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| MEETING: | Audit Committee |
| DATE: | Wednesday, 23 January 2019 |
| TIME: | 4.00 pm |
| VENUE: | Reception Room, Barnsley Town Hall |

MINUTES

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

47. DECLARATIONS OF PECUNIARY AND NON-PECUNIARY INTEREST

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

48. MINUTES

The minutes of the meeting held on the 5th December, 2018 were taken as read and signed by the Chair as a correct record.

49. DEVELOPMENT DAY FOR LOCAL AUTHORITY AUDIT COMMITTEES

Mr P Johnson (Independent Member) made a presentation on his attendance, together with the Head of Internal Audit and Corporate Anti-Fraud, at a CIPFA Workshop/Development Day for Local Authority Audit Committees held in London in November, 2018 and highlighting the key points covered at that session.

The day had been led by Diana Melville Legal Advisor from CIPFA and had covered the following four topics:

- a) Developing the Effectiveness of the Audit Committee
- b) A Briefing on Current Governance, Audit and Risk
- c) The Audit Committee and Internal Audit – this had been delivered by the team from Barnsley and, therefore, it was not intended to be covered as part of this presentation
- d) Assurance over Financial Resilience

There had been a variety of attendees who had many different perspectives.

Particular reference was made to the following

- (a) Developing the Effectiveness of the Audit Committee
 - The role of the Co-opted Independent Member
 - A 2016 CIPFA survey in 2016 had indicated that throughout the UK, 39% of Audit Committees had such members, however, these were mandatory for Welsh Councils and Combined Authorities.

- Reference was then made to their role in reinforcing independence and objectivity, supplementing knowledge and experience and providing continuity.
- CIPFA Knowledge and Skills Framework - This assisted in the building the effectiveness of Audit Committee Members particularly in relation to the following which were referred to by Mr Johnson in some detail:
 - roles and responsibilities
 - core skills
 - core knowledge
- where the Committee can influence and add value. It was suggested that an influential Audit Committee could support:
 - good governance and decision making
 - effective risk management
 - improving value for money
 - achievement of goals
 - effective internal controls
 - effective audit assurance
 - embedding ethical values and countering fraud
 - improving public reporting and accountability

(b) Briefing on Governance, Audit and Risk

- A report was provided on the results of auditors work in 2017/18 – reference was made to the number of reports issued within the statutory deadlines but it was noted that the number of reports in relation to Value for Money was significantly lower
- Current risks and resources – particular reference in this regard was made to the following – most of these had already been identified within Barnsley:
 - Commercial Investments with reference to the CIPFA warning on borrowing in advance of need and investments in commercial properties; the security of funds being the primary policy objective of the Treasury Management Activities; and CIPFA concerns that commercial investments should be consistent with the requirements of the Prudential Code and Treasury Management Code
 - Outsourcing and Market risks including provider failure; market fragility; supply chain; and capacity and capability
 - Action for Audit Committees – the importance of ensuring that commissioning procurement and contracting risks are identified and that appropriate mitigations are in place

(c) Assurance over Financial Resilience

- The Challenge for the future included:
 - The continuing pressure on funding
 - The increasing demand pressures particularly in relation to social care, and homelessness
 - The removal of the local authority pay cap
 - How realistic any 'efficiency savings' were in reality
 - Income generation options

- Maintaining acceptable levels of service
- The need to realise the ambitions for the local area
- Staffing pressures and vacancies
- Public concerns
- Ofsted and other external inspections which could impact on the financial resources available for Councils
- The additional assurance that Audit Committees might look for including:
 - The realism of and implementation of savings plans
 - Data quality particularly around critical data on demand
 - The use of benchmarking
 - The viability of business cases and transformation plans
 - The approach to value for money
 - Budget management and reporting
 - Controls over outsourced or commercial arrangements
 - Governance – decision making

The presentation engendered a discussion during which the following matters were raised:

