

Mountsett Crematorium Joint Committee

23 September 2010

Provision of Audit Services 2010-2014



Report of the Head of Internal Audit & Risk

Purpose of the Report

1. The purpose of this report is to present for approval a proposed Service Level Agreement (SLA) for the provision of an Internal Audit Service by Durham County Council to the Mountsett Crematorium Joint Committee for the period April 2010 to March 2014, together with an indicative 4 year strategic plan and annual plan showing the scope of audit coverage for 2010/11.

Background

2. Following recommendations by the Audit Commission in the Annual Governance (AG) report 2008/09, for the Central Durham Crematorium Joint Committee arrangements for the provision of Internal Audit were strengthened in 2009/10 through the development of a formal service level agreement. This agreement has been reviewed for 2010/11.
3. To increase its accountability it was also agreed that Internal Audit would present an annual audit plan of work for approval to the Committee and an annual report to inform the Annual Governance Statement.
4. To ensure consistency across services it is proposed that the Mountsett Crematorium Joint Committee also enter into a service level agreement (SLA) with Durham County Council for the provision of an Internal Audit Service.
5. This report sets out details of the proposed SLA for the period April 2010 to March 2014 and details of the proposed audit plan for 2010/11.

Service Level Agreement (SLA)

6. It is proposed that a 4 year SLA be established for the provision of an Internal Audit Service to the Joint Committee to provide a commitment for both parties over the medium term. This includes the provision of risk management and corporate governance support by the Council's Risk & Governance Manager, in addition to internal audit services, if required. This longer term agreement will allow the Joint Committee to budget effectively for the cost of audit services and will enable the Durham County Council Audit Service to plan the use of its resources more effectively.
7. The proposed SLA, attached at Appendix 2, has been developed in consultation with the Treasurer to the Joint Committee and reflects the nature of the current partnership, the

services to be provided, the period of agreement, the number of audit days to be delivered, and the cost of the service expressed as a cost per day and total estimated annual budget.

8. Members should be aware that previously the cost of the work carried out by the Internal Audit Service has been included in a general administration recharge. This does not accurately reflect the cost of the level of work carried out as the basis of the recharge only reflects the direct audit days required to carry out the agreed planned annual audit review. Work involved in reviewing agreements, planning and reporting etc has been absorbed by the service as overhead. It is therefore proposed that all work carried out directly on behalf of the Joint Committee will be recharged in future and the resultant budget requirement for an Internal Audit Service is set out in the SLA. Details of all work to be carried out will be itemised in Annual Audit Plans so that costs are more transparent.
9. The SLA is supplemented by a detailed Audit Charter, which explains the nature of Internal Audit's role and how it intends to carry out its work. (See Appendix 2, Schedule 3).
10. The SLA will be supplemented by a corresponding 4 year Strategic Audit Plan based on an audit needs assessment, which helps to develop the audit strategy by focusing audit resources against areas of higher risk. A proposed Strategic Audit Plan based on an initial internal audit risk analysis is attached at Appendix 3. Year 1 of this Strategic Audit Plan will form the basis of the Annual Audit Plan for the current year. Years 2-4 are indicative and will be developed in consultation with the Treasurer to the Joint Committee (or his nominated representative) the Crematorium Superintendent and the External Auditor. This strategic plan will be subject to revision as part of the annual planning process.

2010/11 Audit Plan / Scope

11. Internal Audit will provide an Internal Audit Service to the Mountsett Crematorium Joint Committee in 2010/11 in accordance with the SLA, year 1 of the strategic audit plan and the internal audit charter.
12. The Internal Audit Service will be provided under the relevant standards of the CIPFA Code of Audit Practice for Internal Audit in Local Government.
13. Internal audit will review, appraise and report upon the effectiveness of the internal control environment including the risk management and corporate governance arrangements. It is the responsibility of management to establish and maintain appropriate systems of internal controls.
14. In addition to the completion of the audit plan, audit staff will support the management of the Central Durham Crematorium by providing informal advice and assistance through discussion of key issues and risks as they arise throughout the year.

15. Details of the proposed areas of work to be covered by Internal Audit in 2010/11, which have been developed in consultation with the Treasurer to the Joint Committee are shown below:

Management and Governance

Internal Audit is responsible for the following:

- Annual risk analysis
- Assessment of internal audit needs
- Review of audit strategy
- Annual report and opinion
- Liaising with the Crematorium Superintendent
- Liaising with the Head of Finance, HR and Business Support and other relevant staff.
- Attendance at pre meetings of the Joint Committee.
- Reporting to the Joint Committee
- Following up of previous audit recommendations.

