Infrastructure)				2.3
Dr: Pooled investment vehicles (Private credit)			1.4	
Dr: Profits and losses on disposal of investments and change in market value	2.5			
Actual and extrapolated due to differences between purchases and sales of private credit, private equity and infrastructure assets recorded by the Fund and those provided directly to us by BCPP.				
<hr/>				
<b>Total unadjusted misstatements</b>	<b>6.3</b>	<b>12.8</b>	<b>13.7</b>	<b>7.2</b>



# 6. Summary of misstatements

## Adjusted disclosure amendments

**Note 20 Additional Voluntary Contributions:** The Note has been updated for information provided by Prudential which was not available to officers when the financial statements were drafted.

**Note 16 Financial Instruments - Valuation at Fair Value:** Level 1 financial assets have increased and level 2 financial assets have decreased by £204.6m, to transfer one asset that had been incorrectly classified.

**Note 16 Financial Instruments:** Disclosures have been added relating to Basis of valuation for level 2 and level 3 investments and Sensitivity of assets values at Level 3.

**Note 15 Reconciliation of movement in investments:** Purchases and sales transaction costs incurred by fund managers were allocated to CIMV of cash in the draft financial statements rather than to the purchases and sales to which they relate. The Note has been amended as follows:

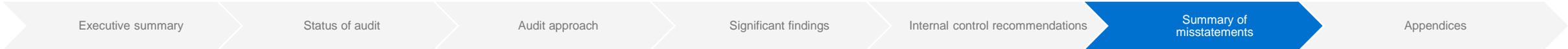
Asset class	Purchases	Sales	Change in Market Value
Equities	£-0.1m	£+0.1m	£+0.2m
PIVs	£-2.7m	£+3.2m	£+5.9m
Cash			£-6.1m

It is noted that £5.4m of the transaction costs relate to BCPP. The fund have been unable to obtain the analysis of the fees between purchases and sales and have therefore apportioned them equally between purchases and sales. This does not represent the actual figures and on that basis purchases and sales of pooled investment vehicles may be under or overstated by up to £2.7m.

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

## Unadjusted disclosure misstatements

**Note 12 Management expenses:** Administrative expenses have been overstated by £6.4m due to the inclusion of bank charges related specifically to BCPP investment transactions in foreign currency, with a corresponding understatement of transaction costs.



# Appendices

A: Draft management representation letter

B: Draft audit report

C: Draft consistency report

D: Independence

E: Other communications

# Appendix A: Draft management representation letter

Durham County Council  
County Hall  
Durham  
DH1 5UZ

X November 2022

Dear Mark

### Durham County Council Pension Fund- audit for year ended 31 March 2022

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 2022 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 2021/22 (the Code) and applicable law.

I confirm that the following representations, to the best of my knowledge and belief, 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 applicable law.

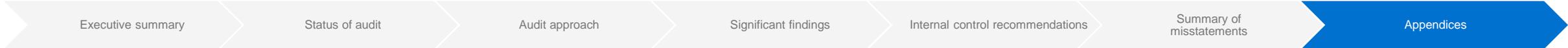
#### My responsibility to provide and disclose relevant information

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, as administering authority of the Pension Fund, you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Corporate Director of 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



# Appendix A: Draft management representation letter (continued)

### 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 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 the methods, significant assumptions and the data used in making the accounting estimates are appropriate to achieve recognition, measurement or disclosure that is in accordance with the applicable financial reporting framework.

### Contingencies

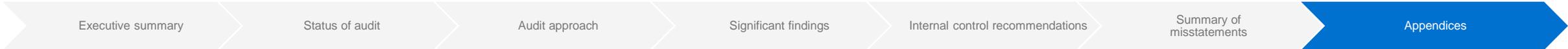
There are no material contingent losses including pending or potential litigation that should be accrued where:

- 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 year end 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 and applicable law.



