



Audit Completion Report

Durham County Council Pension Fund – year ended 31 March 2024

22 November 2024

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

22 November 2024

Dear Committee Members,

Audit Completion Report – Year ended 31 March 2024

We are pleased to present our Audit Completion Report for Durham County Council Pension Fund for the year ended 31 March 2024. The purpose of this report is to summarise our audit findings and conclusions. The scope of our work, including identified significant audit risks, and other key judgement areas, was outlined in our Audit Strategy Memorandum, which we presented to you on 20 May 2024.

We have reviewed our Audit Strategy Memorandum and concluded that the significant audit risks and other key judgement areas set out in that report 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 6339.

Yours faithfully,

Mark Outterside

Forvis Mazars LLP

**forvis
mazars**

Forvis Mazars

The Corner

Bank Chambers

26 Mosley Street

Newcastle-upon-Tyne

NE1 1DF

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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.

01

Executive Summary

Executive summary

Principal conclusions and significant findings

The detailed scope of our work as your appointed auditor for 2023/24 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 (unquoted) investments.

Misstatements and internal control recommendations

Section 5 sets out internal control recommendations and section 6 sets out audit misstatements.

Status and audit opinion

We have substantially completed our audit in respect of the financial statements for the year ended 31 March 2024.

At the time of preparing this report, certain matters remain outstanding and 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.



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.

02

Status of the audit

Status of our audit

Our audit 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 satisfactory resolution of the outstanding matters set out below.

Investment Assets

This comprises review procedures on testing of investment assets and classification within the accounts.



Annual Report

This includes reviewing the final version of the Statement of Accounts with the balances disclosed in the Annual Report and completing quality review procedures.



Audit Closure Procedures

These are our standard closure procedures including: reviewing the final version of the Statement of Accounts, consideration of post-balance sheet events and completing our final quality review procedures.



Status



Likely to result in a material adjustment or a significant change to disclosures in the financial statements.



Potential to result in a material adjustment or a significant change to disclosures in the financial statements.



Not considered likely to result in a material adjustment or a change to disclosures in the financial statements.

03

Audit Approach

Audit Approach

Changes to our audit approach

There have been no changes to the audit approach we communicated in our Audit Strategy Memorandum, issued on 20 May 2024.

Materiality

Our provisional performance materiality at the planning stage of the audit was set at £28.391m using a benchmark of 1% of net assets available to pay benefits. We set a provisional specific materiality for the Fund Account of £11.575m at the planning stage of the audit using a benchmark of 10% of benefits payable.

Based on the final financial statement figures and other qualitative factors, performance materiality was set at £29.766m; the trivial threshold was set at £1.116m and the final specific materiality for the Fund Account was £12.991m.

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
Financial instrument disclosures	Mercer Limited	None.

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 organisation used or our planned audit approach since the ASM was issued.

Issue	Impact on audit opinion	Audit Approach
Investment valuations and related disclosures	Investment managers	Substantive testing of in-year transactions and valuations applied to investments at the year-end
Investment income and related disclosures	Custodian	

04

Significant findings

Significant findings

Significant findings, including key areas of management judgement

The significant findings from our audit include:

- our audit conclusions regarding significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 13 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; and
- any significant difficulties we experienced during the audit.

Significant Risks

Management override of controls

Description of the risk

This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur.

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
- journal entries 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.

Significant findings

Valuation of Level 3 (Unquoted) Investments

Description of the risk

4. Significant findings

As at 31 March 2024, the fair value of investments classified within level 3 of the fair value hierarchy was £446.445m, accounting for 12.0% 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:

- compared 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 valuation policies within audited financial statements and challenge of the fund manager, where necessary;

Audit conclusion

We compared the holdings from the fund manager reports (BCPP, CBRE, Foresight) to those received from the custodian Northern Trust. For the fund manager CBRE, we identified differences in the holdings figures compared to Northern Trust and have reported this as an internal control deficiency in Section 5 of this report. We have no other issues to report.

We have agreed the market values of investments held by the Fund to valuations provided by the fund managers. We have identified differences amounting to £8.048m when comparing market values for the Fund and the fund manager BCPP. This has been reported in Section 6. We have no other issues to report.

We have compared the market values communicated by the fund managers to information provided by the custodian. We have identified differences in market values provided by the fund manager CBRE and the custodian and have reported these within Section 5 of this report. We have no other issues to report.

