

**Committee:** Accounts, Audit and Risk Committee  
**Date:** Wednesday 20 January 2010  
**Time:** 6.30 pm  
**Venue:** Bodicote House, Bodicote, Banbury, OX15 4AA

### Membership

<b>Councillor John Donaldson (Chairman)</b>	<b>Councillor Trevor Stevens (Vice-Chairman)</b>
<b>Councillor Ken Attack</b>	<b>Councillor Simon Holland</b>
<b>Councillor Devena Rae</b>	<b>Councillor Lawrie Stratford</b>
<b>Councillor Rose Stratford</b>	<b>Councillor Barry Wood</b>

## AGENDA

1. **Apologies for Absence and Notification of Substitute Members**

2. **Declarations of Interest**

Members are asked to declare any interest and the nature of that interest which they may have in any of the items under consideration at this meeting.

3. **Petitions and Requests to Address the Meeting**

The Chairman to report on any requests to submit petitions or to address the meeting.

4. **Urgent Business**

The Chairman to advise whether they have agreed to any item of urgent business being admitted to the agenda.

5. **Minutes** (Pages 1 - 6)

To confirm as a correct record the Minutes of the meeting of the Committee held on 14 December 2009.

**6. Serious Incident Review Follow-Up (Pages 7 - 28)**

Report of Head of Customer Service and Information Systems

**Summary**

To follow up on the recommendations made by the committee at its meeting on 23 September 2009.

**Recommendations**

The Accounts, Audit and Risk Committee is recommended to:

- (1) Note the updates to recommendations 1, 2 and 5.
- (2) Note that Internal audit are currently undertaking a review of project management and serious incident management (recommendations 3 and 4) across the council, and will provide a verbal update to the meeting.
- (3) Ask the Member/Officer review group being established as a result of the decision by the Executive in December 2009, to include out of hours and standby provision as part of its remit.
- (4) Note the findings of an Internal Audit review of arrangements in ICT as follow up to their February 2009 report on the original incident (taking place 11 and 12 January 2010).

**7. Internal Audit Progress Report (Pages 29 - 42)**

Report of Chief Internal Auditor

**Summary**

This report provides the Committee with an update of the work of Internal Audit since the last meeting and the revisions made to our 2009/10 audit plan.

**Recommendations**

The Accounts, Audit and Risk Committee is recommended to:

- (1) Consider and approve this report.

**8. Proposals for Internal Audit Plan 2010/2011 (Pages 43 - 56)**

Report of Chief Internal Auditor

**Summary**

This report provides the Committee with a first draft of the proposed 2010/11 internal audit plan

## **Recommendations**

The Accounts, Audit and Risk Committee is recommended to:

- (1) Consider and approve this report.

## **9. Overview of Treasury Management Performance Quarter 3 (Pages 57 - 64)**

Report of Head of Finance

### **Summary**

This report details the actual return on investments for the period to December 2009, details the counterparties that have been used for investments and considers compliance with the investment strategy.

Appendix 2 to this report is exempt from publication by virtue of paragraph 3 of Schedule 12A of Local Government Act 1972.

### **Recommendations**

The Accounts, Audit and Risk Committee is recommended to:

- (1) Note the contents of the report and performance to date.
- (2) Note the update on the procurement process.

## **10. Verbal Updates**

- a) Future Management of Risk and Insurance Management ~ Head of Finance
- b) International Financial Reporting Standards (IFRS) Update ~ Technical Accountant

## **11. Exclusion of the Press and Public**

The following item contains exempt information as defined in the following paragraphs of Part 1, Schedule 12A of the Local Government Act 1972.

3 – Information relating to the financial or business affairs of any particular person (including the authority holding that information).

Members are reminded that whilst the following item has been marked as exempt, it is for the meeting to decide whether or not to consider each of them in private or in public. In making the decision, members should balance the interests of individuals or the Council itself in having access to the information. In considering their discretion members should also be mindful of the advice of Council Officers.

Should Members decide not to make a decision in public, they are recommended to pass the following recommendation:

“That, in accordance with Section 100A(4) of Local Government Act 1972, the press and public be excluded from the meeting for the following items of business, on the

grounds that they could involve the likely disclosure of exempt information as defined in paragraph 3 of Part 1, Schedule 12A of that Act.”

**12. Overview of Treasury Management Performance - Exempt Annex 2**  
(Pages 65 - 66)

## **Information about this Agenda**

### **Apologies for Absence**

Apologies for absence should be notified to [democracy@cherwell-dc.gov.uk](mailto:democracy@cherwell-dc.gov.uk) or (01295) 221589 prior to the start of the meeting.

### **Declarations of Interest**

Members are asked to declare interests at item 2 on the agenda or if arriving after the start of the meeting, at the start of the relevant agenda item. The definition of personal and prejudicial interests is set out in Part 5 Section A of the constitution. The Democratic Support Officer will have a copy available for inspection at all meetings.

**Personal Interest:** Members must declare the interest but may stay in the room, debate and vote on the issue.

**Prejudicial Interest:** Member must withdraw from the meeting room and should inform the Chairman accordingly.

With the exception of the some very specific circumstances, a Member with a personal interest also has a prejudicial interest if it is one which a Member of the public with knowledge of the relevant facts would reasonably regard as so significant that it is likely to prejudice the Member's judgement of the public interest.

### **Local Government and Finance Act 1992 – Budget Setting, Contracts & Supplementary Estimates**

Members are reminded that any member who is two months in arrears with Council Tax must declare the fact and may speak but not vote on any decision which involves budget setting, extending or agreeing contracts or incurring expenditure not provided for in the agreed budget for a given year and could affect calculations on the level of Council Tax.

### **Queries Regarding this Agenda**

Please contact Natasha Clark, Legal and Democratic Services [natasha.clark@cherwell-dc.gov.uk](mailto:natasha.clark@cherwell-dc.gov.uk) (01295) 221589

**Mary Harpley**  
**Chief Executive**

Published on Tuesday 12 January 2010

# Agenda Item 5

## Cherwell District Council

### Accounts, Audit and Risk Committee

Minutes of a meeting of the Accounts, Audit and Risk Committee held at Bodicote House, Bodicote, Banbury, OX15 4AA, on 14 December 2009 at 6.30 pm

Present: Councillor John Donaldson (Chairman)  
Councillor Trevor Stevens (Vice-Chairman)

Councillor Ken Atack  
Councillor Simon Holland  
Councillor Devena Rae  
Councillor Barry Wood

Also Present: Nicola Jackson, Audit Manager, Audit Commission

Apologies for absence: Councillor Lawrie Stratford  
Councillor Rose Stratford

Officers: Mary Harpley, Chief Executive and Head of Paid Service  
Phil O'Dell, Chief Finance Officer  
Chris Dickens, Chief Internal Auditor  
Katherine Bennett, Audit Team Leader, PricewaterhouseCoopers  
Jeff Brawley, Benefits Investigation Manager  
Jessica Lacey, Technical Accountant  
Natasha Clark, Trainee Democratic and Scrutiny Officer

#### 36 **Declarations of Interest**

There were no declarations of interest.

#### 37 **Petitions and Requests to Address the Meeting**

There were no petitions or requests to address the meeting.

#### 38 **Urgent Business**

There was no urgent business.

#### 39 **Minutes**

The minutes of the meeting held on 26 October 2009 were agreed as a correct record and signed by the Chairman.

40 **External Audit: Annual Audit Letter**

The Committee considered a report of the Head of Finance which informed Members of the Audit Commission's draft Annual Audit Letter.

The Audit Manager presented the Draft External Audit Annual Audit Letter to the Committee which summarised the Audit Commission's findings from the 2008/09 audit. This included the opinion of the financial statements and the Use of Resources assessment under which the Council had received scores of 3 in all aspects, which had been noted by the Committee at its September 2009 meeting. The key difference between the earlier reports and the Annual Audit Letter was that it made reference to the economic downturn within the key messages.

The Committee commented that they were very pleased with the report and commended Officers for their hard work in delivering the successful outcomes delivered during the period covered. The Committee assured the Audit Manager that the Council would continue to look forward and continually seek to improve further.

In response to Members' questions, the Chief Finance Officer updated the Committee on the current situation regarding the Council's investments with the failed Icelandic bank Glitnir. The Committee was advised that the Council had recently been informed that its claim would no longer be specified as a 'priority claim', rather it would be specified as 'general unsecured'. Under the revised specification the Council would recover a significantly reduced amount of its investments than previously anticipated.

The Chief Finance Officer informed the Committee that the Local Government Association, which was representing a number of Local Authorities, including Cherwell District Council, had appealed and would be meeting with creditors imminently. The Chief Executive advised the Committee that the change of specification had been unexpected and that all Members would be updated on the current situation.

**Resolved**

- 1) That the contents of the Draft Annual Audit Letter be noted.
- 2) That the opinions of the financial statements, VFM Conclusion and Use of Resources score be noted.

41 **Changes to the Internal Audit Charter**

The Committee considered a report of the Chief Internal Auditor which presented the updated Internal Audit Charter to reflect the changed reporting arrangements that were now in place.

The Chief Internal Auditor advised the Committee that the CIPFA Code of Practice for Internal Audit in Local Government 2006 in the UK requires that the Council should formally define the purpose, authority and responsibility of

Internal Audit. The Internal Audit Charter sets out the role of Internal Audit within Cherwell District Council. The existing Charter was presented to the Accounts Audit and Risk Committee in October 2008. It had been updated to reflect the changed reporting arrangements which had been presented to the Committee's October 2009 meeting.