- It was noted that Barnsley was at the vanguard and almost unique in the country with having more independent Members on the Audit Committee. It was surprising that the use of such members had not been made mandatory, however, it was anticipated that External Audit would take a dim view of any authorities which did not use Independent Members as this questioned the degree of independence such Committees had
- Arising out of the above, the Head of Internal Audit and Corporate Anti-Fraud commended on the recent publication of a National Audit Office report which, amongst other things, picked up issues about the efficiency of Audit Committees including the use of Independent Members
- In response to specific questioning, the Service Director Finance commented on the Authority's position with regard to borrowing for commercial purposes. In relation to Financial Resources/Resilience, he commented that CIPFA had produced a useful tool which assisted him and Senior Leadership. The Council had already undertaken work on most of the factors raised in relation to Financial Resilience and appropriate comparisons had also been made with neighbouring authorities. A paper had already been prepared as part of the current budgetary considerations which could be shared with the Committee
- In the light of recent financial difficulties faced by some Authorities, there was a discussion of ways in which such issues could be picked up by Government/External Audit, and of the action that could be taken to address issues identified
- The External Auditor reminded Members that Value for Money was one of the topics that would be covered at the Local Authority Audit Committee Chair and Members event to be held in Leeds on Tuesday 26th February, 2019 to which all Members were invited

RESOLVED that Mr P Johnson be thanked for his most informative presentation.

50. CYBER SECURITY UPDATE

Ms S Hydon (Head of ICT Service Management) and Mr S Marshall (ICT Technical Security Lead) made a presentation updating the Committee on Cyber Security.

Ms Hydon reminded the Committee that following a previous presentation to the Committee prior to Christmas she had been requested to update Members on the current position with regard to Cyber Security. This presentation, therefore, outlined the controls currently in place and those proposed to combat such threats together with the investment opportunities being adopted and strategies being implemented to improve the Authority's Cyber Security arrangements in the future.

Mr Marshall then reported on the following:

- An LGA Cyber Security Stocktake had been undertaken in 2018. This was an independent review and provided feedback under five headings of Leadership, Governance, Partnerships, Technology and Training. The Authority had received an amber rating for, amongst other things, its security measures and the maturity of those measures that were in place
- Based on the outcome of that feedback 4 bids had been submitted for Government Funding to support cyber security improvements, developments and solutions including training and details of these bids were outlined
- Specific training was being prepared for Elected Members as in the past they had been using slightly remodelled training from that delivered to staff
- The Committee was then shown a video which showed how an effective ransomware attack came together and why councils and businesses required effective security controls
- Reference was made to recent social engineering effects and examples were given of the ways in which this could impact on the Council with particular reference in this respect was made to:
 - The recent USA Elections
 - The potential smearing and reputational damage to the Council
 - The impact of the loss of personal and sensitive data
 - The loss of services/productivity
 - Potential implications for Ransom/blackmail
 - Dynamic progression of threat
- A summary of the 'attempts' and 'attacks' the Council had received between 1st January – 31st December, 2018 was provided. This worryingly indicated that the number of attacks was on the increase. It was also pointed out that currently the Authority rejected more emails than it actually received
- A quick reference guide for Information Security Incident reporting was provided. An Information security incident was one which involved the actual or potential failure to meet the requirements of the Data Protection Act 2018, General Data Protection Regulations and/or common law duty of confidentiality
- The Council had currently undertaken work in the following areas
 - There had been an investment in Self Learning Software
 - Vulnerability Scanning was undertaken in order to find and close loopholes
 - Training, awareness and testing was continuing

- Partnership working was undertaken both internally within the Council and with external partners and neighbouring Councils
- The Service was working with National Government Cyber Security programmes from the National Cyber Security Centre and Ministry of Housing, Communities and Local Government
- The Committee was then given an example of the action taken to an actual Phishing Email received by a member of staff. This included, amongst other things:
 - Blocking web links to protect staff and other users
 - Contacting the companies involved
 - Getting content removed
 - Using education to advise how phishing emails could have been spotted
 - Reviewing processes and training to try and prevent or stop this in future

