INTERNAL AUDIT PERFORMANCE

Audit and Governance Committee
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Laura A. Williams MA CPFA
Head of Internal Audit

Contents

1. Introduction

1.1 The purpose of this report is to provide a summary of Internal Audit work completed in the period since the last report: 28 February – 30 June 2019, in respect of the Internal Audit Plans 2018-19 and 2019-20.

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 governance, risk and 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".

1.5 This report includes:

- A summary of Internal Audit Plan delivery for the period
- Details of work undertaken, and key items of note in respect of corporate systems, Liverpool City Region Combined Authority specific systems and Merseytravel specific systems
- An update on internal audit performance with reference to the key performance indicators detailed in the Quality Assurance and Improvement Programme (QAIP);
- An update on work undertaken in respect of fraud and irregularity;
- An update on the service's compliance with the Public Sector Internal Audit Standards (PSIAS).
- Details of the self-assessment undertaken regarding the revised Statement on the Role of the Head of Internal Audit (CIPFA, 2019).

2. Summary of Internal Audit Plan Delivery

2.1 Audits Completed

2.1.1 In the period 28 February – 30 June 2019, 34 audits were completed. These are shown in Table 1 (those shown in italics are at draft stage):

Audit Title	Assurance Opinion	Organisational Impact	Entity Corporate System	LCRCA	Merseytravel
2018-19					
Rolling Stock – Governance	Substantial	None			X
Rolling Stock - Collaborative Working	Substantial	None			X
Creditors and Cheque Control	*Reasonable*	*Medium*	*X*		
Debtors	Reasonable	Low	X		
Main Accounting System	*Reasonable*	*Medium*	*X*		
VAT	*Reasonable*	*Medium*	*X*		
Treasury Management	*Reasonable*	*Medium*	*X*		
Concessionary and Prepaid Travel	Substantial	Low			X
Delegated Decisions	Reasonable	Low	X		
Severance, Redundancy	Substantial	None	X		
Travel, Accommodation and Expenses	*Limited*	*Medium*	*X*		
Payroll	Reasonable	Medium	X		
Vehicle Tracking System	Reasonable	Low			X
Mail Services	Limited	Medium	X		
Beatles Story - Governance	Reasonable	Low			X
Fast Tag Account Management	Reasonable	Medium	X		
Tunnels Concessionary Travel Scheme	Reasonable	Low	X		
Travel Centres - Stock / Income	Reasonable	Medium			X
Contact Centre	Reasonable	Low			X
Rolling Stock Project Delivery - Rolling Stock Design	Substantial	Low			X
Rolling Stock Project Delivery - Depots	Substantial	None			X
Rolling Stock Project Delivery - PTI Works	Substantial	None			X

Audit Title	Assurance Opinion	Organisational Impact	Entity		
			Corporate System	LCRCA	Merseytravel
2018-19					
Bus Services - Contract Management	Substantial	None			X
IT - Information Security Policies	Satisfactory	n/a	X		
IT - Cyber Security	Satisfactory	n/a	X		
IT - Network Management	Satisfactory	n/a	X		
IT - E-mail / Communications	Satisfactory	n/a	X		
IT - Mobile Working	Satisfactory	n/a	X		
IT - ITIL Service Management	Satisfactory	n/a	X		
IT - IT Asset Control (CMDB)	Satisfactory	n/a	X		
Audit Title	Organisational Risk Opinion		Entity		
			Corporate System	LCRCA	Merseytravel
2019-20					
Annual Governance Statement Review 2018-19	Not applicable			X	
Concierge and Portering Contract	Minor		X		
Rail Operators - Ticket Stock Control	Minor				X
Annual Governance Statement Review 2018-19	Not applicable				X

Table 1

2.2 Audits Not Commenced

2.2.1 Table 2 shows the audits not yet completed, including a comment on the status of each audit and the risk level the audit was assessed as during the audit planning process:

Audit Title	Entity			Status	Risk Level
	Corporate System	LCRCA	Merseytravel		
2019-20					
Investment Models		X		Not yet commenced	Moderate
SIF2 Assurance Framework		X		Not yet commenced	Moderate

