



CENTRAL DURHAM CREMATORIUM JOINT COMMITTEE INTERNAL AUDIT ANNUAL REPORT 2011/12

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Introduction

1. This report summarises work carried out by Internal Audit during 2011 / 2012 and provides an independent opinion on the assurance of the effectiveness of the Joint Committee's control environment.
2. Our primary objective is the provision of reasonable, although not absolute, evidence based assurance to the Joint Committee in accordance with the approved Service Level Agreement.
3. All work carried out is in accordance with proper internal audit practices as described within the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom (2006)
4. This report fulfils the requirement of the CIPFA Code of Practice for the Head of Internal Audit to provide, "a written report to those charged with governance timed to support the Statement of Internal Control", which is now incorporated as part of the Joint Committee's Annual Governance statement appended to the Joint Committee's Annual Statement of Accounts which will be presented to the Joint Committee for approval in June 2012.

Service Provided and Audit Methodology

5. Internal Audit is an independent, objective assurance and consultancy activity designed to add value and improve an organisation's operations.
6. Internal Audit provides an independent and objective opinion on the Joint Committee's control environment which is comprised of the systems of governance, risk management and internal control.
7. The Internal Audit Charter, agreed by the Joint Committee, establishes and defines the role, authority, scope of audit work, organisational independence, resource requirements, and reporting lines of Internal Audit. This was reviewed during the year to enhance previous changes to the audit process to embed a more risk based approach and is attached at Annex 1 for Joint Committee approval.
8. This report will describe the work carried out during the year as set out in Schedule 1 of the Service Level Agreement under the following headings:-
 - Management and Assurance
 - Advice
 - Risk Management
 - Corporate Governance
 - Counter Fraud
 - Value for Money Reviews

9. We will also compare the actual number of days spent on internal audit, risk management and Corporate Governance work during 2011 / 2012 with that planned together with an explanation for any variance.
10. A proposed Plan of Internal Audit work for 2012 / 2013 is also included at Annex 2 for consideration by the Joint Committee.

Audit Quality Assurance Framework

11. Terms of Reference for the annual Audit Review are agreed with the Crematorium's Superintendent and Registrar who is also given the opportunity to challenge the findings and content of draft reports prior to them being finalised. The Head of Finance – Financial Services and the Principal Accountant will also be consulted prior to the issue of the Final report.
12. The Crematorium's Superintendent and Registrar will review the work of Internal Audit by completing and returning the Internal Audit Satisfaction Survey.
13. The Accounts and Audit (England) Regulations 2011 requires the Joint Committee to carry out an annual review of the effectiveness of Internal Audit. To ensure that this review is carried out independently of the service the Head of Finance – Financial Services has carried out this review. The outcome will be reported to the Joint Committee in a separate report.
14. Independent quality reviews are undertaken by Audit Managers as a matter of routine and periodically by the Head of Internal Audit to ensure consistent application of agreed processes and procedures and to ensure expected quality standards are maintained.
15. The External Auditor, although no longer required to carry out a formal tri-annual review of the effectiveness of internal audit, carries out brief periodic reviews as part of the final accounts audit process.
16. The Durham County Council Internal Audit Service continues to be a member of the CIPFA Audit Benchmarking Club. The latest outcomes from 2010/11 reported to the County Council's Audit Committee in November 2011 indicated that the cost of the service was well below average, however, in terms of chargeable days performance is slightly down on 2009/10. Audit coverage is broadly comparable with the average although our IT audit coverage appears to be lower than the average. Variances between *comparator authorities over the different categories are inevitable as coverage will reflect the risk within each individual authority. The level of our contingency provision reflects the degree of maturity of our risk based planning process particularly in respect of:-
 - The extent of change across the Council following LGR
 - The ongoing change as a result of budget reductions
 - The extent to which risk management is embedded across the Council – particularly in relation to the assessment of operational risks.

Comparative Data for the last 5 years is shown in the table below.

17. Comparative Data

| | 2006/07 | 2007/08 | 2008/09 | 2009/10 | 2010/11 |
|--|---------|---------|---------|---------|---------|
| DCC In House Cost | £525k | £571k | £732k | £1,330k | £1,202 |
| FTE Auditors | 13.1 | 13.5 | 13.8 | 30.6 | 24.4 |
| DCC Cost per Auditor | £40,076 | £42,296 | £52,945 | £43,464 | £49,261 |
| Average | £51,796 | £53,250 | £55,659 | £46,830 | £52,196 |
| DCC Chargeable days per Auditor | 161 | 164 | 158 | 167 | 181 |
| Average | 168 | 166 | 173 | 171 | 184 |

*Comparator Authorities for 2010/11 were Central Bedfordshire, Cheshire East, Cornwall, Cumbria, Lancashire, Newcastle, Northumberland, Shropshire, Sunderland

- 18 The fluctuations in In-house cost, cost per auditor and FTE auditors between 2006/07 to date reflects the move from County Council status to a Unitary. The significant impact on staffing resources as a result of Government cuts is also evident, with further reductions expected in 2012/13.

