

LIVERPOOL CITY REGION COMBINED AUTHORITY AND MERSEYTRAVEL



INTERNAL AUDIT PLAN AND CHARTER 2019-20

Audit and Governance Committee
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Contents

	Page
1. Executive Summary	2
2. Plan Compilation and Principles	3
3. Organisational Context	4
4. Composition	5
5. Corporate Systems	7
6. Liverpool City Region Combined Authority: Specific Systems	9
7. Merseytravel: Specific Systems	10
8. Planned Developments	11
9. Internal Audit Charter	14

1. Executive Summary

- 1.1 This report provides the Internal Audit Plan and Charter 2019-20 for the Liverpool City Region Combined Authority (LCRCA) and Merseytravel.
- 1.2 The Internal Audit Plan is a key requirement of the Public Sector Internal Audit Standards (hereafter referred to as “the Standards”), and is vital in demonstrating the Internal Audit service’s continued compliance.
- 1.3 The Plan demonstrates how internal audit resources will be used during the forthcoming financial year so as to provide assurance on the effectiveness of the internal control systems in place in both organisations, so as to inform the Annual Report and Opinion of the Head of Internal Audit for 2019-20 for LCRCA and for Merseytravel.
- 1.4 Particular attention has been paid to ensuring that the Internal Audit Plan is reflective of the changing risk landscape of the organisation, and that it provides tangible added value in maintaining an effective system of internal control and management of risk. The Plan has a particular emphasis on the role Internal Audit can play at a strategic level. This has been achieved through consultation with relevant stakeholders.
- 1.5 The Internal Audit Charter sets out the role, purpose and authority of Internal Audit, and details the behaviours and values adopted by audit staff.

2. Plan Compilation and Principles

- 2.1 The Standards state that the “Chief Audit Executive” must “establish risk based plans to determine the priorities of the internal audit activity, consistent with the organisation’s goals”. They refer to the need for the plan to reflect the assurance framework, risk management arrangements and input from management and “the board”.
- 2.2 In meeting this Standard, an extensive consultation exercise has been undertaken to identify potential areas for audit, comprising:
- Review of the Corporate Risk Registers for LCRCA and Merseytravel
 - Review of Service Risk Registers
 - Review of Committee reports and decisions
 - Cumulative audit knowledge and experience
 - Findings and outcomes from previous audit work
 - Engagement with Heads of Service
 - Evaluation of the risks highlighted by the Internal Audit Plan 2018-19.
- 2.3 An extensive risk assessment exercise took place so as to form an overall view on the level of organisational risk each area poses. By implementing a truly risk-based methodology, the Plan is intended to ensure that internal audit resource is used to concentrate on the most significant identified risks which may jeopardise the achievement of the corporate objectives, as detailed in the Corporate Plans. This increased focus on risk is also intended to assist management in understanding the risks within their own service delivery areas, and to assist them in developing robust and resource-effective controls to mitigate these risks. This is intended to support the Corporate Behaviour “action focus” in assisting in the delivery of objectives.

3. Organisational Context

- 3.1 The organisational context for the Internal Audit Plan remains one of significant and fast-paced change. As the activities and responsibilities of the Combined Authority grow, so does the inherent risk and opportunity associated with the delivery of the Devolution Deal. Key to ensuring delivery of the organisation's responsibilities is the need to manage risk effectively, by establishing robust systems of internal control.
- 3.2 In terms of Merseytravel, the drive for financial sustainability will continue to be important in 2019-20, and the way that the organisation responds effectively to this challenge will be key. The ongoing challenges relating to the ageing asset base also poses challenges for the organisation, and during 2019-20, key projects on Rolling Stock and the new Mersey Ferry will reach important stages.
- 3.3 The Internal Audit Plan reflects these key challenges, recognising the need to ensure that the organisation is able to deliver with confidence. The Internal Audit Plan allocates time to advice and guidance and developing systems, so that assurance can be provided on the extent to which planned systems mitigate risk, coupled with reviews of the key systems and processes that will support delivery.
- 3.4 Feedback from Senior Officers has indicated a wish for Internal Audit to focus on the value it can add at a strategic level. Therefore, the Plan reflects a heightened focus on audits of strategic importance, by aligning the plan closely with the most significant risks faced by the organisation, reflected in the Corporate Risk Register.
- 3.5 As the organisation's activities develop, it is important to recognise that the key risks facing the organisation will also evolve. In this context, the Internal Audit Plan must be flexible so as to be able to adapt to and reflect the changing risk landscape of the organisation. Therefore, it is likely, and indeed desirable that the Plan presented in this report will evolve and change throughout the year so as to keep pace with such changes.

