

Public Document Pack

Tony Kershaw
Director of Law and Assurance

If calling please ask for:

Adam Chisnall on 033 022 28314
Email: adam.chisnall@westsussex.gov.uk

www.westsussex.gov.uk

County Hall
Chichester
West Sussex
PO19 1RQ
Switchboard
Tel no (01243) 777100



11 January 2019

Regulation, Audit and Accounts Committee

A meeting of the committee will be held at **10.30 am on Monday, 21 January 2019 at County Hall, Chichester.**

Tony Kershaw
Director of Law and Assurance

Agenda

1. Declarations of Interest

Members and officers must declare any pecuniary or personal interest in any business on the agenda. They should also make declarations at any stage such as an interest becomes apparent during the meeting. Consideration should be given to leaving the meeting if the nature of the interest warrants it. If in doubt please contact Democratic Services before the meeting.

2. Minutes of the last meeting of the Committee (Pages 3 - 10)

The Committee is asked to agree the minutes of the meeting held on 5 November 2018 (cream paper).

3. Urgent Matters

Items not on the agenda which the Chairman of the meeting is of the opinion should be considered as a matter of urgency by reason of special circumstances.

4. External Audit - West Sussex Pension Fund Audit Planning Report (Pages 11 - 42)

The Committee is asked to consider the West Sussex Pension Fund Audit Planning Report from the External Auditor EY.

The Committee is asked to note the report.

5. Quarterly Review of the Corporate Risk Register (Pages 43 - 52)

Report by the Director of Finance, Performance and Procurement.

The Committee is asked to review the information detailed in the report and the current Corporate Risk Register, and provide comment as necessary.

6. **Treasury Management Compliance Report - Third Quarter 2018/19**
(Pages 53 - 58)

Report by the Director of Finance, Performance and Procurement.

The Committee is asked to note the report.

7. **Date of Next Meeting**

The next meeting of the Committee will be held at 10.30am on Monday 25 March 2019 at County Hall, Chichester.

To all members of the Regulation, Audit and Accounts Committee

Regulation, Audit and Accounts Committee

5 November 2018 – At a meeting of the Regulation, Audit and Accounts Committee held at 10.30 am at County Hall, Chichester.

Present: Dr Dennis (Chairman)

Mr Waight, Mrs Dennis (arrived at 10.45am), Mr Jupp, Mr Lea (left at 12.05pm) and Mrs Pendleton (left at 1pm)

Apologies were received from Mr Bradford

Also in attendance: Mr Hunt

Part I

15. Declarations of Interest

15.1 Mr Jupp declared a personal interest as a member of Horsham District Council.

15.2 Mrs Pendleton declared a personal interest as a member of Arun District Council.

15.3 Mr Waight declared a personal interest as a member of the Worthing Borough Council Governance Committee.

15.4 Mr Lea declared a personal interest as a Member of the Mid Sussex District Council Audit Committee. Mr Lea also declared a personal interest in relation to his professional role in IT.

15.5 Mr Hunt declared a personal interest as a member of the Chichester Harbour Conservancy in relation to the Treasury Management Compliance Report.

16. Minutes of the last meeting of the Committee

16.1 Resolved – That the minutes of the meeting of the Committee held on 23 July 2018 be approved as a correct record and that they be signed by the Chairman.

17. Quarterly Review of the Corporate Risk Register

17.1 The Committee considered a report by the Director of Finance, Performance and Procurement (copy appended to the signed minutes).

17.2 Mrs Curry, Executive Director Children, Adults, Families, Health & Education, attended the meeting to talk through specific risks on the risk register.

17.3 Mrs Curry spoke through risk CR55 which referred to work which recognised the peer review recommendations relating to compliance and governance. The 100 day programme had sought to address the issues

and the effectiveness of the programme was currently being reviewed. The momentum from the programme would continue.

17.4 The Committee made comments including those that follow.

- Sought clarity on home closures, the level of notice received, and the proactive work to identify problems. – *Mrs Curry explained that the County Council rarely received notice of a home closure; citing Horncastle House where there had only been 24 hours notice. The County Council monitored homes within its capacity, but it was the Care Quality Commission (CQC) with the ultimate responsibility and access to homes' financial health. Contracts were with individuals, not homes, which ensured that individual needs were met. Individuals had an allocated social worker and an annual review of their contract.*
- Queried what the County Council had done in the case of Horncastle House. – *Mrs Curry reported that officers had stopped sending people there when it was aware of safeguarding concerns. The County Council would work with the CQC to facilitate homes and their registration status. The County Council was operating in the best way possible within its parameters.*

17.5 Mrs Curry spoke through risk CR56 and specially the issues relating to the backlog work for Deprivation of Liberty Safeguards (DoLS). The criteria for DoLS had changed which had raised problems for all authorities. Efforts were being made to streamline the process. Mrs Curry explained that when she joined the County Council in January she asked Internal Audit to look into DoLS. The 100 day programme had included work on DoLS and the move was now to introduce this work into the general day to day work. Staff were being retrained and officers were looking into induction arrangements.

17.6 Ms Eberhart, Director of Finance, Performance and Procurement, introduced the report and highlighted the changes in the risk register following requests made at the previous meeting; with high scoring risks being highlighted. Processes were in place to review financial standards for suppliers, with a report on this going to the Procurement Board.

17.7 Ms Eberhart reported that progress was being made with risk management e-learning and lunch and learn sessions. Dr Dennis reported that he had met with Mr Pake to discuss this and would continue to have meetings every 6 months to ensure this is embedded. It was reported that Mr Pake was happy to meet with committee members individually if they wished.

17.8 The Committee made comments including those that follow.

- Queried the progress of improving risk culture across the County Council. – *Ms Eberhart reported that having a dedicated risk manager had made a big difference as Mr Pake met with officers regularly. The Executive Leadership Team also had a weekly discussion on risk. Mr Pake was working towards ensuring consistency across the authority.*

- Questioned the status for Risk CR53. – *Ms Eberhart explained that the risk ownership change was linked to the Director leaving. Once the re-appointment had taken place the risk would be reallocated.*
- Noted the list of suppliers in Appendix B and queried company 34. – *Ms Eberhart explained that this supplier was linked to children with learning difficulties and there was an issue linked with financing/ hedge fund movements.*

17.9 Resolved – That the Committee notes the information detailed in the report and the current Corporate Risk Register.

18. External Audit

18.1 The Committee considered the Annual Audit Letter from EY (copies appended to the signed minutes).

18.2 Mrs Thompson, (EY) introduced the letter and explained it was a summary of the results of the July report. An unqualified opinion had been given on the financial statements. Mrs Thompson thanked officers for the smooth audit and reported that the work had been completed by the new deadline.

18.3 The Committee made comments including those that follow.

- Queried the work to on the valuation of land and buildings and asked what assets were not being revalued. – *Helen Thompson reported that work on this already being done. Mr Mathers, EY, explained that they had asked officers to use actual valuation to calculate properties, rather than an annual valuation. All assets would be valued within 5 years.*
- Sought clarity on the calculations done for asset valuations. – *Mr Mathers explained that schools' depreciation was considered. Highways assets also considered depreciated costs. This area had been a considerable focus of the audit.*
- Queried the value for money considerations with regard to contracts. It was noted that there was a Task and Finish group looking at the monitoring of contracts, but it was important to ensure that initial contract negotiations were appropriate. – *Ms Eberhart confirmed that action had been picked up and was being discussed by the Performance and Finance Select Committee's Business Planning Group (BPG) later. The Committee requested an update from the BPG on the outcome of the discussion.*
- Raised concerns on the risks for the pension scheme and if accuracy of member records should be listed as a risk. – *Ms Eberhart confirmed that the transition to Hampshire County Council for pension administration had been well discussed with EY. Some of the processes would be improved after the transition was complete. No underlining problems had been identified.*
- Queried the due diligence that had taken place for the pension transfer and sought clarity on the timescales involved. – *Mr Hunt confirmed that the due diligence had been a large part of work for the decision that had been taken. Ms Eberhart reported that the transfer would take place on 4 March and that data reconciliation work was happening every month to identify issues ahead of the*

transfer. Officers were confident of a robust transfer. A communication plan to members would begin this month.

- *Queried the reported pension fund deficit of £704.1m. – Ms Eberhart explained that this figure represented the IAS19 practice and that officers considered the actuarial valuation. Mr Hunt confirmed that there were 3 different valuations; EY's, the actuary's and the government's. Mrs Thompson commented that they could look into how this risk was presented in future reports. Mr Mathers explained that current requirements required reporting to IAS19 requirements.*

18.4 Mr Hunt and Dr Dennis expressed their thanks to Mrs Thompson and her team, and also to County Council officers for their hard work to achieve the new deadline.

18.5 Mrs Thompson, (EY) introduced the 2018-19 fee letters for the West Sussex County Council and the West Sussex Pension Fund. Mrs Thompson reported that the fees were reduced due to an expectation on good working with local authorities. Risks would be coming to the January meeting for discussion.

18.6 The Committee made comments including those that follow.

- *Raised concerns that the reduction in fees could lead to a reduction in time and quality that EY was able to give to the audit. – Mrs Thompson explained that it was a challenge, but gave assurance that EY would not sign a contract if there was concern the audit could not be achieved. Different ways of working could be utilised, such as allocating appropriate work off shore. Mr Mathers explained that if additional work was required, the fee would increase. EY staff held themselves to a high standard and would continue to work with the Committee to give assurance. Mrs Thompson resolved to send a special report from Institute of Chartered Accountants in England and Wales (ICAEW) to the Committee which outlined the expectation gap.*
- *Asked if there was a data risk in moving work off shore. – Mrs Thompson confirmed that only public data could be sent off shore. Reassurance was given that General Data Protection Regulations were complied with.*
- *Queried how long EY were in station for West Sussex. – Mrs Thompson reported that EY had been in station since 2012 and that Public Sector Audit Appointment regulations allowed a maximum of 20 years.*

18.7 Resolved – That the Committee notes the Annual Audit Letter; and the West Sussex County Council and the West Sussex Pension Fund 2018-19 fee letters.

