

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

AGENDA

Procedural/Administrative Items

1. Declarations of Pecuniary and Non-Pecuniary Interest

2. Appointment of Vice Chair

To consider the appointment of a Vice Chair from amongst the Independent Members of the Committee.

3. Minutes (*Pages 3 - 12*)

To receive the minutes of the meeting held on the 19th April, 2017.

4. Actions Arising From the Previous Meetings (*Pages 13 - 14*)

The Committee will receive a report detailing action taken and arising from previous meetings of the Committee.

5. Audit Committee Terms of Reference (*Pages 15 - 18*)

The Chair will report 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.

(A copy of the Terms of Reference are available for download from the Council's website and via the ModGov App).

Items for Discussion/Decision

6. Annual Fraud Report 2016/17 (*Pages 19 - 30*)

The Head of Internal Audit and Corporate Anti-Fraud will submit 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 and providing information and assurance to the Committee regarding key aspects of the Authority's risk management, control and governance framework.

7. Interim Internal Audit Annual Report 2016/17 (*Pages 31 - 50*)

The Committee will receive 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 has been prepared in accordance with the Public Sector Internal Audit Standards.

Items for Information

8. Governance and Member Support Business Unit Progress Report (*Pages 51 - 54*)

The Service Director Governance and Member Support will submit 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.

9. Information Governance Performance - Quarter 4 2016/17 (*Pages 55 - 64*)

The Executive Director Communities and ICT Manager will submit a 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.

10. External Audit - Technical Update incorporating External Audit Progress Report (*Pages 65 - 80*)

The Committee will receive the External Audit Technical Update which incorporates the External Audit Progress Report.

11. Audit Committee Work Plan 2017/18 (*Pages 81 - 82*)

The Committee will receive the indicative Audit Committee Work Plan for 2017/18.

To: Chair and Members of Audit Committee:-

Councillors Clements (Chair), Barnard, Lofts and Richardson; together with Independent members Ms K Armitage, Ms D Brown, Mr S Gill, Mr P Johnson and Mr M Marks

Diana Terris, Chief Executive
All Executive Directors
Andrew Frosdick, Executive Director Core Services
Rob Winter, Head of Internal Audit
Neil Copley, Service Director Finance
Ian Rooth, Head of Technical Services
Adrian Hunt, Risk Management Manager
Michael Potter, Service Director Business Improvement and Communications
Louise Booth, Audit Manager

Council Governance Unit – 3 copies

Please contact William Ward on 01226 773451 or email governance@barnsley.gov.uk

Tuesday, 6 June 2017

MEETING:	Audit Committee
DATE:	Wednesday, 19 April 2017
TIME:	4.00 pm
VENUE:	Reception Room, Barnsley Town Hall

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

61. DECLARATIONS OF PECUNIARY AND NON-PECUNIARY INTEREST

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

62. MINUTES

The minutes of the meeting held on the 22nd March, 2017 were taken as read and signed by the Chair as a correct record.

63. ACTIONS ARISING FROM THE PREVIOUS MEETINGS

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

The Executive Director of Core Services reported that in relation to the Annual Governance Statement Action Plan 2016/17, the Committee was due to have received a report on issues around business continuity and the need to close the gaps in certain areas. He commented that the necessary action had been taken and an assurance could now be given that the 'gaps' had been closed.

The Chair commented on the importance of compliance with the detailed response dates given that some reports were now outstanding.

RESOLVED that the report be noted.

64. INTERNAL AUDIT CHARTER

The Head of Internal Audit and Corporate Anti-Fraud submitted a report prefacing the annually reviewed and revised Internal Audit Charter.

It was explained that the update had been considered in the light of the revised Public Sector Internal Audit Standards which had become effective on the 1st April, 2017. The latest review ensured that the Charter reflected the current working arrangements of the function but also the aspirations and developments necessary to ensure continuous improvement. In addition, the Charter reflected the changes within the broad client base and the revised structure of the Service that became effective from 1st April, 2017 following a fundamental review as part of the Future Council programme.

The report outlined those organisations to which Internal Audit provided services and indicated that coverage was now a 40:60 split between Council and non-Council

clients. The Charter would be reviewed annually to ensure it remained reflective of the current working arrangements and professional standards.

The Charter was appended to the report and the Head of Internal Audit and Corporate Anti-Fraud ran through the changes that had been included and the implications thereof.

Reference was then made, amongst other things, to the following:

- The new definition of Internal Audit as defined by the Public Sector Internal Audit Standards which focussed on evaluating and improving the effectiveness of risk, control and governance beyond that of basic compliance
- The 10 Core Principles for internal Audit as defined in the International Standards for the Professional Practice of Internal Auditing. It was noted that the final three Principles listed in particular focused more on the new approach to audit including the consultancy and advisory role
- It was noted that CIPFA had yet to update its own guidance aligned to the new Auditing Standards
- The Code of Ethics included four components which set out the accountability for Internal Audit. It was noted that independence and accountability were key in this respect
- The arrangements for Anti-Fraud, Corruption and Bribery were outlined as were the management responsibilities for ensuring that appropriate arrangements were in place
- The Charter made reference to the requirement that Internal Audit had the necessary authority to obtain such information and explanations it considered necessary in order to fulfil its responsibilities as well as the need to demonstrate that it was providing value to those organisations it dealt with particularly as this related to consultancy work
- In relation to the resourcing of Internal Audit, it was reported that the vacancy within the unit was to be filled from the 2nd May, 2017. The person appointed was a L Booth (formerly from KPMG) who would be responsible for the 'Council Team' and would attend future meetings of this Committee
- Arising out of the above, there was a discussion centering on the ability of the service to undertake the required consultancy work with the current staffing structure. In response, the Head of Internal Audit and Corporate Anti-Fraud stated that his service was in no different position to many other service areas, however, given the changing approach to risk awareness and risk profiles, this was not considered to be an issue. The biggest advantage with the new Charter was the ability to be forward focussed and proactive in being able to promote organisational improvement
- Reference was made to the allocation of planned days to each individual client and how variances would be addressed throughout the year.
- Arising out of the above, reference was made to the intention to produce a strategy document for each client. The Council's Strategy document detailing the approach over the next three years would be submitted to the next meeting

RESOLVED that the report be received and it be noted that the Committee is satisfied that the Internal Audit Charter meets the requirements of the Public Sector Internal Audit Standards and adequately represents and describes the required function to provide this Committee and senior management with a professional service.

65. INTERNAL AUDIT QUARTERLY REPORT - QUARTER ENDED 31ST MARCH, 2017

The Head of Internal Audit and Corporate Anti-Fraud submitted a report providing a comprehensive overview of the key activities and findings of Internal Audit based on the Division's work covering the fourth quarter ending 31st March, 2017.

The report covered:

- The issues arising from completed Internal Audit work in the period
- Matters that had required investigation
- An opinion on the ongoing overall assurance Internal Audit was able to provide based on the work undertaken regarding the adequacy and effectiveness of the Authority's internal control environment
- Progress on the delivery of the Internal Audit Plan for the period to the end of the final quarter of 2016/17
- Details of Internal Audit's performance for the quarter utilising performance indicators

Reports issued and the Internal Audit work completed during the period had raised one fundamental recommendation relating to a data management issue.

Internal control assurance opinion overall remained adequate based on the results of the work undertaken during the quarter.

Of the 9 recommendations followed up, 67% had been implemented by the original target date and 33% had not implemented with revised implementation dates being agreed by management.

In relation to the Audit Plan, actual dates days delivered were 97 (7%) below that planned at the end of the financial year.

Overall, Divisional performance remained satisfactory and all Performance Indicators were either on or exceeding target levels.

The annual report would be presented to the June meeting of the Committee and this would summarise all Internal Audit activity and performance for the year. This would be presented for consideration alongside the draft Annual Governance Statement.

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

- As reported at the January meeting, the number of days delivered was below that planned because the final quarter of the year had been geared primarily towards external clients. It was important to note, however, that none of the variances impacted on the ability to provide an assurance opinion
- Arising out of the above discussion, reference was made to the rationale for the deferral or deletion of items from the Audit Plan which had been undertaken and agreed in consultation with management. In this respect, particular reference was made to the deletion of the Process re-engineering Review (Highways, Local Roads) on the basis that the client no longer required the review as this was being covered through a different piece of work.
- It was noted that the statistical data showed an improving position compared to the previous year
- It was pleasing to note the positive feedback for the work undertaken within the fourth quarter
- Concern was expressed in relation to the Management of Personnel and Confidential Information and the use of 'H' drives as this had implications for the accessibility of information and potentially impacted on management reporting and decision making. The recommendation had an implementation date of 30th June, 2017 but an update would be provided for the next meeting. This piece of work had been commissioned by Children's Services but was in fact a far wider issue. Arising out of the discussion, reference was made to the reasons for staff continuing to use network drives which were largely based upon historical factors as well as a legacy system that had proved problematical. The Authority had now adopted 'SharePoint' as its primary repository for the storage and retrieval of information and services were being moved onto this system on a phased basis.
- Referring to the Receipt and Banking of Income and particularly as this related to the merchant copy of receipts retained by Cannon Hall, the Head of Internal Audit and Corporate Anti-Fraud commented that an update would be provided on the safe custody of receipts as in various areas, the Authority was not compliant with industry standards. In this respect reference was also made to the incorrect allocation and collection of VAT which, although not of great value, was nevertheless being addressed
- In relation to the follow up protocol of key issues, it was noted that this was dependent upon the significance of the issue identified
- Reference was made to the importance of services maintaining operational independence and in response to questioning the Head of Internal Audit and Corporate Anti-Fraud stressed that the service was not in a position to veto management decisions. The Internal Audit Service was there to act as critical friend and to challenge and there was a good understanding within the Authority of the role of Internal Audit
- The Director of Core Services reported that work on the Register of Interests had been deferred until 2017/18 which was to allow flexibility within the work plan. The audit had been instigated to ensure that systems were compliant, however, the Governance and Member Support Service was extremely proactive in ensuring that the Register was maintained

- Referring to Appendix 1 of the report, Mr Moore (KPMG) stated that it was important for him to meet with representatives from Internal Audit to ensure that there were no significant issues relating to areas where there was only limited assurance opinion

RESOLVED

- (i) that the issues arising from the completed internal audit work for the period along with the responses received from management be noted;
- (ii) that the assurance opinion on the adequacy and effectiveness of the Authority's Internal Control Framework based on the work of Internal Audit in the period to the end of March 2017 be noted;
- (iii) that the progress against the Internal Audit Plan for 2016/17 for the period to the end of March, 2017 be noted; and
- (iv) that the performance of the Internal Audit Division for the final quarter be noted.

66. STRATEGIC RISK REGISTER - FULL REVIEW MARCH 2017

The Executive Director Core Services submitted a report presenting a draft report to be submitted to Cabinet on the 3rd May, 2017 on a review of the Strategic Risk Register undertaken in March, 2017.

The report, which was presented by Mr A Hunt, Risk and Governance Manager, formed part of the Committee's assurance process where it was agreed that following the completion of the review of the Strategic Risk Register, the Committee consider the latest version and provide appropriate comments thereon.

The Register contained those high level risks that were considered significant potential obstacles to the achievement of the Authority's Corporate Objectives. It was important that the Register remain up to date and be reviewed regularly in order to accurately reflect the most significant risks to the achievement of objectives and facilitate timely and effective mitigations to those risks.

Following a review of the Strategic Risk Register in October 2016, a further review had been undertaken in March 2017 the outcomes of which were detailed within the report. Mr Hunt outlined in some detail the way in which the register had been reviewed and he commented on the main components of the review and the items included.

The report outlined:

- The key risks across the six 'concern' rating classifications
- The changes to the risks logged since the last review

- It was noted that the number of risks had decreased by one since the last review in October 2016 with the removal of Risk 3842 (Failure to ensure the transfer of 0-19 services...) as this was now being managed at a Business Unit Level
- Two risks had a reduced risk rating:
 - Risk 3023 (Failure to engage with Stakeholders) – due to the revised Community Engagement Strategy that had been approved by Cabinet recently
 - Risk 3514 (Failure to be able to deliver the ambitions and outcomes associated with the Community Strategy Implementation (CIS) Programme) – due to the improved confidence to deliver the CIS programme
- Details of the average risk score for the Register, from the ‘zero-based’ review undertaken in 2013 were detailed. There was a slight variance in the average concern rating which was directly attributable to the removal of risk 3842 allied to changes to risks 3023 and 3514 as detailed above
- The significant/red risks and new and emerging risks and the risk mitigating actions. Whilst no new risks had been included, a number of emerging issues had been identified following conversations with Risk Owners in relation to Data Quality, Adult Social Care and Brexit and further details would be included within the next iteration of the Register presented in October
- Other significant changes to the Strategic Risk Register

A further review of the Register was now programmed with other governance related reports such as those relating to Corporate Finance and Performance Management in order for the Cabinet to receive and consider governance related reports as a broad suite of documents.

The report and Register indicated how assurance against significant risks was being managed appropriately and Appendices to the report provided details of:

- The background to the Strategic Risk Register
- The improved risks
- The ‘direction of travel’ trends
- The risks that had been completed
- The new mitigation actions
- A copy of the full Strategic Risk Register

In the ensuing discussion, particular reference was made to the following mitigations:

- In relation to risk 3034 (Failure to deliver the MTFs and associated KLoE/Budget Savings ‘Failure of Future Council to achieve the required level of savings’) it was noted that this had received a red rating and that there was a low level compliance with a computerised budget management system. This issue was being addressed and a wide ranging training programme was being developed along with performance metrics to assess future compliance. A further review was due by the 30th September, 2017
- Risk 3023 (Failure to Engage Stakeholders) had been highlighted as a potential emerging risk by the Chief Executive and Executive Director

Communities due to the potential for increased community tensions as a result of the Brexit decision which could result in the loss of community cohesion and increased incidents of hate crime. This matter would be investigated fully and a further report presented in October. It was noted that the Council's Community Cohesion Champion was undertaking a lot of work in this area

- It was suggested that the consequences associated with Risk 3792 (Failure to be prepared to assist in the event of an emergency resilience event in the region) be re-worded to refer to 'potential industrial action' given that industrial action was seldom taken. Arising out of this, the Director of Core Services referred to the small resilience team and to the recent 'success' of that team as demonstrated by the action instigated as a result of the fire at the Chicago Rock night club. It was felt, however, that processes and procedures in relation to emergencies and the action required needed to be more embedded within services. This matter was being addressed. The Risk and Governance Manager commented that recent improvements might mean that this risk should be re-evaluated in terms of its rating
- Arising out of the discussion, the Committee noted that Information Governance was now included within the Terms of Reference (subject to Annual Council approval), it might, therefore, be appropriate to receive a briefing/awareness session on Information Governance linked to the risks detailed on the Strategic Risk Register. The Head of Internal Audit and Corporate Anti-Fraud commented that some of the Strategic Risks were the responsibility of Senior Management Team members. The owners of those risks could be invited to this Committee to explain their role and the action being taken to mitigate risks

RESOLVED

- (i) that the report on the outcome of the recent review of the Strategic risk Register in relation to the management, challenge and development of the Register be noted and the Committee continue to receive periodic updates as to the progress of the actions taken and their impact on the Strategic Risk Register; and
- (ii) that the report be referred to Cabinet on the 3rd May, 2017 for consideration.