The updated Charter noted that the Chief Internal Auditor would report functionally to the Accounts, Audit and Risk Committee and administratively to the Head of Legal and Democratic Services. In addition, the Chief Internal Auditor would have a direct right of access to the Chief Executive and the Corporate Management Team should it be required.

The Committee was satisfied with the updated Internal Audit Charter.

### **Resolved**

- 1) That the Internal Audit Charter be approved.

42

### **Internal Audit Progress report**

The Committee considered a report of the Chief Internal Auditor which summarised the progress made against the internal audit plan for 2009/2010 for the period from October to December 2009. The Committee was advised that 62% of the plan had been completed and that the remainder would be completed by the end of the financial year.

The Audit Team Leader reported that since the Accounts, Audit and Risk Committee meeting of 26 October 2009, four final reports had been issued, three reports were in draft format and fieldwork had commenced in three areas. The Committee was advised that following discussions with Senior Officers, the Internal Audit Team had made some amendments to the 2009/10 Audit Plan which would be presented to the Committee's January meeting.

In response to Members' questions about the 'moderate assurance' opinion that had been issued to 'Non Domestic Rates', the Audit Team Leader assured the Committee that each final report issued contained recommendations which were regularly monitored. Officers assured the Committee that the move to a centralised Corporate Debt Recovery Team would assist with and contribute to higher levels of debt recovery.

The Committee noted that District Councils were morally obliged to collect all taxes in their remit including non domestic rates. Members of the Committee requested that Officers provide details on the number of businesses that had outstanding arrears and provide a monthly update on collections over the next six months.

The Chief Internal Auditor advised the Committee that the draft internal audit plan 2010/2011 was currently being developed by the Internal Audit Team and would be presented to the Committee's January meeting.

## **Resolved**

- 1) That the progress of the internal audit plan 2009/2010 be noted.

## 43 **Sanctions Policy**

The Committee considered a report of the Benefits Investigations Manager which presented a revised Sanctions Policy to bring the Council's policy on Sanctions in line with the Department for Work and Pensions policy. The policy would introduce two small amendments which would help target the more serious abuse of the system and assist in reacting to the current recession. The policy would however remain fit for purpose following the country coming out of recession.

The Benefits Investigation Manager gave a presentation updating Members on the structure and work of the Benefits Investigation Team. The Committee was advised that the Team had a high success rate for detecting, investigating and, where appropriate, prosecuting fraudulent benefit claims.

In response to Members' questions, the Benefits Investigations Manager advised the Committee that the Benefits Investigations Team were currently working towards the new standards and followed the approach of the Department for Work and Pensions. The Committee was advised that the Benefits Investigation Team worked closely with the Corporate Debt Recovery Team which sought to recover the debt that had been identified and recommended for recovery by the Benefits Investigation team.

## **Resolved**

- 1) That the new Sanctions Policy be adopted.

## 44 **Verbal Updates**

The Committee received the following verbal updates:

### **a) Treasury Management Update**

The Chief Finance Officer advised the Committee that Finance staff had been working on a joint basis with Oxford City Council to finalise the tender specification for the Council's contract for treasury advice. This tender would go out in January 2010 to ensure that a new contract was in place for 1 April 2010.

### **b) Management of Risk and Insurance**

The Chief Finance Officer updated Members on the future management of risk and insurance:

#### **Management of Risk**

As part of the current review of the Extended Management Team the Chief Executive would allocate overall responsibility for Risk Management. To support this person the Council would procure up to 15 days of management support and expertise to ensure that the



Council is using risk effectively to manage performance, build capacity and develop an overall approach in line with national best practice.

The Committee noted that the routine administration of the risk register and production of the performance reports would be fully integrated into the corporate Performance Management Framework from 1 April 2010 and would be the responsibility of the Corporate and Community Planning Team.

#### **Management of Insurance**

From 1 April 2010 Finance would manage the insurance contract and provide technical advice and support to managers.

The Committee noted that the Head of Improvement would provide a further update to the Committee's January 2010 meeting. Members also noted that it would be important to agree the future arrangements for risk reports being presented to the Committee.

#### **d) International Financial Reporting Standard (IFRS) Update**

The Technical Accountant advised the Committee the preparation for the implementation of the International Financial Reporting Standard was progressing well and had obtained a 'green' rating in an Audit Commission questionnaire on current progress.

The Working Group had held three meetings and a number of key areas had been identified for further work. The Head of Finance would lead the International Financial Reporting Standard Steering Group which would include three Committee Members. Councillors Rose Stratford and Atack had agreed to sit on the Steering Group. The Chairman agreed to seek a nomination for the third place. The Technical Accountant informed Members that the Steering Group would hold regular meetings over the next 12 – 18 months. The first meeting would be held on 20 January 2010 at 6pm – 6.30pm.

#### **e) Member Training**

The Chief Finance Officer reported that a CIPFA Better Governance Forum on 'The Effective Audit Committee' was being held in London on 20 January 2010. Members were asked to contact the Finance Team if they wished to attend the session.

The meeting ended at 8.15 pm

Chairman:

Date:

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## Accounts, Audit and Risk Committee

### Serious Incident Review Follow-Up

20 January 2010

### Report of Head of Customer Service and Information Systems

#### PURPOSE OF REPORT

To follow up on the recommendations made by the committee at its meeting on 23 September 2009

This report is public
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#### Recommendations

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The Accounts, Audit and Risk Committee is recommended:

- (1) To note the updates to recommendations 1, 2 and 5
- (2) To note that Internal audit are currently undertaking a review of project management and serious incident management (recommendations 3 and 4) across the council, and will provide a verbal update to the meeting
- (3) To ask the Member/Officer review group being established as a result of the decision by the Executive in December 2009, to include out of hours and standby provision as part of its remit
- (4) To note the findings of an Internal Audit review of arrangements in ICT as follow up to their February 2009 report on the original incident (taking place 11 and 12 January 2010)

#### Executive Summary

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- 1.1 The committee made five recommendations in respect of serious incidents in general and the ICT incident of February 2009 in particular.
- 1.2 This report provides follow-up information in response to those

recommendations

## **Background Information**

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- 2.1 Following the investigation of a serious incident by internal audit, it is accepted best practice that the investigation and the management response to the investigation should be reviewed at member level.
- 2.2 Following a serious incidence within Customer Service and ICT in February 2009, an investigation took place and subsequently a serious incident review panel meeting was constituted.
- 2.3 The Accounts, Audit and Risk Committee considered the report of the serious incident review panel in September 2009. The Committee agreed five recommendations in respect of serious incidents in general and the ICT incident in particular.
- 2.4 Full responses to recommendations 1, 2 and 5 are attached.

## **Key Issues for Consideration/Reasons for Decision and Options**

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- 3.1 This report provides Members with an update on the progress against the recommendations agreed by the Committee in September 2009.
- 3.2 A Member/Officer review group is being established to look at the overall approach to ICT provision in support of council service delivery.

The following options have been identified. The approach in the recommendations is believed to be the best way forward

<b>Option One</b>	To agree the recommendations
<b>Option Two</b>	To raise issues or questions relating to the recommendations

## **Implications**

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**Financial:** There are no financial effects from this report however there may need to be some financial analysis as part of the review of standby arrangements.

Comments checked by Karen Curtin, Head of Finance, 01295 221551.

**Legal:**

There are no legal implications specifically arising from this report

Comments checked by Liz Howlett, Head of Legal and Democratic Services 01295 221686

**Document Information**

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<b>Appendix No</b>	<b>Title</b>
1	Serious Incident Review: Recommendation 1 Update
2	Serious Incident Review: Recommendation 2 Update
3	Serious Incident Review: Recommendation 5 Update
<b>Background Papers</b>	
None	
<b>Report Author</b>	Pat Simpson, Head of Customer Service and Information Systems
<b>Contact Information</b>	01295 227069 pat.simpson@Cherwell-dc.gov.uk

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## **Serious Incident Review: Follow-up report to the Accounts, Audit and Risk Committee**

### **Recommendation 1**

That officers consider and report back to the Accounts, Audit and Risk Committee on the implications of providing/not providing an out of hours call-out service from a risk based perspective in light of the organisations increasing use of IT and customer out of hours use of web based services and models of future IT service provision.

### **Out of Hours (OOH) ICT Support Provision**

#### **Current Situation**

The ICT Service Desk offers customer support between 08:00 and 18:00 hours. To enable this, the Service Desk team voluntarily operates a split shift rota:

The early morning engineer (08:00) is responsible for ensuring that all services are available through the completion of the “early morning checks” this includes checking that the previous night’s data backups have completed; if not an incident is raised against the failure.

The late engineer (10:00) provides customer support (1<sup>st</sup> & 2<sup>nd</sup> line) until 18:00.

In recent weeks the infrastructure team have voluntarily adopted a similar arrangement so that there is always someone to whom the early morning engineer can refer issues arising from the early morning checks that fall outside his or her remit.

Internal support does not match the published flexible working day of a total 37 hours worked at any time 07:00 – 22:00, Monday to Sunday, therefore standard support to CDC staff does not allow for the published policy

After 18:00 and from 18:00 Friday to 08:00 Monday there is no support of CDC services or access to support. Current job descriptions within CSIS do not allow for Out of Hours Working other than scheduled overtime.