# Appendix A: Draft management representation letter (continued)

### 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 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 the methods, significant assumptions and the data used in making the accounting estimates are appropriate to achieve recognition, measurement or disclosure that is in accordance with the applicable financial reporting framework.

### Contingencies

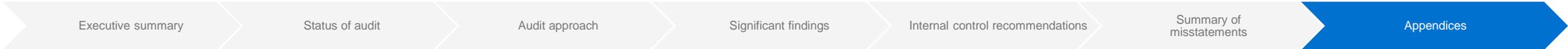
There are no material contingent losses including pending or potential litigation that should be accrued where:

- 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 year end 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 and applicable law.



# Appendix A: Draft management representation letter (continued)

### 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 and applicable law, 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.

### Going concern

To the best of my knowledge there is nothing to indicate that the Pension Fund will cease to 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.

### Specific representation on level 3 investments

Level 3 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, that the valuations are materially correct , and am not aware of any subsequent events that would have a material impact on the estimated value of the level 3 investments

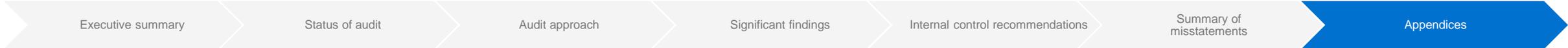
### Unadjusted misstatements

I confirm that the effects of the uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole. **Please make sure the appendix is attached to the letter and not cross-referenced to the appendix in the ACR. Unadjusted should be numerical AND disclosure.**

Yours faithfully

Corporate Director of Resources: .....

Date: .....



# Appendix B: Draft audit report

## Independent auditor’s report to the members of Durham County Council

### Report on the audit of the financial statements

#### Opinion on the financial statements of Durham County Council Pension Fund

We have audited the financial statements of Durham County Council Pension Fund (‘the Pension Fund’) for the year ended 31 March 2022, which comprise the Fund Account, the Net Assets Statement, and notes to the financial statements, including a 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 2021/22.

#### 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 2022, and the amount and disposition of the Pension Fund’s assets and liabilities as at 31 March 2022; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

#### Basis for opinion

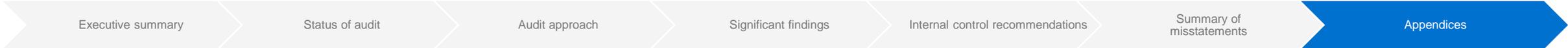
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor’s responsibilities section of our report. We are independent of the Council, as administering authority for the Pension Fund, 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

In auditing the financial statements, we have concluded that the Corporate Director of Resources’ use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

Our responsibilities and the responsibilities of the Corporate Director of Resources with respect to going concern are described in the relevant sections of this report.



# Appendix B: Draft audit report (continued)

## Other information

The Corporate Director of Resources is responsible for the other information. The other information comprises the Annual Governance Statement and other 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.

## Responsibilities of the Corporate Director of Resources for the financial statements

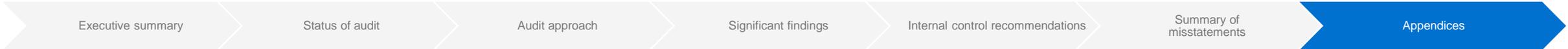
As explained more fully in the Statement of the Corporate Director of Resources’ Responsibilities, the Corporate Director of Resources is responsible for the preparation of the Statement of Accounts, which includes the Pension Fund’s financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22, 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 2021/22 and prepare the financial statements on a going concern basis, unless the Council is informed of the intention for dissolution of the Pension Fund 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 Pension Fund 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 Pension Fund’s 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Based on our understanding of the Pension Fund, we identified that the principal risks of non-compliance with laws and regulations related to the Public Service Pensions Act 2013, the Local Government Pension Scheme Regulations 2013 (as amended) and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, and we considered the extent to which non-compliance might have a material effect on the financial statements



# Appendix B: Draft audit report (continued)

We evaluated the Corporate Director of Resources' incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that the principal risks were related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates and significant one-off or unusual transactions.

