

29 April 2016

Annual Internal Audit Report 2015/16



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 2015/16. (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 2015/16. 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 2015/16 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 2015/16.

Appendix 1: Implications

Finance

The broad programme of work undertaken by Internal Audit supports the Joint Committee in maintaining 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.



**MOUNTSETT CREMATORIUM
JOINT COMMITTEE**

**INTERNAL AUDIT
ANNUAL REPORT
2015/16**

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Appendix:

Appendix 3 Internal Audit Report Mountsett Crematorium 2015/16

Introduction

1. This report summarises the work carried out by Durham County Council Internal Audit and Risk Service during 2015/16, 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 2015/16 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 in its current form was considered by the Joint Committee on 24 April 2015 and most recently on 29 April 2016.
7. In accordance with the Internal Audit Charter, a risk based audit approach has been applied to work undertaken in 2015/16.
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 2015/16 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 2015/16 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 2016 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 latest reviews being reported for consideration by the Joint Committee on 25 September 2015 and 29 April 2016.
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 Council'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 29 January 2016 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 2015.
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. In addition and in accordance with Section 1312 of the Standard which requires that an External Assessment must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation is scheduled for April 2016. A formal review will again be presented to the County Council's Audit Committee in June 2016.
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.
25. In assessing the level of assurance to be given, we based our opinion on:
 - The audit review of the Mountsett Crematorium undertaken during the year
 - Follow up action on audit recommendations
 - 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
26. 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 2015/16. 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 2015/16 Annual Governance Statement.



INTERNAL AUDIT REPORT

**Mountsett Crematorium
Ref No: 13590/2016**

Final Report

Assurance Opinion:	Substantial
Prepared by:	Debra Lewis, Senior Auditor
Reviewed by:	David Mitchell, Principal Auditor Paul Bradley, Chief Internal Auditor & Corporate Fraud Manager
Date issued:	16th March 2016
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EXECUTIVE SUMMARY

INTRODUCTION

1. As part of the 2015/16 Internal Audit Plan, an audit was carried out in February 2016 to evaluate the control framework in place on the management of the risks associated with Mountsett Crematorium.
2. The last audit in this area was completed in April 2015.

CONCLUSION

3. 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 / medium priority findings made.

SUMMARY OF FINDINGS

4. The review was carried out using a risk based approach informed by the Control Risk Assessment (CRA) document and was undertaken by a review of supporting systems, documentation, discussion with key employees, and sample testing covering the period January 2015 to December 2015.
5. The review confirmed that there are effective arrangements in place for the management of the risks associated with the Mountsett Crematorium.
6. From the 1st April 2015, Mountsett Crematorium also implemented the Sage accounting system and instructed funeral directors that funerals were to be paid for up front or on the day of the service, rather than via monthly invoice. By carrying out this form of income collection this has increased the amount of money being banked, there are now no monthly invoices raised and the resources involved in this area have been reduced.
7. Following the change in the Authority's bank provider and the implementation of Loomis cash collections, the frequency of the bankings has also improved with weekly rather than monthly bankings being undertaken. Controls linked to security and cash handling procedures have also improved as a result of the change to Loomis collections.
8. Audit testing undertaken in relation to Pension contributions deducted from employee pay identified one employee whose contribution had not been increased from 5.8% to 6.5% when his pay increased with an annual increment. This increased rate should have been applied from 1st April 2014. At the time of the audit testing this error was brought to the attention of Payroll and the increased rate will be applied from March 2016. However further investigation and clarification of this area will be carried out by Internal Audit as part of a scheduled review of Payroll.

9. Two best practice recommendations have been identified during the audit;
- Five out of fifteen Purchase Orders reviewed had been raised retrospectively, although two of these were for repairs call outs for the cremators and alarm system, these were considered to be reasonable. In accordance with financial regulations Purchase Orders should be raised prior to ordering, receipt of the invoice, and payment.
 - Invoices received for goods and services had not been date stamped therefore it was difficult to confirm that each had been paid in a timely manner. Invoices should be date stamped upon receipt.

BACKGROUND

10. This review has been carried out in accordance with the Terms of Reference.
11. 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.
12. 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.
13. In carrying out the audit, the time and assistance afforded by Michael Chipperfield, of Mountsett Crematorium was greatly appreciated.

SCOPE AND AUDIT APPROACH

14. 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

15. 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.

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

<u>Priority</u>	<u>Definition</u>
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.
Best Practice	The issue merits attention and its implementation will enhance the control environment or promote value for money.