

Audit Committee

31 July 2017



External Audit – Pension Fund Audit Completion Report Year Ended 31 March 2017

Report of the External Auditor

Purpose of the Report

1. The Committee is asked to note the contents of the attached External Auditor report on the completion of the audit of the statement of accounts for the Pension Fund for year ended 31 March 2017.

Background

2. This report illustrates the findings of the external audit completed by Mazars for the year ended 31 March 2017 for the Pension Fund.
3. The audit has been completed in accordance with International Standards of Auditing (UK and Ireland) issued by the Auditing Practices Board.

Summary of audit progress

4. Our work on the audit is substantially complete. At the time of writing our audit procedures are ongoing in the following areas:
 - Investment purchases and sales, and classification of change in market value.
 - Financial instruments.

Recommendation

5. The Committee is requested to:
 - Note the adjustments to the financial statements included at Appendix A of the report.
 - Approve the management representation letter at Appendix B on behalf of the Council before the opinion and conclusion are issued.

Appendix 1: Implications

Finance

No direct implications as a result of this report.

Staffing

None

Risk

None

Equality and Diversity/Public Sector Equality Duty

None

Accommodation

None

Crime and disorder

None.

Human rights

None

Consultation

None

Procurement

None

Disability Discrimination Act

None

Legal Implications

Statutory approval of the accounts

Audit Completion Report

Durham County Council Pension Fund



For the year ended 31 March 2017



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1. Executive summary

Purpose of this report

The Audit Completion Report sets out the findings of our audit of Durham County Council Pension Fund (the Pension Fund) for the year ended 31 March 2017, and forms the basis for discussion at the Audit Committee meeting on 31 July 2017.

The scope of our work and overall summary

The detailed scope of our work as your appointed auditor for 2016/17 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 include the matters outlined in the following table.

Financial statements	<p>In our Audit Strategy Memorandum we reported that materiality for the financial statements as a whole was set at £11.04m. We have updated our assessment as part of our continuous planning processes and have set materiality at £11.41m. Our clearly trivial threshold for reporting matters to you has been set at £0.34m.</p> <p>We communicated the significant audit risks to you as part of our Audit Strategy Memorandum in February 2017. Section 2 of this report outlines the work we have undertaken, and the conclusions we have reached, for each significant risk.</p> <p>At the time of issuing this report, and subject to the satisfactory conclusion of the remaining audit work, we anticipate issuing an unqualified opinion, without modification, on the financial statements. Our draft auditor's report is provided in Appendix C.</p>
Identified misstatements	<p>Our work identified a number of misstatements that have been discussed with management. A summary of the identified misstatements is provided in Appendix A.</p> <p>Our work is ongoing so there may be additional matters which we will need to report to the Audit Committee.</p>

The status of our work

We have substantially completed our audit in respect of the financial statements for the year ended 31 March 2017. At the time of preparing this report, the following significant matters remain outstanding:

Investments (note 14 disclosure)	Our work on year end investment valuation is complete but we are yet to complete our work on investment purchases and sales, and classification of change in market value.	Closure procedures and review	We will complete our standard closure procedures, including review of the amended financial statements and consideration of post balance sheet events.
Financial Instruments (note 15 disclosure)	Our work on classification of financial instruments between levels is not complete.		

We will provide an update to you in relation to these outstanding matters in a follow up letter prior to giving our opinion.

2. Significant findings

This section sets out the significant findings from our audit and provides information on a number of matters that we are required to report to you by ISA 260 'Communication with those charged with governance'.

Significant risks

As part of our planning procedures we considered the risks of material misstatement in the Pension Fund's financial statements that required special audit consideration. Although we report identified significant risks at the planning stage of the audit in our Audit Strategy Memorandum, our risk assessment is a continuous process and we regularly consider whether new significant risks have arisen and how we will mitigate these risks. No new risks have been identified since we issued our Audit Strategy Memorandum. The significant risks identified, and our conclusions against each are outlined below.

