



# **MOUNTSETT CREMATORIUM JOINT COMMITTEE INTERNAL AUDIT CHARTER**

**August  
2010**

# CONTENTS

Page No.
----------

<b>Introduction</b>	<b>1</b>
<b>Statutory Basis</b>	<b>1</b>
<b>Strategy Statement</b>	<b>1</b>
<b>Objectives and Outcomes of Internal Audit</b>	<b>2</b>
<b>Independence of Internal Audit</b>	<b>4</b>
<b>Audit Planning</b>	<b>4</b>
<b>Audit Reporting</b>	<b>7</b>
<b>Responsibilities of Managers</b>	<b>10</b>
<b>Audit resources, skills and service quality</b>	<b>11</b>
<b>Approval and Review</b>	<b>13</b>
<b>Key Contact</b>	<b>13</b>
<b>Other Related Documents</b>	<b>14</b>

## **Introduction**

1. This Charter forms part of Durham County Council's corporate Audit Strategy and is designed to establish the terms of reference for the Internal Audit service and outline how that service will be delivered in relation to the Crematorium.

## **Statutory Basis**

2. Durham County Council is responsible for maintaining an adequate and effective Internal Audit function under the Accounts and Audit Regulations 2006. The guidance accompanying this legislation states that proper internal control practices for Internal Audit are those contained within CIPFA's Code of Practice for Internal Audit in Local Government in the United Kingdom 2006.
3. Our statutory responsibility and rights of access are included in Durham County Council's Financial Regulations, Financial Standards and Financial Procedure Notes which are part of the Council's Constitution and which have been adopted by the Crematorium Committee.

## **Definition**

4. The CIPFA Code of Practice for Internal Audit 2006 defines Internal Audit as:
5. "An assurance function that provides an independent and objective opinion to the organisation on risk management, control and governance by evaluating their effectiveness in achieving the organisations objectives. It objectively examines evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources".

## **Strategic Aims**

6. Our overall strategy is to support the Crematorium Committee in its strategic aims through the provision of a high quality internal audit service that gives the Committee reasonable assurance on the effectiveness of the Crematorium's internal control environment and acts as an agent for change by making recommendations for continual improvement. The Internal Audit service aims to be flexible, pragmatic and to work in collaboration with the Committee to suit its organisational needs. Through a risk based approach to audit planning, the Internal Audit service will make a positive contribution to corporate governance arrangements and assist the Committee in developing a framework for achieving its objectives within acceptable levels of risk.

## Objectives of Internal Audit

7. Our primary objective is the provision of reasonable, not absolute, evidenced based assurance on the effectiveness of the whole of the Crematorium's risk management, control and governance environment to the Crematorium Committee.
8. The provision of our annual assurance opinion will be in compliance with professional guidelines and in accordance with the Accounts and Audit regulations 2003 as amended by the Accounts and Audit Regulations (Amendment) (England) 2006 and will be reflected in the Crematorium Committee's Annual Governance Statement which forms part of their published annual Statement of Accounts.
9. To determine the Audit Opinion the Internal Audit service will review, appraise and report upon:
  - 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 Crematorium's corporate governance framework
  - The extent of compliance with relevant legislation
  - The extent to which the Crematorium'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 Crematorium's day to day operations.
10. When presenting an annual Audit Opinion the head of internal audit will:
  - Disclose any qualification to that opinion, together with the reasons for that qualification
  - Present a summary of the audit work undertaken from which the opinion is derived, including any reliance placed on the work of others
  - Draw attention to any issues considered particularly relevant to the perception of the Annual Governance Statement
  - Compare the work actually undertaken to the work that was planned and summarise the performance of the Internal Audit service

- Comment on compliance with the CIPFA Code of Practice for internal Audit

11. Other objectives include:

- Supporting the Treasurer of the Crematorium in discharging his/her duties for ensuring the proper administration of the Crematorium Committee's financial affairs.
- Supporting the Committee to deliver good governance by improving the Committee's risk management, control and governance processes by providing the Crematorium Committee with timely advice and guidance as required.
- Supporting the Crematorium Committee in fulfilling their governance responsibilities as detailed in the Committee's terms of reference set out in its Constitution.
- Supporting Officers and Members in identifying and understanding exposure to risk and providing advice on control design, techniques and strategies.
- Working with other assurance and review bodies to ascertain the extent to which reliance can be placed on the work of other auditors and inspectorates to maximise assurance and the effectiveness of audit resources available.
- Helping to promote a strong counter fraud culture through the adoption of Durham County Council's Counter Fraud and Corruption Strategy and Anti-Money Laundering policy.
- Providing quality services through the highest standards of professional practice, quality assurance systems and investment in staff.

