London Borough of Hammersmith & Fulham

Audit, Pensions and Standards Committee
Minutes

Tuesday 24 September 2019

PRESENT

Committee members: Councillors Iain Cassidy (Chair), Rebecca Harvey, PJ Murphy, Alex Karmel and Matt Thorley

Other Councillors: Dominic Stanton

External Guests: Andrew Smith and Keyasha Pillay from Grant Thornton

Officers:
David Hughes (Director of Audit, Fraud, Risk and Insurance)
Veronica Barella (Chief Information Officer)
Dave Rogers (Deputy Head of HR Operations)
Hitesh Jolapara (Strategic Director of Finance and Governance)
Steve Miley (Director of Children's Services)
Mike Sloniowski (Risk Manager)
Emily Hill (Assistant Director, Corporate Finance)
Matt Sales (Assistant Director, Programmes and Assurance)
David McNulty (Assistant Director, Operations)
Lisa Redfern (Strategic Director of Social Care)
Adrian Dewey (IT Security Manager)
David Abbott (Scrutiny Manager)

1. **MINUTES OF THE PREVIOUS MEETING**

   RESOLVED
   The minutes of the meeting held on 23 July 2019 were agreed as a correct record.

2. **APOLOGIES FOR ABSENCE**

   Apologies were received from Councillor Jonathan Caleb-Landy and Kim Smith (Chief Executive).

3. **DECLARATIONS OF INTEREST**

   There were no declarations of interest.

4. ANNUAL AUDIT LETTER 2018/19

Andrew Smith and Keyasha Pillay from Grant Thornton presented the Annual Audit Letter. The letter was a public document that provided a summary of the results of the auditor's work that was presented to the Committee at its previous meeting. Andrew Smith noted that the papers also included a letter on fee variations for additional audit work carried out. The areas of additional work were:

- Implementation of the new ledger system (SAP)
- Assessing the impact of the McCloud ruling
- Pensions (IAS 19)
- PPE valuation

Andrew Smith commented that, even with these additional fees the Council, the total cost was still 15 percent below what the previous auditor was charging.

Councillor PJ Murphy asked how the fees were calculated. Andrew Smith said they were based on time sheets and the hours were multiplied by the company's standard rates for audit work. He added that there were different rates that related to the staff grades but estimated the blended rate at around £500 to £600 per day.

Councillor Murphy noted that he felt the additional fees for Pensions (IAS 19) and the PPE Valuation were questionable. He said it seemed as though Grant Thornton were charging again for work that should have been done better the first time around. Andrew Smith clarified that the Financial Reporting Council had requested auditors carried out further steps and it wasn't a comment on the quality of the work they had done.

Councillor Murphy said he didn't think the Council should pay the third and fourth fees. He added that the fee for additional work in light of the McCloud ruling was troubling because it suggested the Council could be charged for any external changes. Andrew Smith said auditors were empowered to charge additional fees for any additional work carried out – whether due to internal or external circumstances.

Councillor Alex Karmel said surely Grant Thornton tendered for a full audit to the satisfaction of the Financial Reporting Council. Assumptions around additional work should have been built into the tender. Andrew Smith said the framework allowed the auditor to come back to the Council for additional fees where necessary.

Councillor Karmel said it was not the fault of the client and in his own business experience the original tender should be honoured. Andrew Smith agreed that it was not the authority's fault - but said the tender was not fixed fee and the framework allowed additional fees.

Councillor PJ Murphy asked Grant Thornton to reconsider the additional fees. Andrew Smith said they had agreed a standardised approach and would be submitting the additional fee request to Public Sector Audit Appointments Ltd.

Councillor Matt Thorley suggested the auditor could provide discounted fees next year.

Councillor Rebecca Harvey asked for clarification that the auditor was not seeking approval for these fees but was telling the Committee that is what the Council would be charged. Andrew Smith agreed.

The Chair asked if the auditor was aware of these changes ahead of the audit. Andrew Smith said they were only aware of the new ledger implementation. The Chair said surely the McCloud ruling was on their radar? Andrew Smith said it was on their radar but at that time they didn't know the outcome of the Supreme Court's ruling.