19. Internal Audit Progress Report - October 2018

19.1 The Committee considered a report by the Director of Finance, Performance and Procurement and the Head of Southern Internal Audit Partnership (copy appended to the signed minutes).

19.2 Mr Pitman, Head of Southern Internal Audit Partnership, introduced the report and talked through the live audit reviews. The pension administration review had now been completed.

19.3 Mr Pitman explained that 2 recommendations from the Mazars report had not been accepted for the cyber security. The first was linked to the amount of unsuccessful logins occur before a system is locked out. The Mazars report recommended 3, national cyber guidance recommended 10; the County Council policy was to have 6. Internal Audit were comfortable with 6. The second recommendation was linked to black listing of websites for malware. This recommendation had been refused as current technology ensured more rigor to blacklisting.

19.4 The Committee made comments including those that follow.

- Asked if there were sufficient resources to deliver the plan. – *Mr Pitman confirmed there was appropriate resource and that the Audit Partnership could be utilised to provide additional resilience.*
- Requested an update on the materiality of progress. – *Mr Pitman explained that in quarter 3 the report will be a month old. Mr Pitman expected the work to be scoped as outlined at this point.*
- Sought clarity on the level of overdue actions. – *Mr Pitman explained that some actions may only just be overdue. Mapping the position against other similar authorities showed that West Sussex was in a healthy position.*
- Raised concerns on some of the wording in the policy relating to insufficient access to training. – *Ms Eberhart proposed inviting the relevant Director to a future meeting to discuss.*

19.5 Resolved – That the Committee notes the Internal Audit Progress Report.

20. Annual Governance Statement - Action Plan

20.1 The Committee considered a report by the Director of Finance, Performance and Procurement and the Director of Law and Assurance (copy appended to the signed minutes).

20.2 Mr Gauntlett, Senior Advisor, introduced the report which outlined the actions in place to address issues raised in the Annual Governance Statement 2017-18.

20.3 The Committee made comments including those that follow.

- Queried if there were sufficient resources to deliver the actions outlined. – *Mr Gauntlett confirmed there was sufficient resources and good collaboration with officers to deliver the work.*

20.4 Mr Gauntlett proposed an update for the March meeting on action plan progress.

20.5 Resolved – That the Committee notes the progress against actions arising from the Annual Governance Statement 2017-18 and requests a further update at the March meeting.

21. Staff Induction

21.1 The Committee considered a report by the Director of Human Resources & Organisational Change (copy appended to the signed minutes).

21.2 Ms Hannant, Head of Organisational Development, introduced the report and explained the progress that had taken place since the first report to the Committee in November 2016. Further improvements had been made in April 2017 with Directors being sent 6 monthly reports on incomplete elements. Completion rates had risen from 14% to 44% last year, but had now plateaued at 51%. Officers were proposing a new expectation that online modules should be completed within 1 month of employment, and face to face modules being completed within 3 months.

21.3 The Committee made comments including those that follow.

- Expressed concern at the completion rates and asked how they were monitored. – *Ms Hannant explained that new starter data was sent to managers so they could ensure elements were completed. It was noted that the Library service had a good completion rate and so attempts would be made to mirror this success. A workforce dashboard was used to monitor induction progress and training attendance.*
- Queried the key areas of incomplete inductions. – *Ms Hannant reported that Adult and Children services were large directorates and so had a high number of incomplete inductions.*
- Felt it would be useful to understand if the incompleteness rates had trends related to categories such as pay grades, term appointments, compulsory elements, training elements, etc.
- Queried how different elements were delivered and the difference between manager and director roles. – *Ms Hannant explained that all mandatory elements were reported on and that different services had bespoke elements on top of this. The inductions for managers and directors also had different elements included. Line managers were expected to work with their staff through the induction process and discuss training requirements. New starters could opt to complete some elements before they joined the authority.*
- Asked how outsourced and external employees were monitored. – *Ms Hannant explained that the report only covered County Council employees. External providers would have their own requirements for their staff. Training modules were made available to outsourced and external employees. Ms Eberhart added that this would be part of contractual requirements and resolved to confirm this.*
- Queried if this area had been considered by Internal Audit. – *Mr Pitman reported that there was no specification action on this within the plan, but it could be included in the future if necessary and agreed to discuss this with Human Resources.*
- Asked how long the training should take to complete. – *Ms Hannant reported that the online training should take 6 hours and 1 day of face to face training. Some bespoke roles, such as a lollypop person, contained different corporate elements.*

21.4 Mr Lanzer, Cabinet Member for Corporate Relations welcomed the strong steer from the Committee and agreed there was a corporate risk for incompleteness. Induction progress should be linked with appraisals.

21.5 The Committee requested a report to the March meeting to look at progress.

21.6 The Committee felt that recommendation 4 in the report was not sufficient and proposed an alternative.

That the Committee raises concerns at the lack of completion rates with staff inductions, which it considers a crucial element of corporate governance. An update is requested at the March 2019 meeting which should reflect all points discussed by the Committee to improve staff induction and staff appraisal processes.

21.7 The Committee unanimously agreed to the amended recommendation.

21.8 Resolved – That Committee:

1. Requests that the monitoring of completion rates of mandatory elements continues with escalation and follow-up as appropriate
2. Supports the proposal to set up a working group in Human Resources to tackle the lack of progress in driving completion rates up
3. Approved the change in completion date for on-line elements to first month and all elements by month 3.
4. Raises concerns at the lack of completion rates with staff inductions, which it considers a crucial element of corporate governance. An update is requested at the March 2019 meeting which should reflect all points discussed by the Committee to improve staff induction and staff appraisal processes.
5. Supports the use of staff pulse surveys to measure progress on some of the more behavioural and cultural elements of induction, for example, "I am treated with fairness, respect and am trusted to do my job".

22. Treasury Management Compliance Report - Second Quarter 2018/19

22.1 The Committee considered a report by the Director of Finance, Performance and Procurement (copy appended to the signed minutes).

22.2 Mrs Chuter, Financial Reporting Manager, introduced the report and informed the Committee that there had been no new external borrowing or breaches of strategy.

22.3 The Committee made comments including those that follow.

- Queried the high value of holdings for Northamptonshire County Council. – *Mr Hunt gave assurance that the authority was backed by local government and that future reports would include*

settlement details. Mrs Chuter added that this investment, and Lancashire County Council, were due to be settled soon.

- *Sought clarity on the £48.9m payment of LEP balance. – Mrs Chuter explained that Croydon were taking on responsibility of the LEP holdings following a recent procurement.*


22.4 Resolved – That the report be noted.

23. Date of Next Meeting

23.1 The Committee noted that its next scheduled meeting would be held at 10.30 am on 23 January 2019 at County Hall, Chichester.

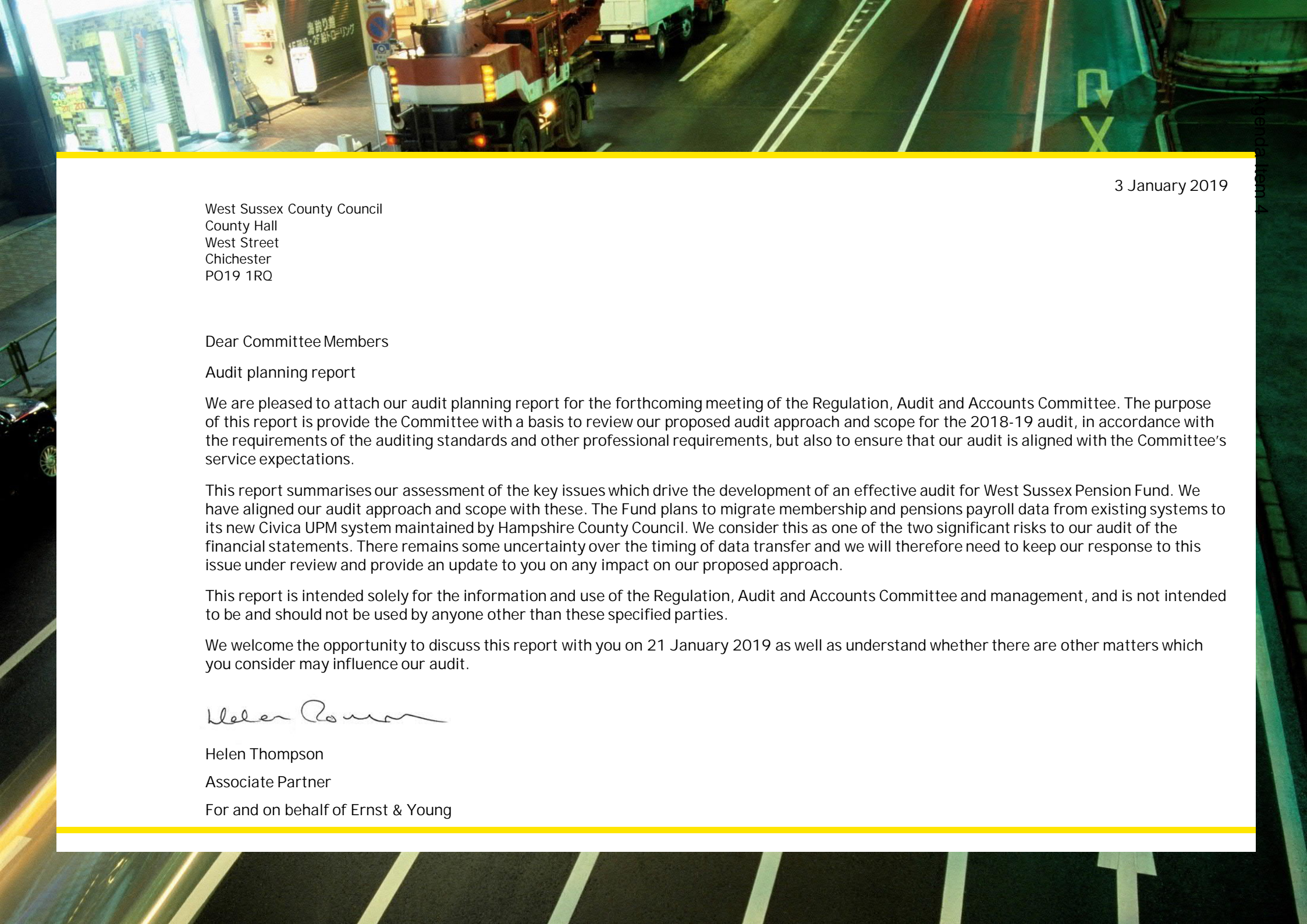
The meeting ended at 1.06 pm

Chairman

A high-angle, close-up photograph of several people's hands and arms gathered around a white table. They are looking at and pointing to various documents and papers spread across the surface. One person in the foreground is wearing a white shirt, another in the middle is wearing a yellow long-sleeved shirt, and a third in the background is also wearing a yellow shirt. A smartphone is visible on the table near the bottom left. The overall scene suggests a collaborative meeting or audit planning session.

