

MINUTES OF AUDIT COMMITTEE MEETING - THURSDAY, 2 MARCH 2017

Present:

Councillor Galley (in the Chair)

Councillors

Cox	Hobson	Mitchell
Elmes	Hunter	Roberts

In Attendance:

Neil Jack, Chief Executive
Alan Cavill, Director of Place
Tony Doyle, Head of ICT Services
Tracy Greenhalgh, Chief Internal Auditor
Steve Thompson, Director of Resources
Tim Cutler, Partner, Audit and Assurance, KPMG
Steve Sienkiewicz, Clerk to the Committee.

1 DECLARATIONS OF INTEREST

There were no declarations of interest on this occasion.

2 MINUTES OF THE LAST MEETING HELD ON 19 JANUARY 2017

The Committee agreed that the minutes of the last meeting held on 19 January 2017 be signed by the Chairman as a true and correct record.

3 STRATEGIC RISK REGISTER - UNSUSTAINABLE LOCAL ECONOMY/ INCREASED DEPRIVATION

The Committee considered a progress report in relation to the individual risks identified on the Strategic Risk Register, specifically in relation to the risk regarding 'Unsustainable Local Economy / Increased Deprivation'. The report was introduced by Mr Cavill, Director of Place, who began by outlining a number of actions being taken by the Council in line with its Corporate Priorities of Communities and Economy. These included:

- The intense programme of getting people into work through Positive Steps.
- The successful programme of helping businesses to grow.
- The focus on tourism, including the work that had gone into the development of the Blackpool Museum, the Conference Centre and the promenade improvements.
- Achieving record visitor numbers at the Zoo and the Sandcastle, the latter which has been operating at capacity.
- The new jobs created in the south of the town as a result of the Enterprise Zone.

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- The Talbot Gateway development – acquisition of the Wilkinson’s building, together with ambitions for Hounds Hill, including a new cinema complex.
- Blackpool to become a mini-hub for the Civil Service, with the possibility of the Department for Work and Pensions relocating a large number of staff to the town centre.

Mr Cavill also gave an account of the large programme of highway improvements undertaken in Blackpool over the last few years which were continuing. Successful grant funding applications had been obtained and more would be applied for, going forward. These had contributed to the success of integrated traffic management projects, as well as the Quality Corridors and Blackpool Bridges programmes.

In relation to housing, Mr Cavill spoke of the scale of work carried out to improve the housing stock in Blackpool, including the initiatives as a result of the Selective Licensing Scheme. Additionally, The Blackpool Housing Company was now in operation, with 120 properties let to date and the Council was now in partnership with the Homes and Communities Agency, with a number of new build projects underway.

Mr Cavill responded to a number of questions from the Committee. In relation to sub-risk 8a, ‘Lack of good quality affordable housing’, he was asked what effect the completion of 400 new homes on the Rigby Road site and the Queens Park development would have in relation to this. He explained that in relation to the net score, the impact would be marginal. This was because of the general poor quality of housing stock in the town centre. He added however that the mitigation was likely to increase over time, with the situation likely to be much improved in approximately five years.

The Committee pointed out that there was no reference to improving skills within the risk report. Mr Cavill explained that skills improvement was covered elsewhere and agreed to check and report back on exactly where this could be found. Committee members pointed out that recently, the Central Drive area had been the subject of negative media comments and asked about specific regeneration plans for that locality. Mr Cavill explained that the major regeneration initiative for that area was dependent upon the Central Station site development, which was still at the discussion stage with a potential developer. Asked about a ‘plan b’ if the major redevelopment work did not come to fruition, Mr Cavill explained that alternative plans were always under consideration and pointed out some of the street scene improvements that were already underway in that area.

In relation to sub-risk 8c ‘Lack of appropriate transport infrastructure’, the Committee pointed out that in connection with the Road Asset Management Strategy, it was noted that appropriate work was being taken to maintain the highways infrastructure, but there was no mention of highways infrastructure improvement. Mr Cavill acknowledged the point made and agreed that all aspects of transport infrastructure would be considered at the next review. Mr N. Jack, Chief Executive, added that the tramway extension was a good example of investment in growth, as opposed to mitigation against failure.

