



INTERNAL AUDIT REPORT

Mountsett Crematorium

Ref No 13590/2013

Final Report

Assurance Opinion:	Substantial Assurance
Prepared by:	Debra Lewis, Senior Auditor
Reviewed by:	David Mitchell, Principal Auditor Stephen Carter, Audit Manager
Date issued:	10th April 2013
Distribution List	
For Action:	Graham Harrison, Bereavement Services Manager Michael Chipperfield, Assistant Superintendant & Registrar
For Information:	Ian Houl, Streetscene Area Manager North Paul Darby, Head of Finance – Financial Services Terry Collins, Corporate Director for Neighbourhood Services Oliver Sherratt, Head of Direct Services Avril Wallage, Manager of Internal Audit and Risk Teresa Morgan, Strategic Insurance & Risk Officer Debra Kitching, Policy & Performance Team Leader



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28. The scope of the annual audit assurance review for 2013/14 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 and an audit assessment of known risks and the reliability of other assurance sources.

29. Other potential sources of assurance to be considered when determining the scope of the review will include:

Other Assurance Sources
The External Auditor annual audit letter and opinion on the financial statement of accounts and VFM conclusion
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.
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
The Ministry of Justice can inspect Crematorium premises at any time, although this is normally carried out by the Regulator on their behalf

30. 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.

Crematorium Review			Annual Review of Control Environment	
Establishment audit to include Petty Cash, Budgetary Control and Financial Reporting, Income & Debt Collection, Bank Reconciliation, Asset Management, stock control, Strategic Risks, Operational Risks, Risk Management Assurance Review and Corporate Governance Assurance Review	10	7	11	Applying a risk based audit approach the distinction between fundamental accounting systems and an establishment type audit is not necessary. The annual review will consist of a risk based evaluation of the control framework in place relating to key service activities and systems. This will include the provision of assurance on the management of both financial and non financial operational and strategic risks and compliance with corporate governance arrangements.
Ad Hoc Advice and Assistance	1	2	3	Provision for ad hoc advice and consultancy type services to consider control issues relating to any new or emerging risks on which assurance may be required outside of the annual review
Contingency	0	2		
Total	20	20	19	

Optional Additional Services;	2012/13	2013/14	2013/14	Comment
Risk Management Support	2	2	3	Risk management support in the identification, assessment, monitoring and reporting of strategic and operational risks and support on the annual review of corporate governance arrangements
Corporate Governance Support	0	0		

Audit and Risk Services to be provided for 2013/14

1. Details of the Internal Audit and Risk Services to be provided by Durham County Council's Internal Audit and Risk Services are set out in the Service Level Agreement (SLA) approved by the Joint Committee in September 2010. Indicative days to deliver the services, as per the SLA, together with actual days taken on 2012/13 are given in the table below. The proposed days required for 2013/14 reflecting past experience and new initiatives that will impact on service is also indicated.

AREA PER SLA	2012/13 Actual	2013/14 Indicative	2013/14 Proposed	Comments
Management and Assurance				Management, planning, preparation and quality assurance
Preparation of Internal Audit plan (including risk assessment of audit needs, planning for reviews and production of report)	3	3	5	The Internal Audit Charter will require review in 2013/14 to ensure compliance with the introduction of the Public Sector Internal Audit Standards that come into effect 1/4/2013. A new SLA agreement will need to be negotiated for services beyond 31/3/2014.
Production of Annual report and opinion	2	2		
Attendance at ad hoc meetings, Committee pre meetings and Committee meetings	1	1		
Regular liaison with relevant staff and follow up of recommendations	1	1		
Fundamental Accounting Systems				
Audit testing in relation to Crematorium sub systems to include Personnel, Payroll, Expenditure/Purchasing, Accounts Payable, Accounts receivable.	2	2	0	

APPENDIX D: LIMITATIONS AND RESPONSIBILITIES

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.

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 20th March 2013. 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.