We do not currently event-monitor, which would help us pre-empt failures and be more pro-active than currently; this would have the added benefit of fewer overnight incidents rolling into the working day.

Planned work is done out of hours and paid as overtime or recouped as flex, but due to the size of the team, overtime is preferred. Because lots of planned work is done OOH, staff are often either on site or connected to the council’s systems and therefore may become aware of an operational problem outside of the specific reason that they are present. If they become aware of an operational failure they have always looked to fix the issue, even to the extent of calling in other staff that may be required to fix the issue. In short, the risks accruing from an absence of

formal out of hours standby have been mitigated on an ad hoc\goodwill basis by ICT staff.

### **Current Risk scenarios**

CDC has no systems, procedures or role descriptions in place to capture events out of core hours that affect CDC operational services. Of all our customer groups the most identifiable internal group of people using CDC IT Services outside of core hours are senior managers and councillors. In recent months there have been a number of instances:

Example 1: a server fails leading to the loss of a key business system such as Uniform or Agresso, impacting the delivery of services. The failure would be identified at 08.00 but could take all day to restore, re-run the overnight backups, with service not fully resumed until the following day.

Example 2: The mail service was unavailable during the weekend of 3 & 4 October. Directors and Councillors were aware of this service failure but had no recourse to try and get it fixed. It was identified at 08.00 Monday morning and repaired by 09.00.

Example 3: Loss of power to a cabinet in the server room on Wednesday 16 September at 21:00 led to a major outage of services. This outage was not discovered until 08:00 the next day and services not fully restored until 09:30.

### **Reducing the risk in a resilient way – event monitoring**

The Council's computer systems can be enabled to automatically alert via sms if something goes wrong. There are also simple technological approaches to automatically alerting environmental problems such as excessive heat or moisture in the various computer rooms and cabinets. But for event-monitoring to work, staff have to be available to receive and act on those alerts, and decisions about which systems, what events, actually sent those alerts. It is not foolproof either: power or phone failures will means alerts don't get out; the person on standby may be temporarily in a phone blackspot and not receive the alert.

Standby and out of hours provision is expensive and difficult whether provided in-house, or bought externally!

#### ***In-house***

If we introduced standby the rota would have to include at least three of the team at any one time due the specialisms of the teams – there is no predicting if the cause of the event is communications, infrastructure, storage, applications... If just one engineer was on standby there is no guarantee that the reason for the callout would fall into his or her area of expertise and they would have to callout someone from the infrastructure or applications teams. So the minimum number of staff that would have to be on standby any one time will be three. Given that there are only two



people in the infrastructure team and two in the applications, then they would be on standby every other week.

Standby payments elsewhere in the Council are in the region of £150 per week with an hourly rate paid if there is a callout of around £22.

Given our recent experience we can forecast 10 events resulting in callout each year. Of course, if automatic alerting is enabled, this number will inevitably rise as every alert will need to be investigated even if no immediate action is required.

So we can estimate on 30 callouts, half of which require two engineers for more than three hours. But the high instance of any one person on that rota is currently unacceptable, Even if all members of the team were trained and experienced to the same level there would still only be two infrastructure specialists and two applications specialists. We could end up with one engineer working at night and being unavailable for work in the morning so disrupting the daytime rota.

Standby cost three staff	15 x callout one engineer one hour	15 x callout two engineers three hours	Total additional cost per year
£5400	£330	£1980	£7710

### **External provision**

It is possible to “buy-in” external out of hours support, although this cannot wholly do away with internal input - certainly in the first year we would need to retain two staff on standby - as the knowledge of the council’s systems resides in-house, not in the external provider. However, it could provide the initial triage service – the standby role of responding to the alert, diagnosing, and determining whether to call out CDC staff there and then or report the alert as something to pick up first thing in the morning. This would require the Council to quantify precisely what service continuity level is acceptable for every aspect of the IT service provision: the service does not currently have a documented SLA with the business.

Taking a typical industry standby rate of £250 per week plus a £50 hourly charge for the diagnosis work, we can recalculate the forecast above thus:

Standby cost two CDC staff plus one external standby	30 x one hour external triage @£50	10 x callout two CDC engineers three hours	Total additional cost per year
£6600	£1500	£1320	£9420

While this route is more expensive it has the merit of being practicable which the wholly in-house provision is not due to the small size of the team.

It also requires the council to be absolutely clear about the level of service provision it wants and is willing to pay for rather than the current situation where everything is assumed, nothing is agreed.

It would be possible also to seek external provision of the whole service-desk/client support function and thus have access to as much or little cover as we deem necessary. Decisions of this type will be in the remit of the Member/Officer Service Review Group being convened as a result of the Executive Report of December 7 2009.

### ***Impact of future changes***

Two main things impact on our need for, and cost of out of hours support and standby arrangements. First, the introduction of service delivery by an external third party. Capita is delivering our benefits service now, using our computer system, and are asking for ICT support 7.30 am – 7.00 pm. Second, the decision taken by Executive in December 2009 to virtualise the whole ICT estate.

If we are asked in the future to support Capita for the full period they are providing a service to us (7.30am – 7pm) this would need additional resources. We have just two applications specialists able to support the application i-world, and having them work 7.30 – 3 and 11.30 – 7.00 each day will not give adequate support to the daytime work.

Virtualisation will greatly reduce the risk of a physical server failure leading to loss of service, and so greatly reduce the need for out of hours and standby cover.

### **Recommendations**

Accept the risk of service loss between 18.00 and 0800 Monday evening to Friday morning for the time being, but ask the Member/Officer review group looking at the future delivery of ICT to consider the question more widely. There are significant contractual consequences of introducing change like this on which staff will need to be consulted. If we go down this route full involvement of HR will be needed to establish an appropriate weekend standby rate and the scope there is for requiring a different working pattern across the team.

In particular the review group should be asked to look at:

1. weekend standby cover only reducing both the standby payment costs and the likely number of callouts. There is no “weekend only” standby rate applied at the Council currently to base estimates on, but if we say £50 per person per weekend, then our annual cost for three on standby is £1800. It would reduce

further post-virtualisation, as the range of error reasons will reduce so the range of skills needed, will reduce.

2. the possibility of changing the working patterns of the support service to cover an extended day in order to both meet the (current) needs of the Capita contract and give a longer period first thing in the morning to put right anything that broken overnight.
3. potential for external supply of out of hours cover

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**Serious Incident Review: Follow-up report to the Accounts,  
Audit and Risk Committee**

**Recommendation 2**

That the Head of Customer Service and Information Systems be provided with brief, monthly written updates on issues, performance, roll-outs, downtime and projects.

Monthly reports are provided to the HCSIS on or around the first of every month, covering service availability, major incidents, changes, helpdesk call stats, capital and operational projects status, operational issues and staff training. The three reports for October – December 2009 are attached as Annex A.

## **ICT Operations Monthly Report – December 2009**

To: Pat Simpson, Head of Customer Services & Information Systems

From: Peter Stuart, Interim ICT Operations Manager

### **Overall Service Availability: 99.71%**

Measurement note. Availability is measured against the 7 Gold Services, on a 10 hour day, 5 day week basis, i.e. the Supported Service Hours.

Different availability models would give a different availability figure for the same loss of service. This is a very simplistic model which gives a “poor” availability figure. E.g. the services are available and used on a 7 day\week basis

### **Supported Service Hours: 08:00 to 18:00, Monday to Friday**

### **Major Incidents: 1 Hour total downtime**

Incident 11850, 2<sup>nd</sup> Dec: iWorld unavailable for 20 mins, server required a re-boot

Incident 12136, 7<sup>th</sup> Dec: Exchange unavailable for 10 mins due to a slow system migration

Incident 12433, 15<sup>th</sup> Dec: 2 hosts failed within minutes of each other causing 20+ servers to migrate impacting many services for a 15 minute period. Call placed with IBM and logs sent, no apparent reason for failure.

### **Changes**

16 changes implemented, including an in-day upgrade of the virtual production environment none requiring roll back or disrupted service availability outside of the specified change window.

### **Service Desk Calls: Figures from Cherwell Service Desk**

#### Incidents

Calls Raised: 580. New service desk in operation; detailed setup to be completed to allow detailed reporting.

### **Capital Projects**

**Service Desk:** Go-live 1<sup>st</sup> December. Self Service go-live early January 2010

**San Expansion:** Implemented to plan. Work now ongoing, moving data to the right place, mitigating risk against Filestore2 failure 50% completed. Capacity into the DR environment.

## **Operational Projects**

Patching: GCSx requirement:

Continued focus has seen our server environment moved to the latest service pack level, a significant improvement, however a substantial gap still exists in order to comply with the GCSx requirement. To ensure knowledge is shared the primary resource assigned to this has changed from Vish to Andy, awaiting the monthly plan.

Terminal Services:

The new farm is in use by several new Thin users, this approach will continue to be pushed during early 2010

## **Operational Problems:**

None currently reported

## **Training**

None in December

## **ICT Operations Monthly Report – November 2009**

To: Pat Simpson, Head of Customer Services & Information Systems

From: Peter Stuart, Interim ICT Operations Manager

Date: 2<sup>nd</sup> December 2009

### **Overall Service Availability: 99.86%**

Measurement note. Availability is measured against the 7 Gold Services, on a 10 hour day, 21 day month basis, i.e. the Supported Service Hours. Therefore there are 1470 service hours, of which 2 were lost.

