READING BOROUGH COUNCIL
DIRECTOR OF CORPORATE RESOURCES

TO:	AUDIT & GOVERNANCE COMMITTEE
DATE:	1st August 2018 AGENDA ITEM: 6
TITLE:	INTERNAL AUDIT QUARTERLY PROGRESS REPORT

LEAD COUNCILLOR:	COUNCILLOR BROCK	PORTFOLIO:	CORPORATE AND CONSUMER SERVICES
SERVICE:	FINANCE	WARDS:	N/A
LEAD OFFICER:	PAUL HARRINGTON	TEL:	9372695
JOB TITLE:	CHIEF AUDITOR	E-MAIL:	Paul.Harrington@reading.gov.uk

1.   PURPOSE OF THE REPORT

1.1   This report provides the Audit & Governance Committee with an update on key findings emanating from Internal Audit reports issued since the last quarterly progress report in April 2018.

1.2   The report:

- Provides assurance, commensurate with the control environment evidenced by audits conducted in the last quarter.
- Advises on significant issues where controls need to improve to effectively manage risks.
- Track progress on the response to audit reports and the implementation of agreed audit recommendations.

1.3   The following documents are appended:

- Appendix 1- Audit Report General Ledger (Journals)
- Appendix 2 - Audit report Electronic Documents and Records Management (EDRM)

2.   RECOMMENDED ACTION

2.1   **The Audit & Governance Committee are requested to consider the report.**

3. ASSURANCE FRAMEWORK

3.1 Where appropriate each report we issue during the year is given an overall assurance opinion. The opinion stated in the audit report provides a brief objective assessment of the current and expected level of control over the subject audited. It is a statement of the audit view based on the terms of reference agreed at the start of the audit; it is not a statement of fact. The opinion should be independent of local circumstances but should draw attention to any such problems to present a rounded picture. The audit assurance opinion framework is as follows:
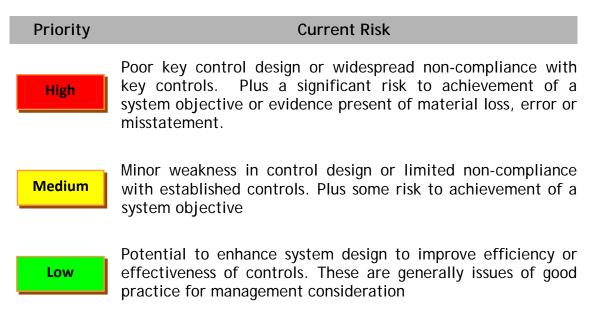
Substantial	GREEN	**Substantial assurance** can be taken that arrangements to secure governance, risk management and internal control, within those areas under review, are suitably designed and applied effectively. Few matters require attention and are compliance or advisory in nature with **low impact on residual risk** exposure.
Reasonable	YELLOW	We can give **reasonable assurance** that arrangements to secure governance, risk management and internal control, within those areas under review, are suitably designed and applied effectively. Some matters require management attention in control design or compliance with **low to moderate impact on residual risk** expose until resolved.
Limited	AMBER	**Limited assurance** can be taken that arrangements to secure governance, risk management and internal control within those areas under review, are suitably designed and applied effectively. More significant matters require management attention with **moderate impact on residual risk** exposure until resolved.
No assurance	RED	There is **no assurance** that arrangements to secure governance, risk management and internal control, within those areas under review, are suitably designed and applied effectively. Action is required to address the whole control framework in this area with **high impact on residual risk** exposure until resolved.

3.2   **Grading of recommendations**

3.2.1 In order to assist management in using our reports, we categorise our recommendations according to their level of priority as follows:

Priority	Current Risk
High	Poor key control design or widespread non-compliance with key controls. Plus a significant risk to achievement of a system objective or evidence present of material loss, error or misstatement.
Medium	Minor weakness in control design or limited non-compliance with established controls. Plus some risk to achievement of a system objective
Low	Potential to enhance system design to improve efficiency or effectiveness of controls. These are generally issues of good practice for management consideration

3.2.2 The assurance opinion is based upon the initial risk factor allocated to the subject under review and the number and type of recommendations we make.

3.2.3 It is management's responsibility to ensure that effective controls operate within their service areas. However, we undertake follow up work to provide independent assurance that agreed recommendations arising from audit reviews are implemented in a timely manner. We intend to follow up those audits where we have given limited or 'no' assurance.

4.   HIGH LEVEL SUMMARY OF AUDIT FINDINGS

4.1   General Ledger (Journals) 2017/2018   `1` `1` `2`

4.1.1   The purpose of this review was to test controls over journal transactions and follow up progress on implementing recommendations made following the 2016/2017 audit.

4.1.2   As part of this audit a total of 2,047 journals[1] were examined consisting of 230,135 journal voucher lines, along with a further 72,865 stand alone vouchers (303,000 journal vouchers in all).

