



INTERNAL AUDIT REPORT

Mountsett Crematorium

Ref No 13590/2012

Final Report

Assurance Opinion:	Substantial
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Reviewed by:	Peter Jackson, Audit Manager
Date issued:	11th April 2012
Distribution List	
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For Information:	Ian Houlton, Streetscene Area Manager North Terry Collins, Corporate Director Paul Darby, Head of Finance Avril Wallage, Manager of Internal Audit & Risk Teresa Maddison, Risk Officer



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EXECUTIVE SUMMARY

1. This report relates to the evaluation of the control framework in place to provide assurance on the management of the risks associated with Mountsett Crematorium.
2. Internal controls in place at Mountsett Crematorium are generally well operated. The audit identified there was a clear audit trail for the receipt of all income and purchases are generally made in line with the correct procedures. Operational procedures are good and in line with relevant legislation.
3. Minor improvements were identified in relation to two areas and advisory actions issued in respect of these. In relation to income, it was identified that sending requests to a specific email address could improve the timeliness of issue of these, and in relation to purchasing, it was identified that some processes need not be undertaken in relation to the payment of medical referees fees, therefore improving the efficiency of the system.
4. One key area for improvement is the coding of VAT on Book of Remembrance income. VAT has not been coded for any Book of Remembrance income since May. This issue was identified during the last audit review and, although this was resolved at the time, this issue has occurred again. Whilst the overall effect of this on the income statement would not be material, the payment of VAT on chargeable supplies is required by HMRC.
5. An action plan, summarising all findings and recommendations made to improve the evaluated control framework, is attached at Appendix A.
6. In conclusion, the audit work carried out can provide a **substantial** level of assurance that the control framework in place is effective in managing risks.

BACKGROUND

7. This review has been carried out in accordance with the Terms of Reference attached at Appendix B.
8. 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 Head of Internal Audit on the adequacy and effectiveness of the entire control environment operating across the whole of the Authority, required to inform the Annual Governance Statement.
9. 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.
10. In carrying out the audit, the time and assistance afforded by Ian Staplin and his staff was greatly appreciated.

SCOPE AND AUDIT APPROACH

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

FINDINGS AND RECOMMENDATIONS

12. Our findings relating to issues of key concern, 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.

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13. The CRA has been updated to reflect actual evidenced controls in place and improvements agreed. This is attached as an accompanying document to aid monitoring and future self assessment of risks and the control framework. It is recommended that a Control Risk **Self** Assessment (CRSA) is carried out annually.

AUDIT FINDINGS AND ASSURANCE OPINION RATINGS

14. Details of how individual findings and assurance opinions have been assessed are detailed in Appendix C.

LIMITATIONS AND RESPONSIBILTIES

15. Details of limitations and responsibilities of auditors and management in relation to this review are summarised in Appendix D.

APPENDIX A: Action Plan

Action Ref	Finding	Potential Impact	Priority	Recommendation	Management Comment	Responsibility Timescale
01	Invoices are raised to collect cremation fees following the month end. Requests for invoices are sent to a member of staff within Business Support. Whilst the audit identified that the invoices are always raised within one month of the month end, there is scope for improving the timeliness of the raising of invoices by sending to a central email address. The central email address has a PI for invoices to be raised within five working days following receipt of the email.	Reputational damage.	Advisory	Requests for invoices to be sent to 'Neighbourhood Services Debtors' email address to improve the timeliness of raising of invoices.	Invoices will be sent with immediate effect via the 'Neighbourhood Services Debtors' email address, allowing Business Support to raise invoices within 5 working days thus realising the PI target	Michael Chipperfield/ Graham Harrison Immediate effect – March 2012
02	Payment vouchers are produced on a monthly basis to pay the fees due to the medical referees. However, a purchase order is then raised to pay the payments voucher.	Poor VFM.	Advisory	Payment vouchers for medical referees should be sent to creditors for processing to improve the efficiency of the system.	In the interim, the Medical Referees will be sent direct to Creditors via payment vouchers. However with the introduction of a 'No Purchase Order No Pay' policy and in order to harmonise the Medical referees payment process in line with the Central Durham Crematorium. It is proposed that all medical referees will be paid via the DCC payroll system from 1 st June 2012. The Assistant Superintendent & Registrar will contact the medical referees via letter to advise of the payment changes during April 2012.	Michael Chipperfield/ Alan Jose April – June 2012