Different availability models would give a different availability figure for the same loss of service. This is a very simplistic model which gives a “poor” availability figure. E.g. the services are available and used on a 31 day per month basis

### **Supported Service Hours: 08:00 to 18:00, Monday to Friday**

#### **Major Incidents:**

9<sup>th</sup> November: iWorld unavailable 08:30 to 10:30, unknown database error caused 13 million rows to be written to a table causing the system to crash.

### **Changes**

21 changes implemented, none requiring roll back or disrupted service availability outside of the specified change window.

### **Service Desk Calls: Figures from HEAT**

#### Incidents

Open 3<sup>rd</sup> November: 35

Open 1<sup>st</sup> December: 25

Calls Raised during November: 744

### **Capital Projects**

**Disaster Recovery.** Following a 3<sup>rd</sup> successful test, this time off-site at Covenco, this project and the associated critical corporate risk has been closed.

**Service Desk:** Go-live date moved out to 1<sup>st</sup> December due to the degree of 3<sup>rd</sup> party configuration required. Note: Go live achieved.



**San Expansion:** Implemented to plan. Work now ongoing, moving data to the right place, mitigating risk against Filestore2 failure and moving capacity into the DR environment.

### **Operational Projects**

Patching: GCSx requirement:

Continued focus has seen our server environment moved to the latest service pack level, a significant improvement; however a substantial gap still exists in order to comply with the GCSx requirement.

Terminal Services:

UAT testing has shown the application and user experience to be good. The service will be made available to capita via the Cisco firewall as of 7<sup>th</sup> December if they wish to use it.

### **Operational Problems:**

NI14: Customer Services avoidable contact screen. This fails to load properly in some circumstances, investigation continuing. It looks like the new terminal servers solve this issue. Contac centre users will be moved to this new environment during December

### **Training**

Eddie has passed his VMware Certified Person (VCP) exam and attended a vSphere Installation and Configuration course

### **Staff**

Department made aware of forthcoming Members Review

## **ICT Operations Monthly Report – October 2009**

To: Pat Simpson, Head of Customer Services & Information Systems

From: Peter Stuart, Interim ICT Operations Manager

### **Overall Service Availability: 100%**

Service Hours: 08:00 to 18:00, Monday to Friday

Note: The mail service was unavailable for several hours through 2 weekends however weekends are not within the stated service hours.

### **Major Incidents None**

### **Changes**

17 changes implemented, none requiring roll back or disrupted service availability outside of the specified change window.

**Service Desk Calls:** Figures from HEAT are questionable, new Management Information reporting will be available from the new service desk application

### **Incidents**

Open 30<sup>th</sup> September: 51

Open 3<sup>rd</sup> November: 35

Calls Raised during October: 560

### **Capital Projects Exceptions**

**Service Desk:** Go-live date moved out to 1<sup>st</sup> December due to the degree of 3<sup>rd</sup> party configuration required.

**San Expansion:** Go-live moved to 20<sup>th</sup> November due to shipment delay and 3<sup>rd</sup> party resourcing

### **Operational Project s**

Patching: GCSx requirement:

Continued focus on this work stream. 70% of boxes now patched to the 1<sup>st</sup> October target. 1 weekend not worked at request of business.

### Terminal Services:

New "farm" of 2 servers is now available , customer services testing including the NI:14 problem is ongoing. This service will be made available to the Capita contract via the Cisco firewalls during November

### Operational Problems:

Mail Service unavailable, during the first 2 weekends of the month. This problem only occurred during the full backup taken at weekends. Problem resolved by updating the backup client and moving the job within the backup schedule.

NI14: Customer Services avoidable contact screen. This fails to load properly in some circumstances, investigation continuing.

### Training

Eddie and Martin trying to attend Dell Equallogic courses however they are not being run due to lack of delegates.

### Staff

Mid year development plans completed by Infrastructure. Service Desk mid years to be completed in November as previous process was incomplete

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## **Serious Incident Review: Follow-up report to the Accounts, Audit and Risk Committee**

### **Recommendation 5**

That the Accounts, Audit and Risk Committee receive the follow up report on the measures taken since the incident and a progress report from the Head of Service as to how the new control and logging systems and culture are embedding in the service.

A serious incident review panel met on 8th September to consider the measures taken in response to the server failure on Wednesday 18 February 2009. Its findings were reported to the Accounts, Audit and Risk Committee on 23rd September 2009, and five recommendations for action were made, of which recommendations 1, 2 and 5 applied specifically to the operation of ICT service delivery. This report sets out how those recommendations – and other changes in control processes – have been implemented and the benefits that are accruing in terms of risk reduction. It uses as its baseline the “Further Recommendations” set out in the Independent Review of ICT Operations report prepared for the Committee by KPMG in September.

### **Server Build**

The work required here is a project to remediate all the production servers (the Council’s main data centre) to a common level of patching, thus moving us towards a common configuration.

Since September significant improvement has been made, with all our servers moved to the latest “service pack” level, greatly reducing the risk. However, there is still a gap between our status and the requirements of Government Connect. This gap will be addressed through the implementation of the new virtual production environment (Exec approved 7<sup>th</sup> December 2009) due for completion April 2010. The project will include as outputs the required procedures to ensure continued Government Connect compliance across the production environment.

### **Software Procurement and Licensing**

The recommendations for further action here are concerned with transparency of licensing obligations and costs (rather than rolling them up in initial capital project costings). This is addressed by the addition to the Council’s capital project appraisal process of a new matrix intended to identify clearly the ongoing revenue costs of licensing, support and maintenance. This has been implemented.

In addition, work is ongoing to verify the records held by the service of the licenses held, required and lapsed for all the applications in use. We are also

considering centralising the responsibility for licensing so that is it more straightforward to maintain and audit a central record of what we have, what we need and what we no longer need. Currently, services such as planning and benefits are responsible for ordering and maintaining their own licensing position.

## **Backups**

At the time of the report, work was just under way to replace the old tape backup system. This project has been completed and has had the beneficial effect planned for, in terms of a 25% reduction in the time taken to copy the council's file systems for transfer off site. Further reductions will accrue as a second phase – a new staging area – is implemented.

The second element of the backups recommendation was in relation to the audit against ISO27001 – the information security standard – scheduled for 22nd October 2009. This two-day audit by Lloyds Register Quality Assurance has happened and found our backups procedure and controls were compliant.

## **Disaster Recovery Solution**

The September review described the project under way at the time to undertake a significant change to the disaster recovery environment held at the Council's second data centre at Thorpe Lane depot. This work has now been completed, undergone three phases of testing, and the project closed. The risk associated with data loss is now at Green.

## **General controls**

The independent review report included recommendations around change control processes, problem and incident logging, and the adoption of the industry best practice standard ITIL.

A new change control procedure has been introduced and refined over time, and in December the final version loaded into the Council's new Service Desk system. This means the change control is fully integrated into the daily working of the team. All members of the team have had input into how the change control procedure should work and contributed to its refinement. Consequently it is becoming well embedded into daily working.

The new service desk was implemented in December and enforces the ITIL way of identifying incidents, escalating problems, and managing work.

Again, the team were involved in identifying the best system for us, and in customising the way it works to provide the best support for the team and the wider organisation. A programme of periodic reviews and further tweaking is in place to the end of March 2010.

The Operations Manager prepares short reports for the Head of Service on the first of each month setting out the activity of the previous month: availability, changes, incidents, projects, and training.

The requirement of out of hours support – has been reviewed and separate report prepared setting out what the potential costs might be against the potential need.

### **Other matters**

The Executive received a report on December 7 setting out proposals to virtualise the “production” environment and begin the significant move away from PCs to “thin clients”. These proposals were agreed and work is underway to start this project. A technical project manager has been engaged for three months to lead the work.

The report also resulted in the establishment of a Member/Officer review group, tasked with a wide ranging review of how the council wishes to get best value from its ICT service, taking into account market opportunities, maximising the capacity of the current team, systems and applications, and reducing risk.

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## Accounts Audit and Risk Committee

### Internal Audit Progress Report

20 January 2010

### Report of Chief Internal Auditor

#### PURPOSE OF REPORT

This report provides the Committee with an update of the work of Internal Audit since the last meeting and the revisions made to our 2009/10 audit plan

This report is public
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#### Recommendations

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The Accounts, Audit and Risk Committee is recommended to:

- (1) Consider and approve this report.

#### Executive Summary

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##### 1.1 Introduction

This report provides the Committee with an update of the work of Internal Audit since the last meeting. It includes a high level overview of final reports issued and issues raised. Further detail has been provided on the changes made to the 2009/10 audit plan based on assessment of the risk conditions of the Council.

##### 1.2 Proposals

No specific proposals included

##### 1.3 Conclusion

The Accounts, Audit and Risk Committee is RECOMMENDED to consider and approve this report and the amendments made to the audit plan

## Background Information

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Internal Audit has undertaken work in accordance with the 2009/10 Internal Audit Plan which was approved by the Accounts, Audit and Risk Committee at its meeting in June 2009. Progress reports are taken to this committee to outline the work performed and conclusions forged to date.

