

Minutes



To: All Members of the Audit Committee, Chief Executive, Chief Officers, All officers named for 'actions'

From: Legal, Democratic & Statutory Services
Ask for: Theresa Baker
Ext: 26545

AUDIT COMMITTEE 7 JULY 2017

ATTENDANCE

MEMBERS OF THE PANEL

P Bibby, S N Bloxham, F Button (Chairman), J M Graham, C K Hogg, J Billing (substituted for A K Khan), A J S Mitchell, T J Williams, W J Wyatt-Lowe (Vice-Chairman), P M Zukowskyj

Upon consideration of the agenda for the Audit Committee meeting 7 July 2017, as circulated, copy annexed, conclusions were reached and are recorded below:

Note: No declarations of interest were made by any member of the Committee in relation to the matters considered at this meeting.

Chairman's Announcements

- (i) The Chairman welcomed the Members to the Committee and introduced Owen Mapley (Director of Resources); Steven Pilsworth (Assistant Director, Finance) and Terry Barnett (Head of Assurance Services and Lead Officer for Audit Committee).
- (ii) The Chairman noted apologies from A K Khan and Ernst & Young (The Authority's External Auditors).
- (iii) Members were encouraged to ask questions

PART I ('OPEN') BUSINESS

1. MINUTES

- 1.1 The minutes of the Committee meeting held on 1 March 2017 were confirmed as a correct record and signed by the Chairman.

2. RISK MANAGEMENT UPDATE

[Officer Contact: Fiona Timms, Risk and Insurance Manager
(Tel: 01438 843565)]

- 2.1 The Chairman updated the Committee on Hertfordshire's actions following the fire at Grenfell Tower (London Borough of Kensington and Chelsea, 14 June 2017). Members heard that the County Council had complied with The Department for Communities and Local Government (CLG) request for all councils to check any cladding (aluminium composite material) on their tower blocks and if appropriate send it for testing; had also submitted a survey return for

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each council maintained school; and was engaging with communities on the issues, both with council tenants and more widely irrespective of the ownership of the buildings. Members were referred to the following statement from the Property Department: *'There are some buildings which have cladding similar to that used on Grenfell Tower but none of our residential properties and none over 3 storeys in height. Whilst we continue to review these we do not believe there to be any greater risk and the existing advice around site fire risk assessments and routine fire drills continues to be applied. The advice the Community Protection Directorate and Hertfordshire County Council Health & Safety have provided is that the risk is in the spread of fire preventing occupants from escaping. In a single storey or two storey building this is not applicable. All buildings have been designed to be compliant with fire risk, there are multiple exits and no one resident on site'*.

- 2.2 The Committee then considered a report on the County Council's Risk Management activity over the last quarter. It included summaries of corporate risk movements, new risks, the 33 Corporate Risks with amendments since the March meeting and the full Corporate Risk Register.
- 2.3 Members noted the reduction in Corporate Risks from 35 to 33 and were directed to pages 8, 9 & 10 for the details of the specific changes in the last quarter and to appendix A for the detail of every risk and assessment levels over the first 12 months.
- 2.4 During discussion of new risk E05 (Ref. ENV0148): 'Croxley Rail Link cancellation' officers updated the Committee that, due to cost escalation, London Underground (LUL) had advised that the project would not now be taken forward without further input from its partners including Hertfordshire County Council. As a consequence the Council was briefing civil servants and an update on the situation would be given at the Local Enterprise Partnership (LEP) Board.
- 2.5 In response to questions around the corporate risks associated with the Strategic Joint Venture (SJV) nature of a Local Authority Owned Company to Develop Land and Building Assets (Propco) (as identified in new risk R20 (Ref. PROP0023) 'Capital receipts, asset disposal and strategic joint venture (SJV) arrangements), Members heard that subsequent to consideration of the report at the Resources, Property and The Economy cabinet panel on 23 June 2017 the business case would be considered by Cabinet on 10 July 2017 and provide more information on the risks. Officers advised that reputational risks relating to Propco had been and were constantly being considered. They agreed that as the project progressed they would bring further information on risks to the Committee.
- 2.6 During discussion of R15 (Ref PROP0018): 'Land owned by the Council and no longer required for the purpose for which it was

O Mapley

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bought may not have an active management regime in place', officers commented that the risk had a reduced assessment as over all of the vacant sites sufficient security measures were in place and agreed to bring information back to Members on the issue.