We have reviewed the valuation methodologies provided by each fund manager and have no issues to report.

Significant findings

Qualitative aspects of the Fund's accounting practices

We have reviewed the Fund's accounting policies and disclosures and concluded they comply with the 2023/24 Code of Practice on Local Authority Accounting, appropriately tailored to the Fund's circumstances.

Draft accounts were received from the Fund on 30 May 2024 and were of a good quality.

Significant matters discussed with management

During our audit we communicated the following significant matters to management:

- Understanding the reasons for differences between the information provided by fund managers BCPP and CBRE and the information per the custodian Northern Trust, specifically where there are non-trivial differences in holdings and/or fair values. This has been reported as part of our internal control conclusions within section 5 of this report.

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; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these powers as part of our 2023/24 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.

Internal control conclusions

Internal control conclusions

Overview of engagement

As part of our audit, we obtained an understanding of the Fund's internal control environment and control activities relevant to the preparation of the financial statements, which was sufficient to plan our audit and determine the nature, timing, and extent of our audit procedures. Although our audit was not designed to express an opinion on the effectiveness of the Fund's internal controls, we are required to communicate to the Audit Committee any significant deficiencies in internal controls that we identified in during our audit.

Deficiencies in internal control

A deficiency in internal control exists if:

- a control is designed, implemented, or operated in such a way that it is unable to prevent, detect, and/or correct potential misstatements in the financial statements; or
- a necessary control to prevent, detect, and/or correct misstatements in the financial statements on a timely basis is missing

The purpose of our audit was to express an opinion on the financial statements. As part of our audit, we have considered the Fund's internal controls relevant to the preparation of the financial statements 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 the Fund's internal controls or to identify any significant deficiencies in their design or operation.

The matters reported in this section of our report are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and which 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 report or concluded that some of the reported deficiencies need not in fact have been reported.

Our comments in this section should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

The deficiencies in the Fund's internal controls that we have identified as at the date of this report are in set out on the following pages.

Significant deficiencies in internal control

A significant deficiency in internal control is one which, in our professional judgement, has the potential for financial loss, damage to reputation, or a loss of information which may have implications on the achievement of business strategic objectives. Our view is that observations categorised as a significant deficiency is of sufficient importance to merit the attention of the Audit Committee.

We have not identified any significant deficiencies in the Fund's internal controls as at the date of this report.

Other observations

We also record our observations on the Fund's internal controls where, in our professional judgement, there is a need to strengthen internal control or enhance business efficiency that do not constitute significant deficiencies in internal control but which we view as being important for consideration by management.

We do not have any other internal control observations to bring to your attention as at the date of this report.

Whether internal control observations merit attention by the Audit Committee and/or management is a matter of professional judgment, taking into account the risk of misstatement that may arise in the financial statements as a result of those observations.

Internal control conclusions

Deficiencies in internal control - MEDIUM

In our view, there is a need to address the deficiencies in internal control set out in this section (which are not deemed to be significant deficiencies) to strengthen internal control or enhance business efficiency. Our recommendations should be actioned by management in the near future.

Description of deficiency

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

Our audit work identified that the report from the Custodian (Northern Trust) discloses a share/Par (nominal) value in the report which equates to the holdings value for some investments (9 of 18 tested in our sample) and the investment cost value for other investments (9 of 18 tested in our sample). Where we compared the share/Par value to the holdings value per CBRE, no significant differences (threshold: 100,000 and/or 5%) in the holdings' value were identified. However, for 8 investments where we compared the share/Par value to the investment cost, the difference exceeded our tolerable threshold.

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 several 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.

NB: we performed additional audit work to calculate an indicative error in the market value of Level 3 investments if the unit holdings per the custodian Northern Trust were to be used instead of those per fund manager CBRE. This identified an indicative error of £7.217m.

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 and Northern Trust to ensure consistency between information provided.

Management response

We continue to work with both CBRE and Northern Trust to review all information communicated to DCCPF.

Internal control conclusions

Deficiencies in internal control - MEDIUM

In our view, there is a need to address the deficiencies in internal control set out in this section (which are not deemed to be significant deficiencies) to strengthen internal control or enhance business efficiency. Our recommendations should be actioned by management in the near future.

Description of deficiency

During the course of our audit testing on Level 3 investments, we discovered that there are differences in the market value reported by the fund manager, CBRE, and the custodian, Northern Trust.