West Sussex
Pension Fund
Audit planning report
Year ended 31 March 2019

January 2019



3 January 2019

West Sussex County Council
County Hall
West Street
Chichester
PO19 1RQ

Dear Committee Members

Audit planning report

We are pleased to attach our audit planning report for the forthcoming meeting of the Regulation, Audit and Accounts Committee. The purpose of this report is provide the Committee with a basis to review our proposed audit approach and scope for the 2018-19 audit, in accordance with the requirements of the auditing standards and other professional requirements, but also to ensure that our audit is aligned with the Committee's service expectations.

This report summarises our assessment of the key issues which drive the development of an effective audit for West Sussex Pension Fund. We have aligned our audit approach and scope with these. The Fund plans to migrate membership and pensions payroll data from existing systems to its new Civica UPM system maintained by Hampshire County Council. We consider this as one of the two significant risks to our audit of the financial statements. There remains some uncertainty over the timing of data transfer and we will therefore need to keep our response to this issue under review and provide an update to you on any impact on our proposed approach.

This report is intended solely for the information and use of the Regulation, Audit and Accounts Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 21 January 2019 as well as understand whether there are other matters which you consider may influence our audit.



Helen Thompson
Associate Partner

For and on behalf of Ernst & Young

Contents

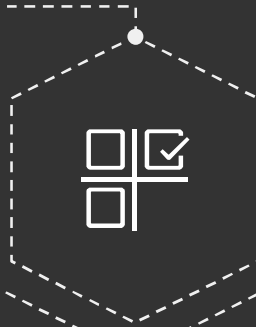
01 Overview of our 2018-19 audit strategy



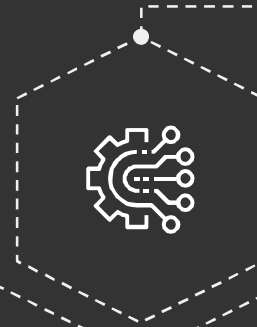
02 Audit risks



03 Audit materiality



04 Scope of our audit



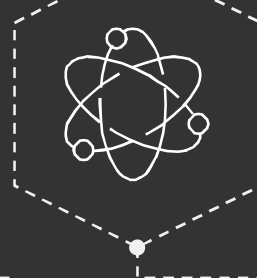
05 Audit team



06 Audit timeline



07 Independence



08 Appendices



In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website (www.PSAA.co.uk). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas. The "Terms of Appointment (April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature. This report is made solely to the Regulation, Audit and Accounts Committee and management of West Sussex Pension Fund in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Regulation, Audit and Accounts Committee, and management of West Sussex Pension Fund those matters we are required to state to them in this 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 Committee and management of West Sussex Pension Fund for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01

Overview of our 2018-19 audit strategy



Overview of our 2018-19 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Regulation, Audit and Accounts Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Risk of manipulation of Investment income and valuation.	Fraud risk.	This risk was also identified in the prior year.	As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively. We have determined that the way in which management could override controls is through the manipulation of the journal entries which record the investment income and changes to investment valuation.
New pensions administration system and transfer of pensions payroll data.	Significant risk.	New risk for 2018/19.	The Fund plans to migrate data from its existing pensions administration system Hartlink maintained by Capita to its new Civica UPM system maintained by Hampshire County Council with a planned go-live date of 4 March 2019. Pensions payroll data currently held in the SAP general ledger will also be migrated to Civica UPM at the same point in time. We have determined that there is a risk that the data will not be completely and accurately migrated.
Valuation of Property Investments	Inherent Risk.	New risk for 2018/19.	We consider the valuation of property investments to be of a higher degree of inherent risk because of the higher degree of estimation uncertainty. Management is required to make material judgemental inputs and apply estimation techniques, supported by a professional valuer, to arrive at the year value of property investments carried in the Net Assets Statement. Although we are now reporting this as a new inherent risk relevant to the 2018/19 audit our audit procedures relating to valuation of Property Investments are not expected to significantly change from the previous period

Overview of our 2018-19 audit strategy

Materiality

Planning materiality
£41.0m

Materiality has been set at £41.043 million which represents 1% of 2017-18 net assets. In the prior year we applied a threshold of 2%, meaning that materiality was set as £82 million. Materiality has been reduced following an internal review process for the use of materiality at Major Local Audits. There are a number of reasons for this decision, and these include:

- Pension funds have a high level of public interest by their nature;
- There are uncertainties in the markets which are expected to continue in this financial year end and beyond. Pension funds are exposed to these uncertainties through their investments;
- Consistency with our audit approach to materiality in the financial services sector.

Performance materiality
£30.8m

Performance materiality has been set at £30.782 million, which represents 75% of materiality.

Audit differences
£2.1m

We will report all uncorrected misstatements relating to the Net Assets Statement and Pension Fund Account over £2.052 million. Other misstatements identified will be communicated to the extent that they merit the attention of the Regulation, Audit and Accounts Committee.



02 Audit risks



Our response to significant risks

We have set out the significant risks identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

<p>Risk of manipulation of investment income and valuation</p>	<p>What is the risk?</p> <p>As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>We identify and respond to this fraud risk on every audit engagement.</p>	<p>What will we do?</p> <p>We will:</p> <ul style="list-style-type: none"> ▶ Test journals at year-end to ensure there are no unexpected or unusual postings; ▶ Undertake a review of reconciliations to the fund manager, custodian and valuer reports and investigating any reconciling differences; ▶ Re-perform the detailed investment note using the reports we have acquired directly from the custodian, valuer or fund managers; ▶ Check the reconciliation of holdings included in the Net Assets Statement back to the source reports; ▶ Review accounting estimates for evidence of management bias, including estimates with a higher level of inherent risk relating to PPE; ▶ Ensure the value applied to each property agrees back to the listing of deeds owned. We will view the deeds of any new properties acquired in the year, and a sample of existing property deeds; and ▶ For quoted investment income we will agree the reconciliation between fund managers and custodians back to the source reports. <p>We will utilise our data analytics capabilities to assist with our work, including journal entry testing. We will assess journal entries for evidence of management bias and evaluate for business rationale.</p>
<p>Financial statement impact</p> <p>We have assessed that the risk of manipulation of investment income and valuation through management override of controls as most likely to affect investment income and assets in the year, specifically through journal postings.</p> <p>Net return on investments: £277,204,000</p> <p>Total net assets of the Fund available: £4,104,276,000</p>		

Our response to significant risks

New pensions administration system and transfer of pensions payroll data

What is the risk?

The Fund plans to migrate data from its existing pensions administration system Hartlink maintained by Capita to its new Civica UPM system maintained by Hampshire County Council during February 2019 with a planned go-live date of 4 March 2019. Pensions payroll data currently held in the SAP general ledger will also be migrated to Civica UPM at the same point in time. A project plan has been established and officers will continue to work through the remainder of the financial year to deliver against this. A final decision on the timing of data transfer is expected by mid-January 2019.

We have determined that there is a risk that the data will not be completely and accurately migrated to the new system. Although this is not likely to result in material misstatement of the 2018/19 financial statements as pensions payroll will only be paid from new systems in the final month of the year, the incomplete or inaccurate transfer of data could have a significant impact in the future and we consider the risk to be qualitatively material on that basis.

What will we do?

We will:

- ▶ Review and test the lump sum, early retirement and transfer (in / out) reconciliations between SAP and Hartlink to February 2019 completed by the Fund to gain assurance over the integrity of data prior to transfer.
- ▶ Review and test the Fund's arrangements to ensure that membership and pensions payroll data are completely and accurately transferred from the SAP general ledger and Hartlink to the Civica UPM system operated by Hampshire County Council.

The migration of data to the new system will require us to consider how we gain assurance over the complete financial year, relying on data from both the old and new systems. To comply with the requirements of International Standards on Auditing (UK) we will also need to document and walkthrough both the old and new pensions administration and pensions payroll systems to gain a complete understanding how relevant transactions are initiated, recorded, processed and reported in the financial statements.

Financial statement impact

There is a risk that if pensions membership data and is not accurately migrated to the Civica UPM system disclosure of membership numbers in the 2018/19 financial statements could be misstated or cannot easily be reconciled back to membership data held on the pensions administration system.

It is also essential that the Fund is able to show pension payroll data is completely migrated from the SAP general ledger to Civica UPM and that the pensions payroll is correctly processed subsequent to the migration.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures.

What is the risk/area of focus?

Valuation of Property Investments

We consider the valuation of property investments to be of a higher degree of inherent risk because of the higher degree of estimation uncertainty. Management is required to make material judgemental inputs and apply estimation techniques, supported by a professional valuer, to arrive at the year value of property investments carried in the Net Assets Statement.

What will we do?

We will:

- Consider the work performed by the Fund's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.
- Challenge the key assumptions used by the valuer.
- Test accounting entries have been correctly processed in the financial statements.