Audit Title	Entity			Status	Risk Level
	Corporate System	LCRCA	Merseytravel		
Mayoral Programme - Digital		X		Not yet commenced	Moderate
Mayoral Programme - Tidal		X		Not yet commenced	Moderate
Housing First		X		Not yet commenced	Moderate
Households into Work		X		Not yet commenced	Moderate
Corporate Planning, Performance and Data Quality	X			Not yet commenced	Major
Adult Education Budget		X		Not yet commenced	Major
Lessons Learned ESIF		X		Not yet commenced	Moderate
PMO	X			Not yet commenced	Moderate
Project Pipeline		X		Not yet commenced	Moderate
LEP Governance Annual Review		X		Not yet commenced	Moderate
LEP Risk and Control Review		X		Not yet commenced	Moderate
Annual Governance Statement Review 2019-20		X		Not yet commenced	Moderate
Network Rail Interface			X	Not yet commenced	Moderate
Introduction into Service			X	Not yet commenced	Moderate
Manufacturing			X	Not yet commenced	Moderate
Payroll	X			Not yet commenced	Moderate
Absence Management	X			Not yet commenced	Moderate
Health and Safety	X			Not yet commenced	Moderate
Recruitment and Selection	X			Not yet commenced	Moderate
Phone Monitoring	X			Not yet commenced	Moderate
Internet Monitoring	X			Not yet commenced	Moderate
Application Control	X			Not yet commenced	Moderate
Vessel Maintenance			X	Not yet commenced	Moderate
Facilities Services Contract	X			In Progress	Moderate

Audit Title	Entity			Status	Risk Level
	Corporate System	LCRCA	Merseytravel		
Wallasey Stores	X			Not yet commenced	Moderate
Term Maintenance Contract	X			In Progress	Moderate
Street Furniture Contract			X	In Progress	Moderate
Asset Register	X			Not yet commenced	Moderate
Service / Maintenance Contracts	X			Not yet commenced	Major
Tenancies	X			Not yet commenced	Moderate
Waste Management Contract	X			In progress	Moderate
Building Security	X			Not yet commenced	Moderate
Tunnel Strategy	X			In Progress	Moderate
Frameworks	X			Not yet commenced	Moderate
Bus Services - Contracts			X	Not yet commenced	Major
Provider Failure			X	Not yet commenced	Moderate
Bus Services - Development			X	Not yet commenced	Moderate
Supported Services - Dynamic Purchasing			X	Not yet commenced	Moderate
Alternative Delivery Models			X	Not yet commenced	Moderate
Bus Ancillary Contracts			X	Not yet commenced	Moderate
Beatles Story - Admissions			X	In Progress	Moderate
Business Continuity	X			Not yet commenced	Moderate
Fast Tag Account Management	X			Not yet commenced	Moderate
Ancillary Income and Debt Recovery	X			In Progress	Moderate
Ticketing			X	Not yet commenced	Moderate
Mersey Ferries - Governance (MF Programme Board)			X	Not yet commenced	Moderate
Mersey Ferries - New Vessel			X	Not yet commenced	Moderate
Travel Centres - Income / Stock Reconciliation			X	Not yet commenced	Moderate

Audit Title	Entity			Status	Risk Level
	Corporate System	LCRCA	Merseytravel		
Tunnels Toll Recording and Reconciliation	X			Not yet commenced	Moderate
Catering Concession – Contract Management			X	In Progress	Moderate
Electric Vehicle Charging Points			X	Withdrawn	Moderate
Rail Concession Agreements Annual Assessment - Merseyrail and LSP			X	Not yet commenced	Moderate
NNLNNG - Maghull			X	Not yet commenced	Moderate
Efficient Operator Review			X	Not yet commenced	Moderate
Operator of Last Resort			X	Not yet commenced	Moderate
Special Rail Grant			X	Not yet commenced	Moderate
Debtors	X			Not yet commenced	Major
Main Accounting System	X			Not yet commenced	Major
Creditors and Cheque Control	X			Not yet commenced	Moderate
Treasury Management	X			Not yet commenced	Moderate
Carbon Reduction Commitment	X			In Progress	Moderate
Budget Monitoring	X			Not yet commenced	Moderate
Cashiers	X			Not yet commenced	Moderate
Capital Programme	X			Not yet commenced	Moderate
Concessionary and Prepaid Travel			X	Not yet commenced	Moderate
Risk Management	X			Not yet commenced	Major
Democratic Services	X			Not yet commenced	Moderate
Insurance	X			Not yet commenced	Moderate
Extensions to Contract	X			Not yet commenced	Moderate
Variations to Contract	X			Not yet commenced	Moderate
Commissioning	X			Not yet commenced	Moderate
Procurement	X			Not yet commenced	Moderate

Audit Title	Entity			Status	Risk Level
	Corporate System	LCRCA	Merseytravel		
Annual Governance Statement Review 2019-20			X	Not yet commenced	Moderate

Table 2

3. Corporate Systems

3.1 Background

3.1.1 Twenty of the audits completed in the period were of corporate systems that 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.