4.1.3   Significant progress has been made since October 2017 in rectifying the issues identified in the previous audit report due to the implementation within the Council's accounting system of separation of duties between creating and approving the posting of journals and the requirement for evidence to support the creation of journals. However, the issues highlighted in the previous audit report, i.e. lack of evidence and unclear audit trails, still applies to a large number of journals in the 2017/18 financial year created prior to October 2017. Thus, a great deal of work is still required to retrospectively evidence and approve journals for the first half of the financial year. This exercise in turn could uncover incorrect transactions.

4.1.4   There were also 22,911 journal line descriptions (173 journals) with reversal in their narrative. It was not clear what proportion of these were accrual[2] journals and what were error corrections. There should be a clear distinction going forward.

4.1.5   Going forward the procedures and controls over the creation of journals are satisfactory and address the risks identified and recommendations made in the 2016/17 Internal Audit report. Testing of samples of journals revealed that there are now clear audit trails to support creation and separation of duties in the authorisation process for journals in the second half of the financial year.

4.1.6   There were a number of journals (over 100 at the time of audit) which had not been reviewed and signed off in a timely fashion and it is hoped with the finance section reorganisation that this situation can be remedied.

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[1] Journals are used to affect the transfer of funds between codes in order to ensure the Council's accounts are complete and correct.

[2] Accruals are adjustments for 1) revenues that have been earned but are not yet recorded in the accounts, and 2) expenses that have been incurred but are not yet recorded in the accounts. The accruals need to be added via adjusting entries so that the financial statements report these amounts.

4.1.7   The material impact concerning journal creation and evidencing would be that from April to October 2017 (first six months of the financial year), accounting journals (as opposed to operational journals from other financial systems such as rents etc.) lacked a sound evidential base for their creation and would not have been subject to review and approval. The audit did not find any evidence from sampling that would suggest concealment of financial loss, but would note that the lack of an audit trail would prevent assurance being given on the accuracy of financial management information based on such journals, hence the limited assurance opinion. In total the value of these journals would be £25.85M (202 journals).

4.2   The Public Law Outline (PLO)

4.2.1   Public Law Outline (PLO)[3] has specific targets within the Children's Learning and Improvement Plan. This was not an audit in its traditional sense (e.g. assurance opinion and a set of recommendations), as our focus in this instance was a review of improvement actions and to help triangulate validation of data to substantiate improvement.

4.2.2   It was evident from our testing that a consistent approach needs to be taken with the PLO process and that all relevant staff are made aware of the process, relevant responsibilities and recommended timescales for each stage.

4.2.3   Policies and procedures are available and had been updated. Generally, key dates are accurately recorded on Mosaic with respect to the PLO process. However, some discrepancies in dates were found between what is recorded on Mosaic and the different trackers (e.g. joint legal team).

4.2.4   A review sample of 33 cases, marked as reaching Public Law Outline (PLO) meetings on Mosaic, during 2017/18, identified that relevant documentation is not always available and/or completed, including documentation to prove whether the threshold has been met and what the legal advice is. In a number of cases, it was also difficult to follow on Mosaic what has happened in the PLO process, with information being split between case notes and documents and a lack of consistent recording of information between cases. There were also issues relating to the data saved, particularly in terms of quality and accuracy. A review of the cases on Mosaic found that there were delays in the process due to:

- the social worker being unaware that it is their responsibility to deliver the Letter Before Proceedings (LBP),
- a lack of availability to attend meetings/conduct assessments due to pressure of other work leading to sometimes significant delays in the process even in serious cases.

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[3] The **Public Law Outline** (PLO) sets out the duties local authorities have when thinking about taking a case to court to ask for a Care Order to take a child into care or for a Supervision Order to be made. This is pre-proceedings work and it is often what is referred to when social workers talk about PLO.

5 <u>FOLLOW UP REVIEWS</u>

5.1 Internal audit will look to follow up those reviews which have been assigned limited assurance. Resources permitting we envisage that the follow up review will take place between 6 – 12 months after the initial audit or after the recommendations were agreed to be implemented (if later). The following areas have been revisited to establish progress on implementing internal audit recommendations.

5.2 EDRM (follow up review)   1 3 1

5.2.1 RBC currently uses a Northgate product, Information @ Work (I@W), as an electronic document and records management system. In order to digitise documents for entry into I@W, the Council has a contract with Docs Online (DOL), a scanning and indexing company. RBC arranges for the transfer by courier of documents from RBC to DOL for scanning.

5.2.2 Both the DOL and courier contracts are held within the Directorate of Resources, in order to minimise cost and to ensure a uniform approach. However, it is the responsibility of Service Heads and Information Asset Owners to ensure that they are satisfied that the service provided is suitable for the transportation and security of their specific document types.

5.2.3 Progress in this area since the last audit report has been limited, with some of the previous recommendations remaining outstanding. When the last internal audit was conducted in June 2016, courier services were provided for the Council to Docs on Line (DOL) by TNT, on a pay-as-you-go basis. However, following a number of service issues in mid-2017, the arrangement was terminated, and Parcelforce was used as an interim provider (also under a pay-as-you-go arrangement) until a long term supplier could be identified.

