

**29 April 2019**

**Annual Internal Audit Report 2018/19**



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## **Report of the Chief Internal Auditor and Corporate Fraud Manager**

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### **Purpose of the Report**

1. The purpose of this report is to present the Annual Internal Audit Report for 2018/19. (Copy attached at Appendix 2).

### **Executive Summary**

2. The Annual Internal Audit Report provides an Opinion which makes conclusions on the overall adequacy and effectiveness of the Committees Framework of Governance, Risk Management and Control.
3. The work undertaken by Internal Audit in 2018/19 was in accordance with proper internal audit practices as described within the Public Sector Internal Audit Standards (PSIAS).
4. The report fulfils the requirements of PSIAS for the Chief Internal Auditor and Corporate Fraud Manager to deliver an annual audit opinion and a report that can be used by the Committee to inform its Annual Governance Statement.
5. The report provides a **Substantial** overall assurance opinion on the adequacy and effectiveness of internal control operating across the Joint Committee in 2018/19.

### **Recommendation**

6. Members note the content of the Annual Internal Audit Report and the overall 'Substantial' opinion provided on the adequacy and effectiveness of the Council's control environment for 2018/19.

## **Background**

7. This report fulfils the requirements of Public Sector Internal Audit Standards (PSIAS) and the CIPFA Local Government Application note for the Chief Internal Auditor and Corporate Fraud Manager to deliver an annual audit opinion and a report that can be used by the Committee to inform its Annual Governance Statement.
8. The Annual Internal Audit Opinion makes conclusions on the overall adequacy and effectiveness of the Committees Framework of Governance, Risk Management and Control.

## **Other useful documents**

Public Sector Internal Audit Standards (PSIAS) and the CIPFA Local Government Application Note

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## **Appendix 1: Implications**

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### **Finance**

The broad programme of work undertaken by Internal Audit supports the Joint Committee in maintaining safe and efficient arrangements for the proper administration of its financial affairs.

### **Staffing**

None

### **Risk**

There are no direct risk implications arising for the Joint Committee as a result of this report, although we aim through our planning arrangements to review the adequacy and effectiveness of the risk management arrangements in place.

### **Equality and Diversity / Public Sector Equality Duty**

None

### **Accommodation**

None

### **Crime and disorder**

None

### **Human rights**

None

### **Consultation**

None

### **Procurement**

None

### **Disability issues**

None

### **Legal Implications**

Compliance with Public Sector Internal Audit Standards.



**MOUNTSETT CREMATORIUM  
JOINT COMMITTEE**

**INTERNAL AUDIT  
ANNUAL REPORT  
2018/19**

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### **Appendix:**

Appendix 3 Internal Audit Report Mountsett Crematorium 2018/19

## **Introduction**

1. This report summarises the work carried out by Durham County Council Internal Audit and Risk Service during 2018/19, as part of the three year Service Level Agreement covering the provision of Internal Audit Services up to 31 March 2020.
2. All Internal Audit work carried out in 2018/19 was in accordance with proper internal audit practices as described within the Public Sector Internal Audit Standards (PSIAS).
3. This report fulfils the requirements of PSIAS and the CIPFA Local Government Application note for the Chief Internal Auditor and Corporate Fraud Manager to deliver an annual audit opinion and a report that can be used by the Committee to inform its Annual Governance Statement.

## **Service Provided and Audit Methodology**

4. Internal Audit is an independent, objective assurance and consultancy activity designed to add value and improve an organisation's operations.
5. Our primary objective is to provide an independent and objective annual opinion on the Joint Committee's control environment which is comprised of the systems of governance, risk management and internal control.
6. The Internal Audit Charter establishes and defines the role, the terms of reference and the scope of audit work, including the audit strategy, organisational independence and the reporting lines of Internal Audit. The Charter in its current form was last considered by the Joint Committee on 27 September 2018.
7. In accordance with the Internal Audit Charter, a risk based audit approach has been applied to work undertaken in 2018/19.
8. To determine the audit opinion the internal audit service has considered the following:
  - The adequacy of risk identification, assessment and mitigation
  - The adequacy and application of controls to mitigate identified risk
  - The adequacy and extent of compliance with the Council's corporate governance framework
  - The extent of compliance with relevant legislation
  - The extent to which the organisation's assets and interests are accounted for and safeguarded from loss of all kinds including fraud, waste, extravagance, inefficient administration and poor value for money
  - The quality and integrity of financial and other management information utilised within the organisation