03

Audit materiality



Materiality

Group materiality

For planning purposes, materiality for 2018-19 has been set at £41.0 million. This represents 1% of the net assets for 2017-18. In the prior year we applied a threshold of 2%, meaning that materiality was set as £82.0 million. Materiality has been reduced following an internal review process for the use of materiality at Major Local Audits. There are a number of reasons for this decision, and these include:

- Pension funds have a high level of public interest by their nature;
- There are uncertainties in the markets which are expected to continue in this financial year end and beyond. Pension funds are exposed to these uncertainties through their investments;
- Consistency with our audit approach to materiality in the financial services sector.

It will be reassessed throughout the audit process. For West Sussex Pension Fund, the Net Asset Statement, which discloses the value of the investments held by the scheme, is the most appropriate measure rather than the Fund Account. Assets are key, as they cover the liabilities of the fund and generate significant income. Use of net assets as the measure of materiality is EY standard practice for pension funds.



We request that the Regulation, Audit and Accounts Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

Key definitions

Planning materiality – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £30.8 million which represents 75% of planning materiality. We apply 75% when it is not an initial audit and we have a sound understanding of the entity and past experience with the engagement indicates that a higher risk of misstatement is unlikely.

Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the fund account and the net assets statement that have an effect on returns or that relate to expenditure.

Other uncorrected misstatements, such as reclassifications and misstatements in the statements or disclosures and corrected misstatements will be communicated to the extent that they merit the attention of the Regulation, Audit and Accounts Committee, or are important from a qualitative perspective.



04 Scope of our audit

Our Audit Process and Strategy

Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the Pension Fund financial statements:

Financial statement audit

Our objective is:

- To form an opinion on the financial statements under International Standards on Auditing (UK and Ireland); and
- To form an opinion on the consistency of the pension fund financial statements within the pension fund annual report with the published financial statements of West Sussex County Council.

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- Auditor independence.

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

- Identifying and understanding the key processes and internal controls; and
- Substantive tests of detail of transactions and amounts.

For 2018-19 we plan to follow a substantive approach to the audit, as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics:

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Regulation, Audit and Accounts Committee.

Internal audit:

We will regularly meet with the Head of Internal Audit, and review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where they raise issues that could have an impact on the financial statements.

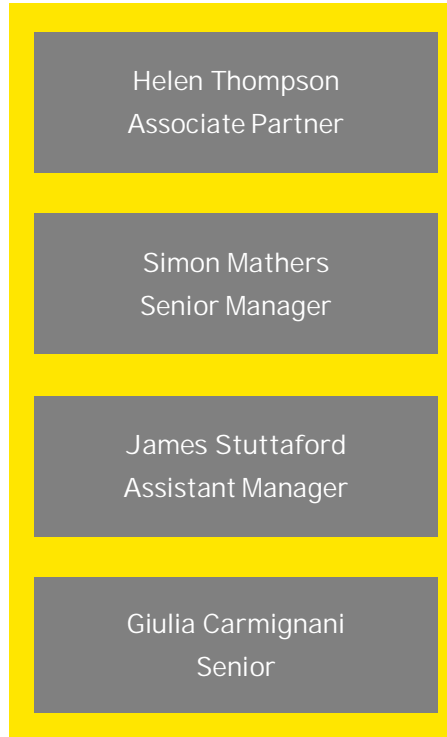
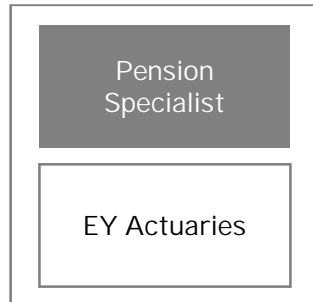


05 Audit team



Audit team

Audit team structure:



Working together with the Pension Fund

We are working together with officers to identify continuing improvements in communication and processes for the 2018-19 audit.

We will continue to keep our audit approach under review to streamline it where possible.

Audit team changes

Key changes to our team.

Giulia Carmignani, Senior

- Giulia takes over from James as the lead senior on the engagement, with James Stuttaford moving to Assistant Manager.
- We have maintained continuity with the 3 most senior personnel on the engagement

Use of specialists

When auditing key judgements, we are often required to use the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where specialists are expected to provide input for the current year audit are:

Area	Specialists
Pension Valuation	Management Specialist - Hymans Robertson EY Specialist - EY actuaries
PPE Valuation	Management Specialist - Savills

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Pension Fund's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- Assess the reasonableness of the assumptions and methods used;
- Consider the appropriateness of the timing of when the specialist carried out the work; and
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements.



06 Audit timeline





Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2018-19.

From time to time matters may arise that require immediate communication with the Regulation, Audit and Accounts Committee and we will discuss them with the Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

Audit phase	Timetable	Regulation, Audit and Accounts Committee Meeting timetable	Deliverables
Planning: Risk assessment and setting of scopes Walkthrough of key systems and processes	November		
	December		
	January	Regulation, Audit and Accounts Committee Meeting	Audit Planning Report
Interim audit testing	February		
Interim audit testing	March	Regulation, Audit and Accounts Committee Meeting	Interim audit update
	April		
	May		
Year end audit Audit Completion procedures	June		
	July	Regulation, Audit and Accounts Committee Meeting	Audit Results Report Audit opinions and completion certificates
	August		Annual Audit Letter



07

Independence



Independence

The FRC Ethical Standard and ISA (UK) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications

Planning stage	Final stage
<ul style="list-style-type: none"> ▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the you, your affiliates and directors and us; ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ▶ The overall assessment of threats and safeguards; ▶ Information about the general policies and process within EY to maintain objectivity and independence. ▶ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard 	<ul style="list-style-type: none"> ▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▶ Details of non-audit services provided and the fees charged in relation thereto; ▶ Written confirmation that the firm is independent; ▶ Written confirmation that all covered persons are independent; ▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy; ▶ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and ▶ An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non-audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Helen Thompson, your audit engagement partner, and the audit engagement team have not been compromised.

Self interest threats

A self interest threat arises when EY has financial or other interests in the Fund. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC's ES or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval. The ratio of non audit fees to audits fees is not permitted to exceed 70%.

At the time of writing, there are no non-audit fees associated with West Sussex Pension Fund. No additional safeguards are required.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

There are no other self interest threats at the date of this report.

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Pension Fund. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

Relationships, services and related threats and safeguards

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.
There are no other threats at the date of this report.

Other communications

EY Transparency Report 2018

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 1 July 2018 and can be found here:

<http://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2018>



08

Appendices



Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government.

PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code.

	Planned fee 2018-19	Final Fee 2017-18
	£	£
Total Fee	25,864**	31,947*
Total audit	25,864	31,947

* Includes an additional fee of £5,500 for IAS 19 assurance work on behalf of admitted bodies which has been approved by Public Sector Audit Appointments Limited (PSAA).

** Includes a proposed additional fee of £5,500 for IAS19 assurance work on behalf of admitted bodies. This remains subject to approval by PSAA. We will also need to charge an additional fee for work required to gain assurance over the transfer of pension membership and payroll data to the Fund's new Civica UPM system. We will seek to quantify and report that additional fee to you when we have a clearer understanding of the full scope of the work required and are certain that the transfer will take place during the year.

All fees exclude VAT

The agreed fee presented is based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ Our accounts opinion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Pension Fund; and
- ▶ The Pension Fund has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed in advance.



Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

Appendix B





Required communications with the Regulation, Audit and Accounts Committee

We have detailed the communications that we must provide to the Regulation, Audit and Accounts Committee.



Our Reporting to you

Required communications	 What is reported?	 When and where
Terms of engagement	Confirmation by the Regulation, Audit and Accounts Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	<p>Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.</p> <p>When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team</p>	Audit Planning Report, 21 January 2019 meeting of the Regulation, Audit and Accounts Committee.
Significant findings from the audit	<ul style="list-style-type: none"> • Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process 	Audit Results Report, 22 July 2019 meeting of the Regulation, Audit and Accounts Committee.

Required communications with the Regulation, Audit and Accounts Committee (continued)

 Our Reporting to you		
Required communications	 What is reported?	  When and where
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: <ul style="list-style-type: none"> • Whether the events or conditions constitute a material uncertainty • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The adequacy of related disclosures in the financial statements 	Audit Results Report, 22 July 2019 meeting of the Regulation, Audit and Accounts Committee.
Misstatements	<ul style="list-style-type: none"> • Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Corrected misstatements that are significant • Material misstatements corrected by management 	Audit Results Report, 22 July 2019 meeting of the Regulation, Audit and Accounts Committee.
Fraud	<ul style="list-style-type: none"> • Enquiries of the Regulation, Audit and Accounts Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • A discussion of any other matters related to fraud 	Audit Results Report, 22 July 2019 meeting of the Regulation, Audit and Accounts Committee.
Related parties	Significant matters arising during the audit in connection with the entity's related parties including, when applicable: <ul style="list-style-type: none"> • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the entity 	Audit Results Report, 22 July 2019 meeting of the Regulation, Audit and Accounts Committee.

Required communications with the Regulation, Audit and Accounts Committee (continued)

Required communications	 What is reported?	 When and where
Independence	<ul style="list-style-type: none"> • Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence • Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: <ul style="list-style-type: none"> • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence 	Audit planning report, 21 January 2019 meeting of the Regulation, Audit and Accounts Committee. Audit Results Report, 22 July 2019 meeting of the Regulation, Audit and Accounts Committee.
External confirmations	<ul style="list-style-type: none"> • Management's refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures 	Audit Results Report, 22 July 2019 meeting of the Regulation, Audit and Accounts Committee.
Consideration of laws and regulations	<ul style="list-style-type: none"> • Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off • Enquiry of the Regulation, Audit and Accounts Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Committee may be aware of 	Audit Results Report, 22 July 2019 meeting of the Regulation, Audit and Accounts Committee.
Internal controls	<ul style="list-style-type: none"> • Significant deficiencies in internal controls identified during the audit 	Audit Results Report, 22 July 2019 meeting of the Regulation, Audit and Accounts Committee.
Representations	<ul style="list-style-type: none"> • Written representations we are requesting from management and/or those charged with governance 	Assurance Letter to be received shortly after year-end.
Material inconsistencies and misstatements	<ul style="list-style-type: none"> • Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	Audit Results Report, 22 July 2019 meeting of the Regulation, Audit and Accounts Committee.
Auditors report	<ul style="list-style-type: none"> • Key audit matters that we will include in our auditor's report • Any circumstances identified that affect the form and content of our auditor's report 	Audit Results Report, 22 July 2019 meeting of the Regulation, Audit and Accounts Committee.