In the ensuing discussion, the following matters were highlighted:

- It was noted that phishing emails came from a variety of sources and countries. Appropriate action was taken as soon as an 'attack' was identified
- Reference was made to the way in which accounts were deleted following a member of staff leaving. Arising out of this reference was made to the 'auto population' of an email address in email clients such as 'Outlook' which may give an indication that an account was still 'live' when in fact it was not. If examples were provided on email addresses/accounts being active when they should have been deleted, this would be investigated by the IT Service Desk as a matter of urgency and action taken to remedy the situation
- Ms Hydon stressed that once a member of staff left the Authority or a Councillor ceased to be a Member of the Authority, accounts were immediately suspended. This information came via individual services or, as a backstop, via SAP employee leavers records

RESOLVED that Ms Hydon and Mr Marshall be thanked for a most informative presentation.

51. INTERNAL AUDIT PROGRESS REPORT - 2018/19

The Head of Internal Audit and Corporate Anti-Fraud submitted a report providing a summary of the Internal Audit Activity completed and key issues arising from it for the period 1st November to 31st December, 2018.

The report, which was presented by Mrs L Booth, Audit Manager, outlined:

- The progress of the internal audit plan up to the end of December analysed by the number of plan assignments producing a report and audit days delivered by the Directorate/Service
- There was a variance of four assignments completed against those planned but these were in the draft stage and meetings were scheduled with officers to discuss outcomes
- There had been no amendments to the Internal Audit Plan over the period

- One audit had been finalised since the last meeting and copies of all final reports were available upon request. A summary of assurances and the number and categorisation of recommendations included in the report was outlined and an Appendix to the report included the definitions of the grading for the assurance opinion together with the recommendations
- A summary of the key issues included in audit reports finalised during the period providing a Limited or No Assurance was provided
- Details were provided of the outcome of other Internal Audit activities concluded not producing a specific assurance opinion
- Tables detailed the other Internal Audit Work undertaken as well as work in progress
- Information on the status of internal audit management actions by directorate due for completion was provided. It was pleasing to note that officers were actively engaging with the service and this was demonstrated by improving statistics
- Details of Internal Audit performance against Performance Indicators indicated that performance was exceeding target levels with only the percentage of final audit reports being issued within 10 days currently not meeting the agreed target. This was largely due to officer availability during the summer period and this would be picked up through the remainder of the year
- Based on the audits reported during the period an overall adequate assurance was considered to be appropriate and this had remained the same in the two previous quarters

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

- There was some concern at the lack of management response in relation to reports for Maintained Schools. It was noted that a meeting had been scheduled with the Executive Director (People) who was following this matter up. Arising out of this reference was made to the responsibilities of Governing Bodies in this respect and, in the light of this, to the action that the Authority could take if Governing Bodies failed to act appropriately
- It was noted that the number of audit days delivered was lower than anticipated in respect of the external clients which was a cause of some concern. The reasons for this were highlighted and appropriate action would be taken

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, 2018 be noted;
- (iii) that the progress against the Internal Audit Plan for 2018/19 for the period to the end of December, 2018 be noted; and
- (iv) that the performance of the Internal Audit Division for the second quarter be noted.

52. CORPORATE ANTI-FRAUD TEAM PROGRESS REPORT

The Head of Internal Audit and Corporate Anti-Fraud submitted a report providing an account of the work of the Corporate Anti-Fraud Team for the period 1st April to 31st December, 2018.

The report gave details of the action taken and outcome of investigations undertaken in relation:

- Council Tax Support Investigations
- Council Tax Liability Claims
- Right to Buy investigations
- Insurance Checks
- Corporate Investigations

Data matching work was continuing in relation to the National Fraud Initiative and a breakdown of the work undertaken was provided. It was noted that to the end of December, 2018 the total monetary value of the fraud and error identified amounted to £272,081.74. The National Fraud Initiative was a biennial data matching exercise that all UK authorities were required to participate in. An analysis of the NFI outcomes for the four exercises covering the period 2010/11 to 2016/17 was provided.