5.2.4 A new supplier (Royal Mail Relay) is now in place, with the contract provided on standard terms and conditions and consequently does not cover all areas recommended in the last audit, for example performance criteria. Service performance is monitored and a protocol is in place to alert officers of any missing shipments, however there are inconsistent approaches across Council services for recording what documents are sent to DOL. There are procedures for sending documents via the courier, however these are in need of a refresh and do not provide a corporate approach for transferring documents. Current internal processes do not provide sufficient guarantees that documents will be safely accounted for and are in need of strengthening to protect the Council from the risk of data loss.

5.2.5 As the Docs Online contract is due for renewal in March 2019, there is now an opportunity to conduct a comprehensive review of the scanning and courier options currently in place across the Council. Simultaneously, consideration

can be given to how the Council can best meet the data protection requirements under the General Data Protection Regulation (GDPR) in relation to scanning and couriering

5.3	MOSAIC/Oracle Fusion End of year reconciliation (Follow up)	0	

5.3.1   In light of findings reported following the 2016/17 audit review and the limited assurance opinion given at the time, this was a repeat follow up audit (limited progress was reported at last year's follow up) to review the processes around identifying and accounting for accruals within Adults and Children's social care and the year-end reconciliation process between the two systems.

5.3.2   We are pleased to report that audit recommendations are now being acted upon, although some are still work in progress.

5.3.3   The Council has clear accounting policies that recognise that the accounts are prepared on an accruals basis and Mosaic [4] is the information source to estimate social care accruals. The Adults Social Care Finance Team' experience is that reporting is not always up to date and therefore the Mosaic commitments report needs further   analysis to reasonably estimate the correct position for the accounts. The Director of Adult Care & Health Services has indicated that accurate and up to date recording is a priority, and similar priorities apply in Children's Services.

5.3.4   The year-end reconciliation and accrual process is still not clearly documented which is of concern, particularly in light of turnover of key staff and temporary staff within the Finance Team. However, as part of the 2017-2018 closedown officers have reviewed and revised processes. The working papers supporting accruals show the methodology around the accrual and this will be consolidated into procedure notes and guidance, so they are available for others to access.

5.3.5   There has been a progressive improvement in the data recorded for Children's Services, but this needs to be cleansed further. This is a priority action in the move to the new Children's Company where high quality data will be required. Looked after Children (LAC) profiling has been introduced to improve the robustness of financial modelling and impact of the Medium Term Financial Strategy and projections for LAC expenditure was more accurate during 17/18 financial year.

5.3.6   Due to the ongoing issues with the 16/17 audit and closure of 17/18 accounts, capacity has not allowed for lessons learnt exercise to happen as previously recommended. However we've been informed that a post mortem review of the process to be undertaken and any lessons learned will be fed into the 18/19 closure process.

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[4] Social care management system

6 AUDIT REVIEWS 2018/2019

6.1 The table below details those audit reviews in progress and the reviews planned for the next quarter. Any amendments to the plan to reflect new and emerging issues or changes in timing have been highlighted.

Audit Title	Timing				Start Date	Draft Report	Final Report
	Q1	Q2	Q3	Q4			
Continuing Health Care (CHS)	●				Apr-18	Jul-18	
Delayed Transfer of Care (c/fwd)	●				Apr-18	Jul-18	
Entitlement & Assessment/HB Subsidy	●						
Revenue Budget Setting (Hyperion)	●				Jun-18		
Additional Payments	●				Apr-18	Jul-18	
PCIDSS	●				Jun-18		
Data Storage	●				Jun-18		
Network Infrastructure Security (c/fwd)	●						
Residents Parking	●				Jun-18		
Use of CCTV - Urban Traffic Control	●						
Homes for Reading	●				Jun 18		
Right to Buy (follow up, c/fwd)	●				Apr-18	Jun-18	Aug-18
Norcot Nursery School	●				Jun-18	Jul-18	
New Bridge Nursery School	●				Jun-18	Jul-18	
Commercial Leases (Stepping Stones)*	●				May-18	Jul-18	
Capital Accounting (Fixed Assets)		●					
Bank and Cash Reconciliations (follow up)		●					
Creation of Children's Company		●					
Budgetary Control & Savings		●					
Section 106 Agreements		●					
Leisure Income Collection		●			Jul-18		
LTP Capital Settlement (Grant Certification)		●					
Bus Subsidy Grant		●					
Creditors (Accounts Payable)		●	●				
General Ledger (Journal testing)	●	●	●	●	Continuous		
Troubled Families Grant Sign Off		●		●			
Direct Payments (f/up)			●				
Commissioning (Adults)			●				
Business Rates			●				
Sundry Debtors			●				
Payroll			●				
Looked After Children			●				
Commercialisation			●				

Audit Title	Q1	Q2	Q3	Q4	Start Date	Draft Report	Final Report
Redlands Primary School			●				
The Hill Primary School			●		Sep-18		
Whitley Park Primary School			●		Jun-18		

