

**25 April 2022**

**Annual Internal Audit Report 2021/22**

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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 2021/22. (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 Committee's Framework of Governance, Risk Management and Control.
3. The work undertaken by Internal Audit in 2021/22 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 the governance, risk management and internal control arrangements operating across the Joint Committee in 2021/22.
6. This Substantial opinion identifies that there is a sound system of control. Any weaknesses identified expose some of the system objectives to minor risk.

### **Recommendation**

7. Members note the content of the Annual Internal Audit Report and the overall 'Substantial' opinion provided on the adequacy and effectiveness of the governance, risk management and control environment for 2021/22.

## **Background**

8. 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.
9. 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

### **Climate Change**

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  
2021/22**

## LIST OF CONTENTS

	<b>Paragraph</b>
Introduction	<b>1-3</b>
Service Provided and Audit Methodology	<b>4-8</b>
Summary of Work Carried Out	<b>9-16</b>
Quality Assurance Framework	<b>17-24</b>
Audit Opinion Statement	<b>25-28</b>

### **Appendix:**

Appendix 3 Internal Audit Report Mountsett Crematorium 2021/22

## **Introduction**

1. This report summarises the work carried out by Durham County Council Internal Audit and Risk Service during 2021/22, as part of the three-year Service Level Agreement covering the provision of Internal Audit Services up to 31 March 2023.
2. All Internal Audit work carried out in 2021/22 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. In carrying out our work in 2021/22, we can confirm that there have been no impairments to this independence and objectivity during the year.
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 28 September 2021.
7. In accordance with the Internal Audit Charter, a risk-based audit approach has been applied to work undertaken in 2021/22.
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 2021/22 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 2021/22 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 February 2022 in accordance with terms of reference agreed with the Crematorium's Bereavement Services Manager.
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 28 September 2021 and 25 April 2022.
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 30 June 2021, received an evaluation, in the form of a self-assessment carried out by the Interim 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 2020/21, 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 2020/21.
20. Since the self-assessment was undertaken for 2020/21, an external assessment for 2021/22 has been carried out by CIPFA, during February 2022, against the PSIAS. The assessment report from CIPFA provides the opinion that '**Durham County Council's Internal Audit Service's self-assessment is accurate and as such we conclude that they FULLY CONFORM to the requirements of the Public Sector Internal Audit Standards and the CIPFA Local Government Application Note**'. Within the assessment report, some improvement opportunities have been identified and an action plan has been developed to address these.

21. In compliance with the service's quality assurance framework, the 2021/22 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 Chief Internal Auditor and Corporate Fraud Manager is able to provide a **Substantial** overall assurance opinion on the adequacy and effectiveness of the governance, risk management and internal control arrangements operating across the Joint Committee in 2021/22. 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 2021/22 Annual Governance Statement.



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## Internal Audit Report

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### Mountsett Crematorium

13590/2022

### Final Report

**Assurance Opinion:** Substantial

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**Reviewed by:** Paul Monaghan, Audit Manager  
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**Date issued:** 08 March 2022

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## Contents

Introduction .....	4
Conclusion .....	4
Summary of Findings .....	4
Background .....	6
Scope and Audit Approach .....	6
Overall Assurance Opinion and Priority of Our Recommendations .....	6

## **Introduction**

1. As part of the 2021/22 Internal Audit Plan, an audit was carried out in February 2022 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 2021 and resulted in a Substantial assurance opinion.
3. Due to the COVID 19 pandemic and the government guidance in place at that time the previous audit in 2020/21 was carried out remotely and, in order to reduce the burden on the Bereavement Services Manager and Crematorium staff in collating and providing information to Internal Audit, the sample sizes reduced. Following the relaxation of government restrictions, the 2021/22 audit was able to be carried out on site and sample sizes were returned to the usual levels.

## **Conclusion**

4. 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**

5. The review covering the period 1<sup>st</sup> January 2021 to 31<sup>st</sup> December 2021 confirmed that there were effective arrangements in place for the management of the risks associated with the operation of Mountsett Crematorium.
6. Compliance testing in relation to the adherence to Crematorium regulations and the associated income related income was carried out for a sample of 48 cremations which took place during the months of May, September and December 2021. A total of 1,532 cremations had taken place from January 2021 to December 2021.
7. 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.
8. 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 2021.
9. Fees for 2021/22 had been appropriately approved and charged in respect of cremations, memorial plaques, the newly introduced memorial leaves and entries into the book of remembrance

10. Audit testing confirmed that all charges in respect of cremations, memorial plaques and leaves, and entries into the book of remembrance had been correctly applied in accordance with the approved charges.
11. 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. It was also noted that a credit card payment facility is now available at the crematorium. The introduction of the credit card facility was facilitated by the Payments, Income and Support Team and training has been provided to the appropriate staff.
12. 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.
13. Invoices for cremation costs for the sample of 48 transactions reviewed, confirmed that invoices had been promptly raised on the Burial and Cremation Administration System (BACAS) on the date when each cremation had taken place, and all had a corresponding payment.
14. Appropriate controls are in place for recovering outstanding invoices and at the time of the audit review there were no outstanding invoices of concern.
15. Appropriate controls were in place for the management of petty cash including the independent verification of expenditure by Finance. Petty cash was reconciled while at the crematorium and all purchases were found to be appropriate.
16. Testing of expenditure transactions from a report obtained from the SAGE accountancy system confirmed that, for all relevant expenditure incurred during the audited year, purchase orders had been appropriately raised for the majority of expenditure. However, a best practice recommendation has been raised later in the report with regard to retrospective purchase orders.
17. Salary information for the period 1st January to 31st December 2021 was obtained from SharePoint and the payroll data held in Finance. From this, four employees in receipt of overtime and two employees 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.
18. As a result of the audit, there were no high or medium priority findings.
19. One best practice recommendation has been identified during the audit;
  - Purchase orders (POs) are not always raised before the invoice. 203 invoices were reviewed and of these 80 had retrospective POs. The service should investigate the possibility of raising “blanket” POs at the start of the financial year for regular suppliers. This would reduce the amount of work for the crematorium staff with respect to raising individual orders for regular suppliers for every purchase.

## Background

20. This review has been carried out in accordance with the Terms of Reference.
21. 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.
22. 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.
23. In carrying out the audit, the time and assistance afforded by Graham Harrison and the staff at the crematorium and Tracy McKeown in Finance was greatly appreciated.

## Scope and Audit Approach

24. 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

25. 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.

26. 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.