

Annual governance report

Durham County Pension Fund

Audit 2011/12



Contents

Key messages	3
Before I give my opinion	4
Financial statements	5
Fees	10
Appendix 1a – Draft independent auditor’s report for the financial statements of the Council	11
Appendix 1b – Draft independent auditor’s report for the Pension Fund Annual Report.....	16
Appendix 2 – Uncorrected errors	18
Appendix 3 – Corrected errors	20
Appendix 4 – Draft letter of management representation	22
Appendix 5 – Glossary	26

Key messages

This report summarises the findings from my 2011/12 audit of the Pension Fund financial statements which is substantially complete.

As at 18 September, my work is now substantially complete. Subject to the completion of our work on the Pension Fund Annual Report and my final review my audit is substantially complete. I plan to issue an audit report on the Council's financial statements that includes an unqualified opinion on the pension fund financial statements. I also plan to issue an unqualified opinion on the financial statements included in the pension fund annual report. Appendix 1a contains a copy of my draft audit report on the financial statements of the Council. Appendix 1b contains a copy of my draft audit report on the pension fund annual report.

The draft financial statements were submitted for audit by the due date and were substantially complete. The pension fund's financial statements have been amended to correct a number of errors identified during the audit. None of these errors had a material impact to the reported performance of the fund, and most related to classification errors. In addition, officers have identified a £13 million material error in the disclosure of derivatives in the financial statements. This had no impact on the overall financial position of the fund and has now been corrected.

I identified further errors which I have not asked the pension fund to amend, due to the nature of the uncertainties. I also identified a small number of disclosure errors and non trivial errors, all of which the pension fund has agreed to amend, Overall I have not identified any significant weaknesses in the pension fund's internal controls.

There are no other significant matters that I need to bring to your attention.

Before I give my opinion

My report includes only matters of governance interest that have come to my attention in performing my audit. I have not designed my audit to identify all matters that might be relevant to you.

Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence.

I am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me, that I am required by auditing and ethical standards to report to you.

I ask the Audit Committee to:

- take note of the adjustments to the financial statements included in this report (Appendices 2 and 3); and
- approve the letter of representation (Appendix 4), on behalf of the Pension Fund before I issue my opinion.

Financial statements

The Pension Fund's financial statements are an important mechanism for the Pension Fund to account for its stewardship of public funds. As Members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements.

Opinion on the financial statements

Subject to satisfactory clearance of a small number of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. My opinion will be included within the Council's Statement of Accounts and the financial statements included within the Pension Fund Annual Report. Appendices 1a and 1b contain copies of my draft audit reports.

My work to review the Annual Report is ongoing. I expect to complete all my work, including my final review procedures, before the Audit Committee on 27 September 2012. I will update the Committee as necessary as part of my oral report.

Uncorrected errors

I have detailed the small number of uncorrected errors and uncertainties at Appendix 2. All of these items are uncertainties rather than errors and as such have not been adjusted for.

Corrected errors

My work identified a number of errors in the statements presented for audit. None of these have a material impact on the financial position of the Pension Fund at 31 March 2012. These have now been amended. A schedule of the changes is included at Appendix 3. I also agreed a number of changes to disclosures and supporting narrative. The most significant amendments are:

- Material understatement identified by officers of derivative assets and liabilities by an equal amount of £13.784 million in the Net Assets Statement and corresponding notes.
- Material misclassification of the investment in the Aquila Fund for an amount of £123.263 million in Note 13. This was included as a quoted investment but should have been included as unquoted.

- Material misclassification of PIV vehicle purchases of £17.8 million as overseas equity purchases in Note 13.
- Material misclassification of PIV vehicle sales of £27.1 million as overseas equity sales in Note 13.
- Material misallocation of 'other investment assets' of £29.176 million to loans and receivables instead of fair value through profit and loss in Note 14.
- Material misallocation of investment liabilities of £16.552 million to loans and receivables instead of fair value through profit and loss in Note 14.