The Team continued to support an investigative support service to Berneslai Homes to identify potential fraudulent tenancies and a summary of alleged tenancy fraud referrals received for investigation during the period was provided. It was noted that the total amount of cases had doubled when compared to the previous year. In addition, three further complex cases that had been opened in 2016 which were delayed due to legal investigations and technical issues and had yet to be concluded.

Work had been undertaken in relation to Fraud Awareness and the first ever Fraud Awareness Week had been held between the 17th and 21st September, 2018. Due to its success it was hoped that this could be repeated this year involving more teams within the Council.

Training continued to be an important element of the work of the Team and Anti Bribery and Whistleblowing Training Courses had been developed which would be delivered via the Council's online training facility.

Whilst the primary focus of the Team was the Council, it offered a service to the Internal Audit's External Clients where this was in the best interests of both the external client and Council in respect of competing priorities and resources.

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

- In response to specific questioning, it was noted that information on the Benefits, Taxation and Income Department Single Person Discount review could be provided
- Information was provided in relation to the support given to management in respect of 9 cases investigated. It was noted that these largely related to time

recording for which a Written Warning had been issued. The Head of Internal Audit and Corporate Anti-Fraud outlined the way in which the Team worked with management on such issues and stated that advice would be given to Services if it was thought that a sanction was not appropriate

- In relation to the National Fraud Initiative, reference was made to the overpayments particularly in relation to residential care homes. The reasons for this were outlined and it was noted that the amounts had been fully recovered. Appropriate action had now been taken to minimise the risk of this reoccurring

RESOLVED:

- (i) That the progress made in the development of effective arrangements and measures to minimise the risk of fraud and corruption be noted; and
- (ii) That further regular reports be submitted on internal and external fraud investigated by the Corporate Anti-Fraud Team.

53. CORPORATE WHISTLEBLOWING POLICY - ANNUAL REPORT

The Executive Director Core Services submitted his annual report reviewing the activities and current issues regarding the Council's Corporate Whistleblowing Policy and supporting procedures.

The report, in outlining the background to the development of the policy, indicated that it was timely to undertake a fundamental review alongside the wider review of other ethical framework policies such as the Employee Code of Conduct and the procedures for investigations. The Committee would be kept informed of progress on this review.

The specific whistleblowing arrangements were, of course, only one means of raising concerns and, therefore, the degree and extent of the use of the policy was not considered significant. What was important was to ensure that there were a number of clear and understood routes for raising concerns and that there were suitable resources and arrangements in place to ensure appropriate investigations were undertaken.

With regard to the arrangements during 2017/18 and 2018/19 there had been six referrals. Two of those remained the subject of investigation, 3 had been investigated but closed due to insufficient evidence and 1 had been investigated and remedial action taken. This had not involved the conduct of a specific employee. Of the 6 referrals, 2 had been made anonymously, one of which had not been proven and the other was one of the live cases.

It was noted that whilst this figure was low, it was nevertheless difficult to speculate what would be an appropriate figure.

In the ensuing discussion the following matters were highlighted:

- There was a discussion of the ways in which Whistleblowing referrals could be submitted