Additional audit information

Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

Our responsibilities required by auditing standards

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluding on the appropriateness of management's use of the going concern basis of accounting.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Fund to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, including the board's statement that the annual report is fair, balanced and understandable, the Regulation, Audit and Accounts Committee reporting appropriately addresses matters communicated by us to the Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and
- Maintaining auditor independence.

Additional audit information (continued)

Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines:

- The locations at which we conduct audit procedures to support the opinion given on the financial statements; and
- The level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

This page is intentionally left blank

Regulation, Audit and Accounts Committee

21 January 2019

Quarterly Review of the Corporate Risk Register

Report by Director of Finance, Performance and Procurement

Executive Summary

This Committee has responsibility for oversight of the Council's risk management arrangements.

Several risks have been removed from the corporate risk register and de-escalated to directorate risk registers. In addition, the risk severity surrounding fair funding has been increased due to a re-evaluation of the possible impacts. Risk will continue to be considered and discussed as part of a performance review by ELT; with an additional risk report capturing risks with a severity above the tolerance threshold, submitted monthly to Cabinet.

The risk management eLearning course is now complete and will be launched on 1 February 2019. Risk management Lunch 'n' Learn sessions continue to be delivered and have been supported well and receiving positive feedback. These events will run until October 2019; however it is anticipated that they will remain on the risk management course programme as an introductory course once the foundation course has launched.

Recommendations

The Committee is asked to review the information detailed in the report, the current Corporate Risk Register and provide comment as necessary.

1. Introduction

1.1 The Committee has responsibility 'to monitor the effective development and operation of risk management in the County Council'. That role, together with a description of the Council's approach to risk management, is set out in the Constitution at Part 4 Section 4. It covers the allocation of responsibilities, including the quarterly review of risk management activity.

2. Background and Context

2.1 At the November 2018 meeting this committee reviewed the corporate risk register and risk management processes. The committee were presented with a contractor profit warning report; with significant changes highlighted. The committee were also informed of amendments to the County Council Risk Management Strategy, and the current status of risk training and education.

2.2 During the preceding quarter there have been the following changes to the corporate risk register.

- Corporate risk #14 – Lack of capacity or competition in the care market
 - De-escalated from corporate risk register to DASS directorate risk register
- Corporate risk #18 – Limited cost consciousness in social care
 - De-escalated from corporate risk register to DASS directorate risk register
- Corporate risk #42 – IT infrastructure
 - De-escalated from corporate risk register to FPP directorate risk register
- Corporate risk #53 – Asset management
 - De-escalated from corporate risk register to FM risk register
- Corporate risk #22 – Lower level of funding
 - Current severity increased to 20

2.3 Since the last committee meeting the corporate risk register has been reviewed once by the Executive Leadership Team. A risk report has been included within the performance pack highlighting the mitigating actions that have been completed, current and target risk exposure by severity, and their progress; and risk subjects for consideration. In addition, a report highlighting risks with a severity greater than 15 and their controls has also been submitted to Cabinet. Both reports are reviewed monthly by ELT. The risks on the corporate risk register with a severity graded above 15 (above tolerance threshold) are as follows:

Risk No	Risk	Score
CR56	LGA Peer Review of Adults' Services	25
CR57	Backlog of Deprivation of Liberty Safeguards (DoLS) assessments	25
CR58	Failure of social care provisions	25
CR39a	Cyber-security	20
CR14	Fair funding	20
CR22	Lower level of funding	20
CR1	Brexit	16
CR11	Recruit and retain staff	16
CR36	Third party suppliers failure to ensure that contractors perform or operate safely, or to ensure compliance with contract terms and prices	16
CR42	Ageing IT infrastructure	16
CR50	Insufficient health & safety governance	16
CR54	Child safeguarding failure	16
CR55	Adult safeguarding failure	15

2.4 The directorate risk registers have been reviewed at least monthly by each Director and their management team, with support from the Corporate Risk Manager where required. The Corporate Risk Manager has continued to engage monthly with Corporate Leadership Team members to discuss owned corporate risks, and quarterly to provide assurance on directorate risks and governance.

2.5 The risk management eLearning course is now complete and will be included on the staff induction and annual refresher packages once user testing has taken place. The launch date of the course is 1 February 2019 and it will be reviewed every 6 months to ensure it remains fit for purpose. Risk management Lunch 'n' Learn sessions continue to be delivered and are receiving positive feedback. Scheduled to run until October 2019, they will remain on the risk management course programme as an introduction to risk management once the foundation course is launched.

2.6 The quality and currency of information contained in the corporate and directorate risk registers will continue to be reviewed and updated. Ensuring risk owners identify specific action owners and completion dates is encouraging risk discussion, awareness and ownership; providing assurance of proactive management of risk.

2.7 Activities the Corporate Risk Manager is going to carry out/continue with this quarter, to ensure continuous improvement and alignment with best practice.

- Continue to attend the Sussex Resilience Forum Risk Group to maintain visibility on National Risks that may impact the County Council and require inclusion on Corporate Risk Register
- Attend the South East Risk Managers Group to share best practice of risk management in the public sector across various local authorities
- Attend appropriate seminars held by professional bodies e.g. Alarm
- Support projects and programmes to provide assurance and support on robust governance
- Engage and support service managers and their teams on capturing and communicating risk
- The Risk Management Strategy is due to be reviewed by the committee in March. Prior to this, the strategy will be updated to indicate the changes in/developments to the Councils risk management approach. In addition, Internal Audit are due to conduct an audit review of risk management and the Risk Management Strategy; with the report expected before the next committee meeting. Once this has been received, plans will be produced to reflect any recommendations/observations and further updates to the strategy carried out, if applicable.

2.8 The committee is asked to consider the Corporate Risk Register and future actions and provide comment as necessary.

3. Equality Impact Report

3.1 An Equality Impact Report is not required for this decision as it is a report dealing with internal and procedural matters only, although the Council's responsibilities in relation to the public sector equality duty will be one element of the approach to risk management.

4. Resource Implications and Value for Money

4.1 At this stage, there will be no additional resources required to facilitate the embedding of risk and future actions as current support within the organisation is sufficient. The Corporate Risk Manager is conducting risk workshops in existing management meetings, and delivering risk training sessions during lunch periods to mitigate resource and scheduling conflicts.

5. Risk Management Implications

5.1 The subject of the report is the CRR. It would be contrary to the interests of the Council not to ensure that its risk management processes and registers were not aligned to Risk Management Strategy.

6. Crime and Disorder Act Implications

6.1 None.

7. Human Rights Act Implications

7.1 None.

Katharine Eberhart

Director of Finance, Performance and Procurement

Contact: Katharine Eberhart, 033 022 22087

Appendices

Appendix A - Corporate Risk Register

Background Papers

None

Risk No	Risk Category	Risk Description	Risk Owner	Risk Impact	Date Risk Raised	Initial Risk			Risk Strategy	Target Risk			Risk Control/Action	Action Owner	Action Target Date	Risk Update	Current Risk			Next Risk Review Date
						Impact	Likelihood	Score		Impact	Likelihood	Score					Impact	Likelihood	Score	
CR1	Political	As a result off Brexit there may be changes to laws and policies that may impact WSCC and partners (i.e. employment law).	Nathan Elvery	1. Uncertainty on staff available to deliver council services i.e. care workers. 2. Uncertainty on local businesses. 3. Impact of growth projections.	Nov-17	4	4	16	Tolerate	4	4	16	Brexit implications across all current corporate risks is being carried out			Gather data to inform impact of negotiations; liaise with network to share information; work with businesses to show ongoing commitment. Background activity by directorates to collate and determine data that can be used for analysis once Brexit is fully understood. Risk to be re-assessed 6 monthly or in the event of significant Brexit statements.	4	4	16	Apr-19
CR7	Governance	There is a culture of non-compliance and lack of standardisation in some systems and processes . Levels of familiarity with, and use of, corporate requirements for sound decisions and meeting legal obligations needs to improve.	Tony Kershaw	1. Invalid decisions. 2. Fraud error. 3. Poor VFM. 4. Compliant and claims. 5. Censure by audit inspection.	Mar-17	4	4	16	Treat	3	2	6	Module on governance embedded in corporate training and the induction programme. Data on areas of non-compliance used to inform Directors to enforce compliance with standards. Guidance for specific procedures to be created. Regular compliance monitoring and active corporate support when non-compliance happens to establish better practice. Audit plan focussing reviews on key corporate support systems to identify key areas in need of improvement.	Head of Democratic Services Tony Kershaw Tony Kershaw Head of Democratic Services Head of Audit	Mar-18 Dec-18 Dec-18 Ongoing Ongoing	Completed. Included in Annual Governance Review. Partially completed. Partially completed. Discussed as part of Audit planning. Review of information generated. TK to engage audit to determine output	4	3	12	Dec-18
CR11	Managerial/ Professional	Due to skills shortages in several disciplines and areas (internally and externally), the Council is unable to recruit suitable staff into vacant positions; and may encounter problems with retaining experienced existing staff.	Heather Daley	1. Over-reliance on interim and agency staff. 2. Lack of corporate memory. 3. Inadequate pace/speed of delivery. 4. Low staff morale and performance.	Mar-17	4	5	20	Treat	4	3	12	Identification of hard to fill posts and reasons. Review the policy and provisions for recruiting and retaining hard to fill posts. Simplifying processes for recruiting and engaging with potential applicants for hard to fill posts. Application of policy and provisions for various hard to fill posts Longer term strategies for addressing recruitment issues e.g. apprenticeships.	Lindsey Hannant Lindsey Hannant Lindsey Hannant Jamie McGarry Lindsey Hannant	Apr-19 Apr-19 Ongoing Ongoing	In progress. Reviewing resettlement policy; going to ELT July 18. Presented to ELT. Repayment terms in development. Completed In progress. Due to got to IT Governance Board in Dec 18 Developing 3 year plans. LGA consultancy engaged with; recommendations received. Marketing and awareness.	4	4	16	Jan-19
CR22	Reputational	Due to WSCC having a large council tax base and low deprivation levels, there is risk that the will receive a lower level of funding from Central Government.	Nathan Elvery	1. Insufficient funding to deliver services.	Mar-17	4	4	16	Tolerate	4	3	12	To continue to lobby government groups to influence funding decisions	Nathan Elvery	Ongoing		5	4	20	Mar-19
CR24	Economic	The Council's funding is reliant on the national and local economy for national and local funding. Changes in government policy may adversely impact the costs of providing Council services. Due to an economic downturn, there is a risk that the Council will come under increasing budget pressure which may negatively impact on the provision of services.	Katharine Eberhart	1. Adverse effect on reserves/balanced budget. 2. Reputational impact through reduction of service quality 3. Increased liability of service delivery, transferred by external partners due to funding restrictions i.e. supporting homelessness 4. Additional unexpected service and cost pressures from savings decisions.	Mar-17	4	4	16	Treat	3	3	9	Influence development of funding initiatives through Treasurers working groups. Involvement in influencing groups such as county council networks. Interaction with MPs. Respond to consultations. Ensure sufficient budget provision to deal with uncertainty.	Katharine Eberhart Katharine Eberhart Katharine Eberhart Katharine Eberhart Katharine Eberhart	Ongoing Ongoing Ongoing Ongoing Feb-19	Delivery of Growth Deals with D and Bs to help support built environment. Business Rate Pools maximises available rates income support.	3	4	12	Feb-19

