

MEETING:	Audit Committee
DATE:	Wednesday, 14 June 2017
TIME:	4.00 pm
VENUE:	Boardroom - SY Joint Authorities Building

Present Councillors Clements (Chair), Barnard and Richardson together with Independent Members - Ms K Armitage, Ms D Brown, Mr S Gill and Mr P Johnson

1. DECLARATIONS OF PECUNIARY AND NON-PECUNIARY INTEREST

There were no declarations of interest from Members in respect of items on the agenda.

2. APPOINTMENT OF VICE CHAIR

RESOLVED that Mr S. Gill be appointed as Vice Chair of the Committee for the municipal year 2017/18.

3. INFORMATION GOVERNANCE PERFORMANCE - QUARTER 4 2016/17

The Executive Director Communities and ICT Manager submitted a joint report providing details of the Authority's position in relation to information security breaches and cyber incidents reported and investigated in quarter four of the 2016/17 financial year with comparisons for the whole of the 2016/17 financial year and the previous financial year 2015/16.

Mr D Robinson (Head of ICT) and Ms M John-Ross (Service Director Children's Social Care and Safeguarding) attended the meeting to present the report and to answer Members questions.

The report indicated that there were three reporting regimes; reporting to the Information Commissioner's Office for the most serious incidents; reporting via the information governance toolkit for adults' social care and public health most serious incidents; and internal reporting and investigation. Detailed guidance on the reporting regimes was outlined within an appendix to the report.

In relation to Information Security:

- there had been 46 incidents (both actuals and weaknesses and third party incidents) which had required investigation. This represented a significant increase compared to previous years which was attributable, in part, to the fact that increased awareness had been raised through policies, via SMT and through staff communications and training
- the fourth quarter actual incidents and weaknesses, subject to internal investigation were also detailed by Directorate, Business Unit and type
- the highest number of actual incidents (12) related to 'disclosure in error' and in the main related to the use of emails which had been sent to the wrong recipient/contact group, where incorrect recipients had been copied in or were not encrypted.

- the report also gave details of where such incidents breached the various principles of the Data Protection Act
- no incidents had been reported to the Information Commissioner in Quarter 4 but in the 2016/17 financial year four incidents had been reported. In addition, in April 2017 two further incidents had been reported. These were not to be investigated as arrangements had been put in place for the Council to review its handling of personal data
- a summary of lessons learned and action taken was provided
- there had been 9 third party incidents in relation to schools, foster carers, Berneslai homes and members of the public. These had been reported to Information Governance and investigated by relevant parties

In relation to cyber incidents:

- a summary of the 'attempts' and 'attacks' was provided by quarter for the 2016/17 financial year together with a definition for each type of 'incident'
- there had been a decrease in the number of phishing email calls being processed some of which was due to internal staff levels. In the current quarter there had been a significant increase which was attributable to the catching up of the backlog. In addition, there had been a marked increase in the amount of phishing and malicious emails being received
- the Council was actively blocking and preventing access to more links, email addresses and websites as part of a proactive approach with regular updates appearing in the weekly staff newsletter. This was also partly in response to advice from government about the increased risk around election time
- phishing software was being used and allowed the service to offer training to staff immediately and automatically. This should further raise awareness and was seen as the next step forwards in terms of training, with this being more focused than the general Information Security Training that had to be completed by all staff and Elected Members

In response to questioning, the following matters were raised:

- It was noted that the Executive Director Core Services acted as the senior risk officer for the Authority and was also chair of the Information Governance Board which was a high level group of senior officers which had oversight of all Information Governance Issues. It was also noted that the Service Director Children's Social Care and Safeguarding was the Caldicott Guardian with responsibility for Information Governance and for ensuring privacy and confidentiality in this area
- Specific reference was made to the work of the Information Governance Board in raising awareness of Information Governance issues and of the action to be taken to a potential data breach/weakness
- The Service Director Children's Social Care and Safeguarding made specific reference to the breaches that had occurred within her service and to the robust action that had been taken to address issues identified
- The Head of ICT reported that this was the first year that the Authority had captured details about cyber-attack and, therefore, there was no comparative

date available. He commented, however, that the number of incidents reported throughout the year was increasing largely as a result of improved staff awareness. In relation to cyber-attacks, those that had been 'successful' were as a result of staff clicking on links in emails but these had been picked up quickly