£15.901m of these differences are related to two securities: Healthcare Activos and CBRE Europe Logistics. While the Fund's accounts are consistent with the balances per CBRE, it is unclear why these balances do not agree with the figures reported by Northern Trust.

Management have followed this up with CBRE and Northern Trust, and have obtained the following explanations for the differences in market values:

1. Healthcare Activos

The difference for the reported market values for this investment is due to different market value per units being used by the fund manager vs Northern Trust. CBRE have used a market value of €2.60/unit and Northern Trust have used a market value of €1.33/unit. We have assessed the financial statements of Healthcare Activos and have calculated a market price of €2.66 /unit. This is consistent with the statement from CBRE at 31 March 2024.

Northern Trust confirmed the information they received from CBRE related to listed shares and that they are receiving a market price from the Spanish stock exchange for these daily. However, it remains unclear why the figure per the Spanish stock exchange differs from those in the CBRE capital statements and Healthcare Activos' financial statements.

2. CBRE Europe Logistics

CBRE have confirmed, in May 2022, CBRE Europe Logistics Venture was formed after a merger between two other funds: CBRE Logistics Venture and CBRE European Investment Fund. The Investment Value reported by CBRE (per CBRE's capital statement) as at 31/3/2024 is €11.4m. This is consistent with the value in DCCPF's accounts. We compared the figures to those within the report from Northern Trust (Custodian) which reported a market value of €1. DCCPF have queried this matter with both CBRE and NT to establish the reason for the difference. NT explained that they needed to amend their system to reflect that the 2 assets (CBRE Europe Logistics Partners and CBRE Logistics Venture) have merged. We can confirm that, in November 2024, the Pension Fund have provided information they have received from Northern Trust which indicates Northern Trust have amended their records to reflect the market value reported by the fund manager CBRE.

Potential effects

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

Recommendation

Management should seek to obtain a better understanding of the information provided in the reports from CBRE and Northern Trust. Management should also conduct a regular (minimum quarterly) review of information received from CBRE and Northern Trust and, where any significant differences arise in the figures communicated from CBRE and Northern Trust, discuss the matter with the organisations to establish the reasons for the differences arising.

Management response

We continue to work with both CBRE and Northern Trust to review all information received. Regular reviews will be undertaken and a detailed review will be undertaken in connection with the Healthcare Activos Audit findings.

Internal control conclusions

Deficiencies in internal control - LOW

In our view, there is a need to address the deficiencies in internal control set out in this section (which are not deemed to be significant deficiencies) to strengthen internal control or enhance business efficiency. Our recommendations should be actioned by management in the near future.

Description of deficiency

On a monthly basis, management review the value of all investments invested with each fund manager and reallocate funds according to their investment strategy. This is recorded and monitored on a spreadsheet in the first instance before a journal is posted to move balances between different funds. During our walkthrough of the Investments key business process, we reviewed the process for preparing and reviewing the journal for rebalancing investment transactions. While the journal had been created during the audit year, it had not been posted until April 2024.

We note that, from discussion with officers, the journals were being monitored in a spreadsheet (external to the GL) and the spreadsheet was updated each month. Therefore, a monthly check/control was in place throughout the period.

Potential effects

There is a possibility the transactions are not correctly recorded in the general ledger due to omission of journals which should have been posted. This could have a material impact on the investments balances reported in the Pension Fund's financial statements.

Recommendation

Journals to be prepared and posted to the general ledger on a timely basis following the rebalancing transactions being recorded in the spreadsheet used to track the transactions.

Management response

Due to a staff shortages, this journal was posted at year end instead of earlier in the year. Moving forward, all journals will be posted as part of the monthly reconciliation process. We have reviewed our processes and determined that, in the event where there is a repeat of this staff absence, the journal will instead be prepared by the Principal Accountant and authorised by the Finance Manager.

Internal control conclusions

Deficiencies in internal control - LOW

In our view, there is a need to address the deficiencies in internal control set out in this section (which are not deemed to be significant deficiencies) to strengthen internal control or enhance business efficiency. Our recommendations should be actioned by management in the near future.

Description of deficiency

The December 2023 reconciliation for the fund manager CBRE was carried out by the Principal Accountant on 29 February 2024. The reconciliation directly reconciles book value of investments per general ledger to the fund manager's reports.

Due to staff shortages, this reconciliation was undertaken as part of the year-end closedown process by senior team staff so it was not checked and authorised by another senior employee.