## Implications

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<b>Financial:</b>	n/a
<b>Legal:</b>	n/a
<b>Risk Management:</b>	<p>The progress of the Audit Plan approved by this Committee is monitored as part of the Council's Performance Monitoring Framework. Failure to achieve the audit plan could result in a risk that independent assurance will not be provided on the internal control environment as required, and could be seen to undermine the effectiveness of the Internal Audit team. Failure to achieve the audit plan could lead to adverse comment from the external auditors. This risk has been assessed on the Council's risk register, entry number 0264.</p> <p>Comments checked by Chris Dickens, Chief Internal Auditor, 07720 427215</p>

## Wards Affected

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All

## Document Information

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Appendix No	Title
Appendix 1	Internal Audit Progress Report
<b>Background Papers</b>	
n/a	
<b>Report Author</b>	Chris Dickens, Chief Internal Auditor
<b>Contact Information</b>	07720 427215 Chris.Dickens@cherwell-dc.gov.uk

Internal audit  
summary report  
for Accounts,  
Audit and Risk  
Committee

January 2010



# Contents

## Section

1. Plan outturn .....	3
2. Reporting and activity progress .....	4
3. Summary of key risks .....	5
4. Other issues.....	6
Appendix One.....	7
Appendix Two.....	9
Appendix Three .....	10

# 1. Plan outturn

## 2009/10 Audit Plan

We have undertaken work in accordance with the 2009/10 Internal Audit Plan which was approved by the Accounts, Audit and Risk Committee at its meeting in June 2009.

An outturn statement detailing assignments undertaken and actual activity for the year is shown in Appendix One. This shows that we have now commenced the majority of reviews and reports are being issued either in draft or final format. At present we have completed **186 days out of a total planned 230 days (81%)**.

As noted in our December 2009 progress report, management has noted that a number of reviews scheduled for 2009/10 are no longer required due to changes in the risk profile of the Council. We have agreed with management that the following reviews will not be performed in 2009/10:

- Job Evaluation
- Corporate Planning
- Comprehensive Area Assessment

Work has therefore been agreed to cover the following risks to the Council in the revised audit plan:

- Local Area Agreement Indicators
- Bicester Town Centre Redevelopment

We have provided members with an outline of how this will affect the audit plan in Appendix 1 and recommend that the Committee approve these changes.

## 2. Reporting and activity progress

### Final reports issued since last meeting

- **Fraud and Corruption** –An opinion of **MODERATE ASSURANCE** has been issued for the Council's anti fraud and corruption procedures. The Council has a good infrastructure in place to prevent and detect occurrences of fraud. Issues were noted around the Authority's policies and procedures in this area which require updating and linking to other key documents (e.g. Anti Money Laundering and Disciplinary Policies). In addition, the Council's risk register should be reviewed to ensure it is relevant to current anti fraud policies.
- **Bicester Town Centre VAT implications** – We provided the Council with advice on the VAT implications of their proposed construction in Bicester Town Centre. No opinion has been offered on this subject. PwC has recommended that Cherwell opt to tax the Bicester site in order to protect their tax position. This should be performed before the year end.
- **Risk Management** – We conducted a workshop with key stakeholders to identify and explore the strategic risks to the Council. We identified 9 strategic risks during the workshop, the most likely and severe being that the Authority fails to have 'robust resources in place to deliver the Council's Strategic Agenda'. The issues that we have identified will feed into our risk assessment for the 2010/11 audit plan. We recommend that the Council identifies controls in place to mitigate against the risks identified during this process and provides a detailed action plan address all potential issues noted. No opinion has been provided for this work,

### Draft reports

The following reports are currently in draft format:-

- VAT
- Treasury Management
- General Ledger

### Fieldwork commenced

Fieldwork has commenced in the following areas:-

- Housing Benefits
- Governance
- International Financial Reporting Standards (Ongoing work)
- Managing in a Downturn
- Partnerships
- LAA Indicators

# Summary of key risks

## Overview

Our final reports include a number of recommendations and a breakdown of these can be found in Appendix Two, which summarises the risk ratings associated with each finding and recommendation. Further information is provided in the individual reports which can be produced in full if required.

At the time of this report, we have identified no issues that should be considered as significant control weaknesses.

# 3. Other issues

## **Benefits Investigation Team – Summary of activity**

A full update on Benefits activity will be presented in our next update report.



# Appendix One

Planned activity	Planned days	Actual days	Status
<b>1. Fundamental assurance</b>			
OP1.1 General Ledger/ Fin. accounting	5	4	Draft Report
OP1.2 Debtors	5	5	Final Report
OP1.3 Creditor payments	10	10	Final Report
OP1.4 Payroll	10	10	Final Report
OP1.5 Budgetary Cont./ Fin. accounting	5	0	To be commenced
OP1.6 Council Tax	5	5	Final Report
OP1.7 National Non Domestic Rates	5	5	Final Report
OP1.8 Bank Reconciliations	5	5	Final Report
OP1.9 Cashiers	10	10	Final Report
OP1.10 Treasury Management	5	4	Draft Report
OP1.11 Housing Benefits	10	8	Fieldwork commenced
OP1.12 Fixed Assets	5	0	To be commenced
OP1.13 IFRS Health check	5	3	Fieldwork ongoing
OP1.14 VAT	5	4	Draft Report
OP 1.15 Car Parking	10	10	Final Report
OP 1.16 Risk Management	5	5	Final Report
OP 1.17 Governance	5	3	Survey commenced
OP 1.18 Establishment Visits	5	5	Final Report

Planned activity	Planned days	Actual days	Status
<b>2. Operational system reviews</b>			
<b>– risk based assurance</b>			
OP 2.1 Partnership working	5	1	Fieldwork scoped
OP 2.2 Managing in a Downturn	5	2	Fieldwork commenced
OP 2.3 ICT audits	25	20	Fieldwork commenced
<del>OP 2.4 Job Evaluation</del>	<del>5</del>	<del>0</del>	<del>Removed from audit plan</del>
<del>OP 2.5 Corporate Planning</del>	<del>40</del>	<del>0</del>	<del>Removed from audit plan</del>
<del>OP 2.6 CAA</del>	<del>40</del>	<del>0</del>	<del>Removed from audit plan</del>
OP 2.4 LAA Indicators	10	8	Fieldwork commenced
OP 2.5 Bicester Village	10	9	Final Report
OP 2.7 Data Quality	5	5	Final Report

Planned activity	Planned days	Actual days	Status
<b>3. Strategic Reviews</b>			
OP 3.1 Performance Management	5	5	Final Report
OP 3.2 Anti Fraud and Corruption	5	5	Final Report

Planned activity	Planned days	Actual days	Status
<b>4. Other</b>			
OP 4.1 General Follow Up	10	8	Ongoing
OP 4.3 Audit Management	30	27	Ongoing
OP 4.4 Contingency	5	0	Ongoing
<b>TOTAL</b>	<b>230</b>	<b>186</b>	

# Appendix Two





## Summary of recommendations (final reports only)

Assignment	High	Medium	Low	Total	Overall opinion
Car Parking	1	4	2	7	MODERATE
Council Tax	0	8	1	9	MODERATE
Creditors	1	2	1	4	MODERATE
Debtors	0	3	3	6	MODERATE
Data Quality	0	6	7	13	MODERATE
Payroll	0	0	1	1	HIGH
Cash Collection	0	5	2	7	MODERATE
Bank Reconciliations	0	2	2	4	HIGH
Cash Handling	0	2	1	3	HIGH
Performance Measurement	0	2	3	5	HIGH
Non Domestic Rates	0	7	1	8	MODERATE
Anti Fraud and Corruption	0	6	4	10	MODERATE
Bicester Village	n/a No opinion issued				
Risk Management	n/a No opinion issued				
<b>Total</b>	<b>2</b>	<b>47</b>	<b>28</b>	<b>77</b>	

# Appendix Three

## Our assessment criteria are shown below:

Each of the issues identified has been categorised according to risk as follows:

Risk rating	Assessment rationale
 Critical	Control weakness that could have a significant impact upon, not only the system, function or process objectives but also the achievement of the <b>authority's objectives</b> in relation to: <ul style="list-style-type: none"> <li>the efficient and effective use of resources</li> <li>the safeguarding of assets</li> <li>the preparation of reliable financial and operational information</li> <li>compliance with laws and regulations.</li> </ul>
 High	Control weakness that has or is likely to have a significant impact upon the achievement of key <b>system, function or process</b> objectives. This weakness, whilst high impact for the system, function or process does not have a significant impact on the achievement of the overall authority objectives.
 Medium	Control weakness that: <ul style="list-style-type: none"> <li>• has a low impact on the achievement of the key system, function or process objectives;</li> <li>• has exposed the system, function or process to a key risk, however the likelihood of this risk occurring is low.</li> </ul>
 Low	Control weakness that does not impact upon the achievement of key <b>system, function or process</b> objectives; however implementation of the recommendation would improve overall control.