- The Director of Core Services together with the Service Director gave a brief explanation of which parties were informed (and why) following breach of Information Security. Information about breaches came from a variety of sources; from staff, who were generally quite open about reporting incidents; or from third parties who had received information in error. The authority then took appropriate action to minimise any ensuing risks and raise awareness of issues in order to prevent further breaches. It was important to take a proportionate response and for lessons to be learned from weaknesses identified
- There was no evidence that any of the Authority' data bases had been penetrated although this was always a danger
- The Director of Core Services reported on the current criteria for reporting incidents to the Information Commissioner and to the fact that new arrangements were being introduced which would, if future, require all breaches to be reported. Appropriate guidance was available on the Commissioner's website
- The Service Director reported that her service was looking to send all reports etc. via email rather than by post. Such emails would be encrypted and support would be provided to those who required it to open such emails
- It was noted that whilst the number of staff employed had reduced, this did not necessarily mean that this was the reason for an increase in the number of Information Security breaches or that this would result in a greater number of breaches in the future. Staff within each service was responsible for ensuring that contact information was correct and kept up to date. There had been increased investment in IT equipment so that staff could work in a more mobile way, could quickly update information and thereby improve efficiency

RESOLVED that the report be received and Ms M John-Ross and Mr D Robinson be thanked for attending the meeting and for answering Members questions.

4. MINUTES

The minutes of the meeting held on the 19th April, 2017 were taken as read and signed by the Chair as a correct record.

5. ACTIONS ARISING FROM THE PREVIOUS MEETINGS

The Committee received a report detailing actions taken and arising from previous meetings of the Committee.

RESOLVED that the report be noted.

6. AUDIT COMMITTEE TERMS OF REFERENCE

The Chair reported on the approval by the Annual Council on the 19th May, 2017 of the revised Terms of Reference of the Committee and on proposals to enhance the work of the Committee in order to meet the requirements of those Terms of Reference.

If any member of the Committee wished to raise any items or issues for future discussion, they were encouraged to contact the Chair direct.

The Executive Director Core Services reminded Members that the first substantive item on the agenda today on Information Governance Performance was the first of the new subject areas being submitted for consideration. Another item later on the agenda on the work of the Governance and Member Support Business Unit was the second. Future reports would be submitted throughout the year.

7. ANNUAL FRAUD REPORT 2016/17

The Head of Internal Audit and Corporate Anti-Fraud submitted a report providing his Annual Report on the counter fraud related activity undertaken by the Internal Audit Corporate Anti-Fraud Team for the period 1st April, 2016 to 31st March, 2017. It provided information and assurance to the Committee regarding key aspects of the Authority's risk management, control and governance framework.

In addition to himself, the following members of the Corporate Anti-Fraud Team were in attendance to answer any detailed technical questions raised:

- Ms J Race – Principal Auditor, Internal Audit, Corporate Anti-Fraud
- Ms C Evans – Senior Corporate Anti-Fraud Officer
- Ms R Lancaster – Corporate Anti-Fraud Officer

The report indicated that as a Local Authority responsible for the administration for large amounts of assets and finance, Barnsley MBC was a target for fraudsters. It was, therefore, important for the Authority to maintain a robust framework of policies and procedures to safeguard the Council's integrity against potential fraud.

From April 2015, all counter fraud functions had been centralised within the Corporate Anti-Fraud Team and this had enabled the Council to focus its preventative and investigative resources to tackle different types of fraud that may occur. The report gave details of the wide range of tasks undertaken including:

- Implementing the Anti-Fraud and Corruption Policy across the Authority
- Providing a comprehensive counter-fraud service for all directorates
- Co-ordinating and managing the Council's participation in the National Fraud Initiative
- The introduction of Council wide Fraud Awareness Training and the prevention
- The detection of all types of fraud

The report, in outlining the performance of the Team, gave details of both the proactive and reactive work undertaken including Council Tax Support Investigations, Fraudulent Council Tax liability claims, and Right to Buy and Housing/Tenancy Fraud work. It also then highlighted the key priorities for the Team for 2017/18 and an Appendix to the report provided case examples of the Corporate Anti-Fraud Activity for 2016/17.