Potential effects

There is a possibility the transactions are misreported, and this could have a material impact on Pension Fund financial statements.

Recommendation

Monthly reconciliations, reviewed and authorised by an appropriate level employee, are to be reinstated as a monthly activity.

Management response

Due to staff long-term absence, this journal was posted as part of the year end closedown process. The reconciliation will be reinstated as a monthly exercise going forward, with clear authorisation included.

Internal control conclusions

Deficiencies in internal control - LOW

In our view, there is a need to address the deficiencies in internal control set out in this section (which are not deemed to be significant deficiencies) to strengthen internal control or enhance business efficiency. Our recommendations should be actioned by management in the near future.

Description of deficiency

There is an annual reconciliation of the market value of investments from fund manager statements to statements from the custodian. This reconciliation should be signed as prepared and reviewed.

When we reviewed the reconciliation as part of our walkthrough of critical business processes, we observed that the reconciliation had not been signed as being prepared and reviewed as expected.

Potential effects

There is a possibility that misstatements are carried through the reconciliation as they have not been sufficiently reviewed, which may in turn lead to misstatements in the figures reported for the purchases, sales and market value of investments reported in the Pension Fund's accounts.

Recommendation

Management should ensure that an appropriate member of staff reviews the reconciliation once prepared and records evidence of this review on the reconciliation document.

Management response

Due to staff long-term absence, the reconciliation was prepared by senior team staff. Reviews of the reconciliation will be reinstated as a monthly exercise going forward with clear authorisations processes included.

Internal control conclusions

Deficiencies in internal control - LOW

In our view, there is a need to address the deficiencies in internal control set out in this section (which are not deemed to be significant deficiencies) to strengthen internal control or enhance business efficiency. Our recommendations should be actioned by management in the near future.

Description of deficiency

From the most recent Data Protection Policy document reviewed as part of our audit, we noted this was last reviewed in June 2021. Per the document, the next review was due on 28 June 2023. Management have confirmed the review was not completed in 2023 due to staffing shortages. We however note that the Data Protection Review Policy also states it should be reviewed at least every 3 years, so this is within expected timescales at 31 March 2024.

Potential Effects

The policy may be out of date and may not include required amendments and updates regarding the Council's approach to ensuring data protection.

Recommendation

Management should ensure the Data Protection Policy is reviewed in line with the timescales contained within the Data Protection Policy document.

Management response

The Policy review commenced in September 2024. We can confirm that the Data Management team have employed a new member of staff who will be looking to review and update a number of policies in the coming weeks, including the Data Protection Policy.

Internal control conclusions

Follow up on previous internal control points - MEDIUM

We set out below an update on internal control points raised in the prior year.

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 the fund managers to those reported by the custodian.

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.

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.

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.

2023/24 update

Management have contacted CBRE and Northern trust regarding the differences in holdings figures and their associated market values communicated by each party. Work performed to date has helped to establish the reasons for differences in communicated figures, particularly for CBRE European Logistics Venture and Healthcare Activos. However, there are still differences in information that need to be resolved. Consequently, this has been retained as a deficiency for the current year. Management should continue to discuss the issues with CBRE and Northern Trust and consider implementing a reconciliation to check for any differences in communicated information from Northern Trust and CBRE on a quarterly basis.

Internal control conclusions

Follow up on previous internal control points - MEDIUM

We set out below an update on internal control points raised in the prior year.

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. There were significant differences between the figures per BCPP and Northern Trust, 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 Northern Trust. The Pension Fund should also conduct a regular review of information received from BCPP and Northern Trust and, where any significant differences arise in the figures communicated from BCPP and Northern Trust, 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 Northern Trust 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 Northern Trust.

2023/24 update

Management have made significant progress with this during the year, liaising with both BCPP and with partner Pension Funds to better understand any differences in holdings values (book cost) communicated by BCPP and Northern Trust. A comparison of the holdings/book cost values communicated by BCPP and those per Northern Trust for 31 March 2024 gave an indicative difference in market value of £0.614m,. This is within the trivial limits and no further issues are arising in 2023/24.

Internal control conclusions

Follow up on previous internal control points

We set out below an update on internal control points raised in the prior year.

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.

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.

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.

Management Response

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

2023/24 update

From a review of the reconciliation for the year ended 31 March 2024, the reconciliation of the cash book and the GL had been signed and approved by appropriate officers. Therefore, no issues arising in respect of this issue in 2023/24.