3.2 Organisational Risk Opinion

3.2.1 Eighteen of these audits of Corporate Systems received an assurance opinion of "substantial" or "reasonable" (for 2018-19 work) or an organisational risk opinion of "Minor" or "Negligible" (for 2019-20 work), which means that a satisfactory level of assurance on the effectiveness of the internal controls reviewed can be derived, and that the risk presented to the organisation by the recommendations made is at a low level.

3.2.2 Two audits of Corporate Systems received an assurance opinion of "limited" (for 2018-19 work), which means that significant weaknesses have been identified in the internal control environment that present a significant or very significant risk to the organisation. Table 3 provides a summary in respect of each audit that received such an opinion:

Audit Title	Key Findings
Travel, Accommodation and Expenses	The key issue detected in this audit was that whilst there were no weaknesses detected in relation to the processing of transactions, it is unclear how the method for the procurement of travel such as hotels and flights demonstrates value for money.
Mail Services	The review identified some potential security issues regarding the Mail Room. Weaknesses were also noted in respect of operational procedures not being adequately documented and a lack of guidance available for users of Mail Services that detail the service that can be expected and any relevant instructions that must be complied with.

Table 3

3.3   Recommendations of Note

3.3.1   The audits completed within the period identified ten recommendations classed as "high priority".

3.3.2   These recommendations, and the according actions agreed with management, are detailed in Table 4:

Audit Title	Recommendation	Action Planned by Management
Delegated Decisions	Delegated Decisions that are in excess of the maximum detailed threshold as per the organisation's constitution should not go through the Delegated Decisions system and should follow the prescribed authorisation route, by being reported to the Merseytravel meeting. Related Delegated Decisions (Ref 1705 and 4969) totalling £145,000.00, should be submitted to Merseytravel meeting for retrospective approval.	Client department to be requested to submit a Board report advising of the Delegated Decisions (Ref 1705 and 4969) totalling £145,000.00, for retrospective noting.
Payroll	A control is established in respect of approval of the Payroll that ensures that when the HRD Operations Manager authorises the Grade Changes report no further changes can be made to the Payroll.	HRD Ops Manager to check grade changes form, following final 5% data upload to CGI. If further submissions are required to CGI for late data, a new procedure will be set for a further document to be completed by payroll & authorised by HRD Ops Manager, prior to the closure of payroll submissions.
Mail Services	Access to the Mail Room to all but essential personnel should be restricted as soon as possible.	The layout of the mail room entrance to be redesigned to restrict staff entering into the mail room. We are to explore the installation of an ante space lobby and desk arrangement with a hatch and post box within the room.
Tunnels Concessionary Travel Scheme	The Mersey Tunnels Concessionary scheme, including the charitable element of the scheme, should be considered and approved by the Combined Authority.	This action will form part of the scope of the corporate wide review of Merseytravel concessions
	The Concessionary Fast Tag procedural document should be amended to include and show the table for the pro-rata journeys.	This pro-rata journey calculator will be included as an appendix to staff guidance notes.
IT - Cyber Security	Two recommendations relating to authentication	Both accepted by management.

Audit Title	Recommendation	Action Planned by Management
	and network security.	
	Merseytravel should ensure that agreed recommendations relating to the 2017/18 business continuity audit are implemented fully at the earliest opportunity.	Recommendation implemented
IT - Mobile Working	MDM configuration should be based on a formal assessment of the risk of allowing access to specific functions and the ability to change configuration settings.	Accepted. Our action to address this recommendation is to use our current Office365 project to carry out a review of the MDM configuration settings considering risk factors. Risk will be assessed in relation to configuration settings for pass codes, app purchases, cloud storage, etc.
	• Device authentication should be enforced for all devices. • Device and Blackberry UEM authentication should be reviewed to ensure that it is of sufficient length and complexity in view of the content being accessed.	1. Accepted. We can only manage those devices capable of being managed by the UEM. 2. Accepted. Will be reviewed

Table 4

3.3.3 The implementation of recommendations is subject to ongoing monitoring and 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.