## **Outcomes of Internal Audit**

12. Our main outcome is the provision of Independent assurance to the Mountsett Crematorium Committee, on the effectiveness or otherwise of its risk management, control and governance arrangements and in so doing we contribute to:

- Improved identification and management of risks contributing to improved performance management and the successful achievement of the Mountsett Crematorium Committee's vision and priorities.
- Improved corporate governance through helping to support compliance with relevant legislation, organisation policies , plans and procedures and acting as good governance champions
- Improved accountability, safeguarding Mountsett Crematorium Committee assets and interests.

- Improved quality and reliability of financial and other management information used to support informed decisions

## **Independence of Internal Audit**

13. To be effective Internal Audit must operate independently and must have unrestricted access to all records deemed necessary in the course of our work.
14. As the Mountsett Crematorium Committee has adopted Durham County Council's Financial Regulations, Financial Management Standards and Financial Procedure Rules this allows Internal Audit a right of access to all information relevant to the Crematorium's functions and services which is necessary to meet our responsibilities. Specifically this includes a right to:
  - access all assets, property, staff, records, documents, information (including computer files) correspondence and control systems.
  - receive any information and explanation considered necessary concerning any matter under consideration for the effective performance of the audit subject to legal constraints. Although prior notice of requests for access will be given in most instances, there may be occasions when this is not possible or appropriate and the absence of prior notice does not invalidate or limit the right of access.
  - require any employee of the Committee to account for cash, stores or any other Committee asset under his or her control. (This includes Crematorium information held by or managed by third parties on the Committee's behalf)
  - direct access to the Mountsett Crematorium Committee.
15. The Head of Internal Audit can report directly to those charged with governance, officers or Members, at any level.
16. Our independence is achieved by reporting in our own name, ensuring that all Internal Auditors are free from any conflicts of interest and being free from direct management responsibility for the development, implementation or operations of systems.

## **Strategic Audit Planning**

17. Our strategic planning process aims to provide a reasonable level of independent review of the Crematorium's risk management, control and governance systems in a way which affords suitable priority to the Committee's objectives and risks.
18. The level of Internal Audit resources required to examine all of the Crematorium's activities will be agreed on an annual basis but must ensure that sufficient work is undertaken each year to draw reasonable conclusion and assurance on the effectiveness of the Crematorium's risk management, control and governance arrangements.

19. The starting point for our strategic planning is understanding the Committee's strategic aims and objectives, its corporate governance arrangements and the assurance framework in place by which those charged with governance gain confidence that any risks which may impact on the achievement of those aims and objectives are effectively identified, assessed and managed.

20. In consultation with the Crematorium Superintendent we will

- Consider the Crematorium's risk across two categories:
  - a. **Strategic Risks** -- these are the business risks that may arise both internally and externally from the organisation and should be included in Corporate and Service Strategic Risk Registers
  - b. **Operational Risks** - these are the risks that arise directly from the core activities of delivering services.
- Identify key service delivery activities and the key systems which support the delivery of the Committee's strategic aims and objectives on which independent assurance is required.
- Review the assurance framework in place to clearly map out all known sources of assurance and identify any gaps and duplication.
- Assess the reliability of other assurance sources
- Regularly assess risk for each key service activity and key systems to determine our priorities for reviewing operational risks.

## Annual Audit Plan

21. The Crematorium's systems and processes both financial and non financial (including such sub systems and support services that the Crematorium relies upon on a day by day basis) will be reviewed at least once a year to provide a reasonable level of assurance on both strategic and operational risks and to enable an annual opinion on the entire control environment to be given. For example in areas which are cross cutting such as salaries and wages, creditors, and debtors assurance for these areas can be twofold – overall assurance on these main financial systems can be provided by the actual audit review work carried out directly, but this will be supplemented by testing specific transactions relating to these areas which directly impact on the Crematoriums operations.

