

LIVERPOOL CITY REGION COMBINED AUTHORITY



INTERNAL AUDIT PERFORMANCE

Audit and Governance Committee
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1. Introduction

- 1.1 The purpose of this report is to provide a summary of Internal Audit work completed in the period 1 October 2018 – 28 February 2019, in respect of the LCRCA Internal Audit Plan 2018-19 approved by this Committee at its meeting on 28 March 2018.
- 1.2 The report is prepared for the Audit and Governance Committee so as to facilitate the Committee's obligations, as defined in its Terms of Reference, in monitoring the effectiveness of the LCRCA's internal audit arrangements. It highlights the outcomes of Internal Audit work as a source of assurance on the effectiveness of the LCRCA's internal control environment.
- 1.3 Internal Audit is defined as: "an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes." (Public Sector Internal Audit Standards, 2017)
- 1.4 The mission of Internal Audit is to: "To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight".

2. Internal Audit Plan Progress

2.1 Background

2.1.1 The Internal Audit Plan 2018-19 for the LCRCA was approved by this Committee at its meeting on 28 March 2018. The Plan comprises 220 days of internal audit resource to be utilised on the audit of LCRCA activities. In addition to this, the LCRCA can draw assurance from the internal audit work undertaken in the Merseytravel Internal Audit Plan in respect of corporate systems which Merseytravel provides to the LCRCA.

2.1.2 The Internal Audit Plan comprises two main elements:

- Assurance in respect of grants administered by the LCRCA such as the Strategic Investment Fund (SIF), Growth Fund, Growth Hub, Rural Leader and Skills for Growth.
- Supporting developing systems by providing advice and guidance on risk and internal control. This is particularly pertinent as the activities of the Combined Authority are being established.

2.2 Grant Assurance

2.2.1 Work has been undertaken by Internal Audit to review the evidence supporting requests for payment associated with grants. This work is vital in ensuring that grant applicants (including constituent Local Authorities, educational institutions, charities, voluntary organisations and businesses) have complied with the Grant Funding Agreements in place, and that payment is only released when they have done so.

2.2.2 It is worthy of note that the volume and value of grants being presented for audit has grown exponentially during 2018-19, (124 claims totalling £16.3m up to 28 February 2019 compared to 91 claims totalling £10.6m for the same period in the prior year) and this demonstrates the development of the LCRCA's activities and increased devolution.

2.2.3 Table 1 shows the grant claims have been audited during the period 1 October 2018 – 28 February 2019:

Table 1

Grant Name	Number of Claims Audited	Value of Claims Audited (£)
Growth Fund (Employment and Skills)	1	34,807
Growth Hub (LEP)	2	221,225
Careers and Enterprise (LEP)	6	134,546
Local Energy Hub (LEP)	1	36,259
Rural Leader	1	20,340
Single Investment Fund	48	5,117,626
Total	59	5,564,803

2.3 Advice on Developing Systems

2.3.1 Adult Education Budget

Internal Audit has been providing support to the Education and Skills team to develop systems and procedures which will ensure robust audit and assurance arrangements are in place following the devolution of the Adult Education Budget in September 2019 from the Education Skills Funding Agency (ESFA) to the Combined Authority. As well as advice on our own internal systems such as the procurement and payments process, internal audit have also provided advice and guidance in relation to the offer made by the ESFA in relation to proposed working arrangements on audit and assurance, financial health and fraud and investigations. The Adult Education Budget devolved to the Combined Authority is in the region of £51m per academic year.

2.3.2 Housing First

Internal Audit is represented on the Project Board for the development of Housing First, advising on internal control, governance and risk management matters. The project concerns the award of a grant to the Combined Authority from the Ministry of Housing, Communities and Local Government (MHCLG) of £7.7m over three years, to deliver step change in homelessness in the City Region.

2.4 Follow-Up of Previous Recommendations

2.4.1 The implementation of recommendations made by Internal Audit is subject to ongoing monitoring and follow-up audit review. Where dates of agreed action have passed and confirmation of implementation has not been received, Internal Audit contacts managers to establish progress, confirm actions completed or agree revised implementation dates, if appropriate.

