



Central Durham Crematorium Joint Committee

27 January 2010

Internal Audit Plan & Audit Scope 2009-10 and 2010-11



Joint Report of Terry Collins – Corporate Director: Neighbourhood Services; Stuart Crowe – Corporate Director: Resources

Purpose of the Report

1. The purpose of this report is to set out details of the Audit Plan and Scope for 2009/10 and arrangements for 2010/11, together with proposals for strengthening the governance arrangements of the Joint Committee with regards to assurance through Internal Audit activity.

Background

2. The Annual Governance (AG) Report 2008/09 recommended that; “The Joint Committee should formalise arrangements with Durham County Council for the Provision of internal audit through the development of a formal service level agreement”.
3. The AG report goes on to also recommend that: “The Joint Committee should strengthen existing internal audit arrangements through agreement of an annual plan of work, ensuring that internal audit work covers all of the key financial systems for the year and production of an annual report to inform the Annual Governance Statement”.
4. Prior to vesting day the Central Durham Crematorium has been subject to an annual internal audit review by Durham City Council’s Internal Audit Service. This arrangement is long standing but was not subject to a formal Service Level Agreement and only significant weaknesses were brought to the attention of the Joint Committee. There was no audit plan or audit scope presented for members consideration previously as this was deemed unnecessary by former Treasurers to the Joint Crematorium Committee.
5. Internal audit reviews have previously been risk based, taking into account the Crematorium’s strategic and operational risks, (extracted from Durham City Council’s risk register, and detailed in a control risk self assessment form for discussion at the pre audit meeting with the Crematorium Superintendent); any business plans or improvement plans and has been undertaken using a system based auditing approach. This involves the identification, documentation, evaluation and audit testing in relation to system objectives and internal controls. The adequacy, reliability and effectiveness of internal controls were evaluated under the following key and sub headings

Ensuring that financial and operational information is complete, reliable and accurate.

- A suitable system has been established to ensure that all collections are accurate, complete, timely and properly accounted for.
- Medical referee fees paid to Doctors have been calculated correctly and checked prior to payment.

Ensuring that statutory and regulatory requirements are complied with, including management policies such as Contract Procedure Rules and Financial Regulations.

- Notices of Cremation are supported by the necessary documentation.
- Receipts are provided to customers in respect of all transactions.
- Collections are banked or paid into a cash office without delay.
- Written procedure notes have been prepared, are regularly updated and cover the main elements of the system.

Ensuring that financial and other assets are safeguarded, and that adequate arrangements are in place to prevent and detect fraud.

- Collections are safeguarded against loss and theft and cash is handled and stored securely
- Arrears are monitored and recovery action taken when necessary
- Adequate physical security is maintained over income and assets
- Access to petty cash is limited to authorised persons only and used for legitimate expenses.
- Separation of duties exists between collection, recording and banking of monies.
- Regular reconciliation of the bank account is carried out by persons independent of the collection, recording and banking procedures.
- All financial stationery, including orders and receipts is pre numbered and held securely.
- Only official stationery and documents have been used and have been subjected to appropriate authorisation.

6. This internal audit review was usually carried out in the last quarter of the financial year to ensure adequate coverage of transactions carried out during the year. The audit concentrated on the major risk areas which were predominately relating to income. Assurance on expenditure items such as salaries and wages, creditors and debtors were based on the general annual audits carried out on those particular areas by the internal audit service. This was considered reasonable on the basis that all expenditure items relating to the Crematorium were processed through the appropriate financial systems of Durham City Council. Income on the other hand was recorded manually by the Crematorium and deposited in a separate independent Crematorium Bank Account.

2008/09 – LGR Transition Year

7. Since the turnover of the Central Durham Crematorium has been in excess of £1M in the last two financial years there was a need to produce a fully SORP compliant set of financial statements for the first time in 2008/09.

8. However, due to the challenges faced in the transition year of Local Government Reorganisation and the loss of key personnel from the Accountancy Section (which

necessitated mutual aid support from within the Internal Audit team) a much reduced internal audit plan was agreed with the Audit Commission, covering major systems only, this included a review of the Central Durham Crematorium.