Our audit procedures were designed to respond to those identified risks, including non-compliance with laws and regulations (irregularities) and fraud that are material to the financial statements. Our audit procedures included but were not limited to:

- discussing with management and the Audit Committee the policies and procedures regarding compliance with laws and regulations;
- communicating identified laws and regulations throughout our engagement team and remaining alert to any indications of non-compliance throughout our audit; and
- considering the risk of acts by the Fund which were contrary to applicable laws and regulations, including fraud.

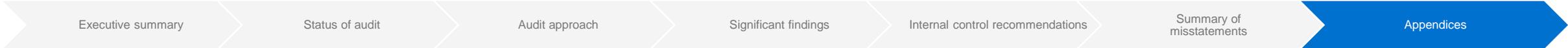
Our audit procedures in relation to fraud included but were not limited to:

- making enquiries of management and the Audit Committee on whether they had knowledge of any actual, suspected or alleged fraud;
- gaining an understanding of the internal controls established to mitigate risks related to fraud;
- discussing amongst the engagement team the risks of fraud; and
- addressing the risks of fraud through management override of controls by performing journal entry testing.

There are inherent limitations in the audit procedures described above and the primary responsibility for the prevention and detection of irregularities including fraud rests with management and the Audit Committee. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

We are also required to conclude on whether the Corporate Director of Resources' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. We performed our work in accordance with Practice Note 10: Audit of financial statement and regularity of public sector bodies in the United Kingdom, and Supplementary Guidance Note 01, issued by the National Audit Office in September 2021.

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](http://www.frc.org.uk/auditorsresponsibilities). [This description forms part of our auditor's report.](#)



# Appendix B: Draft audit 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

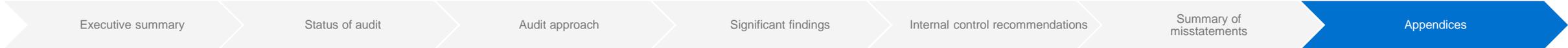
This report is made solely to the members of Durham County Council, as a body and as administering authority for the Durham County Council Pension Fund, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 44 of the Statement of Responsibilities of Auditors 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.

[Signature]

Mark Kirkham  
Partner  
For and on behalf of Mazars LLP

The Corner  
Bank Chambers  
26 Mosley Street  
Newcastle upon Tyne  
NE1 1DF

[Insert date]



# Appendix C: Draft consistency report

## Independent auditor’s statement to the members of Durham County Council on the Pension Fund financial statements included within the Durham County Council Pension Fund annual report

### Report on the financial statements

We have examined the Pension Fund financial statements for the year ended 31 March 2022 included within the Durham County Council Pension Fund annual report, which comprise the Fund Account, the Net Assets Statement and the notes to the financial statements, including the summary of significant accounting policies.

### 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 2022 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

[Where there is a delay between giving the auditor’s report on the pension fund statements included within the administering body’s financial statements, and issuing this consistent with report, include the following: I have not considered the effects of any events between the date I signed my report on the full financial statements [insert date] and the date of this statement.]

### Respective responsibilities of the Corporate Director of Resources and the auditor

As explained more fully in the Statement of the Corporate Director of Resources’ Responsibilities, the Corporate Director of 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.



# Appendix C: Draft consistency report (continued)

## Independent auditor’s statement to the members of Durham County Council on the Pension Fund financial statements included within the Durham County Council Pension Fund annual report

### Use of this auditor’s statement

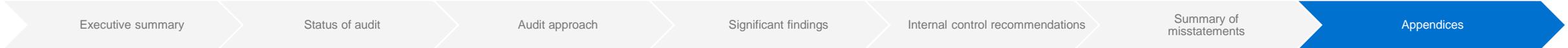
This report is made solely to the members of Durham County Council, as a body and as administering authority for the Durham County Council Pension Fund, in accordance with Part 5 paragraph 20(5) of the Local Audit and Accountability Act 2014. Our work has been undertaken so that we might state to the 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.