3.3.4 Table 5 provides a summary of progress in respect of the implementation of previously reported recommendations made in respect of corporate systems:

Audit Name	Assurance Rating	Organisational Impact	Priority	Required	Advisory	Completed	In Progress	Overdue
Treasury Management (2017-18)	Substantial	None	0	1	6	7	0	0

Table 5

3.3.5   There are no overdue recommendations in respect of audits of corporate systems that have previously been reported to this Committee.

4. Liverpool City Region Combined Authority: Specific Systems

4.1 Background

4.1.1 A number of the audits within the Internal Audit Plan 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. Because of the developing nature of these systems, there has been an emphasis during the year to date on continuing to give advice and guidance, thereby explaining why there has been little formal audit work completed, as this is timed for later in the year once relevant systems and processes are in place.

4.2 Work Completed

4.2.1 In the period, the following grant claims were reviewed, so as to confirm compliance with grant conditions:

Auditable Area	No. of Claims Completed	Audited Value (£)
Growth Hub (LEP)	1	139,912
Careers and Enterprise (LEP)	2	56,350
Low Energy Hub (LEP)	1	51,707
Single Investment Fund	13	1,287,220
Total	**17**	**1,535,189**

Table 6

4.2.2 Work was undertaken in the period to appraise the effectiveness of the corporate governance arrangements in place, comprising the issue of a Governance Assurance Statement questionnaire to Heads of Service and Directors, asking them to appraise governance controls in their respective areas. The work did not attract a separate audit opinion, rather the work was used to inform the Annual Governance Statement.

4.2.3 Work has also continued during the period to advise on Housing First and Adult Education Budget, in both cases being involved in advising on the financial controls that need to be in place prior to the projects going live. Housing First has moved into the delivery phase in June 2019, and the Adult Education Budget system is launched in September 2019, and formal audit work to appraise the controls will be undertaken to coincide with these commencement dates.

4.3   Recommendations of Note

4.3.3 There were no recommendations relating LCRCA – specific systems arising during the period. As noted above, the second quarter of the year will see the commencement of audit work on specific LCRCA systems, and the recommendations arising will then be reported to this Committee.

5. Merseytravel Specific Systems

5.1 Background

5.1.1 Thirteen of the audits completed in the period were 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 so are reported to this Committee for information and transparency.

5.2 Organisational Risk Opinion

5.2.1 All audits of Merseytravel specific systems received an assurance opinion of "substantial" or "reasonable" (for 2018-19 work) or an organisational risk opinion of "Minor" or "Negligible" (for 2019-20 work), which means that a satisfactory level of assurance on the effectiveness of the internal controls reviewed can be derived, and that the risk presented to the organisation by the recommendations made is at a low level.

5.2.2 None of these audits of Merseytravel specific systems received an assurance opinion of "limited" or "no assurance" (for 2018-19 work) or an organisational risk opinion of "Major" or "Moderate" (for 2019-20 work), which means that there were no audits where significant weaknesses have been identified in the internal control environment that present a significant or very significant risk to the organisation.

5.3 Recommendations of Note

5.3.1 The audits completed of Merseytravel specific systems within the period identified eight recommendations classed as "high priority".

5.3.2 These recommendations, and the according actions agreed with management, are detailed in Table 7:

Audit Title	Recommendation	Action Planned by Management
Concessionary and Prepaid Travel	An agreement between Merseytravel and MEL should be reached in respect of the fixed	This is being handled at Director level

Audit Title	Recommendation	Action Planned by Management
	concessionary payment and a contract put in place as soon as possible.	
Vehicle Tracking System	The list of drivers on the Ctrack system should be regularly reviewed and any staff who have left or moved to none driving roles should have their access suitably amended.	Pending the appointment of the fleet officer, senior officer works support will review the list on a quarterly basis
Travel Centres - Stock / Income	In line with other Team Leader checks, a periodic check of the receipt book is a key anti-fraud control and as such this should be written into the Team Leader procedures and a record kept of the checks made.	Comment awaited (report recently issued)
	So as to make Team Leaders aware if there are outstanding ticket orders at a Travel Centre, a method of tracking ticket orders against their delivery should be documented, agreed and implemented.	Comment awaited (report recently issued)
	Team Leaders should devise a series of checks so that robust checking of crossover ticket sales can be better investigated, this should include the periodic checking of ticket stubs to ensure dates are correct.	Comment awaited (report recently issued)
Contact Centre	A contingency plan for alternative arrangements for the Contact Centre in the event of a business interruption should be written, approved and delivered to appropriate staff. Periodic testing of the plan should also be undertaken.	Contingency/Business Continuity Plans to be developed in collaboration with colleagues from ICT to ensure fall back service provision.
	Where a replacement concessionary pass is ordered, a reconciliatory check of payments should be undertaken.	Recommendation implemented
	Steps should be taken to: a) ascertain if data can be deleted from the Contact Centre applications and; b) if data can be deleted, undertake deletion of all items that are outside their retention period as defined by the retention schedule.	This item will be included in CTALK training requirements, data retention period will be specified and included in Corporate Document Retention Schedule.