The Committee agreed to note the report.

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Background papers: None.

4 RISK SERVICES QUARTER THREE REPORT - 2016/2017

The Committee considered the Risk Services Quarter Three Report which covered the period 1 October to 31 December 2016. The report was presented by Mrs Greenhalgh, Chief Internal Auditor, who outlined the key developments as detailed within the report, before responding to questions and comments from the Committee. She also pointed out that a new graph had been included in the report following a suggestion by the Audit Committee, which showed the percentage of Business Continuity Plans updated in line with the Quality Review Reports.

The Committee asked whether the £7,800 of identified corporate fraud in relation to Council Tax could be recovered. Mrs Greenhalgh explained that this matter was referred back to the Council Tax team for consideration, although Mr Thompson, Director of Resources, pointed out that the cost of recovery was likely to be greater than that of any monies recovered.

In response to a question about whether any patterns were emerging in the types of fraud being discovered, Mrs Greenhalgh explained that three cases of Direct Payments fraud had been referred to the Audit team recently. As a result, the Direct Payments team would be working closely with fraud investigators going forward. Additionally, as a result of the National Fraud Initiative data matching exercise, approximately 2,000 matches were currently being worked through and a number of those related to concessionary fares.

Mrs Greenhalgh was asked specifically about cases of blue badge fraud. She explained there had been a number of referrals and that currently, a more robust prosecution policy was being worked on, together with more pro-active observation work going forward.

In relation to the Council's I pool training programme, Members asked whether there had been any improvement in the take up rate. Mrs Greenhalgh pointed to a slow improvement rate, but added that a targeted approach should bring about further improvements in 2017/2018.

The Committee raised questions about the status of Adult Services, and the measures put in place to address some of the issues highlighted that led to the inadequate assessment in relation to compliance. Specifically, Members were concerned whether the staff would have the time to carry out the actions required. Mrs Greenhalgh explained that the required measures would not be overly time consuming and that in addition, the new 'Mosaic' system was due to go live on 6 March 2017, which would lead to an improved recording system.

The Committee raised concerns about Placement Order Legal Costs, as highlighted within the report. It was requested that when in post, the new Children's Services Director attend the Audit Committee to discuss this matter further.

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In relation to the Regulation of Investigatory Powers Act 2000, it was noted that there had been no covert surveillance undertaken during the period of this report. The Committee asked why this was the case and Mrs Greenhalgh explained that RIPA surveillance was carried out only in the most serious of cases and that magistrates approval was needed in relation to each case. Asked specifically about dog issues, Mrs Greenhalgh confirmed that Regulation of Investigatory Powers Act 2000 approval would not be obtained for dog related matters. She further explained that the Council's Legal Services team were currently working on a scheme for cases that would not be covered by the terms of the Regulation of Investigatory Powers Act 2000 but some level of surveillance would be appropriate..

The Committee noted that the total number and costs relating to public liability claims had reduced considerably during 2016/2017. Mr Thompson pointed out that the success of the Project 30 highways improvements scheme had impacted on this in a major way and that the Council would continue to bid for highways funding going forward. Members requested that a more detailed report on the trend in reduced claims be provided by Legal Services at a future meeting of the Committee.

The Committee agreed:

1. To note the report.
2. To request the attendance of the newly appointed Director of Children's Services at the September meeting of the Audit Committee to discuss concerns around Placement Order Legal Costs.
3. To request a detailed report on the trend in reduced claims be provided by Legal Services at a future meeting of the Committee.

Background papers: None.

5 SAFEGUARDING AGAINST CYBER RISKS

The Committee considered a report in relation to the actions being taken to reduce cyber risks within the Council. The report was presented by Mr Doyle, Head of ICT Services.

Mr Doyle spoke in relation to the content of the report. He began by explaining that cyber attack was now one of the top five threats to the Gross Domestic Product of all the UK's major cities. The threat of cyber attack was now greater than it had ever been. To mitigate against the risk, the Council had now taken out insurance as a means of protection, as well as undertaking a number of pro-active initiatives to help minimise the risk of attack. These included:

- Purchasing leading network and security systems from world class vendors.
- A partnership with Lancaster University based TNP (The Networking People) who supported the Council in configuring and managing network and security systems.
- Regular Ethical Hacking/Penetration Tests by highly qualified external experts NTA Monitor, who are accredited under the CHECK system by the Communications-Electronics Security Group, part of Government Communications Headquarters to detect and report on vulnerabilities.