67. RISK MANAGEMENT FRAMEWORK REVIEW

The Service Director Finance submitted a report providing the Committee with assurance that, following review, the Risk Management Framework remained fit for purpose prior to the Framework being considered and approved by Cabinet on the 3rd May, 2017.

It was important that the Framework remain up to date in order to accurately reflect the effective and efficient management of risks to the achievement of the objectives. This was of particular relevance and importance given the Future Council programme. The Framework (including the Risk Management Policy Objective

Statement and Risk Management Strategy) were key elements in the implementation of good governance arrangements and formed key elements of the Council's Annual Governance Review process.

The report gave details of the contents of the Risk Management Framework and provided a table showing each individual element together with a brief commentary as to any updates required. The report went on to outline the importance that the Risk Management Policy Objective Statement and Strategy had in seeking to ensure that any significant risks that could impact upon the delivery of the Authority's objectives were appropriately managed in order to minimise the significant potential obstacles to the achievement of the corporate objectives. It also focused on the development of the Risk Management Policy Objective Statement and Strategy and the contribution this would make to the embedding of a risk management culture throughout the Council.

Appendices to the report provided the following:

- Risk Management Strategy 2017/18
- Corporate Assurance Group Terms of Reference 2017/18
- Risk Acceptance Model 2017/18
- Risk 'Challenge' Process 2017/18
- Risk Management Training Strategy 2017/18

In response to questioning, the Risk and Governance Manager commented on the following:

- It was not anticipated that there would be any issues in meeting the Performance Indicators detailed within Appendix 1 of the Strategy document
- Reference was made to the Risk Management Training Strategy and how it was ensured that Risk Management was embedded within the Council. Appropriate training was provided where required and details would be provided for members of the Committee
- In referring to the Risk Acceptance Model detailed within Appendix 3, reference was made to the Council's aspirations in relation to the ways in which it would:
 - respond positively to challenges
 - make the most of limited and reducing resources
 - ensure plans, projects and programmes were appropriately resourced to maximise success and deliver the intended priorities and outcomes
 - implement robust arrangements to performance manage progress

RESOLVED that the assurances of the Risk Management Framework and the fact that it remains fit for purpose be noted and the report be referred to Cabinet on the 3rd May, 2017 for consideration and approval.

68. AUDIT COMMITTEE TERMS OF REFERENCE

The Director of Core Services submitted a report requesting the Committee to consider amendments to the Terms of Reference to take account of:

- Future Council developments;
- the establishment of the Core Services Directorate; and
- comments made by Members of this Committee at the workshop meeting held in November, 2017 about the need to expand the role of the Committee.

It was noted that, if agreed, the new Terms of Reference would be reported for approval to the Annual Council on the 19th May, 2017 for implementation in the new Municipal Year.

The revised Terms of Reference also enabled the Committee to invite members of the Senior Management Team to meetings to discuss strategic risks within their service area. It would be possible for periodic reports to be submitted on additional corporate functions that contributed to overall assurance against the corporate priorities and specifically, but not exclusively, in relation to:

- Human Resources
- Business Improvement and Communications
- Health and Safety Resilience
- Governance and Member Support
- Information Governance

In addition, Senior Management Team Members could be invited to meetings on a periodic basis to give assurance about issues identified within reports relating to various Directorate activities and, in particular, those which were subject to Internal Audit recommendation. It was hoped that this would encourage wider dialogue with members of this Committee.

RECOMMENDED TO ANNUAL COUNCIL that the revised Terms of Reference as detailed within the appendix to the report now submitted be approved for implementation from the new municipal year.

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

Mr M Moore (KPMG) presented the Technical Update and External Audit progress report.

The Committee was informed that the Interim Audit was substantially complete and that an interim report would be submitted to the June meeting.

Work was continuing on Value for Money throughout the audit and any findings would be reported as part of the interim report. Planning was currently underway for the certification of the claims and returns and work on the 2016/17 Housing Benefit

and Council Tax Benefit Claim would be undertaken in accordance with the appropriate guidance. Work was also being undertaken in relation to grants claims and returns which fell outside the PSAA regime in relation to the Teachers' Pension Agency Return and the Pooling of Capital Receipts.

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.

In the ensuing discussion particular reference was made to the following:

- The use of reserves and the possible need to look at new approaches to finding fresh income including data sharing as detailed within the Resources paper. Mr Moore stated that details of the reports referred to could be circulated to all members. He reported that KPMG were working with a number of Councils on various issues in this area and the officer undertaking this work would be able to come to a future meeting to outline they type of work undertaken if this was required
- Arising out of the above discussion the Head of Financial Services briefly outlined the current approach to the Council's reserves strategy. The Director of Core Services stated that the budget papers considered by Council contained details of the Council's current use of reserves and balances and these could be re-circulated

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

70. AUDIT COMMITTEE WORK PLAN 2015/16

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

The Executive Director Core Service reminded members that the Work Plan had been revised to take account of the issues raised within the Terms of Reference report discussed earlier in the meeting and also addressed issues raised at the Workshop meeting held in November, 2016.

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

.....
Chair

AUDIT COMMITTEE – 14th June, 2017

ACTIONS ARISING FROM MEETINGS OF THE AUDIT COMMITTEE

Date of Meeting	Agenda Ref	Subject	Details of Actions Arising	Person Responsible	Status / Response
22 nd March, 2017	4	Local Code of Corporate Governance/ Annual Governance Review Process 2016/17	To receive a report on the outputs from the Annual Governance Review Process as to whether they provide sufficient and suitable evidence and assurances in relation to the Annual Governance Statement to be submitted to Full Council in September, 2017	Director of Finance/Risk and Governance Manager	19 th July, 2017
22 nd March, 2017	5	Corporate Anti-Fraud Team 2017/18 Plan and Strategy	To receive a presentation on the procurement process together with details of relevant policies and procedures	Head of Internal Audit and Corporate Anti-Fraud/Head of Commissioning and Procurement	14 th June, 2017
22 nd March, 2017	7	External Audit Plan 2016/17	To receive a presentation regarding the role of External Audit	KPMG	14 th June 2017

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Item 5

Audit Committee

A. General Remit

1. To provide independent assurance of the adequacy of the risk management framework and the associated control environment.
2. To provide independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the authority's exposure to risk and weakens the control environment.
3. To oversee the financial reporting process.
4. To promote the application of and compliance with effective governance arrangements across the Authority and its partner organisations.

B. Internal Control incorporating Risk Management, Financial Probity and Stewardship

- (a) To consider the overall adequacy and effectiveness of the system of internal control and the arrangements for risk management, control and governance processes and securing economy, efficiency and effectiveness (value for money).
- (b) To ensure that the highest standards of financial probity and stewardship are maintained throughout the Authority, within policies set by the Council from time to time.
- (c) To develop such policies for consideration and approval by the Council.
- (d) To promote effective internal control by the systematic appraisal of the Authority's internal control mechanisms and by the development of an anti-fraud culture.
- (e) To promote effective risk management throughout the Council in accordance with the Council's Risk Management Policy Objectives Statement.
- (f) To periodically review the Authority's strategic risk register and to invite, when appropriate, a Member of the Senior Management Team to meetings to discuss strategic risks within their specific service area.
- (g) To consider, challenge and comment on the Annual Governance Statement.
- (h) To receive periodic reports on additional corporate functions contributing to overall assurance against the corporate priorities and specifically in relation to:

- Human Resources

- Business Improvement and Communications
- Health & Safety & Resilience
- Governance and Member Support
- Information Governance

- (i) To encourage wider dialogue with members of the Senior Management Team by inviting them to meetings on a periodic basis to give assurance about issues identified within reports relating to various Directorate activities and, in particular, those which are subject to Internal Audit recommendation

C. Internal Audit

- (h) To oversee, in consultation with internal auditors, the preparation and approval of an annual audit plan for the Authority and to receive periodic reports from the internal auditor on performance against the plan.
- (i) To monitor compliance with internal audit reports following their consideration by management.
- (j) To examine reports previously submitted to the Cabinet in respect of ongoing activities and investigations conducted by internal auditors and to make appropriate comments and recommendations.
- (k) To review the performance of the internal audit function by way of quarterly performance management reports.
- (l) To consider the Head of Internal Audit's annual audit report and opinion, and a summary of internal audit activity (actual and planned) and the level of assurance it can give over the Council's corporate governance arrangements.
- (m) To enhance the profile, status and authority of the internal audit function and demonstrate its independence.
- (n) To approve and periodically review the Internal Audit Strategy and Audit Charter

D. External Audit and other Inspectorates or Regulatory Bodies

- (o) To oversee, in consultation with external auditors, the preparation of the annual audit plan for the Authority and to receive periodic reports from the external auditor on performance against the plan.
- (p) To consider and report to Cabinet and the Council the annual audit and inspection letter.
- (q) To consider the appointment of the Council's external auditor.

- (r) To monitor compliance with external audit, external inspectorate and Ombudsman reports following their consideration and resolution by the Cabinet and/or Council.
- (s) To determine any payments or provide other benefits in cases of maladministration by the Authority within the scope of section 92 of the Local Government Act 2000.

E. Other

- (t) To consider general issues and statistics in relation to the Council's Corporate "Whistleblowing" Policy.
- (u) To review the Authority's arrangements for establishing appropriate anti-fraud policies and procedures.
- (v) To monitor compliance with and the effectiveness of anti-fraud and corruption policies and procedures.
- (w) To monitor compliance with the Authority's Partnership Governance Framework.
- (x) To consider and review compliance with the Authority's Treasury Management policy.

F. Accounts

- (y) To review the financial statements, external auditor's opinion and reports to Members, and monitor management action in response to the issues raised by External Audit.
- (z) To contribute to the annual review, consideration and challenge of the financial statements.

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Item 6

Report of the Head of Internal Audit and Corporate Anti-Fraud

AUDIT COMMITTEE – 14th JUNE 2017

ANNUAL FRAUD REPORT 2016/17

Executive Summary

- i. As a local authority responsible for the administration of large amounts of assets and finances, Barnsley MBC is a target for fraudsters. It is therefore important to maintain a robust framework of policies and procedures to safeguard the Council's integrity against potential fraud.
- ii. From April 2015, all counter fraud functions for the Authority were centralised within Internal Audit Services Corporate Anti-Fraud Team (CAFT). This has enabled the Council to focus its preventative and investigative resource to tackle the different types of fraud that may occur against a Local Authority.
- iii. The team covers a wide range of tasks 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 (NFI), the introduction of council wide Fraud Awareness training and the prevention and detection of all types of fraud.

AUDIT COMMITTEE – 14th JUNE 2017

ANNUAL FRAUD REPORT 2016/17

1. Purpose of the Report

- 1.1 This report provides an account of counter fraud related activity undertaken by Internal Audit's Corporate Anti-Fraud Team from 1 April 2016 to 31 March 2017.
- 1.2 The Corporate Anti-Fraud Team continues to provide the Council with a full, professional counter fraud and investigation service for fraud attempted or committed against the Council.
- 1.3 This report provides information and assurance to the Audit Committee regarding a key aspect of the Authority's risk management, control and governance framework.

2. Recommendations

2.1 It is recommended that the Audit Committee:

- i. Consider the Annual Fraud Report as part of the framework of assurances to support the Annual Governance Statement;**
- ii. Continue their support in embedding a culture of zero tolerance and high levels of awareness regarding fraud and corruption;**

3. Background

- 3.1 As a major employer continually seeking to change and transform how it delivers services, and one that is engaged in a range of partnerships and activities, the Council is inherently vulnerable to acts of fraud, corruption or irregularity committed both from within and outside the Council.
- 3.2 In the current economic climate there is an increased focus being placed on local government to protect public funds. Barnsley Council is committed to ensure that increasingly scarce resources are used for the purposes intended, preventing unnecessary loss to fraud or theft and to tackle areas where abuse may occur.
- 3.3 To safeguard public funds and ensure these funds are used for their intended purpose the Council has a zero tolerance approach supported by a strong policy statement and commitment to tackling fraud and corruption. This is backed up by various policies, procedures and codes linked to the Anti-Fraud and Corruption Strategy to help ensure that the people of Barnsley and stakeholders have confidence that the affairs of the Council are conducted in accordance with the highest standards of probity and

accountability and that Members and officers demonstrate the highest standards of personal and professional honesty and integrity.

- 3.4 It is of course an unrealistic expectation to remove and avoid all fraud or loss from an organisation, and particularly one as big and diverse as a local authority. However with a concerted effort from elected members, senior management and all employees it is reasonable to expect that we can reduce and ultimately minimise the incidence and impact of fraud and corruption and thus release valuable resources for front line services.
- 3.7 The Audit Committee have received update reports summarising work undertaken in respect of anti-fraud work and investigations.
- 3.8 Senior managers continue to be aware and accept that anti-fraud and corruption measures start with them. Internal Audit and the Corporate Anti-Fraud Team provide an important advisory and guiding role but cannot assume the responsibility for operational anti-fraud controls within services and systems.
- 3.9 The following sections summarise the activity during the year covering corporate pro-active anti-fraud matters and reactive investigation work.
- 3.10 Details of sample fraud cases are reported at Appendix 1.

4. Pro-active Anti-fraud and Corruption Activity 2016/17

Structure and Roles

- 4.1 Internal Audit's Corporate Anti-Fraud Team acts on behalf of the Director of Finance in ensuring the Council has appropriate arrangements to deter, detect and investigate fraud. This role includes the following:
- Driving the continual development of a framework of anti-fraud policies and procedures;
 - Raising awareness and understanding of fraud risks and developing mechanisms to maximise the opportunities for fraud risk reporting;
 - Responding to Whistleblowing allegations, referrals and other concerns including those received under the Council's Money Laundering Policy;
 - Investigation of reports of financial or other irregularity;
 - Liaising with South Yorkshire Police to support criminal prosecutions;
 - Delivering a programme of proactive anti-fraud reviews;
 - Providing advice and support to managers across the Council and within schools in their own investigation of irregularities;
 - Providing advice and recommendations to managers on appropriate controls to help prevent and detect fraud and corruption;
 - Monitoring anti-fraud activity across the Council.
- 4.2 The Corporate Anti-fraud Team comprises a Principal Auditor (Corporate Anti-Fraud), a Senior Corporate Anti-Fraud Officer and a Corporate Anti-Fraud Officer.