## Overall opinion rating:

Level of assurance	Description
<b>High</b>	<p>No control weaknesses were identified; or</p> <p>Our work found some low impact control weaknesses which, if addressed would improve overall control. However, these weaknesses do not affect key controls and are unlikely to impair the achievement of the objectives of the system. Therefore we can conclude that the key controls have been adequately designed and are operating effectively to deliver the objectives of the system, function or process.</p>
<b>Moderate</b>	<p>There are some weaknesses in the design and/or operation of controls which could impair the achievement of the objectives of the system, function or process. However, either their impact would be less than significant or they are unlikely to occur.</p>
<b>Limited</b>	<p>There are some weaknesses in the design and / or operation of controls which could have a significant impact on the achievement of key system, function or process objectives but should not have a significant impact on the achievement of organisational objectives. However, there are discrete elements of the key system, function or process where we have not identified any significant weaknesses in the design and / or operation of controls which could impair the achievement of the objectives of the system, function or process. We are therefore able to give limited assurance over certain discrete aspects of the system, function or process.</p>
<b>No</b>	<p>There are weaknesses in the design and/or operation of controls which [in aggregate] could have a significant impact on the achievement of key system, function or process objectives and may put at risk the achievement of organisation objectives.</p>

*In the event that, pursuant to a request which Cherwell District Council has received under the Freedom of Information Act 2000, it is required to disclose any information contained in this report, it will notify PricewaterhouseCoopers (PwC) promptly and consult with PwC prior to disclosing such report. Cherwell District Council agrees to pay due regard to any representations which PwC may make in connection with such disclosure and Cherwell District Council shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, Cherwell District Council discloses this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.*

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## Accounts Audit and Risk Committee

20 January 2010

Internal Audit Draft Plan 2010/11

Report of Chief Internal Auditor

### PURPOSE OF REPORT

This report provides the Committee with a first draft of the proposed 2010/11 internal audit plan

This report is public
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### Recommendations

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The Accounts, Audit and Risk Committee is recommended to:

- (1) Consider and approve this report.

### Executive Summary

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#### 1.1 Introduction

This report provides the Committee with a draft internal audit plan for 2010/11. This is based on our Strategic Plan for 2009-12 and has been updated following our annual risk assessment and risk management workshops.

#### 1.2 Proposals

No specific proposals included

#### 1.3 Conclusion

The Accounts, Audit and Risk Committee is RECOMMENDED to consider and approve this report

## **Background Information**

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Internal audit is required to produce a risk based plan on an annual basis. Our draft audit plan has been drafted in order to ensure that the risks facing Cherwell District Council are adequately managed and internal audit resources are effectively utilised. This is in line with current Internal Audit Standards and the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom.

## **Implications**

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<b>Financial:</b>	n/a
<b>Legal:</b>	n/a
<b>Risk Management:</b>	<p>The Audit Plan approved by this Committee is monitored as part of the Council's Performance Monitoring Framework. Failure to achieve the audit plan could result in a risk that independent assurance will not be provided on the internal control environment as required, and could be seen to undermine the effectiveness of the Internal Audit team. Failure to achieve the audit plan could lead to adverse comment from the external auditors. This risk has been assessed on the Council's risk register, entry number 0264.</p> <p>Comments checked by Chris Dickens, Chief Internal Auditor, 07720 427215</p>

## **Wards Affected**

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All

## **Document Information**

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<b>Appendix No</b>	<b>Title</b>
Appendix 1	Draft Internal Audit Plan 2010/11
<b>Background Papers</b>	
n/a	
<b>Report Author</b>	Chris Dickens, Chief Internal Auditor
<b>Contact Information</b>	07720 427215 Chris.Dickens@cherwell-dc.gov.uk



*Internal audit draft plan 2010/11*



**Distribution List**

Accounts Audit and Risk Committee  
Chief Executive  
Strategic Directors  
Corporate Managers

# Contents

<b>Section</b>	<b>Page</b>
1 Introduction.....	1
2 Providing assurance.....	2
3 The risk assessment process.....	5
4 Proposed internal audit plan .....	6

# 1 Introduction

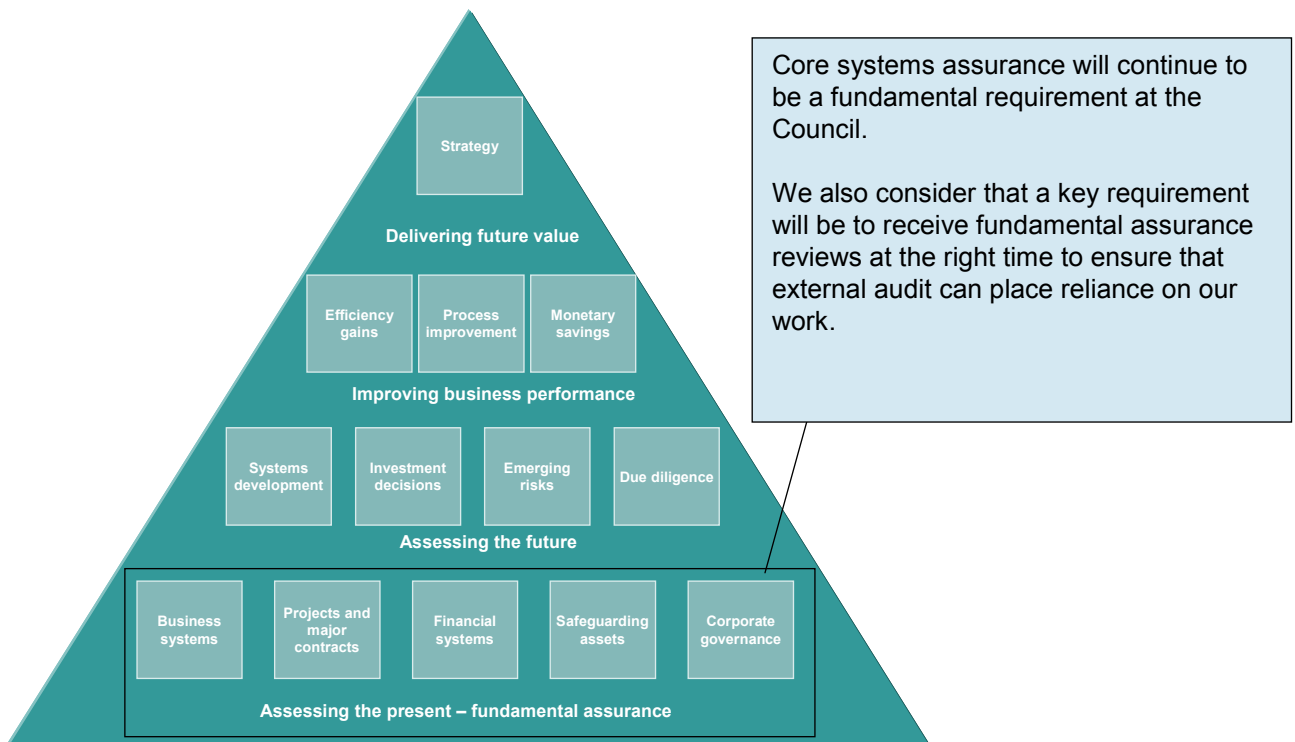
Our draft audit plan has been prepared in order to ensure that the risks facing Cherwell District Council's (CDC) are effectively addressed and internal audit resources are appropriately utilised. This is in line with current Internal Audit Standards and the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom.

We have drawn our risk assessment from a wide range of sources which have been outlined in Section 2. As we have been CDC's internal auditors for a period of 18 months, we are able to draw upon our knowledge of you and our findings during this period.

This Risk Assessment is a key factor in deciding how to allocate internal audit resources available. It ensures that resources are focused on those areas where they can be of most benefit to CDC by providing assurance to the Accounts Audit and Risk Committee and management on controls over key risks. This document sets out our responses as internal auditors to those risks and to other factors that have been considered as part of our assessment of audit need.

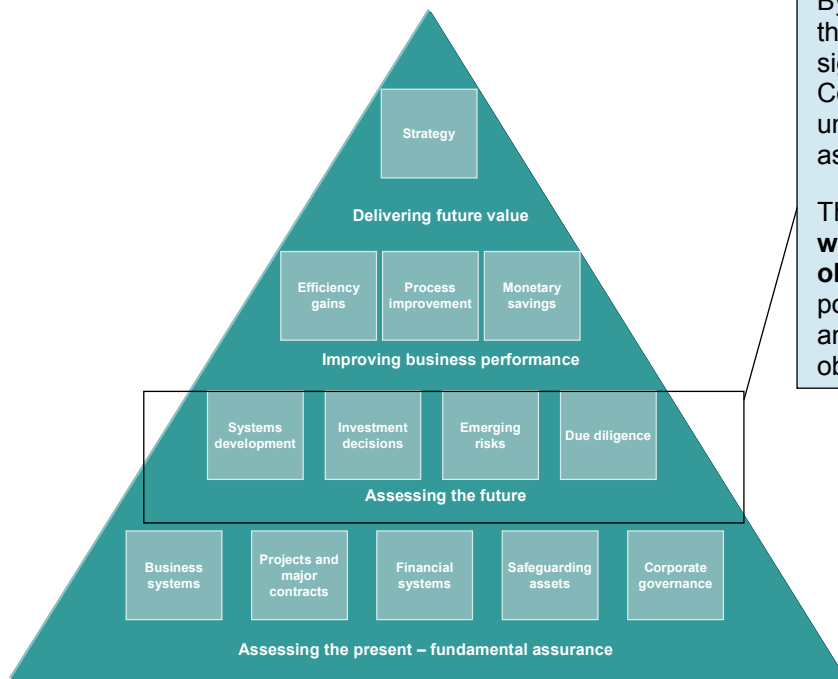
## 2 Providing assurance

### Providing fundamental “core systems” assurance



We recognise the necessity to provide management with an on-going level of fundamental “core systems” assurance. We will also seek to maximise audit efficiency by working closely with the external auditors, the Audit Commission. This includes developing and enhancing existing working arrangements with the external auditors.

