

**NORTH EAST SURREY CREMATORIUM BOARD****11 JUNE 2019****REPORT OF THE TREASURER****Annual Review of Internal Control****Introduction**

1. This report introduces the work undertaken by the South West London Audit Partnership (SWLAP) (formerly known as Wandsworth Council's Internal Audit Service). Additionally, this report includes a review of the effectiveness of the service and recommends the reappointment of SWLAP as the Board's internal auditors.

**Review of Internal Control**

2. The Internal Audit report (attached as an appendix to this report) issued by SWLAP provides an assurance opinion on the overall adequacy and effectiveness of the internal controls that have been subjected to review. If concerns are raised during the audit they are set out within the report.
3. The internal audit gives an overall level of assurance to the Board as follows:-
  - Full Assurance – There is a sound system of control designed to achieve the objectives and manage the risks to achieving those objectives. No weaknesses have been identified.
  - Substantial Assurance – Whilst there is a largely sound system of control, there are some weaknesses, which may put a limited number of the system objectives at risk.
  - Limited Assurance – There are significant weaknesses in key control areas, which put the system objectives at risk.
  - No Assurance – Control is weak, leaving the system open to material error of abuse.
4. For information, concerns are categorised in to 3 recommendation levels as follows:-
  - Priority 1 recommendations would signify major issues that need to be brought to the attention of senior management;
  - Priority 2 recommendations are considered important issues which should be addressed by management in their areas of responsibility to avoid exposure to significant risk; and
  - Priority 3 recommendations which are considered minor issues where the risk is low and where action is advised to enhance control or to improve operational efficiency.
5. The final Internal Audit report also contains the management responses to the findings and recommendations that have been raised and indicates the timescales in which any issues identified are planned to be addressed if not addressed immediately.

**Recommendations Arising**

6. The SWLAP completed an audit of the Board's operations, with most of the fieldwork undertaken between March and May 2019. The review was carried out slightly later this year to enable sufficient time to include a review of the financial transactions relating to 2018/19 to facilitate full sign off of the Internal Control Objectives included in the Annual Governance and Accountability Return.
7. The primary concern raised during the internal audit was in relation to invoices raised for a branch of one of the Funeral Directors. An invoice raised for a branch of one of the Funeral Directors that has 'on account' payment facilities was then not consolidated into the main Funeral Directors monthly billing invoice. Had this not been picked up the amount would have gone unpaid as it would never have been invoiced. The value of the invoice in question was £570 which is the equivalent of one standard service. The reason the consolidation didn't happen as it should was due to an error in the billing address of the branch. On identification, a full check was undertaken to ensure there were no other instances which there wasn't. Additionally, procedures are now in place, including cross checking totals to the BACAS system, to ensure that this should not be repeated.
8. A second recommendation relating to the process for monitoring payments from Funeral Directors was made. A total of nine funeral directors currently have accounts with the Board and are issued with a monthly invoice based on the number of services they undertake in the month. The invoices are made up at the end of each calendar month with 30-day payment terms. The audit identified two Funeral Directors that had not been paying promptly with the February 2019 invoices still remaining outstanding in April/May 2019. This is the second year in succession that the prompt payment has been raised as a concern as part of the Internal Audit review. In response to last year's recommendation Enable's management introduced a more formal process of reminder letters and introduced formal 30-day chasing letters where invoices remained unpaid. This has had a significant impact which is evidenced from the improvement in the amount of debtors outstanding at the end of the financial year (£139k in 2018/19 compared to £241k in 2017/18 of which £122k in 2017/18 compared to £55k in 2018/19 was considered overdue at the point of reporting). Where Funeral Directors continue to miss payment deadlines the ability to have 'on account' facilities will be removed which would require the Funeral Director having to make up front payments if services are to be held at the Crematorium. The effectiveness of this, and of the previously introduced measures, will continue to be kept under review although it should be recognised that the slow payment of invoices is unlikely to ever be fully eliminated.
9. The final matter relates to the paying of invoices on behalf of the Board by Enable under the Management Agreement. Where purchase orders are raised and invoices sent straight to Enable finance for processing by the supplier, confirmation that the goods or services have been received is not obtained in all instances prior to payment being released. The risk to the Board is therefore that it could be charged for goods or services that have not actually been received and/or are defective in some way. In response, it is proposed that a system of validation be put in place to ensure that goods and services have been received before payments are made.
10. There were no other significant matters or recommendations arising from the review.
11. Overall, the internal audit gives a substantial assurance opinion (provisional awaiting final report confirmation) on the overall adequacy and effectiveness of the internal controls that have been subjected to review. This means that whilst there is a largely sound system of internal control, there are some weaknesses, which may put a limited number of the system objectives at risk.

