

LIVERPOOL CITY REGION COMBINED AUTHORITY AND MERSEYTRAVEL



INTERNAL AUDIT CHARTER 2019-20

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1. Purpose

The purpose of the Internal Audit Charter is to define internal audit's purpose, authority and responsibility. It establishes internal audit's position within Liverpool City Region Combined Authority (LCRCA) and Merseytravel and defines the scope of internal audit activities.

This Charter also covers the arrangements for the appointment of the Head of Internal Audit and internal audit staff, and identifies the professionalism, skills and experience required.

This Charter will be appropriately updated following any changes to the Public Sector Internal Audit Standards (hereafter referred to as "the Standards") issued in June 2017 or internal audit's operating environment and, as a minimum, will be reviewed by the Chief Internal Auditor and presented to the LCRCA Audit and Governance Committee and Merseytravel Audit, Risk and Governance Board on an annual basis.

The requirements of an Internal Audit Charter are defined in the Public Sector Internal Audit Standards at Standard 1000: Purpose, Authority and Responsibility.

The Charter must:

- define the terms 'board' and 'senior management' for the purposes of internal audit activity
- cover the arrangements for appropriate resourcing
- define the role of internal audit in any fraud-related work; and
- describe safeguards to limit independence or objectivity if internal audit or the Head of Internal Audit undertakes non-audit activities.

2. Definitions

The Standards define Internal auditing 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”.

The Standards require that the Internal Audit Charter defines the terms ‘board’ and ‘senior management’ in relation to the work of internal audit. For the purposes of internal audit work, the ‘board’ refers to the LCRCA Audit and Governance Committee, and the Merseytravel Audit, Risk and Governance Board which assume responsibility for overseeing the work of internal audit in the respective organisations. The senior management team refers to the Directors.

The Head of Internal Audit fulfils the Chief Audit Executive (CAE) role as defined by the Standards.

Mission of Internal Audit

The Standards define the Mission of Internal Audit as follows:

“To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight”

Core Principles of Internal Audit

The Standards also include ten Core Principles of Internal Audit, as follows:

- Demonstrates integrity
- Demonstrates competence and due professional care
- Is objective and free from undue influence (independent)
- Aligns with the strategies, objectives, and risks of the organisation
- Is appropriately positioned and adequately resourced
- Demonstrates quality and continuous improvement
- Communicates effectively
- Provides risk-based assurance
- Is insightful, proactive, and future-focused

- Promotes organisational improvement.

The Standards require that the Charter defines various terms and the identity of these bodies needs to be stated in relation to the work of internal audit.

The Board

For the purposes of internal audit work, the 'Board' refers to the LCRCA Audit and Governance Committee and Merseytravel Audit, Risk and Governance Board which assume the role of the Board as defined by the Standards and are responsible for overseeing the work of internal audit.

The Boards provides an independent and high level review of the audit, assurance and reporting arrangements that underpin good governance and financial standards.

They provide independent review of the Authority's governance, risk management and control frameworks and oversee the financial reporting and annual governance processes. They help to ensure efficient and effective assurance arrangements are in place.

Senior Management

The Authority's senior management team is the Directors, including the Head of Paid Service, Treasurer (Section 73 Officer) and Monitoring Officer, (collectively defined in the Constitution as the Statutory Officers).

Chief Audit Executive

The Head of Internal Audit fulfils the Chief Audit Executive (CAE) role, as defined by the Standards.

Internal Audit arrangements within the Authority

The Treasurer is responsible for ensuring appropriate internal audit arrangements are established and maintained.

Merseytravel was appointed as the Internal Audit providers of the Authority on 5 April 2016.

3. Public Sector Internal Audit Standards

Any appointed internal audit function of the Authority is required to comply with the standards. The Relevant Internal Audit Standard Setters, which includes the Chartered Institute of Public Finance and Accountancy (CIPFA), adopted the standards with effect from 1 April 2013. These Standards replaced the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 (“The Code”). The standards encompass the mandatory elements of the Chartered Institute of Internal Auditors (CIIA) International Professional Practices Framework (IPPF).

The Standards were subject to review and update in April 2017 and can be accessed via the following link:

[Public Sector Internal Audit Standards \(April 2017\)](#)

Compliance with the Standards is mandatory and must be subject to both internal and external assessment.

