

MEETING:	Audit Committee
DATE:	Wednesday, 17 January 2018
TIME:	4.00 pm
VENUE:	Reception Room, Barnsley Town Hall

MINUTES

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

In attendance: Councillor Miller (Cabinet Spokesperson for Place) in respect of Minute 49.

46. DECLARATIONS OF PECUNIARY AND NON-PECUNIARY INTEREST

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

47. MINUTES

The minutes of the meeting held on the 6th December, 2017 were taken as read and signed by the Chair as a correct record.

48. ACTIONS ARISING FROM THE PREVIOUS MEETINGS

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

RESOLVED that the report be noted.

49. STRATEGIC RISK REGISTER - HIGHWAYS MATTERS

The Committee received a presentation from Mr P Castle (Service Director Environment and Transport) on issues relating to the Highways and Transportation Service identified within the Internal Audit Quarterly Report 2017/18 submitted to the meeting of this Committee held on the 6th December, 2017. Also in attendance were Councillor Miller (Cabinet Spokesperson for Place) and Mr M Gladstone (Executive Director Place).

The Committee was informed that in relation to the 2016/17 Highways and Transportation Final Accounts, the controllable budget was £12m. The Service was structured into 5 main areas. All core accounts had delivered an out-turn position within the budget forecast with the exception of the Construction Service which showed a significant swing.

As a result of this, an Internal Audit of the Service had been commissioned in April 2017. In the interim, corrective management actions had commenced in May 2017 with the Audit report and recommendations being submitted to the Senior Management Team in September, 2017. Those recommendations related, amongst

other things, largely to the use of Sub Contractors including related financial and procurement processes. It was pointed out that in the process of agreeing the final report, senior officers of the Service had responded to specific recommendations by identifying relevant management actions and agreeing responsible managers and timescales for implementation. In addition, progress on those recommendations was reviewed regularly with 'mock year end' sessions being held at the end of every quarter to ensure that progress was being maintained and that budgets were still on track.

The Service Director commented on the progress of each of the five main themes highlighted as well as on other general issues identified as follows:

- Funding/Budget Setting
- Developing Works Programme
- Design
- Construction
- Close Out

In relation to the Action Plan Progress, 86% of the 28 recommendations were either in progress or had been completed. The focus had been on

- improving financial controls and ensuring that costs/income was reconciled monthly
- updating SoR values in SAP
- detailing the construction programme for the rest of the year
- looking forward to plan the next Financial Year
- in terms of the Key Deliverables there had been:
 - an SoR refresh
 - Regional Benchmarking
 - Account closedowns

It was reported that the Transformation Team was fully engaged and a detailed programme of delivery had been agreed with a draft report being due on the 8th February, 2018.

In conclusion, the Service Director commented that the Audit Review had clearly highlighted areas for improvement. There was commitment across the Service to address the audit recommendations, additional capacity had been secured through the Transformation Team and there was a higher level of financial forecasting confidence for 2017/18.

In the ensuing discussion, the following matters were raised:

- Reference was made to the reasons for the significant swing from the forecast and how this occurred and to the lessons learned from the mistakes. Particular reference was made in this respect to the financial controls that were in place and to the work that had been undertaken in relation to budgetary controls and governance

- The majority of the recommendation would be complete by the end of the financial year although some may roll over to the following year
- In response to specific questioning, an assurance was given that procedures and processes were now in place to ensure that there was no recurrence but there was also a recognition that, given the type of work involved, there could always be unforeseen issues arising.
- Financial awareness was being addressed and appropriate training had also been put in place for all those involved
- The Service Director Finance confirmed that he had commissioned the audit review and he confirmed that no weaknesses within the control environment had been identified. The control environment was fit for purpose and the issues that had occurred related to compliance. These matters were being addressed. In response to further questioning he commented that the overspend had been rolled up into the overall underspend by the Council
- It was not believed that there were any systematic problems, the issue had been related to a focus on delivery rather than on financial management and control and these matters had now been addressed. It was anticipated that the outcome for the current financial year would corroborate what had been reported and that procedures and processes now in place would prevent an overspend on quarter four

Members of the Committee thanked the Service Director (Environment and Transport) for his presentation together with the Cabinet Spokesperson (Place) and the Executive Director (Place) for attending the meeting. They were pleased to note the action taken to address issues and the confidence expressed that such problems would not occur again now that appropriate procedures and processes were in place.