### Work carried out in 2018/19 to inform the annual audit opinion

9. The key areas of assurance of the control environment where assurance is required to inform our overall opinion are financial management, risk management and corporate governance.
10. Our assurance opinion for 2018/19 has been primarily determined through the annual review of processes and procedures in place on site at the Crematorium which evaluated the management of the following risks:
  - Non-compliance with the Cremation Regulations 2008.
  - Non-compliance with the Federation of British Cremation Authorities Code of Cremation Practice.
  - Ashes are disposed of incorrectly.
  - Equipment failure.
  - Lack of experienced staff.
  - Insufficient capacity to meet demand in the event of an epidemic, pandemic or major disaster.
  - Income is not accounted for/misappropriated.
  - Unauthorised payments are made.
  - Stock / Assets are not accounted for / misappropriated.
  - Damage / theft of equipment.
  - Employees are incorrectly paid
  - Significant risks are not being managed and the objectives are not being achieved.
  - Ineffective budget monitoring processes are in place.
11. This audit was carried out during February 2019 in accordance with terms of reference agreed with the Crematorium's Bereavement Services Manager. The review concluded that the internal control systems in place provided a **Substantial** level of assurance that the above risks were being effectively managed. The full audit report is attached as Appendix 3.
12. Further assurance on the effectiveness of risk management arrangements can also be taken from the work carried out by the County's Corporate Risk Officers who have continued to monitor strategic and operational risk registers during the year, with their latest reviews being reported for consideration by the Joint Committee on 27 April 2018 and 27 September 2018.
13. Processes in place provide assurance that the Bereavement Services Manager and his staff have a very good understanding of risk and adequate measures have been put in place to either mitigate or tolerate identified risks and it is evident from audit work carried out that risk management processes are well embedded.
14. No specific work has been carried out this year in reviewing the effectiveness of the Joint Committee's key corporate governance arrangements by Internal Audit as this was not considered a high risk area. The majority of the Joint Committee's key corporate governance arrangements in place reflect those of Durham County Council which are subject to an annual effectiveness review to inform the County Council's Annual Governance Statement. This is subject to review and challenge by the County Council's Audit Committee.

15. It should, however, be noted that in evaluating the control framework in place relating to the risks identified at paragraph 10, the adequacy and effectiveness of relevant policies and procedures that contribute to the Joint Committee's corporate governance arrangements were considered in arriving at the Substantial Assurance Opinion.

### **Quality Assurance Framework**

#### **Conformance with Public Sector Internal Audit Standards (PSIAS)**

16. The Accounts and Audit Regulations 2015 require that 'a larger relevant body (the Council) must, at least once in each year, conduct a review of the effectiveness of its internal audit' and confirms that the findings of the review must "must be considered as part of the consideration of the system of internal control".
17. The Council's Audit Committee at its meeting on 29 June 2018 received an evaluation, in the form of a self-assessment carried out by the Chief Internal Auditor and Corporate Fraud Manager, with regards to compliance with the key elements of the PSIAS that considered the following matters:
  - The structure and resourcing level, including qualifications and experience of the audit team;
  - The extent of conformance with the PSIAS in producing quality work;
  - Ensuring audit work was successfully delivered in the most appropriate areas on a prioritised (risk) basis;
  - The overall performance of the Internal Audit team.
18. For 2017/18, this demonstrated that the Section was conforming to the Code's requirements. This self-assessment was based on the PSIAS that were in place during 2017/18.
19. A self-assessment for 2018/19 is currently being undertaken against the PSIAS and whilst no issues have been identified at the time of writing this report, the final outcome of the review will be reported to Council's Audit Committee at its meeting on 28 June 2019.
20. In compliance with the services' quality assurance framework, the 2018/19 annual Internal Audit review, the scope and terms of reference were developed using a risk based approach and agreed with the Bereavement Services Manager. This approach ensured that audit resources were applied to agreed high risk areas where there was little or no other assurance.
21. In accordance with the Internal Audit Charter audit working papers and all audit reports have been reviewed by an audit manager to ensure that expected quality standards are maintained and that all audit findings and conclusions were supported by appropriate testing and evidence.
22. The accuracy of audit findings were confirmed by the Bereavement Services Manager who was given the opportunity to challenge audit findings and the draft report prior to it being finalised.
23. A customer satisfaction survey is issued after every audit to provide feedback and help the service continually improve.