CIPFA has developed a Local Government Application Note (LGAN) as the sector-specific requirements for compliance with the Standards within Local Authorities and other relevant public sector bodies, including Combined Authorities. This consists of an extensive self-assessment, which facilitates consistent interpretation of the Standards within the public sector environment and enables compliance with the requirements of the Standards.

The Head of Internal Audit must undertake a self-assessment on a regular basis. An external assessment or validation of the self-assessment must also be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. The results of these assessments will be reported to the Audit and Governance Committee and Audit, Risk and Governance Board.

4. Responsibilities

The internal audit function is responsible for establishing procedures and applying the required resources to ensure that the service conforms with the Mission Statement and Definition of Internal Auditing, the Core Principles and the Standards. All members of the internal audit team must also demonstrate conformance with a Code of Ethics, which is attached at Appendix A.

The Head of Internal Audit must deliver an annual report and opinion that are used to inform the Authority's Annual Governance Statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. This is the 'assurance role' of internal audit.

Internal audit may also provide an independent and objective consultancy service, which is advisory in nature and generally performed at the specific request of senior management. The aim of the consultancy service is to help senior management to improve the Authority's' risk management, governance and internal control arrangements.

The Authority's Treasurer is required to ensure that appropriate arrangements are made for the provision of an internal audit service. This includes the approval of this Charter by the Audit and Governance Committee and Audit, Risk and Governance Board.

Senior Management has a responsibility to respond promptly to audit plans, reports and recommendations, where appropriate.

Responsibility for monitoring and ensuring the implementation of agreed recommendations rests with management and is monitored by Internal Audit and reported to the Audit and Governance Committee and Audit, Risk and Governance Board.

5. Independence of Internal Audit

The internal audit activity must be independent and internal auditors must be objective in performing their work. The Head of Internal Audit must confirm the organisational independence of the internal audit activity, at least annually. Internal audit has no operational responsibilities within the line management structure.

Any operational (non-audit) activities undertaken by the Head of Internal Audit or a member of the Internal Audit team will be recorded and any conflict of interest declared to ensure that the independence of future internal audit work in respect of the activity is not compromised.

Any real or perceived conflicts are considered and recorded at the commencement of each internal audit engagement.

6. The Head of Internal Audit

The Treasurer must be satisfied that the Head of Internal Audit has sufficient skill, experience and professional competence to work with Senior Management and the Audit Committee to influence and inform the risk management, governance and internal control arrangements of the Authority.

The Head of Internal Audit is responsible for ensuring that the members of the Internal Audit team possess the appropriate knowledge, skills, qualifications and experience to deliver the Internal Audit Plan and to meet the requirements of the Standards. The Head of Internal Audit will hold a full, professional qualification, defined as CCAB, CMIIA or equivalent professional membership and adhere to professional values and the Code of Ethics.

The Head of Internal Audit reports directly to the Treasurer. The Head of Internal Audit, or an appropriate representative of the internal audit team, attends all meetings of the Audit and Governance Committee and Audit, Risk and Governance Board unless, exceptionally, the Audit and Governance Committee or Audit, Risk and Governance Board decides that they should be excluded from either the whole meeting or from particular agenda items.

The Head of Internal Audit shall have an independent right of access to the Chairs of the Audit and Governance Committee and Audit, Risk and Governance Board, if required. In exceptional circumstances, where normal reporting channels may be seen to impinge on the objectivity of the audit, the Head of Internal Audit may report directly to the Chair of the Audit and Governance Committee or the Audit, Risk and Governance Board.

Internal Audit will co-operate with and assist the appointed External Auditors, who are invited to attend all meetings of the Audit and Governance Committee and Audit, Risk and Governance Board.

7. Scope of Internal Audit

The Head of Internal Audit should develop and maintain a process for providing the Treasurer with an objective evaluation of, and opinions on, the effectiveness of the Authority's risk management, governance and internal control arrangements. Internal Audit's activities should be undertaken effectively and efficiently. The annual Internal Audit Plan will be risk based, prepared in consultation with relevant officers and be presented to the Audit and Governance Committee and Audit, Risk and Governance Board for approval. The opinions of the Head of Internal Audit are drawn from the outcomes of internal audit work and are a key element of the framework of assurance needed to inform the completion of the Annual Governance Statement (AGS).

