

Central Durham Crematorium Joint Committee

26 April 2017

Annual Internal Audit Report 2016/17



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 2016/17. (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 2016/17. 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 2016/17 Annual Governance Statement. There are no recommendations made with regards to suggested improvements to the systems and procedures in operation.

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 2016/17.

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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.



**CENTRAL DURHAM CREMATORIUM
JOINT COMMITTEE**

**INTERNAL AUDIT
ANNUAL REPORT
2016/17**

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Appendix:

Appendix 3 Internal Audit Report Central Durham Crematorium 2016/17

Introduction

1. This report summarises the work carried out by Durham County Council Internal Audit and Risk Service during 2016/17, 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 2016/17 was in accordance with proper internal audit practices as described within the Public Sector Internal Audit Standards (PSIAS) that came into effect from 01 April 2013.
3. This report fulfils the requirements of 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 last considered by the Joint Committee on 27 April 2016.
7. In accordance with the Internal Audit Charter, a risk based audit approach has been applied to work undertaken in 2016/17.
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 2016/17 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 2016/17 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 January 2017 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 27 April 2016 and 28 September 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.

Quality Assurance Framework

Conformance with Public Sector Internal Audit Standards (PSIAS)

16. The Accounts and Audit Regulations 2015 require that 'a larger relevant body (the Council) must, at least once in each year, conduct a review of the effectiveness of its internal audit' and confirms that the findings of the review must "must be considered as part of the consideration of the system of internal control".
17. It is a further requirement of PSIAS that any large relevant body should be subject to an external assessment at least once every five years. As Durham County Council is classed as a large public body, the Internal Audit Service is subject to an external assessment. At its meeting on 28 September 2016 the Committee received a report from the Chief Internal Auditor and Corporate Fraud Manager which detailed the outcome of the external assessment. The assessment had been completed by Newcastle City Council during April and May 2016 and the outcome formally reported to the service in July 2016.
18. This external assessment concluded that Durham County Council's Internal Audit Service **conforms** to the requirements of the Public Sector Internal Audit Standards.
19. In compliance with the services' quality assurance framework, the 2016/17 annual Internal Audit review, the scope and terms of reference were developed using a risk based approach and 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.
20. 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.
21. 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.
22. A customer satisfaction survey is issued after every audit to provide feedback and help the service continually improve.

Audit Opinion Statement

23. The Joint Committee has responsibility for maintaining a sound system of internal control that supports the achievement of its objectives.
24. 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.
25. 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
 - 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 2016/17. 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 2016/17 Annual Governance Statement.



INTERNAL AUDIT REPORT

**Durham Crematorium
Ref No: 13580/2017**

Final Report

| | |
|---------------------------|---|
| Assurance Opinion: | Substantial |
| Prepared by: | Jill Natrass, Senior Auditor |
| Reviewed by: | David Mitchell, Principal Auditor Paul Bradley, Chief Internal Auditor & Corporate Fraud Manager |
| Date issued: | 16th February 2017 |
| Distribution List | |
| For Action: | Graham Harrison, Bereavement Services Manager |
| For Information: | Ian Houl, Neighbourhood Protection Manager Paul Darby, Head of Financial & HR Services Oliver Sherratt, Head of Direct Services Debra Kitching, Policy & Performance Team Leader |

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EXECUTIVE SUMMARY

INTRODUCTION

1. As part of the 2016/17 Internal Audit Plan, an audit was carried out in January 2017 to evaluate the control framework in place on the management of the risks associated with Durham Crematorium.
2. The last audit in this area was completed in February 2016.

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 or 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 2016 to December 2016.
5. The review confirmed that there are effective arrangements for the management of the risks associated with the Durham Crematorium.
6. Effective budgetary control and performance monitoring processes were in place.
7. Fees had been appropriately approved and charged in respect of cremations, memorial plaques, and entries into the book of remembrance.
8. Income collection and banking records were found to be complete and accurate and were independently reconciled to the bank account.
9. The register of cremations was found to be accurate and entries were traced to supporting documentation including the application form, medical forms, authorisation to cremate, and treatment of ashes.
10. Invoices issued to funeral directors were paid promptly with many on the day of the funeral and no outstanding debt was identified.
11. From January 2017 the BACAS system has been utilised to produce invoices. This has reduced the amount of hand written documentation required. As the time period lies outside of this audits scope these arrangements will be included in the 2017/18 audit.
12. Appropriate controls were in place for the management of petty cash including the independent verification of expenditure.

13. Purchase orders were authorised and invoices were checked prior to payment being made. Each purchase order in the sample had been raised in advance of the receipt of the invoice.
14. Salary payments to employees and pension contributions were found to be accurate.

BACKGROUND

15. This review has been carried out in accordance with the Terms of Reference.
16. 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.
17. 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.
18. In carrying out the audit, the time and assistance afforded by the staff of Durham Crematorium was greatly appreciated.

SCOPE AND AUDIT APPROACH

19. 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

20. 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. |