### **Corporate Governance**

12. The Audit Report includes comments on the governance arrangements of the Board. As a "smaller relevant body" as defined by the Accounts and Audit Regulations 2015, the Board

approves and submits its Annual Governance Statement as part of the Annual Governance and Accountability Return (previously known as the Annual Return) for the year. The Annual Governance and Accountability Return constitutes the annual return referred to in the Accounts and Audit Regulations 2015.

13. The Annual Governance Statement contained within the Annual Return for the year ended 31 March 2018 was approved by the Board at its meeting on 12 June 2018. The Internal Audit Report confirmed compliance with the principle control objectives. This section was completed on 5 June 2018 and the Return was submitted to the appointed external auditors for audit. The Board approved the audited Annual Statement at its meeting on 4 December 2018.

#### **Review of Effectiveness of Internal Audit**

14. Internal audit has always been undertaken by Wandsworth Council's Internal Audit Section which is now known as the South West London Audit Partnership (SWLAP). Comprehensive details of the internal audit function can be found on Wandsworth Council's web site at the link below (including objectives, strategy, the audit process and guidance on money laundering and anti-fraud and anti-corruption measures):-

[http://www.wandsworth.gov.uk/info/200110/council\\_budgets\\_and\\_spending/476/internal\\_audit/1](http://www.wandsworth.gov.uk/info/200110/council_budgets_and_spending/476/internal_audit/1)

15. Since 1 April 2004, the Board has gained further assurance through the Management Agreement with Wandsworth Council for the day to day management of the Board's operation, utilising the Council's staff, procedures and controls. Since 1 October 2015, the Council's sub-contractor (Enable Leisure and Culture) has taken over most of the day to day management and this will need to be kept under review by the Board. The operations are still subject to scrutiny by the Council. The effectiveness of the internal audit function has also been reviewed by Wandsworth Council and the Council's external auditors, EY (formally Ernst and Young) LLP.

#### **Scope of the Internal Audit**

16. The SWLAP provides an Internal Audit Brief which details the objectives, scope, methodology and timing of all audits undertaken each year. An "Audit Guide - Programmed Audits" is also provided and this covers the whole audit process from planning to reporting and follow-up. The Audit Brief is discussed with the Board's Chief Officers to ensure all areas of risk relevant to the Board's business are covered.
17. The Board's anti-fraud and anti-corruption arrangements principally rely on the guidance provided by the SWLAP which were included within the Internal Audit Brief. These have both been recently reviewed.
18. The Audit Guides referred to above can be made available to Members if required and are available via the web link above.
19. The Board was established by its own Act of Parliament, and has its own framework of Standing Orders, Scheme of Delegations and Financial Regulations. The Board also has an Action Plan which is regularly reviewed. The SWLAP is familiar with this framework and has access to all of the Board's records and public documents.
20. The SWLAP has considerable experience of the Board's organisation and business and is also responsible for the audit of Wandsworth Council's operations as well as covering the London Boroughs of Merton, Sutton, Richmond and the Royal Borough of Kingston. This enables a wide and comprehensive overview to be taken of compliance with operational requirements, comparative performance, and challenges and risks facing the service and

their impact on corporate governance requirements.