		Timing					
Audit Title	**Q1**	**Q2**	**Q3**	**Q4**	**Start Date**	**Draft Report**	**Final Report**
Public Health Grant (f/up)				●			
MOSAIC Finance Module				●			
Foster Care (f/up)				●			
Child Exploitation & Missing Children (f/up)				●			
Employee Gifts & Hospitality & Declarations of Interest				●			
Housing Revenue Account				●			
Blessed Hugh Farringdon Catholic Secondary School				●	Oct-18		
Christ the King Catholic Primary School				●			
St Michael's Primary School				●			

*This audit was added as was not part of the original planned programme of audits

6.2   At the moment we are behind in our planned programme of work. This has mainly been due to a high turnover of staff in the last few months. We had a vacancy at the beginning of the financial year, which has since been filled, although there has been a period of transition into post. A further vacancy has arisen due to a resignation and this post will not be filled until the end of August. Again there will be a period of transition. A review of actual audits completed against planned will be undertaken at the end of quarter 2 with an updated risk assessment.

7   INVESTIGATIONS (April 2018 – June 2018)

7.1   <u>Housing Benefit and Council Tax Support Investigations</u>

7.1.1   For the period the Council Tax support overpayment is **£2,173**. The cases attracted a penalty fine value of **£1,091**.

7.2   <u>Single Person Discount</u>

7.2.1   Following a data matching exercise matching 21,106 address records against tracing and occupier lookup databases to determine the strength of residency for all individuals in a household within the borough, investigations officers are working with Council Tax reviewing the high risk data matches (190). Since May 2018, just under **£55,000** has been identified for CTAX recovery and we envisage this will rise to over **£70,000**, by the end of August. This project is ongoing and further work is continuing in partnership with the Council Tax Team.

7.3   Housing tenancy investigations

7.3.1   Since 1 April 2018 Investigation officers have assisted in the return to stock of 8 Council properties. At present we have 18 ongoing tenancy investigations, with 3 cases with RBC legal awaiting court outcomes.

7.3.2   It is difficult to quantify the financial implications of these types of investigations, however the RBC agreed figure of £15,000 is considered to be the average cost for retaining a family in temporary accommodation. Using this figure (8 x £15,000), to date notional savings of **£120,000** have been made as a result of tenancy investigations.

7.4   Right to buy (RTB)

7.4.1   There are organisations and individuals that offer tenants money to apply to buy the home on their behalf. Money laundering is also a risk for property transactions. Money is paid by a third party who has no obvious link with the transaction. Money launderers often use front buyers to enter into transactions on their behalf. The money for a deposit or even to pay a mortgage may have come from someone other than the customer and could very well be the proceeds of crime.

7.4.2   We are working with Housing Officers to check applications against Council tax and other records and will investigate any applications that look suspicious. Improper applications can result in eviction and criminal prosecution. Since 1 April 2018 three applications have been refused as a result of our investigations.

7.5   Social Care Fraud & Investigations

7.5.1   The team have been involved in a complex investigation relating to allegations of Direct Payment[5] Fraud. As a result of a long investigation over almost 10 months, fraud charges have been brought against a direct payment client, suspected of Fraud and False Accounting. We estimate the fraud is likely to be over **£68,000**. The first hearing was held in Reading Crown Court in May 2018 where the defendant entered into a not guilty plea and is now listed for a Crown Court trial later this year.

7.6   Internal Investigations

7.6.1   Following authorised surveillance at one of the Council's leisure establishments, a now former member of staff was arrested on the suspicion

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[5] **Direct payments** are **payments** for people who have been assessed as needing help from social services, and who would like to arrange and **pay** for their own care and support services instead of receiving them directly from the Council.

of theft of cash. The matter was heard at Reading Magistrates Court on the 6th April 2018 and the defendant pleaded guilty to all charges. Full costs were awarded to the Council and the defendant has been ordered to pay **£13,198**.

8. CONTRIBUTION TO STRATEGIC AIMS

8.1 Audit Services aims to assist in the achievement of the strategic aims of the Council set out in the Corporate Plan by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. In particular audit work is likely to contribute to the priority of remaining financially sustainable to deliver our service priorities.

9. COMMUNITY ENGAGEMENT AND INFORMATION

9.1 *N/A*

10. LEGAL IMPLICATIONS

10.1 Legislation dictates the objectives and purpose of the internal audit service the requirement for an internal audit function is either explicit or implied in the relevant local government legislation.

10.2 Section 151 of the Local Government act 1972 requires every local authority to "make arrangements for the proper administration of its financial affairs" and to ensure that one of the officers has responsibility for the administration of those affairs.

10.3 In England, more specific requirements are detailed in the Accounts and Audit Regulations in that authorities must "maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper internal audit practices".

8. FINANCIAL IMPLICATIONS

8.1 N/A

9. BACKGROUND PAPERS

9.1 N/A

Internal Audit Report- General Ledger

To: Jackie Yates Director of Resources
Matthew Davis Head of Finance
Jenny Bruce Financial Systems Manager
Jean Stevenson Chief Accountant

From: Anthony Kearns Principal Auditor

Date: 4th June 2018

Ref: 23/17

Limited Assurance

1 Purpose and Scope of Review

1.1 The purpose of this review was to follow up progress on implementing recommendations made following the previous year's audit (audit report 38/16 (02/02/17)) and to test the General Ledger controls to ensure:

- There are appropriate separation of duties between staff inputting journals and those requesting/authorising transactions
- That all Journal transactions have adequate descriptors, detailed supporting documentation attached and are appropriately authorised. Such that there is an appropriate audit trail within Oracle Fusion and relevant "supporting papers" are held within the system.

