

DURHAM COUNTY COUNCIL

At a Meeting of **Audit Committee** held in Committee Room 1A, County Hall, Durham on **Monday 28 November 2016 at 10.00 am**

Present:

Councillor E Bell (Chairman)

Members of the Committee:

Councillors J Rowlandson (Vice-Chairman), C Carr, J Carr, M Davinson and O Temple

Co-opted Members:

Mr D Beavis and Mr C Robinson

The Chairman welcomed Naci Akdemir to the meeting. Naci was researching for his PhD at Durham University the causes of economic cybercrime and its implications for policing.

1 Apologies

Apologies for absence were received from Councillors L Armstrong, J Robinson and W Stelling

2 Minutes

The minutes of the meeting held on 30 September 2016 were confirmed as a correct record and signed by the Chairman.

In relation to the Employment Tribunal referred to in Minute no. 8, The Chief Internal Auditor and Corporate Fraud Manager informed the Committee that several attempts had been made to meet with the complainant however, no meeting dates had been accepted to date.

3 Declarations of interest

Declarations of interest were provided by Members of the Committee. A general declaration of interest would be recorded given that Members were school governors, members of various Committees of the Council, former District Councillors and bodies such as the Fire Authority.

Councillor C Carr declared an interest in Item No. 10, as Chair of the General Licensing and Registration Committees.

4 Cyber Security

The Committee received a presentation from Head of ICT and the Chief Internal Auditor and Corporate Fraud Manager that highlighted:-

- It's an arms race – continual battle and not something that could be fixed
- Hacked – real problem and big money for ransomware companies. E-mail scams netted 3m euros last year.
- Cyber Risk – Drivers
 - Technology Expansion – new technology everyday all vulnerable to risk
 - Data Growth
 - Evolving Business Models – state sponsored hacking
 - Motivated Attackers – people work globally
- Principles of Cyber Defence
 - Secure configuration
 - Boundary firewalls and internet gateways – attempted hacks on a weekly basis were 2.7m and one third of all e-mails had malicious content
 - Access control and administrative privilege management
 - Patch management
 - Malware protection
- What we are doing –
 - Physical security data centres – highly controlled
 - Firewalls - prevent internet traffic in and out of the system
 - Anti-virus – looks for specific packages
 - Spam filters – try to filter most out
 - Dual factor - authentication
 - Whitelisting – hardware & software – specific about what is allowed on network
 - Training and communication – continually train and communicate anything at all suspicious and not to open or download if unsure
- Internal Audit Helps – assurance over ICT controls
 - Key questions are:
 - Does the organisation use a security framework? PSN and PCI used
 - What are the high risks to the organisation related to cybersecurity e.g. Cloud Computing, Outsourced Business Critical Systems, Disaster Recovery and Business Continuity, Periodic Access Reviews and Log Reviews.
 - How are employees made aware of their role related to cybersecurity? – mandatory training, regional sessions, articles in staff magazines and e-mails.
- Internal Audits
 - Access Controls
 - Physical Security
 - Internet Security
 - Infrastructure/Network Management
 - Mobile Computing
 - Windows Operating System
 - Security Incident Management
 - ICT Purchasing
 - Systems Development and Maintenance
 - Third Party Access
 - Business Continuity Planning
 - ICT Asset Management
 - ICT Risk Management

- Take away thoughts –
 - We must be prepared NOW not as a reaction to a Cyber Incident
 - Presume we are already breached or vulnerable
 - Think about it holistically – it is not just about penetration testing and firewalls
 - Get assurance. Use frameworks to assist but not define

The Chairman invited Mr Akdemir to ask a question. He informed the Committee that he was studying cyber-crime on an individual level and said that crime surveys had showed high levels of association with victimisation. He said that the Complaint Centre for cyber incidents had reported a number of people who had experienced a loss of money whilst trying to access the Government's website due to hoaxes. He asked if the Council protected people against such scams. The Head of ICT advised that the Council do filter any malicious content and advised employees not to open suspicious e-mails and send to a 'spam' e-mail address or to contact the ICT helpdesk.

Mr Akdemir asked if awareness had been increased for employees, especially when dealing with vulnerable younger and elderly people. The Head of ICT advised that employees received mandatory training and that peer to peer training takes place within schools.