21. The Board's Financial Regulations identify the requirements for Risk Management and Control of Resources, including, amongst other matters, Internal Control and Audit.
22. The work of the SWLAO considers the various reports presented to the Board by Chief Officers, including regular reviews of Internal Control, Risks and Risk Management Strategy, and the Board's approval of the Annual Governance Statement within the Annual Governance and Accountability Return for each financial year. The Board's Chief Officers, and the Wandsworth/Enable Leisure and Culture staff involved in the day to day operation of the crematorium, are encouraged to identify risks and risk management measures, and the SWLAP contribute by drawing on their knowledge and experience elsewhere.
23. The latest Internal Audit report is attached to this report for information.

### **Independence**

24. The Board's Financial Regulations state:-

#### **"Audit**

*The Treasurer is responsible for ensuring: -*

- i. the maintenance and procurement of an internal audit function that is sufficient in its coverage and independent in its planning and operation;*
  - ii. that the Head of Audit has direct access to the Clerk, all levels of management and the Board; and*
  - iii. that the internal auditors have been trained to comply with professional good practice."*
25. Apart from the provision of an internal audit service, the SWLAP does not perform any other services for the Board. It is therefore considered that the SWLAP sufficiently independent, unbiased and objective.

### **Competence**

26. SWLAP provides the internal audit function for the Board. The Chartered Institute of Public Finance and Accountancy (CIPFA) issued a revised Code of Practice for Internal Audit in Local Government that is deemed to be statutory proper audit practices as stated in the Accounts and Audit Regulations 2015. The Code includes a self-assessment checklist to enable relevant public authorities to determine their compliance with it. The checklist has been completed and the SWLAP compliance with it has been assessed. It highlights that the SWLAP complies with the CIPFA Code.
27. There is no evidence of failure to carry out the Board's internal audit work ethically, with integrity and objectivity. Previous audit reports have highlighted areas requiring further attention and the resultant action plan has been monitored to ensure compliance.
28. Wandsworth Council's Audit Committee received a report on the Annual Governance Statement (Paper No. 18-250) which gave evidence of the Council's External Auditors "being able to use the work of Internal Audit to inform their risk assessment". No issues were raised in respect of the NESCB.
29. The conclusion of the audit includes a questionnaire to be completed by the officers concerned providing feedback on the quality of the audit.

### **Relationships**

30. The roles and responsibilities of the Board's Members and Officers are set out in a number of published documents:-
- North East Surrey Crematorium Board Act 1956
  - NESCB Standing Orders
  - NESCB Scheme of Delegations
  - NESCB Financial Regulations
31. In addition to their roles on the NESCB, the Board's Members are comprised of councillors from the constituent authorities. Reliance can be placed on the provision of appropriate training to Members by those authorities, and the issue and maintenance of appropriate Codes of Conduct, anti-fraud, anti-corruption, and whistle blowing procedures.

### **Audit Planning and Reporting**

32. The annual audit plan considers the risks identified by the Board's Chief Officers in their joint report on Risk Management, the Annual Review of Internal Control and other issues raised in reports to the Board during the year, and draws on the SWLAP's experience and knowledge of similar work undertaken and risks at Wandsworth and other partner Councils. The audit plan takes these issues into consideration, together with any concerns raised by the Board's Members and Officers.
33. Each year, the cyclical audit plan is discussed and agreed with the Treasurer and the Surveyor. The audit plan identifies the name of the auditor and the timescale for completion of the audit.
34. The previous Internal Audit Report was reported to the Board on 12 June 2018 in accordance with the plan.

### **Conclusion**

35. Based on the evidence throughout this report, together with the Treasurer's personal experience of the service, the Board can be assured that the SWLAP delivers an effective internal audit.
36. The Board can take some comfort from the regular scrutiny of its procedures, controls and accounts. Reviews are undertaken at least annually and, in respect of the accounts, by the external auditors. All findings are followed up as a matter of course.
37. The internal auditors have given substantial assurance this year due to the issues raised in paragraphs 6 to 10 above. There is therefore no room for complacency as the system of internal control must be demonstrably robust at all times.

### **Recommendations**

38. The Board is recommended to:-
- note the report by the SWLAP and endorse the management actions proposed; and
  - approve the re-appointment of the SWLAP as the Board's internal auditors

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