4. Composition

- 4.1 The Internal Audit Plan has been based upon 1317 available audit days. This is following the deduction of bank holidays, annual leave, staff training and development, and management. There is also an additional 60 days provided by Salford Internal Audit Services for the provision of technical ICT audit, giving 1377 days in total.
- 4.2 The Plan also includes the addition of a new post of Principal Auditor, assuming that the vacancy will be filled with effect from 1 May 2019. This post is particularly focused on LCRCA work.
- 4.3 The Plan is composed of the following key areas:

Plan Heading	Description	Audit Days		
		LCRCA	MT	Total
Corporate	Provides assurance relating to a system that has applicability across the organisation – for example corporate governance, risk management, procurement, corporate planning and performance, ICT.	92	242	334
Service - Specific	Provides assurance relating to systems that are specific to a certain area of the business, for example, Housing First, Rolling Stock project, adult education budget, insurance, reviews of individual contracts.	144	553	697
Key Financial Systems	Provides assurance that systems such as Payroll, Creditors and Debtors are effectively controlled.	0	106	106
Grant Assurance	Discharging the requirement for Internal Audit review prior to grants being recommended for payment.	120	15	135
Advice and Guidance	Providing input to developing systems and emergent risks.	25	20	45
Counter-Fraud	Proactive and reactive work to contribute to managing the organisation's risk of fraud.	30	30	60
TOTAL AUDIT DAYS		411	966	1377

There is also an allocation of non-audit days for supporting the organisation, such as facilitating the system of risk management and corporate support such as authorised signatories and administration of the Insight 4 Policies system. This also includes audit planning and ensuring continued compliance with the Public Sector Internal Audit Standards.

4.4 The detailed Internal Audit Plan 2019-20 is shown at Appendix A.

5. Corporate Systems

5.1 There are a number of key systems which are provided by Merseytravel to both Merseytravel and LCRCA. Reporting of the outcomes from the audit work in these areas formally falls within the remit of the Merseytravel Audit, Risk and Governance Board, but as the LCRCA is a “recipient” of these services, the audit findings will also be reported to the Audit and Governance Committee so as to provide assurance that the risks associated with these are being managed effectively. The main areas of note within the Internal Audit Plan 2019-20 are:

i. Key Financial Systems

These are the central systems that record and manage the financial affairs of both organisations, such as debtors, creditors, payroll, treasury management, and the main accounting system. Because of the financial risk associated with fraud, error, omission or poor management of these systems, which could lead to financial loss, reputational damage and inaccurate financial statements, these systems are reviewed on an annual basis by Internal Audit.

ii. ICT

The ICT service provides services to both organisations. Technical ICT audit is provided via a contractual arrangement with Salford Internal Audit Services, which provides approximately 60 days of audit work based upon a specific risk assessment. Less technical areas such as the audit of application access control are to be carried out by the in-house audit team.

iii. Counter-Fraud

There are two elements to the audit work in respect of counter-fraud – firstly, there is a provision of audit days for the investigation of allegations of fraud referred to internal audit. Secondly, there is proactive internal audit work to contribute to the prevention and detection of fraud, appraising the effectiveness of anti-fraud controls in place. This work is informed by the cross-cutting risks included in the Fraud Risk Register, which are:

- Misappropriation of funds
- Misuse of resources
- Procurement fraud
- Bribery and corruption of officers/members
- Recruitment fraud
- Creditor fraud.

iv. Corporate Systems

There are a number of corporate systems provided by Merseytravel to both organisations which feature in the Internal Audit Plan 2019-20. These include:

- Absence Management
- Health and Safety
- Procurement
- Risk Management.

The notable exceptions are the Corporate Planning and Performance Management area and the Programme Management Office which are administered by the LCRCA but provide services to both organisations. This makes the Audit and Governance Committee the primary body for the reporting of audits of these areas.

The reviews of corporate governance to inform the Annual Governance Statements for each organisation will be closely related, drawing heavily on these corporate systems.

6. Liverpool City Region Combined Authority: Specific Systems

- 6.1 There are a number of systems that are specific to LCRCA. From a governance perspective, these fall entirely within the remit of the Audit and Governance Committee, and would not be routinely reported to the Merseytravel Audit, Risk and Governance Board.
- 6.2 As the activities of the LCRCA are growing, there has been a commensurate increase in the audit time to be spent, rising from 220 days in 2018-19 to 411 in 2019-20. The main areas of note within the Internal Audit Plan 2019-20 are:

i. Specific Systems

The Internal Audit Plan 2019-20 reflects the key risk areas that align to the systems administered by the LCRCA. These include:

- Adult Education Budget
- Housing First
- Single Investment Fund (SIF)
- Mayoral Projects
- Households into Work
- Local Enterprise Partnership (LEP).

ii. Counter-Fraud

There is a provision of audit days for the investigation of any allegations of fraud relating to LCRCA activities and officers referred to internal audit. There is also proactive internal audit work to contribute to the prevention and detection of fraud, by appraising the effectiveness of anti-fraud controls in place. This work is informed by the specific LCRCA fraud risks on the Fraud Risk Register, which are:

- Inappropriate use of devolved budgets
- Bribery and corruption in the award of grant funding

These risks also include the potential for the organisation to be a victim of fraud perpetrated by another individual or organisation.