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 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 B: TERMS OF REFERENCE – Mountsett Crematorium

14. We request that managers aim to provide a full response within 20 working days of receipt of the agreed draft report.
15. 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

16. This audit review will focus on Crematorium arrangements and the financial reporting of expenditure from these activities.
17. The review of the pre-payment cremation bonds will not be reviewed as part of this audit as this is still within its development stages.

Terms of Reference Approval

18. These terms of reference have been reviewed and approved by:
 - Graham Harrison, Bereavement Services Manager
 - Stephen Carter, Audit Manager

APPENDIX B: TERMS OF REFERENCE – Mountsett Crematorium

- 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.

Audit Approach

8. The review will be carried out using a risk based approach informed by the CRA and will involve:
- Review of relevant documentation held and maintained
 - Interviews with responsible persons where necessary
 - Assessment of existing controls
 - Perform testing.

Key Contact

9. Key contacts for this review are
- Debra Lewis, Lead Auditor
 - David Mitchell, Principal Auditor

Target Dates

10. The target dates for this review are:
- Fieldwork start date: 25th February 2013
 - 12 audit days
 - Draft report issued date: 31st March 2013
11. 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.
 - Assistance will be available in scheduling meetings and interviews where required.

Reporting Arrangements

12. Michael Chipperfield will be kept regularly informed of progress on our review. Any significant issues will be discussed as they arise.
13. On completion of the review, our findings together with recommendations to address any control weaknesses will be discussed with Michael Chipperfield and Graham Harrison at an exit meeting prior to the preparation and issue of a Formal Draft report. The Formal Draft will then be issued to Graham Harrison and will include responses.

APPENDIX B: TERMS OF REFERENCE – Mountsett Crematorium

DURHAM COUNTY COUNCIL INTERNAL AUDIT SERVICE

Terms of Reference

Client	Neighbourhood Services
Service	Bereavement Services
Head of Service	Ian Hoult, Streetscene Area Manager North Paul Darby, Head of Finance – Financial Services Graham Harrison, Bereavement Services Manager
Responsible Key Contact	Michael Chipperfield, Assistant Superintendant & Registrar
Nominated Manager	Michael Chipperfield, Assistant Superintendant & Registrar
Audit	Mountsett Crematorium

Introduction

1. This review is being undertaken in accordance with the approved Internal Audit Plan for 2012/13.

Overall Objective of the Audit

2. To evaluate the control environment of Mountsett 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 Mountsett Crematorium are :
 - To provide a sensitive, respectful service suitable for the bereaved.
 - To ensure cremations comply with the Cremation Regulations 2008.
 - To ensure the FBCA Code of Cremation Practice is complied with.
 - To ensure 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.

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.

APPENDIX A: ACTION PLAN FOR IMPLEMENTATION – Mountsett Crematorium

Action Ref	Finding	Associated Risk	Priority	Recommendation	Management Comment	Responsibility Timescale
03	<p>The review of the invoice requisitions for the Funeral Director Accounts, showed that the date information was passed to Business Support - Financial Support, via the "Neighbourhood Services Debtors" mailbox was not being recorded on the forms held at Mountsett Crematorium, and there was no evidence in support of when they had been passed or received.</p> <p>Further testing confirmed that all invoices had been raised and paid.</p>	<p>Invoices are not raised and income not collected</p> <p>Outstanding balances with the Funeral Directors</p>	Low	Evidence be maintained on file which confirms when invoice requisitions were passed to Business Support - Financial Support for the invoices to be raised.	COMPLETE. Requested date information is now being recorded as of 1 st March 2013.	Michael Chipperfield, Assistant Superintendant & Registrar
04	<p>The Stock Count carried out at Mountsett Crematorium confirmed that there are 21 wooden urns which are currently held on stock and these have not been sold for a several years.</p> <p>The Superintendent confirmed that they are considered to be obsolete as they are no longer used.</p>	Surplus stock being maintained	Advisory	<p>Consideration be given to the stock of wooden urns being disposed of either by:</p> <ul style="list-style-type: none"> - transferring the stock to Durham Crematorium if appropriate, - trying to obtain a price from the funeral directors and selling them - or writing off and disposing of the stock in line with the Stock Disposal Policy. 	<p>Possible supplier sable to use the stock of wooden urns rather than disposing of them are being investigated</p> <p>Discussions are also being undertaken with the Superintendent & Registrar at the Central Durham Crematorium for a possible transfer of the stocks.</p>	Graham Harrison, Bereavement Services Manager