2.4.2 Table 3 provides a summary of recommendations that are yet to be implemented:

Table 3

Department	Audit Name	Assurance Rating	Organisational Impact	Priority	Required	Advisory	Completed	In Progress	Overdue
2017-18									
Legal	Freedom Of Information	Substantial	Low	4	0	1	3	2	0
Legal	Publication Scheme	Limited	Low	2	5	0	2	5	0

2.4.3 It is positive to note that there are no recommendations overdue. The level of acceptance of Internal Audit recommendations is high and this is reflected in a generally positive picture in terms of implementation of recommendations within an appropriate timescale.

2.5 Performance Against Plan

2.5.1 Figure 1 below shows the completion of the Internal Audit Plan 2018-19, in comparison to the profiled expected completion for each quarter based on the total number of days allocated:

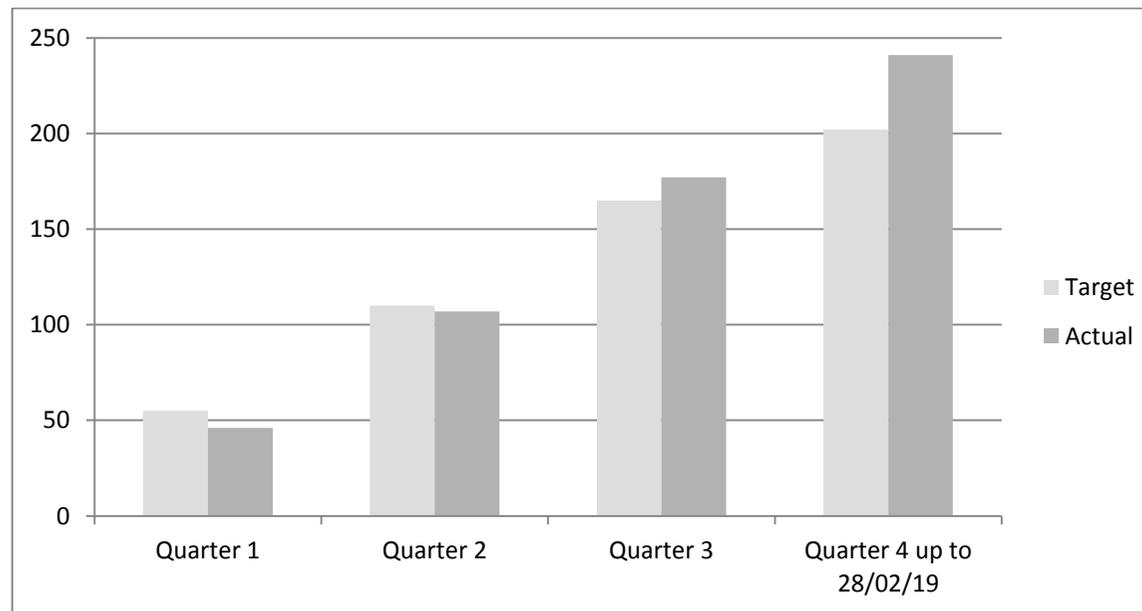


Figure 1: Completion of Internal Audit Plan 2018-19

2.5.2 It is noted that the actual number of audit days completed up to 28 February 2019 is 241 compared to an expected 202 days. This additional activity has primarily been due to the time taken providing advice on developing systems and resources required to undertake reactive counter-fraud work.

2.6 Audits of Corporate Functions

2.6.1 There are a number of functions provided by Merseytravel to the LCRCA, such as:

- Finance
- Procurement
- Human Resources
- ICT
- Mersey Tunnels.

2.6.2 As these systems are “owned” by Merseytravel, these are subject to Merseytravel governance processes, which involve reporting to the Audit, Risk and Governance Board where there is a detailed review of the audit findings and recommendations. However, as these provide services to the LCRCA, a high level summary is provided here so as to provide visibility and assurance to this Committee.

2.6.3 During the period, the following relevant Merseytravel corporate functions were audited:

Audit Review	Assurance Opinion	Recommendations Made		
		Priority	Required	Advisory
Database Management	Limited	1	1	0
IT Project Management	Substantial	0	2	2
Data Management	Limited	3	2	0
IT Strategy	Limited	1	0	0
Mersey Tunnels - Police Vehicles & Driver Management	Reasonable	0	4	2
Debtors	Substantial	0	3	1
Mail Services	Limited	1	13	1

3. Fraud and Irregularity

3.1 Background

3.1.1 The Merseytravel Internal Audit Plan 2018-19 includes 100 days for the investigation (where appropriate), prevention and detection of fraud. This is the subject of detailed scrutiny by the Audit, Risk and Governance Board, but as some of the work undertaken relates to services provided by Merseytravel to LCRCA (such as payroll and creditors), a high level summary is provided here so as to provide visibility and assurance to this Committee.