Opinion Work

The internal audit activity must evaluate and contribute to the improvement of governance, risk management and control processes using a systematic, disciplined and risk-based approach.

Internal Audit's planned work is determined through an annual strategic risk assessment and planning process, from which Annual Audit Plans are produced and subject to approval by the Audit and Governance Committee and Audit, Risk and Governance Board.

The Internal Audit Plan is sufficiently flexible to reflect the changing risks and priorities of the organisation, and is subject to ongoing review and update during the year to ensure that it is fit for purpose and adds value to the Authority.

Internal Audit must be able to clearly demonstrate that its scope of work reflects the Authority's corporate objectives and assurance needs, therefore strategic internal audit planning activity will consider the Authority's priorities, funding streams, risk assessment processes and defined assurance and governance requirements.

Governance

Internal audit must assess and make appropriate recommendations for improving the governance process in its accomplishment of the following objectives:

- promoting appropriate ethics and values within the City Region;
- ensuring effective organisational performance management and accountability;
- communicating risk and control information to appropriate areas of the Authority; and

- co-ordinating the activities of and communicating information to the Audit and Governance Committee, Audit, Risk and Governance Board, external audit, internal auditors and senior management.

Risk Management

Internal audit must evaluate the effectiveness of, and contribute to, the improvement of risk management processes by:

- ensuring significant risks are identified and assessed when scoping audit work; and
- ensuring that audit recommendations are appropriate to address key risk areas identified.

Internal Control

Internal audit must assist the organisation in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement. The internal audit activity must evaluate the adequacy and effectiveness of controls in responding to risks within the organisation's governance, operations and information systems regarding:

- achievement of the organisation's strategic objectives
- reliability and integrity of financial and operational information
- economical, effective and efficient use of resources
- effectiveness and efficiency of operations and programmes
- safeguarding of the Authority's assets and interests from losses of all kinds, including those arising from theft, fraud, irregularity, corruption or bribery
- compliance with laws, regulations, policies, procedures and contracts.

The Head of Internal Audit must ensure appropriate internal audit arrangements are in place in respect of partnership or joint working arrangements.

Non-Opinion and Assurance Work

Non-opinion work includes the review of partnership arrangements, where appropriate and the provision of assurance on the legitimacy of payment / grant claims. Internal Audit also undertakes assurance work in respect of regulatory compliance and facilitates the production of relevant policy documentation. In addition, the service may provide, at the request of management, a consultancy service which evaluates policies, procedures, systems and operations put in place by management.

The Head of Internal Audit must consider the effect on the opinion work before accepting consultancy work or management requests over and above the contingency allowed for in the Internal Audit Plan. Approval would be sought from the Audit and Governance Committee and/or Audit, Risk and Governance Board for any significant additional consulting services not already included in the Internal Audit Plan prior to accepting the engagement, if it is deemed that undertaking this work could compromise delivery of the agreed Internal Audit Plan or annual audit opinion. The Head of Internal Audit must consider if consultancy work contributes towards the overall annual opinion.

Fraud

Managing the risk of fraud is the responsibility of line management. The Treasurer has specific responsibilities in relation to the detection and investigation of fraud and may request internal audit to assist with the investigation of suspected fraud or corruption. Internal audit should be notified of all suspected or detected fraud, corruption or impropriety, to inform their opinion on the control environment and their audit plan.

The Treasurer and Head of Internal Audit will ensure that the Authority is seeking to ensure appropriate governance and operational arrangements in place to counter fraud and corruption, in accordance with the (non-statutory) requirements of the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption (2014). Compliance with the Code and ongoing actions to achieve compliance will be reported to the Audit and Governance Committee, and Audit, Risk and Governance Board as appropriate.

Reporting

The Head of Internal Audit will present a formal report annually to Senior Management and the Audit and Governance Committee and the Audit, Risk and Governance Board giving an opinion on the overall adequacy and effectiveness of the Authority's framework of governance, risk management, and internal control. This report will conform to the Standards, and will provide a summary of the work to support the opinion. It will be timed to support the production of the Annual Governance Statement.

Reports of progress against the planned work will be presented to the Audit and Governance Committee and Audit, Risk and Governance Board on a quarterly basis during the year, in accordance with the requirements of Internal Audit's Quality Assurance and Improvement Programme (QAIP).

