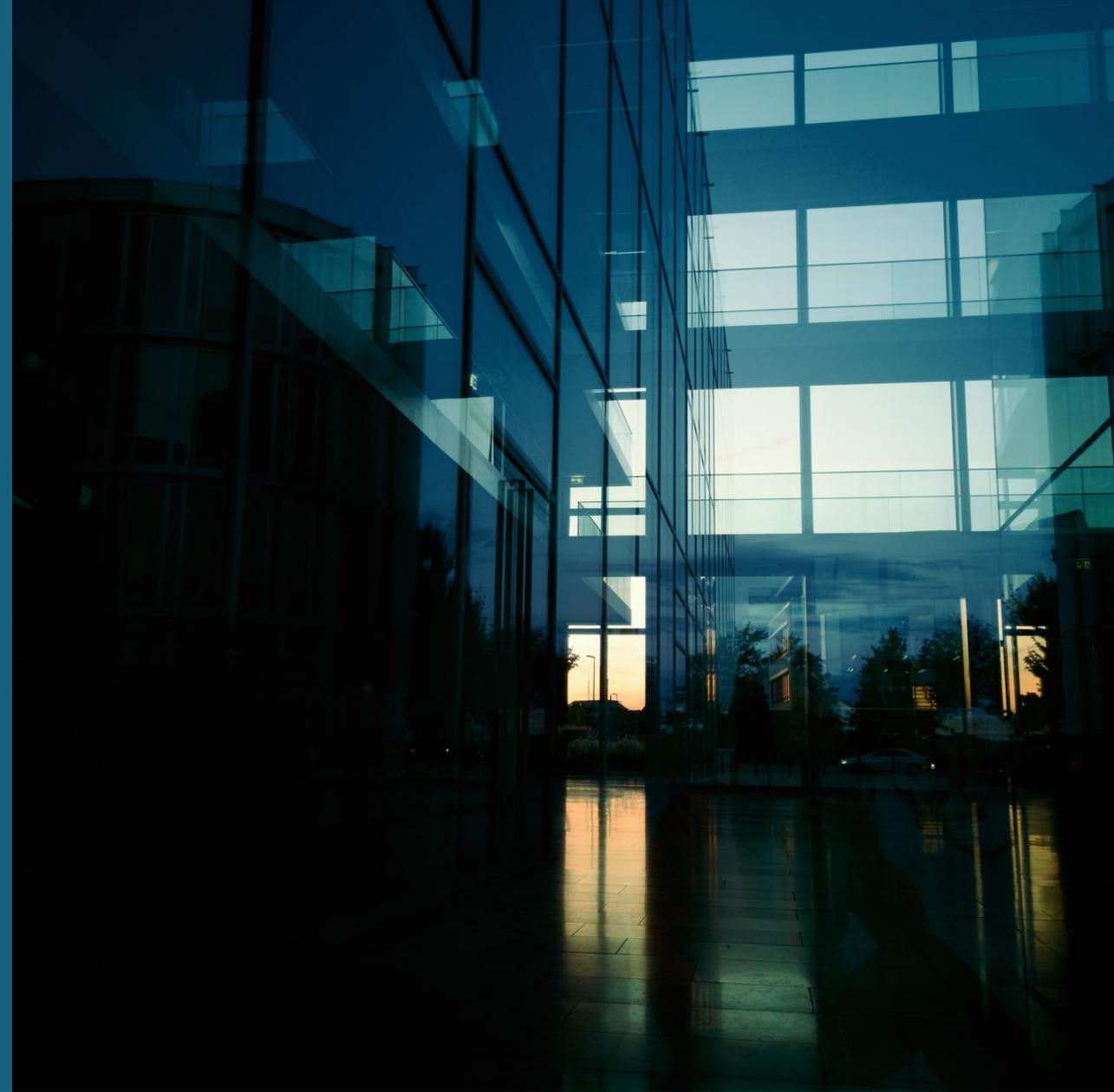


# Audit Completion Report

## Durham County Council Pension Fund – Year ended 31 March 2023

November 2023



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Our reports are prepared in the context of the ‘Statement of responsibilities of auditors and audited bodies’ and the ‘Appointing Person Terms of Appointment’ issued by Public Sector Audit Appointments Limited.