CR36	Partnership/ Contractual/ Supplier	Due to the large number of contractors employed by the Council and potential instability, there is a risk that inconsistent contract governance and monitoring may lead to a failure of service	Katharine Eberhart	1. Failure to make planned improvements.	Mar-17	4	4	16	Treat	3	3	9	Create a central contracting unit to quality control contracting activities and support contract management in directorates.	Katharine Eberhart	Jan-19	Contract management service is underway. Contract monitoring will commence in Q3 (end-Dec 18)	4	4	16	Jan-19
				2. Off contract spend.									Continuous monitoring of financial stability of contractors/supply chain	Katharine Eberhart	Ongoing					
CR39a	Technological	Cyber-security. The Council has a wealth of personal and confidential data that needs to be protected from corruption or loss as a result of deliberate and targeted malicious activity (e.g. virus, ransomware etc.). Similarly, the Council's on-line services are increasingly critical to service users and to the Council workforce, these need to be protected from service disruption through malicious technological attack (e.g. DDOS). There is a risk that Information is manipulated in such a way that it can no longer be accessed; or data is deleted, corrupted or stolen; or the Council is subject to a cyber-attack resulting in loss of technology-based digital services.	Katharine Eberhart	1. The Council suffers significant financial loss or cost.	Mar-17	4	5	20	Treat	4	4	16	Improve staff awareness of personal & business information security practices & identification of cyber-security issues. Continued actions due to evolving threats.	Roland Mezulis / Caroline Pegg	Ongoing	Role specific training to be delivered to childrens services due to analysis of breach data recieved. Regular communications are being distributed to all members of staff. Requested to include as annual refresher (complete) . Request made for interim course to communicate essential/key information as soon as possible. (Complete)	4	5	20	Jan-19
				2. The Council's reputation is damaged.									Improve risk assessments of data stores, both local and cloud-based, during procurement and deployment. DPIA template created and used for all data protection activities.	Roland Mezulis / Caroline Pegg	Dec-18	As part of new data privacy impact assessments. Privacy Impact Policy currently being drafted (including guidance) Complete Jan 19				
				3. Resident's trust in the Council is undermined.									Conduct tests including penetration, DR and social engineering.	Roland Mezulis	Ongoing	Next DR test due Nov 19. Nov 18 DR test complete, lessons learned collated and actions to be confirmed				
				4. Partners will not share data or information with the Council.									Ensure that cyber-attack is identified early, that reporting & monitoring is effective, and recovery can be prompt.	Roland Mezulis	Ongoing	New Information Security Breach reporting system in place.				
				5. Punitive penalties are made on the Council.									Provide capacity & capability to align with National Cyber-Security centre recommendations.	Roland Mezulis	Ongoing	Maintain watching brief for updated guidance notes. WSCC has formally joined SE Warning Advice and Reporting Point (WARF)				
													Subscribe to early warning and intelligence sharing arrangements.	Roland Mezulis	Ongoing	WSCC has formally joined SE Warning Advice and Reporting Point (WARF)				
													Adopt ISO27001 (Information Security Management) aligned process & practices.	Roland Mezulis	Ongoing					
													Maintain IG Toolkit (NHS) & Public Service Network security accreditations.	Roland Mezulis	Ongoing	Joint submission to NHS Digital in the 2019 assessment by the Data Protection Team; to cover ensure IGTK incorporates Information Security, along with Information Governance. Renew PSN accreditation by Mar 19.				

CR39b	Governance	New data protection legislation now in force which imposes additional obligation on the council. The Council is a Data Controller and has obligations and responsibilities arising from that role. Council needs resources, skills, knowledge, systems and procedures to ensure obligations are met.	Tony Kershaw	1. Individuals or groups come to harm.	Mar-17	4	5	20	Treat	3	3	9	Improve staff awareness of personal & business information security practices.	Tony Kershaw	Sep-18	Completed.	4	3	12	Dec-18
				2. The Council's reputation is damaged.									Ensure that access to sensitive data and information is controlled.	Tony Kershaw	Ongoing					
				3. Resident's trust in the Council is undermined.									Ensure that data is appropriately mapped and classified.	Tony Kershaw	Sep-18	Completed.				
				4. Partners will not share data or information with the Council.									Develop & support effective information governance across the Council.	Tony Kershaw	Sep-18	Completed.				
				5. Punitive penalties are made on the Council.									Provide capacity & capability to align with GDPR requirements.	Tony Kershaw	Sep-18	Completed.				
													Adopt ISO27001 (Information Security Management) aligned process & practices.	Roland Mezulis	Dec-18					
													Maintain IG Toolkit (NHS) & Public Service Network security accreditations.	Roland Mezulis	Ongoing	Joint submission to NHS Digital in the 2019 assessment by the Data Protection Team; to cover ensure IGTK incorporates Information Security, along with Information Governance. Renew PSN accreditation by Mar 19.				
													Undertake Data Privacy Impact Assessments (DPIA) when systems or processes change.	Tony Kershaw	Ongoing	Processes settled. Most impact assessments completed				
													Carry out actions resulting from completed or planned Data Privacy Impact Assessments (DPIA)	Tony Kershaw	Ongoing					
													Enable safe data sharing, including using appropriate data standards & appropriate anonymization techniques.	Roland Mezulis / Caroline Pegg	Ongoing	As part of GDPR reviews of existing arrangements.				
	Ensure mandatory training is undertaken and updated for annual refresher.	Tony Kershaw	Ongoing	Processes settled. Training content has been designed																
CR50	Governance	Insufficient health & safety governance and training across the organisation and in relation to outsourced providers or via traded services eg schools, coupled with a lack of accountability by directorate; may lead to a serious health & safety incident occurring and/or not being reported.	Heather Daley	1. People come to harm.	Mar-17	4	5	20	Treat	4	3	12	Revise the governance structure and terms of reference for H&S.	Amanda Rablin	Jul-18	Completed. H&S and Wellbeing framework agreed and in place, with representative committee meetings and governance boards taking place 6 monthly.	4	4	16	Oct-18
				2. Complaints/claims/litigation.									Conduct a training needs analysis, produce gap analysis to understand requirements and produce suitable courses as a consequence.	Amanda Rablin/ Lindsey Hannant	Ongoing	Fire Warden training and H&S Elearning to be included in annual refresher training from 1 Feb 19. TNA produced with suite of courses identified. LNA spreadsheets being created by L&D and H&S Manager.				
				3. Increased costs.									Implementation of wellbeing interventions identified within People Strategy.	Colin Chadwick	Apr-20	Appraisal form redesigned to include wellbeing. Timewise diagnostic undertaken.				
				4. Censure by audit/inspection/intervention by statutory agencies.									Incorporate HS&W information into current performance dashboard.	Amanda Rablin/ Colin Chadwick		Dashboard to capture details on sickness, absence and H&S.				
				5. Adverse publicity.									Invite peer review from other LGA to share best practice (critical friend).	Heather Daley	Oct-18	Completed. Review and report completed. Meeting between WSCC CEO, Dir HROC and Kent CC to discuss report and review current service delivery model				
				6. Reputation damage.									Review internal audit report and reporting mechanism.	Amanda Rablin	Apr-19	Review completed and outcomes to be identified. Outcomes feeding into training action/control. Draft IA report signed off by CEO. Final IA report to be completed and issued by IA. H&S Policy to be reviewed and approved.				
				7. Adverse effect on morale.									Health and Wellbeing needs assessment	Amanda Rablin/ Dan Barrett/ Kate Bailey	Apr-19					
				8. Stress and absenteeism.																