Internal Audit Access Rights

Where necessary in the conduct of their work, designated auditors are entitled to require and receive:

- access to all records, documents and correspondence relating to any financial or other relevant transactions, including documents of a confidential nature
- access at all reasonable times to any land, premises and officer of the Authority, or officers acting on behalf of the Authority
- the production of any cash, assets or other property of the Authority under an officer's control
- explanations concerning any matter under investigation.

Internal Audit Resources

If the Head of Internal Audit or the Audit and Governance Committee/Audit, Risk and Governance Board considers that the level of audit resources or the terms of reference in any way limit the scope of internal audit, or prejudice the ability of internal audit to deliver a service consistent with the Definition of Internal Auditing and the Standards, the Statutory Officers should be advised accordingly.

INTERNAL AUDIT CODE OF ETHICS

Requirements

In accordance with the Public Sector Internal Audit Standards (“the Standards”), internal auditors in UK public sector organisations must conform to a Code of Ethics.

If individual internal auditors have membership of a professional body, then he or she must also comply with the relevant requirements of that organisation.

The purpose of the Code of Ethics is to promote an ethical culture in the profession of internal auditing. A Code of Ethics is necessary and appropriate for the profession of internal auditing, founded as it is on the trust placed in its objective assurance about risk management, control and governance.

The Code of Ethics includes two essential components:

1. *Principles* that are relevant to the profession and practice of internal auditing;

and

2. *Rules of Conduct* that describe behaviour norms expected of internal auditors.

These rules are an aid to interpreting the Principles into practical applications and are intended to guide the ethical conduct of internal auditors.

The Code of Ethics provides guidance to internal auditors serving others.

The term ‘Internal auditors’ refers to members of recognised Professional Bodies (e.g. CIPFA, CIIA) and those who provide internal auditing services within the definition of internal auditing.

The Code of Ethics also takes into consideration the relevant Principles of Internal Audit, as defined by the Standards as follows:

- Demonstrates integrity

- Demonstrates competence and due professional care
- Is objective and free from undue influence (independent)
- Aligns with the strategies, objectives, and risks of the organisation
- Is appropriately positioned and adequately resourced
- Demonstrates quality and continuous improvement
- Communicates effectively
- Provides risk-based assurance
- Is insightful, proactive, and future-focused
- Promotes organisational improvement

Further information on the Nolan Principles and Ethical Standards for providers of public services can be accessed via the attached link:

[Ethical standards for providers of public services Dec 2015](#)

Applicability and Enforcement

This Code of Ethics applies to both individuals and entities that provide internal auditing services. Disciplinary procedures of professional bodies and employing organisations may apply to breaches of this Code of Ethics.

Integrity

Principle 1:

The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement.

Rules of Conduct:

Internal Auditors:

- Shall perform their work with honesty, diligence and responsibility
- Shall observe the law and make disclosures expected by the law and the profession
- Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organisation

- Shall respect and contribute to the legitimate and ethical objectives of the organisation.

Competency

Principle 2:

Internal auditors apply the knowledge, skills and experience needed in the performance of internal auditing services.

Rules of Conduct:

Internal Auditors:

- Shall engage only in those services for which they have the necessary knowledge, skills and experience
- Shall perform internal auditing services in accordance with the International Standards for the Professional Practice of Internal Auditing
- Shall continually improve their proficiency and effectiveness and quality of their services.

Internal auditors who work in the public sector must also have regard to the Committee on Standards of Public Life's Seven Principles of Public Life (the "Nolan Principles"):

- Selflessness
- Integrity
- Objectivity
- Accountability
- Openness
- Honesty
- Leadership.

Objectivity

Principle 3:

Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined.

Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgements.

Rules of Conduct:

Internal Auditors:

- Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organisation
- Shall not accept anything that may impair or be presumed to impair their professional judgement
- Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

Confidentiality

Principle 4:

Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

Rules of Conduct:

Internal Auditors:

- Shall be prudent in the use and protection of information acquired in the course of their duties
- Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organisation.

Internal Audit seek to promote robust ethical standards throughout the organisation, and recognise the importance of an appropriate ethical framework and ethical capability, encompassing principled leadership and governance, clear lines of accountability and informed and transparent decision making. This reflects the suggested measures outlined by the Committee on Standards in Public Life (Ethical Standards for Providers of Public Services – Guidance (2015)).