## Audit Opinion Statement

24. The Joint Committee has responsibility for maintaining a sound system of internal control that supports the achievement of its objectives.
25. The Chief Internal Auditor and Corporate Fraud Manager is required to provide an opinion on the adequacy and effectiveness of the Joint Committee's risk management, control and governance processes.
26. In giving this opinion it should be noted that assurance can never be absolute and therefore only reasonable assurance can be provided that there are no major weaknesses in these processes.
  - In assessing the level of assurance to be given, we based our opinion on:
    - The audit review of Mountsett Crematorium undertaken during the year
    - Follow up action on audit recommendations
    - Any significant recommendations not accepted by management and the consequent risk
    - The effects of any significant changes in the Crematorium's systems
    - Matters arising from previous reports to the Joint Committee
    - Any limitations which may have been placed on the scope of internal audit's annual review
    - The extent to which resource constraints may impinge on internal audit's ability to meet the full audit needs of the Joint Committee
    - The outcomes of the audit quality assurance process
    - Consideration of a number of other sources of assurance available
27. Based on the work undertaken, the Chief Internal Auditor and Corporate Fraud Manager is able to provide a **Substantial** overall assurance opinion on the adequacy and effectiveness of internal control operating across the Joint Committee in 2018/19. This opinion ranking provides assurance that "There is a sound system of control. Any weaknesses identified expose some of the system objectives to minor risk". Consequently, there are no significant issues that warrant inclusion in the 2018/19 Annual Governance Statement.



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## Internal Audit Report

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### Mountsett Crematorium

Ref No: 13590/2019

### Final Report

**Assurance Opinion:** Substantial Assurance

**Prepared by:** Lisa Metcalfe, Senior Auditor  
Jill Natrass, Senior Auditor

**Reviewed by:** David Mitchell, Principal Auditor  
Stephen Carter, Audit and Fraud Manager

**Date issued:** 03 April 2019

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### Introduction

1. As part of the 2018/19 Internal Audit Plan, an audit was carried out in February 2019 to evaluate the control framework in place on the management of the risks associated with Mountsett Crematorium.
2. The last audit in this area was completed in February 2018.

### CONCLUSION

3. The audit work carried out can provide a **Substantial** level of assurance that the control framework and procedures in place are effective in managing the associated risks.

### SUMMARY OF FINDINGS

4. The review was carried out using a risk based approach informed by the Control Risk Assessment (CRA) document and was undertaken by a review of supporting systems, documentation, discussion with key employees, and sample testing covering the period January 2018 to December 2018.
5. The review confirmed that there are effective arrangements for the management of the risks associated with Mountsett Crematorium.
6. Effective budgetary control and performance monitoring processes were in place.
7. Fees had been appropriately approved and charged in respect of cremations, memorial plaques, and entries into the book of remembrance.
8. Income collection and banking records were found to be complete and accurate and were independently reconciled to the bank account.
9. The register of cremations was found to be accurate and entries were traced to supporting documentation including the application form, medical forms, authorisation to cremate, and treatment of ashes.
10. Invoices for cremation costs reviewed on BACAS had been raised for the samples chosen and had corresponding payments.
11. An outstanding invoice report was obtained which identified there are no outstanding invoices.
12. Appropriate controls were in place for the management of petty cash including the independent verification of expenditure.
13. Purchase orders were authorised and invoices were checked and authorised prior to payment being made.