Councillor PJ Murphy expressed disappointment that the Council was being charged an additional 8 percent with no recourse. He felt it wasn't conducive to strong partnership working. He requested that Grant Thornton reconsidered the additional fees and return with an updated proposal.

Hitesh Jolapara (Strategic Director of Finance and Governance) noted that the Council's accounts were signed off on time when many others weren't. There were questions about the capacity of the audit sector to complete so many public sector audits by July. There was also a spotlight on the audit sector due to high-profile cases like Carillion etc. It was likely there would be changes coming and officers would keep the Committee informed.

RESOLVED
That the Committee noted the contents of the auditor's letters.

5. **CYBER SECURITY UPDATE**

Veronica Barella (Chief Information Officer) presented the report that gave an overview of actions the Council had taken to reduce its exposure to cyber-security risks. A report went to Cabinet on 9 October 2017 entitled 'Cyber Threat Remediation' recommending the following key actions that had since been implemented:

- The introduction of multi-factor authentication

- An enhanced level of Microsoft licensing

- Better monitoring of suspicious login attempts

- A review of file types used to block malicious files

Multi-factor authentication, the use of an associated device or authenticator app to verify identity, had been well received.

The licensing upgrade involved trusted machines and trusted networks which meant the IT department could remove onerous authentication steps for users but keep the same high level of security.

The IT service desk (delivered by Agilisys) monitored suspicious login attempts (e.g. from an unexpected country) and would lock account then contact the user directly to recommend they changed their passwords.

Councillor Rebecca Harvey asked if the system linked accounts to IP addresses. Adrian Dewey (IT Security Manager) said it did – the network addresses for all devices were logged and marked as 'trusted'.

Veronica Barella noted that one of the key risks was Office 365 because it was cloud-based. Cloud based applications gave greater flexibility (they can be used from most internet connected devices) but presented some additional risks as data was stored outside of the Council.

The Council was also in the process of moving all file-shares to the cloud-based SharePoint Online. IT carried out a risk analysis and identified an issue with users sending sharing links with sensitive data which made it difficult to manage. In response to this, additional controls were put in place for Children's Services and Adult Social Care – users in those departments can't send links to anyone outside of their department. This meant they still got many of the benefits of collaboration but couldn't expose sensitive data to anyone without permission to see it.

Veronica Barella reported that new laptops with Windows 10 and mobile phones had been successfully rolled out to all officers. The previous version of Windows, Windows 7, would no longer being supported by Microsoft from January 2020. Before carrying out the Windows 10 roll-out, IT had their prototype Windows 10 device independently assessed by security experts. They found no critical vulnerabilities and some minor issues which were fixed before the roll-out to staff.

Veronica Barella noted that the Council was due for an updated Public Service Network Certificate in September. The certificate was granted by the Government to enable access to Department for Work and Pensions data. The Council had asked for a six-month extension to the September deadline because of imminent changes to the security patching process. This had been agreed with the Department for Work and Pensions and was considered low risk.

Veronica touched on the Council's social media accounts and the security around them to prevent unauthorised access that could cause reputational damage. Veronica said she had confirmed with the Communications department that the governance was robust.

Councillor Alex Karmel asked if the roll-out of Windows 10 meant the Council had stopped its 'bring your own device' policy. Veronica Barella said all staff had been given a laptop (or tablet / hybrid device) and mobile phone. Many applications that staff used every day weren't cloud-based so couldn't be accessed on non-Council machines.

Councillor Karmel asked if there was any facility for off-site working. Veronica said staff could work on Wi-Fi from any location or tether from their phones.

Councillor Karmel asked if the Council used a VPN (Virtual Private Network). Adrian Dewey said it did.

Councillor Karmel asked if any breaches of the Council's network had been discovered since the migration to Windows 10. Adrian Dewey said there hadn't been any breaches. Hitesh Jolapara (Strategic Director of Finance and Governance) commented that there had been many attempts to breach the network but there hadn't been any breaches because of the robust security in place.

Councillor Karmel asked what the cost of the license upgrade had been. Veronica Barella said the licensing cost was £60,000 per year. She added that the Council had to negotiate hard for this price after the supplier on the Government framework tried to significantly increase it after a deal was agreed.