Summary of Audit Work Carried Out in 2011/12

Management and Assurance Work

- 19 During the past year Internal Audit have continued to provide an independent and impartial service in accordance with best professional practice as outlined by CIPFA's Code of Internal Audit Practice in Local Government in the UK 2006, and other professional bodies as considered relevant.

Internal Audit Charter

- 20 In accordance with the Service Level agreement (SLA) an Annual Review of the Internal Audit Charter has been carried out, which sets out the Terms of Reference and Audit Strategy of how the Service is to be delivered. The amended Charter includes changes to reflect a more risk based approach to the audit process and is attached at Annex 1.

Strategic Audit Plan

21 The Strategic Audit Plan has been amended in an effort to focus scarce audit resources in the most cost effective way. Strategic Risk Registers inform but do not drive the internal planning process and we will now audit those risks where controls have been identified as the means of managing the risk. Priority will be given to those risks which have a high gross score and a low net score, where the effective management of the risk is heavily dependent on the identified controls, and there is little or no other source of assurance.

Annual Audit Plan 2012 / 2013 Preparatory Work

22 In respect of the Annual Audit Plan for 2012/2013 minimum assurance levels will be informed by the maturity of the Crematorium's risk management arrangements its risk appetite and the reliance that can be placed on other assurance sources. Operational risks relating to key service activities and key systems will be audited annually dependent on an audit assessment of known risks and the reliability of other assurance sources.

23 We will adopt a risk based approach to evaluate the effectiveness of controls designed to mitigate risks through substantive testing and / or compliance testing. Compliance testing will confirm if a control actually exists and substantive testing will provide assurance that the control is effective and / or is consistently applied. The level of testing will be relative to the impact and likelihood of the risk occurring due to a control weakness.

24 We have undertaken work with the Crematorium's Superintendent and Registrar to help embed effective risk management by supporting him to carry out a control risk self assessment (CRSA) of the Crematorium's operational risks.

25 We will agree the objectives and risks associated with the operation of the Crematorium and this will be subject to the agreement of the Crematorium's Superintendent and Registrar prior to the start of any review work carried out for 2012/13 to ensure that the scope and objectives of each review are focused on providing assurance on the high or significant risks identified through the CRSA. Terms of Reference will be issued to the Crematorium's Superintendent and Registrar to formally agree the scope of the review, in respect of identified key risks, potential impact and expected key controls.

26 As discussed with the Joint Committee in 2010/11 the Service Level Agreement makes provision for the cost of audit, risk management and governance work carried out in 2011/12 to be charged at the daily rate of £250.00.

27 Internal audit has recorded actual time spent for each agreed area in the plan of work and has compared this with the expected plan as shown below. A total of 21 audit days has been spent on audit, risk management and governance work in 2011/12, this amounts to a total audit fee for 2011/12 of £5250.00 this is £250.00 less than envisaged.

28 It is proposed that the daily rate of £250.00 will be held for 2012/13

| Area | 2011/12 Proposed | 2011/12 Actual | Reason for Variance |
|--------------------------------|-----------------------------|---------------------------|--|
| Management and assurance | 6 | 6 | |
| Fundamental Accounting systems | 3 | 3 | |
| Crematorium annual review | 7 | 7 | |
| Advice and assistance | 1 | 1 | |
| Redevelopment of Crematorium | 1 | 3 | Use of 2 days contingency agreed by Mr Jose insufficient audit days estimated for audit work on the redevelopment of the Crematorium |
| Contingency | 2 | 0 | |
| Total | 20 | 20 | |
| Risk management support | 1 | 0.5 | Risk management now embedded |
| Corporate Governance support | 1 | 0.5 | Annual review only |
| Total for all Services | 22 | 21 | |

- 29 In 2012 / 2013 Terms of Reference will confirm the scope of the review and the audit approach to be applied. The latter may vary due to the nature of the risk upon which assurance is required and the extent of reliance on other assurances sources.
- 30 A summary of expected Audit coverage for 2012 / 2013 is attached at Annex 2 for the Joint Committee's consideration.