O Mapley

2.8 Members reflected that Corporate Risk Register showed few risks in Children's Services although it was one of the most risky and that Adult Services risk issues could be reflected back into Children's Services. Officers agreed to pose this question to Children's Services.

F Timms

2.9 During discussion of the risk focus report for the next meeting of the Committee, officers clarified that the role of Audit Committee was to provide assurance that the County Council was making its best efforts to manage risk appropriately rather than influence policy. When the Croxley Rail Link (E05 (Ref: ENV0148) was discounted as the subject of the next risk focus report, as it was currently influenced by external factors, Members commented that in the context of what the County Council could influence/change risk appeared to have limited scope; the Labour group member requested that their disagreement with this comment was recorded. To the suggestion of the PREVENT agenda as the next risk focus, Members highlighted that influence could be exercised via schools and also coordination with the District and Borough Councils. The Committee agreed on Corporate Risk Register No. CP02: Radicalisation – Prevent (Ref: CP0004).

G Pratt

Conclusion:

- 2.10 The Committee RESOLVED:
- (i) to note the Risk Management Update report;
 - (ii) that a Risk Focus report on the following risk be brought to the next meeting of the committee in September 2017:
 - CP0004: As a result of disruptive factors influencing the lives of people in Hertfordshire, there is a risk that residents or staff become radicalised or drawn into terrorism, which could cause harm to themselves or the wider public and reduce community / social cohesion.

3. RISK FOCUS REPORT – CYBER SECURITY

[Officer Contact: Dave Mansfield, Head of Technology
(Tel: 01992 588331)]

3.1 The Committee received a report on Cyber Attack Risk (TEC0004) and controls on the County Council Corporate Risk Register, in relation to failure to maintain and ensure the use of Hertfordshire County Council's security systems, technical protocols and change management processes, leading to the risk of a cyber-attack (virus, penetration or malicious internal action) on the County Council's ICT

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environments causing significant service disruption and possible data loss. The exponential rise in malicious attack from the Internet was highlighted and Members viewed the following presentation: [Audit Committee -7 July 2017 - Cyber Attack Risk presentation](#)

- 3.2 To questions on compliance with industry standards officers reported that the County Council had backup compliance systems in place and followed industry best practice; detail was given of the activities undertaken. It was highlighted that Hertfordshire undertook an annual Public Sector Network accreditation exercise, including security penetration exercises, had always achieved the accreditation and was currently accredited to May 2018.
- 3.3 In relation to employees not turning off their computers at night and thus missing the necessary software updates, Members were advised that as desktops were those most likely to be left on the IT department forced them off on a weekly basis. In addition all County Council machines were configured for Microsoft updates including laptops which had not been used for long time.
- 3.4 During discussion Members were advised there was no way to stop malicious internal actions by County Council staff and that such events were followed up; some staff had left the organisation, others had been disciplined by Human Resources (HR) and HR were also involved in situations where the malicious action resulted from mental health issues.
- 3.5 Responding to queries about IT system infection from County Council partners, officers reported that the County Council carried out periodic audit of external partners and had found that the risk emanated from small third party charities rather than larger organisations. To mitigate this risk, small external partners were given secure access into the County Council's systems so the Council's information did not have to move outside the organisation.
- 3.6 The Committee heard that the new General Data Protection Regulations increased the requirements on organisations to track and control data leakage by staff or malicious attack and that this would aid in reducing the target risk score. In addition to this investment in the following would help to mitigate against the increasing threat of malicious attack: multiple layers of new technology; a dedicated real time security monitoring facility; additional skilled IT security support staff; further controls on IT purchasing to avoid 'Shadow IT' and improved and effective council wide security awareness for all staff with mandatory data protection and security training.

Conclusions:

- 3.7 The Committee RESOLVED to:
note the report and commented on the information provided in it.