Councillor Matt Thorley asked what training the Council provided to staff around suspicious emails, phishing attempts etc. Veronica Barella said regular messages were sent out to staff warning about particular security issues. If a new phishing attempt was identified engineers could delete the emails from the system backend. It would then send a communication to all users warning them and advising on what to do if they receive something suspicious. Adrian Dewey noted that data security and information management was a mandatory part of the Council's induction process for new staff.

Councillor Thorley asked if the Council brought in third parties to test its response to these types of attacks. Veronica Barella said they hadn't to date – it was something that would be considered but the department would have to weigh up the value against the cost.

Councillor Thorley asked how the Council checked the authenticity of invoices and supplier payment details.

Hitesh Jolapara explained that the procurement process had a number of checks built in – a member of staff requisitioned goods, that request had to be approved by their line manager, then they would have to be goods-receipted. Only after all of these steps would a payment be made to the supplier. Auditors also carried out sample checks on a regular basis.

Councillor Thorley asked if the Council went back to the supplier so to confirm their bank details. Hitesh Jolapara said the supplier entered their details themselves when registering and they could check and update the details themselves.

The Chair asked how many users had access to the Council's social media accounts. Veronica Barella said only the communications team had access.

The Chair asked what the process was when someone in that team left – were the passwords changed? Veronica Barella said she would follow up after the meeting.

ACTION: Veronica Barella

The Chair asked if the cloud-storage used by the Council was UK based. Veronica Barella said the Office 365 storage was currently based within Europe. The IT department were mindful of this issue and it was part of their Brexit contingency planning. All other cloud storage was UK based. The Chair asked if the Council would request Microsoft to move its data to the UK. Veronica said they could.

The Chair asked if the Council knew who was carrying out the attacks on its network and where they were coming from. Adrian Dewey said there were always small-scale random attacks but there were also larger scale, targeted attacks. The Microsoft perimeter slowed many of these attacks. For IT a key issue was getting the message to staff that they shouldn't use the same password for different accounts because if other sites are compromised it left the Council vulnerable.

The Chair asked if there was a reliable way to encourage staff to generate secure passwords. Adrian Dewey said IT were looking at a corporate password manager solution.

Councillor Matt Thorley asked how the Council mitigated the risks of impersonation – i.e. email addresses with minor misspellings that look legitimate at a glance. Like other organisations the Council made significant decisions over email.

Adrian Dewey said at the moment it was simply a job for the recipient. IT did send communications about the need to validate addresses but there was no technical control.

RESOLVED
The Committee noted the successful implementation of the recommendations on cyber-security made to Cabinet in October 2017 and the Council's ongoing work to improve information security.

6. **RISK MANAGEMENT UPDATE**

David Hughes (Director of Audit, Fraud, Risk and Insurance) and Mike Sloniowski (Risk Manager) presented the report that gave an update on risk management within the Council. David Hughes noted that the risk register presented as part of the report received regular review by the Council's Strategic Leadership Team.

Mike Sloniowski highlighted the following key risks:

- **Risk 26, No-deal Brexit** – The Council's preparations for Brexit (continuity planning etc.) were ongoing and there had been a lot of activity in the last quarter.

- **Risk 3, Commercial & Procurement** – There had been positive movement on commercial and procurement with a refresh of the Council's approach to social value and more robust monitoring of contracts and spend.

- **Risk 5, Business Resilience** - H&F was a leading authority on business resilience with its community emergency response website.

- **Risk 6, Information management** – In addition to the work the Council had been doing to improve general data management and cyber-security there had been a number of recommendations made to reduce the number of data breaches in Children's Services. Training had been provided to staff and technical controls had been put in place.
- **Risk 33, Hammersmith Bridge** – The Council was exploring installing a bailey bridge for pedestrians and cyclists to remove them from Hammersmith Bridge and speed up construction.

The Chair noted there was a new risk around preparedness for a snap general election and asked if the Council was looking at the level of voter registration in the borough. Mike Sloniowski said the Council had a very well administered elections team and voter registration was a high priority for them.