Annual Review of the Crematorium

- 31 Our work programme for the audit year ending on the 30th June 2012 was agreed by the Joint Committee on the 29th June 2011 and included an annual review of the Crematorium which was carried out during January 2012 in accordance with the terms of reference agreed with the Crematorium's Superintendent and Registrar. All recommendations have been agreed by Management and the final report was issued on the 10th February 2012 (see Annex 3).

- 32 There is one recommendation relating to the 2009 / 2010 audit (which relates to the lack of storage space for cremation records) that is still outstanding however, this will be addressed when the new building is complete.
- 33 All recommendations arising from the 2010 / 2011 audit have been implemented
- 34 There were three low recommendations arising from the 2011 / 2012 audit together with one advisory recommendation. Due to the low risks associated with these recommendations there is little value in highlighting them as part of this report. However, details of these are contained in the action plan appended to the internal audit annual review final report attached at Annex 3 should members require this.
- 35 It is however, disappointing to note that the implementation of SAGE was delayed. Whilst this has had no major effect on the control environment streamlining of the system has not taken effect as soon as anticipated. The Crematorium Superintendent and Registrar has continued to rely on Accountancy staff for support and the potential for savings in 2011/12 has been lost.
- 36 The Assurance level for the review has been classed as Substantial. This means that the control systems in place are working effectively but Internal Audit has identified some low risk, minor weaknesses which if addressed will further assist the Crematorium's Superintendent and Registrar in meeting the Joint Committee's system objectives.

Follow Ups

- 37 Follow ups in implementing agreed audit recommendations have been carried out in accordance with the Audit Charter.

Advice

- 38 Help and advice for the Crematorium's Superintendent and Registrar and his staff has been available / provided on an ad hoc basis during the year.

Risk Management

- 39 Risk managers continue to monitor risk management arrangements throughout the year. Both the strategic Risk register and the Operational risk register are subject to a 6 monthly review with relevant reports considered by the Joint Committee on the 28th September 2011 and the 25th January 2012 respectively during 2011/12.
- 40 The Crematorium Superintendent and Registrar 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.
- 41 Risk 12 "Adverse inspection/audit report" and Risk 19 "Lack of evidence for Employer's Liability claims" have been closed as it was considered that these are management issues rather than specific risks to the Joint Committee.

- 42 One emerging risk has been identified that relates to the Local Authority becoming responsible for implementing the changes required under the reform of Health & Social Care bill regarding Death Registration. This risk will need to be closely monitored.
- 43 In order to ensure that risk management continues to be embedded and that the risk register is kept up to date, regular reviews will need to continue to be carried out. This will ensure that any new and emerging risks are identified, existing risks are removed if no longer appropriate and existing risks are reviewed taking into account current issues.
- 44 The development of the control risk self assessment (CRA) form has also identified some additional operational risks and the Crematorium Superintendent and Registrar is keen to develop this in the future by using the CRA to inform his Operational Risk register.
- 45 From the audit work carried out it is evident that the Crematorium's risk management processes are now embedded.

Corporate Governance

- 46 Internal Audit has undertaken work aimed to provide assurance on the effectiveness of key corporate governance policies and procedures, both in a compliance and an advice and consultancy role. The Joint Committee's corporate governance arrangements have also been reviewed using a pre determined check list incorporating the 6 principle areas considered for effective governance (see Annex 4).
- 47 The Central Durham Crematorium Joint Committee has adopted and operates under the Code of Corporate Governance, policies and strategies including Contract Procedure Rules, Financial Procedure Rules, Financial Regulations, developed agreed and adopted by Durham County Council, its lead Authority. Separate declarations of interest have also been submitted.
- 48 The Governance Framework comprises the systems, processes, culture and values by which the Central Durham Crematorium Joint Committee directs and controls its activities through which it accounts to, engages with and leads the community. It enables the Committee to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.
- 49 I can conclude that from the work carried out the Central Durham Crematorium Joint Committee has appropriate Corporate Governance arrangements in place and that they are working effectively.

Counter Fraud

50 A number of counter fraud measures have been introduced by Durham County Council's Internal Audit service during the year to raise awareness. Policies and procedures have been reviewed and the Council's Intranet and Website updated.

Value for Money

51 There has been no formal value for money work carried out in 2011 / 2012 on behalf of the Central Durham Crematorium Joint Committee although the issues relating to the delay in fully implementing SAGE has had an impact on potential cost savings during the year.

Redevelopment of the Crematorium

52 As members are aware a major construction program has been underway during the year regarding the Design, Manufacture, Supply and Installation of Cremators and Mercury Abatement Plant and Ancillary Equipment, including improvements to the car parking provision.