## Moving towards a risk based audit approach



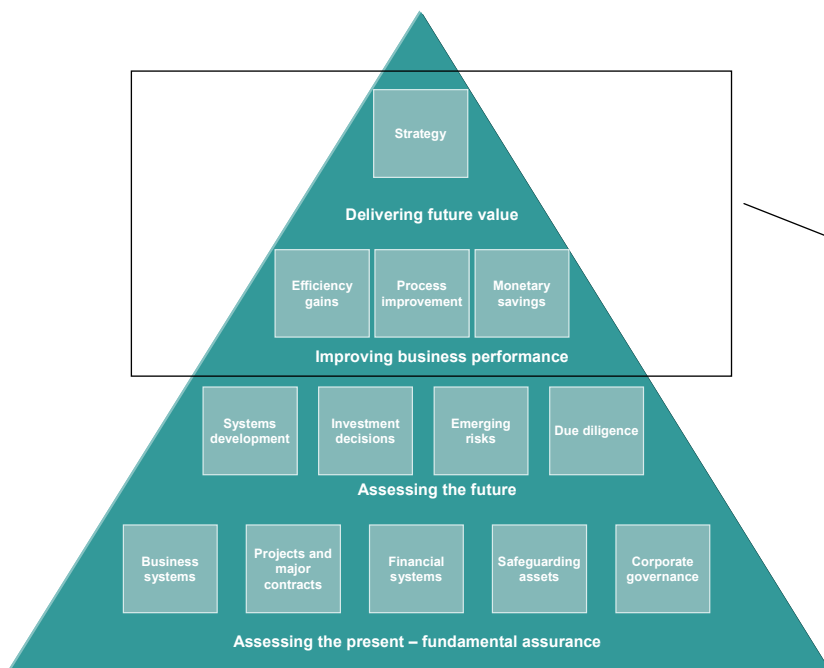
By adopting a risk based audit approach there will be clear linkage between the significant risks identified in the Council's Risk Registers and the work undertaken by internal audit in providing assurance against these.

The definition of risk is **“anything that will prevent you from achieving your objectives”**. As a result, the starting point for a risk based audit approach is an understanding of the Council's objectives.

Risk based work is also critical to the Council, as it seeks to improve the risk awareness of staff, and improve overall control. The internal audit work programme is designed to provide assurance that the significant risks identified within the Council's risk registers are being managed effectively. As part of this process we will also examine the risk management framework and governance procedures.

## Delivering value through improved performance

Internal audit can also provide a valuable role in improving business performance and delivering future value. We can assist the Council through the deployment of specialist skills and experience,



A significant element of the internal audit plan will be focused on fundamental assurance. However, over time as risk management processes develop and the internal control environment strengthens, we would expect the proportion of the internal audit plan spent on this to reduce. This will enable us to concentrate more of our resources on assisting the Council in areas such as efficiency gains, process improvements and delivering savings.

## **Next steps**

Following further consultation with key stakeholders, we will seek final approval of the risk assessment and internal audit plan. When approved, we will agree a 'project sponsor' for each review with management. All project sponsors will then be contacted and made aware of all audits during the year where they are the nominated sponsor. At this stage we will agree the timing of each review and a more detailed scope of work. We will then issue a more detailed operational audit plan for the remainder of the year which will include the agreed audit dates and the key contact from the Council and the internal auditor who will be responsible for the audit. We will then issue Terms of Reference for each review. The intention is for all internal audit work to be completed before the end of March 2011.

# 3 The risk assessment process

The information which has been used to prepare our Risk Assessment and proposed Internal Audit plan has been collected and collated from a number of different sources, including:

- Prior year internal audit plans and reports
- A review of risk registers
- Consultation with key stakeholders during a Strategic Risk Workshop on 17<sup>th</sup> December 2009
- Ongoing discussions with members and officers
- Attendance of the Accounts, Audit and Risk Committee and Corporate Management Team meeting
- A review of relevant documentation and reports from external inspectorates (e.g. The Audit Commission)
- Review of technical and legislative updates

## **Completeness of assessments and future reviews**

Our risk assessment is limited to matters emerging from the processes listed above. We will review and update this assessment and the resulting internal audit plan annually. If, however, additional risks arise, or change in priority, during the year the audit plan will be reconsidered with management and, with the approval of the Audit and Governance Committee, amended to ensure that audit resources are focused on the new risk areas.

## 4 Proposed internal audit plan

The proposed internal audit plan for 2010/11 is set out below (in summary and detail) for the approval of management and the Accounts Audit and Risk Committee. The core of this plan was presented to committee in June 2009 as part of our Strategic Plan for 2009-12. This has been updated with our risk analysis in Section 3 in accordance with modern internal auditing standards and the CIPFA Code of Practice for Internal Audit in Local Government in the UK.

Once the programme has been agreed in outline, we will refine the precise scope of each review and agree this, and the related days, with management.

### Summary operational internal audit plan 2010/11

Area of coverage	Proposed Days (2010/11)
Fundamental assurance (core systems reviews)	115
Risk based assurance (operational systems reviews)	55
Performance assurance (strategic reviews)	15
Other	35
<b>TOTAL</b>	<b>220</b>



## Outline operational internal audit plan 2010/11

Review area	2010/11 as per 2009-12 Strategic Plan	2010/11 Proposed Days	Comments
<b>Core systems reviews</b>			
General Ledger	5	5	
Debtors	10	10	
Creditors	5	5	
Payroll	5	5	
Budgetary Control	10	10	
Council Tax	10	15	Combined review due to change in structure
National Non Domestic Rates	5		
Bank Reconciliations	5	5	
Cashiers	5	5	
Treasury Management	10	10	
Housing Benefits	5	10	Additional days required due to amount of testing required
Fixed Assets	10	10	
IFRS	5	5	
VAT	0	0	
Car Parking	5	5	
Risk management	5	5	
Governance - survey	5	5	
Establishment Visits	5	0	No issues noted in prior year
Procurement	0	5	Issues have been noted with adherence to purchasing polices during previous reviews.
<b>Total core systems</b>	<b>110</b>	<b>115</b>	
<b>Operational reviews - risk based assurance</b>			
Partnership working	5	5	
Managing in a Downturn	5	0	Sufficient work performed in prior year. No significant control issues noted
Freedom of Information and Data Protection	5	5	

Review area	2010/11 as per 2009-12 Strategic Plan	2010/11 Proposed Days	Comments
Health and Safety	5	5	
ICT Audits	20	20	
Job Evaluation	5	5	
CAA	5	0	Sufficient work performed in prior years
Data Quality	5	0	Sufficient work performed in prior years. Days included for Indicators
Sustainability	0	10	Risks around environmental and natural resources noted during risk workshop
Strategic Planning	0	5	Risk workshop identified the need for controls around strategic planning to meet objectives
<b>Total operational systems reviews</b>	<b>55</b>	<b>55</b>	
<b>Strategic – performance assurance</b>			
Anti Fraud and Whistleblowing	5	5	
Performance management	10	10	
<b>Total strategic – performance assurance</b>	<b>15</b>	<b>15</b>	
<b>Other</b>			
Follow up –	5	5	
Audit Management	30	30	
<b>Total Other</b>	<b>35</b>	<b>35</b>	
<b>Annual audit days</b>	<b>215</b>	<b>220</b>	

*n the event that, pursuant to a request which Cherwell District Council has received under the Freedom of Information Act 2000, it is required to disclose any information contained in this report, it will notify PwC promptly and consult with PwC prior to disclosing such report. Cherwell District Council agrees to pay due regard to any representations which PwC may make in connection with such disclosure and Cherwell District Council shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, Cherwell District Council discloses this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.*

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## Accounts, Audit and Risk Committee

### Overview of Treasury Management Performance Q3

20 January 2010

### Report of Head of Finance

#### PURPOSE OF REPORT

This report details the actual return on investments for the period to December 2009, details the counterparties that have been used for investments and considers compliance with the investment strategy.

This report is public

Appendix 2 to this report is exempt from publication by virtue of paragraph 3 of Schedule 12A of Local Government Act 1972

#### Recommendations

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The Accounts, Audit and Risk Committee is recommended to:

- (1) Note the contents of the report and performance to date.
- (2) Note the update on the procurement process.

#### Executive Summary

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##### Introduction

- 1.1 As part of our investment strategy and governance arrangements this committee considers the investment performance to date and our compliance with counterparties being used.
- 1.2 The actual return on investments for the quarter to September 2009 was £1,664k compared with a budget of £2,119 a variance of £456k. The primary reason for the variance is the current base rate of 0.5%. At the time of setting the 2009/10 budget, the assumption was that a minimum level of 2% would be achieved for all new loans entered into during 2009/10.
- 1.3 The budget was split as follows:

2009/10 Budget by Fund Manager

<b>Fund</b>	<b>Amount Managed</b>	<b>Average % rate</b>	<b>Interest Receivable</b>	<b>Monthly equivalent</b>
TUK	29,000,000	4.93%	1,429,153	119,096
Investec	26,230,000	2.81%	736,038	61,336
In House (avg)	29,000,000	2.28%	660,388	55,032
<b>Total</b>	<b>84,230,000</b>	<b>3.35%</b>	<b>2,825,579</b>	<b>235,464</b>

1.4 The actual return for the 9 months ended December 2009 is:

<b>Fund</b>	<b>Amount at 31 Dec 2009</b>	<b>Q3 Interest Budget</b>	<b>Q3 Actual Interest</b>	<b>Variance</b>	<b>Rate of return %</b>
TUK	29,000,000	1,071,864	1,022,730	(49,134)	4.83
Investec	26,230,000	552,028	307,485	(244,543)	1.62
In House	19,100,383	495,291	333,315	(161,976)	1.90
<b>Total</b>	<b>74,330,383</b>	<b>2,119,184</b>	<b>1,663,530</b>	<b>(455,651)</b>	<b>2.83</b>

1.5 The variance is expected to be in the region of £600,000 by the end of this financial period and results in a major variance to 2008/09 which can be seen in Appendix 1. This variance has increased by £100,000 since the last report – this is in the main due to the lower than expected returns from the Investec portfolio.