Reports and letters prepared by appointed auditors and addressed to the Pension Fund are prepared for the sole use of the Pension Fund and we take no responsibility to any member or officer in their individual capacity or to any third party.

Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales.



Members of the Durham County Council Audit Committee

Durham County Council

County Hall

DH1 5UQ

November 2023

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

Dear Committee Members

### **Audit Completion Report – Year ended 31 March 2023**

We are pleased to present our Audit Completion Report for the year ended 31 March 2023. 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 15 June 2023. 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 07813 752 053.

Yours faithfully

Cameron Waddell

Mazars LLP

Mazars LLP – The Corner, Bank Chambers, Mosley Street, Newcastle-upon-Tyne, NE1 1DF

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We are registered to carry out audit work in the UK by the Institute of Chartered Accountants in England and Wales. Details about our audit registration can be viewed at [www.auditregister.org.uk](http://www.auditregister.org.uk) under reference number C001139861. VAT number: 839 8356 73

# 01

Section 01:

**Executive summary**

# 1. Executive summary

## Principal conclusions and significant findings

The detailed scope of our work as your appointed auditor for 2022/23 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 £5.7m.

## Status and audit opinion

We have substantially completed our audit in respect of the financial statements for the year ended 31 March 2023.

At the time of preparing this report, significant matters remaining outstanding as 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 at the Audit Committee meeting on 27 November 2023. 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.

# 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	Risk of material adjustment or significant change	Description of the outstanding matters
<b>Audit completion procedures</b>	Low	We have several audit closure procedures to complete. This includes the final version of the Statement of Accounts and Annual Report.
<b>Membership data testing for contributions and benefits</b>	Low	We have two procedures to complete to gain assurance over the figures used for membership numbers for contributions receivable and benefits payable.

**High** - Likely to result in material adjustment or significant change to disclosures within the financial statements.

**Medium** - Potential to result in material adjustment or significant change to disclosures within the financial statements.

**Low** - 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 June 2023. 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 £32.3m using a benchmark of 1% of net assets available to pay benefits. We set a provisional specific materiality for the fund account of £14.4m 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 £34.1m.
- Fund account specific materiality £14.5m.

## 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 12 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;
- any further significant matters discussed with management;
- any significant difficulties we experienced during the audit; and

## Significant risks

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

---

### How we addressed this risk

We addressed this risk through performing audit work over:

- Accounting estimates impacting amounts included in the financial statements;
- Consideration of identified significant transactions outside the normal course of business; and
- Journals recorded in the general ledger and other adjustments made in preparation of the financial statements.

---

### Audit conclusion

Our work has provided the required assurance and we have no matters to report.

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## 4. Significant findings

<b>Valuation of Level 3 Investments</b>	<b>Description of the risk</b>
	<p>As at 31 March 2023, the fair value of investments classified within level 3 of the fair value hierarchy was £397.5m, accounting for 11.8% 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.</p>
	<p><b>How we addressed this risk</b></p> <p>In addition to our standard program for investments, we performed the following additional procedures:</p> <p>agreed holdings from fund manager reports to the global custodian's report;</p> <ul style="list-style-type: none"><li>• 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;</li><li>• agreed the investment manager valuation to audited accounts or other independent supporting documentation, where available;</li><li>• where audited accounts were available, checked that they are supported by an unmodified opinion;</li><li>• reviewed the valuation methodologies for reasonableness through review of accounting policies within audited financial statements and challenge of the fund manager, where necessary; and</li><li>• 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 2023, where available.</li></ul>
	<p><b>Audit conclusion</b></p> <p>Our work provided the required assurance.</p>

### 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 2022/23 Code of Practice on Local Authority Accounting, appropriately tailored to the Fund's circumstances.

Draft accounts were received from the Fund on 27 June 2023 and were of a good quality.

The Draft Annual Report was received from the Fund on 24 October 2023 and was of a good quality.

### Significant matters discussed with management

We have discussed with management two issues relating to the testing of investment assets. These are as follows:

- Understanding the detail contained with the private monitoring report provided by the fund manager BCPP and what the balances disclosed within the report relate to.
- Understanding the reasons for differences between the information provided by fund managers BCPP and CBRE and the information per the custodian Northern Trust.