Significant risk	How we addressed the risk	Audit conclusion
<p>Management override of control</p> <p>International Standards on Auditing 240 – <i>The auditor's responsibility to consider fraud in an audit of financial statement</i> (ISA 240) requires us to consider the potential for management override because controls that may be sufficient to detect error may not be effective in detecting fraud.</p> <p>In all entities, management at various levels within an organisation is 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.</p>	<p>We addressed this risk by:</p> <ul style="list-style-type: none"> • reviewing accounting estimates affecting amounts included in the financial statements; • reviewing and considering any significant transactions outside the normal course of business; and • applying a risk based approach to journals recorded in the general ledger and other adjustments made in preparation of the financial statements. 	<p>Our work has provided the assurance we sought and has not highlighted any material issues to bring to your attention.</p>

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

As at 31 March 2017, the fair value of investments which were not quoted on an active market was £165 million, which accounted for 6% of the Fund's net investment assets. As prices for these investments are not quoted in active markets, the values used in the accounts are those provided by fund managers mostly based on Net Asset Value statements, although in some cases are based on forward looking estimates and judgements involving many factors. This results in an increased risk of material misstatement.

In addition to our standard programme of work in this area we agreed valuations provided by fund managers to evidence for individual funds including:

- audited accounts;
- investment manager valuation statements; and
- cashflows.

Our work has provided the assurance we sought and has not highlighted any material issues to bring to your attention.

Qualitative aspects of the Pension Fund's accounting practices

We are required to communicate to you our views on the significant qualitative aspects of the Pension Fund's accounting practices, including the accounting policies used and the quality of disclosures.

Qualitative aspect	Our views
Accounting policies and disclosures	We have reviewed the Pension Fund's accounting policies and disclosures and found these to be in line with the requirements of the Code of Practice on Local Authority Accounting (the Code). In line with our expectations, there have been no significant changes to accounting policies for the year ended 31 March 2017.
Quality of the draft financial statements	We received draft financial statements from management on 24 May 2017. The draft financial statements were of a good standard.
Quality of supporting working papers	Producing high-quality working papers is as crucial part of compiling financial statements that are complete and materially accurate. They also support the delivery of an efficient audit. The supporting working papers were readily available to the audit team and were also of a good standard.

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.

3. 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 that are relevant to the preparation of the financial statements. We do this to design audit procedures that allow us to express an opinion on the financial statements; this does not extend to expressing an opinion on the effectiveness of internal control or to identify any significant deficiencies in their design or operation.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Significant deficiencies in internal control

Other than as noted below, we have identified no issues to report.

As part of our audit we completed a review of IT general controls in conjunction with a review undertaken at Durham County Council. One low priority issue, identified and reported to the Audit Committee in the Durham County Council Audit Completion Report, is applicable to the Pension Fund. The issue identified was that leavers are not always deactivated in a timely manner, meaning that inappropriate access to business critical systems would be possible.

We do note, however, that this had not occurred in any case tested – no leavers had accessed the network, or any business critical system, following their leave date.

Our findings and recommendations are set out below. We have assigned priority rankings to each of them to reflect the importance that we consider each poses to your organisation and, hence, our recommendation in terms of the urgency of required action. In summary, the matters arising fall into the following categories:

- **Priority 1 (high)**

There is potential for financial loss, damage to reputation or loss of information. Weaknesses may have implications for the achievement of strategic objectives and our recommendations should be considered immediately by management.

- **Priority 2 (medium)**

There is a need to strengthen internal controls or enhance efficiency. Our recommendations should be actioned in the near future.

- **Priority 3 (low)**

Internal controls should be strengthened where practicable and where there is a cost benefit from doing so.

Appendix A – Summary of misstatements

The misstatements identified for adjustment during the course of the audit that are above the trivial level of £0.34m, are set out below.

The first table outlines the identified misstatements which management has assessed as not being material, either individually or in aggregate to the financial statements, and does not currently plan to adjust.

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

Unadjusted misstatements 2016/17

There are no identified misstatements above our trivial level of £0.34m that management have not adjusted.