Table 7

5.3.3 The implementation of recommendations is subject to ongoing monitoring and 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.

# 6.   Quality Assurance and Improvement Programme

6.1   Performance Update

6.1.1 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.

6.1.2 Performance measures defined in the QAIP are also included within the 2019/20 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 of performance and of any remedial actions required to meet identified targets.

6.1.3 Table 8 below details the performance measures and the results for the period:

Description and Purpose	Target	Actual	Variance and Explanation
Compliance with Public Sector Internal Audit Standards (PSIAS) This measures the extent to which the Internal Audit Service complies with the requirements set out in the Standards and the Local Government Application Note.	100%	100%	**No variance** The results of self-assessment reveal that the service continues to "generally comply" with the Standards.
Percentage of the Internal Audit Plan 2019/20 completed This measures extent to which the Audit Plan 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 systems.	15% See graph below	5% See graph below	**Negative variance** Completion of 2018-19 work has taken longer than expected in relation to a small number of audits, and this has impacted of the completion levels of the 2019-20 Audit Plan. There is a significant amount of work in progress that is expected to be completed early in quarter 2.
Percentage of the Internal Audit Plan 2018/19 completed This measures the extent to which the Audit	90%	97%	**Positive variance** It is pleasing that the Internal Audit Plan 2018-19 has exceeded its target, however this has impinged on the

Description and Purpose	Target	Actual	Variance and Explanation
Plan 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 systems.			delivery of the 2019-20 Internal Audit Plan as some audits have taken longer to complete than expected.
Percentage of recommendations made that have been agreed to be implemented by management This measures the extent to which managers feel that the recommendations made are appropriate and valuable in strengthening the control environment.	100%	100%	**No variance** Acceptance of recommendations is generally high.
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.	100%	100%	**No variance** Worthy of note that return levels are generally low. The questionnaire has been streamlined so as to boost return levels.
Percentage of annual senior management survey responses indicating satisfaction with the Internal Audit service provided This measures the feedback received from Directors and Heads of Service on the service provided, and seeks to provide assurance that Internal Audit is adding value at a strategic level.	100%	N/A	Exercise of obtaining senior management feedback is undertaken in Quarter 4.

Table 8

6.1.4 The chart below gives a more detailed breakdown of the performance indicator "percentage of the Internal Audit Plan 2019-20 completed". This has been profiled to show the percentage of the Plan that is the target for completion each quarter.