### Significant difficulties during the audit

During the audit we encountered some difficulty in our audit of investments valuations and investment transactions managed by BCPP. This is due to the reports being more complex and it being unclear what some of the figures contained within the report represent.

We have also encountered difficulties in reconciling details for unit holding values per the confirmation from the fund managers BCPP and CBRE to the reporting information provided by the custodian Northern Trust.

We have had the full co-operation of management throughout.

## 4. Significant findings

### 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;
- make an application for judicial review; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these powers as part of our 2022/23 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.

# 05

Section 05:

**Internal control recommendations**

# 5. Internal control recommendations

As part of our audit of the financial statements, we obtained an understanding of internal controls sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate any significant deficiencies identified during the course of our work.

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

# 5. Internal control recommendations

## Significant deficiencies in internal control – Level 2

### Description of deficiency

During the course of the audit testing on Level 3 investments, we discovered that there are differences in the reporting of holdings values by the fund manager, CBRE, and the Custodian, Northern Trust.

There is currently no reconciliation of the holdings values communicated by fund managers to those reported by the custodian.

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### Potential effects

The market value of investments is derived from calculating a net asset value (NAV) per units and multiplying by the number of units (holdings) held for a particular investment. If the holdings value were to be significantly over/undervalued, the difference in the market value could increase beyond trivial limits and, if applied to a large number of investments, could give rise to a material misstatement in the Level 3 investments balances included in the financial statements of Durham County Council Pension Fund.

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### Recommendation

The Pension Fund accounting team should discuss the matter further with CBRE and Northern Trust to fully understand the reason for differences in the reporting of holdings values. There should be an ongoing review of all information communicated to DCCPF by CBRE/Northern Trust to reconcile the information provided.

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### Management response

Officers will discuss with NT and CBRE our end user requirements from reporting. Further work via the Pool will also be fed back into this action.

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# 5. Internal control recommendations

## Significant deficiencies in internal control – Level 2

### Description of deficiency

During the course of our audit work, we attempted to agree the balances for the book (holdings) value of Level 3 investment assets per the Pension Fund's records to balances per the confirmations received from the fund manager Border to Coast Pensions Partnership (BCPP) and the custodian Northern Trust (NT). There were significant differences between the figures per BCPP and NT so it was unclear what the correct value was for the book cost/holdings value of these investments.

### Potential effects

Information relating to the market value of investments and holdings at the year-end could be materially misstated in the Pensions Fund's financial statements.

### Recommendation

The Pension Fund accounting team should seek to obtain an improved understanding of the information provided in the reports from BCPP and NT. The Pension Fund should also conduct a regular review of information received from BCPP and NT and, where any significant differences arise in the figures communicated from BCPP and NT, discuss the matter with the organisations to establish the reasons for the differences arising.

---

### Management response

Discussion has commenced with BCPP regarding our end user reporting requirements. A wider action plan is now being developed in which both DCC and BCPP officers will discuss separately with NT the overall system reports requirement. We have also commenced networking groups with other pension authorities to identify best practice and report change requirements requests to both BCPP and NT.

---

# 5. Internal control recommendations

## Significant deficiencies in internal control – Level 3

### Description of deficiency

As part of the Pension Fund's control environment for contributions receivable, the accounting team prepare a year-end reconciliation between the cashbook and GL. This reconciliation is expected to be reviewed and authorised by a senior officer. When we obtained a copy of the reconciliation, we were unable to establish if this review had been completed by a senior officer.

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### Potential effects

There is a risk that the year-end reconciliation may not be accurate and the contributions receivable figure may not agree to cash book records. This could mean the figure for contributions receivable is not appropriately stated within the Fund's financial statements.

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### Recommendation

The accounting team should ensure the year-end reconciliation is reviewed by a senior officer and this review is evidenced on a copy of the reconciliation control document.

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### Management Response

Year-end process reflection is diarised for December 2023. This recommendation will be included in the discussion points

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# 5. Internal control recommendations

## Follow up on previous internal control points raised in 2021/22

### 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.

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### 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.

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### 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.

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### 2022/23 update

No issues to report.