Primary statements

Adjusted misstatements 2016/17

		Fund Account		Net Assets Statement	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: Investment Income (Fund Account)	1,740			
	Cr: Profit and losses on disposal of investments and change in market value of investments (Fund Account)		1,740		
Adjustment for sale of investment which the fund manager had shown as income in the report provided to the Pension Fund. An amendment has been made to notes 12 (investment income) and 14 (investments) in this regard.					
2	Dr: Investment Income (Fund Account)	407			
	Cr: Profit and losses on disposal of investments and change in market value of investments (Fund Account)		407		
Adjustment for accrued interest on fixed interest purchases and sales. An amendment has been made to notes 12 (investment income) and 14 (investments) in this regard.					

Disclosure amendments

Adjusted misstatements 2016/17					
		Fund Account		Net Assets Statement	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: Note 14 Analysis of Investments – Pooled Investment Vehicles (Unit Trusts – property – UK unquoted)			5,208	
	Cr: Note 14 Analysis of Investments – Pooled Investment Vehicles (Unit Trusts – property – Overseas unquoted)				5,208
	Correction in respect of CBRE UK unquoted investments that were recognised at cost rather than market value, with an equal and opposite impact on overseas unquoted investments.				
2	Dr: Note 12 Investment Income – Interest on cash deposits	636			
	Cr: Note 12 Investment Income – Interest from bonds		636		
	Correction of Blackrock accrued bond interest included in interest on cash rather than interest on fixed interest deposits.				
3	Dr: Note 12 Investment Income – Dividends from equities	377			
	Cr: Note 12 Investment Income – Income from pooled investment vehicles		377		
	Correction of income from pooled investment vehicle included in equity income.				
4	Dr: Note 15 – Classification of financial instruments: financial assets held as loans and receivables			5,476	
	Cr: Note 15 – Classification of financial instruments: financial assets held at fair value through profit and loss				5,476
	Movement of investment debtors from FVPL to loans and receivables. An amendment of £15,681k will be made to the comparative in this regard.				

Adjusted misstatements 2016/17

		Fund Account		Net Assets Statement	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
5	Dr: Note 15 – Classification of financial instruments: financial liabilities held at fair value through profit and loss			1,981	
	Cr: Note 15 – Classification of financial instruments: financial liabilities held at amortised cost				1,981
	Movement of investment creditors from FVPL to loans and financial liabilities at amortised cost. An amendment of £9,476k will be made to the comparative in this regard.				
6	Dr: Note 15 Financial assets at fair value through profit and loss level 2			2,893	
	Cr: Note 15 Financial assets at fair value through profit and loss level 1				2,893
	Correction of classification of derivative assets that are not derived from quoted prices in active markets. An amendment of £8,418k will be made to the comparative in this regard. Noted that the value of this adjustment has not been subject to audit at the time of writing.				
7	Dr: Note 15 Financial liabilities at fair value through profit and loss level 1			2,076	
	Cr: Note 15 Financial liabilities at fair value through profit and loss level 2				2,076
	Correction of classification of derivative liabilities that are not derived from quoted prices in active markets. An amendment of £11,886k will be made to the comparative in this regard. Noted that the value of this adjustment has not been subject to audit at the time of writing.				
8	Dr: Note 14 – Forward foreign currency purchases			139,497	
	Cr: Note 14 – Forward foreign currency sale proceeds				90,544
	Cr: Note 14 – Other cash deposits change in market value				48,953
	Correction of omitted FFC transactions. Amendments of £70,728k, £56,678k and £14,050k will be made to the comparatives for FFC purchases, FFC sales proceeds and cash CIMV respectively in this regard. Noted that the value of the adjustment to the comparative figures has not been subject to audit at the time of writing.				

Adjusted misstatements 2016/17

		Fund Account		Net Assets Statement	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
9	Dr: Note 15 – Valuation of financial instruments carried at fair value: Level 1			357,972	
	Cr: Note 15 – Valuation of financial instruments carried at fair value: Level 2				357,972
	Dr: Note 14 – Analysis of investments: Managed funds – non property – overseas quoted			357,972	
	Cr: Note 14 – Analysis of investments: Managed funds – non property – overseas unquoted				357,972
Movement of Alliance Bernstein diversified yield fund unquoted to quoted, and from Level 2 to Level 1 financial instruments. An amendment of £341,874k will be made to the comparative in this regard.					