CR54	Physical	A child safeguarding failure occurs due to a child dying or being seriously injured as a result of abuse and neglect. The child will be currently or recently known to childrens social care or IPEH (Integrated Prevention and Earliest Help).	Annie Maclver Andrew Fraser/ Ellie Evans	1. People come to harm.	Mar-17	5	4	20	Treat	4	3	12	S11 audits completed in timely fashion.	Annie Maclver	Ongoing	To be dealt with under CR11; LH to capture hard to fill posts through organisational wide engagement	4	4	16	Oct-18
				2. Complaints/claims/litigation.									Recruit and retain sufficient number of qualified social workers	Annie Maclver	Ongoing					
				3. Increased costs.									Manageable case loads	Annie Maclver	Ongoing					
				4. Censure by audit/inspection.									Front line family workers receive safeguarding training at level 3 or 4 as appropriate.	Annie Maclver	Ongoing					
				5. Adverse publicity.									Campaign material available advising public about how to make a referral.	Annie Maclver	Ongoing					
				6. Reputation damage.									Enhance risk knowledge and capability of Practice Managers to equip them to undertake their role effectively	Annie Maclver	Ongoing					
				7. Adverse effect on the Council's partners and providers.																
				8. Adverse effect on morale.																
				9. Stress and absenteeism.																
				10. Political turmoil.																
CR55	Physical	Due to a lack of compliance to The Care Act 2014 and local authority directives, an adult safeguarding failure occurs.	Kim Curry	1. Potential that people will come to harm as a result of safeguarding issues not being addressed quickly and comprehensively.	Mar-17	5	4	20	Treat	5	2	10	As part of the response to the Adults' Services Peer Review an improvement programme is being developed, of which a major project will be a review of Safeguarding. Specific actions and activity will need to be scoped following ASCIB on 12/6/18.	Dave Sargeant	Jun-18	Complete. The 100 day programme addressed the most serious issues identified by the review. It has focused on the immediate areas of concern.	5	3	15	Jan-19
				2. Potential for legal challenge to WSCC for failure to comply with statutory obligations.									The new independent chair of the Safeguarding Adults Board is undertaking a review of its processes and governance.	Dave Sargeant	Jan-19	The Interim Head of Safeguarding is working with the Independent Chair to help strengthen WS SAB governance arrangements. A new SAB quality assurance framework has been drafted and a meeting with the statutory partners is planned to agree the priorities				
				3. Reputational damage to the Council for failure or manage safeguarding issues in a timely and comprehensive manner.									Sussex Health Care risks are being managed via a separate mechanism and being reviewed monthly at strategic oversight meeting. CR58	Kim Curry	Ongoing	Closure of Horncastle House 14th September, Threat of JR by SHC, Contingency plans in place for 2 homes.				
				4. Potential financial impact for the Council as a result of any legal action.									Ensure the sustainability and momentum of 100 day plan is continued	Dave Sargeant	Ongoing					
				5. Censure by inspectors for failure to tackle issues identified as a result of peer review exercise.																

CR56	Managerial/ Professional	The LGA Peer Review of Adults' Services in May 2018, highlighted a number of areas for improvement required within provision of Adults Social Care. These included: long waiting lists across a number of services; lack of understanding of and work aligned to the Care Act 2016; working in a non-evidenced base manner; lack of genuine partnership working to address system wide issues; little evidence that Making Safeguarding Personal has been understood or implemented; and issues regarding use of Mosaic.	Kim Curry	1. People are not assessed in a timely way and so their needs increase, reducing quality of life for the individual and incurring increased costs for the Council.	May-18	5	5	25	Treat	3	3	9	Develop and implement a 100 Day Action Plan to tackle the most serious issues raised within the review, including waiting lists.	Dave Sargeant	Sep-18	Complete. The 100 day programme addressed the most serious issues identified by the review. It has focused on the immediate areas of concern.	5	5	25	Jan-19
				2. People are not assessed based on their strengths leading to decompensation and costlier interventions.									Develop and implement a longer term strategy for continued improvement including co-design and co-production with partners.	Dave Sargeant	Dec-18	The Directorate is developing an inclusive three year plan that will ensure that AS policy and practice is fully Care Act compliant. The plan will inform future phases of the 100 day programme				
				3. The MOSAIC system leads practice and generates artificial service boundaries.									Continue to work to develop Mosaic to be more practise lead and supportive.	Dave Sargeant	Mar-19	The 100 day programme has initiated a process of system refinement and staff practice and training that has (and continues to) address MOSAIC design and staff knowledge				
				4. Partners, including the VCS, are not able to work with the Council in the best way to address need and help slow the demand for higher cost interventions.									Continue to work to develop through ASCIB a data suite that highlights performance and areas of concern.	Dave Sargeant	Dec-18	The 100 day programme has introduced a suite of reports that enable managers and staff to understand and react to performance needs. This includes the Safe indicators for ASCIB and the supporting Leadership Team information pack. It also has developed a dash board report for localised social care team leaders				
				5. There is potential that future safeguarding issues may arise through lack of appropriate management at an early stage.									Regularly review the learning from the Peer Review to ensure that progress is being made.	Dave Sargeant	Ongoing	The review process will be managed via the leadership team using the new performance tools. The introduction of a new staff performance management system for staff will further support this initiative.				

CR57	Managerial/ Professional	There is a significant backlog of Deprivation of Liberty Safeguards (DoLS) assessments , both those received in paper format and in community teams, the latter can't be quantified due to lack of monitoring data.	Kim Curry	1. Customers may be being deprived of their liberty for reasons that are not in their best interests leaving the Council open to potential challenge.	May-18	5	5	25	Treat	3	3	9	Work with Audit to develop a clear action plan of key issues and mitigations to be introduced as a matter of urgency.	Dave Sargeant	Jul-18	Complete. The 100 day project has identified clarity on the current position of Dols assessments that are outstanding and an action plan has been developed and activated. This action plan is now embedded in the Service Improvement Plan and a comprehensive series of actions with time lines is in place.	5	5	25	Jan-19
				2. Customers may need additional restrictions put in place to ensure their safety but these are not being processed in a timely way leaving the Council open to potential challenge.									Communicate to all SW Teams the imperative to resolve these issues with appropriately trained staff and the need to ensure that recording is undertaken effectively, supported with training materials where required.	Dave Sargeant	Dec-18	Existing qualified BIAs employed by WSCC are now being required to contribute to the BIA rota, thus increasing the number of assessments carried out and contributing to a reducing back log.				
				3. The Councils performance in this area is reportable so could leave the Council open to reputational risk if the backlog is not reduced significantly.									Establish a working group to oversee the rectification of the issue with clearly defined targets, scope and authority.	Dave Sargeant	Jul-18	Complete. The Dols working group is established and meets regularly. A comprehensive action and workforce plan is being completed and a managed service commissioned to deal with and significantly reduce the back log of assessments.				
				4. Best Interest Assessor training and individuals with those skills are not being directed to tackle the backlog meaning that training resource is not being utilised effectively.									Report progress back via separate workstream of ASCIB Governance.	Dave Sargeant	Ongoing	A comprehensive workforce plan will inform a subsequent training plan and BIA training will be commissioned and delivered to appropriate staff and managers to significantly increase capacity				
				5. Staff morale in teams with significant backlogs will decline.																
CR58	Social	If there were to be a failure of social care provisions there is a risk that both WSCC funded residents and self-funding residents are not being properly cared for; which may result in death or injury to individuals and significant reputational harm to the council.	Kim Curry	1. People are not safe and the council are not able to assure itself of its statutory safeguarding duty.	Sep-18	5	5	25	Treat	3	3	9	Ensure the consistent implementation of provider failure protocol.	Dave Sargeant			5	5	25	Jan-19
				2. Potential that people will come to harm.									Ensure engagement with RET for support and assistance with control in the event of an incident	Dave Sargeant						
				3. People apply for CQC legal action against SHC which could lead to establishment closure at short notice.									Post incident, ensure a full debrief and lessons learned is carried out.	Dave Sargeant		Existing process in place with RET.				
				4. Public perception that the council are willing to accept poor standards of care.									Ensure staff are aware of and are confident in applying provider failure protocol, and ensure they are aware of and compliant with their roles and responsibilities.	Dave Sargeant						

Regulation, Audit and Accounts Committee

21 January 2019

Treasury Management Compliance Report – Third Quarter 2018/19

Report by Director of Finance, Performance and Procurement

Executive Summary

In accordance with treasury management governance arrangements, this report details compliance against planned parameters as approved within the annual Treasury Management Strategy Statement (TMSS).

During the third quarter of 2018/19 the Council complied with all of the relevant statutory and regulatory requirements related to its treasury management activities. The Director of Finance, Performance and Procurement confirms that there were no breaches of the approved TMSS (including the Annual Investment Strategy) during the period.

Recommendation

That the report be noted.

1. Introduction

1.1 The Council has substantial amounts of investments and borrowings and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice for Treasury Management recommends that members are regularly updated on treasury management activity; this report therefore ensures the Council is implementing best practice in accordance with the Code.

2. Compliance Report

2.1 Throughout the third quarter of 2018/19 the Council complied with the relevant statutory and regulatory requirements which require officers to identify and where possible quantify the levels of risk associated with its treasury management activities. Additionally there were no changes to the Council's approved 2018/19 lending list as a result of credit updates; including rating information published by Fitch, Moody's and Standard & Poor's, credit default swap/equity price trends and general media alerts.

2.2 Borrowing Strategy: The Director of Finance, Performance and Procurement confirms that there were no breaches of the Council's Prudential Indicators approved in connection with its capital programme and borrowing activities (in accordance with CIPFA's "Prudential Code"). At 31 December 2018 the Council's Public Works Loan Board (PWLB) borrowing totalled £388.9m (£392.4m at 30 September 2018). During the third quarter:

- There was no new external borrowing for capital purposes (an internal borrowing strategy was maintained throughout the period).
- £3.5m (plus interest) was repaid to the PWLB as per the terms and conditions of the £70m borrowing taken during April 2011.
- No external debt rescheduling was undertaken during the period.
- Excluding money held on behalf of the Chichester Harbour Conservancy (and its associated charities) no other short-term borrowing was undertaken for cash flow purposes. All daily cash flow shortages were funded by withdrawals from the Council’s instant access accounts (including short-term Money Market Funds).