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4. ANNUAL GOVERNANCE STATEMENT 2016/17 AND CODE OF CORPORATE GOVERNANCE

[Officer contact: Terry Barnett, Head of Assurance Services
(Tel: 01438 845508)]

- 4.1 The Committee considered a report setting out the basis for the recently completed review of the County Council’s governance arrangements, including its system of internal control and the draft Annual Governance Statement (AGS) 2016/17 for the Committee’s consideration and approval.
- 4.2 Members attention was drawn to an error on page 4 of Appendix A – The Draft Annual Governance Statement 2016/17 where the date in ‘– actions taken in response to exceptions reported in 2014/15’ should have read 2016/17.
- 4.3 In relation to Appendix B ‘ Hertfordshire County Council Corporate Code of Governance’, Page 4: Principle B: Ensuring openness and comprehensive stakeholder engagement, under ‘What the Council Does’, Members suggested that emphasis should be added to ‘channels of communication’ in:
‘Ensure that clear channels of communication are in place with all sections of the community and other stakeholders and put in place monitoring arrangements to ensure these operate effectively’, to include references to Freedom of Information and Environmental Information Regulations as contained within the corresponding entry in Principle G; and that the Whistleblowing procedure be added to both.
- 4.4 To aid navigation of reports the Chairman requested that officers number each report so that all the pages (including appendices) ran sequentially.

T Barnett

All officers

Conclusions:

The Committee RESOLVED:

- a. to approve the draft Annual Governance Statement for 2016/17 prior to final sign-off by the Leader of the Council and the Chief Executive; and
- b. to approve the updated Code of Corporate Governance

R Gordon
J Wood
T Baker
R Davies

5. HERTFORDSHIRE COUNTY COUNCIL 2016/17 ANNUAL ASSURANCE STATEMENT AND INTERNAL AUDIT ANNUAL REPORT

[Officer contact: Terry Barnett, Head of Assurance Services
(Tel: 01438 845508)]

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- 5.1 The Committee received the County Council's 2016/17 Annual Assurance Statement and Internal Audit Annual Report.
- 5.2 Members congratulated officers on the large number of days charged out and the volume of work done with district and borough councils.
- 5.3 In response to a question from Members, it was noted that, whilst high level results were shown in this report, officers could provide copies of any of the background reports for Members at their request.
- 5.4 In respect of Member concerns about limited assurance opinions officers clarified that these were covered in the quarterly reports and that a follow up process was in place to seek assurance that the recommendations had been implemented i.e. the auditee had to produce an action plan and associated evidence. Further to this an update on the status of the implementation of high priority recommendations was always reported at Audit Committee.

T Barnett

Conclusions:

- 5.5 The Committee RESOLVED:
 - To note the Annual Assurance Statement and Internal Audit Annual Report;
 - To note the results of the self-assessment as required by both the Public Sector Internal Audit Standards (PSIAS) and the Quality Assurance and Improvement Programme (QAIP);
 - To accept the SIAS Audit Charter;
 - To note and record confirmation of assurance that the scope and resources for internal audit were not subject to inappropriate limitations in 2016/17.

6. HERTFORDSHIRE COUNTY COUNCIL INTERNAL AUDIT PROGRESS REPORT

[Officer Contact: Darren Williams, Audit Manager (01438 844341)]

- 6.1 The Committee received an internal audit progress report (as at 12 June) on Shared Internal Audit Service (SIAS) delivery of the Hertfordshire County Council Internal Audit Plan for 2017/18; proposed amendments to the approved 2017/18 Audit Plan; 'Limited Assurance' audits issued since the last meeting of the Committee; the implementation status of previously agreed high priority audit recommendations and agreement to remove completed actions; and also medium priority recommendations; and an update on performance management information.
- 6.2 Officers updated Members to the fact that as at 3 July 2017:
 - the number of Audit Plan days delivered had risen to 20%;
 - the number of Planned Projects delivered had risen to 20%;

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- Of the six uncompleted audits remaining from the 2016/17 Plan two had been issued as draft reports, three were pending draft reports that were in quality review and one had been deferred until later in the year;
- In relation to Schools' Audit Activity, 14 reports to had been issued to schools out of the 25 planned visits within theme one of the plan (SFVS);
- In respect of plan changes, five additional audits had been added to the audit plan and one had been removed. In addition the third schools audit theme had been changed to a review of compliance with IR35 regulations.

6.3 Members heard that no 'Limited Assurance' audits had been issued since the last meeting of the Committee.

6.4 In response to questions officers clarified that to intercept the activity of fraudsters who attempted to change the bank details of suppliers engaged by the County Council, robust processes were in place, including verifying requested changes with the supplier before processing.

6.5 During discussion around the outstanding recommendations for Service User Managed Monies in Adult Care Services, officers clarified that this area had been re-audited and Substantial Assurance had been provided on the control environment operated by in-house services. It was highlighted that an additional 15 day consultancy review on contract commissioning and monitoring had been added to the Plan to review processes in place for a selection of key providers.