50. INTERNAL AUDIT QUARTERLY REPORT - QUARTER ENDED 31ST DECEMBER, 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 Service's work covering the whole of the third quarter ending 31st December, 2017 of the 2017/18 audit year.

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 up to the end of the third quarter of 2017/18

Details of Internal Audit's performance for the quarter, which remained satisfactory, were reported at the meeting (rather than being included within the report due to the timing of the meeting).

Internal Audit work undertaken during the period did not identify any fundamental recommendations.

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

Of the 10 recommendations followed up, 40% had been implemented by the original target date, 10% had not been implemented within the revised implementation dates agreed by management and 50% were awaiting a response by Management.

In relation to the Audit Plan, actual days delivered were in excess of the profile as planned at this stage of the year and Internal Audit resources would be directed towards external clients in the last quarter of the year.

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

- There was a detailed discussion of the reasons for the failure of services to adhere to deadlines for implementing audit recommendations. This was a continuing concern for Members of the Committee. Reference was made to the reasons for this and to the steps that had been taken to address the issue. It was thought that the majority of the current outstanding recommendations probably related to historical/legacy audit reports as procedures now adopted by Internal Audit tried to ensure that there was significant dialogue between the auditor and auditee to ensure that there was accountability for recommendations made and that realistic dates were set for meeting those recommendations. The Head of Service was confident that the Committee would see an improving picture in the future
- Arising out of the above it was reported that there were no particular problem areas or developing themes relating to the non-compliance with target dates. Executive Directors and Service Directors were clearly aware of their responsibilities of ensuring compliance with audit recommendations and of the fact that they could be called to address this Committee.
- Recommendations that were delayed were always of a lower priority and would not compromise the control environment as such recommendations would be dealt with as a matter of urgency
- Referring to the revised audit approach adopted over the last 4-6 months, particular reference was made to the time spent on the Highways and Transportation audit referred to above (minute 49 refers). This piece of work had accounted for 10% of the Audit time this year because of its significance. The Highways and Transportation Service had been very open and accepting of the input and challenge. In addition, the response from management had been very positive and, because of the positive interaction between that Service and with Internal Audit, there was a higher degree of confidence of a successful outcome and compliance with agreed timescales
- Arising out of the above, the Risk and Governance Manager referred to the manner in which the recent audit of his Service had been undertaken, to the way

in which the recommendations arising therefrom, actions and timescales were made in a collegiate manner

- Reference was made to one fundamental recommendation which had been rescheduled and subsequently implemented – details could be provided. It was noted that management had undertaken more work than originally recommended and this had led to the delay in sign off
- The Committee was informed that regular meetings were held with Senior Management Team, Executive and Service Directors to discuss the progress of audit reports
- The Head of Internal Audit and Corporate Anti-Fraud reported that a further analysis of recommendations that had a significant impact on processes and procedures could be included within the next quarterly report
- In response to specific questioning, the Head of Internal Audit and Corporate Anti-Fraud outlined the way in which the response to audit recommendations were tracked and triggers, where appropriate, produced. It was not possible to monitor progress on all individual recommendations although this would be undertaken if circumstances dictated such action. Officers within Internal Audit used an appropriate touch using their own discretion
- Further information on an independent investigation within the Finance Directorate (added to the Audit Plan as an urgent piece of work at the request of management) would be provided once complete

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 December 2017 be noted;
- (iii) that the progress against the Internal Audit Plan for 2017/18 for the period to the end of December 2017 be noted; and
- (iv) that the performance of the Internal Audit Division for the third quarter be noted.

51. RISK MANAGEMENT UPDATE REPORT 2017/18

The Risk and Governance Manager presented a report of the Executive Director Core Services outlining the progress made to date towards the achievement of the goals set out in the Council's Risk Management Policy and Signposting further work to be undertaken in the year.