APPENDIX A: ACTION PLAN FOR IMPLEMENTATION – Mountsett Crematorium

Action Ref	Finding	Associated Risk	Priority	Recommendation	Management Comment	Responsibility	Timescale
01	<p>A review of the blue banking book showed that the dates on which money was taken to Morrison Busty for banking were not recorded.</p> <p>A signature was present on these pages however, to confirm that money had been received at Morrison Busty.</p> <p>As there are no dates recorded it was not possible to verify when money had been transferred.</p>	<p>Theft</p> <p>Loss of income</p>	Low	The dates and signatures of staff handling and receiving cash should be recorded in the blue banking book in order to maintain a management trail which can be traced through to the bankings.	COMPLETE. Dates and Signatures are now being fully recorded in the blue book as from 1 st March 2013.	Graham Bereavement Manager	Harrison, Services
02	The Bereavement Services Manager collects income from Mountsett Crematorium on a monthly basis and takes it to Morrison Busty for banking.	<p>Theft</p> <p>Loss of income</p> <p>Delays in banking and processing of income</p>	Low	<p>Procedures and systems are currently being rolled out with regards to cash collection and banking (Icon and Webcard systems).</p> <p>Following this roll out, the Cash Handling Procedures, specifically with regards to the section on secure collections, should be implemented at Mountsett Crematorium.</p>	Current arrangements will continue until the Icon and Webcard roll out is completed at the end of May 2013. The service will then fully comply with new corporate procedures and secure collections will be undertaken.	Graham Bereavement Manager	Harrison, Services

INTERNAL AUDIT REPORT – Mountsett Crematorium

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 Michael Chipperfield of Mountsett Crematorium 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.
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 RESPONSIBILITIES

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

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 the Mountsett Crematorium.
2. The objective of the review was to ensure that there are effective controls and procedures in place with regards to the running and operating of Mountsett Crematorium, and that practices are carried out in compliance with legislative requirements and the Code of Cremation Practice issued by the Federation of British Cremation Authorities.
3. Transactions were reviewed, from 1st January 2012 to 31st December 2012.
4. The findings from the audit were:
 - A review of the blue banking book showed that the dates on which money was taken to Morrison Busty for banking were not recorded. A signature was present on these pages however, and confirmed that the money had been received at Morrison Busty. As there were no dates recorded it was not possible to verify when money had been transferred.
 - The Bereavement Services Manager collects income from Mountsett Crematorium on a monthly basis and takes it to Morrison Busty for banking. Given that there are inherent risks associated with the transportation of cash for banking the Council is currently in the process of rolling out a Corporate Cash Handling Procedure that involves a process for Secure Collections.
 - A review of invoice requisitions for the Funeral Director Accounts, showed that the date information was passed to Financial Support was not being recorded on the forms held at Mountsett Crematorium, and there was no evidence in support of when they had been passed or received.
 - The Stock Count carried out at Mountsett Crematorium confirmed that there are 21 wooden urns currently held on stock which are obsolete.
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

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31. In accordance with the agreed Internal Audit Charter, we will agree the objectives, risks associated, other sources of assurance and the proposed scope of the review on the operation of the Crematorium with the Crematorium's Superintendent and Registrar, prior to the start of any fieldwork, using a Control Risk Assessment (CRA) methodology. Detailed terms of reference will be agreed with the Crematorium's Superintendent and Registrar, informed by the CRA, to formally agree the scope of the review, in respect of identified key risks, potential impact and expected key controls.