- 4.3 In 2016/17 the Corporate Anti-Fraud Team had a total budgeted plan of 581 days. Preventative anti-fraud work totalled 161 days (compared to 165 in 2015/16) whilst reactive investigations totalled 420 days (compared to 415 in 2015/16).

Developing an Anti-Fraud Culture

- 4.4 In seeking to minimise losses to fraud and corruption, the ideal situation is one where those contemplating these acts are deterred from doing so. An anti-fraud and corruption culture whereby fraudulent activity is seen as unacceptable, combined with individuals' doubts as to whether acts of fraud and corruption can succeed, can serve as a powerful deterrent. Deterrence can in practice be achieved where strong prevention, detection, investigation, sanction and redress processes are in place and effective publicity and communication are developed around them.
- 4.5 In the work to develop the anti-fraud culture throughout the Council, the Corporate Anti-Fraud Team is always looking for new ways to promote the anti-fraud message to reach the largest possible audience. By stressing to all, not only the unacceptability of fraud and corruption but also its serious consequences, the anti-fraud culture is strengthened. Our reactive investigation work and our commitment to take seriously any reported allegations of suspected wrongdoing positively seek to discourage potential fraudsters.

Preventing Fraud

- 4.6 Effective preventative systems are put in place to try and ensure that if fraud is attempted, it will be discovered and fail.
- 4.7 Fraud prevention in the Council means ensuring that sound policy and procedural measures are in place in all Council departments. Internal Audit and the Corporate Anti-Fraud Team continuously review reported system weaknesses to identify areas of high fraud risk. Follow-up audits or themed anti-fraud audits are undertaken in all departments where common weaknesses have been identified.
- 4.8 Internal Audit is a member of the West and South Yorkshire Fraud Investigators Group (SWYFIG) which comprises West and South Yorkshire Internal Audit investigators.
- 4.9 The group meets twice a year with the following aims:-
- To promote and share best practice with regard to fraud and corruption prevention, detection and investigation work;
 - To discuss areas of interest which will to assist group members in undertaking reactive and proactive counter fraud work;
 - To discuss investigation, data matching, risk assessment and other specialist techniques/methodologies/training opportunities that could be of benefit in the course of duties;

- To discuss current/future legislative issues, data matching exercises and other developments that impact on LA counter fraud strategy and operational work;
- To share and benchmark anonymised information on cases and other work to identify best practice within the group that can be used proactively at other local authorities to prevent, detect, identify and/or recover losses due to fraud and corruption;
- To share with other group members intelligence regarding local/regional/national issues and training which could impact on other members; and
- To create contact points in each local authority, for future liaison, advice

National Fraud Initiative

- 4.10 The NFI is a regular (biennial), mandatory, data matching exercise which all UK local authorities must participate in. The aim of the exercise is to identify possible cases of fraud and error within public bodies, e.g. local authorities, central government, the NHS. The Council has routinely participated in this initiative from its inception in 1996/97, and the Corporate Anti-fraud Team is currently addressing the matches received in January 2017.
- 4.11 The Council provided information relating to 12 mandatory sets of data. These datasets consisted of information from Payroll, Housing Rents, Creditors, Private Residential Care Homes, Blue Badges, Residential Parking Permits, Licensing, Market Traders, Insurance, Personal Budgets, Council Tax and Electoral Registration.
- 4.12 The datamatches relating to the 2016-2017 are currently being sorted and investigated. Data filters, recommended and supplied by the Cabinet Office, have been used to sort the matches based on the quality of the data in the match. There is no requirement for the Authority to review 100% of the matches, as long as an effective system of sampling is used to manage the risk of identifying frauds and errors.
- 4.13 To date 1,151 matches have been processed and six of these have identified overpayments totalling £26,857.01.
- 4.14 A breakdown is shown below:

Subject	Monetary Value	Number of Cases	Recovery Action
Private Residential Care Homes	£24,688	5	Yes, recovered from future payments
Personal Budgets	£2,169	1	Yes, recovered from future payments

- 4.15 Both the private residential care homes value and the personal budget value arose where matches highlighted residents/personal budget recipient had died, unknown to the Council. Recovery of the overpayments in respect of residential care has been made from future payments to the relevant care homes.

5. Reactive Fraud Work

Detecting and Investigating Fraud

- 5.1 Despite strong preventative measures, there are inevitably a minority of dishonest people who will be intent on attempting fraud and corruption and finding new ways to evade preventative systems or indeed taking an opportunistic risk. When this happens it is essential that we are able to promptly detect instances of fraud and corruption that have occurred.
- 5.2 The Council remains focussed in its commitment to take all necessary action to investigate fraud and take appropriate sanctions.
- 5.3 All of the Corporate Anti-Fraud Team members dedicated to preventative and investigative work are professionally qualified in this area.

Corporate Investigations

- 5.4 Corporate investigations are defined as fraud cases which relate to employee fraud or other third party fraud which does not fall within a specific service area such as council tax or tenancy fraud.
- 5.5 Since 1 April 2016 work in this area has included:
- Advice to managers undertaking management investigations and disciplinary proceedings; and
 - Advice to officers and referrals to Action Fraud in respect of payments for Council services using stolen credit/debit cards.

Council Tax Support (CTS) Investigations

- 5.6 The levels of identified CTS fraud are still relatively low nationally. CAFT have identified fraudulent council tax support claims of £3,354.23 since April 2016.
- 5.7 A summary of the Council Tax Support workload of CAFT for the period 1st April 2016 to 31st March 2017 is shown below.

Referrals	148
Accepted for investigation	3
Current Investigations	4

- 5.8 A summary of referrals not pursued for investigation is shown in the table below.

Details	No.
Change in circumstance already known - no issue	1
Poor intelligence – not enough evidence to pursue	14
Referred to DWP for investigation	61

Details	No.
No benefit in payment – no issue	4
LA error	2
No evidence of fraud	44
Uneconomical to pursue - CTS adjustment less than £500	15
Total	141

The majority of the above referrals were received via the Corporate Anti-Fraud Hotline (47) and online referrals (39). A further 14 referrals were received from anonymous letters from the public whilst the remaining 41 were referred from Benefits Taxation and Income or Berneslai Homes.

Council Tax

- 5.9 CAFT have identified fraudulent council tax liability claims of £14,221.03 with additional savings of £951.46 identified since April 2016.

NB. The value of the fraud is the total council tax discount / liability fraudulently claimed / identified with projected savings up to the end of the current financial year. The savings record the value of the overpayment had the fraud not been identified.

- 5.10 A summary of the Council Tax workload of CAFT for the period 1st April 2016 to 31st March 2017 is shown in the table below.

Referrals	227
Overpayment only	33
Currently under investigation	3

- 5.11 A summary of referrals not pursued for investigation in shown in the table below.

Details	No.
Change in circumstance already known - no issue	6
Poor intelligence – not enough evidence to pursue	10
No discount present	5
Referred to DWP	29
No evidence of fraud	141
Total	191

Most of the above referrals were received via the Corporate Anti-Fraud Hotline (56) and online referrals (53). A further 10 referrals were received from anonymous letters from members of the public whilst 52 were referred from Benefits, Taxation and Income or Berneslai Homes. The remaining 56 (which provided no evidence of fraud) followed investigations into a number of matches raised via the council tax pro-active data matching exercise which took place in 2015/16.

Right to Buy (RTBs)

- 5.19 The number of RTB sales has continued to rise from 40 in 2011/12 to 198 in 2016/17 with tenants benefiting from the scheme's discounts up to a maximum of £77,000.
- 5.20 With such large discounts available to prospective purchasers there is a greater risk of fraud, and to this effect the Corporate Anti-Fraud Team now apply an enhanced fraud prevention process to all new RTB applications.
- 5.21 The additional checks, which include financial and residential verification, provide assurance that tenants are eligible to the discount and fulfil the criteria of the scheme ahead of completion.
- 5.22 CAFT has undertaken checks against 186 RTB applications during the financial year 2016/2017.
- 5.23 Fourteen of these applications have been referred to the DWP for further investigation due to the tenant being in receipt of DWP benefits. In addition, and as a result of CAFT investigations, two applications were withdrawn during the right to buy application process. However, it should be noted that neither application was identified as fraudulent.
- 5.24 The prevention work undertaken by the Corporate Anti-Fraud Team in respect of RTBs continues to protect valuable Council housing stock.

Housing/Tenancy Fraud

- 5.25 Following the success of the previous fraud awareness training sessions, an anti-fraud and corruption training session was provided to Board Members during August 2016.
- 5.26 A basic investigative support service has been provided to Berneslai Homes to help identify potential fraudulent tenancies. This support has enabled Berneslai Homes to recover three properties which were not being used by the tenant as their main home. CAFT investigations have also helped to prevent three false attempts to succeed tenancies.
- 5.27 A summary of alleged tenancy fraud referrals received for investigation during 2016/17 is shown in the table below.

Details	No.
Alleged application fraud – Closed no evidence of fraud	2
Alleged non-residency – not pursued, no evidence of fraud	19
Alleged fraudulent attempt to succeed tenancy – not pursued, no evidence of fraud	3
Allegation of sub-letting - not pursued, no evidence of fraud	5
Ongoing	4
Total	33

5.28 Most of the above referrals were received anonymously from members of the public (7 to the Corporate Anti-Fraud Hotline and 4 letters). A further 8 referrals were received via Corporate Fraud Online Referral Forms whilst 14 were referred from Berneslai Homes (13), Benefits, Taxation and Income (2) and Social Services (1).

6. Key Priorities for 2017/18

6.1 The need to respond quickly and comprehensively to allegations of fraud and corruption impacts on the ability to deliver proactive anti-fraud work. The Corporate Anti-Fraud Team will continue to advise managers to investigate lower risk referrals.

6.2 The Corporate Anti-Fraud Team has allocated 561 chargeable days for reactive and proactive fraud work in 2017/18.

6.3 The key priorities over the next few months are shown below. These will be reported back to the Committee within the next update in approximately 3 months.

Ref	Action	Timescale
1	Develop additional Fraud Awareness E-Learning	July 2017
2	Review of Corporate Prosecutions Policy	September 2017
3	Review of Corporate Fraud Response Plan	September 2017
4	Review of Corporate Whistleblowing Policy	September 2017
5	Filtering and investigation of NFI datamatches*	2 nd milestone September 2017
6	Reinstatement of the management fraud risk assessment process	October 2017

*The Cabinet Office recommends milestones throughout the two year exercise to help plan and resource investigations. An initial review of all recommended filter matches in key reports should be complete by the end of May 2017. By 30th September 2017 some cases and outcomes should be recorded on the NFI web application. All selected matches should have been investigated and outcomes recorded by summer 2018.

7. Local Area Implications

7.1 There are no Local Area Implications arising from this report.

8. Consultations

8.1 All audit reports are discussed with the main auditee. Individual audit reports are provided to the appropriate Executive and/or Assistant Director to apprise him/her of key issues raised and remedial actions agreed.

9. Compatibility with European Convention on Human Rights

9.1 In the conduct of investigations, the Corporate Anti-Fraud Team operates under the provisions of the Data Protection Act 1998, the Human Rights Act 1998, the Regulation of Investigatory Powers Act 2000 and the Police and Criminal Evidence Act.

10. Reduction of Crime and Disorder

10.1 An inherent aspect of counter fraud work is to prevent, detect and investigate incidents of fraud, theft and corruption. The control issues arising from audit investigations have been considered to ensure improvements in overall controls. Additionally, Internal Audit Services ensures that in specific instances, management takes appropriate action to minimise the risks of fraud and corruption re-occurring.

11. Risk Management Considerations

11.1 Whilst there are no specific risks emanating as a result of this report there are a range of risk issues worthy of consideration and note.

11.2 There is a risk to the control and governance of the Authority if management fail to implement recommendations. In mitigation Internal Audit has introduced a more rigorous 'follow-up' process to ensure the most significant issues are implemented. This is reported to the Audit Committee within the quarterly and annual reports.

12. Employee Implications

12.1 All employees are under an obligation through their contracts of employment to be honest and adhere to the Code of Conduct.

12.2 There will be further guidance and opportunities for all employees to ensure their personal awareness of anti-fraud and corruption measures continues to be high. Management are charged to ensure that awareness is high and maintained.

13. Financial Implications

13.1 There are no financial implications arising directly from this report. The costs of the Corporate Anti-Fraud Team function are included within the Authority's base budget.

13.2 There are financial consequences in both losses from fraud and also the cost of controls to minimise fraud. Internal Audit Services carefully assess both aspects of the financial consequences of fraudulent activity when making recommendations and advising management.

14. Background Papers

14.1 Various previous Audit Committee reports

Contact Officer: Head of Internal Audit and Corporate Anti-Fraud
Telephone: 01226 773241
Date: 30th May 2017

	Case Description	Result / Outcome
1.	<p>Suspected Money Laundering – A referral was received from the Benefits, Taxation and Income Team relating to a possible failure to report a change in income.</p> <p>Whilst the referral was unsuitable for investigation due to the low value of the overpayment it was noticed that bank statements supplied by the claimant showed irregular daily transactions into and out of the bank account. The payments, of a significant value, appeared to have been received from the claimant’s employer and had been withdrawn the same day via a local ATM.</p> <p>Checks to the business established that the company has 72 franchises across the UK and the latest annual return recorded it as a ‘small company’. Additional checks verified that 2 of these franchises are located within the Barnsley Borough and that both were claiming empty relief.</p> <p>Visits to both properties evidenced that they were occupied and trading. In addition, witness statements taken from neighbouring businesses established that neither property had been unoccupied. Details of CAFTS findings in respect of the 2 properties were reported to Benefits, Taxation and Income and both business accounts were subsequently amended.</p>	<p>CAFT’s concerns regarding suspected money laundering were referred to the National Crime Agency for further investigation.</p> <p>The business rates accounts were adjusted to remove the empty rates relief which resulted in £1,779.93 being added to the business rates account.</p>
2.	<p>Council Tax Exemption – A referral was received from a member of the public alleging that an individual, exempt from paying council tax due to having a severe mental impairment (SMI), was working full-time.</p> <p>Checks to council tax records confirmed that the individual was exempt from council tax and that the exemption awarded was due to ‘property being fully occupied by SMI’. Additional checks established that the individual had applied for the exemption and their registered GP had certified that the individual was ‘suffering from severe mental impairment’.</p> <p>Checks to internet open source material identified that the individual had an open</p>	<p>The exemption was withdrawn with effect from June 2016, the date that the GP advised CAFT that the individual did not satisfy the exemption criteria.</p> <p>This resulted in an adjustment of £1,010.70 being added to the council tax account.</p>

	Case Description	Result / Outcome
	<p>Facebook profile and recorded their nature of employment and name of employer. Of more interest however, was a video of the individual appearing on the TV show 'Countdown'.</p> <p>A visit to the individual's GP was subsequently arranged and the qualification criteria for a 'Severe Mental Impairment' exemption from council tax were discussed. In addition, the video clip referred to above was also shown to the GP who responded that he filled in lots of forms and that mental capacity was subject to review. It was further explained that for council tax purposes the severe mental impairment of intelligence and social functioning must appear to be permanent.</p> <p>The GP subsequently contacted CAFT stating that, following the above meeting and having received clarification about the criteria for the exemption he no longer believed that the individual was permanently severely mentally impaired.</p>	
3.	<p>Application to Succeed a Tenancy – An investigation was instigated following a referral from Berneslai Homes. An individual had submitted an application to succeed a tenancy following a parent being admitted to permanent residential care. The officers had concerns that the individual had falsely claimed to be living in the property for the required length of time.</p> <p>Checks undertaken by CAFT, including third party data background searches, identified that the individual had financial links to a property in the Cheshire area. The relevant local authority was contacted and was able to provide confirmation that the individual was registered for council tax purposes within their locality and therefore did not satisfy the criteria to succeed the tenancy.</p> <p>A possession order was subsequently made by Berneslai Homes as a result of the evidence supplied by CAFT.</p>	The property was recovered and has been re-let to new tenants.