APPENDIX A: Action Plan

Action Ref	Finding	Potential Impact	Priority	Recommendation	Management Comment	Responsibility Timescale
03	Book of Remembrance income has been receipted but has not been correctly coded for VAT since May 2011.	Reputational damage. Non compliance with Financial policies and procedures.	Low	Staff should be notified of the need to code Book of Remembrance income for VAT. In addition, adjustments should be made to ensure all Book of Remembrance income already receipted correctly accounts for VAT.	Business Support receipt income via the Paying Book and Summary of Income sheets which breakdown the various types of income. These sheets will be amended immediately to clearly state the VAT status attached to each element. A further summary will be included at the bottom of the Summary of Income sheets to split out the GROSS, VAT and NET Income. In addition a copy of the Bereavement Services fees and charges schedule which clearly identifies the VAT status of each income element (along with a brief guidance statement) will be distributed to all relevant Business Support staff by the Principal Accountant. A monthly reconciliation will be undertaken by Neighbourhoods Finance to ensure that the VAT element has been coded correctly.	Business Support Principal Accountant Immediate effect

DURHAM COUNTY COUNCIL INTERNAL AUDIT SERVICE

Terms of Reference

Client	Mountsett Crematorium
Service	Neighbourhood Services
Head of Service	Terry Collins
Responsible Key Contact	Ian Staplin
Nominated Manager	Graham Harrison
Audit	Mountsett Crematorium

Introduction

1. This review is being undertaken in accordance with the approved Internal Audit Plan for 2011/12.

Overall Objective of the Audit

2. To evaluate the control environment of the Crematorium and provide an independent opinion on whether or not controls are adequate, appropriate and effective in providing reasonable assurance that risks to the achievement of service/system/process objectives are being managed effectively.
3. In arriving at this opinion consideration will be given to the effectiveness of:
 - relevant key corporate governance policies and procedures
 - the arrangements in place to identify, assess and monitor risks
 - the control design to ensure that the Council'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.

System Objectives

4. The objectives of Mountsett Crematorium are to ensure that;
 - A sensitive, respectful service is provided that is suitable for the bereaved.
 - Cremations comply with the Cremation Regulations 2008.
 - The FBCA Code of Cremation Practice is complied with.
 - All income and expenditure is in line with financial regulations.

Control Risk Assessment

5. A summary of identified risks, the potential impact and expected controls agreed as part of the audit planning process, using a control risk assessment (CRA) methodology to inform the scope of this review, is attached as an accompanying document.
6. The criteria used to assess identified gross risks (before controls are applied) are attached as Appendix A.

APPENDIX B: Terms of Reference

Scope of Audit

7. The scope of this audit is to provide assurance on 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
 - Health impact to the public
 - Lack of experienced staff
 - Insufficient capacity to meet demand in the event of an epidemic, pandemic or major disaster
 - Injury to staff
 - Income is not accounted for/misappropriated
 - Unauthorised payments are made
 - Stock is not accounted for/misappropriated
 - Damage/theft of equipment
 - Employees are incorrectly paid.

Audit Approach

8. The review will be carried out using a risk based approach informed by the CRA and will involve:
- Detailed testing of all legal and financial documentation
 - Discussions with staff
9. The audit will cover all transactions taking place between April 2011 and January 2012

Key Contact

10. Key contacts for this review are
- Sarah Bell, Lead Auditor
 - Peter Jackson, Audit Manager

Target Dates

11. The target dates for this review are:
- Fieldwork start date: 30th January 2012
 - 9 audit days, with approximately 6 expected to be on site.
 - Draft report issued date: 29th February 2012.
12. These timescales are subject to the following assumptions:
- All relevant documentation, including source data, reports and procedures will be made available promptly on request
 - Staff and management will make reasonable time available for interviews and will promptly follow-up questions or requests for documentation and
 - Assistance will be available in scheduling meetings and interviews where required

APPENDIX B: Terms of Reference

Reporting Arrangements

13. Ian will be kept regularly informed of progress on our review. Any significant issues will be discussed as they arise.
14. On completion of the review, our findings together with recommendations to address any control weaknesses will be discussed with Ian at an exit meeting prior to the preparation and issue of an informal draft report. The draft report will be issued to Graham Harrison incorporating the response from Ian for consideration.
15. We request that managers aim to provide a full response within 20 working days of receipt of the agreed draft report.
16. An updated CRA will be provided as an accompanying document to draft reports to reflect any changes to expected controls identified through the audit process and actual controls in place. Any recommendations made to improve the control environment will be incorporated into an action plan and reflected in the updated CRA to aid future self assessment of risks and the control framework.