In the ensuing discussion, and in response to detailed questioning, the following matters were highlighted:

- The Team attempted, where possible, to have an even spread of workload over the three main areas of focus, prevention, detection and investigation
- The Cabinet in May, 2017 had received reports on the Corporate Anti-Fraud and Corruption Policy, the Corporate Anti-Fraud and Corruption Strategy and the Corporate Anti-Bribery Policy, all of which had been approved and, in addition, the Council's overall 'zero tolerance' approach had been endorsed. This Committee was charged with monitoring the effectiveness of these policies. It was pleasing to note that these documents had received favourable reports within the local press. Arising out of this, reference was made to the work programme and to the fact that part of this included the consolidation of work in this area and the organisation of a publicity campaign. It was accepted that such a campaign could have implications for the workload of the Team
- Meetings with the South Yorkshire Police were progressing to refresh protocols
- In relation to the work on the National Fraud Initiative, it was noted that a significant sum was to be recovered in relation to both Private Residential Care Homes and Personal Budgets. These cases generally linked to overpayments and did not indicate any systematic weaknesses. This exercise had been so successful that it was intended that it would be repeated
- Progress was continuing in relation to the in house e-learning modules which were to be rolled out shortly
- It was noted that the Authority was no longer responsible for Housing Benefit Fraud
- It was noted that in relation to Council tax, 141 cases showed no evidence of fraud. Information was provided on the type of issues investigated and particular reference was made to single person discount investigations. Arising out of this discussion reference was made to the ways in which referrals were received and particular mention was made to online and telephone referrals. It was noted that an answerphone service was now provided due to the number of calls received about Housing Benefit issues which the Team could no longer investigate. Queries in relation to such issues were referred to the DWP
- The service was always looking to improve ways of reporting potential fraud and to improve the quality of the information captured
- In response to detailed questioning, Ms Race outlined to background to a suspected money laundering case which had been investigated.

- The Head of Internal Audit and Corporate Anti-Fraud commented that the Council's investment in the Team was vindicated by the success it had achieved
- It was suggested that the Team target, at some time in the future, the Council's business/commercial activities for any potential areas of fraud
- The Principal Auditor referred to an article in the Barnsley Chronicle which highlighted a tenant who had sub let his house. The individual concerned had been sentenced to 26 weeks and was required to pay approximately £6,000 in fines. The Council was the first to bring successful case under the provisions of the Prevention of Social Housing Fraud Act 2013.

RESOLVED

- (i) That the Annual Fraud Report be received as part of the framework of assurance to support the Annual Governance Statement;
- (ii) That the embedding of a culture of zero tolerance and high levels of awareness regarding fraud and corruption be supported; and
- (iii) That the Committee place on record its thanks to the staff of the Corporate Anti-Fraud Team for their hard work and dedication during the year.

8. INTERIM INTERNAL AUDIT ANNUAL REPORT 2016/17

The Committee received a report providing the Head of Internal Audit and Corporate Anti-Fraud's interim Annual Report on the adequacy and effectiveness of the Authority's internal control arrangements based on the work of Internal Audit during 2016/17 which had been prepared in accordance with the Public Sector Internal Audit Standards.

The report contained:

- (i) An opinion on the overall adequacy and effectiveness of the Authority's framework of governance, risk management and control
- (ii) A summary of the audit work undertaken to formulate the opinion
- (iii) Details of key control issues identified, particularly in the context of the Annual Governance Statement
- (iv) The extent to which the work of other review or audit bodies had been relied upon

In order to align the annual Internal Audit Report to the Annual Governance Statement and the signing of the Statement of Accounts, it was more appropriate that the Head of Internal Audit and Corporate Anti-Fraud's opinion was provided reflecting all the work undertaken at the point of the approval of the AGS and the Accounts and for this reason the Committee was encouraged to consider this as an interim report.