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- Compliance with the Cabinet Office's Public Services Network Code of Connection, a security assessment and standard which included an externally assessed Annual IT Health Check to confirm the Local Authority could be trusted to share and handle information securely with other public bodies.
- Compliance with the Payment Card Industry Data Security Standard to ensure the Council was trusted to process its large number of credit and debit card transactions.
- Compliance with the NHS N3 Information Governance Toolkit to ensure the Local Authority could be trusted to share and handle information securely with other NHS bodies.

Mr Doyle went on to explain the top three known cyber threats to the Council and its user community, as follows:

Email – This was explained as the greatest threat and vulnerability. The Council received approximately half a million emails on a typical day. 485,000 of these emails were filtered out with approximately only 15,000 being legitimate emails.

Ransomware – It was explained that some of the zero day threat emails were designed to encourage email users to download a ransomware payload. Ransomware was designed to encrypt the files on the device and the network it sits on. In order to regain access to the files the ransomware demands the victim to pay a ransom. The longer the victim leaves it to pay the ransom, the higher the ransom goes. The only way to recover from a ransomware attack without paying a ransom was to ensure a secure backup of the data was in place before it was encrypted. It was reported that last year Lincolnshire County Council had to shut down all of its computer systems for four days to recover from a ransomware attack.

Password Security - Just before Christmas it was reported that the Internet giant Yahoo was hacked with over one billion customer account details including passwords being stolen.

The Council regularly requires users to reset complex passwords every 90 days and for external access from the Internet it required some form of two factor authentication. This mitigates the risk to some degree. However, it was always possible there were users who may have broken the ICT Security Policy and stored some Council data outside of the Council's security systems. Potentially such data could become vulnerable if a user's password was compromised in the Yahoo attack and same password was being used for other accounts.

Mr Doyle concluded his report by explaining the ICT staff turnover rate and current cyber skills. In October 2016, the Audit Committee had asked about the turnover of ICT Staff and whether the suitable people were in place. It was reported that during the last 12 months, there had been a turnover of six employees who succeeded in gaining higher salaries with other employers in the North West.

The Committee was reminded that the IT and digital industries continued to grow at unprecedented rates and it was not unusual for good quality employees to move on quickly and gain promotion. In the current austere environment, it remained a challenge for the public sector to retain skilled and talented IT staff due to the current pay restraints. In

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particular, employees with cyber skills were in very high demand. Mr Doyle explained that the main way the Council had mitigated against this risk was through the partnership with TNP at Lancaster University. TNP specialised in networking and security and in many ways were better placed than the Council to attract talented cyber security and network specialists.

The Committee was informed that alongside TNP the Council did have a number of in-house experienced members of the IT team who understood the requirements to build and maintain compliant and secure IT systems.

Mr Doyle responded to a number of questions from the Committee. Members acknowledged the ICT security training that was given to all office based Council staff, but pointed out that this was not a requirement for elected members. Mr Doyle explained that cyber awareness training had been offered to Councillors prior to a meeting of full Council in 2016 but the take up had been low. The Committee agreed that the training should form part of the mandatory induction process for Councillors and Mr Doyle agreed to follow this up by way of a recommendation from the Committee.

In connection with staff turnover and recruiting people with the desirable skill sets, Mr Doyle explained that the Council had been successful in recruiting new employees. He acknowledged that more expertise would always be desirable, although the partnership arrangement with TNP had assisted considerably.

Members asked about the insurance that the Council had taken out against a cyber attack and the levels of confidence that the safeguards in place were such that in the event of a claim, it would not be refused. Mr Doyle explained that confidence levels were high as a result of the due-diligence checks that had to be undertaken before the risk was taken on. Mr Doyle was also asked about the possibility of the Council falling victim to an attack similar to that in Lincolnshire which disabled the Council's systems for four days. He explained that whilst it was not impossible for it to happen, the measures that Blackpool had in place would hopefully mitigate against such an attack as far as possible.