06

Summary of misstatements

Summary of misstatements

We set out below and on the following pages a summary of the misstatements we identified during our audit, above the trivial threshold for adjustment of £1.116m.

The first table in this section sets out the misstatements we identified which management has assessed as not being material, individually or in aggregate, to the financial statements and does not plan to adjust. The second table outlines the misstatements we identified that have been adjusted by management.

Our overall materiality, performance materiality, and clearly trivial (reporting) threshold were reported in our Audit Summary Memorandum, issued on 20 May 2024. Any subsequent changes to those figures are set out in the section 3 of this report.

Unadjusted misstatements

Management has assessed the misstatements in the table below as not being material, individually or in aggregate, to the financial statements and does not plan to adjust. We only report to you unadjusted misstatements that are either material by nature or which exceed our reporting threshold.

Details of adjustment	Fund Account		Net Asset Statement	
	Dr (£'000s)	Cr (£'000s)	Dr (£'000s)	Cr (£'000s)
Dr: Pooled Private Equity				
Dr: Pooled Private Credit			3,501	
Dr: Pooled Infrastructure			2,079	
Dr: Climate Opportunities			2,256	
Cr: Change in Market Value of Investments		- 8,048	212	
Being an adjustment to recognise the difference in the valuation of Level 3 investment between BCPP and the Pension Fund at 31 March 2024.				

Summary of misstatements

Details of adjustment	Fund Account		Net Asset Statement	
	Dr (£'000s)	Cr (£'000s)	Dr (£'000s)	Cr (£000's)
Dr: Book cost of investments Cr: Investment income Being an adjustment to remove reversals in investment income related to prior periods and allocate costs to the book costs of investments.		- 4,401	4,401	
Dr: Management expenses Cr: Book cost of investments Being an adjustment for differences in the book cost debited to transaction costs rather than the book value of investments.	6,335			-6,335
Dr: Change in Market Value Cr: Investment assets Being an adjustment for distributions and rebates for private market investments with the fund manager BCPP.	2,783			- 2,783
Aggregate Effect of Unadjusted Misstatements		-3,331	3,331	

We will obtain written representations confirming that, after considering the unadjusted misstatements, both individually and in aggregate, in the context of the financial statements taken as a whole, no adjustments are required.

Summary of misstatements

Disclosure misstatements

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

- General: several other changes were made to the financial statements not requiring individual analysis.
- Note 1 - Fund membership: figure amended to reflect total number of employing authorities within the Fund.
- Note 3 - Accounting Standards issued but not yet adopted amended to reflect IFRS9 and IFRS7 and IFRS18 accounting standard changes.
- Note 8 - Contributions receivable: amendment to swap the figures stated for scheduled bodies to admitted bodies and vice versa.
- Note 11 - Management Expenses: amendment for the figures to reflect the audit fees for 2022/23 and 2023/24.
- Note 11 - Management Expenses: reclassification of management fees and transaction costs for £6.3m.
- Note 12 - Investment Income: amendment to classification for dividends from equities and interest in cash deposits.
- Note 14 - Investments: amendment to balances for other investment assets and other investment liabilities to reflect figures per the Net Assets Statement.
- Note 14 - Investments: disclosure amendment for the total investment liabilities balances not managed by investment managers.
- Note 14 - Investments: analysis of investments disclosure amended for other investment assets and other investment liabilities for 2023/24.
- Note 15 - Financial Instruments: amendment to the classification of derivative contracts as fair value through profit or loss.
- Note 15 - Financial Instruments: amendment to reflect the reclassification of BCPP investments within the Authorised Contractual Scheme from fair value level 1 to fair value level 2.
- Note 16 - Financial Instruments: currency risk sensitivity analysis updated to be consistent with the balance per the Net Assets Statement (10.825m).
- Note 19 - Additional Voluntary Contributions: the note has been amended for information provided by Prudential which was not available to officer when the draft accounts were produced.
- Note 20 - Related Party Transactions: comparator figures added to confirm prior year material related party transactions balances.
- Note 21 - Contingent Assets and Liabilities: disclosure added for the Virgin Media High Court ruling.
- Note 22 - Funding Arrangements: minor amendment to mortality assumptions

We will obtain written representations confirming that, after considering the unadjusted disclosure misstatements, both individually and in aggregate, in the context of the annual report and financial statements taken as a whole, no adjustments are required.