The meeting noted that the Head of Internal Audit and Corporate Anti-Fraud was able to provide an adequate assurance opinion. This opinion was based upon the work

undertaken to date together with management's implementation of recommendations and the agreed annual programme of risk based audit coverage.

Whilst the overall indicative opinion was positive, there were some key issues arising that Senior Management were required to consider relating to the continued impact of Future Council, the implications of changed structures, new and changing systems and an increased workload for many managers which impacted upon the ability to maintain reasonable and effective controls in some areas of activity. It was accepted that the Future Council arrangements had required a change in the risk appetite and the next stage was to ensure that the new arrangements were embedded. This had been acknowledged and discussed with Senior Management during the year but it was nevertheless important for officers to remain alert to and focussed on maintaining an appropriate, risk based and effective framework of controls.

Key issues arising from all completed audits had been reported throughout the year within the quarterly Internal Audit reports and these were summarised within the report now submitted.

The implementation of audit report recommendations remained an issue. Overall, at the point of follow up, and over the year, only 45% of recommendations had been implemented by the date agreed by management and monitoring of report recommendations would continue to be a priority for the Service.

The current audit plan was focussed on supporting management to consider the approach to controls in the context of reduced resources.

In the ensuing discussion, and in response to detailed questioning, the following matters were highlighted:

- Any changes in assurance opinion would be reported to the meeting in September when the AGS and Accounts were considered. It was not, however, anticipated that there would be any changes
- It was acknowledged that there had been massive changes within the Authority and these had contributed, in part, to the delay in implementing audit recommendations. It was hoped that in 2017/18 and subsequent years, there would be a change programme within the Council which would show improvements in terms of the control framework and a better implementation of recommendations
- The Service Director Finance, the Executive Director Core Services and the Head of Internal Audit and Corporate Anti-Fraud presented regular reports on outstanding recommendations to the Senior Management Team and they were confident that a more rigorous approach to the escalation issues was being promoted. Arising out of this reference was made to the following:
 - Members were still, nevertheless, concerned about the failure to address recommendations within the agreed timescales and in response the Head of Internal Audit and Corporate Anti-Fraud briefly commented on the action taken to address these issues including the consideration about moving away from 'recommendations' to 'agreed

- management actions' on the basis that this enforced management ownership of such actions
 - Concern was expressed that the delay in implementing recommendations could be further exacerbated by the significant financial challenges facing the authority.
- It was noted that not all the audit days allocated within the plan had been achieved largely as a result of vacancies within the service and the overrun of other work but this was not sufficient to jeopardise the ability to give a reasonable opinion. All staff were now in place and the Head of Internal Audit and Corporate Anti-Fraud was confident that the service could deliver the plan for the Council and for clients. Arising out of this discussion he made reference to
 - the adoption of a new Indicator to measure the performance of the service
 - The completion of a relatively small number of pieces of work (and the reasons for that) and to the fact that other work undertaken still contributed to the overall picture of assurance
 - The changing nature of audit particularly in relation to challenge, consultancy and critical friend role
- Referring to Appendix 3 'Details and Outcome of other Audit Activities not producing a specific Assurance Opinion', the Head of Internal Audit commented on the expertise in balancing activities detailed within the Internal Audit Plan with the requirements of the Senior Management Team. Some activities were clearly at the 'margins' of core audit activity but still contributed to the ability to issue adequate assurance. The Service was, of course, cognisant of the need to ensure that the priorities were correct
- It was noted that in relation to Core System Reviews, the outcome of risk assessments was discussed and agreed with the Section 151 Officer. External Audit was also consulted on the risk assessment and the proposed coverage. A fundamental review of the risk assessment process was to be undertaken in the future as some areas had not been reviewed for some time. Arising out of the discussion and concern expressed, the Service Director Finance, in his capacity as Section 151 Officer, stated that any issues would have been flagged up via exception and compliance reports and by other checks and balances in place. Ms A Warner (KPMG) outlined the way in which issues would be highlighted via the External Audit role. She commented that Barnsley's approach was similar to that adopted by many other Local Authorities

RESOLVED:-

- (i) that the assurance opinion provided by the Head of Internal Audit and Corporate Anti-Fraud on the adequacy and effectiveness of the Authority's framework of governance, risk management and control be noted;
- (ii) that the key issues arising from the work of Internal Audit on the context of the Annual Governance Statement be noted; and

- (iii) that the satisfactory performance of the Internal Audit functions for 2016/17 be noted.