22. The work plan will consider any strategic objectives of the service in relation to delivering any commitments under Service Level Agreements or undertaking certain reviews at particular frequencies to fulfil statutory requirements. It would be prudent to seek agreement to annual audit plans before the start of each financial year.

23. Our annual audit plan will also include provision for our advice and consultancy role. This provision covers time set aside for reactive and proactive work and value added work and includes :

- Proactive responsive and innovative solutions to problems and opportunities to help the Committee achieve its business objectives.
- Timely response to ad hoc requests for advice on the identification, assessment and mitigating of risks through effective controls.
- Timely response to ad hoc requests for advice on the impact of proposed policy initiatives, programmes and projects as well as responses to emerging risks.
- Planned involvement in new initiatives or working groups established to help identify and access risk and design suitable controls
- Undertaking Value for Money (VFM) reviews in accordance with the Committees VFM strategy.
- Investigation of irregularities and suspected fraud and corruption

24. The level of audit resources required to deliver both a minimum level of assurance and adequate provision for advice and consultancy, will then be considered by the Head of Internal Audit. Minimum assurance levels will be informed by the maturity of the Crematorium's risk management arrangements and its risk appetite. Any concerns the Head of Internal Audit has over the quantity and quality of skills available to deliver the required level of assurance will be referred to the Treasurer and the Mountsett Crematorium Committee for consideration.

25. The terms of reference for the annual review of the Crematorium will be agreed with the Crematorium Superintendent and referred to the Mountsett Crematorium Committee for approval.

## **Audit Approach**

### **Strategic Risk**

26. Our reviews of strategic risks will provide assurance that:

- risk management processes, defined by the Committee's risk strategy and policy, are in place and are operating as intended
- The processes have been designed well enough to manage the risks they are responsible for in an effective way
- Managers are responding to risks adequately and effectively so that those risks are reduced to an acceptable level



- The controls that managers have in place are successful in managing those risks

### **Operational Risk**

27 Our reviews of key service delivery activities and key systems will provide assurance on the effectiveness of:

- Compliance with corporate governance arrangements
- Risk identification, assessment and business continuity
- The control environment to manage identified risks and to ensure that the Committee'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
- Information governance ( quality and integrity of financial and other management information and how it is used and communicated)

28 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.

29 We will discuss the objectives and risks of the Crematorium's systems and processes both financial and non financial (including such sub systems and support services that the Crematorium relies upon on a day by day basis) with the Crematorium Superintendent (key contact) at the pre audit meeting prior to the start of any audit to ensure that the scope and objectives of the review is focused on providing assurance on the high or significant risks.

30 Terms of reference will then be issued in writing to formally agree the scope of the review, and will identify key risks, potential impact and expected key controls. The key contact is the person who is authorised by the head of service to agree resultant draft reports and the implementation of any proposed audit recommendations.

31 Details of reporting requirements will also be discussed and agreed.

## Audit Reporting

- 32 All audit assignments will be the subject of formal reports and all assurance reviews will include an audit opinion.
- 33 Our reporting structure is designed to ensure that final versions of reports are agreed with managers and are both accurate practical and balanced and are distributed in accordance with instructions agreed at the pre audit meeting.
- 34 Towards the end of an audit we will arrange an exit meeting with the key contact where we will share and discuss our initial findings. If this is not practical, we will issue an informal draft report to the key contact which will set out our initial findings.
- 35 The purpose of the exit meeting/informal draft stage is to give feedback and to eliminate any inaccuracies in our findings so that these can be resolved before a formal draft report is issued.
- 36 Once a formal Draft report has been issued the lead auditor will arrange a post audit meeting with the key contact to discuss the report and to provide a management response to the recommendations made and agree target implementation dates and the responsible officer.
- 37 To assist managers in their response we categorise our recommendations as follows:

<b>High</b>	Action that is considered imperative to ensure that the control system is not exposed to high risk from weaknesses in critical or key controls
<b>Medium</b>	Action required to ensure that the control system is not exposed to significant risk
<b>Low</b>	Action that is considered desirable to address minor weaknesses in control that should result in enhanced control or better value for money

- 38 It is the responsibility of managers to accept and implement internal audit findings and recommendations, or accept the risk resulting from not taking action.