- There was a discussion of the reasons for the low number of referrals and the reasons for this. It was noted that there were alternative options for submitting concerns which could be one of the reasons for the low figure. The Head of Internal Audit and Corporate Anti-Fraud commented that referrals could be received via phone call and via the Corporate Anti-Fraud Team. From his perspective, he felt that the culture of the organisation was such that employees felt empowered to raise and discuss their concerns
- In response to questioning about the awareness of the Whistleblowing arrangements it was noted that there was a need to undertake a cultural audit around ethical awareness. The Head of Internal Audit and Corporate Anti-Fraud commented, however, that all new employees were given an induction which included reference to the Whistleblowing arrangements and, in addition, all staff notice boards had posters 'advertising' the arrangements. He felt, therefore, that there was a high level of awareness
- The Audit Manager commented that an internal training course was being developed and would be available via the Authority's online training facility
- There was no evidence to suggest that referrals were vexatious or were not raised in good faith. In addition, employees were always made aware that their anonymity could not be guaranteed (dependent upon the issues investigated)
- It was noted that as part of the planned review, Internal Audit were planning to undertake work around culture and testing the extent to which policies were known about within the Council and particularly if they were trusted. It was hoped that the findings of this review would confirm that what was thought about the current arrangements was correct

RESOLVED:

- (i) that the report, and the assurances that it provides be noted; and
- (ii) that the Committee confirms its commitment to continue to support the Council's overall counter fraud culture and the work of the Corporate Anti-Fraud Team.

54. EXTERNAL AUDIT PLAN 2018/19

The Committee received a report from the External Auditor providing an overview of the planned scope and timing of the statutory audit of the Council.

It was noted that the Council was required to prepare group financial statements that consolidated the financial information for Bernesali Homes.

In relation to significant risks, the External Auditor would communicate any significant findings in relation to Management override of control, Valuation of the Pension Fund Liability and Valuation of land and buildings as well as other significant matters arising from the audit in their Audit Findings Report in July, 2019.

The planning materiality had been determined to be £10m for the Group and £9.9m for the Council's single entity statements which equated to 1.8% of the gross expenditure on the cost of services in the previous year. They would also continue to report uncorrected omissions and misstatements.

Significant Value for Money risks had been identified and this was a key area of focus given the significant financial pressures facing the authority as well as the Glass Woks development which was one of the largest projects undertaken by the Council.

The Interim visit would take place in February, 2019 with the final accounts being presented in June and July. Initial meetings had already taken place with the Service Director Finance and with staff from the Finance Team. The key deliverables were outlined in the Audit Plan and the Audit Findings report and the fee had been set at £104,718 (a reduction from £135,998 in the previous year) but was subject to the Council meeting their requirements.

In response to specific questioning the External Auditor explained the process for finalising reports. Meetings were arranged with appropriate staff and any issues discussed prior to publication.

RESOLVED that the External Audit Plan 2018/19 be noted and, insofar as this Committee is concerned, the action to be taken be supported.

55. EXTERNAL AUDIT - CERTIFICATION OF CLAIMS AND RETURNS - ANNUAL REPORT 2017/18

The Committee received the annual report of the External Auditor summarising the work undertaken on the Council's 2017/18 grant claims and returns and outlining the fees for undertaking this work.

RESOLVED that the annual report be received.

56. AUDIT COMMITTEE WORK PLAN 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 2018/19 municipal year and for 2019/20.

The Executive Director Core Services informed Members of the Committee that Ms D Terris (Chief Executive) was to leave the Council at the end of May 2019. Arrangements were, therefore, in hand to recruit to her replacement.

It was noted that it was proposed that the meeting scheduled for the 19th July, 2019 be held at 4.00 pm on Monday 22nd July, 2019. This was due to the change of arrangements for approving the final accounts and receiving the External Audit Governance Report. Prior to that meeting at 3.00pm the Council's External Auditor would present a briefing on the External Audit Governance Report (ISO 260).

The Chair reported that he was unable to attend the meeting scheduled for the 18th September, 2019 as he was attending the Arnhem 75th Commemoration event and he sought permission, therefore, to move that meeting to the 11th September, 2019.

RESOLVED:

- (i) that the core work plan for the remainder of the 2018/19 municipal year and for 2019/20 meetings of the Audit Committee be approved and reviewed on a regular basis;
- (ii) that the following changes to dates of future meetings be approved:
 - **19th July be moved to 22nd July, 2019 at 4.00 pm**
 - **18th September be moved to 11th September, 2019 at 4.00 pm**

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Chair