1.2 Journals and vouchers were also analysed using IDEA (a data analytics tool) to review:

- Materiality levels and volumes of posting across quarters and between and within cost centres.
- Correctness of coding; blank journal voucher entries; as well as any potentially suspicious activity.

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2.   Background

2.1   The general ledger is classified as a key system by the Council's external auditors and requires an annual internal audit review. Last year our review of Journal processing identified a number of areas with scope for improvement as well as the high number of transactions, both value and volume, surrounding the opening and closing of the accounts and amendment to transactions. There were also a high number of manual interventions to load information into the General Ledger. We found no formal processes or procedures to ensure that an audit trail is maintained for the source of the journals. Records of journal transactions were available, but there was no set policy for storage and protection of the original records used for manual or spreadsheet transactions in a centralised secure area. The journal process was a single person process with no authorisation required on Oracle Fusion.

2.2   These were not recent findings, but are control weaknesses which have been flagged in previous internal audit reviews over the years

3.   Main Conclusions

3.1   As part of this audit a total of 2,047 journals were examined consisting of 230,135 journal voucher lines along with a further 72,865 stand alone vouchers (303,000 journal vouchers in all).

3.2   Significant progress has been made since October 2017 in rectifying the issues identified in the previous audit report due to the implementation within the Council's accounting system of separation of duties between creating and approving the posting of journals and the requirement for evidence to support the creation of journals.

3.3   However, the issues highlighted in the previous audit report, i.e. lack of evidence and unclear audit trails, still applies to a large number of journals in the 2017/18 financial year created prior to October. Thus, a great deal of work is still required to retrospectively evidence and approve journals for the first half of the financial year. This exercise in turn could uncover incorrect transactions.

3.4   There were also 22,911 journal line descriptions (173 journals) with reversal in their narrative. It was not clear what proportion of these were accrual journals and what were error corrections.   There should be a clear distinction going forward.

3.5   Going forward the procedures and controls over the creation of journals are satisfactory and address the risks identified and recommendations made in the 2016/17 Internal Audit report. Testing of samples of journals revealed that there were clear audit trails to support creation and separation of duties in the authorisation process for journals in the second half of the financial year

3.6   There were a number of journals (over 100 at the time of audit) which had not been reviewed and signed off in a timely fashion and it is hoped with the finance section reorganisation that this situation can be remedied.

3.7   The material impact concerning journal creation and evidencing would be that from April to October 2017 accounting journals (as opposed to operational journals from other financial systems such as rents etc) lacked a sound evidential base for their creation and would not have been subject to review and approval. The audit did not find any evidence from sampling that would suggest concealment of financial loss but would note that the lack of an audit trail would prevent assurance being given on the accuracy of financial management information based on such journals. In total the value of these journals would be £25.85M (202 journals).

3.8   A total of 4 recommendations have been raised in respect of this review, of which 1 is a high priority. The full detail of these recommendations and the corresponding management responses are attached at Appendix 1.

3.9   The quality assurance process has confirmed that this Internal Audit was conducted in conformance with the Public Sector Internal Audit Standards, a copy of which is available at:

4.   **Other key points to note**

4.1   There were a high number of one off transactions to unique cost centre codes across the three quarters examined (3,794 of 11,349 cost centres examined or 33%). This suggests that coding structure may be over complicated with too many codes (e.g. leisure centres with one entry for alarm testing being the only transaction on that code for each leisure centre). Similarly there was a high number of one off vendor transactions (1,953 of 5,028 vendors or 39%). This may suggest that a review of the accounts payable supplier database is required to identify why they have only been used once.

4.2   There were a number of journals posted at weekends and on public holidays. This may suggest that a review of workloads and practice is required to ensure processing of journals takes place in a timely way.

4.3   Multiple debits and credits of the same transaction account to the same GL account in the same month (206,489 journal lines out of 303,300 or 68%). This may make identification of audit trails difficult and obscure potential duplicate transactions.

4.4   The journal naming convention was also reviewed and it was established that the responsibility for numbering was with the individual. All business streams are identified by journal type or descriptive name indicating the source of the journal and with the initials of the person completing the journal for the business area originating the transaction.

4.5   There were 819 out of 2,047 journals examined in the period where the creator and authoriser were the same. The largest single instance was in respect of rbc autopost (317). RBC autopost generally represented interface files which did not need approval as they are system transfers. As set out above, for the majority of the period examined (April to October 2017) it was possible to create and authorise a journal and evidence and other requirements were as at 2016-17.

4.6   New procedures were brought in to enforce separation of duties and this resulted in a substantial backlog of journals awaiting approval. As part of this process journals were are supposed to be signed off if there was sufficient evidence attached on Oracle Fusion to support the reason for the journal. If there was insufficient or incomplete evidence then the journal would be rejected.