Item 7

Report of the Head of Internal Audit and Corporate Anti-Fraud

AUDIT COMMITTEE – 14th JUNE 2017

INTERIM INTERNAL AUDIT ANNUAL REPORT 2016/17

Executive Summary

- i. This report provides the Head of Internal Audit's interim annual opinion on the adequacy and effectiveness of the Authority's internal control arrangements based on the work of Internal Audit during 2016/17 and has been prepared in accordance with the Public Sector Internal Audit Standards.
- ii. Considering the overall results of Internal Audit work undertaken to date, together with management's implementation of recommendations the indicative opinion given is **adequate** (positive) assurance. This has been based upon an agreed annual programme of risk based audit coverage which has enabled a valid indicative assurance opinion to be provided.
- iii. Whilst the overall indicative opinion is positive, there are some key issues arising from Internal Audit work in the year that senior management should consider. In general terms these relate to the continued impact of Future Council and the implications of changed structures, new and changed systems and an increased workload for many managers which have impacted upon their ability to maintain reasonable and effective controls in some areas of activity.
- iv. It is recognised that the Future Council approach has required a change in risk appetite and that there has been a natural period during which new operational arrangements have been implemented. The next stage of course is to ensure that these are embedded. This has been openly acknowledged and discussed with senior management during the year but it is nevertheless important that during 2017/18 senior managers remain alert to and focussed on maintaining an appropriate, risk-based and effective framework of controls.
- v. The key issues arising from all completed audits have been reported throughout the year within the Quarterly Internal Audit Reports and are summarised in this report.
- vi. Throughout the year the Audit Committee have been made aware of progress in the implementation of audit report recommendations. This has continued to be an issue throughout the year. Overall, at the point of follow-up and over the year only 45% of recommendations had been implemented by the date agreed by management. The monitoring of report recommendations will continue to be a priority for the Service.
- vii. The current audit plan is focussed on supporting management to consider the approach to controls in the context of reduced resources.

AUDIT COMMITTEE – 14th JUNE 2017

INTERIM INTERNAL AUDIT ANNUAL REPORT 2016/17

1. Purpose of Report

1.1 This interim annual report has been prepared adopting recommended practice contained within the Public Sector Internal Audit Standards (PSIAS) which came into effect on the 1st April 2013. These Standards require the Head of Internal Audit (HoIA) to report to the appropriate Member body, the Audit Committee, providing his opinion on the overall adequacy and effectiveness of the Authority's framework of governance, risk management and control based on the work undertaken by Internal Audit.

1.2 In order to comply with these Standards the report provides:-

- i. an opinion on the overall adequacy and effectiveness of the Authority's framework of governance, risk management and control;
- ii. summary of the audit work undertaken to formulate the opinion;
- iii. details of key control issues identified which can be used to inform the Annual Governance Statement (AGS); and
- iv. the extent to which the work of other review or audit bodies has been relied upon.

1.3 The opinion provided is an indicative opinion and an update will be given to members at the September Audit Committee to coincide with the consideration of the final Annual Government Statement.

2. Recommendations

2.1 It is recommended that the Audit Committee:-

- i. considers the indicative opinion provided by the Head of Internal Audit based on the work undertaken in 2016/17 regarding the adequacy and effectiveness of the Authority's framework of governance, risk management and control;**
- ii. notes the key issues arising from the work of Internal Audit in the context of the Annual Governance Statement (AGS).**

3. Introduction / Background

3.1 In accordance with statutory best practice provided by the PSIAS, there is a requirement that the Head of Internal Audit (HoIA) prepares an annual report to the appropriate member body providing, amongst other things, an opinion on the overall adequacy and effectiveness of the Authority's framework of governance, risk management and control based on the audit work

undertaken. For the Authority, the appropriate member body is the Audit Committee.

- 3.2 The Accounts and Audit Regulations require all councils to publish an Annual Governance Statement (AGS) providing a narrative on the Council's internal control, risk management and governance framework, the results of the annual review process and detailing any actions to be taken in respect of any identified weaknesses. The AGS will address all aspects of corporate governance including internal control and risk management arrangements, in addition to financial controls.
- 3.3 This report provides a summary of key issues arising from the work of Internal Audit covered in the 2016/17 audit plan and up to the point of preparing this report, which contributes to the overall indicative assurance opinion the HoIA is able to give the Audit Committee.
- 3.4 Although providing an important and significant contribution to the assurances the Audit Committee needs in its consideration of the AGS, this report forms only part of the assurance framework. The Audit Committee will receive the draft Annual Governance Statement for 2016/17 at the June or July meeting. The Audit Committee are therefore encouraged to consider this interim annual report in the context of broad controls assurance.
- 3.5 The financial budget for the Internal Audit Team is clearly set covering the period 1st April to 31st March each year and a plan of the days and where they are planned to be delivered is prepared similarly. However, the actual delivery of internal audit work and the constant review and revision of coverage is on a more rolling basis. In order to align the annual Internal Audit report to the AGS and the signing of the Statement of Accounts it is more appropriate that the Head of Internal Audit's opinion is provided reflecting all the work undertaken at the point of the approval of the AGS and Accounts.
- 3.6 In order to provide the Audit Committee with key information and the opportunity to comment this interim final report has been prepared along with an indicative opinion.

4. Head of Internal Audit's Indicative Opinion on the Effectiveness of the Authority's Internal Control Environment

- 4.1 The Audit Committee has received quarterly reports throughout the audit year. In each of these reports an adequate assurance opinion had been given reflecting on a quarterly basis an overall satisfactory level of internal controls and their application.
- 4.2 Taking the whole year into account and the audits completed, it is appropriate to give an overall **adequate** (positive) indicative assurance opinion for the year. The information supporting this opinion is provided below. It is pleasing to note that the number of audits resulting in a limited assurance has decreased from 52% (14) in 2015/16 to 38% (6) in 2016/17.
- 4.3 Whilst the overall opinion is positive, there are some key issues arising from Internal Audit work in the year that senior management should consider. In

general terms these continue to relate to the impact of Future Council and the implications of changed structures, new and changed systems and an increased workload for many managers have had on the ability to maintain reasonable and effective controls in some areas of activity.

- 4.4 It is recognised that the Future Council approach has required a change in risk appetite and that there is a natural period during which new operational arrangements will embed. This has been openly acknowledged and again discussed with senior management during the year but it is nevertheless important that during 2017/18 senior managers remain alert to, and focussed on, maintaining an appropriate, risk-based and effective framework of controls. The audit work undertaken and planned for the current year has sought to take into account the change in risk appetite necessary to embrace and implement such significant change and achieve financial savings. Although the overall assurance opinion is adequate, it is essential that senior management retain a focus on embedding new operational and governance arrangements.
- 4.5 To highlight this issue, a number of senior managers asked for Internal Audit input during the year to provide assurances that the control framework in certain areas was effective. This Internal Audit support was requested to highlight key risk issues and assist management in how best to manage the risks. Of key importance of course is the consideration and management of the identified and accepted risks moving forward.
- 4.6 It should be noted that the audit work completed has in the main identified weaknesses in the framework and application of controls that increases the risk of the failure to meet operational objectives. The failure to then address control weaknesses through the timely implementation of recommendations clearly adds to this risk.
- 4.7 Section 6 of this report provides more detail regarding the results of the audit work. Again, in summary, 62% of the completed audits resulted in a substantial or adequate assurance opinion which is a significant improvement from 2015/16. With regards to the implementation of recommendations (agreed management actions) only 45% were implemented by the original date set by management, although this is also an improvement from 2015/16.
- 4.8 Within the quarterly reports a number of key issues were drawn to the Committee's attention. These are summarised in Section 6.
- 4.9 The results of the core system reviews for the 2016/17 financial year are given in paragraph. 6.15.
- 4.10 There was, however, only a small percentage of the recommendations made that fell into the Fundamental category (3%). Overall, there has been a 5% decrease in the percentage of significant recommendations from 49% in 2015/16 to 44% in 2016/17.
- 4.11 Audit work in the year has found areas where controls remain good and only relatively minor issues have been raised. However, as mentioned above, the

work has identified the continuation of a general theme of the difficulty management have had to implement recommendations by the agreed dates.

4.12 Although audit work aims to cover a broad range of services, systems and areas of Council activity, it needs to be recognised that Internal Audit coverage cannot guarantee to detect all errors, systems or control weaknesses or indeed identify all of the opportunities for improvements in management arrangements that might exist. Accordingly the assurance opinion provided is based on reasonable coverage, as resources allow, and cannot be regarded as absolute assurance. Equally, there is a responsibility of senior managers through the annual governance statement process to provide assurances to the Chief Executive regarding the application and effectiveness of the internal control and governance framework in their operational or functional areas.

4.13 To remind the Committee, Internal Audit assurance opinions are classified within a range of four options, two positive and two negative. The table below shows in broad terms the basis for the different opinions applied.

	Level	Control Adequacy	Control Application
POSITIVE OPINIONS	Substantial Assurance	A robust framework of controls exist that are likely to ensure that objectives will be achieved.	Controls are applied continuously or with only minor lapses.
	Adequate Assurance	A sufficient framework of key controls exist that are likely to result in objectives being achieved, but the control framework could be stronger.	Controls are applied but with some lapses.
NEGATIVE OPINIONS	Limited Assurance	Risk exists of objectives not being achieved due to the absence of key controls in the system.	A significant breakdown in the application of key controls.
	No Assurance	A significant risk exists of objectives not being achieved due to the absence of controls in the system.	A fundamental breakdown in the application of all or most controls.

4.14 Internal Audit seeks to work closely as appropriate with other auditors, most significantly External Audit. However, for 2016/17 no work undertaken by other auditors or any other review body has been specifically relied upon in the provision of this indicative annual overall assurance opinion.

5. Summary of Internal Audit Work and Coverage 2016/17

5.1 Internal Audit aim to utilise a risk-based approach to planning its work. This approach seeks to ensure that the key risks facing the Authority are covered where appropriate by Internal Audit work. Internal Audit was able to use the Strategic and Operational Risk Registers to contribute to the planning of audit coverage. The audit planning process and details of the 2016/17 audit plan were reported to the Audit Committee in the March 2016 meeting.

- 5.2 The Audit Committee has received quarterly reports that incorporate the results of audit work and management's response on an on-going basis. A summary of the Internal Audit reports for 2016/17 is at Appendix 2.
- 5.3 At the beginning of the year provision is made in the allocation of audit resources for unplanned work, through a contingency. As requests for Audit work are received, or more time is required for jobs or changes in priorities are identified, time is allocated from this contingency. Over the last couple of years there has been a notable increase in the number of these adjustments which is indicative of the rapidly changing control environment and structure of the Council. Details of audit work which has been deferred, deleted or requests for specific pieces of work have been reported within the quarterly reports.
- 5.4 It should also be noted that Internal Audit work is variable both in its nature and timing. The risk-based approach ensures the highest priority work is undertaken. As with all plans, the audit plan was determined at a particular time (March 2016) utilising information available and has been subject to significant changes in certain areas arising from the Future Council Programme and requests for audit input. The Audit Committee should be assured that within the finite resources available to Internal Audit, the key audit risks identified have either received audit attention during the year or are reflected in the audit plan for 2017/18.
- 5.5 The position at the end of the year for core internal audit days shows a shortfall of 97 days, or 7%, of the original provision and therefore does not jeopardise the ability to provide reasonable coverage and therefore a valid opinion. Due to the flexible nature of the plan this was constantly monitored and revised with any work that was unable to be resourced being re-assessed and, where appropriate, carried over to the current audit year.
- 5.6 In terms of the overall delivery of planned days, a total of 1,239 days were delivered by the core Internal Audit team. Details of the original and revised plan along with how these days were actually spent against each Directorate are shown in Appendix 1. This overall level of core internal audit resource is 9% less (125 days) than provided in 2015/16. A full reconciliation of the 2016/17 Plan will be provided for the Final Annual Report.
- 5.7 Within the reduced resources there remains a significant amount of time needed to respond to requests for providing advice, support to services, innovation and initiatives, changes, projects and programmes, corporate change projects and general work that does not result in a specific report. Approximately half of operational audit time is spent on work that generates a specific report. Details of the non-report work have been provided through the quarterly reports, but in summary has covered the following:
- Grant verification
 - Final account reviews
 - Charity accounts
 - Requests for service reviews on a consultancy or advisory basis
 - Review of Contract Procedure Rules

- General advice to services in relation to controls, risk and governance
- Audit Committee support
- Follow-up of recommendations
- Corporate document management / information asset requirements
- Annual audit planning process
- Feedback and liaison to all services
- Input to the annual governance review
- Policy review and advice

5.8 Whilst the work covered in the above list has not resulted in a specific assurance opinion, all work undertaken is considered in terms of the overall annual assurance provided in this annual report. Much of this work has also been considered in the 2017/18 planned coverage.

6. Summary of Internal Control Issues Arising from Internal Audit work in 2016/17

6.1 Internal Audit has completed 16 individual reviews of aspects of the Authority’s internal control framework during 2016/17 that resulted in a formal report. These 16 audits sought to identify, test and review various controls to ensure management were meeting their responsibilities to establish and adhere to appropriate systems of internal control.

6.2 A summary of the assurance opinions given for the 16 reports issued for the year is shown below together with a comparison to 2015/16 and 2014/15.