Significant risks and my findings

My audit plan, dated February 2012, set out the significant risk that I expected to give particular attention as part of my audit. This related to the value of unquoted investments in Alliance Bernstein. Following the planning phase of this year's audit, the Audit Commission recommended that auditors should explicitly report their work on the areas where 'management bias' could impact on the accounts. Table 1 describes my findings in these two areas.

Table 1: **Significant risks and findings**

Significant Risk	Finding
<p>Value of Unquoted Investments</p> <p>The value of unquoted investments with Alliance Bernstein may be incorrect. The value of unquoted funds in the accounts will be the value calculated by the Fund Manager as in previous years. Last year, officers did not get any assurance before the audit to support the valuation applied by Alliance Bernstein.</p>	<p>I worked with officers to ensure that they obtained accounts and other appropriate supporting documents to verify the valuation by the Fund Manager of unquoted investments before submission of the accounts for audit.</p> <p>My testing has not identified any significant issues to bring to your attention.</p>
<p>Management Bias</p> <p>In any organisation, management may be in a position to override the financial controls it has put in place. This does not imply that I suspect actual or intended manipulation but that I approach the audit with professional scepticism.</p>	<p>I evaluated the design and implementation of controls to mitigate the risk of manipulation and performed procedures to satisfy myself that, taking account of materiality, no manipulation has occurred. In particular, I tested:</p> <ul style="list-style-type: none"> ■ material year end adjustment journals; ■ recognition of income and expenditure; and ■ the reasonableness of estimations and liabilities. <p>My testing has not identified any material issues beyond those that are reflected in the</p>

Significant Risk

Finding

proposed adjustments to the draft accounts.

Other risks and my findings

My audit plan, dated February 2012, also set out a small number of other risks that would be considered as part of this year's audit. Table 2 describes my findings in these areas.

Table 2: **Other risks and findings**

Other Risk

Finding

Completeness of Related Party Transactions

Disclosure of related party transactions may be incomplete. There have been problems in previous years in obtaining written declarations promptly, particularly from members of the Pension Fund Committee who are not Durham County Council members.

I reviewed the management controls in place for the identification and disclosure of related party transactions and undertook substantive testing to satisfy myself that all related party transactions have been accounted for. All written declarations have been received.

My testing has not identified any significant issues to bring to your attention.

Compliance with Code of Practice on Local Authority Accounting (the Code)

The Pension Fund accounts may not fully comply with, or include all of the information required by, the Code

I reviewed management controls in place to ensure that the Pension Fund accounts are Code compliant and undertook substantive testing once the accounts were received.

My testing has not identified any material issues beyond those that are reflected in the proposed adjustments to the draft accounts.

Significant weaknesses in internal control

It is the responsibility of the Pension Fund to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. My responsibility as your auditor is to consider whether the Pension Fund has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

I have tested the controls of the Pension Fund only to the extent necessary for me to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control.

In my interim governance report to members in April 2012 I did not identify any weaknesses in controls that could lead to a material misstatement of the financial statements. I did however identify that contributions receivable from smaller bodies are not separately identified and so could be incorrectly posted to the ledger. I do not intend to repeat those weaknesses in this document.

Other matters

I am required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Pension Fund's financial reporting process including the following:

- Qualitative aspects of your accounting practices.
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions.
- Other audit matters of governance interest.

Table 3: **Other matters**

Issue	Finding
Pension Fund - Disclosure issues	<p>I have considered the overall presentation of the Pension Fund financial statements, including the related notes. I have checked to ensure that they are in accordance, where appropriate with the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 and the Pensions Statement of Recommended Practice (SORP). I have brought several omissions, presentational issues and errors to the attention of officers. For example:</p> <ul style="list-style-type: none"> ■ The basis of preparation and measurement policy states that accounts are prepared in compliance with PF SORP, which they are not.; ■ Page 125 includes a statement that no investments are impaired. This is not a judgement, but an assumption. ■ Certain accounting policy notes were omitted: <ul style="list-style-type: none"> – Cash and cash equivalents. – Contingent assets.

- Events after the balance sheet date.
- Financial Instruments.

Where appropriate the accounts have been amended.

