

**Central Durham Crematorium
Joint Committee**

22 April 2015

**Annual Internal Audit Report
2014/15**



Report of the Chief Internal Auditor and Corporate Fraud Manager

Purpose of the Report

1. The purpose of this report is to present the Annual Internal Audit Report for 2014/15. (Copy attached at Appendix 2).

Background

2. This report fulfils the requirements of Public Sector Internal Audit Standards (PSIAS) and the CIPFA Local Government Application note for the Chief Internal Auditor and Corporate Fraud Manager to deliver an annual audit opinion and a report that can be used by the Committee to inform its Annual Governance Statement.
3. The Annual Internal Audit Opinion makes conclusions on the overall adequacy and effectiveness of the Committees Framework of Governance, Risk Management and Control.
4. Based on the work undertaken, the Chief Internal Auditor and Corporate Fraud Manager is able to provide a **Substantial** overall assurance opinion on the adequacy and effectiveness of internal control operating across the Joint Committee in 2014/15. This 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 2014/15 Annual Governance Statement.

Recommendation

5. 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 2014/15.

Contact: Paul Bradley, Chief Internal Auditor and Corporate Fraud Manager
Tel: 03000 269 645 E-mail: paul.bradley@durham.gov.uk

Appendix 1: Implications

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

Compliance with Public Sector Internal Audit Standards.



**CENTRAL DURHAM CREMATORIUM
JOINT COMMITTEE**

**INTERNAL AUDIT
ANNUAL REPORT
2014/15**

LIST OF CONTENTS

	Paragraph
Introduction	1-3
Service Provided and Audit Methodology	4-8
Summary of Work Carried Out	9-15
Quality Assurance Framework	16-21
Audit Opinion Statement	22-25

Appendix:

Appendix 3 Internal Audit Report Central Durham Crematorium 2014/15

Introduction

1. This report summarises the work carried out by Durham County Council Internal Audit and Risk Service during 2014/15, as part of the three year Service Level Agreement covering the provision of Internal Audit Services up to 31 March 2017.
2. All Internal Audit work carried out in 2014/15 was in accordance with proper internal audit practices as described within the PSIAS that came into effect from 01 April 2013.
3. This report fulfils the requirements of Public Sector Internal Audit Standards (PSIAS) and the CIPFA Local Government Application note for the Chief Internal Auditor and Corporate Fraud Manager to deliver an annual audit opinion and a report that can be used by the Committee to inform its Annual Governance Statement.

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 establishes and defines the role, the terms of reference and the scope of audit work, including the audit strategy, organisational independence and the reporting lines of Internal Audit. The Charter was revised during 2013/14 to reflect PSIAS and was further updated for approval by the Joint Committee on 22 April 2015.
7. In accordance with the Internal Audit Charter, a risk based audit approach has been applied to work undertaken in 2014/15.
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 2014/15 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 2014/15 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 2015 in accordance with terms of reference agreed with the Crematorium's Bereavement Services Manager. 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 3.
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 their most recent review being reported for consideration by the Joint Committee on 25 April 2015.
13. Processes in place provide assurance that the Bereavement Services Manager 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.

Conformance with Public Sector Internal Audit Standards (PSIAS) and results of Quality Assurance and Improvement Programme

16. The Committee at its meeting on 21 January 2015 received the evaluation carried out by the Chief Internal Auditor and Corporate Fraud Manager with regards to compliance with PSIAS and the subsequent Improvement Plan that was also agreed by the County Council's Audit Committee in June 2014.
17. The Chief Internal Auditor and Corporate Fraud Manager can therefore confirm that the Internal Audit Service conforms with PSIAS and will continually monitor the results of the Quarterly Assurance and Improvement Plan. A formal review will again be presented to the County Council's Audit Committee in June 2015.
18. The scope and terms of reference for this year's annual audit review were developed using a risk based approach agreed with the Bereavement Services Manager. This approach ensured that audit resources were applied to agreed high risk areas where there was little or no other assurance.
19. 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.
20. The accuracy of audit findings were confirmed by the Bereavement Services Manager who was given the opportunity to challenge audit findings and the draft report prior to it being finalised.
21. A customer satisfaction survey is issued after every audit to provide feedback and help the service continually improve,

Audit Opinion Statement

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

23. The Chief Internal Auditor and Corporate Fraud Manager is required to provide an opinion on the adequacy and effectiveness of the Joint Committee's risk management, control and governance processes.
24. 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
25. Based on the work undertaken, the Chief Internal Auditor and Corporate Fraud Manager is able to provide a **Substantial** overall assurance opinion on the adequacy and effectiveness of internal control operating across the Joint Committee in 2014/15. This opinion ranking 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 2014/15 Annual Governance Statement.



