

# Audit Completion Report

Appendix 1

Durham County Council Pension Fund – year ended 31 March 2014

September 2014



Mazars LLP  
The Rivergreen Centre  
Aykley Heads  
Durham DH1 5TS

Audit Committee Members  
Durham County Council  
County Hall  
Durham  
DH1 5UE

September 2014

Ladies and Gentlemen

**Audit Completion Report – Year ended 31 March 2014**

We are delighted to present our Audit Completion Report for the year ended 31 March 2014. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks and areas of management judgement was outlined in our Audit Strategy Memorandum which we presented on 20 May 2014. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and areas of management judgement remain appropriate.

We would like to take this opportunity to express our thanks to your officers for their assistance during the course of our audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 0191 383 6300.

Yours faithfully

Cameron Waddell

Mazars LLP

# Contents

01 Executive summary.....	2
02 Significant findings .....	3
03 Internal control recommendations .....	5
04 Summary of misstatements .....	6
Appendix A – Draft management representation letter .....	7
Appendix B – Draft audit report.....	11
Appendix C – Independence .....	14

Our reports are prepared in the context of the Audit Commission’s ‘Statement of responsibilities of auditors and audited bodies’. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the Authority and we take no responsibility to any member or officer in their individual capacity or to any third party.

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

# 01 Executive summary

## Purpose of this document

This document has been prepared to communicate the findings of our audit for the year ended 31 March 2014 to the Audit Committee and forms the basis for discussion at the Committee meeting on 30 September 2014.

Our communication with you is important to:

- share information to assist both the auditor and those charged with governance to fulfil our respective responsibilities;
- provide you with constructive observations arising from the audit process;
- ensure, as part of the two-way communication process, we gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing Durham County Council Pension Fund; and
- receive feedback from yourselves as to the performance of the engagement team.

As outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards of Auditing (UK and Ireland) which means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement. Section 2 of this report includes our conclusions on the significant risks and areas of management judgement that we set out in our Audit Strategy Memorandum.

We also set out details of internal control recommendations in section 3 and a summary of misstatements discovered as part of the audit in section 4.

## Status and audit opinion

We have substantially completed our audit of the financial statements for the year ended 31 March 2014.

At the time of preparing this report, the following matters remain outstanding:

- review of events after the balance sheet date; and
- completion of our review procedures.

We will provide an update to you in relation to the significant matters outstanding above by issuing a follow up letter.

Subject to the satisfactory conclusion of the remaining audit work, we anticipate issuing an unqualified opinion, without modification, on your financial statements.

Our proposed audit report is set out in Appendix B.

# 02 Significant findings

This section outlines the significant findings from our audit. These findings include:

- our audit conclusions regarding the significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum; and
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 4 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.

## Significant risks

### Management override of controls

#### Description of the risk

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.

This does not imply that we suspect actual or intended manipulation but that we approach the audit with due professional scepticism.

#### How we addressed this risk

We addressed this risk by performing the following audit work:

- reviewing material accounting estimates included in the financial statements;
- considering identified significant transactions outside the normal course of business;
- testing journals recorded in the general ledger and other adjustments made in preparation of the financial statements.

#### Audit conclusion

Our work has provided the assurance we sought, and not highlighted any issues in this area to report.

### Valuation of unquoted investments for which a market price is not readily available

#### Description of the risk

As at 31 March 2014, the fair value of unquoted investments was £1.104 billion, which accounted for 51.2% of the Fund's total investments. As prices for these investments are not available on recognised stock markets, the values included in the accounts are based on those provided by fund managers, who obtain the values from a variety of external sources. This results in an increased risk of material misstatement.

#### How we addressed this risk

In addition to our standard programme of work in this area we undertook the following tests:

- agreed holdings from fund manager reports to the global custodian's report;
- agreed fair values to independent evidence;
- when appropriate, agreed the valuations to audited accounts, where available;
- where audited accounts were available, checked that they are supported by a clear opinion; and
- where available, reviewed independent control assurance reports for weaknesses which would present a risk

of material misstatement.

#### **Audit conclusion**

Our work has provided the assurance we sought, and not highlighted any issues in this area to report.

### **Accounting policies and disclosures**

We have reviewed Durham County Council Pension Fund's accounting policies and disclosures and concluded they materially comply with the requirements of the Code of Practice on Local Authority Accounting (the Code).

### **Significant difficulties during the audit**

During the course of the audit we did not encounter any significant difficulties and we have had the full co-operation of management. There is however scope for the Council to further develop the processes it has in place to:

- prepare financial statements that are free from material error;
- prepare a complete suite of working papers that support all entries within the financial statements; and
- quality assure the draft financial statements.

This is of particular importance due to the likelihood of earlier deadlines for the preparation and audit of financial statements from 2017/18. We are committed to working closely with the Council's strategic finance team to support them to achieve faster closedown and an even more efficient audit process in the coming years.

# 03 Internal control recommendations

The purpose of our audit is to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place relevant to the preparation of the financial statements, in order to design audit procedures to allow us to express an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of internal control or to identify any significant deficiencies in their design or operation.

We have identified no matters to report. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

# 04 Summary of misstatements

We set out below the material adjusted misstatements identified during the course of the audit.

## Adjusted material and / or sensitive misstatements

No adjustments were identified during the audit which impacted on the core statements (The fund account and net assets statement). The following misstatements were identified and amended in the notes to the accounts.