Pension Fund Annual Report

The Pension Fund prepared its draft Annual Report on 23 August 2012. I have not yet completed my review and report on the financial statements included in the Annual Report. I expect to report on the financial statements included in the Annual Report by 27 September 2012. I will provide an oral update on my work on the report to the Audit Committee on 27 September 2012.

Fees

I reported my planned audit fee in the February 2012 Audit Plan.

I will complete the audit within the planned fee.

Table 4: Fees

	Planned fee 2011/12 (£)	Expected fee 2011/12 (£)
Audit	42,551	42,551
Non-audit work	0	0
Total	42,551	42,551

The Audit Commission has paid a rebate of £3,404 to reflect attaining internal efficiency savings, reducing the net amount payable to the Audit Commission to £39,147.

Appendix 1a – Draft independent auditor’s report for the financial statements of the Council

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

Opinion on the Authority financial statements

I have audited the financial statements of Durham County Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

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

Respective responsibilities of the Corporate Director Resources and auditor

As explained more fully in the Statement of the Corporate Director Resources’ Responsibilities, the Corporate Director Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My

responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view of the financial position of Durham County Council as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

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

Matters on which I report by exceptionⁱ

I report to you if:

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

I have nothing to report in these respects

Opinion on the pension fund financial statements

I have audited the pension fund financial statements for the year ended 31 March 2012 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

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

Respective responsibilities of the Corporate Director Resources and auditor

As explained more fully in the Statement of the Corporate Director Resources' Responsibilities, the Corporate Director Resources is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In my opinion the pension fund's financial statements:

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

Opinion on other matters

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

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

Respective responsibilities of the Authority and the auditor

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

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

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

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

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Authority has proper arrangements for:

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

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

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

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, I am satisfied that, in all significant respects, Durham County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

Delay in certification of completion of the audit

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

[Cameron Waddell

District Auditor

Nickalls House

Metro Centre

GATESHEAD

NE11 9NH

28 September 2012

Appendix 1b – Draft independent auditor’s report for the Pension Fund Annual Report

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

Opinion on the pension fund financial statements

I have audited the pension fund financial statements for the year ended 31 March 2012 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

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

Respective responsibilities of the Corporate Director Resources and auditor

As explained more fully in the Statement of the Corporate Director Resources Responsibilities, the Corporate Director Resources is responsible for the preparation of the pension fund’s financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In my opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

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

Matters on which I report by exception

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

[Signature]

Cameron Waddell
District Auditor Nickalls House Metro Centre GATESHEAD NE11 9NH

28 September 2012

Appendix 2 – Uncorrected errors

I identified the following errors during the audit which management have not addressed in the revised financial statements.

		Fund Account		Net Assets Statement	
Item of account	Nature of error	Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
Contributions receivable	Difference between contributions received per DCCPF GL and records maintained in pensions section	307			
Change in market value			307		
Change in market value	Difference between DCCPF download from Resourcelink (RL) and auditors download from RL	146			
Benefits payable			146		
Change in market value	Difference between contributions receivable per employer records and DCCPF GL	130			
Contributions receivable			130		
Change in market value	Difference between commutations payable per DCCPF GL and per report from pension administration system	122			
Benefits payable			122		
Dividend income	Uncertainty relating to balance brought forward	2,240			
Change in market			2,240		

		Fund Account		Net Assets Statement	
value					
Note 14 Investments	Uncertainty regarding allocation between derivatives sales proceeds and change in market values. £1,068k	-	-	-	-

Appendix 3 – Corrected errors

I identified the following errors during the audit which management have addressed in the revised financial statements.

		Fund Account		Net Assets Statement	
Item of account	Nature of error	Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
Derivative assets	Grossing up of derivatives			13,784	
Derivative liabilities					13,784

As well as the numerical errors within the primary statements highlighted above, there were a number disclosure notes which were not amended. Only the most significant ones have been summarised in the next table.