Councillor Davinson asked if there were specific risks when people were using mobile devices and was informed that data traffic from the Council's system to your device would feature dual log in identification as protection. He further asked how this was tackled in schools, in particular through their VLE systems. He was aware that a school child had recently been suspended for hacking in the school's computer system. The Head of ICT said that the school based technology was vulnerable and that the Council did offer advice and support to them. He added that a lot of children try to hack just to see if they could do it. The ICT team had given training to a pupil recently to show him the repercussions of what he had done after hacking a schools system.

The Chairman thanked the Head of ICT and the Chief Internal Auditor and Corporate Fraud Manager for their information presentation.

Councillor Davinson suggested that this information be taken to an Overview and Scrutiny Committee.

Resolved:

That the content of the presentation be noted.

5 Annual Audit Letter 2015/2016

The Committee received the Annual Audit Letter 2015/16 from Mazars summarising the 2015/16 audit of Durham County Council and Durham County Council Pension Fund (for copy see file of Minutes).

Mr J Collins, Mazars introduced Mr M Kirkham who would be taking over the responsibility from Mr Waddell. The Chairman welcomed Mr Kirkham to the meeting.

Mr Collins advised that all deadlines had been met and an unqualified opinion had been issued for both the County Council and Pension Fund Accounts. He advised that there would be challenges ahead with the early close down of accounts. A dry run would be taking place this financial year and work was ongoing with the finance team to ensure that deadlines were met. A change in the code for the highways infrastructure would have a huge impact on the balance sheet.

He concluded that the Council's arrangements were very good and that there was a lot of work ahead to ensure we were ready for the change in accounting dates.

Resolved:

That the contents of the letter are noted.

6 External Audit Progress Report - November 2016

The Committee received a report from the External Auditor that gave an update on progress on the External Audit report for Durham County Council (for copy see file of Minutes).

Mr Collins informed the Committee that planning of the 2016/17 audit had commenced and as the accounts would be closed down earlier next year, the planning aspect would also move forward.

He highlighted the national publication on public sector audit appointments that would monitor the work of external audit.

Resolved:-

That the report be noted.

7 Update of the Local Code of Corporate Governance

The Committee considered a report of the Corporate Director, Resources that sought approval of the updated Local Code of Corporate Governance for inclusion in the Council's Constitution (for copy see file of Minutes).

The Risk, Insurance & Governance Manager highlighted the changes in the document and made reference to the review on CIPFA and SOLACE.

Resolved:

That the revised Local Code of Corporate Governance be approved.

8 Strategic Risk Management - Progress Report for the quarter ended 30 September 2016

The Committee considered a report of the Corporate Director, Resources which highlighted the strategic risks facing the Council and that gave an insight into the work carried out by the Corporate Risk Management Group during July to September 2016 (for copy see file of Minutes).

The Risk, Insurance and Governance Manager informed the Committee that there were 22 strategic risks and no new significant risks had been added.

Councillor Temple was concerned that the report did not show a real reflection of risks, but rather the risks that departments chose to disclose. He could not believe that the only risk to Children and Young People's Services was 'failure to protect child from death or serious harm'. He felt that the serious risk to children's education through the teaching assistant's dispute should also be included. He highlighted other risks that he felt should be included on the register, such as the shared loan to equity of the Cricket Club and price inflation risks. He suggested that all strategic risks be listed in the report.

The Risk, Insurance and Governance Manager explained that inflation risks were emerging and therefore difficult to assess. Risks were reported above a certain criteria scoring level. Some risks may appear quite large to an individual but they were assessed in terms of the organisational risk. Mechanisms were in place to assess internal risks and they went through a moderating process via Corporate Management Team. He was unable to comment on individual risks as they had come from the Service.

The Chairman suggested that this was reported to the Corporate Director of Resources with a response to be circulated to the Committee.

Councillor C Carr referred to the risks associated to Estates in terms of selling land as could often be delayed once a developer carried out their own site investigations. The Head of Assets and Planning assured Members that a three year programme was in place and that each sale was monitored. Sites could be brought forward for development and the service continued to deliver on capital receipts. He assured Members that the programme was monitored on a monthly basis and reviewed annually.

Moving on, the Finance Manager for Capital and Revenue, informed Members that work had been ongoing with the External Auditors regarding the Durham County Cricket Club. The Statement of Accounts was signed off in September and prior to that meetings took place with James Collins and Cameron Waddell of Mazars to ascertain if we needed to make a provision in the accounts of bad debts. It was agreed that as we did not know the debt and as we were not the only creditors therefore a degree of confidentiality applied and we could not include this. Since the signing off of the accounts, a deal had been made whereby the Council would receive £3.74m of redeemable shares. The balance sheet would not change and the share valuation going forward would be crucial. Any profit would be paid out as dividends and the County Council would have the first option on those. The deal also protected the Cricket Club. External Audit and the Treasury Management advisor would work with the Council's Finance team to continually monitor the situation. The Corporate Director of Resources and Chief Executive would meet with the Cricket Club to finalise the deal and further details would be reported back to Members.