Assurance Opinion		2016/17		2015/16		2014/15	
		No.	%	No.	%	No.	%
Positive Opinions	Substantial	1	6%	2	7%	12	44%
	Adequate	9	56%	11	41%	12	45%
Negative Opinions	Limited	6	38%	14	52%	3	11%
	No	0	0%	0	0%	0	0%
TOTAL		16	100%	27	100%	27	100%

It should be noted that clearly some audit areas have a greater significance and potential impact on the overall assurance opinion, i.e. a small establishment or system receiving a ‘limited assurance’ opinion will have a lower impact on the overall opinion compared to say a major service or a core financial system receiving such an opinion.

6.3 As can be seen from the table, there has been a decrease in the number of reports issued with a negative assurance opinion. Whilst the statistic is in itself significant, the actual reports are different each year.

6.4 Across the various completed pieces of work 117 recommendations were made. These are summarised below:

	No.	%	No.	%	No.	%
Recommendation Category	2016/17		2015/16		2014/15	
Fundamental	4	3%	10	6%	3	3%
Significant	51	44%	86	49%	47	45%
Merits Attention	62	53%	79	45%	54	52%
Total	117	100%	175	100%	104	100%

- 6.5 As can be seen, only 4 fundamental recommendations were made reflecting the fact that overall relatively few major control issues were identified. In all cases management have agreed the recommendations made and set their own timescales for implementation. Although there has been significant pressure on management throughout the year and across all services, Internal Audit has continued to get good co-operation from management across the Council and at various levels.
- 6.6 Details of the key issues arising from these reviews have been presented to the Audit Committee in the quarterly reports. These findings have arisen across audit reviews ranging from specific establishments to areas of governance.
- 6.7 As stated in the quarterly reports it is important to note that the identification of control weaknesses does not necessarily indicate that any loss or inefficiency has actually occurred. Weaknesses indicate an increased *potential* that losses or inefficiencies could occur.
- 6.8 An important part of Internal Audit's assessment of controls is undertaken through the annual reviews of the core financial systems of the Authority. This work is considered by External Audit who have regard to Internal Audit's work to assist in their opinion on the financial systems for their audit of the Accounts.
- 6.9 The core system reviews in relation to 2016/17 are just being completed. The necessary timing of these reviews is extremely challenging in coinciding with the preparation of the draft accounts. It is appropriate to highlight the excellent co-operation once again received from Financial Services. A separate section on the core system reviews is given below.
- 6.10 In relation to specific establishments or other minor systems, controls are tested at a lower level to ensure the detailed operation of systems and procedures, and the use of assets and resources are effective.
- 6.11 During the year 86 audit report recommendations were followed-up in accordance with the recommendation follow-up protocol. As reported through the quarterly reports, the percentage of recommendations implemented by the original date has been relatively low.
- 6.12 Overall, at the point of review and across the year, only 45% (35% in 2015/16) of recommendations had been implemented as originally planned. However,

again at the point of review 70% (80% 2015/16) of recommendations had been implemented albeit a significant proportion outside of the original timescales.

- 6.13 The Audit Committee has continued to monitor this situation and has expressed concern regarding this matter. Senior management have been reminded of their responsibilities to implement agreed recommendations to ensure any control, risk or governance weaknesses identified through internal audit work are corrected. The Senior Management Team receive regular monitoring reports regarding the implementation of recommendations and escalate action accordingly. Clearly, any significant delay in implementation or non-implementation weakens the overall control environment.
- 6.14 In common with the general theme highlighted previously, Internal Audit has found that in many cases the delay in the implementation of recommendations has been as a direct consequence of the significant demands placed on senior management over the last 24 months in managing the implementation of Future Council. It is hoped that in 2017/18 senior management will be able to better meet their own timescales for implementing recommendations. However, it is acknowledged that additional and significant savings will be required over the next few years which are likely to continue to impact on management capacity.

Core System Reviews 2016/17

- 6.15 Overall there are 11 systems regarded as core and fundamental to the financial management of the Authority. Over the last few years there has been a detailed risk assessment undertaken to establish the extent of coverage each system requires given a number of factors, namely any significant changes in the system or key personnel, the audit opinion the previous audit and the results of an analytical review undertaken by Internal Audit. The outcome of this risk assessment is discussed and agreed with the Section 151 Officer. External Audit are also consulted on the risk assessment and proposed coverage.
- 6.16 The assurance opinions given for each of them are shown in the table below:-

Core System	Assurance Opinion 2016/17	Assurance Opinion 2015/16	Assurance Opinion 2014/15	Assurance Opinion 2013/14	Assurance Opinion 2012/13
Purchase to Pay	Not Audited	Not Audited	Adequate	Adequate	Adequate
Income	Not Audited	Adequate	Limited	Adequate	Adequate
Council Tax / NDR	Not Audited	Adequate	Not Audited	Substantial*	Substantial
Housing Benefits	Ongoing	Not Audited	Not Audited	Substantial	Substantial
Pay, Employee Admin & Org. Management	Not Audited	Not Audited	Substantial	Substantial	Adequate
Fixed Assets / Asset Mgt.	Not Audited	Not Audited	Limited	Adequate	Substantial

Core System	Assurance Opinion 2016/17	Assurance Opinion 2015/16	Assurance Opinion 2014/15	Assurance Opinion 2013/14	Assurance Opinion 2012/13
Cash Receipting & Banking	Not Audited	Not Audited	Adequate	Adequate	Adequate
Main Accounting	Not Audited	Not Audited	Not Audited	Substantial	Substantial
Housing Rents	Substantial	Substantial	Substantial	Substantial	Substantial
Treasury Management	Adequate*	Not Audited	Not Audited	Substantial	Substantial
SAP System*	Not Audited	Limited	Limited	Not audited	Not audited

Summary

Assurance Opinion	2016/17	2015/16	2014/15	2013/14	2012/13
Substantial	1 / 50%	1 / 33%	2 / 29%	7 / 64%	7 / 64%
Adequate	1* / 50%	2 / 33%	2 / 29%	4 / 36%	4 / 36%
Limited	0	1 / 33%	3 / 42%	0 / 0%	0 / 0%
No	0	0 / 0%	0 / 0%	0 / 0%	0 / 0%
Audit Ongoing	1	0 / 0%	0 / 0%	0 / 0%	0 / 0%
Not audited	8	7	5	1	1

*The review of Treasury Management was ongoing at the time of preparing this report. However, after manager review, we can confirm that our findings are indicating an adequate opinion.

- 6.17 Due to the timing of these audits, the detailed results will be included in the Progress report to the July Audit Committee meeting and within the final annual report to the September meeting.

Summary of Control Issues

- 6.18 During the year the Audit Committee has received quarterly reports that highlighted key control issues that could potentially undermine the provision of an overall positive assurance opinion for the year. The major issues that resulted in the issue of fundamental recommendations were:-

- the adequacy of information governance arrangements regarding the monitoring of system access and separation of duties.
- the effectiveness of human resource governance regarding absence management information
- a financial management issue concerning the management of service budgets
- adequacy of information management and compliance with the Data Protection Act.

- 6.19 It is noted and highlighted that the Future Council Programme will continue to have significant implications for the structure and nature of the Council's control framework. This will inevitably give rise to implications in terms of the effectiveness of control and governance structures and will require careful management in order to retain a positive assurance overall.

7. Local Area Implications

7.1 There are no Local Area Implications arising from this report.

8. Consultations

8.1 All audit reports are discussed with the main auditee. Individual audit reports are provided to the appropriate Executive and/or Assistant Director to apprise him/her of key issues raised and remedial actions agreed. No specific consultation has been necessary in the preparation of this annual report.

9. Compatibility with European Convention on Human Rights

9.1 In the conduct of investigations, Internal Audit operates under the provisions of the Data Protection Act 1998, the Human Rights Act 1998, the Regulation of Investigatory Powers Act 2000 and the Police and Criminal Evidence Act.

10. Reduction of Crime and Disorder

10.1 An inherent aspect of audit work is to prevent, detect and investigate incidents of fraud, theft and corruption. The control issues arising from audit investigations have been considered to ensure improvements in overall controls. Additionally, Internal Audit ensures that, in specific instances, management takes appropriate action to minimise the risks of fraud and corruption re-occurring.

11. Risk Management Considerations

11.1 Whilst there are no specific risks emanating as a result of this report there are a range of risk issues worthy of consideration and note.

11.2 During the year, the Division reviewed and revised its operational risk register to ensure all risks to the delivery of the function's objectives were identified and could therefore be managed. This risk register is the subject of regular review in accordance with the corporate process.

11.3 The Audit Committee has received a detailed report on the audit plan including the basis of the plan and the utilisation of risk information. This is a critical aspect of the audit function and seeks to ensure audit resources are targeted at the areas of the Council's business where the most significant risks have been identified.

11.4 There is a risk to the Authority as a whole should the Internal Audit function not be effective. This would undermine the internal control, risk and governance arrangements of the Authority and fail to provide the Audit Committee with insufficient independent information upon which to base their assurance views upon. The provision of detailed quarterly reports during the year, plus this annual report and the report on the effectiveness of the audit function should act as mitigation in ensuring the Audit Committee is in a position to constantly keep the audit function under review.

11.5 There is a risk to the control and governance of the Authority if management fail to implement recommendations. In mitigation Internal Audit has introduced a more rigorous 'follow-up' process to ensure the most significant issues are implemented. This is reported to the Audit Committee within the quarterly and annual reports.

11.6 As the Committee is aware the Internal Audit Section has achieved its budget saving of £70,000 for 2017/18. This has reduced the audit plan for 2017/18, thereby reducing the basic number of days able to be delivered for the Council. The 2017/18 audit plan has however been established to maximise this reduced level of coverage. A key responsibility of the Committee is to monitor the delivery of the audit plan and Internal Audit's effectiveness through the year.

12. Employee Implications

12.1 There are no employee implications arising from this report.

13. Financial Implications

13.1 There are no financial implications arising directly from this report. The costs of the Internal Audit function and the external audit fees are included within the Authority's base budget.

14. Appendices

14.1 Appendix 1 - Internal Audit Plan 2016/17
Appendix 2 - Summary of Internal Audit Reports 2016/17
Appendix 3 - Details and Outcome of other Audit Activities Not Producing a specific Assurance Opinion

15. Background Papers

15.1 Various Internal and External Audit reports, files and working papers.

Officer Contact: Rob Winter CPFA
Head of Internal Audit and Corporate Anti-Fraud
Telephone No: 01226 773241
Date: 1st June 2017

INTERNAL AUDIT PLAN 2016/17 – Position as at 31st March 2017

Directorate	Original 2016/17 Plan	Revised 2016/17 Plan	Actual Days
Communities	50	18	15
People	165	225	240
Place	139	171	188
Public Health	10	2	4
<i>Corporate Services:</i>			
➤ HR, Performance & Communications	122	163	119
➤ Legal & Governance	105	45	20
➤ Finance, Assets & Information Services	430	285	313
Council Wide	265	276	340
Contingency	50	159	0
Total Internal Audit	1,336	1,344	1,239

Corporate Anti-Fraud Team	581	578	588
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Total Chargeable Planned Days	1,917	1,922	1,827
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Summary of Internal Audit Reports 2016/17

Service / Directorate / Audit Title	Key Issues	Assurance Opinion	No. of Recs.	Date Report Issued
Finance, Assets & Information Services: Income System	The review identified issues in respect of the timeliness of monitoring and recovery of debt and the inconsistent application of procedures. This has resulted in some debts having little or no action taken to progress the debt to the next recovery stage.	Adequate	F - 0 S - 3 MA - 3	06.06.16
Finance: Council Tax / NDR	The key issue arising from the audit review relates to entitlements to discounts and exemptions which are not reviewed on a timely basis. It was acknowledged that system improvements arising from the re-design of the Council's debt recovery function should help address the issues identified during the audit.	Adequate	F - 0 S - 3 MA - 3	07.06.16
Information Services: Data Protection, Freedom of Information, Environmental Information Regulations Data Requests	The key issues raised relate to the delays in responses and approvals from services areas / Service Directors which has resulted in the timescales prescribed by the Information Commissioner not always being achieved.	Adequate	F - 0 S - 1 MA - 5	09.06.16
Place: URBACT Project TechTown	Overall the audit concluded that there was an adequate governance and internal control framework in order to provide the necessary assurances as to the validity and correctness of project expenditure incurred, including officer expenses. Notwithstanding this, the audit identified a number of areas for improvement, having particular regard for the need to ensure staff clarity in relation to the relevant corporate policies and procedures and compliance with the requirements as appropriate.	Adequate	F - 0 S - 2 MA - 2	01.09.16
People: Early Years Education Funding	The key issue identified related to the absence of an up to date Early Education Funding Agreement which was required in order to provide clarity for the benefit of the Council and the provider in terms of the services to be provided.	Adequate	F - 0 S - 4 MA - 2	14.10.16
Human Resources: E-Enabled Leave	The key issues identified relate to the absence of effective procedural instructions and outstanding technical and/or training issues preventing the use of FIORI by specific groups of employees. Consequently the FIORI system is not currently adopted for use by all employees resulting in inconsistencies and lack of clarity with regard to employee responsibilities when booking / authorising leave. A formal post-implementation review of the system has not yet been undertaken which may have more readily identified and addressed these issues.	Limited	F - 1 S - 1 MA - 3	16.12.16

Service / Directorate / Audit Title	Key Issues	Assurance Opinion	No. of Recs.	Date Report Issued
Human Resources: Management Attendance Policy	<p>The review identified a number of concerns with regards to the application of the required procedures which has impacted upon the accuracy of absence management information. In addition, Absence Monitoring Meetings had not always been conducted in respect of employees incurring sporadic periods of absence and appearing on trigger reports.</p> <p>The audit also highlighted that the inconsistent procedures are being applied in respect of the submission, storage and retention of absence documentation.</p>	Limited	F - 0 S - 3 MA - 6	16.12.16
Place: Right to Buy	The audit concluded that the Right to Buy system was well controlled and managed and the audit did not make any recommendations.	Substantial	F - 0 S - 0 MA - 0	13.12.16
Place: Receipt & Banking of income – Smithies Depot & Parking Services	The audit identified a number of issues in relation to the management of cash and banking arrangements which need to be improved in order to provided assurance that all income due has been receipted and banked promptly and correctly.	Limited	F - 0 S - 4 MA - 6	20.12.16
People: Safeguarding Overview & Scrutiny	<p>The audit identified a number of areas where the control framework could be improved, having particular regard for the need to ensure clarity and definition of those processes relating to the work of the Council’s Overview and Scrutiny Committee and ensuring all safeguarding risks are reviewed in a timely manner.</p> <p>It should be acknowledged that with the exception of one significant recommendation, all recommendations had been addressed at the time of the post audit discussion.</p>	Adequate	F - 0 S - 4 MA - 2	16.11.16
Finance: Payroll Overtime and Expenses	<p>The key issue related to the adequacy of the expenses and overtime policy / procedures and the need for clarity in order to better support users / managers when completing claims. The results of sample transactional testing reinforced this issue.</p> <p>The revised electronic mileage and general expenses form has improved the efficiency of the payment system. However, the audit identified several system issues that will need to be addressed in order to improve the correct application of procedures by claimants and managers.</p>	Adequate	F - 0 S - 4 MA - 1	05.01.17