The following matters were highlighted:

- The Council's Operational Risk Registers remained broadly aligned to the Future Council operating model with risk profiles for Operational Risks and Project and Partnership Risks and demonstrating slight improvements
- The Risk and Governance Manager continued to support the development of risk management governance and insurance arrangements for a number of organisations in the area
- The Risk Management Framework had been reviewed in April 2017
- The Annual Governance Review process had been delivered during the early part of 2017/18 which resulted in the production of an evidence based Annual Governance Statement which had been approved by the Council in September, 2017
- The outcomes of the recent ALARM (Local Authority Risk Management benchmarking club)/CIPFA benchmarking exercise suggested that the outputs and overall maturity of the Council's Risk Management arrangements were broadly in line with similar Councils and peer organisations
- The Risk Management Service had recently been audited by Internal Audit and the draft report had been submitted the contents of which were still being considered. It was reported that adequate assurance opinion had been issued on the service

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

- The number of completed Operational Risk Register Reviews completed on time had reduced through quarter 2 and 3 and the reasons for this were noted which was largely because of a revised focus of the work of the Risk and Governance Manager. It was noted that risk owners/managers were being asked to manage the risks/plans themselves rather than being over reliant on the Risk and Governance Manager. In order to mitigate this situation consideration was being given to the Financial Services core offer and appropriate training was to be provided so that Service Managers had the necessary tools they required to process such reviews. If the situation continued into the summer, a further investigation would be undertaken in order to consider what additional support could be provided. The issue of concern was the application of the controls not the control itself
- Reference was made to the Benchmarking Action Plan (attachment one of Appendix 2) and an explanation was provided as to why none of the items listed were not to be developed further. This was largely because such matters had been addressed elsewhere
- the Risk and Governance Manager stated that he would circulate a revised operational risk register profile for July 2017 to address the discrepancies identified
- in response to questioning the Risk and Governance Manager briefly updated the Committee on how assurance continued to be sought from the Key Partners including NPS Barnsley, Barnsley Norse, Barnsley Premier Leisure and Berneslai Homes. It was also reported that work was progressing with these partners on insurance claims/risks etc. It was confirmed that work

continued with all senior offices within those organisations on all aspects of risk and risk management

- Arising out of the above and in response to questioning, reference was made to the recent liquidation of Carillion and to the Councils involvement with this company. It was noted that this company was not a partner, rather a contractor and that the Barnsley Education Partnership was taking appropriate action following the liquidation. The Council ensured that appropriate governance arrangements were in place with its partners in order to ensure that a similar situation could not occur
- The Annual governance Action Plan ensured that robust procedures were in place in order to ensure that key partners were identified and that appropriate risk management arrangements were in place

RESOLVED

- (i) that the Risk Management Update report and the robustness of the assurances provided be noted; and
- (ii) that the Committee continue to receive periodic reports during the year in order to monitor the progress in achieving the actions identified for 2017/18.

52. ANNUAL GOVERNANCE REVIEW PROCESS 2017/18

The Service Director Finance submitted a report providing an update of the Annual Governance Review Process that had been determined for 2017/18 which would be used to influence and assist in the preparation of the Council's statutory Annual Governance Statement for 2017/18.

It was noted that this report had been submitted earlier than in previous years because of changes to the regulations governing the approval of the Annual Governance Statement and Final Accounts all of which would be submitted to the Council in July, 2018 rather than in September.

The report gave details of the background to the Annual Governance Review Process and the Local Code of Corporate Governance which provided the overall statement of the Council's Corporate Governance arrangements.

Appendices to the report provided the Annual Governance Review Process Map together with the Local Code of Corporate Governance Evidence Framework 2017/18.

RESOLVED:-

- (i) That the Annual Governance Review Process for 2017/18 be noted;
- (ii) That the revised Local Code of Corporate Governance be noted; and

- (iii) That outputs from the Annual Governance Review process for 2017/18 be reported to the Committee, where consideration can be given as to whether the process provides sufficient and suitable evidence and assurances upon which the Committee can refer the Annual Governance Statement for Full Council approval in July, 2018.

53. ANNUAL GOVERNANCE STATEMENT ACTION PLAN 2017/18

The Chief Executive and Executive Director Core Services submitted a joint report providing an updated action plan relating to the issues identified following the Annual Governance Review for 2016/17.

The report, which was presented by the Risk and Governance Manager included an Action Plan that was originally considered with the Annual Governance Statement by this Committee at its meeting held on the 22nd September, 2017.

The Risk and Governance Manager reported that generally progress had been positive against all actions identified and that a further review would be undertaken in May and June as part of the AGS process.

The Action Plan was appended to the report and had now been split into 'open' and 'closed' actions.