Councillor C Carr was advised that the Cricket Club had not missed any loan payments and the repayment of the loan had been put on hold.

Mr Robinson appreciated the information provided but was concerned that we had any value on shareholdings. He said that a realistic valuation was needed and that evidence should be presented to the Committee of what the Cricket Club can offer to the Council.

Mr Kirkham, Mazars said that external audit would challenge the accounts but that the point in which they needed to be satisfied would be carried out at the year end.

Mr Robinson was assured that information would be given to Members between now and the end of March on the level of the dividend from the Cricket Club. He stated that he had no complaint about the deal itself but was concerned about how it would be presented within the accounts.

The Head of Financial and HR Services advised that over the next few months a business plan would be developed taking on board the new Chairman's views. The robustness of this plan would have an impact on the valuation of the shares. He assured Members that the County would have the full protection of payments and would see an impact from the shares.

The Finance Manager for Capital and Revenue commented that the environmental impact and economy as a whole would benefit from the deal and that it was key to have the correct business plan in place.

Councillor Davinson said that there should be a clearer picture of where things stand by the end of March. He felt that membership would increase as people would stand behind the club and that sponsors would want to stay with the club.

Resolved:

That the report provides assurance that strategic risks were being effectively managed within the risk management framework across the Council.

9 Work of the Audit Committee - Report to Council

The Committee considered report of the Audit Committee which covered the period February to September 2015 and would be presented to the County Council at its next meeting in accordance with best practice guidelines (for copy see file of Minutes).

The Chairman had delegated the responsibility of presenting the report to the Vice-Chairman, as he would be chairing the full Council meeting.

Mr Robinson said that he had been overwhelmed with the amount of information that had been available to him and found the process to be excellent. Mr Beavis fully endorsed those comments.

The Chairman thanked the co-opted members for their comments.

Resolved:

That the draft report be agreed and reported to the meeting of the County Council being held on 7 December 2016.

10 Internal Audit Progress Report for the quarter ended 30 September 2016

The Committee considered a report of the Chief Internal Auditor and Corporate Fraud Manager which informed members of the work carried out by Internal Audit during the period April to June 2016 (for copy see file of Minutes).

The Audit and Fraud Manager highlighted the movements in the plan, removed audits and unplanned reviews added to the plan. The Committee were advised that 51% of the total plan had been delivered, exceeding the target of 45%. There had been 4 audits finalised in the quarter that had been given a limited assurance opinion. 6 audits had been removed from the plan and 35 unplanned reviews were added. With reference to the survey response rate an average score of 4.5 out of 5 was given from service groupings. The summary of progress on the actions due were highlighted and members were informed that all performance indicators had been achieved.

Resolved:

- (i) That the amendments made to the 2016/2017 Annual Audit Plan, be noted.
- (ii) That the work undertaken by Internal Audit during the period ending 30 September 2016 and the assurance on the control environment provided, be noted.
- (iii) That the performance of the Internal Audit Service during the period, be noted.
- (iv) That the progress made by service managers in responding to the work of Internal Audit, be noted.

11 Exclusion of the public

Resolved:

That under Section 100A(4) of the Local Government Act 1972, the public be excluded from the meeting for the following item of business on the grounds that it involves the likely disclosure of exempt information as defined in paragraphs 2 and 3 of Schedule 12A to the said Act.

12 Internal Audit Progress Report for the quarter ended 30 September 2016

The Committee considered Appendices 6 and 7 of the report of the Chief Internal Auditor and Corporate Fraud Manager which detailed the actions agreed by managers in response to internal audit recommendations that were outstanding (for copy see file of Minutes).

Members were advised that there were four audits finalised in the quarter that had been issued with a limited assurance opinion.

The Head of Planning and Assets gave assurances to Members about the work being carried out following a recent audit. The Chairman thanked the Head of Planning and Assets for attending the meeting.

Resolved:

That the report be noted.

13 Protecting the Public Purse - Activity Update as at 30 September 2016

The Committee considered a report of the Chief Internal Auditor and Corporate Fraud Manager that provided an update on the Council's counter fraud activity as at 30 September 2016 (for copy see file of Minutes).

Resolved:

That the recommendation contained within the report be approved.