6.6 Further to this and responding to Member concerns about the availability of assurance on the management of client finances in private care homes / services, officers highlighted that discussions were currently being held with ACS Board to agree how SIAS could provide future assurance in this respect.

D Williams

Conclusion:

- 6.7 The Committee RESOLVED:
- To note the Internal Audit Progress Report;
 - To agree changes to the audit plan, as detailed in the report;
 - To agree the removal of high priority actions now complete.

7. END OF YEAR REPORT ON THE TREASURY MANAGEMENT SERVICE AND PRUDENTIAL INDICATORS 2016/17

[Officer contact: Robert Thurlow, Senior Accountant
(01992 555061)]

7.1 The Committee considered the End of Year report on the treasury management service and prudential indicators 2016/17, providing a

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summary of treasury management performance and activity for the period to 31 March 2017.

7.2 Members heard that the County Council had been compliant with the prudential and treasury management indicators set out in the Integrated Plan. However, on 30 April 2016 there had been a breach of the Treasury Management Strategy (TMS) due to a failure of Barclays' online banking platform. The County Council did not incur any loss or additional cost and the bank had apologised and taken mitigating actions to prevent any future occurrence.

7.3 During discussion Members heard that due to the variability of the level of surplus cash held by the County Council, short fixed-term investments such as bonds and certificates of deposit were used for periods of less than 1 year in order to maximise yield on short term surplus liquid balances, over money market fund returns.

7.4 During debate on which meeting(s) the End of Year report on the treasury management service and prudential indicators should be presented to, officers clarified that it had to be presented to Audit Committee in order to seek assurance on audit and compliance issues, however, given the level of detail in the report consideration by the Resources, Property & The Economy Cabinet Panel was also an option. The Chairman commented that reflection on this issue was required.

Members,
O Mapley

Conclusion:

7.5 The Committee RESOLVED to note the Treasury Management End of Year report.

8. HERTFORDSHIRE COUNTY COUNCIL SHARED ANTI-FRAUD SERVICE REPORT

[Officer contact: Nick Jennings, Counter Fraud Manager
(Tel: 01438 844705)]

8.1 The Committee considered a report which (i) detailed performance against the published 2016/17 Anti-Fraud Action Plan for the Council as agreed by Audit Committee in March 2016 and, (ii) detailed the Council's proposed Anti-Fraud Action Plan for 2017/2018 for Members' agreement.

8.2 Members were advised that the purpose of Shared Anti-Fraud Services (SAFS) was to consider what risks there were to local government (i.e. risk rather than reality). The Committee noted the 3 categories of fraud and also that the County Council benefited from the work that SAFS provided to its district partners including investigation into Council Tax Discount fraud, the authority being the recipient of 80% of Council Tax levied. The Committee heard that in 2016/17 SAFS had delivered a total of £359.5k of savings whilst the

County Council's contribution to SAFs was only £105k.

8.3 Members were directed to Appendix 2 to the report for the detail of the Anti-Fraud Action Plan for 2017/18 and were advised that KPI 2 should read £300k and KPI 4 should read 60%.

8.4 The Committee heard that a full report on SAFS performance against the 2017/18 plan would be presented to the September 2017 meeting, whilst the revised Anti-Fraud Action Plan for 2018/19 would come to the March 2018 meeting.

8.5 It was noted that Members with only the hard copy of the report with them could not view the embedded appendices, including Appendix 2: The Anti-Fraud Action Plan 2017/18 and provision of hard copies of any embedded items FOR AGREEMENT was requested for future reports.

All officers
to the
Committee

8.6 As some Members could not view the embedded Anti-Fraud Action Plan for 2017/18, the Committee requested postponement of the recommendation to agree the plan until Members had viewed a hard copy.

N Jennings
T Baker

Conclusions:

8.7 The Committee RESOLVED to:
(i) Note the Shared Anti-Fraud Service year-end report for 2016/17;
(ii) Postpone agreement of the recommendation to agree the Anti-Fraud Action Plan 2017/2018 until Members had the opportunity to view a hard copy and, if agreed, bring it as an item of business to the next meeting of the Committee.