Service / Directorate / Audit Title	Key Issues	Assurance Opinion	No. of Recs.	Date Report Issued
Finance: Budget Monitoring & Reporting and Service & Financial Planning	The review concluded that Budget Managers for the service areas reviewed did not proactively monitor and performance manage budgets for which they are accountable. Managers are not always complying with revised business processes introduced as part of Future Council arrangements which reinforced the need for managers to have the tools and expertise to manage budgets, make informed decisions and ultimately to remove the necessity for the provision of direct financial support moving forward.	Limited	F - 1 S - 3 MA - 3	19.11.16
Place: Receipt & Banking of Income	The key issues identified relate to: <ul style="list-style-type: none"> the incorrect configuration of the E-Return Template which has resulted in the incorrect allocation of VAT the omission of VAT on the 'Sale of Crafts' merchant copy receipts retained by Cannon Hall Museum for debit/credit card payments including the full 16 digit Primary Account Number the absence of independent checks at both sites to confirm that income is banked in full and correctly the incorrect use of 'ZZ' readings from the till at Elsecar Heritage Centre increasing the risk that income received is improperly accounted for financial documentation not being retained securely at Elsecar Heritage Centre 	Limited	F - 0 S - 7 MA - 6	04.01.2017
Finance: Corporate Risk Management	The key issue identified relates to the need to ensure that risks are reviewed by Business Units in accordance with the established corporate risk management process and that risk mitigating actions are similarly reviewed / progressed in accordance with corresponding timescales.	Adequate	F - 0 S - 1 MA - 4	10.02.2017
People: Management of Personal & Confidential Information	The key issue raised relates to the use of 'H' drives for business information purposes. The use of this means of data storage adversely impacts upon the accessibility of information for the purpose of management reporting and decision making. In addition, the Children's Case Management System may not always contain complete and up to date information. This gives rise to implications in terms of compliance with the Data Protection Act.	Limited	F - 1 S - 3 MA - 8	09.03.2017
Place: Town Centre Regeneration - Development Management Organisation (DMO)	The key issues identified relate to the need to ensure that the Project Execution Plan (PEP) is appropriately approved in accordance with the defined governance requirements and key financial / project risks are effectively managed.	Adequate	F - 0 S - 3 MA - 8	27.03.2017

Details and Outcome of other Audit Activities Not Producing a specific Assurance Opinion

Audit Work Completed	Details	Contribution to Assurance
Place – SYMAS 2015/16 Accounts	Validation of the accuracy of the 2015/16 accounts.	The work contributes to assurance in respect of financial management.
Place: Junction 36 Lessons Learnt Review	Internal Audit facilitated a workshop of the key stakeholders to identify the key factors impacting on the delay incurred in the securing of legal agreements with M1 J36 business park developers in order to identify lessons learnt as appropriate.	The work contributes to assurance in respect of programme management
Place – Trans Pennine Trail 2015/16 Accounts	Validation of the accuracy of the 2015/16 accounts.	The work contributes to assurance in respect of financial management.
Place – Residential Investment Fund	Advisory piece of work in relation to the establishment of a governance and control checklist for use by the service in progressing the Residential Investment Fund.	The work contributes to assurance in respect of financial management.
Place – Local Plan	Advisory piece of work regarding the effectiveness of the risk management arrangements re the development of the Local Plan.	The work contributes to assurance in respect of financial management.
People – Schools	Advice provided to Barugh Green Primary School with regard to the application of contract procedure rules for procuring broadband services.	The work contributes to assurance in respect of contracts / procurement / commissioning management.
People – Grant Audit	Validation of the accuracy of the Social Care (Capital) grant.	The work contributes to assurance in respect of financial management.
Information Services – IT Assets	Advisory piece of work relating to a review of arrangements at Mount Osborne Business Units for the receipt, storage, issue, disposal and physical security of IT assets.	The work contributes to assurance in respect of asset management.
Commercial Services – Financial Procedures	Advice Provided to Commercial Services re the security of Bankline Smartcards and PINS along with the retention of original receipts for debit card payments.	The work contributes to assurance in respect of financial management.
People – Financial Procedures	Advice provided to Early Start Prevention & Sufficiency regarding the legalities of name / titles recorded on a new vendor creation form.	The work contributes to assurance in respect of financial management.
Information Services – IT Stores / Procurement	Advice provided regarding procedures for stores and purchasing.	The work contributes to assurance in respect of financial management.
Human Resources – Business Support Service	Advice required by Business Support regarding the relocation of a safe.	The work contributes to assurance in respect of anti-fraud and corruption.
Finance - Procurement Cards	Advice provided to the Business Support Services Manager regarding the absence of procedures on the BMBC Intranet site in respect of procurement cards / petty cash.	The work contributes to assurance in respect of financial management.
Information Services - Personal Records	Advisory piece of work relating to the security and storage of personal files and the receipt, storage, examination, disposal and physical security of employee sickness documentation and disciplinary correspondence	The work contributes to assurance in respect of information governance.
Human Resource - Business Support Services – Petty Cash	Advisory piece of work for the HR Business Support Service Manager relating to the review of the Business Support procedures for issuing and reconciling Petty Cash at various premises.	The work contributes to assurance in respect of financial management.

Audit Work Completed	Details	Contribution to Assurance
People - Dearne ALC – Financial Governance Review	Advisory piece of work in the form of a financial governance review requested by Dearne ALC.	The work contributes to assurance in respect of financial management within schools.
People - Early Years Register Audits	Advisory piece of work regarding compilation of a risk based programme of register audits for 2016/17 for the School Access Manager, Early Start, Prevention and Sufficiency.	The work contributes to assurance in respect of performance management.
Human Resources - P&DR Process	Through a process of selected interviews, feedback received was analysed and conclusions drawn in respect of the current corporate personal development and review process.	The work contributes to assurance in respect of human resource management.
Information Services - Records Management Policy	Advice was provided in relation to proposed amendments to the Records Management Policy.	The work contributes to assurance in respect of information governance.
Information Services - Sharepoint Access	Advice was provided in relation to the management of access permissions regarding the new Sharepoint document management system.	The work contributes to assurance in respect of information governance.
Information Services – IT Assets	Advisory piece of work relating to a review of arrangements at Mount Osborne Business Units for the receipt, storage, issue, disposal and physical security of IT assets.	The work contributes to assurance in respect of asset management.
Commercial Services – Financial Procedures	Advice Provided to Commercial Services re the security of Bankline Smartcards and PINS along with the retention of original receipts for debit card payments.	The work contributes to assurance in respect of financial management.
People – Financial Procedures	Advice provided to Early Start Prevention & Sufficiency regarding the legalities of name / titles recorded on a new vendor creation form.	The work contributes to assurance in respect of financial management.
Information Services – IT Stores / Procurement	Advice provided regarding procedures for stores and purchasing.	The work contributes to assurance in respect of financial management.
Human Resources – Business Support Service	Advice required by Business Support regarding the relocation of a safe.	The work contributes to assurance in respect of anti-fraud and corruption.
Finance - Procurement Cards	Advice provided to the Business Support Services Manager regarding the absence of procedures on the BMBC Intranet site in respect of procurement cards / petty cash.	The work contributes to assurance in respect of financial management.
Information Services - Personal Records	Advisory piece of work relating to the security and storage of personal files and the receipt, storage, examination, disposal and physical security of employee sickness documentation and disciplinary correspondence	The work contributes to assurance in respect of information governance.
Human Resource - Business Support Services – Petty Cash	Advisory piece of work for the HR Business Support Service Manager relating to the review of the Business Support procedures for issuing and reconciling Petty Cash at various premises.	The work contributes to assurance in respect of financial management.
People - Dearne ALC – Financial Governance Review	Advisory piece of work in the form of a financial governance review requested by Dearne ALC.	The work contributes to assurance in respect of financial management within schools.
People - Early Years Register Audits	Advisory piece of work regarding compilation of a risk based programme of register audits for 2016/17 for the School Access Manager, Early Start, Prevention and Sufficiency.	The work contributes to assurance in respect of performance management.

Audit Work Completed	Details	Contribution to Assurance
Human Resources - P&DR Process	Through a process of selected interviews, feedback received was analysed and conclusions drawn in respect of the current corporate personal development and review process.	The work contributes to assurance in respect of human resource management.
Information Services - Records Management Policy	Advice was provided in relation to proposed amendments to the Records Management Policy.	The work contributes to assurance in respect of information governance.
Information Services - Sharepoint Access	Advice was provided in relation to the management of access permissions regarding the new Sharepoint document management system.	The work contributes to assurance in respect of information governance.
Legal: Charity Accounts	Completion of Charity Commission's Independent Examiner's Report return.	The work contributes to assurance in respect of financial management.
Legal: Strategic Commissioning & Procurement Forum - Documentation Sub Group	Documentation sub group role to design a suite of procedural guidance and hosting platform (SharePoint) that provides a step by step guide to procuring officers when administering procurement events whilst ensuring compliance with EU Regulations, Public Contract Regulations 2015 and the Council's Contract Procedure Rules.	The work contributes to assurance in respect of contracts / procurement / commissioning management.
Place: Public Road Network 2016/17 Schemes	Advice provided to the Interim Head of Highways and Engineering re approach for the completion of PRN schemes and completion of CPR waiver to allow completion by Rotherham Council via a collaborative arrangement. Included detailed review of rationale and identification of risk considerations to inform management decision.	The work contributes to assurance in respect of contracts / procurement / commissioning management.
Commercial Services: Purchase Order Signatories	Advice provided to Commercial Services with regard to signatories that should be included on the Council's purchase orders.	The work contributes to assurance in respect of financial management.
Finance: Procurement Cards - Future Directions	Advice provided to Finance colleagues re revised procurement card process and application by Future Directions Service.	The work contributes to assurance in respect of financial management.
Superfast South Yorkshire Broadband	Advice provided to Superfast South Yorkshire Broadband Programme Manager and Procurement colleagues re procurement of print materials.	The work contributes to assurance in respect of contracts / procurement / commissioning management.
Commercial Services: Revised cash / cheque collection process	Advice provided to Commercial Services re revised cash / cheque collection contract and associated processes.	The work contributes to assurance in respect of financial management.
Place: Property Investment Fund	Advice provided to the Senior Major Projects Officer, Economic Regeneration regarding the Property Investment Fund and the profit sharing arrangements as outlined within the external funding agreement.	The work contributes to assurance in respect of asset management.
People: Bursar - Mapplewell Primary School - Payroll	Advice provided to the School Bursar regarding the authorisation process re payroll variations / new starters forms.	The work contributes to assurance in respect of financial management within schools.
Place: Revised Final Account Process	Advice to Engineering & Highway Services re revised final account process.	The work contributes to assurance in respect of contracts / procurement / commissioning management.
Human Resources: HR Policies	Review of the Guidance Note for the scanning of documentation to personal files and examples of information to be placed on an employee's file.	The work contributes to assurance in respect of human resource

Audit Work Completed	Details	Contribution to Assurance
	Reference made to the HR Employee Personal Files Policy and the BMBC Human Resources Retention Schedule dated 02/07/2013.	management.
Place: URBACT Project TechTown Phase 2 - Grant Claim Certification	Grant Claim Audit Certification.	The work contributes to assurance in respect of financial management.

Item 8

Report of the Service Director
Governance and Member Support

Audit Committee – 14th June 2017

Governance and Member Support Business Unit Progress Report

1. Purpose of Report

- 1.1 To give 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

2. Functions of the Business Unit

- 2.1 The business unit has three broad functions reporting to the Service Director, Governance & Member Support:
- Council Governance (relating to decision-making processes and associated advice)
 - Personal support for the Leader, Mayor and Cabinet Members
 - Wider Members' Services (mainly providing an interface with Council administration, for example: supplies and services; payment of allowances; booking and promotion of surgeries; maintenance of webpages)
- 2.2 The core purpose of the Governance and Member Support business unit is therefore: To provide advice and support for elected members, senior officers and representatives of partner organisations to fulfil their duties and meet their obligations, and support the range of governance structures that are in place to ensure effective decision making.
- 2.3 In line with this, the business unit seeks to achieve the following outcomes:
- The effective implementation of decisions made within Council processes, free from the impact of legal challenge or delay.
 - Awareness amongst elected members and senior officers of the legal constraints and requirements of decision making and the ability to avoid potential pitfalls.
 - Public awareness of how decision making processes operate and the ability to access decision making information with ease.
 - Elected members who can perform all of their functions effectively

3. Related Elements of the Annual Governance Statement

3.1 The business unit has a role in ensuring assurance against the following elements of the Annual Governance Statement:

- Documenting the roles, responsibilities and delegated powers of the executive, non-executive, scrutiny and officer functions within the Council's Constitution
- Keeping under review the effectiveness of the Council's decision making framework, including delegation arrangements
- Arrangements to ensure compliance with relevant laws and regulations, internal policies and procedures

3.2 The Service Director Governance and Member Support takes responsibility for identifying the areas of the Constitution that need to be up-dated or amended following any changes internal or external to the Council. Invariably, this requires liaison with colleagues in other business units to ensure that key elements of their responsibilities are covered by this review process. This also helps to engaged them more effectively in the requirements of the Constitution.

3.3 The business unit also operates the processes and procedures through which agenda and reports for formal Council meetings are published. These arrangements take into account the relevant legal framework in respect of timeliness of notices for meetings. The business unit also ensures compliance with further legal requirements, for example in relation to specific arrangements for Key Decisions and any decision taken by Cabinet in private, liaising with other business units as required. This includes the production of related guidance and information, including Report Writing Guidelines and pro forma documentation.

3.4 In 2012, Regulations were introduced requiring the recording and publication of the exercise of executive functions by officers, in essence, officer decision-making under delegated powers. Regulations in 2014 extended this requirement to non-executive functions. There was some concern about levels of compliance with these requirements, notwithstanding the lack of clarity in the Regulations as to what should be recorded. This was identified in the Annual Governance Statement Action Plans for 2015/16 and 2016/17, and revised, more detailed, guidance on the recording of officer decisions issued in July 2016. As a result, greater compliance with the requirements is now being achieved, evidenced by the increased number of decision records coming forward for publication.