39 We also provide an overall assurance opinion on each audit review to help us inform our overall opinion required to support the Council's Annual Governance Statement. We categorise our opinions as:

<b>Full Assurance</b>	There is a sound system of control designed to achieve the system objectives and manage the risks to achieving those objectives
<b>Substantial Assurance</b>	Whilst there is a sound system of control, there are some minor weaknesses, which may put some of the system objectives at risk.
<b>Moderate Assurance</b>	Whilst there is basically a sound system of control, there are some significant / serious weaknesses, which may put some of the system objectives at risk.
<b>Limited Assurance</b>	There are significant weaknesses in key areas in the system of control, which put the system objectives at high risk.
<b>No Assurance</b>	Control is generally weak as controls in numerous key areas are ineffective leaving the system open to high risk of error or abuse

- 40 The determination of our audit assurance opinion is derived from the overall level of assurance, positive as well as negative, of the effectiveness of controls operating in the area reviewed and is informed by risks identified through our recommendation rankings e.g. any area reviewed where a high risk ranking recommendation is made will lead to an audit assurance opinion of no more than Moderate. Where a Limited assurance opinion is given controls are considered to be ineffective overall and require improvement to maintain an acceptable level of control.
- 41 Managers responses to recommendations made in draft reports will be incorporated and reissued as finals. Copies of all final reports are shared with our External Auditors on request.
- 42 Wherever possible the circulation of audit reports will be agreed at the outset and will have due regard to confidentiality and legal requirements. Any information gained in the course of audit work remains confidential without limiting or preventing internal audit from meeting its reporting responsibilities.
- 43 It is the responsibility of the Crematorium Superintendent to assist in the progressing of draft reports to final report stage any significant delay will be reported to the Head of Finance, HR and Business Support.
- 44 To ensure that adequate progress is made by the Crematorium Superintendent we request that a response to draft reports is provided within 20 working days. If a response has not been received within this timescale the following escalation process will then be invoked
- A reminder will be sent to the Crematorium Superintendent, and copied to the Head of Finance, HR and Business Support, requesting a response within the next 10 days

- If a response is still not forthcoming, a second reminder will be issued direct to the Head of Finance, HR and Business Support, advising that if a response is not received with the next 5 days the matter will be reported to the relevant Corporate Director
45. We will also follow-up progress made by the Crematorium Superintendent on the implementation of all high and medium priority recommendations. In addition listings of all recommendations outstanding at the end of each month will be produced and issued to the Head of Finance, HR and Business Support.
46. We will report annually to the Mountsett Crematorium on progress made on delivering the agreed Service level Agreement, overdue responses to draft reports, and progress made by the Crematorium Superintendent in implementing audit recommendations. We will also:
- a. Compare actual activity with planned work
  - b. Provide an overall opinion on the control environment
  - c. A summary of work undertaken to formulate the annual opinion on the entire control environment, including reliance placed on work by other assurance bodies
  - d. Draw attention to any issues considered particularly relevant to the preparation of the Annual Governance Statement.

## **Responsibilities of Managers**

- 47 Internal Audit is involved in a wide range of internal and external relationships. The quality of these relationships impacts on the effective delivery of the service, its reputation and independence.
- 48 We strive to build effective working relationships with all our stakeholders, internal and external, by encouraging an environment of mutual trust, confidence and understanding.
- 49 A key relationship is with managers. Managers at all levels need complete confidence in the integrity, independence and capability of internal audit.
- 50 Managers' role is to manage the risks facing their service and to maintain an adequate and effective system of internal control to mitigate these risks. Managers are also responsible for ensuring that staff are aware of the processes and procedures required to operate the control systems in place.
- 51 We encourage managers to maximise the effectiveness of the outcome of internal audit work by:
- Commenting on, and inputting to, the annual audit plan.
  - Agreeing terms of reference for the audit to ensure attention is focused on areas of greatest risk or concern.

- Giving information and explanations that are sought during audit reviews.
- Providing access at all reasonable times to premises, personnel, documents and assets as necessary.
- Giving early notification of plans for change, including potential new initiatives, operational systems and processes.
- Ensuring key contacts provide responses to draft audit reports within the required timescales.
- Ensuring agreed actions arising from audit recommendations are carried out efficiently and on a timely basis
- Notify internal audit of any suspected fraud, irregularity, improper use or misappropriation of the Council's property or resources.
- Pending investigations and reporting, take all responsible steps to prevent further loss and to secure records and documents against removal or alteration.
- Acting in line with the Council's disciplinary procedures.