Systems Testing

Fundamental Accounting systems

The Crematorium uses the main financial systems (Payroll, Accounts payable, Accounts receivable, Pensions and General Ledger) of Durham County Council. Each year Internal Audit reviews these systems as part of its fundamental accounting systems audits to ensure that the systems have adequate controls in place. Previously Internal Audit has relied upon the assurance gained from these reviews to inform the work carried out on behalf of the Joint Committee. The External Auditor has expressed an opinion that the level of assurance gained in this way is insufficient. Consequently additional testing not previously considered by Internal Audit will be carried out to ensure that all transactions relating to the operation of the Crematorium are reflected accurately in the relevant Durham County Council systems.

Crematorium Onsite / Detailed Review

The overall objective of the review is to provide a risk based assessment of the systems in place in order to form an opinion as to whether they are robust and provide an adequate basis for effective control. Detailed terms of reference for the work to be carried out for 2010/11 will be agreed with the Crematorium Superintendent prior to commencement of the audit. The proposed scope for the 2010/11 audit is attached at Appendix 4.

Other proposed areas of work

Advice and assistance

Internal Audit will continue to offer ad hoc advice and assistance on a wide range of areas including Standing Orders, Financial regulations, Financial Management Standards etc.

Contingency

Set aside for special assignments including fraud and corruption investigations

Recommendations

15. It is recommended that:-

- Members approve the Chair to sign the enclosed Service Level Agreement.
- Members approve the Audit Charter
- Members approve the Strategic Audit Plan for the current year and future years.
- Members approve the proposed scope for the 2010/11 audit.

Background Documents

Mountsett Crematorium Annual Governance Report 2008/09 and 2009/10
Internal Audit Report 2009/10

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Implications

Finance

With the approval of a service level agreement costs in respect of the internal audit service will be agreed in advance for a specified number of years (subject to any agreed inflationary increase) and will cover a specified number of days. This means that the cost of the service is more transparent and the committee has more control over the work areas covered. Details of how costs will be factored into the Joint Committee budget and how they will be recharged are shown in the Service Level Agreement.

Staffing

There are no staffing implications associated with this report. Internal Auditors are provided from within the Internal Audit, Risk and Governance 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.

STRATEGIC ANNUAL AUDIT PLAN 2010 – 2014

APPENDIX 3

AREA	2010/11	2011/12	2012/13	2013/14
Management and Assurance				
Preparation of Internal Audit plan (including risk assessment of audit needs, planning for reviews and production of report)	3	3	3	3
Production of Annual report and opinion	2	2	2	2
Attendance at ad hoc meetings, Committee pre meetings and Committee meetings	1	1	1	1
Regular liaison with relevant staff and follow up of recommendations	1	1	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	2	2
Crematorium Review				
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	7	7	7	7
Advice and Assistance	2	2	2	2
Redevelopment of Crematorium	0	0	0	0
Contingency	2	2	2	2
Total	20	20	20	20

Optional Additional Services;	2010/11	2011/12	2012/13	2013/14
Risk Management Support				
Corporate Governance Support				

BASIS OF CHARGE

1. Charges in respect of the period 1st April 2010 to 31st March 2011 will be recharged to the Joint Committee using the existing methodology.
2. The cost of providing the internal audit service for the period 1st April 2011 to 31st March 2014 will be based on planned audit days of 20, at a charge of £250 per day and an estimated cost of £5000 for the year. This excludes any additional work required from the Risk Management and Governance Section.
3. This audit fee set out above covers the cost of all planning, management, research, preparation, audit visits, follow-up, production of reports, and presentation of reports to managers and members, discussions and travelling time. The daily charge is inclusive of all travelling costs and other overheads.
4. Any requests for additional services, including VFM studies, special investigations and specific consultancy/project work that can not be accommodated from the contingency provision and the provisions of clause 4.1.3 (surplus/insufficient contingency) plans will be considered against the availability of the necessary resources and skills. The cost of this work will be subject to the agreement of additional fees at an appropriate daily charge, depending on the nature of the work required, in accordance with clause 4.1.5.
5. Internal Audit will continue to give assurance on the Crematorium's Risk Management and Governance arrangements as part of its annual review. However, additional support from the Risk Management and Governance Section is available and can be accommodated within this agreement. Where required the maximum number of days are to be agreed annually and the cost of this work will be subject to the agreement of additional fees at the same daily cost as the Internal Audit Service.
6. A recharge for fees payable will be annually in arrears based on the actual audit fee provision and any variances agreed under clauses 4.1.3 and 4.1.5 and 5.0