Completion of the Internal Audit Plan 2019-20 (profiled)
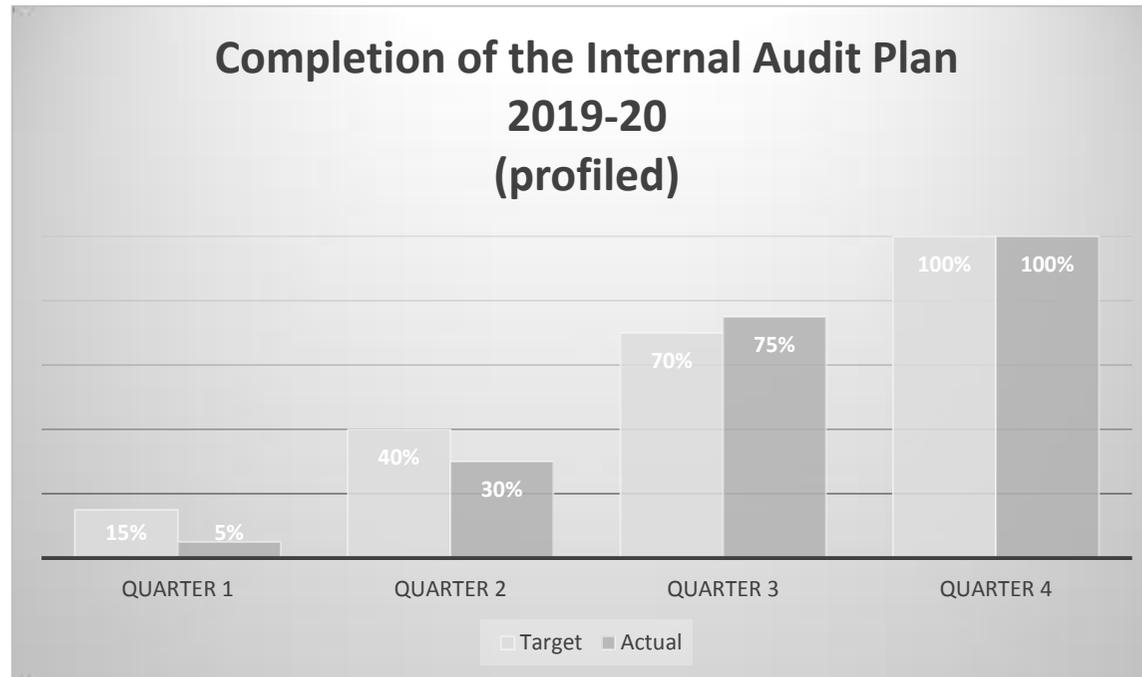
7. Fraud and Corruption

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

7.1.1 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.

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

7.1.3 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.

7.1.4 A self-assessment of the organisation's counter fraud arrangements against the CIPFA *Code of Practice on Managing the Risk of Fraud and Corruption* indicated 85% compliance with its requirements. This is a reduction in the level of compliance from 2017-18, when it was assessed that there was full compliance with the Code, as all actions were deemed to have been implemented. This more prudent assessment is reflective of the work required to encapsulate the CA's arrangements within the Counter Fraud policy environment and the need to expand and develop the effectiveness of fraud risk management. However, such a level of compliance is still very positive and reflects the proportionate arrangements in place to manage the risk of fraud. This Committee will be kept appraised of the implementation of the actions identified as a result of the self-assessment during 2019-20.

7.2 Fraud Plan

7.2.1 The Internal Audit Plan 2019-20 includes 25 days for proactive counter-fraud work across both the Combined Authority and Merseytravel. It is also of note that key anti-fraud controls are also evaluated as part of a significant number of other audits within the Plan. Some work on delivering this has begun, but will begin in earnest once the updated Fraud Risk Register is available, so that the relative risks involved can be assessed.

7.2.2 There is also a provision of 15 days in the Plan for the investigation of allegations of fraud or irregularity, and this has not been utilised during this quarter.

7.3   Fraud Risk Register

7.3.1 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 changing methods of service delivery, and to ensure that Heads of Service have acknowledged such risks in their planning and development of internal controls.

7.4   National Fraud Initiative (NFI)

7.4.1 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.

7.4.2 Data for this cycle was uploaded during October 2018 in accordance with the NFI timetable, and matches were received in late January 2019.

7.4.3 Progress in reviewing the matches received has been positive, and it is also positive to say that the matches investigated so date had already been detected by management processes. There is further work to do and once this is concluded, the findings will be reported to this Committee, but it appears unlikely at this stage that there will be significant issues or savings identified.

7.5   Investigations

7.5.1 It was reported to the meeting of this Committee on 20 March 2019 that an investigation was being undertaken into the Mersey Rural Leader programme. This concerned compliance issues identified by the Rural Payments Agency in respect of the Mersey Rural Leader grant. The investigation has now been concluded and there was found to be no evidence of fraud,

although a number of recommendations have been agreed with management so as to improve controls in respect of the management of the programme, and the implementation of these actions will be monitored and progress reported back to this Committee. The issue was notified to the external auditor for information, but materiality levels involved were not significant enough to warrant formal disclosure.

7.6   Fraud Policy Framework

7.6.1   All fraud policies within the Policy Framework are current and up to date. All fraud policies within the Policy Framework are current and up to date. The suite of Counter-fraud policies is being issued to staff for them to read and understand over the coming weeks. The Counter Fraud Strategy is to be fully reviewed and presented for approval, now that the review and update of the "Managing the Risk of Fraud and Corruption in Local Government" assessment mentioned above has been completed.