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# 5. Internal control recommendations

## Follow up on previous internal control points raised in 2021/22

### 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.

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### Recommendation

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

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### 2022/23 update

Management have stated some progress has been with this during the year, however some reconciliations are required in further detail, as noted earlier within this section of the report.

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# 5. Internal control recommendations

## Follow up on previous internal control points raised in 2021/22

### Description of deficiency

No reconciliation of cash movements for investments managed by BCPP.

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### 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.

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### Recommendation

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

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### 2022/23 update

Management have confirmed some progress has been made with reconciliations being undertaken. Classification of cash movements have been highlighted through this process which are to be further addressed via the BCPP reporting requirements work.

---

# 5. Internal control recommendations

## Follow up on previous internal control points raised in 2021/22

### Description of deficiency

There was a lack of understanding of the BCPP new report format.

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### Potential effects

A lack of understanding could lead to an under or overstatement of fair values.

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### Recommendation

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

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### 2022/23 update

Management have confirmed that their understanding of the reports has increased during the period and have made some progress in identifying changes required for reporting purposes. Management should continue to work closely with BCPP to ensure reported information is suitable to meet their requirements.

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# 5. Internal control recommendations

## Follow up on previous internal control points raised in 2021/22

### 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.

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### Potential effects

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

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### Recommendation

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

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### 2022/23 update

No issues to report.

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# 5. Internal control recommendations

## Follow up on previous internal control points raised in 2021/22

### 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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### 2022/23 update

No issue to report.

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

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

### Unadjusted misstatements

		Fund Account		Net Assets Statement		Description of unadjusted misstatement
		Debit (£'000)	Credit (£'000)	Debit (£'000)	Credit (£'000)	
1	Dr: Pooled investment vehicles (private equity)			1,320		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 £1.6m. This would also impact on fair values disclosed in Note 14 Investments, Note 15 Financial Instruments and Note 16 Nature and Extent of Risk Arising From Financial Instruments.
	Dr: Pooled investment vehicles (climate opportunities)			728		
	Cr: Pooled investment vehicles (pooled infrastructure)				13	
	Cr: Pooled investment vehicles (pooled private credit)				490	
1	Cr: Profits and losses on disposal of investments and change in market value		1,545			

## 6. Summary of misstatements

### Unadjusted misstatements

	Fund Account		Net Assets Statement		Description of unadjusted misstatement
	Debit (£'000)	Credit (£'000)	Debit (£'000)	Credit (£'000)	
2	Dr: Profits and losses on disposal of investments and change in market value Cr: Pooled investment vehicles – pooled property	2,469			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 £2.3m. 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.
				2,469	
3	Dr: contributions due from employers Cr: contributions receivable – deficit contributions		1,203		Actual difference due to payments in relation to deficit contributions being accounted for in the incorrect period.
	<b>Total unadjusted misstatements</b>	<b>2,469</b>	<b>2,748</b>	<b>3,251</b>	<b>2,972</b>

## 6. Summary of misstatements

### Adjusted misstatements

		Fund Account		Net Assets Statement		Description of unadjusted misstatement
		Debit (£'000)	Credit (£'000)	Debit (£'000)	Credit (£'000)	
-	-					
1	Dr: Investment income	32,140				Adjustment to recognise accumulated profits within accumulation funds managed by the fund manager BCPP as an increase in value of investments.
1	Cr: Profits and losses on disposal of investments and change in market value		32,140			
-	<b>Total unadjusted misstatements</b>	<b>32,140</b>	<b>32,140</b>			

		Fund Account		Net Assets Statement		Description of unadjusted misstatement
		Debit (£'000)	Credit (£'000)	Debit (£'000)	Credit (£'000)	
-	-					
2	Dr: Investment liabilities			12,698		Adjustment to recognise accumulated profits within accumulation funds managed by the fund manager BCPP as an increase in value of investments.
1	Cr: Profits and losses on disposal of investments and change in market value		12,698			
-	<b>Total unadjusted misstatements</b>		<b>12,698</b>	<b>12,698</b>		

## 6. Summary of misstatements

### Disclosure amendments

We identified the following adjustments during our audit that have been corrected by management:

- **Note 18 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 11 Management expenses:** Disclosure has been amended to clarify the audit fees charged and the fees payable for fee variations in prior years.
- **Note 14 Reconciliation of Movement in Investments:** purchases and sales for pooled investment vehicles have been restated to match information from fund managers.
- **Note 16 Nature and Extent of Risks arising from Financial Instruments:** Disclosures have been added relating to sensitivity of values for level 3 investments, other price risks and interest rate sensitivity risks.