7. Merseytravel: Specific Systems

7.1 There are a number of systems that are specific to Merseytravel. From a governance perspective, these fall entirely within the remit of the Audit, Risk and Governance Board, and would not be routinely reported to the Audit and Governance Committee. The main areas of note within the Internal Audit Plan 2019-20 are:

i. Counter-Fraud

There is a provision of audit days for the investigation of any allegations of fraud relating to Merseytravel activities and officers referred to internal audit. There is also proactive internal audit work to contribute to the prevention and detection of fraud, by appraising the effectiveness of anti-fraud controls in place. This work is informed by the specific Merseytravel fraud risks on the Fraud Risk Register, which are:

- Ticket fraud
- Concessionary travel applications
- Money Laundering.

These risks also include the potential for the organisation to be a victim of fraud perpetrated by another individual or organisation.

ii. Specific Systems

The Internal Audit Plan 2019-20 reflects the key risk areas that align to the systems administered by Merseytravel. These include:

- Mersey Ferries governance
- Fast Tag account management
- Rail: Operator of last resort
- Beatles Story: Admissions
- Rolling Stock
- Ticketing
- Reviews of specific contracts.

8. Planned Developments

Quality Assurance and Improvement Programme (QAIP)

- 8.1 Key details of the outcomes of audit work will continue to be presented to every meeting of the Audit and Governance Committee and the Audit, Risk and Governance Board.
- 8.2 In addition, a suite of performance indicators will be used to measure the delivery of the Internal Audit Plan and the effectiveness of the work undertaken. This is a key part of ensuring that the service develops its quality and effectiveness as part of its Quality Assurance and Improvement Programme (QAIP), required by the Standards.
- 8.3 For 2019-20, the performance indicators and associated targets are:

Description and Purpose	Target
<p>Compliance with the Public Sector Internal Audit Standards (PSIAS) This measures the extent to which the results of internal assessment indicate that the Service retains its full compliance with the PSIAS.</p>	100%
<p>Percentage of the Internal Audit Plan 2019-20 completed This measures the extent to which the Internal Audit Plan agreed by this Committee is being delivered. The delivery of the Plan is vital in ensuring that an appropriate level of assurance is being provided across the organisation's key risks.</p>	100%
<p>Percentage of Client Survey responses indicating a "very good" or "good" opinion This measures the feedback received on the service provided, and seeks to provide assurance that Internal Auditors conduct their duties in a professional manner.</p>	100%
<p>Percentage of annual senior management survey responses indicating satisfaction with the Internal Audit service provided This measure the feedback received on the level of satisfaction amongst senior management, expressed during the annual satisfaction survey.</p>	100%
<p>Percentage of recommendations made in the period which have been agreed to by management This measures the extent to which managers feel that the recommendations made are appropriate and valuable in strengthening the control environment.</p>	100%

Reporting

- 8.4 In line with the increased focus on risk, it is also proposed that the Internal Audit Report is revised so as to emphasise risk more strongly, and provide managers with more assistance in understanding their key risks and how to implement effective systems of internal control to manage these.
- 8.5 So as to facilitate this, the Report will change to reflect a single “Organisational Risk Opinion” which will indicate the overall level of risk presented to the organisation by the area under audit review, based upon the findings arising from the audit work. There will be four levels of opinion commensurate with the level of risk perceived by the audit, which are defined as:

Major

The risks identified in the review could, if they materialised, have a major impact on the organisation as a whole.

Moderate

The risks identified in the review could, if they materialised, have a moderate impact on the organisation as a whole.

Minor

The risks identified in the review could, if they materialised, have a minor impact on the organisation as a whole.

Negligible

No risks were identified within the review.

- 8.6 This simplifies the existing system of having two audit opinions, (one relating to the robustness of control and one relating to the level of risk presented by the system) and will assist management in understanding the outcomes of the audit.

8.7 In addition, the audit recommendation priority levels are to be simplified, to give the following categories, based upon the management of risk within the area under review:

High

The recommendation is essential to the management of risk within the area under review.

Medium

The recommendation is important to the management of risk within the area under review.

Advisory

The recommendation is a suggestion intended to enhance the existing management of risk within the area under review.

9. Internal Audit Charter

- 9.1 In compliance with the Standards, Internal Audit is required to establish a Charter which sets out its role, purpose and authority.
- 9.2 This provides clarity and legitimacy to the role of Internal Audit in the organisation, and assists the function in operating in line within an agreed framework.
- 9.3 The document acts as a guide for Internal Auditors in their daily work, but also assists officers and members in understanding what internal audit is and how it operates. The document includes a Code of Ethics which details the ethical behaviour and standards auditors are required to demonstrate.
- 9.4 The Charter has been prepared so as to meet the Standards and incorporates all relevant requirements.
- 9.5 The Charter is shown at Appendix B. This is reviewed and presented to this Committee on an annual basis.