7.6.2   During the quarter, an e-learning package for all staff on Fraud Awareness was launched. This is intended to give all officers in the organisation a basic introduction to fraud awareness, highlighting the actions they should take, key policies they should be aware of, and who to inform if these suspect fraud. It is hoped this will significantly raise the profile of fraud and corruption across the organisation. Take up rates will be reported to this Committee once there has been a longer period of time to allow staff to complete the training.

8. Public Sector Internal Audit Standards (PSIAS)

8.1   Internal Assessment

8.1.1   The PSIAS Local Government Application Note (LGAN), the document which assists in translating the requirements of the Public Sector Internal Audit Standards into a local government setting, has been reviewed, and a refreshed document issued by CIPFA in February 2019. It is important to state that this document does not introduce new requirements emanating from the Standards, but is useful in assisting local authorities to assess their own compliance with the Standards.

8.1.2   An assessment of the key changes arising from the LGAN will be undertaken in quarter two, and the results of the internal assessment against these requirements will be presented to this Committee.

8.2   External Assessment

8.2.1   It is a requirement of the PSIAS that the service must be subject to an external assessment of its compliance with the Standards 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.

8.2.2   The overall outcome of this assessment was that the service conforms to the PSIAS. All actions arising from the report have subsequently been completed.

8.2.3   The internal assessment is kept updated until the next scheduled external review, which would take place in 2022.

9. Statement on the Role of the Head of Internal Audit

9.1   Background to the Guidance

9.1.1   CIPFA has released its updated document "Statement on the Role of the Head of Internal Audit in Public Service Organisations". The document has the following purpose:

"The head of internal audit (HIA) occupies a critical position in any organisation, helping it to achieve its objectives by evaluating the effectiveness of governance, risk management and internal control arrangements and playing a key role in promoting good corporate governance. The aim of this Statement is to set out the role of the HIA in public service organisations and to help ensure organisations engage with and support the role effectively."

9.1.2   The document recognises the increasingly challenging environment for Internal Audit, as stakeholder expectations increase, operational responsibilities are adopted and independence may be jeopardised.

9.1.3   The document sets out five principles that set out how an effective internal audit function should operate. It also explains at length how important it is to recognise that this is not simply the preserve of the Head of Internal Audit, but that that the status, support and authority afforded to the Head of Internal Audit by the organisation is crucial in facilitating effectiveness.

9.1.4   The principles are:

The head of internal audit in a public service organisation plays a critical role in delivering the organisation's strategic objectives by:	To perform this role the head of internal audit must:
1. objectively assessing the adequacy and effectiveness of governance and management of risks, giving an evidence-based opinion on all aspects of governance, risk management and internal control	3. be a senior manager with regular and open engagement across the organisation, particularly with the leadership team and with the audit committee 4. lead and direct an internal audit service that is resourced appropriately, sufficiently and effectively

2. championing best practice in governance and commenting on responses to emerging risks and proposed developments.	5. be professionally qualified and suitably experienced.

Table 9

9.1.5 Beneath each of the principles there is a set of requirements, which detail both how the organisation should support the Head of Internal Audit in the role, but also the responsibilities that should be executed by the Head of Internal Audit. The document is complementary to the requirements of the Public Sector Internal Audit Standards.

9.2   Assessment of Compliance

9.2.1 An assessment of compliance with the document has been undertaken and it was found that overall, the organisation complies with the guidance. Three actions were identified and two of these had already been identified as areas for development and encapsulated within the Service Plan 2019-20. These related to:

* continuing to build the profile of the service so as to ensure that Internal Audit is consulted wherever possible to give advice on major projects, programmes and in respect of developing systems
* undertaking an assurance mapping exercise and compiling an assurance map
* contributing to the annual review of effectiveness of the Audit and Governance Committee (this has now been added to the Service Plan).

9.2.2 This Committee will be kept appraised of the progress made in implementing these actions.

Appendix A: Organisational Risk Opinions and Recommendation Priority Levels

Organisational Risk Opinions	Recommendation Priority Levels
Major The risks identified in the review could, if they materialised, have a major impact on the organisation as a whole.	**High** The recommendation is essential to the management of risk within the area under review.
Moderate The risks identified in the review could, if they materialised, have a moderate impact on the organisation as a whole.	**Medium** The recommendation is important to the management of risk within the area under review.
Minor The risks identified in the review could, if they materialised, have a minor impact on the organisation as a whole.	**Advisory** The recommendation is a suggestion intended to enhance the existing management of risk within the area under review.
Negligible No risks were identified within the review.	