53 A review of the work carried out to date was undertaken in November 2011. Internal audit has concluded that:-

- The decision making process and procurement route used were all in accordance with Durham County Council's contract procurement rules.
- Strong project management is evident
- The scheme was ahead of schedule.
- The sensitivities regarding continuing construction whilst still holding services has been managed well.
- Risks have been well documented, regularly reviewed and well managed
- The site has an excellent Health and Safety record with no reported accidents

54 A copy of the Internal Audit report is attached at Annex 5 for members consideration.

Investments

55 Arrangements in respect of Treasury Management were formalised in 2011/12 and Durham County Council signed an agreement to invest surplus cash balances on behalf of the Joint Committee.

£850,000 was invested for April to September 2011 and £500,000 for October 2011 to March 2012. Investment balances and movements during the year have been verified.

Minutes

56 Minute books have been examined by Internal Audit to ensure that they have been signed and dated by the Chair of the Joint Committee. All minutes were found to be signed and dated. No 'loose leaf' minutes have been used during the year.

Asset Register

57 A review of the Joint Committee's Asset Register is timetabled to be undertaken during the final quarter of the SLA covering period.

Key Areas for Opinion

58 The key areas of the control environment where assurance is required to inform our overall opinion are:

- Financial Management
- Risk Management
- Corporate Governance

59 Assurance has been provided on all aspects of the Crematorium's Financial Management arrangements during the year.

60 Independent assurance on the effectiveness of the Crematorium's risk management arrangements has been provided by Durham County Council's risk management service. The review concluded that overall risk management arrangements are robust and effective, work well and are of benefit to the Managers that use it.

61 Internal Audit have reviewed the Crematorium's governance arrangements in place and found these to be working effectively. A full description of the Governance Framework currently in place will be included in the Committee's Annual Governance Statement appended to the 2011/2012 Statement of Accounts.

62 In line with the statutory requirements of a Smaller Relevant Body, the Central Durham Crematorium Joint Committee will submit the Small Bodies in England Annual Return for the year ended 31 March 2012 to BDO LLP for audit under the limited assurance audit regime.

63 The Audit has not highlighted any material weaknesses around the Joint Committees system of internal control.

64 There are no significant issues arising from the work carried out in 2011 / 2012 that warrants inclusion in the 2011/ 2012 Annual Governance Statement.

65 Independent assurance is also provided on the effectiveness of the Council's Corporate Governance arrangements through a number of external sources / inspection bodies. A summary of these is provided in the following table:

| Other Assurance Sources |
|--|
| External Audit's Annual Audit Letter and Annual Governance Report – unqualified accounts |
| VFM opinion – there are adequate arrangements in place to secure value for money. |
| Independent testing of all cremators and equipment is carried out annually. |
| The Crematorium is licensed and is regulated by Durham County Council's Environmental Monitoring section. Regular progress reports are provided to the regulator regarding compliance with emissions. |
| The Crematorium Superintendent and Registrar is Secretary of the Northern branch of the Institute of Cemeteries and Crematoria |
| Crematorium charges are regularly benchmarked against other Crematoria. |
| The Crematorium Superintendent and Registrar must provide an annual statement to the Federation of Burial and Cremation Authorities that they have complied with the Federations Code of practice set out during the year. |
| The Ministry of Justice can inspect Crematorium premises at any time, although this is normally carried out by the Regulator on their behalf |
| IIP Standard Retained |

Audit Opinion Statement

- 66 The Joint Committee has responsibility for maintaining a sound system of internal control that supports the achieving of its objectives.
- 67 Internal Audit is required to provide an opinion on the Joint Committee's risk management, control and governance process.
- 68 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.
- 69 In assessing the level of assurance to be given, we based our opinion on:
- The audit review of the Central Durham Crematorium undertaken during the year
 - Follow up action on audit recommendations

- Matters arising from the work carried out by Internal Audit on the redevelopment of the Crematorium
 - 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 other sources of assurance
- 70 We are satisfied that sufficient internal audit work has been undertaken to allow us to draw a reasonable conclusion as to the adequacy and effectiveness of the Joint Committee's system of internal control. Based on the work undertaken, we are able to provide a substantial overall assurance opinion on the adequacy and effectiveness of internal control operating across the operations of the Central Durham Crematorium in 2011 / 2012. This means that overall the control systems in place are working effectively.
- 71 Where Internal Audit has identified areas for improvement, recommendations were made to minimise the level of risk, and action plans for their implementation were drawn up and agreed by management.