## **Audit Resources, Skills and Service Quality**

- 52 In order for Internal Audit to demonstrate high standards of professional conduct, the Internal Auditor must be impartial in discharging all responsibilities. Bias, prejudice or undue influence must not be allowed to limit or override objectivity.
- 53 The service operates in accordance with standards of best professional practice applicable to internal audit as identified through the Institute of Internal Auditors (IIA) and International Auditing Standards, but with particular reference to the CIPFA Code of Practice for Internal Audit in Local Government, as CIPFA is recognised as the key professional body for providing advice and guidance to Internal Audit in the public sector. This Code is identified as representing 'proper practices in relation to internal audit' and governs the way in which we operate. Policies and standard working practices have been put in place to ensure audit staff understand and comply with the Code and best professional practice.
- 54 In addition, the Council recognises and formally adopts the CIPFA Statement of Professional Practice on Ethics, as appropriate standards by which the conduct of the Internal Audit Section can be measured.
- 55 The service is provided by Durham County Council's in house internal audit team. The staffing structure will, as far as possible, be comprised of a suitable mix of qualifications, experience and skills.

- 56 The Head of Internal Audit ensures internal audit resources are sufficient to meet its responsibilities and achieve its objectives. Resource requirements are reviewed annually in relation to draft annual audit plans. Resources will be considered in terms of available days and the skills and experience of audit staff.
- 57 Individual training needs are identified in accordance with the Council's Performance Appraisal Scheme. As well as basic training in audit techniques and the development of specialist skills, the service is committed to coaching and mentoring its staff and to providing opportunities for continuous professional development (CPD).
- 58 Internal review of work standards is undertaken through a system of management review of working papers and reports prior to release.
- 59 Internal Audit maintains its awareness of national and local issues through membership and subscription to professional bodies such as CIPFA's Technical Information Service, "TIS online", the Finance Advisory Network (FAN) and the Institute of Internal Auditors as well as liaison with external audit and networking with other internal audit services.
- 60 A number of performance indicators and targets have been developed to measure and monitor the performance and effectiveness of the service.
- 61 The service is a member of the CIPFA IPF Audit Benchmarking Club.
- 62 Performance progress reports are submitted on a quarterly basis to the Audit Committee.
- 63 An annual review of the effectiveness of the system of internal audit is undertaken to required to fulfil the requirements of the Accounts and Audit Regulations 2006. The 'system of internal audit' is defined as "The framework of assurance available to satisfy a local authority that the risks to its objectives, and the risks inherent in undertaking its work, have been properly identified and are being managed by controls that are adequately designed and effective in operation."
- 64 This annual review includes a self assessment of the effectiveness of the internal audit service against the CIPFA Code and is reviewed by the Corporate Director of Resources and reported to the Corporate Management Team and Audit Committee as part of the Annual Internal Audit Report.
- 65 External review of the quality of the service is undertaken by external audit.

## Approval and Review

66 The Head of Internal Audit will annually review this Charter to ensure that it is kept up to date and fit for purpose. The Charter is endorsed by the Corporate management team and approved by the Mountsett Crematorium Committee. Any amendments will be reported to the Mountsett Crematorium Committee for approval. A copy of the Charter will be made available on the Council's intranet and website.

## Key Contact

Head of Internal Audit	Avril Wallage, Manager of Internal Audit & Risk	
Tel:	0191 383 3537	Fax: 0191 3835779
Email:	avril.wallage@durham.gov.uk	
Address	Internal Audit and Risk Division Resources Directorate Durham County Council County Hall Durham DH1 5UE	

## Other Related Documents

Other related documents that should be read in conjunction with this Charter are

Durham County Council's:

Code of Corporate Governance

Risk Management Strategy

Constitution – Financial Procedure Rules

Constitution – Codes of Conduct

Counter Fraud and Corruption Strategy

Confidential Reporting Code (Whistle Blowing Policy)

Fraud Response Plan

Mountsett Crematorium's

Constitution

Committee Terms of Reference