INTERNAL AUDIT REPORT

Durham Crematorium (Ref No 13580/2015)

Final Report

Assurance Opinion:	Substantial Assurance
Prepared by:	Mandy Peers, Senior Auditor
Reviewed by:	David Mitchell, Principal Auditor Paul Bradley, Chief Internal Auditor & Corporate Fraud Manager
Date issued:	2 April 2015
Distribution List	
For Action:	Graham Harrison, Bereavement Services Manager
For Information:	Ian Hault, Neighbourhood Protection Manager Paul Darby, Head of Finance – Financial Services Terry Collins, Corporate Director for Neighbourhood Services Oliver Sherratt, Head of Direct Services Teresa Morgan, Strategic Insurance & Risk Officer Debra Kitching, Policy & Performance Team Leader

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Contents

Section	Page
Introduction	1
Conclusion	1
Summary of Findings	1
Background	1
Scope and Audit Approach	2
Overall Assurance Opinion and Priority of Recommendations	2-3

EXECUTIVE SUMMARY

INTRODUCTION

1. As part of the 2014/15 Internal Audit Plan, an audit was carried out in February/March 2015 to evaluate the control framework in place on the management of the risks associated with Durham Crematorium.

CONCLUSION

2. The audit work carried out can provide a **Substantial** level of assurance that the control framework and procedures in place are effective in managing the associated risks. As a result of the audit, there were no high or medium priority findings.

SUMMARY OF FINDINGS

3. The review was carried out using a risk based approach informed following a Controls Risk Assessment. It involved a review of supporting systems, documentation, discussion with key employees, and sample testing covering the period January 2014 to December 2014.
4. The review confirmed that there are effective arrangements in place for the management of the risks associated with the Durham Crematorium. From the sample testing undertaken only minor issues were highlighted and these were discussed with the Bereavement Services Manager.
5. In relation to the financial management system in operation SAGE, it was highlighted that it is not being fully utilised by crematorium staff. Processes remain predominantly manual and then are duplicated electronically. The Bereavement Services Manager recognises the benefits of further direct utilisation of SAGE however explained there are obstacles of a poor internet connection, staff training and available resource which have a practical impact.
6. Six best practice recommendations were identified in the audit as follows:
 - All processes should be reviewed with a view to streamline and remove any unnecessary manual duplication and extend the direct use of SAGE.
 - Orders should be raised at the time of placing on SAGE and independently authorised at that time.
 - Verification checks should be introduced on the accuracy of the Book of Remembrance (BOR) invoices prior to payment.
 - Outstanding invoice reports should be updated and generated from the SAGE system, ideally on a weekly basis, and pursued as necessary.
 - The Pandemic Plan should be subject to review and updated.
 - Under the new banking arrangements the regularity/timeliness of bankings made and the option of utilising the bank collection service should be reviewed and determined.

BACKGROUND

7. This review has been carried out in accordance with the Terms of Reference.
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 Chief Internal Auditor on the adequacy and 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 Graham Harrison and his staff at Durham Crematorium and Tracey Mckeown, Neighbourhood Services Finance 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 were reflected in the agreed terms of reference. The scope was informed by a Control Risk Assessment (CRA) determined in consultation with appropriate officers.

OVERALL ASSURANCE OPINION AND PRIORITY OF OUR RECOMMENDATIONS

12. Based upon the ratings of our findings and recommendations arising during the audit, we define the overall conclusion through the following assurance opinions.

<u>Opinion</u>	<u>Definition</u>
Substantial Assurance	Whilst there is a sound system of control, any weaknesses identified may put some of the system objectives at minor risk.
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.
Limited Assurance	There are weaknesses in key areas in the system of control, which put the system objectives at significant risk.

13. We define the priority of our recommendations arising from each overall finding as follows;

Priority	Definition
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 is required to ensure that the service/system/process objectives are not exposed to major risk from weaknesses in controls.
Best Practice	The issue merits attention and its implementation will enhance the control environment or promote value for money.