1.6 The interest rate decline has been continually monitored and as a result an interest rate risk reserve was created as part of the review of reserves in conjunction with the preparation of the 2008/09 statutory accounts. The reserve balance is £600k and latest projections show that this is will meet the budgeted shortfall. The net result is that the shortfall will be covered form this specific reserve.

1.7 The following loans were negotiated during Q3

<b>Fund</b>	<b>Lent To</b>	<b>Date</b>	<b>Amount £s</b>	<b>Interest £s</b>
TUK	Close Bros	02/10/09	1,500,000	£11,704
TUK	Close Bros	02/10/09	1,000,000	£9,205
TUK	Close Bros	30/10/09	2,500,000	£23,171
Investec	Lloyds	09/10/09	4,000,000	
Investec	Nationwide	09/10/09	3,200,000	
Investec	Calyon	23/10/09	300,000	
Investec	Nationwide	23/10/09	600,000	
Investec	B Bilbao Vizcaya	26/10/09	2,700,000	
Investec	Nationwide	18/11/09	200,000	
Investec	Nordea Bank Finland	18/11/09	3,900,000	
Investec	UKTB Commercial Paper	06/11/09	3,000,000	

1.8 The following loans matured or were sold by Investec during Q3

<b>Fund</b>	<b>Lent To</b>	<b>Date</b>	<b>Amount £s</b>	<b>Interest £s</b>
TUK	Northern Rock	02/10/09	2,500,000	187,671

TUK	Newcastle	30/10/09	2,500,000	126,000
In House	Leeds BS	02/11/09	4,000,000	23,138
Investec	Nationwide	09/10/09	2,500,000	6,490
Investec	Lloyds	09/10/09	2,300,000	139,915
Investec	Nationwide	23/10/09	600,000	1,561
Investec	UBS AG	27/10/09	2,500,000	153,125
Investec	RBS	09/11/09	1,000,000	1,307
Investec	Nationwide	09/11/09	200,000	437
Investec	Barclays	09/11/09	1,400,000	2,884
Investec	ING	20/11/09	4,000,000	164,000
Investec	Lloyds	01/10/09	500,000	30,082
Investec	Nationwide	01/10/09	700,000	42,115
Investec	UK Treasury	02/10/09	520,000	15,308
Investec	UK Treasury	02/10/09	480,000	11,523

- 1.9 The 37 loans that the Council is engaged in at 31<sup>st</sup> December 2009 are listed in Appendix 2. This table reports on the duration of the loan, maturity date, amount, interest rate and interest value together with an indication as to whether it is in accordance with the investment strategy revised in July 2009.
- 1.10 Adopting this revised strategy has driven a change to the profile of our investment portfolio. The investments at the date of revision remain sound and as such there was no need for any of the changes to be retrospective. It was agreed a smooth transition over time will be achieved by applying the new criteria to investments entered into after the effective date of adoption.
- 1.11 We borrowed £4m from Nottingham Police Authority for 3 weeks at an interest rate of 0.26% pending the maturity of a £4m investment on 2/11/09. This was not due to a cash shortage, but rather timing of receipts and payments.
- 1.12 We have advised Investec and Tradition UK that we will be reducing there investment pots during Q4 in order to rebalance internal cashflow. The sports centre modernisation programme is virtually complete and internal cash investments have been used to fund this expenditure. We anticipate having a cash balance at the end of the year of circa £53m.
- 1.13 Our contract for treasury advice has expired and we are currently preparing to retender so that we have a new contract in place for 1 April 2010. We have agreed to carry out a joint procurement exercise with Oxford City Council. The tender opportunity will be advertised on January 14<sup>th</sup> 2010 and submissions are due back on 12<sup>th</sup> February 2010.

## Conclusion

- 1.14 The performance is in line with expectations and within budget tolerances. The investment income will be monitored on a monthly basis and a Q3 report will be presented to the committee in January 2010.
- 1.15 All new loans negotiated will be in line with revised investment strategy.

- 1.16 The outcome of the tender process will be presented to this committee in March 2010.

## **Background Information**

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### **Investments in Iceland**

- 2.1 The Council currently has a total of £6.5 million in short term investments (i.e. those with maturity periods of up to one year) with one of the affected banks Glitner.
- 2.2 The administration committee of the Glitner bank met on 17 December 2009 to review claims and make their proposals. Whilst they accepted our unsecured claim for principle of £6.5m and interest they did not accept our claim had a priority status. The latest position is that, the Council currently does not have preferential credit status and as such would only recover 31% of this balance. Local Authorities have objected to this creditor status and legal action will be taken as necessary.
- 2.3 Local authorities' objections will now be considered under the processes followed under Icelandic insolvency law, and court action will be taken as necessary.
- 2.4 The LGA is confident that local authorities' priority status as depositors will in due course be secured and 100% recovered.

## **Key Issues for Consideration/Reasons for Decision and Options**

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- 3.1 Compliance with Policy and CIPFA published guidance.
- 3.2 The need to ensure governance arrangements adhered to.

The following options have been identified. The approach in the recommendations is believed to be the best way forward

- |                   |  |
|-------------------|--|
| <b>Option One</b> | Note the contents of the report                    |
| <b>Option Two</b> | Ask officers to review loan arrangements in place. |

## **Consultations**

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- |                          |  |
|--------------------------|--|
| <b>Treasury Advisors</b> | The performance of each fund had been reviewed and discussed with Butlers. |
|--------------------------|--|



## Implications

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<b>Financial:</b>	<p>There are no financial implications arising out of this report but the shortfall in interest income will be considered in Q3 revenue projection in conjunction with the reserve set up regarding interest rates.</p> <p>Comments checked by Karen Muir, Corporate System Accountant 01295 221559</p>
<b>Legal:</b>	<p>There are no legal implications arising from this report. The arrangements to report on compliance comply with the CIPFA Code of Practice</p> <p>Comments checked by Liz Howlett,, Head of Legal and Democratic Services, 01295 221686</p>
<b>Risk Management:</b>	<p>Risk of capital loss – the prime objective of treasury management activities is to ensure the security of the amounts invested. In the past this has primarily been managed by using a counterparty list which only includes organisations having a suitable credit rating and which has a maximum amount that can be invested with each organisation at any one time. This report considers compliance with strategy and performance monitoring.</p> <p>Comments checked by Karen Muir, Corporate System Accountant 01295 221559</p>

## Wards Affected

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All

## Document Information

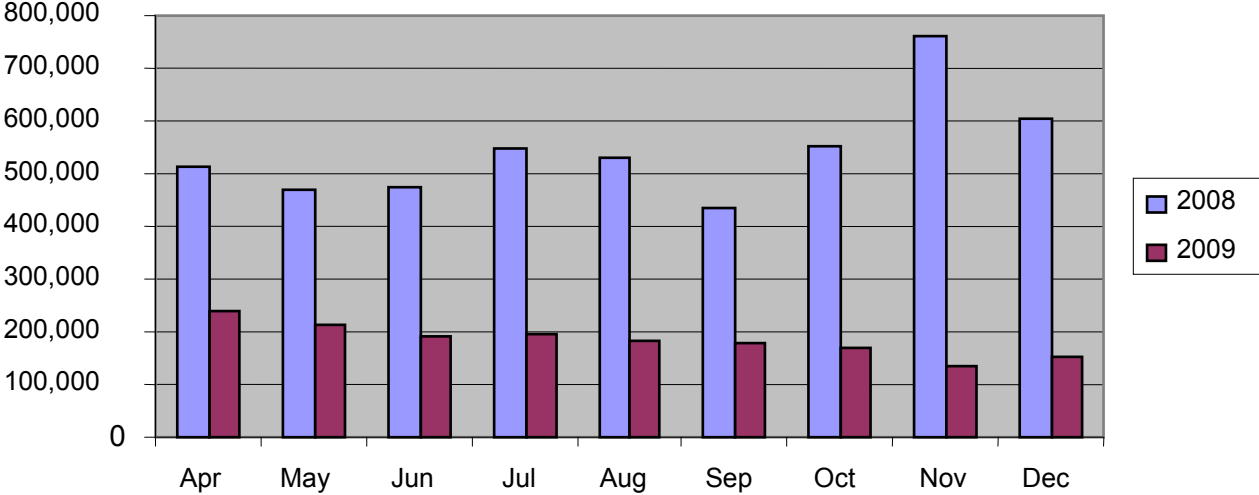
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Appendix No	Title
Appendix 1	Year To Date Performance and Comparison
<b>Appendix 2</b>	Loans as at 31 December 2009 and compliance with
<b>EXEMPT Para 3</b>	strategy
<b>Background Papers</b>	
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The drop in interest received by the Council in the first nine months of the financial year compared with the same nine months last year can be better seen in the graph below.

Interest Received Apr-Dec 2008 and 2009



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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

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