2.3 Investment Strategy: The average level of Council funds available for treasury investment during 2018/19 (to-date) was £291.4m; actual levels of investments amounted to £206.1m at 31 December 2018 (£266.8m as at 30 September 2018). The decrease in the investment portfolio during the third quarter is mainly a consequence of the Council paying-over the Local Enterprise Partnership balance held (£48.9m) to the new accountable body (Croydon Council) on 9 November 2018.

2.4 UK banking legislation places the burden of rescuing failing banks disproportionately onto unsecured creditors (including local authority investors) through the potential bail-in of unsecured bank deposits. The use of unsecured bank deposits and short-term Money Market Funds however remains an integral part of the Council’s investment strategy in maintaining adequate cash-flow liquidity as well as enhancing short-term investment returns. As a consequence, the disposition of bank unsecured/other investments at 31 December 2018 as compared with 30 September 2018, is detailed below:

Investment Type	30-Sept-18		31-Dec-18	
	£m	%	£m	%
Bank & Building Society Unsecured	99.7	37.4	69.7	33.8
Money Market Funds	52.5	19.7	23.2	11.3
Total Bank Unsecured	152.2	57.1	92.9	45.1
Bank Secured (greater than 1 year)	7.9	3.0	7.9	3.8
Non-Bank (less than 1 year)	46.5	17.4	30.0	14.6
Non-Bank (greater than 1 year)	26.2	9.8	26.2	12.7
Internally Managed Investments	232.8	87.3	157.0	76.2
Externally Managed - Bond Funds (i)	10.0	3.7	10.1	4.9
Externally Managed - Multi Asset Funds	0.0	0.0	14.8	7.2
Externally Managed - Property Funds	24.0	9.0	24.2	11.7
TOTAL INVESTMENTS	266.8	100.0	206.1	100.0

(i) *Ultra-Short Dated Bond Funds (Enhanced Cash)*

2.5 The full breakdown of the Council’s investment portfolio at 31 December 2018 is shown in **Appendix A**.

- 2.6 In demonstrating compliance with the Council's creditworthiness policy (as contained within the approved 2018/19 "Annual Investment Strategy") the movement in the Council's investment portfolio (actual cash position) by the credit rating of the financial institution, or the credit rating of the specific investment (for example covered bonds) if higher than the individual counterparty rating, is shown below:

Institution / Investment Credit Rating	2017/18	2018/19			
	31.03.18 £'m	30-Jun £'m	30-Sep £'m	31-Dec £'m	31-Mar £'m
AAA (i)	57.1	86.7	60.4	31.1	
AA	0.0	0.0	0.0	0.0	
AA- (ii)	118.7	137.9	123.0	96.0	
A+	8.5	14.7	14.7	14.7	
A	44.7	55.0	30.0	15.0	
A-	0.0	4.5	4.5	0.0	
BBB+	0.0	0.0	0.0	0.0	
UK Municipal Bond Agency	0.2	0.2	0.2	0.2	
INTERNALLY MANAGED	229.2	299.0	232.8	157.0	
Externally Managed Funds	24.7	34.7	34.0	49.1	
TOTAL INVESTMENTS	253.9	333.7	266.8	206.1	

(i) Includes short-term Money Market Funds and Covered Bonds.

(ii) Includes all non-rated UK local authorities (assumed AA- rating).

- 2.7 Included within "Externally Managed Funds" (as reported above) the Council purchased units in the Fidelity and Investec multi-asset income pooled investment funds during the third quarter of 2018/19 (£7.5m per fund). Both long-term investments were approved by the Director of Finance, Performance and Procurement in accordance with the 2018/19 Treasury Management Strategy.
- 2.8 Furthermore, the Director of Finance, Performance and Procurement confirms that during the third quarter there were no breaches of the following additional exposure limits as approved within the 2018/19 Annual Investment Strategy, including:
- Up to a maximum of £90m (£30m per individual sovereign) may be invested in non-UK organisations (excluding investments held in short-term Money Market Funds and externally managed pooled funds): **Actual £40.0m** at 31 December 2018 (£25m Australia; £5m Canada; and £10m Singapore).
 - Up to a maximum of £100m may be invested in negotiable instruments (bonds, certificate of deposits etc.) held in a nominated custody account: **Actual £12.9m** at 31 December 2018.
 - Up to a maximum of £115m may be invested in short-term Money Market Funds (excluding externally managed pooled funds): **Actual £23.2m** at 31 December 2018.

- Up to a maximum of £100m may be invested in externally managed pooled funds; of which £60m may be invested in such funds not holding a AAA credit rating: Actual **£49.1m** total investment at 31 December 2018 (of which **£39.0m** is invested in unrated multi-asset income and property funds).
- Up to a maximum of £75m to be made available for long-term strategic investment based on forecast levels of PFI/MRMC reserves (as reported in the Council's Treasury Indicators): Actual **£73.1m** at 31 December 2018.

4. Resource and Value for Money Implications

Covered in main body of report.

5. Risk Management Implications

Covered in main body of report.

6. Human Rights Act Implications

Not applicable.

7. Crime and Disorder Act Implications

Not applicable

Katharine Eberhart

Director of Finance, Performance and Procurement

Contacts:

Vicky Chuter, Financial Reporting Manager, 033 022 23414

Jon Clear, Treasury Management Officer, 033 022 23378

Appendices

Appendix A - Investment portfolio at 31 December 2018

Background Papers

None

Investment portfolio at 31 December 2018

Investments held with counterparty's approved within the Council's 2018/19 Treasury Management Strategy (together with prevailing credit ratings and maximum monetary and duration limits) at 31 December 2018, are set out below:

Counterparty	Credit Rating	Approved Limits		WSCC Investment Details		
		Monetary	Duration	Amount	Duration	Maturity
UK Banks (Unsecured):						
Goldman Sachs International Bank	A	£15m	6 Months	£15.0m	134 Days	22/03/19
Lloyds Bank Plc (<i>Ring-fenced Bank</i>)	A+	£15m	1 Year	£14.7m	<i>175 Days Notice Required</i>	
UK Banks (Secured):						
Nationwide BS (Covered Floating Rate Note)	AAA	£25m (<i>i</i>)	10 Years	£7.9m	1,095 Days	25/04/19
Non-UK Banks (Unsecured):						
Australia and New Zealand Bank (Australia)	AA-	£15m	1 Year	£5.0m	277 Days	22/02/19
Australia and New Zealand Bank (Australia)	AA-	£15m	1 Year	£5.0m	365 Days	21/05/19
Australia and New Zealand Bank (Australia)	AA-	£15m	1 Year	£5.0m	365 Days	08/11/19
Commonwealth Bank of Australia (Australia)	AA-	£15m	1 Year	£5.0m	277 Days	22/02/19
Commonwealth Bank of Australia (Australia)	AA-	£15m	1 Year	£5.0m	365 Days	01/05/19
Toronto-Dominion Bank (Canada)	AA-	£15m	1 Year	£5.0m	364 Days	27/03/19
United Overseas Bank (Singapore)	AA-	£15m	1 Year	£10.0m	106 Days	22/03/19
Short-Term Money Market Funds:						
Aberdeen Sterling Liquidity Fund	AAA	£25m	Overnight	£8.3m	<i>Instant Access</i>	
Federated Prime Sterling Liquidity Fund	AAA	£17m	Overnight	£14.9m	<i>Instant Access</i>	
Non-Bank (UK Corporate):						
UK Municipal Bond Agency plc	n/a	£0.2m	-	£0.2m	-	-

Counterparty	Credit Rating	Approved Limits		WSCC Investment Details		
		Monetary	Duration	Amount	Duration	Maturity
UK Local Authorities:						
Cambridgeshire County Council	AA- (ii)	£25m	20 Years	£5.0m	364 Days	11/04/19
Dorset County Council	AA- (ii)	£25m	20 Years	£10.0m	364 Days	21/01/19
Lancashire County Council	AA-	£25m	20 Years	£10.0m	1,187 Days	15/04/19
Northamptonshire County Council	AA- (ii)	£25m	20 Years	£15.0m	364 Days	08/01/19
Plymouth City Council	AA- (ii)	£25m	20 Years	£10.0m	731 Days	09/04/20
Wolverhampton City Council	AA- (ii)	£25m	20 Years	£6.0m	1,096 Days	26/02/19
Pooled Funds (Externally Managed):						
Federated Sterling Cash Plus Fund	AAA	£25m	Note (iii)	£10.1m	To Be Agreed (iv)	
Fidelity Multi-Asset Income Fund	n/a	£15m	Note (iii)	£7.4m	To Be Agreed (v)	
Investec Diversified (Multi-Asset) Income Fund	n/a	£15m	Note (iii)	£7.4m	To Be Agreed (v)	
CCLA (Local Authorities Property Fund)	n/a	£15m	Note (iii)	£9.9m	To Be Agreed (vi)	
Hermes Property Unit Trust (HPUT)	n/a	£15m	Note (iii)	£9.5m	To Be Agreed (vi)	
Lothbury Property Trust (LPT)	n/a	£15m	Note (iii)	£4.8m	To Be Agreed (vi)	
TOTAL INVESTMENTS				£206.1m		

- (i) The total amount invested per financial institution (secured and unsecured deposits) cannot exceed £25m.
- (ii) Assumed UK Local Authority credit rating if no actual rating exists (one notch lower than the UK sovereign rating).
- (iii) No defined maturity periods for externally managed pooled investment funds [see notes (iv) to (vi) below].
- (iv) Up to one year investment horizon for externally managed ultra-short dated bond funds (enhanced cash funds).
- (v) Three year investment horizon for externally managed multi-asset income funds.
- (vi) Minimum five year investment horizon for externally managed property funds.