<b>Adjustment 1 – Adjustments to Note 15 – Analysis of Investments</b>		
Classification error - quoted investments listed on the stock market included in unquoted.		
	Dr £'000	Cr £'000
Managed funds – non property - UK quoted	27,680	
Managed funds – non property- UK unquoted		27,680
Managed funds – non property - Overseas quoted (comparative amendment £55,249)	68,150	
Managed funds – non property- Overseas unquoted (comparative amendment £55,249)		68,150
<b>Adjustment 2 – Adjustments to Note 15 –Reconciliation of movements in Investments</b>		
BlackRock sale proceeds included twice.		
Equities sale proceeds	15,000	
Change in market value cash		11,532
Pooled Investment Vehicle sale proceeds		3,468
Index linked purchases incorrectly included in fixed interest purchases		
Index linked purchases	7,912	
Fixed interest securities		7,912
<b>Adjustment 3 – Adjustment to note 11 – Administration Expenses</b>		
Audit fee understated by £5k.		
External audit fees	5	



Legal fees		5
------------	--	---

#### Adjustment 4 – Adjustment to note 16 – Financial Instruments

Reclassification of financial liabilities at fair value through profit and loss from level 2 to level 1 (comparative adjustment £51,865)	Dr £'000	Cr £'000
Level 2	59,323	
Level 1		59,323

#### Adjustment 5 – Disclosure note - Related party transactions

Debtors: Employer and employee contributions understated by £1.631m due to omission of Magistrates Court (£1.458m) and augmentation debtors (£0.173m).

Investment income: Average surplus cash balance understated by £2.516m due to inclusion of the December quarter average rather than the average for the year.

### Unadjusted non-material misstatements and uncertainties

The following non-material misstatements identified during the course of the audit has no been adjusted.

#### Unadjusted –net assets statement

Barings Hedge Select Fund Class A investment £2.339 million included within investments - transaction completed 1 April 2014	Dr £'000	Cr £'000
Cash	2,339	
Pooled Investment Vehicles (note 15 - Analysis Non Property overseas unquoted)		2,339

# Appendix A – Draft management representation letter

**To:**

Mazars LLP  
The Rivergreen Centre  
Aykley Heads  
Durham  
DH1 5TS

**Durham County Council Pension Fund - audit for year ended 31 March 2014**

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 2014 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 (the Code).

I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy ourselves that I can properly make each of the following representations to you.

**My responsibility for the financial statements and accounting information**

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the financial statements in accordance with the Code and relevant legislation and International Financial Reporting Standards.

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

I have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within the Pension Fund you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Corporate Director 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 affect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Committee meetings, have been made available to you.

**Accounting policies**

I confirm that I have reviewed the accounting policies applied during the year in accordance with the Code and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the Council's financial position, financial performance and cash flows

## **Accounting estimates, including those measured at fair value**

I confirm that any significant assumptions used by the Pension Fund in making accounting estimates, including those measured at fair value, are reasonable. I confirm that disclosures related to accounting estimates are complete and that no subsequent event requires adjustment to the accounting estimates and disclosures included in the financial statements.

## **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 and relevant legislation and International Financial Reporting Standards (IFRSs).

## **Laws and regulations**

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

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

## **Fraud and error**

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

I have disclosed to you:

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

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the 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 and relevant legislation and International Financial Reporting Standards.

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

### **Future commitments**

I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

### **Subsequent events**

I confirm all events subsequent to the date of the financial statements and for which the Code, relevant legislation and International Financial Reporting Standards require adjustment or disclosure have been adjusted or disclosed.

Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

### **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 financial statements.

### **Unadjusted misstatement**

I confirm that the effect of the uncorrected misstatements is non-material to the financial statements as a whole.

### **Specific representation on unquoted investments**

Unquoted investments are included in the net assets statement at the value estimated by the general partner managing each fund 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, with the valuations, and am not aware of any subsequent events that would have a material impact on the estimated value of the unquoted investments.

Signed

For and on behalf of Durham County Council.

# Appendix B – Draft audit report

## Local Government Pension Fund in Statement of accounts

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

#### Opinion on the pension fund financial statements

We have audited the pension fund financial statements of Durham County Council for the year ended 31 March 2014 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 2013/14.

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

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

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

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

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

#### Opinion on pension fund financial statements

In our opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2014 and the amount and disposition of the fund's assets and liabilities as at 31 March 2014 other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

#### Opinion on other matters

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

Cameron Waddell

Director and Engagement Lead

For and on behalf of Mazars LLP

The Rivergreen Centre

Aykley Heads

Durham

DH1 5TS

September 2014

## Local Government Pension Fund in Statement of accounts

### INDEPENDENT AUDITOR'S STATEMENT TO THE MEMBERS OF DURHAM COUNTY COUNCIL ON THE PENSION FUND FINANCIAL STATEMENTS

We have examined the pension fund financial statements for the year ended 31 March 2014, which comprise the Fund Account, the Net Assets Statement and the related notes.

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 the 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 in accordance with applicable United Kingdom law.

Our responsibility is to report to you our opinion on the consistency of the pension fund financial statements within the pension fund annual report with the pension fund financial statements in the statement of accounts of City of Bradford Metropolitan District Council, and its compliance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

We also read the other information contained in the pension fund annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the pension fund financial statements.

We conducted our work in accordance with guidance issued by the Audit Commission. Our report on the administering authority's full annual statement of accounts describes the basis of our opinion on those financial statements.

#### Opinion

In our opinion, the pension fund financial statements are consistent with the full annual statement of accounts of Durham County Council for the year ended 31 March 2014 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

Cameron Waddell

Director and Engagement Lead  
For and on behalf of Mazars LLP

The Rivergreen Centre  
Aykley Heads  
Durham  
DH1 5TS

Date September 2014

# Appendix C – 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.