4 Other Issues Affecting Elected Members

- 4.1 In 2015, the Office of the Information Commissioner identified the need for each Elected Member to be individually registered as Data Controllers under the Data Protection Act. This was to cover the aspects of their role in relation to holding and processing the information of constituents, which was judged to require separate registration to what is covered under the Council's own registration. Although Elected Members need to consider for themselves what arrangements they make for this, the Council ensures that they receive appropriate guidance and support, including development sessions, to help them comply with data protection requirements.
- 4.2 Greater emphasis has also been placed on supporting Elected Members to move towards the Digital Council approach. A key aspect of this is to enable Members to use tablet computer devices in meetings, so no longer needing printed papers. Support has been provided to Members in the use of these devices as progress has been made in resolving technical issues associated with them. This support has been provided by the Communities Directorate's Digital Champions, whose main role is to increase the familiarity of customer with the Council's web-based systems. In addition to assessing the ICT skills of Elected Members, and helping to identify further support needed, this will give Members more confidence in supporting the move towards the digital agenda with their constituents.

5. Conclusion / Recommendations

- 5.1 This report is presented for information.

6. Background papers

- 6.1 Governance and Member Support business plan and Annual Governance Statement – Available for inspection, except where it contains exempt information, in the Business Unit, Town Hall, Barnsley. Telephone (01226) 773421 for more information.

Report Author: Ian Turner

Contact: 773421

Date: 2nd June 2017

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Item 9

BARNSELY METROPOLITAN BOROUGH COUNCIL

Report of the Executive
Director of Communities
and ICT Manager

INFORMATION GOVERNANCE PERFORMANCE – Quarter 4 2016/17

1. Purpose of Report

- 1.1 To advise of BMBC's position in relation to information security breaches and cyber incidents which have been reported and investigated in quarter 4 for the financial year 2016/17. The report also provides a comparison and summary for the whole financial year 2016/17 with the previous financial year 2015/16.

2. Background

- 2.1 There are 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. Further guidance on the reporting regimes can be found at Appendix A.

3. Overall Position for Quarter 4 2016/17 – Information Security Incidents

- 3.1 There have been a total of 46 incidents for Quarter 4 requiring investigation. This figure includes both actuals¹ and weaknesses² and third party incidents.

The table below provides a summary of incidents reported and investigated from 1st April, 2016 to 31st March, 2017 including weaknesses and including an end of year total comparison with the year 2015/16 incidents.

Management of incidents						
Quarter	Year 2015/16	Q1 2016/17	Q2 2016/17	Q3 2016/17	Q4 2016/17	Total 2016/17
Total number of incidents (including weaknesses)	35	15	25	24	46	119
Of which number of incidents reported to ICO	1	3	0	1	0	4
Of which number of incidents reported via information governance toolkit	0	0	0	0	0	0

There has been a major rise in reported incidents from the financial year 2015/16 and the previous financial year 2016/17. This can partly be attributed to the fact that

¹ Actual event – incident confirmed as a breach of Data Protection

² Weakness – identified as a risk to Data Protection but not a breach. These incidents are identified as a weakness as they could have caused a risk to the organisation; however the incident was contained within the Council – for example incorrect email sent internally, documents left on printer etc. There are still lessons to be learned.

awareness has been raised through policies, through SMT/BLT and through staff communications and training.

3.2 Q4 actual incidents and weaknesses – subject to internal investigation - Directorate, Business Unit / type (actual and weakness, excluding third party and unsubstantiated)

Business Unit	Type	Actual	Weakness	Total
Communities BU8 - Stronger, Safer & Healthier Communities	10.Unauthorised Access/Disclosure	1	0	1
Place BU4 - Economic Regeneration	4.Disclosure in Error	1	0	1
Place BU5 – Culture Housing & Regulation	10.Unauthorised Access/Disclosure	1	0	1
People BU1 - Education, Early Start & Prevention	10.Unauthorised Access/Disclosure	1	0	1
People BU1 - Education, Early Start & Prevention	4.Disclosure in Error	1	4	5
People BU1 - Education, Early Start & Prevention	11.IG Other	0	1	1
People BU2 - Adult, Assessment & Care Management	11.IG Other	0	2	2
People BU2 - Adult, Assessment & Care Management	4.Disclosure in Error	1	0	1
People BU3 - Children's Social Care & Safeguarding	11.IG Other	0	1	1
People BU3 - Children's Social Care & Safeguarding	2.Lost/Stolen Hardware	1	0	1
People BU3 - Children's Social Care & Safeguarding	4.Disclosure in Error	2	2	4
People BU3 - Children's Social Care & Safeguarding	7.Non-secure Disposal-Paperwork	0	1	1
Public Health BU10	4.Disclosure in Error	0	2	2
Human Resources, Performance & Communications BU14 - Human Resources	11.IG Other	0	2	2
Human Resources, Performance & Communications BU14 - Human Resources	4.Disclosure in Error	7	2	9
Finance, Assets & Information Services BU11	4.Disclosure in Error	0	1	1
Finance, Assets & Information Services BU13 - Finance	11.IG Other	0	2	2
Total		16	20	36

- 3.3 The highest numbers of actual incidents (12) that have occurred fall under the category 'disclosed in error'. This category covers information which has been disclosed to an incorrect party or where it has been sent or otherwise provided to an individual or organisation in error. The main errors for Q4 are around use of e-mail. E-mails containing confidential information sent to wrong recipient / contact groups, incorrect recipients copied in, not using bcc, not encrypting / sending securely
- 3.4 The principles of the Data Protection Act that have been breached are as follows. Principle 7 is the breach where the ICO is likely to impose a fine and this is the one that has been most frequently been breached.

Principle 4	Personal data shall be accurate and, where necessary, kept up to date
Principle 7	Appropriate technical and organisational measures shall be taken against unauthorised or unlawful processing of personal data and against accidental loss or destruction of, or damage to, personal data

3.5 Incidents – reported and under investigation by ICO for Q4

No incidents have been reported to ICO in Q4, however in the financial year 2016/17 a total of 4 incidents were reported. The ICO have confirmed that they will not be taking enforcement action against the Council on these incidents. This is because of the prompt action we have taken to minimise risk, the policies, processes and procedures we have in place, the staff training we have in place and the staff actions that we take following incidents.

However, there have since been two further incidents that were reportable to ICO (April 2017). The ICO have confirmed that enforcement action will not be taken against the Council, as arrangements are in place for the Council to review its handling of personal data.

An ICO consensual audit has also been commissioned which will take place in October 2017.

3.6 Summary of lessons learned / action taken

Lessons / action
<ul style="list-style-type: none"> • The introduction of security tagged bags • Text messages not to include personal/sensitive information – email issued by Head of Service • Ensure accuracy of information and confirm that the address detail is correct prior to sending out sensitive documents • Ensure electronic databases are updated timely • Staff to pay due care and attention when sending and replying to e-mails • Risk assessment on transporting data undertaken • Be more vigilant when moving offices – secure disposal of paperwork when moving offices

3.7 Third Party Incidents

There have also been a total of 9 third party incidents. These range from schools, foster carers, Berneslai Homes, members of the public. These have been reported to IG but investigated by relevant parties.

3.8. Summary Information Governance Incidents

E-mail is the largest source of error in Q4. E-mails have been inappropriately sent where the recipient's address should have been carefully checked, incorrect recipients copied in, lack of security around e-mails (eg Egress), not utilising the bcc functionality. These errors have occurred both internally and externally.

The incorrect posting of documents also rate highly in the overall major sources of error.

Policies and procedures exist and training is provided to all staff throughout the Council. Every individual in the organisation has a personal responsibility to protect information. The IG Team will issue further guidance for staff around use of e-mails.

The Information Governance Board and Service Directors continue to support Information Governance with the investigation and resolution of incidents.

4. Cyber Incidents

A Cyber-related incident is anything that could (or has) compromised information assets within Cyberspace. "Cyberspace is an interactive domain made up of digital networks that is used to store, modify and communicate information. It includes the internet, but also the other information systems that support our businesses, infrastructure and services."³

Below is a summary of the 'attempts' and 'attacks' the Council have received for the financial year 2016/17.

Action	Q1	Q2	Q3	Q4	Total
Phishing advice given	65	59	80	16	283
Phishing action taken	10	42	120	79	188
Phishing attack	0	2	10	1	13
Other	18	9	22	4	53
Total	93	112	232	100	537

4.1 Definitions

Phishing advice given - e-mail received analysed and no further actions could be taken to block further similar e-mails coming into the Council, advice given to the recipient on how to spot further phishing attempts, and what to do with the e-mail they have received

³ Source: UK Cyber Security Strategy, 2011

Phishing action taken – e-mail received analysed and actions taken including: block further e-mails from the specific sender, get the website linked to from within the phishing e-mail removed, escalate to law enforcement agencies or escalate to e-mail subject eg Barclays Bank or Paypal.

Phishing attack – a phishing e-mail has been received and has been successful, so resolutions have been closing network accounts if details have been compromised or removing PC's from network and removing any virus, sometimes flattening PC

Other – these are requests for advice, information etc, anything security related not falling in above categories

4.2 Summary Cyber Incidents

There has been a decrease in the number of phishing e-mail calls being processed with some of this due to internal staff levels. In the first part of this next quarter we have seen a considerable increase in the number of phishing calls, this is due to catching up the backlog and marked increase in the amount of Phishing and Malicious e-mails being received.

As we are becoming more aware of the types of phishing that the Council is receiving, we are actively blocking and preventing access to more links, e-mail addresses and websites than ever before, this is part of the proactive approach that we take to IT security, with regular updates appearing in straight talk including a recent one, following on from government advice about increase risk around election time.

We have re-purchased the phishing software which now allows us to offer training to staff immediately and automatically. The functionality is enhanced and if employees click on a link or open a document inappropriately then they will be notified immediately. A small education piece will then be completed. This should further raise awareness. We see this as being the next step forwards in terms of training, with this being more focused than the general Information Security Training that has to be completed by all staff further raise awareness.

5. Recommendations

It is recommended that:-

- Executive Directors/Directors (where appropriate) are aware of the potential impact of information security incidents and cyber incidents on the Council and the potential for fines;
- Executive Directors/ Directors (where appropriate) are aware of information security incidents and cyber incidents in their area of responsibility and ensure full and timely reporting and investigation; ensuring lessons are learned and implemented within directorate;
- Following the recent phishing attempts and the results of the internal exercises to continue to educate staff, instigate a further internal phishing exercise and to report the results to SMT and IG Board to identify further actions
- To consider the delivery of future training and education of staff

NOTE: following the Information Security Incident Reporting Policy being revised, approved and communicated HR felt it appropriate to deliver bite-sized training to managers to raise awareness of the incident reporting policy and to deliver a strong message of the consequences of data breaches. Diane Arkwright was supported by Helen Weldon to deliver the training where awareness of employee actions has also been raised, with the aim of ensuring consistency across the Council.

Five courses were planned (which would have allowed attendance of 50-60 managers) at different times of the day, keeping them short – 45 minutes. Efforts are continuing to ensure good officer attendance at these sessions.

Reporting to the Information Commissioner's Office

The Information Commissioner's Office (ICO) have the authority and power to impose fines where there has been a serious breach of the Data Protection Act 1998 (DPA). The amount of the monetary penalty determined by the Commissioner cannot exceed £500,000. It must be sufficiently meaningful to act both as a sanction and also as a deterrent to prevent non-compliance of similar seriousness in the future by the contravening person and by others.

The ICO has powers to serve a monetary penalty on data controllers who fail to comply with the data protection principles. Although there is no legal obligation on data controllers to report breaches of security, ICO believe that serious breaches should be reported. To serve a monetary penalty notice for a breach of the DPA, the ICO must be satisfied that - there has been a serious contravention by the data controller, the contravention was of a kind likely to cause substantial damage or substantial distress; and either, the contravention was either deliberate; or, the data controller knew, or ought to have known that there was a risk that the contravention would occur, but failed to take reasonable steps to prevent the contravention.

Reporting via the Information Governance Toolkit

All organisations processing Health, Public Health and Adult Social Care personal data are required to use the Information Governance Toolkit Incident Reporting Tool to report level 2 IG 'serious incidents requiring investigation' to the Department of Health, ICO and other regulators. This requirement is only necessary when a certain threshold has been met⁴.

Reporting and Internal investigation

If the above formal reporting requirements do not apply then BMBC still have a responsibility as a data controller to assess the risk and manage incidents appropriately ensuring that appropriate measures are put in place to mitigate repeat occurrences. Internal reporting is a valuable tool for identifying the scale of the problem, and common errors that may be eliminated through changes to systems, training or greater awareness.

BMBC's 'Information Security Incident Reporting Protocol' defines the reporting and investigation requirements. This protocol was reviewed and re-published on the Information Services intranet site in April 2016. A communication was distributed via Straight Talk.

This report outlines the information security breaches reported and investigated both internally and to the ICO and includes the data for the financial year 2015/16. Future reporting will be on a quarterly basis.

Reporting of Cyber Incidents

All organisations processing Health, Public Health and Adult Social Care personal data are required to report and investigate cyber incidents. This was a new requirement of the IG toolkit in 2015.

A cyber-related incident is anything that could (or has) compromised information assets within cyberspace. "Cyberspace is an interactive domain made up of digital networks that is

⁴ **Scale factor** - number of individuals affected, **sensitivity factor** – detailed personal/confidential information at risk, harm to the individual eg distress, individual placed at risk eg physical harm, potential for media attention etc

used to store, modify and communicate information. It includes the internet, but also the other information systems that support our businesses, infrastructure and services.”

The IG toolkit outlines the categories for cyber incidents and the requirement to report level 2 IG ‘serious incidents requiring investigation’ to the Department of Health, ICO and other regulators. This requirement is only necessary when a certain threshold has been met⁵.

⁵ **Scale factor** - number of individuals affected, **sensitivity factor** – detailed personal/confidential information at risk, harm to the individual eg distress, individual placed at risk eg physical harm, potential for media attention etc

IG

Q1 and Q2 – more than full year previous

ICO CP conference document wrong address – confirmed no fine. Immediate action taken, worker too responsible for error, training/procedures in place

Same issues – incorrect address – meeting to take place with Mel – BS

Cyber

Rise in incidents – increased reports – though no of attacks increasing – one last week

NHS Lincolnshire, Tesco etc

Internal exercise and training – lots of negativity from staff

Separate report – or enough detail

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Technical update Draft

Incorporating the External Audit Progress Report

Barnsley Metropolitan Borough Council

June 2017

Contents

The contacts at KPMG in connection with this report are:

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External audit progress report

Technical developments

Appendices

- 1. 2016/17 audit deliverables





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This report provides the audit committee with an overview on progress in delivering our responsibilities as your external auditors. The report also highlights the main technical issues which are currently having an impact in local government. If you require any additional information regarding the issues included within this report, please contact a member of the audit team. We have flagged the articles that we believe will have an impact at the Authority and given our perspective on the issue:

-  High impact
-  Medium impact
-  Low impact
-  For information



External audit progress report

External audit progress report

This document provides the audit committee with a high level overview on progress in delivering our responsibilities as your external auditors.