14. Salary payments to employees were found to be accurate.
15. As a result of the audit, there was one medium priority finding. A summary of this is set out below;
  - 31% of invoices paid in 2018/19 had not be paid within 30 days. The current process is that invoices are received by the Finance office at the Crematorium for input into SAGE. The invoices are then physically taken by the Bereavement Services Manager to Finance at County Hall for payment in Oracle. The delay is often the result of invoices being sent by the supplier to Creditors, despite the Bereavement Services Manager having requested suppliers on numerous occasions to send them directly to the Crematorium.
16. Our findings, together with recommendations made to improve the management of identified risks and the resultant management response, are provided in the action plan attached as Appendix A.
17. Three best practice recommendations have also been identified during the audit;
  - Tippex continues to be used in the Register of Cremations, however not to the extent found at the previous audit. Tippex should not be used in the Register of Cremations or any other source documentation.
  - 18 of the 48 cremations tested did not have a signature confirming the client was aware of the right to inspect medical certificates. The Right to Inspect Medical Certificates section on the form should be signed by the client. If this is not possible, the Funeral Director should note and sign that it has been discussed with the client.
  - Five of the 12 orders selected for review had been raised after the invoice had been received. All orders should be raised as soon as possible and prior to the invoice being received.

### **Background**

18. This review has been carried out in accordance with the Terms of Reference.
19. This review aims to help management achieve its objectives by providing an opinion on the adequacy of the control framework in place to manage risks effectively. The conclusions from the review will inform the annual audit opinion provided by the Chief Internal Auditor on the adequacy and effectiveness of the entire control environment operating across the whole of the Authority, required to inform the Annual Governance Statement.

- 20. The report is intended to present to management the findings and conclusions of the audit. Wherever possible, findings and recommendations made to improve the control framework have been discussed with the appropriate officers and their views taken into account.
- 21. In carrying out the audit, the time and assistance afforded by the Crematorium employees and Eleanor Bennett from Resources Finance was greatly appreciated.

**Scope and Audit Approach**

- 22. The scope and audit approach for this review were agreed as part of the preparation stage of the audit and were reflected in the agreed terms of reference. The scope was informed by a Control Risk Assessment (CRA) determined in consultation with appropriate officers.

**Overall Assurance Opinion and Priority of Our Recommendations**

- 23. Based upon the ratings of our findings and recommendations arising during the audit, we define the overall conclusion through the following assurance opinions.

<b>Opinion</b>	<b>Definition</b>
<b>Substantial Assurance</b>	There is a sound system of control. Any weaknesses identified expose some of the system objectives to minor risk.
<b>Moderate Assurance</b>	Whilst there is basically a sound system of control, there are some weaknesses, which expose objectives to risk.
<b>Limited Assurance</b>	There are weaknesses in key areas in the system of control, which expose objectives to unacceptable levels of risk.

24. We define the priority of our recommendations arising from each overall finding as follows;

<b>Priority</b>	<b>Definition</b>
<b>High</b>	Action required, that is considered <b>imperative</b> , to improve the control environment so that objectives are not exposed to unacceptable risks through lack of or weaknesses in critical or key controls.
<b>Medium</b>	Action required to improve the control environment so that objectives are not exposed to risks through weaknesses in controls.
<b>Best Practice</b>	The issue merits attention and its implementation will enhance the control environment.

## Appendix A – Action Plan of Findings and Recommendations



Finding	Recommendation	Management Comment	Responsibility Timescale
<p><b>Action Ref: 01</b></p> <p>It was established that 44 of the 140 invoices reviewed in 2018/19 (31%) had not be paid within 30 days.</p> <p>The current process is that invoices are received by the Finance office at the Crematorium for input into SAGE. The invoices are then physically taken by the Bereavement Services Manager to Finance at County Hall for payment in Oracle. The delay is often the result of invoices being sent by the supplier to Creditors, despite the Bereavement Services Manager having informed the suppliers on numerous occasions to send it directly to the Crematorium.</p>	<p><b>Priority: Medium</b></p> <p>The Bereavement Services Manager should investigate with the Payments and Expenditure Team other methods available for the receiving and payment of invoices to streamline processes, avoid delay and duplication of effort.</p> <p>In the interim, all invoices should be date stamped upon receipt at the Crematorium to confirm the date the invoice was actually received. The invoices should then be passed for payment as soon as possible in order to be paid within the 30 day target.</p>	<p>All invoice are now date stamped and all suppliers are to be e-mailed advising them of where invoices should be directed.</p>	<p>Graham Harrison 01/04/2019</p>