Appendix B – Draft management representation letter

Durham County Council Pension Fund
County Hall
Durham
DH1 5UL
31 July 2017

Dear Mark

Durham County Council Pension Fund - audit for year ended 31 March 2017

This representation letter is provided in connection with your audit of the statement of accounts for Durham County Council Pension Fund ('the Pension Fund) for the year ended 31 March 2017 for the purpose of expressing an opinion as to whether the statement of accounts give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (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 statement of accounts and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the statement of accounts in accordance with the Code.

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 statement of accounts 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 effect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Pension Fund and Committee meetings, have been made available to you.

Accounting policies

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

Accounting estimates, including those measured at fair value

I confirm that any significant assumptions used by the Pension Fund in making accounting estimates, including those measured at fair value, are reasonable.

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 Code.

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

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the Pension Fund's statement of accounts 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.

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 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.

Unadjusted misstatements

I confirm that the effects of the uncorrected misstatements as included in the auditor's draft Audit Completion Report are immaterial, both individually and in aggregate, to the statement of accounts as a whole.

Specific representation on unquoted investments

Unquoted 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, 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.

Yours sincerely

Corporate Director Resources

Date.....

Appendix C – Draft audit report

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

Opinion on the Durham County Council financial statements

We have audited the financial statements of Durham County Council for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow 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 2016/17.

This report is made solely to the members of Durham County Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Members of Durham County Council, as a body, for our audit work, for this report or for the opinions we have formed.

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 2016/17, 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 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, we read all the financial and non-financial information in the Narrative Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Durham County Council as at 31 March 2017 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 2016/17.

Opinion on other matters

In our opinion, the information given in the Narrative Report for the financial year for which the financial statements are prepared, is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- in our opinion the Annual Governance Statement does not comply with Delivering Good Governance in Local Government: Framework (2016);
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Report on the Pension Fund financial statements

We have audited the Durham County Council pension fund pension fund financial statements for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014. 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 2016/17.

This report is made solely to the members of Durham County Council as a body in accordance with Part 5 of the Local Audit and Accountability Act 2014, and paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Members of Durham County Council, as a body, for our audit work, for this report or for the opinions we have formed.

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 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 2016/17, 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 Pension 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 Authority's Statement of Accounts and Annual Governance Statement] to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our 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 2017 and the amount and disposition of the fund's assets and liabilities as at 31 March 2017 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 2016/17.

Opinion on other matters

In our opinion, the information given in the Authority's Statement of Accounts and Annual Governance Statement for the financial year for which the financial statements are prepared, is consistent with the financial statements.

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

Respective responsibilities of the Durham County Council 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.

We are required under section 20 of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we 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

We are required to conclude whether the Authority has put in place arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We have planned and undertaken our work in accordance with the Code of Audit Practice as issued by the Comptroller and Auditor General, and had regard to relevant guidance. Based on our risk assessment, we undertook such work as we 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 our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General, we are 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 2017.

Certificate

We certify that we have completed the audit of the financial statements of Durham County Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

[Signature]

Mark Kirkham

For and on behalf of Mazars LLP

Salvus House,

Aykley Heads,

Durham

DH1 5TS

31 July 2017

Appendix D – Draft Consistency Report

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 2017, 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, as a body, in accordance with Part 5 paragraph 20(5) of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. 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 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 Durham County Council as a body, for our audit work, for this report, or for the opinions we have formed.

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 the Members of Durham County Council as a body, 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 Durham County Council, and its compliance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

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. The other information consists only the Introduction, Management and Financial Performance Report, Investment Policy and Performance Report, Statement of the Actuary, Governance Compliance Statement, Funding Strategy Statement, Investment Strategy Statement, Communications Policy Statement, Participating Bodies and Contribution Rates, and Membership Statistics.

We conducted our work in accordance with Auditor Guidance Note 07 – Auditor Reporting, issued by the National Audit Office. Our report on the administering authority's full annual statement of accounts describes the basis of our opinion[s] 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 2017 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

[Signature]

Mark Kirkham

For and on behalf of Mazars LLP

Salvus House,

Aykley Heads,

Durham

DH1 5TS

31 July 2017

Appendix E – 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.