

26 April 2021

Annual Internal Audit Report 2020/21

Report of the Interim Chief Internal Auditor and Corporate Fraud Manager

Purpose of the Report

1. The purpose of this report is to present the Annual Internal Audit Report for 2020/21. (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 2020/21 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. Due to the COVID 19 pandemic restrictions, the number of transactions subject to review during the recent audit was reduced in comparison to sample sizes used previously in order to allow the work to be carried out remotely whilst still meeting the requirements of delivering a full audit review.
6. The report provides a **Substantial** overall assurance opinion on the adequacy and effectiveness of internal control operating across the Joint Committee in 2020/21.
7. This Substantial opinion identifies that there is a sound system of control. Any weaknesses identified expose some of the system objectives to minor risk.
8. This opinion is however qualified, in light of the ongoing coronavirus pandemic which has resulted in a significant level of strain being placed on normal procedures and control arrangements. The level of impact is also changing as the situation develops. It is therefore not possible to quantify the additional risk arising from the ongoing measures or the overall impact on the

framework of governance, risk management and control that have been put in place.

Recommendation

9. 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 2020/21.

Background

10. 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.
11. 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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DCC
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Appendix 1: Implications

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

Climate Change

None

Legal Implications

Compliance with Public Sector Internal Audit Standards.



**MOUNTSETT CREMATORIUM
JOINT COMMITTEE**

**INTERNAL AUDIT
ANNUAL REPORT
2020/21**

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Appendix 3 Internal Audit Report Mountsett Crematorium 2020/21

Introduction

1. This report summarises the work carried out by Durham County Council Internal Audit and Risk Service during 2019/20, as part of the three year Service Level Agreement covering the provision of Internal Audit Services up to 31 March 2021.
2. All Internal Audit work carried out in 2020/21 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 07 October 2020.
7. In accordance with the Internal Audit Charter, a risk based audit approach has been applied to work undertaken in 2020/21.
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 2020/21 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 2020/21 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 review was carried out during January / February 2021 in accordance with terms of reference agreed with the Crematorium's Bereavement Services Manager. Due to the COVID 19 pandemic restrictions, the number of transactions subject to review was reduced in comparison to the sample sizes used during previous internal audit reviews to allow the work to be carried out remotely whilst still meeting the requirements of delivering a full audit review.
12. The audit 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.
13. 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 07 October 2020 and 26 April 2021.
14. 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.
15. 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.

16. 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)

17. 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".
18. The Council's Audit Committee at its meeting on 29 June 2020 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.
19. For 2019/20, 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 2019/20.
20. A self-assessment for 2020/21 has been 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 the Council's Audit Committee at its meeting in June 2021.
21. In compliance with the services' quality assurance framework, the 2020/21 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.
22. 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.

23. 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.
24. A customer satisfaction survey is issued after every audit to provide feedback and help the service continually improve.

Audit Opinion Statement

25. The Joint Committee has responsibility for maintaining a sound system of internal control that supports the achievement of its objectives.
26. 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.
27. 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
28. Based on the work undertaken, the Interim 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 2020/21. 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 2020/21 Annual Governance Statement.
29. This opinion is however qualified, in light of the ongoing coronavirus pandemic and the continuing impact of this on the Council which has resulted in a significant level of strain being placed on normal procedures and control arrangements. The level of impact is also changing as the situation develops. It is therefore not possible to quantify the additional risk arising from the ongoing measures or the overall impact on the framework of governance, risk management and control that have been put in place



Internal Audit Report

Mountsett Crematorium

Ref No 13590/2021

Final Report

Assurance Opinion:	Substantial
Prepared by:	Jill Natrass, Senior Auditor
Reviewed by:	David Mitchell, Principal auditor Tracy Henderson, Interim Audit Manager
Date issued:	22 March 2021
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Introduction

1. As part of the 2020/21 Internal Audit Plan, an audit was carried during January and February 2021 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 March 2020 when a substantial level of assurance was given.
3. Due to COVID 19 pandemic restrictions the hardcopy documentation required to carry out the audit review was collated by the Bereavement Services Manager and the Assistant Crematorium Manager and collected from the Crematorium by the auditor who carried out the review remotely, working from home, in accordance with the latest Government guidance. Where required, additional supporting information was obtained electronically by email, via audit's access to the Burial and Cremation Software System (BACAS) and meetings were held remotely via telephone.
4. The number of transactions subject to review during the recent audit was reduced in comparison to the sample sizes subject to review during previous internal audit reviews. The reason for this was to minimise the burden on the Bereavement Services Manager and Crematorium staff in collating and providing information to Internal Audit, to allow the audit review to be carried out remotely during the COVID-19 pandemic, at a time when the Crematorium Service was working under extreme pressure.
5. This audit testing approach was agreed with the service prior to the audit review commencing and met the requirements of delivering a full audit review, even though no testing was carried out on site.