4.7   From November onwards the failure to ensure that accounting journals were reviewed and approved by someone other than the creator has a value of £7.4M at the time of the audit. The single largest transaction was for £3.4M to clear down some suspense accounts. Materially there is no loss to the authority but the accuracy of the accounts may be compromised as monies are not being promptly accounted for which in turn may impact on financial decisions being made by the authority. The services now receive regular reports detailing outstanding journals and are expected to ensure they are signed off.

Appendix A - Report Distribution

Staff Interviewed

- Jenny Bruce Financial Systems Manager

Final Report Distribution

- Jackie Yates Director of Resources
- Matthew Davis Head of Finance
- Jean Stevenson Chief Accountant
- Jenny Bruce Financial Systems Manager

Auditor Contact Details

- Anthony Kearns Principal Auditor   (0118) 937 2692
                                    -
- Paul Harrington. Chief Auditor   -   (0118) 937 2695

For further details on our assurance opinions please click this link

Audit Management Action Plan
AUDIT REPORT 23/17 GENERAL LEDGER

Ref	Risk	Recommendation	Priority	Management Response	Responsible Officer(s)	Target Date
1	Management Financial Information is inadequate and does not inform as to the accurate financial position of the organisation	Journals produced between April and October 2017 will have to be reviewed and evidence sought for the need for creation.	Priority 1	All journals without evidence will be identified in Oracle. We will then identify all inputters who need to provide evidence who have not yet received training and those who requested Finance input a journal who need to provide further evidence. Targeted training on evidence requirements will be provided. An instruction will be issued as soon as possible for evidence to be added to journals, asking inputters to identify problem areas. If the volume of evidence is too much to source as part of this exercise, a note will be loaded signposting to where the full details are located.	Chief Accountant	31/07/2018
2	Management Financial Information is inadequate and does not inform as to the accurate financial position of the organisation	All Journals need to be reviewed and authorised in a timely fashion	Priority 2	Additional approvers have already been identified and the numbers of outstanding journals are slowly coming under control. The main delay in authorisation has been caused by poor evidence. The quality quality of evidence is already improving and is expected to improve further when the training refered to in response to recommendation 1 has been provided.	Chief Accountant	31/07/2018

	Management Financial Information is inadequate and does not inform as to the accurate financial position of the organisation	All journals need proper designation as to the type of journal and its purpose.	Priority 3	Protocols on journal naming will be reviewed by the new Techinical Accountant.	Technical Accountant	31/12/2018
3						
4	Management Financial Information is inadequate and does not inform as to the accurate financial position of the organisation	The number of codes that are being used for one off transactions needs to be reviewed to ensure that this is the most efficient way to record financial information.	Priority 3	This will be reviewed as part of the planned review of the coding structure to be undertaken once the Children's Company and Homes for Reading ledgers have been built.	Financial Systems Manager	31/03/2019

NB: Your management response is your commitment to treat the risk identified as part of the review. The standard response time to draft recommendations is 15 working days; any failure to meet this target could be reported to the Audit & Governance Committee.

The management response to recommendations will be reported to both CMT & The Audit & Governance Committee as part of our quarterly monitoring arrangements. Audit recommendations and agreed actions will be followed up during the year, where deemed appropriate by the Audit Management Team. All outstanding recommendations will also be reported through CMT as part of the Council's monthly performance monitoring.

Internal Audit Report

Electronic Document and Records Management

To: Andy Fisher: GI and Business Systems Team Leader
Andrew Withey: Corporate Improvement Manager
Zoe Hanim: Head of Customer Care & Transformation
Jackie Yates: Director of Resources

Limited Assurance

1 Purpose and Scope of Review

1.1 Reading Borough Council currently uses a Northgate product, Information @ Work (I@W), as an electronic document and records management system. In order to digitise documents for entry into I@W, the Council has a contract with Docs Online (DOL), a scanning and indexing company. This arrangement provided a lower cost scanning solution compared to undertaking the service in house or using a local provider due to variances in labour cost. RBC arranges for the transfer by courier of documents from RBC to DOL for scanning. This is administered by the GI & Business Systems Team in the Directorate of Resources (DOR).

1.2 Both the DOL and courier contracts are held within the Directorate of Resources, in order to minimise cost and to ensure a uniform approach. However, it is the responsibility of Service Heads and Information Asset Owners to ensure that they are satisfied that the service provided is suitable for the transportation and security of their specific document types.

1.3 During the course of the year, the courier company used by the Council changed from TNT to Royal Mail Relay.

1.4 The purpose of this audit was to follow up the recommendations made arising from the 2016/17 audit review, when a Limited Assurance opinion was offered.

1.5 Following issue of the draft report it was agreed that the response to the report would be reported through to CMT by the Head of Customer, Services, but ownership for the recommendations will ultimately be determined by CMT.

2 Main Conclusions

2.1 A total of 7 recommendations have been raised in respect of this review, of which 1 has been considered a high priority. The full detail of these recommendations and the corresponding management action plan are attached to this report as Appendix 1.