Limitations of scope

17. Work will be completed using sample testing only.

Terms of Reference Approval

18. These terms of reference have been reviewed and approved by:

Ian Staplin:	Key contact/nominated manager
Peter Jackson:	Audit Manager

APPENDIX C: AUDIT FINDINGS, RECOMMENDATIONS AND ASSURANCE OPINION RATINGS

Findings

Individual findings are assessed on their impact and likelihood based on the assessment rationale in the tables below:

Impact Rating	Assessment Rationale
Critical	A finding that could have a:
	Critical impact on operational performance (Significant disruption to service delivery)
	Critical monetary or financial statement impact (In excess of 5% of service income or expenditure budget)
	Critical breach in laws and regulations that could result in significant fine and consequences (Intervention by regulatory body or failure to maintain existing status under inspection regime)
	Critical impact on the reputation of the Council (Significant reputational damage with partners/central government and/or significant number of complaints from service users)
	Critical impact on the wellbeing of employees or the public (Loss of life/serious injury to employees or the public)
Major	A finding that could have a:
	Major impact on operational performance (Disruption to service delivery)
	Major monetary or financial statement impact (1-5% of service income or expenditure budget)
	Major breach in laws, regulations or internal policies and procedures (non compliance will have major impact on operational performance, monetary or financial statement impact or reputation of the service)
	Major impact on the reputation of the service within the Council and/or complaints from service users
Minor	A finding that could have a:
	Minor impact on operational performance (Very little or no disruption to service delivery)
	Minor monetary or financial statement impact (less than 1% of service income or expenditure budget)
	Minor breach in internal policies and procedures (non compliance will have very little or no impact on operational performance, monetary or financial statement impact or reputation of the service)

Likelihood	Assessment criteria
Probable	Highly likely that the event will occur (>50% chance of occurring)
Possible	Reasonable likelihood that the event will occur (10% - 50% chance of occurring)
Unlikely	The event is not expected to occur (<10% chance of occurring)

APPENDIX C: AUDIT FINDINGS, RECOMMENDATIONS AND ASSURANCE OPINION RATINGS

Overall Finding Rating

This grid is used to determine the overall finding rating.

LIKELIHOOD			
Probable	M	H	H
Possible	L	M	H
Unlikely	L	L	L
	Minor	Major	Critical
	IMPACT		

Priority of our recommendations

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

High	Action that is considered imperative to ensure that the service/system/process objectives are not exposed to significant risk from weaknesses in critical or key controls
Medium	Action required to ensure that the service/system/process objectives are not exposed to major risk from weaknesses in controls
Low	Action required to ensure that the service/system/process objectives is not exposed to minor risk from weaknesses in controls
Advisory	Action that is considered desirable to address minor weaknesses in control that if implemented may not reduce the impact or likelihood or a risk occurring but should result in enhanced control or better value for money.

Overall Assurance Opinion

Based upon the ratings of findings and recommendations arising during the audit as summarised in risk matrix above we define the overall conclusion of the audit through the following assurance opinions:

Full Assurance	There is a sound system of control designed to achieve the process/system/service objectives and manage the risks to achieving those objectives. (No H, M or L findings/recommendations)
Substantial Assurance	Whilst there is a sound system of control, there are some weaknesses, which may put some of the system objectives at minor risk. (No H or M findings/recommendations)
Moderate Assurance	Whilst there is basically a sound system of control, there are some weaknesses, which may put some of the system objectives at major risk. (No H findings/recommendations)
Limited Assurance	There are weaknesses in key areas in the system of control, which put the system objectives at significant risk.(H findings/recommendations)
No Assurance	Control is weak as controls in numerous key areas are ineffective leaving the system open to significant risk of error or abuse

APPENDIX D: LIMITATIONS AND RESPONSIBILITIES

Limitation inherent to the internal auditor's work

We have undertaken this review subject to the following limitations.

Internal Control

Internal control, no matter how well designed and operated, can provide only reasonable assurance not absolute assurance regarding achievement of the service objectives. The likelihood of the achievement is affected by limitations inherent in all internal control frameworks. These include the possibility of poor judgement in decision making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Future Periods

The assessment of the control framework in place relating to this review is at February 2012. Historic evaluation of effectiveness is not relevant to the future period due to:

- The design of controls may become inadequate because of changes in operating environment, law, regulation or other; or
- The degree of compliance with policies and procedures may deteriorate

Responsibilities of management and internal auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance for the prevention and detection of fraud and irregularities. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

We will endeavour to plan our work so that we have a reasonable expectation of detecting **significant control weaknesses** and if detected, we will carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud or other irregularities which may exist, unless we are requested to carry out a special investigation for such activities in a particular area.

Management responses

We ask that management responses to our recommendations are provided within 20 working days of the draft report being issued.

Outstanding responses will be monitored. Any overdue responses will be escalated to the responsible Corporate Director and reported to the Audit Committee.

Follow up

In accordance with the Internal Audit Charter, we will monitor progress on the implementation of agreed recommendations and the findings will be reported to the audit committee. Where considered appropriate follow-up audits will be scheduled.