Conclusion

6. 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

7. The review covering the period 1st January 2020 to December 2020 confirmed that there were effective arrangements for the management of the risks associated with Mountsett Crematorium.
8. Compliance testing in relation to the adherence to Crematorium regulations and the associated income was carried out for a sample of transactions selected which took place during the months of April, May, June, and November 2020

9. The Business Continuity Plan and the Pandemic procedures had been brought into use at the start of the COVID 19 Pandemic and have since been updated where necessary. Some staff employed within other areas of DCC Neighbourhood Services have been trained as standby Cremator Operators as a result of the pandemic
10. Effective budgetary control and performance monitoring processes were in place. Budgetary control meetings between the Bereavement Services Manager and the Senior Accountancy Assistant took place in April, August, November, and December 2020.
11. Fees had been appropriately approved by the Mountsett Crematorium Joint Committee (MCJC) on 28th January 2020 where it was agreed that fees would increase from the 1st April 2020. However, it was confirmed by the Bereavement Services Manager that DCC's Corporate Management Team (CMT) subsequently agreed that the fees applied from 1st April 2020 would remain at the 19/20 rates but at the time of the audit review taking place, supporting documentation to clarify this decision making could not be located by the service and therefore a best practice recommendation has been made within this report.
12. At the MCJC meeting which took place on 7th October 2020 it was then agreed for fees to be increased with effect from 1st November 2020 and supporting documentation was obtained.
13. Audit testing confirmed that all charges in respect of cremations, memorial plaques, and entries into the book of remembrance had been correctly applied in accordance with the charging decisions outlined above.
14. BACS Income received for the sample of transactions reviewed during the period 8th May 2020 and 5th November 2020 was traced to the income receipt record book completed by the crematorium staff and the finance spreadsheet
15. Cash and cheque income received directly at the crematorium was traced from the income record book that is completed by the crematorium staff, to the paying in book, Loomis collection receipt and the finance spreadsheet.
16. All income was found to be accurately recorded and it was confirmed that an independent reconciliation of all income to the bank account was carried out by the Senior Accountancy Assistant.
17. The supporting documentation for sample dates 8th May 2020 and 5th November 2020, including the application form, medical forms, authorisation to cremate, and treatment of ashes were supplied to the auditor to work on remotely. As the Cremation Register could not be taken away a telephone meeting was held with the Assistant Crematorium Manager to cross-reference the information on the supporting paperwork to the Register. This confirmed that the Cremation Register had been accurately updated.

18. Invoices for cremation costs for the sample of 20 transactions reviewed confirmed that invoices had been promptly raised on the date when each cremation had taken place and that all had received a corresponding payment.
19. Due to remote auditing being applied during this review, it was not possible for an independent physical check of petty cash monies to be carried out by Internal Audit. However, a review of petty cash purchases was carried out using the petty cash book and the purchases made were deemed to be appropriate.
20. There were two petty cash reimbursements made during the period 1st January 2020 to December 2020 totalling £320 and each of these had been appropriately requested by the Bereavement Services Manager and had been reconciled to the bank account by the Senior Accountancy Technician. Prior to remote working arrangements being in place, the Bereavement Services Manager visited County Hall and supplied physical copies of petty cash receipts to the Senior Accountancy Assistant, but this has not happened since the COVID-19 governments restrictions came into place. Therefore, a best practice recommendation has been made within this report.
21. It acknowledged that the value of petty cash expenditure is of low value and that the Senior Accountancy Assistant has a proactive role to play in the operation of petty cash and therefore it is considered that the current controls in place for the administration of petty cash are reasonable and proportionate under the current circumstances.
22. A report obtained from the SAGE accountancy system confirmed that for all relevant expenditure incurred during the audited year, that purchase orders had been appropriately raised and authorised by the relevant Crematorium staff.
23. A report from the SAGE accountancy system confirmed that for all relevant expenditure for the audited year an appropriately authorised purchase order had been raised by the crematorium staff.
24. Salary information for the period 1st January to 31st December 2020 was obtained from SharePoint and the payroll data held in Finance. From this, five employees in receipt of additional payments including payments for overtime, additional hours, step up payments and one employee in receipt of sick pay, were selected and reviewed against timesheets and the relevant information held in Resourcelink. All required supporting documentation was found and was appropriately authorised with information being accurately recorded on Resourcelink.
25. Due to the ongoing issues with the cremators, as reported in the Mountsett Crematorium Joint Committees (MCJC) and the previous audit report, a temporary cremator was procured to cope with demand and the procurement route for the replacement of the permanent cremators is currently in progress. This was found to be well documented and subject to the required review and approval.