[Signature]

Mark Kirkham  
Partner  
For and on behalf of Mazars LLP

The Corner  
Bank Chambers  
26 Mosley Street  
Newcastle upon Tyne  
NE1 1DF

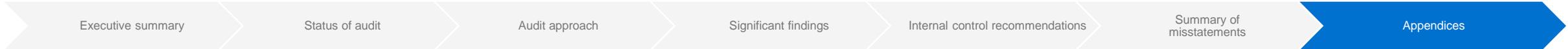
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# Appendix D: Independence

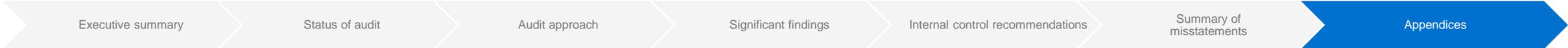
As part of our ongoing risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

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



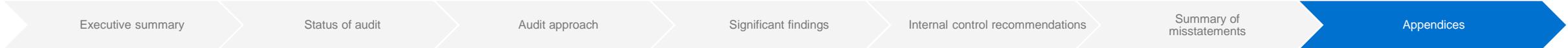
# Appendix E: Other communications

Other communication	Response
<b>Compliance with Laws and Regulations</b>	<p>We have not identified any significant matters involving actual or suspected non-compliance with laws and regulations.</p> <p>We will obtain written representations from management that all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements have been disclosed.</p>
<b>External confirmations</b>	<p>We did not experience any issues with respect to obtaining external confirmations.</p>
<b>Related parties</b>	<p>We did not identify any significant matters relating to the audit of related parties.</p> <p>We will obtain written representations from management confirming that:</p> <ul style="list-style-type: none"> <li>a. they have disclosed to us the identity of related parties and all the related party relationships and transactions of which they are aware; and</li> <li>b. they have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the applicable financial reporting framework.</li> </ul>
<b>Going Concern</b>	<p>We have not identified any evidence to cause us to disagree with the Corporate Director of Resources that Durham County Council Pension Fund will be a going concern, and therefore we consider that the use of the going concern assumption is appropriate in the preparation of the financial statements.</p> <p>We will obtain written representations from management, confirming that all relevant information covering a period of at least 12 months from the date of approval of the financial statements has been taken into account in assessing the appropriateness of the going concern basis of preparation of the financial statements.</p>



# Appendix E: Other communications

Other communication	Response
<p><b>Subsequent events</b></p>	<p>We are required to obtain evidence about whether events occurring between the date of the financial statements and the date of the auditor’s report that require adjustment of, or disclosure in, the financial statements are appropriately reflected in those financial statements in accordance with the applicable financial reporting framework.</p> <p>We will obtain written representations from management that all events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed.</p>
<p><b>Matters related to fraud</b></p>	<p>We have designed our audit approach to obtain reasonable assurance whether the financial statements as a whole are free from material misstatement due to fraud. In addition to the work performed by us, we will obtain written representations from management, and the Audit Committee confirming that</p> <ul style="list-style-type: none"> <li>a. they acknowledge their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud;</li> <li>b. they have disclosed to the auditor the results of management’s assessment of the risk that the financial statements may be materially misstated as a result of fraud;</li> <li>c. they have disclosed to the auditor their knowledge of fraud or suspected fraud affecting the entity involving:               <ul style="list-style-type: none"> <li>i. Management;</li> <li>ii. Employees who have significant roles in internal control; or</li> <li>iii. Others where the fraud could have a material effect on the financial statements; and</li> </ul> </li> <li>d. they have disclosed to the auditor their knowledge of any allegations of fraud, or suspected fraud, affecting the entity’s financial statements communicated by employees, former employees, analysts, regulators or others.</li> </ul>



## Mazars

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Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services\*. Operating in over 90 countries and territories around the world, we draw on the expertise of 40,400 professionals – 24,400 in Mazars' integrated partnership and 16,000 via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

\*where permitted under applicable country laws.