It was noted that the action relating to 'governance and control of partnerships, contracts and general relationships with external organisations' had been revised and the reasons for this were outlined. An update would be provided at a subsequent meeting.

RESOLVED that the update on progress in delivering actions in the Annual Governance Statement action plan be received.

54. INFORMATION GOVERNANCE PERFORMANCE - QUARTER 3 (2017/18)

The Service Director IT submitted a report providing details of the Council's position in relation to the number of information security breaches and cyber incidents that had been reported and investigated during Quarter 3 of the 2017/18 financial year.

The report which was the third submitted in accordance with the recently revised Audit Committee Terms of Reference and Work Programme was presented by Mr D Robinson (Service Director IT).

In summary:

- in relation to Information Security Incidents
 - There had been 43 incidents reported of which 3 involved a third party (school, system provider or other local authority). After investigation 11 had been found to be unsubstantiated and 6 were undergoing further investigation

- 17 incidents had been recorded as Actual Breaches of the Data Protection Act and 12 were recorded as Weaknesses that could have caused risk to the Council
- The report in categorising the incidents by Service and by type indicated that the most frequently occurring were those disclosed in error – emails sent to the wrong recipient/incorrect recipients copied in/not using encryption etc
- A summary of the lessons learned and action taken was provided and it was noted that the Information Governance Board and Service Directors continued to support the Information Governance Team with the investigation and resolution of incidents
- in relation to Cyber incidents
 - 609 incidents had been reported which was a considerable increase from the previous quarter. Of those
 - 223 had been reviewed and no further action taken
 - 336 were real phishing emails with the sender being blocked
 - 7 attacks had been successful and remedial action had been taken
 - 43 others had been referred to the security team for advice and had been resolved
 - There had been a significant increase in the number of phishing emails but because of the training courses and awareness sessions being delivered these were now being recognised as such. A number of incidents had targeted Council employees with malicious invoice payments and email addresses from partners and also from the council itself (using spoofed addresses) so that they appeared genuine
 - The tender for cyber security defences was nearing the final stages prior to the awarding of contracts and it was hoped that once installed, there would be a positive impact on the incident figures
 - Due to the concerning trend emerging within quarter 3, the training element of the Security tender would prove invaluable in terms of educating users as a good line of defence. In addition, IT Services were working with the Communications Team on a plan to internally raise awareness for a number of security issues.

In response to questioning, the following matters were raised:

- It was noted that a recent email to Elected Members had been sent in error and this matter had been addressed
- There was a discussion as to where phishing emails originated from and of the difficulties in preventing them from being received. Improved awareness of staff and improved security arrangements was having a positive effect in reducing the impact of such emails
- The request in relation to the use of MSN messaging particularly in relation to residents contacting Elected Members could be investigated
- It was reported that any lost or stolen hardware could not be used to gain access to the Council's network as such hardware was always encrypted

- Discussions would be held with the HR Service in relation to 'repeat' offenders who perpetually broke IT procedures and thereby 'threatened' the Council's IT infrastructure. The Head of Internal Audit and Corporate Anti-Fraud informed the Committee that a report was due to be submitted to the Information Governance Board tomorrow which addressed these types of issues. It was hoped that digital skills would be an essential element of any recruitment process in the future
- In response to specific questioning, the Executive Director Core Services explained his role as Senior Information Risk Owner and his work at a strategic level with the Head of ICT, the Service Director IT and the Information Governance Team together with the developing work and role in relation to the General Data Protection Regulations (Minute 55 refers)

RESOLVED that the report be received and Mr D Robinson be thanked for attending the meeting and for answering Members questions.

55. INFORMATION COMMISSIONERS AUDIT AND GENERAL DATA PROTECTION REGULATIONS PROGRAMME

The Service Director IT and Head of Audit and Corporate Anti-Fraud submitted a joint report providing an overview of the recent Information Commissioners Office (ICO) audit and on the progression towards General Data Protection Regulations Compliance.

As previously reported, the Council had agreed to a consensual audit of its processing of personal data, on how the Council delivered training and awareness to its employees and on the processing of information requests. This audit had taken place on the 17th – 19th October, 2017.

