

27 April 2018

Annual Internal Audit Report 2017/18



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 2017/18. (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 2017/18. 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 2017/18 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 2017/18.

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
2017/18**

LIST OF CONTENTS

	Paragraph
Introduction	1-3
Service Provided and Audit Methodology	4-8
Summary of Work Carried Out	9-15
Quality Assurance Framework	16-23
Audit Opinion Statement	24-27

Appendix:

Appendix 3 Internal Audit Report Mountsett Crematorium 2017/18

Introduction

1. This report summarises the work carried out by Durham County Council Internal Audit and Risk Service during 2017/18, as part of the three year Service Level Agreement covering the provision of Internal Audit Services up to 31 March 2020.
2. All Internal Audit work carried out in 2017/18 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 and revised from 01 April 2017.
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 29 September 2017.
7. In accordance with the Internal Audit Charter, a risk based audit approach has been applied to work undertaken in 2017/18.
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 2017/18 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 2017/18 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.
 - Lack of experienced staff.
 - Insufficient capacity to meet demand in the event of an epidemic, pandemic or major disaster.
 - 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
 - Significant risks are not being managed and the objectives are not being achieved.
 - Ineffective budget monitoring processes are in place.
11. This audit was carried out during February 2018 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 28 April 2017 and 29 September 2017.
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. The Council's Audit Committee at its meeting on 28 June 2017 received an evaluation, in the form of a self-assessment carried out by the Chief Internal Auditor and Corporate Fraud Manager, with regards to compliance with the key elements of the PSIAS that considered the following matters:
 - The structure and resourcing level, including qualifications and experience of the audit team;
 - The extent of conformance with the PSIAS in producing quality work;
 - Ensuring audit work was successfully delivered in the most appropriate areas on a prioritised (risk) basis;
 - The overall performance of the Internal Audit team.
18. For 2016/17, this demonstrated that the Section was conforming to the Code's requirements. This self-assessment was based on the PSIAS that were in place during 2016/17.
19. A self-assessment for 2017/18 is currently being undertaken against the new PSIAS which were brought into effect on 01 April 2017 and whilst no issues have been identified at the time of writing this report, the final outcome of the review will be reported to Council's Audit Committee at its meeting on 28 June 2018.
20. In compliance with the services' quality assurance framework, the 2017/18 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.
21. 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.
22. 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.

23. A customer satisfaction survey is issued after every audit to provide feedback and help the service continually improve.

Audit Opinion Statement

24. The Joint Committee has responsibility for maintaining a sound system of internal control that supports the achievement of its objectives.
25. 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.
26. 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 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
27. 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 2017/18. 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 2017/18 Annual Governance Statement.



INTERNAL AUDIT REPORT

Mountsett Crematorium

(Ref No: 13590/2018)

Final Report

Assurance Opinion:	Substantial
Prepared by:	Jill Natrass, Senior Auditor, Lisa Metcalfe, Senior Auditor
Reviewed by:	David Mitchell, Principal Auditor, Paul Bradley, Chief Internal Auditor & Corporate Fraud Manager
Date issued:	10 April 2018
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Contents

Section	Page
Introduction	1
Conclusion	1
Summary of Findings	1
Background	2
Scope and Audit Approach	2
Overall Assurance Opinion and Priority of Recommendations	3
Appendix A – Action Plan of Findings and Recommendations	4

INTRODUCTION

1. As part of the 2017/18 Internal Audit Plan, an audit was carried out in February 2018 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 February 2017.
3. Since the previous audit, the Burial and Cremation Administration System (BACAS) is now being utilised for the recording of all aspects of the Cremation service, including invoicing and receipting of fees.

CONCLUSION

4. 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.

SUMMARY OF FINDINGS

5. 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 2017 to December 2017.
6. The review confirmed that there are effective arrangements for the management of the risks associated with Mountsett Crematorium.
7. Effective budgetary control and performance monitoring processes were in place.
8. Fees had been appropriately approved and charged in respect of cremations, memorial plaques, and entries into the book of remembrance.
9. Income collection and banking records were found to be complete and accurate and were independently reconciled to the bank account.
10. 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.
11. Since the previous audit all Funeral Director invoices are being raised on BACAS for payment on the day of the funeral. Testing showed that all invoices had been raised for the samples chosen and the corresponding payments had been receipted on BACAS. An outstanding invoice report was obtained and there was no outstanding debt.
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 and authorised prior to payment being made.

INTERNAL AUDIT REPORT – Mountsett Crematorium

14. Salary payments to employees and pension contributions were found to be accurate.
15. As a result of the audit there are three medium priority findings, a summary of these are set out below:
 - Correction fluid has frequently been used in the Register of Cremations. This is a public document and has resulted in pages becoming stuck together and the register subsequently looks unprofessional.
 - DCC procurement rules are generally being followed. However, historically all entries into the Book of Remembrance have been completed by one supplier due to the specialism of the work required. However, no formal procurement has taken place.
 - Documents are retained for the required 15 years in paper form however this requires a large amount of storage space. There is currently no scanning completed. Should documents be scanned then, to be prudent, the hard copies would only need to be retained for a year prior to disposal.
16. Our findings, 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.

BACKGROUND

17. This review has been carried out in accordance with the Terms of Reference.
18. 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.
19. 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.
20. In carrying out the audit, the time and assistance afforded by Michael Chipperfield and Eleanor Bennett was greatly appreciated.

SCOPE AND AUDIT APPROACH

21. 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

22. 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.

23. 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 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.

APPENDIX A – ACTION PLAN OF FINDINGS AND RECOMMENDATIONS – Mountsett Crematorium

Action Ref	Finding	Potential Impact	Priority	Recommendation	Management Comment	Responsibility Timescale
01	Correction fluid has frequently been used in the Register of Cremations. This is a public document and has resulted in pages becoming stuck together and the register subsequently looks unprofessional.	Reputational Damage	Medium	This practice should cease. Any errors should be neatly crossed through and re-written.	Have informed staff not to use correction fluid with immediate effect. Action Complete	Graham Harrison, Bereavement Services Manager 06/04/2018
02	DCC procurement rules are generally being followed. However, historically all entries into the Book of Remembrance have been completed by one supplier due to the specialism of the work required. However, no formal procurement has taken place	Not achieving value for money Reputational Damage Legal action	Medium	Due to the high levels of expenditure across both Crematoriums, a procurement exercise should be explored with the Procurement Team in order to ensure value for money whilst maintaining the quality of the Book of Remembrance.	Will explore with the Procurement Team in order to ensure value for money whilst maintaining the quality of the Book of Remembrance	Graham Harrison, Bereavement Services Manager 31/07/2018
03	Documents are retained for the required 15 years in paper form however this requires a large amount of storage space. There is currently no scanning completed. Should documents be scanned then, to be prudent, the hard copies would only need to be retained for a year prior to disposal.	Reputational damage. Federation intervention. Legal Action	Medium	The possibility of scanning all documentation which would then be attached to BACAS, should be investigated.	Currently there are insufficient staff resources / scanning equipment available to scan the large number of documents produced. A business case will be prepared detailing the costs and benefits of a scanning proposal together with timescale for completion of task for the Joint Committee to consider.	Graham Harrison, Bereavement Services Manager 30/09/2018