N
Jennings,
T Baker

9. WHISTLEBLOWING ANNUAL REPORT 2016/17

[Officer contact: Kathryn Pettitt, Chief Legal Officer
(Tel: 019952 555527)]

9.1 The Committee considered a report which
i. provided an overview of the disclosures made through the Council's whistleblowing process and the operation of the Whistleblowing Policy in the year 2016/17;
ii. sought members' approval to recommend to Council the revised Whistleblowing Procedure as attached at Appendix A to the report.

9.2 Members heard that ways of raising the profile of the policy were being investigated to make it more visible to staff should they want to use it. The Committee noted the detail of the 6 whistleblowing

allegations in 2016/17, 5 being from employees and 1 from an agency worker.

- 9.3 The Committee were directed to Appendix A to the report for the detail of the Council's Whistle blowing Procedure. Officers highlighted that the Procedure had last been updated in May 2013 and had been refreshed during 2016/17, as a result of which minor revisions and clarifications were proposed as follows:
- a) Inclusion of a section which advises on the approach to be taken by school based staff when raising a concern in their workplace;
 - b) Updating the details of the Reporting Officers (i.e. the officers responsible for operating the Whistleblowing Procedure);
 - c) Updating the procedure concerning how the Reporting Officers consider whistleblowing allegations when first made;
 - d) The inclusion of a section identifying those external bodies to whom a worker can raise concerns and still obtain protection under the Public Interest Disclosure Act 1998;
 - e) Inclusion of specific provision for feedback from the person making the whistleblowing allegation on the process.
- 9.4 Members expressed support for transparency in the whistleblowing procedure.

Conclusion:

- 9.5 The Committee RESOLVED to:
- Note the contents of the report and the ongoing work to raise awareness and provide assurance on the effectiveness of the Council's whistleblowing arrangements;
 - Recommend to full Council that they adopt the revised Whistleblowing Procedure attached to the report for inclusion in the Constitution.

10. FUTURE WORK PROGRAMME

The Committee noted the future work programme below:
(new items added at this meeting in **bold**)

11 September 2017:

- HCC Audit Results Report 2016/17
- Response To The Audit Results Report – HCC (Including Fire Fighters' Pension Fund) Financial Statements
- Annual Statement Of Accounts 2016/17– HCC (Including Fire Fighters' Pension Fund) Financial Statements
- Audit Results Report 2016/17 – HCC Pension Fund
- Response To The Audit Results Report 2016/17 – HCC Pension Fund
- Risk Management Update
- Risk Focus Report (**CP0004**)
- Internal Audit Progress Report

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- Shared Internal Audit Service Annual Report;

1 December 2017:

- Annual Audit Letter – HCC 2016/17
- Response to HCC Audit Results Report and preparation for 17/18 accounts
- Mid-Year Report on the Treasury Management Service and Prudential Indicators 2017/18
- Risk Management Update
- Risk Focus Report
- Internal Audit Progress Report
- SAFS Progress Report on 2017/18 Plan
- HFRS Statement of Assurance 2016/17

26 March 2018:

- Preparation for 2017/18 Accounts
- Audit Plan 2018/19 – County Council
- Audit Plan 2018/19 – Pension Fund
- Letters of Representation on Management and Oversight of The Hertfordshire County Council (Including Firefighters' Pension Fund) And Hertfordshire Pension Fund Accounts 2016/17
- Risk Management Annual Report 2016/17
- Risk Focus Report
- Internal Audit Progress Report
- Internal Audit Plan 2018/19
- SAFS HCC Anti-Fraud Action Plan 2018/19
- SAFS Annual Report

25 July 2018:

- Internal Audit Progress Report
- Risk Management Update Report
- Risk Focus Report
- HCC Audit Results Report 2017/18
- Response To The Audit Results Report – HCC (Including Fire Fighters' Pension Fund) Financial Statements
- Annual Statement Of Accounts 2017/18– HCC (Including Fire Fighters' Pension Fund) Financial Statements
- Audit Results Report 2017/18 – HCC Pension Fund
- Response To The Audit Results Report 2017/18 – HCC Pension Fund
- Annual Governance Statement 2017/18 and Code of Corporate Governance
- Annual Assurance Statement and Internal Audit Annual Report 2017/18
- End of Year Report on the Treasury Management Service and Prudential Indicators 2017/18
- Whistle Blowing Annual Report 2017/18

11. ANY OTHER BUSINESS

11.1 There was no other business

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**KATHRYN PETTITT
CHIEF LEGAL OFFICER**

CHAIRMAN _____

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