Appendices

A: Draft management representation letter

B: Draft audit report

C: Draft consistency report

D: Confirmation of our independence

E: Other communications

Appendix A: Draft management representation letter

To be provided on client headed paper, signed by the s151 officer and dated as close to (but not after) the date of the audit report as possible.

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

15 November 2024

Dear Mark

Durham County Council Pension Fund - Audit for Year Ended 31 March 2024

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 2024 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 2023/24 (the Code), 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 Code, as amended by the Code and applicable law.

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 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.

Appendix A: Draft management representation letter

To be provided on client headed paper, signed by the s151 officer and dated as close to (but not after) the date of the audit report as possible.

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 by the Pension Fund 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 balance sheet date.

There are no contingent gains which should be disclosed.

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

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:

Appendix A: Draft management representation letter

To be provided on client headed paper, signed by the s151 officer and dated as close to (but not after) the date of the audit report as possible.

- 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 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.

Charges on assets

All the Pension Fund's assets are free from any charges exercisable by third parties except as disclosed within the financial statements.

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 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 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 of 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.

Appendix A: Draft management representation letter

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Unadjusted misstatements

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

Yours faithfully,

Paul Darby, Corporate Director of Resources

29 November 2024

Appendix A: Draft management representation letter

To be provided on client headed paper, signed by the s151 officer and dates as close to (but not after) the date of the audit report as possible.

Appendix

Schedule of unadjusted misstatements

	Fund Account		Net Assets Statement	
	Dr (£000's)	Cr (£000's)	Dr (£000's)	Cr (£000's)
Dr: Pooled Private Equity			3,501	
Dr: Pooled Private Credit			2,079	
Dr: Pooled Infrastructure			2,256	
Dr: Climate Opportunities			212	
Cr: Change in Market Value of Investments		-8,048		
Being an adjustment to recognise the difference in the valuation of Level 3 investment between BCPP and the Pension Fund at 31 March 2024.				
Dr: Book cost of investments			4,401	
Cr: Investment income		-4,401		
Being an adjustment to remove reversals in investment income related to prior periods and allocate costs to the book costs of investments.				
Dr Management expenses	6,335			
Cr Book cost of investments				-6,335
Being an adjustment for differences in the book cost debited to transaction costs rather than the book value of investments.				
Dr Management expenses	2,783			
Cr Investment assets				-2,783
Being an adjustment for distributions and rebates for private market investments with the fund manager BCPP.				
Aggregate Effect of Unadjusted Misstatements		-3,331	3,331	

Appendix B: Draft audit report

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 2024, which comprise the Fund Account, the Net Assets Statement, and notes to the financial statements, including a summary of material accounting policy information. 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 2023/24.

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 2024, and the amount and disposition of the Pension Fund's assets and liabilities as at 31 March 2024; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24.

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, and taking into account the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24, 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 that regard.

Appendix B: Draft audit report

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 2023/24, 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 2023/24 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.

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.

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.

Appendix B: Draft audit report

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 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 November 2024.

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

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.

Mark Outterside, Key Audit Partner
For and on behalf of Forvis Mazars LLP

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

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 2024 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 material accounting policy information.

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 2024 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24.

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.

Mark Outterside, Key Audit Partner
For and on behalf of Forvis Mazars LLP

The Corner
Bank Chambers
26 Mosley Street
NE1 1DF

Appendix C: Confirmation of our 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 D: Other communications

Other communication	Response
Compliance with Laws and Regulations	<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>
External confirmations	<p>We did not experience any issues with respect to obtaining external confirmations.</p>
Related parties	<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"> 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 b. they have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the applicable financial reporting framework.
Going Concern	<p>We have not identified any evidence to cause us to disagree with the Finance Manager that the 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 D: Other communications

Other communication	Response
<p>Subsequent events</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>Matters related to fraud</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 where appropriate the Audit Committee, confirming that</p> <ul style="list-style-type: none"> a) they acknowledge their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud; 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; c) they have disclosed to the auditor their knowledge of fraud or suspected fraud affecting the entity involving: <ul style="list-style-type: none"> i. management; ii. employees who have significant roles in internal control; or iii. others where the fraud could have a material effect on the financial statements; and 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.

Contact

Forvis Mazars

Mark Outterside

Key Audit Partner

Tel: +44 191 383 6339

Mark.outterside@mazars.co.uk

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