26. As a result of the audit, there were one medium priority finding. A summary of these is set out below;

- A report was obtained from BACAS on 5th February 2021 which identified that there were six outstanding invoices over 30 days old for the value of £3,651, five of these related to one Funeral Director. It is acknowledged that the increase in the number of cremations has in turn increased the workload at the Crematorium and has impacted on the recovery of unpaid Funeral Director invoices.

Furthermore, the audit identified that Crematorium invoices which are produced from BACAS do not specify the payment terms and therefore it is possible that Funeral Directors may not be aware of the payment requirements.

In addition, from discussions it was identified that there are instances where BACS payments are received without the relevant Cremation number(s) being provided by Funeral Directors which results in Cremation staff having to identify the corresponding invoice(s).

27. One best practice recommendation has also been identified during the audit;

- Documentation to support the CMT decision making where it was agreed for Crematorium fees to remain at the 19/20 rates during the period 1st April 2020 to 31st October 2020 should be obtained and retain for future reference.

28. 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.

Background

29. This review has been carried out in accordance with the Terms of Reference.

30. 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.

31. 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.

32. In carrying out the audit, the time and assistance afforded by Graham Harrison, Michael Chipperfield and Eleanor Tufnell from Finance was greatly appreciated.

Scope and Audit Approach

33. 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.

Limitations

34. Due to the Covid-19 restrictions in place at the time of this audit a site visit was made by the auditor to collect original documentation to allow remote auditing to take place. The Cremation Registers were not collected or utilised as part of the source documentation which was reviewed during this audit review as the registers are required for daily use at the Crematorium.

Overall Assurance Opinion and Priority of Our Recommendations

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

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

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

Priority	Definition
High	Action required, that is considered imperative , to improve the control environment so that objectives are not exposed to unacceptable risks through lack of or weaknesses in critical or key controls.
Medium	Action required to improve the control environment so that objectives are not exposed to risks through weaknesses in controls.
Best Practice	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>Action Ref: 01</p> <p>The total amount of invoices raised for Funeral Directors from 1st January to 31st December 2020 was approximately £662,632</p> <p>A report was obtained from BACAS on 5th February 2021 which identified that there were six outstanding invoices over 30 days old for the value of £3,651, five of these related to one Funeral Director.</p> <p>The outstanding invoices are detailed below by month raised:</p> <table border="1" data-bbox="53 837 607 1161"> <thead> <tr> <th><u>Month Raised</u></th> <th><u>No of invoices Outstanding</u></th> <th><u>£</u></th> </tr> </thead> <tbody> <tr> <td>August</td> <td>1</td> <td>700.</td> </tr> <tr> <td>September</td> <td>1</td> <td>700</td> </tr> <tr> <td>October</td> <td>2</td> <td>713.20</td> </tr> <tr> <td>November</td> <td>1</td> <td>720.00</td> </tr> <tr> <td>December</td> <td>1</td> <td>818.40</td> </tr> <tr> <td>Total</td> <td>6</td> <td>3651.80</td> </tr> </tbody> </table> <p>Although it is acknowledged that the current value of the outstanding debts represents a small percentage of the total income raised, previous audit reviews have not identified this as being an issue.</p>	<u>Month Raised</u>	<u>No of invoices Outstanding</u>	<u>£</u>	August	1	700.	September	1	700	October	2	713.20	November	1	720.00	December	1	818.40	Total	6	3651.80	<p>Priority: Medium</p> <p>To assist the Crematorium staff in the recovery of outstanding invoice payments from Funeral Directors, Crematorium invoices should provide details of the payment terms and conditions, as agreed by the service.</p> <p>All Funeral Directors should be required to provide details of the corresponding cremation number(s) each time they make BACS payments.</p>	<p>Details of payment terms have now been included on invoices.</p> <p>An updated letter to Funeral directors advising them of the fees and charges has been done and it ask that they provide details of the corresponding cremation number(s) each time they make BACS payments.</p>	<p>Implemented</p> <p>Bereavement Services Manager</p>
<u>Month Raised</u>	<u>No of invoices Outstanding</u>	<u>£</u>																						
August	1	700.																						
September	1	700																						
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December	1	818.40																						
Total	6	3651.80																						

Appendix A – Action Plan of Findings and Recommendations



Finding	Recommendation	Management Comment	Responsibility Timescale
<p>It is also acknowledged that the increase in the number of cremations has in turn increased the workload at the Crematorium which has impacted on the recovery of unpaid Funeral Director invoices.</p> <p>Furthermore, the audit identified that Crematorium invoices which are produced from BACAS do not specify the payment terms and therefore it is possible that Funeral Directors may not be aware of the payment requirements.</p> <p>In addition, discussions held with the Bereavement Services Manager revealed that there are instances where BACS payments are received without the relevant Cremation number(s) being provided by Funeral Directors which results in Cremation staff having to identify the corresponding invoice(s).</p>			