

25 April 2023

Annual Internal Audit Report 2022/23

Report of the 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 2022/23. (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 2022/23 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 2022/23.
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 2022/23.

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

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
2022/23**

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Appendix 3 Internal Audit Report Mountsett Crematorium 2022/23

Introduction

1. This report summarises the work carried out by Durham County Council Internal Audit and Risk Service during 2022/23, as part of the three-year Service Level Agreement covering the provision of Internal Audit Services up to 31 March 2026.
2. All Internal Audit work carried out in 2022/23 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 2022/23, 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 29 September 2022.
7. In accordance with the Internal Audit Charter, a risk-based audit approach has been applied to work undertaken in 2022/23.
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 2022/23 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 2022/23 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:
 - Income is not accounted for/misappropriated.
 - Significant risks are not being managed and the objectives are not being achieved.
 - Ineffective budget monitoring processes are in place.
 - Unauthorised payments are made.
 - Employees are incorrectly paid.
 - Equipment failure.
 - Non-compliance with the Cremation Regulations 2008 and with the Federation of British Cremation Authorities Code of Cremation Practice.
 - Lack of experienced staff.
 - Insufficient capacity to meet demand in the event of an epidemic, pandemic or major disaster.
 - Stock / Assets are not accounted for / misappropriated.
 - Damage / theft of equipment.
 - Ashes are disposed of incorrectly
11. This review was carried out during February 2023 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 29 September 2022 and 25 April 2023.
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 confirm that the findings of the review "must be considered as part of the consideration of the system of internal control". At least once every five years, an external assessment of arrangements must also be carried out.
18. The Council's Audit Committee, at its meeting on 1 July 2022, received an evaluation, in the form of an external assessment, carried out by the Chartered Institute of Public and Finance and Accountancy (CIPFA), in February 2022, of the Internal Audit Service's conformance to the Public Sector Internal Audit Standards (PSIAS) and CIPFA's Local Government Application Note.
19. The opinion delivered by CIPFA's external assessment was 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**'.
20. For 2021/22, this demonstrated that the Section was conforming to the Code's requirements. For 2022/23, a further self-assessment exercise will be carried out.
21. In compliance with the service's quality assurance framework, the 2022/23 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 2022/23. 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 2022/23 Annual Governance Statement.



Internal Audit Report

Mountsett Crematorium

13590/2023

Final Report

Assurance Opinion: Substantial

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Reviewed by: David Mitchell, Principal Auditor
Paul Monaghan, Audit Manager

Date issued: 17th February 2023

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Introduction

1. As part of the 2022/23 Internal Audit Plan, an audit was carried out in February 2023 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 2022 and resulted in a Substantial assurance opinion.
3. For the period January 2022 to December 2022, a total of 1,446 cremations took place at Mountsett Crematorium.

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 audit, covering the period 1st January 2022 to 31st December 2022, confirmed that there were effective arrangements in place for the management of the risks associated with Mountsett Crematorium:
 - For a sample of 48 cremations which took place during the months of July, October and December 2022, it was identified that entries in the register of cremations were supported by complete source documentation (such as application forms, medical forms, and authorisation to cremate forms).
 - Established budget monitoring processes were found to be in place with quarterly budgetary control meetings taking place between the Bereavement Services Manager and the Senior Accountancy Assistant.
 - Sample testing identified that charges made in respect of cremations, memorial plaques, memorial leaves and book of remembrance entries were in accordance with the charge rates approved by the Mountsett Crematorium Joint Committee.
 - Sample testing confirmed that cremation invoices were promptly raised to funeral directors on the Burial and Cremation Administration System (BACAS) and all had a corresponding payment.
 - Adequate processes were in place to monitor outstanding debts owed by funeral directors.
 - Income that was directly received at the crematorium had been accurately and fully recorded and was confirmed to Finance's income spreadsheet.

- Petty cash payments were supported by appropriate receipts, had been accurately recorded and were for appropriate purchases. The petty cash balance was reconciled during the audit.
- Sample testing identified that staff payments in relation to overtime are supported by timesheets that are subject to appropriate authorisation and supporting documentation was maintained to verify staff payments in relation to sick pay.
- Independent reconciliations of income to the bank account were carried out by the Senior Accountancy Assistant each month.
- Transaction testing of a report that outlined expenditure incurred during 2022 confirmed that purchase orders had been appropriately raised for all items of expenditure. However, a best practice recommendation has been raised later in the report with regard to retrospective purchase orders.
- Sample testing of items of expenditure over £500 identified that quotes were routinely requested from potential suppliers prior to placing orders/agreeing works.

6. No high or medium priority recommendations have been raised in this audit.

7. Two best practice recommendations have been identified in this audit. A summary of these is set out below:

- The payment performance of the crematorium was reviewed via analysis of an expenditure report, and it was noted that the majority of invoices processed during 2022 had purchase orders raised retrospectively (126 of a total of 167 invoices) i.e. the order had been processed after the invoice date. Given that retrospective orders create delays in the financial commitment being reflected in the crematorium's budget, there is a risk that budget reporting information is inaccurate if a high proportion of orders are raised retrospectively. Purchase Orders (POs) should be raised at the point of procurement rather than at the point of invoice provision and blanket orders should be utilised where relevant.
- Whilst a Business Continuity Plan is in place for Bereavement Services, it was noted that the plan has an overdue review date (the plan records it was due for review in August 2022). A review of the Business Continuity Plan should take place to ensure that the plan is current and up-to-date key contacts details are recorded.

Background

8. This review has been carried out in accordance with the Terms of Reference.
9. 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.
10. 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.
11. In carrying out the audit, the time and assistance afforded by the Bereavement Services Manager and crematorium staff was greatly appreciated.

Scope and Audit Approach

12. 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).

Overall Assurance Opinion and Priority of Our Recommendations

13. 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.

14. 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.