9. Due to the prescriptive nature of the Crematoria business, the lack of problems in previous years and the internal audit risk score (medium) it was decided that the review of the Crematorium would be carried out in May/June 2009 rather than in the last quarter of the financial year as normal. The Audit Commission took the view that the sample of transactions used for audit testing in the internal audit review provided little assurance to the Joint Committee for 2008/09 that risks material to the achievement of the control objectives are adequately managed. However, the extensive level of testing carried out by External Audit was more than sufficient to supplement the work of internal audit and provide such assurance.
10. Members will recall that the Audit Commission also identified inadequate internal control processes, as the Joint Committee did not maintain a general ledger to record all income, expenditure and capital transactions. However, all expenditure for the Crematorium for 2008/09 was processed through Durham City Council's Agresso system and whilst income records are manually maintained by the Crematorium Superintendent, monies were regularly banked and all income records fed into an excel spreadsheet maintained by Durham City Council Accountancy staff with regular reconciliations carried out to the crematorium records and to the bank account.
11. The way working papers were presented and the fact that more experienced staff had either left the authority or were not available, meant that the external auditors who worked on the audit (who were undertaking this audit for the first time at the former Durham City Council) were not provided with sufficient explanation / assurance and led to the comments with regards to accounting practice.
12. Similar arrangements have been maintained in 2009/10 so far, however, consideration is currently being given to revising processes to allow income to be also directly accounted through the Oracle Financial Management system in the future.

Internal Audit Plan & Audit Scope

13. Internal audit is an assurance function that provides an independent and objective opinion to the organisation on the control environment by evaluating its 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.
14. The primary objective of Internal Audit is to provide assurance on the effectiveness of the Joint Committee's entire internal control environment, which includes risk management, and corporate governance arrangements to Officers and Members by giving an independent and objective annual opinion and to inform the Joint Committee's Annual Governance Statement.
15. Internal audit provides this assurance to the Joint Committee by:
 - Identifying systems, processes and procedures for audit;

- Assessing the risk from strategic and operational risk registers, business plans, service improvement plans etc.;
- Developing and resourcing an annual plan of the areas to be reviewed;
- Providing an opinion on the adequacy and effectiveness of the internal controls;
- Providing details of any weaknesses that would be relevant to inform the Annual Governance Statement

Role of Internal Audit

16. Internal audit will, as part of its service to the Joint Committee:

- Agree the scope and objectives of any audit, by liaising closely with the Crematorium Superintendent at all stages of the audit;
- Identify risks and controls established to manage risks;
- Evaluate the effectiveness of internal controls to manage risks;
- Identify any absence of or weaknesses in controls;
- Report evidence based findings providing positive feedback where controls are effective;
- Make recommendations for improving controls and explain the implications if these are not implemented;
- Provide an assurance opinion on the effectiveness of the control environment;
- Follow up progress made by managers in the implementation of our recommendations;
- Summarise our findings in an annual report to the Joint Committee.

17. A copy of the terms of reference for the audit review in 2009/10 is attached at Appendix 2 for members' consideration. The planned number of audit days to be spent on this audit for 2009/10 was initially 4 days, however, in line with past reviews carried out by Durham City Council Internal Audit Service and the addition of some areas not previously covered it is suggested that this be increased to 9.

Quality Assurance

18. The Head of Internal Audit and Risk will ensure that audit work relating to the Joint Committee is allocated to staff with appropriate skills, experience and competence. Internal audit staff at all levels are subject to appropriate supervision and work is reviewed at certain key stages of the audit process to monitor progress and assess quality.

19. A Corporate performance management and assurance framework is in place to address competencies and relevant training needs.

20. The internal audit service is subject to periodical review by the Audit Commission and under the Accounts and Audit regulations 2003 (amended) independent review by persons nominated by the Council. Previously this task was undertaken by Durham City Council's Corporate Governance Working Group. Arrangements for the Annual review of Internal Audit to meet these requirements for 2009/10 has still to be decided, however, the outcome of this review will be presented to the Joint Committee for consideration.

21. The Audit Strategy and Terms of reference for the Durham County Internal Service are set out in an Internal Audit Charter. The Charter also sets out our performance indicators and reporting arrangements. A copy of the Charter is available if required..
22. At the conclusion of all audits, a customer satisfaction survey is forwarded to the service manager to enable them to comment on the performance of the audit team undertaking the audit. Periodically managers may also be asked to complete an annual customer satisfaction survey to allow managers to reflect on the performance of the internal audit service over the previous financial year.