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

# 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

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

[Date]

Dear Cameron

## **Durham County Council Pension Fund - Audit for Year Ended 31 March 2023**

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 2023 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 2022/23 (the Code), as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (“the Code Update”), published in November 2022 and applicable law.

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 CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 (the Code), as amended by the Code Update and applicable law.

# Appendix A: Draft management representation letter

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

I have provided you with:

- access to all information of which I am 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.

## **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 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**

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.

# Appendix A: Draft management representation letter

## 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 company 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, as amended by the Code Update and applicable law.

## Laws and regulations

I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

The Pension Fund has complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

## Fraud and error

I acknowledge my responsibility as Corporate Director of Resources for the design, implementation and maintenance of internal control to prevent and detect fraud and error and I believe I have appropriately fulfilled those responsibilities.

# Appendix A: Draft management representation letter

I have disclosed to you:

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

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the Pension Fund's 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, as amended by the Code Update and applicable law.

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

## **Future commitments**

The Pension Fund has no 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, as amended by the Code Update and applicable law, require adjustment or disclosure have been adjusted or disclosed.

# Appendix A: Draft management representation letter

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 not continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

## **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.

## **Other**

I confirm that we have assessed the impact on the Pension Fund, of the ongoing Global Banking challenges, whether there is any impact on the company's ability to continue as a going concern, and on the post balance sheet events disclosures. We confirm that our exposure (either direct cash exposure or direct / indirect through investments) with Silicon Valley Bank, Credit Suisse, Signature Bank or any other bank in a distress situation, is not material.

I have assessed the continued impact of the COVID-19 Virus pandemic on the Pension Fund and the financial statements, including the impact of mitigation measures and uncertainties, and am satisfied that the financial statements and supporting notes fairly reflect that assessment.

I confirm that I have carried out an assessment of the potential impact of the continued conflict in Ukraine on the Pension Fund and there is no significant impact on the Pension Fund's operations from restrictions or sanctions in place.

# Appendix A: Draft management representation letter

## Unadjusted misstatements

I confirm that the effects of the unadjusted misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole.

Yours faithfully

Corporate Director 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

## 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, and taking into account the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, 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.

## 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. The Corporate Director of Resources is responsible for the other information. 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 2022/23, 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 2022/23 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.

# Appendix B: Draft audit report

## 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.

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

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.

To help us identify instances of non-compliance with these laws and regulations, and in identifying and assessing the risks of material misstatement in respect to non-compliance, our procedures included, but were not limited to:

- inquiring with management and the Audit Committee, as to whether the Pension Fund is in compliance with laws and regulations, and discussing their 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.

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, in particular in relation to and significant one-off or unusual transactions.

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.

# Appendix B: Draft audit report

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 February 2023.

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.

## 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]

Cameron Waddell Key Audit 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 included within the Durham County Council Pension Fund annual report are consistent with the audited financial statements of Durham County Council for the year ended 31 March 2023 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23.

### **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.

### **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.

# 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

[Signature]

Cameron Waddell (Key Audit Partner)

for and on behalf of Mazars LLP

The Corner

Bank Chambers

26 Mosley Street

Newcastle upon Tyne

NE1 1DF

[Date]

# 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
 <p><b>Compliance with Laws and Regulations</b></p>	<p>We have not identified any significant matters involving actual or suspected non-compliance with laws and regulations. Or detail significant matters identified.</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>
 <p><b>External confirmations</b></p>	<p>We did not experience any issues with respect to obtaining external confirmations.</p>
 <p><b>Related parties</b></p>	<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> <ol 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> </ol>
 <p><b>Going concern</b></p>	<p>We have not identified any evidence to cause us to disagree with the [Chief Financial Officer] that [ClientName] 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 (continued)

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> <ol 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:             <ol 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> </ol> </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> </ol>

## Cameron Waddell, Partner – Public Services

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