2.2   Progress in this area since the last audit report has been limited, with some of the previous recommendations remaining outstanding.

2.3   The quality assurance process has confirmed that this internal audit review was conducted in conformance with the Public Sector Internal Audit Standards, a copy of which can be found on the Internal Audit Team's intranet page on Iris.

3.   **Summary of Findings**

3.1   **Contractual arrangements for scanning and courier operations**

3.1.1   When the last internal audit was conducted in June 2016, courier services were provided for the Council to Docs on Line (DOL) by TNT, on a pay-as-you-go basis. However, following a number of service issues in mid-2017, the arrangement was terminated, and Parcelforce was used as an interim provider (also under a pay-as-you-go arrangement) until a long term supplier could be identified.

3.1.2   A new supplier (Royal Mail Relay) is now in place and an Account Manager has been allocated by Royal Mail. The contract is provided on standard terms and conditions and consequently does not cover all areas recommended in the last audit, for example performance criteria (R1). Courier services are typically provided as a standard service with limited scope for variation to meet the needs of individual customers. For the limited value of the courier service here the service view is that tendering for a bespoke service would be prohibitively expensive and undermine the business rationale for the service solution. As per best practice, this contract is held on the central Council Contract Listing (R1). Due to the low lifetime value of the work, Procurement and Legal were not required to provide input into the contract. Departments using the service were consulted on their requirements (although responses were quite limited), and departmental feedback was used to select the best option (out of three potential suppliers) for the Council.

3.1.3   No formal review of scanning and courier options was undertaken prior to entering into the contract as recommended in the last review (R1). As the Docs Online contract is due for renewal in March 2019, there is now an opportunity to conduct a comprehensive review of the scanning and courier options currently in place across the Council. Simultaneously, consideration can be given to how the Council can best meet the data protection requirements under the General Data Protection Regulation (GDPR) in relation to scanning and couriering.

3.2 Policies and procedures for controlling and monitoring service delivery

3.2.1 Policies and procedures for controlling and monitoring service delivery were considered during this audit, covering topics including monitoring mailboxes, matching up sent and received boxes, contacts in event of issues. Not all teams regularly follow these procedures, and some (such as error logging) do not appear to have been used in recent years. A number of key elements are missing, partially missing or outdated from the procedures, including:

- Process to follow after document return due to incorrect indexing or guidance relating to document marking;
- Details of the action to be taken when box tags are missing or broken to ensure bag contents are intact (R2);

3.2.2 Discussions with a sample of teams who use the DOL scanning service identified that not all teams were aware of the documented procedures, many of which had not been reviewed within the past year. Similarly, not fully following protocols (such as always recording the number of security tags sent and received) undermines reliability of match-up and monitoring. However, discussions identified that all parties were clear that when there was evidence of tampering, the Council should be notified.

3.2.3 The process as a whole suffers from limited oversight, including responsibility for management (R4). Elements of the procedures also need completing and updating, as noted above (R2).

3.3 Missing boxes, information loss and insurance

3.3.1 Following the last internal audit conducted, it was recommended that the Council should confirm whether any additional or special insurance provisions were required to safeguard against information loss.

3.3.2 Discussion with the Principal Accountant (Insurance) indicated that that this had not occurred for the TNT, Parcelforce or current Royal Mail Relay contracts (R3). However, he had been approached to check whether Parcelforce's public liability insurance was sufficient. Consideration also needs to be given to the forthcoming introduction of General Data Protection Regulation (GDPR) and implications this has in terms of possible increased levels of financial penalties.

3.4 Information asset register

3.4.1 Services contacted who use the courier service were unaware of the existence of an information asset register. As noted in 3.4.2, there is not a consistent approach across the Council as to whether a record is kept of the documents sent to DOL for scanning (R5).

3.4.2 No evidence was located during the course of the audit to suggest that any other courier services were used to transport scanning to DOL other than Royal Mail Relay. Discussions identified that it was likely that DOL would raise the issue if documents were arriving by means other than Royal Mail Relay.

3.5 Arrangement for missing boxes

3.5.1 Review of Post Room procedures identified that some arrangements in relation to bags and crates had changed since the last audit. The Council's name and address is now included both on the individual bags being sent to DOL and also on the inside of the crates in which the bags are packed. Crates are scanned at points of transfer along the route and the last point of scanning can be identified.

3.5.2 It was noted that no record is being kept of which bag is packed in which box in the case where more than one crate is used. However, by a process of elimination, it could be identified which bags were missing by reconciling bags that arrived safely to bags sent.

3.5.3 Discussions also identified that the possibility of acquiring micro trackers had been investigated; however the cost was found to be prohibitively expensive.

3.5.4 There is also a lack of consistency between teams using the courier service as to whether they record details of the documents contained within their team's bags or not. It is therefore not possible to reconcile documents scanned to documents sent. Where services are not recorded details of documents sent and therefore accepting the risk that documents may go astray and not be identified/identified in a timely manner, this should be included on their risk register (R6).