In relation to succession planning, the Committee asked whether any attempts had been made to recruit local staff. Mr Doyle explained that TNP had staff on their workforce from the Fylde Coast and that the Council was conscious of the social value obtained from the partnership.

Asked about IT penetration testing, Mr Doyle confirmed that this formed part of the audit process. As part of this, test e-mails would be sent out to determine the levels of risk and to identify where training would need to be directed.

On the subject of shared server space with other organisations, Mr Doyle explained the shared arrangements that were in place with the NHS and the similar compliance framework that existed across each organisation. He also explained the cross auditing processes that were in place.

The Committee agreed:

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1. To note the report.
2. To recommend that ICT security training becomes part of the mandatory training process for all elected members.

Background papers: None.

6 INTERNAL AUDIT PLAN 2017/2018

The Committee was asked to consider approving the Internal Audit Plan 2017/2018. The Plan was presented by Mrs Greenhalgh, Chief Internal Auditor, who explained the criteria for the plan as follows:

- Each risk based review would include core areas of internal control such as business planning, performance monitoring and security of assets. Segregation of duties in key processes would remain an important focus given the current economic climate and issues identified from past work.
- Compliance testing accounted for approximately fifty percent of the allocated audit resource. As set out in the 2014/2017 audit strategy, the overall approach remained, to complement risk based audit work with a robust set of compliance testing.
- Changes to the programme of risk based work would only be made following discussion with the Council's Section 151 officer. Any changes would be made known to the Audit Committee through the quarterly report of the Chief Internal Auditor.

Responding to questions from the Committee, Mrs Greenhalgh confirmed that an equal balance was applied to all risks within the strategic risk register. Provisional timings were included within the Plan, to ensure an appropriate balance of work. She also confirmed that as well as identifying problem areas, that part of the process was to make recommendations in relation to possible solutions, where appropriate.

The Committee agreed to approve the Internal Audit Plan 2017/2018.

Background papers: None.

7 INTERNAL AUDIT CHARTER

The Committee was asked to consider approving the updated Internal Audit Charter 2017-2018. The Charter was presented by Mrs Greenhalgh, Chief Internal Auditor, who explained the criteria for the document as defining Internal Audit's mission, purpose, authority and responsibility. It was noted that the Charter was previously included as an appendix in the Internal Audit Plan, but following recommendations from a recent external assessment of Internal Audit, it would now be produced as a standalone document.

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Mrs Greenhalgh responded to questions from the Committee. Asked whether the Charter needed to contain anything about whistleblowing, she confirmed that the Whistleblowing Policy sat within the Human Resources department and not Audit.

The Committee agreed to approve the Internal Audit Charter 2017-2018.

Background papers: None.

8 EXTERNAL AUDIT PLAN 2016/2017

The Committee considered KPMG's Audit Plan for 2016/2017.

The Plan was presented by Mr Cutler, KPMG. He talked the Committee through the content of the Plan before responding to questions.

Mr Cutler confirmed that KPMG determined the priorities within the Plan, although it was likely that the Council would readily agree with the content. He also confirmed that as part of any recommendations made, these would include identifying possible solutions to any issues that were highlighted. On that topic, any best practice learning from other local authorities would be passed on.

Asked about the possible costs that might be incurred if any formal objections were raised by members of the public, Mr Cutler explained that additional costs would only be incurred if an objection was accepted that warranted further investigation. Furthermore, any additional fees would have to be accepted by the Public Sector Audit Office.

The Committee agreed to note the report.

Background papers: None.

9 CERTIFICATION OF GRANTS AND RETURNS 2015/2016

The Committee considered the External Auditor's report on the certification of grants and returns 2015/2016. The report was presented by Mr Cutler, KPMG who explained that the report summarised the results of work carried out by KPMG under the Public Sector Audit Appointment certification arrangements, as well as the work completed on other grants and returns under separate engagement terms.

The Committee agreed to note the report.

Background papers: None.

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10 DATE OF NEXT MEETING

The Committee noted the time and date of the next meeting as 6pm on Thursday 20 April 2017 at Blackpool Town Hall.

Chairman

(The meeting ended at Time Not Specified)

Any queries regarding these minutes, please contact:

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