

**25 April 2013**

**Annual Internal Audit Report 2012/13**



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**Report of the Head of Internal Audit**

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**Purpose of the Report**

1. The purpose of this report is to present the Annual Internal Audit Report for 2012/13. (Copy attached at Appendix 2).
2. The report also looks ahead and details, at Appendix 3, Internal Audit and Risk Services to be provided in 2013/14.

**Background**

3. 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 Council's Annual Governance Statement.
4. The Annual Internal Audit Report should therefore be considered in the context of fulfilling the requirement to provide an opinion on the overall adequacy and effectiveness of the Council's control environment during the year, and how this opinion has been derived.
5. Based on the work undertaken, the Head of Internal Audit is able to provide a **Substantial** overall assurance opinion on the adequacy and effectiveness of internal control operating across the Joint Committee in 2012/13. This substantial opinion ranking provides assurance that there is a sound system of control in operation and there are no significant control weaknesses that warrant inclusion in the 2012/2013 Annual Governance Statement.

**Recommendation**

6. Members note the content of the Annual Internal Audit Report and the overall 'substantial' opinion provided on the adequacy and effectiveness of the Council's control environment for 2012/13.
7. Members approve the proposal for the provision of Audit and Risk Services to be provided in 2013/14.

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**Contact: Avril Wallage, Manager of Internal Audit and Risk DCC Tel: 03000 269645**

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## **Appendix 1: Implications**

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### **Finance**

There are no direct financial implications arising for the Joint Committee as a result of this report, although we aim through our audit planning arrangements to review core systems in operation and ensure through our work that the Joint Committee has made 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**

None



**MOUNTSETT CREMATORIUM  
JOINT COMMITTEE  
INTERNAL AUDIT  
ANNUAL REPORT  
2012/13**

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Appendix 2 Annual Review of the Mountsett Crematorium 2012/13

Appendix 3 Audit and Risk Services 2013/14

## **Introduction**

1. This report summarises work carried out by Durham County Council Internal Audit and Risk Service during 2012 / 2013, as part of the 4 year Service Level Agreement covering the provision of Internal Audit Services up to 31 March 2014.
2. All Internal Audit work carried out in 2012/13 was 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)
3. 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 2013.

## **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.
6. The Internal Audit Charter, last reviewed by the Joint Committee in April 2012, establishes and defines the role the terms of reference and scope of audit work, including the audit strategy, organisational independence and the reporting lines of Internal Audit. No changes to the Charter were required during 2012/13.
7. In accordance with the Internal Audit Charter, a risk based audit approach has been applied to work undertaken in 2012/13.
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 2012/13 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 2012/13 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:
  - 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 / Assets are not accounted for / misappropriated.
  - Damage / theft of equipment.
  - Employees are incorrectly paid.
11. This audit was carried out during February 2013 in accordance with terms of reference agreed with the Crematorium's Superintendent and Registrar. The review 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 2. Minor weaknesses in control identified at audit as set out in the action plan of the report are being addressed by management.
12. 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 6 monthly reviews being reported for consideration by the Joint Committee in September 2012 and January 2013 respectively.
13. Processes in place provide assurance that 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 and it is evident from audit work carried out that risk management processes are well embedded.
14. 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's Audit Committee.

15. 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**

16. The scope and terms of reference for this year's annual audit review were developed using a risk based approach agreed with the Crematorium's Superintendent and Registrar. This approach ensured that audit resources were applied to agreed high risk areas where there was little or no other assurance.
17. 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.
18. The accuracy of audit findings were confirmed by the Crematorium's Superintendent and Registrar who was given the opportunity to challenge audit findings and the draft report prior to them being finalised.
19. In accordance with the Service Level Agreement 20. In total 20 audit days have been incurred in providing services to the Joint Committee during the year.
20. A customer satisfaction survey is issued after every audit to provide feedback and help the service continually improve,
21. Under the Account and Audit Regulations, the County Council is required to carry out an annual review of the effectiveness of Internal Audit. The Joint Committee, classed as a smaller body under the Regulations, is not required to carry out such a review. However, the Joint Committee can take assurance on the quality of internal services provided during 2012/13 from the outcomes of the last review of the service undertaken by the County Council's Corporate Director Resources and its Audit Committee in May 2012. This review was informed by consideration of a series of questions, designed to evaluate compliance with best practice, independently by
- The Chair of the Audit Committee
  - The Corporate Director Resources
  - The Head of Internal Audit
  - External Audit
22. The Committee noted that good progress had been made with the implementation of a risk based approach to auditing but recognised that the skills

mix of the in house team needed to be strengthened in some specialist areas. Overall the Committee concluded that the service was effective and reliance could be placed on the audit opinion provided by the service.

23. In arriving at this conclusion the Audit Committee also monitor performance against an agreed set of performance indicators. One of these indicators that is particularly relevant to services provided to the Joint Crematorium is the cost per chargeable audit day. The service performance target was to be lower than CIPFA Benchmarking Club average. Actual performance for 2011/12 was £279 compared with the average of £313. This demonstrates the competitiveness of fees charges to the Joint Committee through the SLA of £250 per day.

### **Audit Opinion Statement**

24. The Joint Committee has responsibility for maintaining a sound system of internal control that supports the achievement of its objectives.

25. The Head of Internal Audit is required to provide an opinion on adequacy and effectiveness of the Joint Committee's risk management, control and governance processes.

26. 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 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 a number of other sources of assurance available

27. Based on the work undertaken, the Head of Internal Audit is able to provide a **Substantial** overall assurance opinion on the adequacy and effectiveness of internal control operating across the Joint Committee in 2012/13. This substantial opinion ranking is the same as 2011/12 and provides assurance that there is a sound system of control with no material weaknesses. Consequently, there are



no significant issues that warrant inclusion in the 2012/ 2013 Annual Governance Statement.