The ICO had made significant recognition of the strong leadership and good practice that the Council had embedded citing the excellent online training, comprehensive case management systems for processing Freedom of Information Requests and Shortwood had been identified as having very well established processes for managing paper records. The report in highlighting many of the key strengths also suggested a number of urgent and more challenging areas for improvement and these were outlined in detail within the report. Whilst there were a number of recommendations for action, the majority were of a medium or low priority and an action plan had been developed which would be facilitated by Internal Audit. Further reports on progress would be submitted to future meetings.

Overall, however, the audit opinion of the Council was 'Reasonable assurance'. The ICO would contact the Council during September to request an updated Action Plan in order to carry out a follow up audit.

In relation to the General Data Protection Regulations, these were to become effective from the 25th May, 2017 and enhanced existing legislation as well as introducing some new requirements details of which were outlined.

The report detailed the action being taken to meet these new requirements including a process mapping exercise in relation to the processing and handling of personal and/or sensitive data. Significant resources had been given to support Business Units to complete this task but given the volume of processes involved, as well as the gaps identified, the initial internally set milestone had been changed from 31st December, 2017 to 31st March, 2018. This would be monitored by the Information Governance Team to ensure readiness for the introduction of the Regulations on the 25th May.

The report also gave details of

- the 134 processes currently mapped in the 'live' system together with the progress by Business Unit
- the intention to publish a quick reference guide for business support and guidance
- the assignment to the Head of Internal Audit and Corporate Anti-Fraud, the role of Data Protection Officer
- the outcome of a training and awareness session held on the 25th October, 2017
- the GDPR Programme Plan (which was appended to the report)

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

- Members were encouraged to read the Executive Summary of the ICO report (the link was included within the submitted report) as this provided a good overview of what had been audited together with the findings
- The appendix to the report provided details of the rigorous arrangements in place to meet the requirements of GDPR
- There was a general consensus that not all organisations would be 100% compliant with GDPR on the 25th May but the Council had a good action plan to ensure that as far as possible those requirements were met
- All Business Units were now fully engaged in process mapping their services
- The Head of Internal Audit and Corporate Anti-Fraud did not see that there was any conflict between his Internal Audit role and his role as Data Protection Officer and no concerns had been expressed by External Audit. Arising out of this discussion he gave a brief resume of the type of work involved and his work with senior officers on GDPR matters.

RESOLVED:-

- (i) That the report and action taken in be noted; and
- (ii) That the significant work of officers and particularly the Head of ICT (Service Management and Information Technology) and the Service Director IT and their Teams be noted in preparing for the ICO audit and it also be noted that the outcome of that audit provides significant reassurance about the processes and procedures in place for handling personal and/or sensitive data.

56. EXTERNAL AUDIT - ANNUAL REPORT ON GRANTS AND RETURNS 2016/17

The Committee received a report of the External Auditor summarising the work undertaken on the Council's 2016/17 grant claims and returns including the work completed under the Public Sector Audit appointment certification arrangements, on the work undertaken on other grants/returns under separate engagement terms, detailing the certification work on the Housing Subsidy Benefit claim and outlining the fees for undertaking this work.

Ms A Warner, representing the External Auditor, commented that a qualification letter had been issued in relation to the testing of Rent allowances and rebates. These had been minor in nature. In addition, one minor adjustment had been necessary to the Housing Subsidy claim which had had no impact on that claim. No adjustments had been necessary to the other grants and returns as a result of the certification work which was the same as in previous years. It was noted that Barnsley was in no different situation to most other Authorities in relation to the qualification of Housing Subsidy Benefit Claims and the areas identified were very minor compared to the overall value of the claims.

The fees charged were in line with the indicative fee set by the Public Sector Audit Appointment certification arrangements in relation to the Housing Benefit Subsidy Grant and the fees for other engagements were subject to agreement directly with the Council.

RESOLVED that the Annual Report on grants and returns 2016/17 be received.

57. AUDIT COMMITTEE WORK PLAN 2017/18 AND 2018/19

The Committee received a report providing the indicative work plan for the Committee for its proposed scheduled meetings for the remainder of the 2017/18 municipal year together with the indicative plan for meetings in 2018/19.

As previously reported the dates of the July and September meetings had changed due to the change in the timing of the approval of the Final Accounts which now required Council approval by the end of July.

RESOLVED that the core work plan for 2016/17 meetings of the Audit Committee and the indicative plan for meetings in 2018/19 be approved and reviewed on a regular basis.

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Chair