Amended disclosure notes		
Disclosure	Nature of adjustment	Amendment
Note 13 - analysis of investments by assets type.	Misallocation between quoted and unquoted: Aquila Fund £123,263k	Note has been amended.
Note 13 – Reconciliation of Movements in investments	Misclassification of PIV vehicle purchases as overseas equity purchases £17,751k	Note has been amended.
Note 13 – Reconciliation of Movements in investments	Misclassification of PIV vehicle sales as overseas equity sales £27,092k	Note has been amended.
Note 14 – Financial Instruments	Misallocation of 'other investment assets' to loans and receivables column – should be in FVPL £29,176k	Note has been amended.
Note 14 – Financial Instruments	Misallocation of investment liabilities to loans and	Note has been amended.

	receivables column – should be in FVPL £16,552k	
Note 19 Related party transactions	Amendment to the key management personnel note to reflect the financial relationship of all employees, together with the financial relationship of members of the Pension Fund Committee who are active members of the scheme, expressed as cash equivalent transfer values.	Note has been amended.

Appendix 4 – Draft letter of management representation

Durham Pension Fund - Audit for the year ended 31/03/2012

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other Officers and Members of Durham pension Fund the following representations given to you in connection with your audit of the Pension Fund's financial statements for the year ended 31 March 2012.

Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Pension Fund, for the completeness of the information provided to you, and for making accurate representations to you.

Uncorrected misstatements

The effects of uncorrected financial statements misstatements summarised in the attached schedule are not material to the financial statements, either individually or in aggregate.

These misstatements have been discussed with those charged with governance within the Pension Fund and the reasons for not correcting these items are as follows.

- **** pension fund to insert text here*****

Supporting records

I have made available all relevant information and access to persons within the Pension Fund for the purpose of your audit. I have properly reflected and recorded in the financial statements all the transactions undertaken by the Pension Fund.

Internal control

I have communicated to you all deficiencies in internal control of which I am aware.

Irregularities

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and
- the results of our assessment of the risk the financial statements may be materially misstated as a result of fraud.

Law, regulations, contractual arrangements and codes of practice

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The Pension Fund has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

Unfunded pension liabilities

I confirm that all unfunded pension liabilities e.g. discretionary added years awarded to staff in the LGPS and discretionary benefits awarded to teachers under the Teachers Pension scheme are included within the IAS 19 liability figures.

Accounting estimates including fair values

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

For accounting estimates relating to unquoted Private Equity and Hedge Funds valuations, I confirm:

- the appropriateness of the measurement method, including related assumptions and models, and the consistency in application of the method;
- the assumptions appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the Pension Fund, where relevant to the accounting estimates and disclosures;
- the disclosures relating to the accounting estimate are complete and appropriate under the Code; and
- that no subsequent event requires the Pension Fund to adjust the accounting estimate and related disclosures included in the financial statements.

Related party transactions

I confirm that I have disclosed the identity of the Pension Fund's related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the Code.

Subsequent events

I have adjusted for or disclosed in the financial statements all relevant events subsequent to the date of the financial statements.

Signed on behalf of Durham Pension Fund

I confirm that the this letter has been discussed and agreed by the Audit Committee on 27 September 2012

Signed

Name

Position

Date

Appendix 5 – Glossary

Annual Audit Letter

Letter issued by the auditor to the Pension Fund after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

Annual Governance Report

The auditor's report on matters arising from the audit of the financial statements presented to those charged with governance before the auditor issues their opinion.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor.

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

Financial statements

The annual statement of accounts that the Pension Fund is required to prepare, which report the financial performance and financial position of the Pension Fund in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

Internal control

The whole system of controls, financial and otherwise, that the Pension Fund establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

Pension Fund Annual Report

The annual report, including financial statements, that the Pension Fund must publish under Regulation 34 of the Local Government Pension Scheme (Administration) Regulations 2008.

Significance

The concept of 'significance' applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit of the financial statements. Significance has both qualitative and quantitative aspects.

Those charged with governance

Those entrusted with the supervision, control and direction of the Pension Fund. This term includes the members of the Authority, [the Pension Panel] and the Audit Committee.

If you require a copy of this document in an alternative format or in a language other than English, please call:
0844 798 7070

© Audit Commission 2012.

Design and production by the Audit Commission Publishing Team.

Image copyright © Audit Commission.

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.