9. GOVERNANCE AND MEMBER SUPPORT BUSINESS UNIT PROGRESS REPORT

The Service Director Governance and Member Support submitted a report providing an overview of the functions of the Governance and Member Support Business Unit and related elements of the Annual Governance Statement process in line with the Audit Committee work programme. The report also gave details of other issues affecting Elected Members.

It was noted that this was the second report submitted to this meeting in accordance with the revised Terms of Reference following approval at the Annual Council meeting held on the 19th May, 2017.

Particular reference was made to the following:

- Compliance with regulations introduced in 2012 in relation to the recording and publication of the exercise of executive functions by officers – officer decision-making under delegated powers. It was noted that these regulation had then been extended in 2014 to include non-executive functions. It was noted that greater compliance was being achieved and was evidenced by the increased number of decision records coming forward for publication
- The implications of the need for Elected Members to be individually registered as Data Controllers under the Data Protection Act
- The greater emphasis and support provided in relation to Elected Members move towards the Digital Council approach

There was a discussion of the way in which the Unit sought to achieve its outcomes. In relation to the recording of officer decisions, it was noted that the Unit merely provided the structure whereby such decisions could be made, recorded and monitored.

It was important to ensure that decisions were made in the correct manner and that reports submitted to the various meetings, including Cabinet, met the legislative requirements. It was stressed that report writers should ideally seek any legal advice before they were submitted to the Unit but that the Unit gave an opportunity for additional oversight prior to the publication of reports.

RESOLVED that the report be received and the Service Director Governance and Member Support be thanked for attending the meeting and for answering Members questions.

10. EXTERNAL AUDIT - TECHNICAL UPDATE INCORPORATING EXTERNAL AUDIT PROGRESS REPORT

Ms A Warner (KPMG) presented the Technical Update and External Audit progress report.

The Committee was informed that work had started on interim audit work and details were outlined. Any issues identified would be discussed with management and would be reported to the July meeting.

Detailed planning had been undertaken to determine whether or not there were any significant risks to the opinion on the arrangements to deliver Value for Money. Although there were a number of significant issues and pressures facing the Council, following this planning work no issues had been identified. A further report including work on Housing Benefits would be submitted in September/October

Work had also started on planning work required in relation to the Certification of claims and returns.

An appendix to the report gave details of the 2016/17 deliverables together with the timing and status of those deliverables.

The report then went on to give details of KPMG resources and recent technical developments.

There was a discussion of the paper circulated following the previous meeting on the need for Council's to achieve a cultural shift by 2020 as revenue streams were reduced and reliance on business rates became more important. Questions were asked as to the potential implications of this for both the Council and for External Audit. Ms Warner was not able to comment on this but would give an update to a future meeting. Arising out of this, the Service Director Finance commented on the development of a Commercial Strategy within the context of Value for Money, procurement, income generation and the change of culture of the organisation. Discussions were ongoing within the Senior Management Team and investigations were progressing on how to take such a strategy forward.

The Executive Director Core Services commented that one of the elements the Authority had to consider was the change in risk appetite. Some Councils were, for example, purchasing commercial properties as rental yields were attractive. This could, however, pose a potential issue in the event of a change in the economic climate.

RESOLVED that the External Audit progress report, resources and technical update be noted.

11. AUDIT COMMITTEE WORK PLAN 2017/18

The Committee received a report providing the indicative work plan for the Committee for its proposed scheduled meetings for the 2017/18 municipal year.

RESOLVED that the core work plan for 2017/18 meetings of the Audit Committee be approved and reviewed on a regular basis.

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Chair