Councillor Alex Karmel, in reference to Risk 32, asked where the property with the notice of deficiency was located. Mike Sloniowski said he would check with colleagues and update members by email.

ACTION: Mike Sloniowski

Councillor Alex Karmel, in reference to Risk 33, asked how advanced plans were for the proposed bailey bridge and whether the cost of that was included in the £25m budget or whether it would be a further draw on the Council's resources. Hitesh Jolapara (Strategic Director of Finance and Governance) said he would discuss with Sharon Lea (Strategic Director for Environment) and provide a response.

ACTION: Hitesh Jolapara / Sharon Lea

Councillor PJ Murphy, in reference to Risk 21, noted that King Street Civic Campus was one of the Council's biggest projects and asked if the team responsible was getting all of the help and support they required to make a success of it. Mike Sloniowski reported that he and David Hughes were attending the programme management team meetings to provide support where necessary.

The Chair, in reference to Risk 19, asked if officers were confident that the coroner's office was now operating correctly. Mike Sloniowski reported that the responsible Assistant Director, Rhian Davies was confident it was well managed from the Council's perspective. A lot effort had been put in to support the service.

Councillor PJ Murphy noted that a recent report to the Finance, Commercial Revenue and Contracts Policy & Accountability Committee had a 'red risk' for the mortuary service. Mike Sloniowski said that risk related to no-deal Brexit and the supply of certain chemicals required for the process.

Councillor Alex Karmel noted that the Coroner's Office was responsible for the majority of bodies flown in to Heathrow. He asked officers if they were confident the service had the necessary planning and capacity in place to deal with the potential disruption caused by repatriation in a no-deal Brexit scenario. Mike Sloniowski replied that the service's contingency plan was being actively reviewed last week – he would check if it had been completed. David Hughes noted that internal and

external reviews of the Coroners Service had taken place recently and received positive assurance from both.

ACTION: Mike Sloniowski

RESOLVED

That the Committee noted the contents of the report and considered the contents of the corporate risk register.

7. **INTERNAL AUDIT QUARTERLY UPDATE**

David Hughes (Director of Audit, Fraud, Risk and Insurance) presented the report that summarised internal audit activity up to 13 August 2019.

He reported that a total of five audit reports had been finalised since the last report to the Committee in July. All five reports in the areas of Gas Safety, BT and Agilisys Contract Monitoring, Housing Rents, Coroners, and Cemeteries and Bereavement Service achieved satisfactory assurance. There were no issues of significance or concern to report to the Committee.

The Chair asked officers to provide more information on the gas safety audit given the issues with the service in the past. Councillor Alex Karmel asked officers to check how many, if any, warrants were needed to carry out the gas safety checks.

ACTION: David Hughes

RESOLVED

That the Committee noted the contents of the report.

8. **INTERNAL AUDIT CHARTER 2019**

David Hughes (Director of Audit, Fraud, Risk and Insurance) presented the annual update to the Council's Internal Audit Charter – changed included reference to the CIPFA Statement on the Role of the Head of Internal Audit in Public Sector Organisations and organisational changes during 2019.

David Hughes highlighted section 9.2 of the charter that gave assurances over the independence of the Director of Audit, Fraud, Risk and Insurance and ensured that internal audit reviews of the functions he was responsible for would be carried out and supervised independently of the Director.

Councillor PJ Murphy said it would be helpful for the Committee to have the changes from the previous year highlighted. David Hughes said section 9.2 was the key difference and he would be happy to do that next time.

ACTION: David Hughes

Councillor Alex Karmel asked if the register of potential conflicts of interest for staff in the internal audit and anti-fraud services (9.3 of the charter) was available for public inspection. David Hughes said it was held internally in the department. As with other declarations of interest by officers that information was not typically made public.

Councillor Karmel asked that the Council considered making the register public in the spirit of being open and transparent. David Hughes said he would discuss it with the Monitoring Officer.

ACTION: David Hughes

RESOLVED

That the Committee noted the contents of the report.

9.   **DATES OF FUTURE MEETINGS**

The following dates of future meetings were noted:
- 16 December 2019
- 11 March 2020

Meeting started: 7.00 pm
Meeting ended: 8.15 pm

Chair   ....

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