3.2 CIPFA Code of Practice on Managing the Risk of Fraud and Corruption (2014)

3.2.1 The CIPFA Code of Practice on Managing the Risk of Fraud and Corruption is the key guidance document for the sector on managing fraud risk.

3.2.2 The document takes the form of a self-assessment which examines all aspects of the organisation's strategic focus on and response to, the risk of fraud and corruption.

3.2.3 Two of the key requirements of the Code of Practice are that the Internal Audit Plan has a dedicated resource for investigation, prevention and detection of fraud and corruption, and that this is informed by a Fraud Risk Register. Both of these items are in place.

3.2.4 The self- assessment against the document is in the process of being reviewed and updated, so that it reflects the risk of fraud in the LCRCA.

3.3 Proactive Counter-Fraud Work

3.3.1 Proactive work is being undertaken examining creditors data to identify potential duplicate payments and reconciling the establishment list to the payroll to identify potential "ghost employees".

3.4 National Fraud Initiative (NFI)

- 3.4.1 The organisation participates in the National Fraud Initiative co-ordinated by the Cabinet Office. Data from the Payroll and Creditors systems are uploaded to the dedicated Cabinet Office website, and are matched with data within and between participating bodies so as to identify potential frauds, overpayments and errors. On receipt of the results, the organisation has responsibility to follow up and investigate the matches. The main NFI data matching is undertaken every two years, the results of these matches is fed into a national report at the end of each cycle.
- 3.4.2 Data for this cycle was uploaded in the week commencing 8 October 2018 in accordance with the NFI timetable, and matches were received at the end of January 2019. This Committee will be kept informed of the outcomes arising from the review of matches.

3.5 Reactive Counter-Fraud Work

- 3.5.1 Internal Audit is examining a range of compliance issues highlighted in relation to applications and payments related to a specific grant for which the Combined Authority acts as accountable body. This work commenced in February 2019 and is ongoing. This Committee will be informed of any outcomes from the investigation upon its conclusion.

3.6 Fraud Risk Register

- 3.6.1 The Fraud Risk Register is under review in conjunction with Heads of Service. This is with the objective of updating the risks held within the risk register so as to reflect new and emerging fraud risks associated with the development of the LCRCA, and to ensure that Heads of Service have acknowledged such risks in their planning and development of internal controls.

3.7 Fraud Policy Framework

- 3.7.1 There is a separate report on this agenda which details the review and update of fraud policies.

4. Public Sector Internal Audit Standards (PSIAS)

4.1 Background

4.1.1 The Internal Audit service is required to demonstrate its compliance with the Public Sector Internal Audit Standards (PSIAS), which detail how the service should operate, be managed, and relate to the organisation. So as to demonstrate compliance, the service must undertake internal and external assessment.

4.2 Internal and External Assessment

4.2.1 It is a requirement of the PSIAS that the service must be subject to an external assessment of its compliance with the PSIAS once every five years. The service was subject to such an external assessment (peer review validation of self-assessment) against the requirements of the Public Sector Internal Audit Standards (PSIAS) in June 2017.

4.2.2 The overall outcome of this assessment was that the service conforms to the PSIAS. A number of enhancements to the service were suggested as a result of the assessment, and all such actions arising from the report have subsequently been completed.

4.2.3 An internal assessment against the PSIAS is undertaken on an ongoing basis, so as to ensure that the service remains compliant until the next scheduled external review, which will be scheduled to take place in 2022.

4.3 Quality Assurance and Improvement Programme (QAIP)

4.3.1 The Public Sector Internal Audit Standards (PSIAS) require that the service maintains a Quality Assurance and Improvement Programme (QAIP) which includes a series of performance measures and associated targets.

4.3.2 Performance measures defined in the QAIP are also included within the 2018/19 Internal Audit Service Plan and are thus reported to senior management in accordance with the corporate quarterly performance reporting process. This provides



senior management oversight and scrutiny of performance and of any remedial actions required to meet identified targets. The QAIP is also subject to detailed scrutiny by the Merseytravel Audit, Risk and Governance Board.