At the end of each stage of the audit we issue certain deliverables, including reports and opinions. A summary of progress against these deliverable is provided in Appendix 1 of this report.

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Area of responsibility	Commentary
Financial statements	<p><i>We have started the interim audit work and this is still ongoing.</i></p> <p><i>Below is a summary of the systems and controls that we have reviewed and the work is complete:</i></p> <ul style="list-style-type: none"> • <i>Budgetary control arrangements;</i> • <i>Cash and bank system and controls;</i> • <i>Creditor payments system and controls;</i> • <i>Payroll system and controls;</i> • <i>Housing rent income and controls;</i> • <i>Council tax income and controls; and</i> • <i>Business rate income and controls.</i> <p><i>The following systems and controls work is still ongoing:</i></p> <ul style="list-style-type: none"> • <i>Property, plant and equipment system and controls;</i> • <i>Pension assets and liabilities;</i> • <i>Information technology control environment and general IT controls.</i> <p><i>Where we identify any issues we will discuss these with management and report these formally at the July 2017 audit committee.</i></p>

External audit progress report

Area of responsibility	Commentary
Value for Money	<p><i>We have carried out detailed planning work to understand whether there are any significant risks to our opinion on your arrangements to deliver value for money. These include:</i></p> <ul style="list-style-type: none"> <i>• review of previous years findings and conclusions;</i> <i>• review of minutes of the Council meetings, including attendance at the audit committee;</i> <i>• review of the Internal Audit reports and findings;</i> <i>• review of the strategic risk registers and risk management arrangements;</i> <i>• meeting the senior management of the council;</i> <i>• Assessing the supporting information issued by the National Audit Office;</i> <i>• Review the VFM profiles produced by Public Sector Audit Appointments;</i> <i>• Reviewed the work of inspectorates who have reported on Barnsley MBC in the recent past.</i> <p><i>Findings and Conclusions:</i></p> <p><i>Although there are a number of significant issues and pressures that the Council currently face (demand and financial pressures in Adult Social Care and Children’s services), following this planning work we have not identified any significant risks to our opinion on our arrangements to deliver value for money.</i></p>
Certification of claims and returns	<p><i>We have started discussions with officers on the planning of the work required.</i></p>
Other work	<p><i>No issues</i></p>



Technical developments

100% Business Rates Retention - Department for Communities and Local Government (DCLG) consultation

Level of impact: ● (Medium)	KPMG perspective
<p>The Department for Communities and Local Government (DCLG) has launched a further consultation on its proposals for 100% retention of business rates by the local government sector. This consultation is part of DCLG's ongoing process of engagement and collaboration on the design of reforms. It seeks views on some of the detailed aspects of the design of the reformed system, including:</p> <ul style="list-style-type: none">— the operation of partial resets;— how to measure growth over a reset period;— plans for business rate pooling and local growth zones;— how to best move to a centrally managed appeals risk system;— the approach to tier splits;— the operation of a future safety net; and— proposals for the central list. <p>The consultation closes on Wednesday 3 May 2017. Details are available on the web-site at www.gov.uk/government/consultations/100-business-rates-retention-further-consultation-on-the-design-of-the-reformed-system</p>	<p><i>The Committee should discuss with officers the potential impact of the proposals on the Council and the actions that may need to be taken to address the challenges presented. This will have to take place when there is further clarity of how this system will operate.</i></p>

NAO Report – Planning for 100% local retention of business rates

Level of impact: ● (For Information)

The NAO has recently published a report on *Planning for 100% local retention of business rates*. The report finds that the Department for Communities and Local Government (DCLG) has made good progress in designing the scheme for 100% retention of business rates by local authorities, but the scale of the remaining challenges presents clear risks both to the timely delivery of the initiative and to the achievement of its overall objectives.

DCLG's core objectives for the scheme, due to start in 2019/20, are to drive local economic growth, and to promote financial self-sufficiency for English local government. The NAO report, however, raises questions as to whether DCLG's current planning approach is best configured to deliver a scheme capable of meeting those objectives fully.

By allowing local authorities to retain 100% of business rates, DCLG hopes that this will incentivise them to grow their tax bases by adopting pro-development planning practices which in turn will support economic growth. But tax base growth does not necessarily mean economic growth: new developments might lead to the relocation of existing economic activities rather than the creation of new ones, for instance. The report finds that these issues have not been fully examined in DCLG's work to date. Crucially, DCLG has not looked in detail at whether the current scheme, in which authorities retain 50% of business rates, has promoted pro-growth behaviour in authorities.

DCLG is promoting financial self-sufficiency in the sector through the 100% local retention scheme in the context of a long-term reduction in local authority funding. DCLG is reviewing the relative distribution of funding in the sector through a Fair Funding Review, but there is not scheduled to be a Spending Review in which the absolute level of funding in the sector is reviewed, until after the 100% scheme is operational. In this context, the report highlights the risk of implementing a 100% local rates retention scheme that might be technically sound but lacks sufficient funding for the sector to deliver its statutory functions.

The report recognises that DCLG is managing a complex project, involving extensive sector engagement, and made good progress. The NAO, however, found clear risks to the timely delivery of the 100% scheme. Many significant and challenging issues remain outstanding, such as delivering the Fair Funding Review. Some slippage on meeting milestones to date, constraints on DCLG's resources, and DCLG's intention to concentrate important decisions in a short space of time towards the end of the timetable create the potential for pressure in the late stages of the project. The NAO highlights the risk that the pressure to deliver by 2019/20 could result in a scheme that has not been fully tested. The report also stresses the need for DCLG to assure itself that the scheme will deliver its core policy objectives and that these are not overlooked among the technical challenges of designing the scheme to a tight timetable.

A copy of the report can be found on the NAO website at www.nao.org.uk/report/planning-for-100-local-retention-of-business-rates

NAO Report - Housing in England: overview

Level of impact: ● (For Information)

The NAO has recently published an overview of the housing market in England, the Department for Communities and Local Government's (DCLG) housing strategy and the overall housing policy landscape. The report notes that in recent years grown faster than its supply.

Total estimated government spending on housing in England was approximately £28 billion in 2015/16. The most significant element of this is housing benefit. In 2015/16 there were 4.1 million claimants in England, costing around £20.9 billion. Two of DCLG's four strategic objectives for this Parliament are focused on housing: increasing home ownership, and increasing the supply of homes, with an ambition of delivering a million new homes in England by 2020.

The report finds that housebuilding has not kept pace with need, and this is particularly acute in London. It notes that DCLG is reliant on the market to achieve its housing objectives and it is not yet clear what impact the result of the referendum on Britain's membership of the European Union will have on the market.

The report also finds that housing has become more affordable for existing homeowners, whereas by contrast housing has become less affordable for first-time buyers, and social housing rents have been increasing faster than earnings since 2001-02. Homelessness has also increased over the past five years. At the end of March 2016, 71,500 homeless households in England were in temporary accommodation, up from around 48,000 in 2010/11.

Various public bodies have responsibilities for housing, often using housing as a means of achieving other objectives. In addition, changes made in one area of housing policy can have impacts in other areas. In July 2015, for example, the government announced a reduction in the rents housing associations and local authorities could charge of 1% per year. This reduced the ability of housing associations to finance the construction of new housing.

The report is available from the NAO website at www.nao.org.uk/report/housing-in-england-overview

Technical developments

Comptroller and Auditor General (C&AG) keynote speech: 'The implications of central decision-making on the delivery of frontline services'

Level of impact: ● (For Information)

The Comptroller and Auditor General (C&AG), Sir Amyas Morse, recently gave a keynote speech on *The implications of central decision-making on the delivery of frontline services* at the Strand Group, the Policy Institute at King's College London's signature seminar series.

Drawing on his unique perspective looking across the whole of the public sector, the C&AG explored some of the elements of strategic financial management and planning that influence the success of major reform programmes in connected systems.

The speech examined how central government introduces reforms to locally delivered services to achieve its policy objectives, and the effect of its approach on funding, budgeting and efficiency.

Using the examples of local government, adult social care, and the NHS in England, the C&AG argued that the focus of local public services has shifted from providing 'more for less' to providing 'less for less', and that the lack of joined-up decision-making and funding arrangements between connected systems can often lead to consequences such as:

- unforeseen conflicting objectives for local bodies;
- cost shunting between parts of connected systems; and ultimately; and
- risks of financial, or service, failure locally.

The C&AG explained how year-on-year funding reductions can impact on the accessibility and quality of the services provided, not only for the local government sector, but across the health and social care system more widely.

The C&AG concluded that central government can do more to understand how assumptions about the efficiencies that may be available are likely to affect their objectives across public services, to help them promptly manage major risks. He urged those in the centre to do more to look outside of their 'silos' to understand the complexity and interconnectedness of the environment they are seeking to reform.

Finally, he encouraged central government to work more closely with local bodies to ensure that funding and decision-making arrangements drive not only economy and efficiency, but also effectiveness.

The full transcript of the speech is available on the NAO website at www.nao.org.uk/wp-content/uploads/2017/02/CAG-speech-Kings-College-London-070217.pdf

Technical developments

Public Sector Audit Appointments - Updated terms of appointment and statement of responsibilities published

Level of impact: ● (For Information)

On 23 February 2017, Public Sector Audit Appointments Ltd (PSAA), issued the revised document *Terms of Appointment: Principal Local Authorities and Police Bodies*. There are minimal changes the document issued in September 2015 the re-write is intended to clarify or simplify the arrangements within the document.

PSAA has also issued an updated *Statement of Responsibilities of audited and audited bodes Principal Local Authorities and Police Bodies* applicable for 2017/18. The Statement explains where the differing responsibilities of auditors and of audited bodies begin and end, and sets out what auditors should expect of the audited bodies in certain areas. The Statement is consistent with those issued previously, but removes references to local NHS bodies and smaller authorities.

Both documents are available on the PSAA's website at www.psa.co.uk/appointing-auditors/terms-of-appointment/



Appendix

Appendix 1

2016/17 audit deliverables

Deliverable	Purpose	Timing	Status
Planning			
Fee letter	Communicate indicative fee for the audit year	April 2016	done
External audit plan	Outline our audit strategy and planned approach Identify areas of audit focus and planned procedures	January 2017	Done
Interim			
Interim report	Details and resolution of control and process issues. Identify improvements required prior to the issue of the draft financial statements and the year-end audit. Initial VFM assessment on the Council's arrangements for securing value for money in the use of its resources.	Update in this report and the Interim report in July 2017	TBC
Substantive procedures			
Report to those charged with governance (ISA 260 report)	Details the resolution of key audit issues. Communication of adjusted and unadjusted audit differences. Performance improvement recommendations identified during our audit. Commentary on the Council's value for money arrangements.	September 2017	TBC

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Appendix 1

2016/17 audit deliverables (cont.)

Deliverable	Purpose	Timing	Status
Completion			
Auditor's report	Providing an opinion on your accounts (including the Annual Governance Statement). Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion).	September 2017	TBC
WGA	Concluding on the Whole of Government Accounts consolidation pack in accordance with guidance issued by the National Audit Office.	September 2017	TBC
Annual audit letter	Summarise the outcomes and the key issues arising from our audit work for the year.	November 2017	TBC
Certification of claims and returns			
Certification of claims and returns report	Summarise the outcomes of certification work on your claims and returns for Government departments.	December 2017	TBC



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BARNSELEY MBC AUDIT COMMITTEE – INDICATIVE WORK PROGRAMME

	Mtg. No.	1	2	3	4	5	6	7	
Committee Work Area	Contact / Author	14.06.17	19.07.17	22.09.17	1.11.17	6.12.18	17.1.18	21.3.18	18.04.17
Committee Arrangements									
Committee Work Programme	WW	X	X	X	WORKSHOP MEETING/TRAINING EVENT	X	X	X	X
Minutes/Actions Arising	WW	X	X	X		X	X	X	X
Review of Terms of Reference and Self-Assessment	RW/CHAIR		X						
Training Review and Skills Assessment	RW/CHAIR		X						
Review of Terms of Reference & Working Arrangements	ACF						X		
Draft Audit Committee Annual Report	RW/CHAIR		X						X
Audit Committee Annual Report	RW/CHAIR			X					
Internal Control and Governance Environment									
Local Code of Corporate Governance	AF/AH								X
Annual Governance Review Process and Timescales	AF/AH								
Draft Annual Governance Statement & Action Plan	AF/AH		X						
Final Annual Governance Statement	AF/AH			X					
AGS Action Plan Update	AF/AH					X			
Corporate Whistleblowing Update & Annual Report	RW		X						
Annual Fraud Report	RW	X						X	
Corporate Fraud Team - Report	RW			X				X	
RIPA Update Report	AF/GK					X			
Review of Ombudsman Complaints	AF					X			
Corporate Risk Management									
Risk Management Policy & Strategy	AH								
Risk Management Update*	AH								
Annual Report	AH		X				X		
Strategic Risk Register Review	AH					X			
Internal Audit									
Internal Audit Charter	RW							X	
Internal Audit Plan	RW							X	
Internal Audit Quarterly Report	RW		X			X	X	X	

	Mtg. No.	1	2	3	4	5	6	7	
Committee Work Area	Contact / Author	14.06.17	19.07.17	22.09.17	1.11.17	6.12.18	17.1.18	21.3.18	18.04.17
Annual Review of the Effectiveness of Internal Audit	RW		X						
Review of the Effectiveness of Int. Audit - Update	RW						X		
Internal Audit Annual Report	RW	X							
External Audit (KPMG)									
Annual Governance Report (ISA260 Report)	KPMG			X					
Audit Plan	KPMG							X	
Annual Fees Letter	KPMG							X	
Annual Audit Letter	KPMG								
Grants Letter	KPMG								
Claims & Returns Annual Report	KPMG						X		
External Audit Progress report & Technical Update	KPMG	X	X	X		X	X	X	X
Financial Reporting and Accounts									
Budget Proposal Section 25 Report	FF/NC						X	X	
Draft Statement of Accounts	FF/NC		X						
Corporate Finance Summary	FF/NC			X					
Corporate Finance and Performance Management & Capital Programme Update	NC			X				X	
Treasury Management Annual Report	IR							X	
Treasury Mgt. Policy & Strategy Statement	IR							X	
Other Corporate Functions contributing to overall assurance									
Human Resources+ (annual)	AB			X					
Business Improvement and Communication+ (6 monthly report)	MP		X				X		
Health & Safety Resilience+ (6 monthly report – March Update – September Annual)	SD			X				X	
Governance & Member support (6 monthly report)	IT/WW	X					X		
Information Governance update	DR	X				X		X	

*Members of the Senior Management Team to be invited periodically to report on any issues identified within the Strategic Risk Register

+ Subject to regular liaison with Service Directors