Proposals to Strengthen Governance / Assurance

23. It is suggested that the following proposals be adopted to strengthen Governance/ Assurance for the Joint Committee:
- a) That a system be developed to allow details of income to be processed directly into the Council's Financial Management System;
 - b) Annual reviews of the Crematorium to be carried out in the last quarter of the financial year to ensure as much coverage as possible of the years transactions;
 - c) That an annual plan of the work to be carried out by internal audit together with the audit days required be submitted to the Joint Committee on an annual basis. This should be drawn up in consultation with the appropriate manager
 - d) Any terms of reference must include relevant expenditure items specifically relating to the Crematorium's operations during the year and budgetary control, financial reporting, risk management and governance arrangements.
 - e) That an Annual Report on the outcome of Internal Audit activity be presented to members for consideration as part of the development of the Annual Governance Statement.

Recommendations and reasons

24. It is recommended that:-

- Members agree to the provision of an Internal Audit Service to the Central Durham Crematorium and the Joint Committee through Durham County Council, in accordance with the approach, scope and plans set out in the report; and that the agreement to this report acts as a SLA for the provision of Internal Audit Services for 2009/10
- The outcome of Internal Audit annual reviews be reported to the Joint Committee to inform assurance on internal control and financial governance;

Background Documents

DCC Internal Audit Plan

Annual Governance Report 2008/09

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Appendix 1: Implications

Finance

There are no financial implications arising from this report. The Internal Audit service is provided for within the support service recharges included in the budgets of the Joint Committee. In terms of recharges, Internal Audit costs are approximately £250 per day, therefore the element of the support service recharge (based on 9 audit days) relating to the provision of Internal Audit is £2,250. Additional costs would be incurred if additional work was subsequently required, for example fraud and investigatory work, however, this would be brought to the attention of the Joint Committee at an early stage.

Staffing

There are no staffing implications associated with this report. Internal Auditors are provided from within the Governance and Internal Audit Team of Durham County Council.

Equality and Diversity

There are no Equality and Diversity implications associated with this report.

Accommodation

There are no Accommodation implications associated with this report.

Crime and Disorder

There are no Crime and Disorder implications associated with this report.

Sustainability

There are no Sustainability implications associated with this report.

Human Rights

There are no Human Rights implications associated with this report.

Localities and Rurality

There are no Localities and Rurality implications associated with this report.

Young People

There are no Young People implications associated with this report.

Consultation

Officers of Spennymoor Town Council were consulted on the contents of this report.

Health

There are no Health implications associated with this report.

Appendix 2: Terms of Reference : Review of Durham Crematorium

Background

1. Internal Audit is an assurance function that provides an independent and objective opinion to the Authority on governance, control, and risk management by evaluating their effectiveness in achieving the Authority's 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.
2. A review of Durham Crematorium was agreed at the Audit Committee meeting held during February 2009 and was subsequently included for completion within the annual Internal Audit Plan.

Objective of Review

3. The objective of our review will be to ensure that:
 - Income is properly accounted for and can be reconciled.
 - Purchases comply with the authority's regulations.
 - All national policies are adhered to and all policies/service plans required for the operation of the Crematorium have been written.
 - All legal requirements are adhered to, including the Cremation Regulations 2008.
 - All procedures for cremations are in writing and are correct.
 - All equipment is serviced and maintained in accordance with manufacturer's instructions.
 - Set contingency plans are in place.
 - Salaries are correctly coded and paid.
 - Adequate risk management and Governance arrangements are in place.
 - Appropriate budgetary control mechanisms are in place.

Resource Requirements

4. The review will be undertaken by Sarah Bell. It is scheduled to start during the week commencing 18th January 2010 and will require approximately 7-9 days of audit resource input.

Reporting Arrangements

5. The Crematorium Superintendent will be kept regularly informed of progress on our review. On completion of the review, conclusions and potential recommendations will be discussed with Ian prior to the preparation and issue of our draft report, the target date for the issue of which is 12th February 2010.
6. A customer satisfaction survey will also be issued with the draft report for you to complete and return.

Implementation of Recommendations

7. Internal Audit will undertake appropriate follow-up work to confirm with responsible managers whether the recommendations agreed within the Action Plan that supports the internal control report have been implemented as intended and within timescale.

Contact Names

8. If you have any queries regarding this review please do not hesitate to contact Sarah Bell on 0191 383 3593.