3.6 Document marking requirements

3.6.1 As already identified, documents are not marked in terms of sensitivity prior to being scanned (R7). In addition, a number of teams had not identified the retention period for documents saved on I@W. This was becoming a particularly pertinent issue as maximum capacity was close to being reached.

3.6.2 Revised document marking advice and guidance was issued to all staff in 2017. Discussion with the Council's ICT Technology and Services Manager identified that induction training in this area is compulsory for all new starters. However it has been observed that there is a general lack of understanding of document marking which is wider than just a scanning issue.

Audit Management Action Plan
Electronic Document and Records Management

Ref	Risk	Recommendation	Priority	Management Response	Responsible Officer(s)	Target Date
1	There is a risk that value for money is not achieved and that risks to the Council in terms of lost/missing information are not minimised.	As recommended in the last audit, a formal review of the scanning and courier arrangements should be conducted. Quotes for options should be on a like for like basis so that they are directly comparable and to ensure that value for money is achieved. Review needs to consider the cost of conducting in-house scanning versus sending to Nottingham including consideration of risk of in-house v outsourcing option. Legal/Procurement should also be involved in the negotiation of new contracts and the contract should be included on the central register of contracts (the latter has now been addressed). The contract should include specifics such as performance criteria, procedure for reporting and escalating risks/issues etc.	Priority 1	A formal review of the document management solution including courier and scanning will be completed. The scanning and courier service is used across multiple teams so any review will involve representatives of those teams as well as the corporate teams who arrange for the courier service for system overview.	CMT - through the Head of Customer Care and Transformation	31st October 2018
2	There is a risk that the Council does not receive appropriate service delivery and the courier is not held to account. Also that missing documents are not identified and addressed in a timely manner, leading to reputational and financial loss to the Council.	Documented procedures should be completed and made available to all relevant teams. They should include processes for monitoring and reporting on service delivery, what to do when box tags are missing or broken and checking that the number of bags and tags agree.	Priority 2	Procedure documents will be issued to all teams.	GIS and Systems Team Leader	31st August 2018
3	There is a risk of financial damage and reputational loss where the insurance provision in relation to loss of information is inadequate.	The Council should reconfirm whether it requires any special or additional insurance provision to safeguard against information loss.	Priority 2	Responsibility for assessing risk and evaluating suitability of insurance cover for specific document types is with Service teams, from advice taken from Corporate Insurance. Service requirements will inform the review and recommendations of the service in R1 above	CMT - through the Head of Customer Care and Transformation	31st August 2018
4	There is a risk that documents are not handled in a correct and consistent manner, leading to financial loss to the Council.	Comprehensive procedures should be in place covering key areas (including document marking, handling of returned documents due to incorrect marking), made available to all relevant staff, and reviewed and updated as necessary on an annual basis.	Priority 2	Responsibility for document marking and creation of procedures is with Service teams, from advice taken from Corporate ICT.	CMT - through the Head of Customer Care and Transformation	31st August 2018
5	There is a risk of inconsistent and incorrect document handling procedures being utilised within the Council.	An information asset register specifically relating to the despatch and receipt of information to be scanned should be produced to confirm the scanning and document handling arrangements in place for all departments, whether these are in-house or external. The register should be used to confirm ownership and risk status of the effectiveness of controls etc and should include details of the flow and location of information.	Priority 2	DOR team will work with the service teams to create an information asset register using document types and identify the document handling arrangements for each based on the work service have done to document their information management procedures for GDPR.	CMT - through the Head of Customer Care and Transformation	31st August 2018

Ref	Risk	Recommendation	Priority	Management Response	Responsible Officer(s)	Target Date
6	There is a risk that missing documents are not identified in a timely manner, which could lead to reputation and financial damage to the Council.	There should be a consistent approach to recording of documents sent to DOL and scanned. Where departments have accepted the risk in relation to not recording what documents have been sent for scanning, this acceptance of risk needs to be included on the relevant risk registers. Each crate should be numbered and details of which bags go in which crate recorded.	Priority 3	We will request an updated risk acceptance from each team. We will review the process to help identify which bags are in boxes (when multiple boxes are sent) and ensure services comply with this process	GIS and Systems Team Leader	31st August 2018
7	There is a risk that documents are not treated in an appropriate way, leading to financial and reputation loss to the Council.	It needs to be ensured that document marking is being used in a consistent manner across the Council. Services need to be reminded to meet the required document marking standards for documents (to be scanned).	Priority 2	Responsibility for document marking is with Service teams in accord with RBC policies and practice	CMT - through the Head of Customer Care and Transformation	31st August 2018

NB: Your management response is your commitment to treat the risk identified as part of the review. The standard response time to draft recommendations is 15 working days; any failure to meet this target could be reported to the Audit & Governance Committee.

The management response to recommendations will be reported to both CMT & The Audit & Governance Committee as part of our quarterly monitoring arrangements. Audit recommendations and agreed actions will be followed up during the year, where deemed appropriate by the Audit Management Team. All outstanding recommendations will also be reported through CMT as part of the Council's monthly performance monitoring.