



METROMAYOR
LIVERPOOL CITY REGION

LIVERPOOL CITY REGION COMBINED AUTHORITY

HEAD OF INTERNAL AUDIT

ANNUAL REPORT AND OPINION 2020-21



Audit and Governance Committee
28 July 2021

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Head of Internal Audit

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1. Executive Summary


- 1.1 The Head of Internal Audit is obliged, under the Public Sector Internal Audit Standards (PSIAS), to provide an annual report summarising the work undertaken by internal audit during the last financial year, and to provide an overall opinion of the adequacy and effectiveness of the organisation's framework of governance, risk management and internal control, derived from this work. This is a key part of the governance and assurance frameworks of the Liverpool City Region Combined Authority (LCRCA).
- 1.2 In respect of 2020-21, 11 audits were completed in respect of Liverpool City Region Combined Authority. The overall organisational risk opinions given in these reports are summarised as:

Organisational Risk Opinion	Number of Audits
Major	0
Moderate	2
Minor	3
Negligible	0
Advice provided	6

Table 1

- 1.3 In addition to this, advice and guidance was given to a number of areas, such as Adult Education Budget and Housing First, and 142 grants were certified, totalling £20,053,067.

- 1.4 Based upon the work undertaken by Internal Audit in respect of 2020-21, the opinion of the Head of Internal Audit on the overall adequacy and effectiveness of LCRCA’s framework of governance, risk management and control is:

 <p>LIVERPOOL CITY REGION COMBINED AUTHORITY</p>	Head of Internal Audit Opinion 2020-21	
	Overall Opinion	Capacity for Improvement
	Adequate	Good

- 1.5 The remainder of this report sets out in more detail how the opinion is derived.

2. Introduction

- 2.1 It is the responsibility of management to establish effective arrangements for governance, internal control and risk management in the organisation.
- 2.2 In accordance with the Accounts and Audit Regulations 2015, LCRCA must ensure that it provides adequate and effective internal audit arrangements in respect of its accounting records and systems of internal control, and that it conducts an annual review of the effectiveness of these. In addition, these arrangements must be delivered in accordance with the Public Sector Internal Audit Standards (PSIAS) and Local Government Application Note (LGAN), which came into effect on 1 April 2013 (and were revised 1 April 2016 and 1 April 2017 and LGAN revised 2019).
- 2.3 The PSIAS represent mandatory best practice for all public sector internal audit service providers in the UK and cover:
- Definition of Internal Auditing;
 - Code of Ethics; and
 - International Standards for the Professional Practice of Internal Auditing.
- 2.4 Further to the 2016 revision to the PSIAS, Internal Audit has adopted the following mission statement:
“To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.”
- 2.5 It is a requirement of the PSIAS that the Head of Internal Audit provides an annual report to those charged with governance, which should include an opinion on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control. This report informs the Annual Governance Statement.
- 2.6 The CIPFA *Statement on the Role of the Head of Internal Audit* (2019) also states that “*The head of internal audit (HIA) plays a critical role in delivering the organisation’s strategic objectives by 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*”.

2.7 In arriving at this opinion, this report sets out:

- A summary of the Internal Audit work undertaken during 2020-21;
- A summary of the performance of Internal Audit during the year; including commentary on the impact of the Coronavirus pandemic;
- A review of Internal Audit's compliance with the Public Sector Internal Audit Standards (PSIAS);
- A summary of the Quality Assurance and Improvement Programme (QAIP) established during the year;
- The overall Head of Internal Audit opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control in 2020-21; and
- A look ahead to the Internal Audit Plan 2021-22.

2.8 It is worthy of note that in recognition of the separate legal status of Merseytravel, a separate Annual Report and Opinion has been issued in respect of that entity, and has been reported to the Audit, Risk and Governance Board and will be reported to Merseytravel. For the information of this Committee, the overall opinion in respect of Merseytravel is also provided at section 4 of this report.

2.9 It is confirmed that there was no impairment to Internal Audit objectivity during 2020-21.



3. Work Completed

Background

- 3.1 The Internal Audit Plan 2020-21 was approved by the Audit and Governance Committee at its meeting on 11 March 2020, but was revised in light of the developing risks arising from the pandemic, and was re-presented to the meeting on 23 September 2020 (following a pause in meetings also arising from the pandemic).
- 3.2 Members of this Committee have been kept fully apprised of the delivery of this Plan and the resulting outcomes via the “Internal Audit Update Report” which has been presented to each meeting of the Committee during the year. This report has also detailed those audits undertaken of Merseytravel services provided to LCRCA, so as to provide members of this Committee with transparent information regarding the services LCRCA receives. As these audits inform the Merseytravel Annual Report and Opinion, these are not detailed in this report.
- 3.3 In addition, Internal Audit provides consultancy support in response to specific requests from management, which contributes to improving the organisation’s governance, risk management and internal control arrangements. Such work can include advice and guidance around the implementation of new systems and procedures, and this has been particularly pertinent during 2020-21 as the LCRCA’s arrangements have been continuing to develop.

Delivery

- 3.4 In respect of 2020-21, 11 internal audit reports were issued in respect of LCRCA.
- 3.5 The audit opinions given during the year are summarised in the following chart:

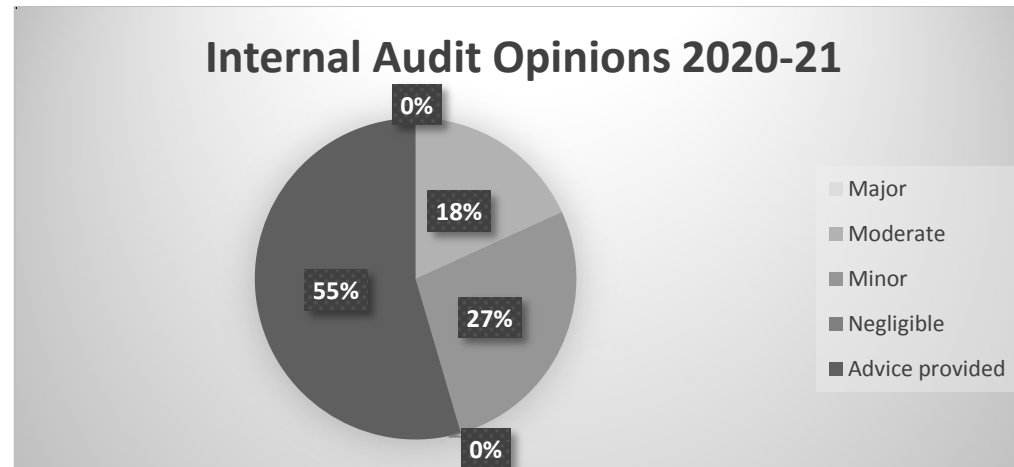


Chart 1

3.6 Recommendation priority levels featuring in these reports are summarised in the following chart:



Chart 2

3.7 The detailed outputs of the work completed are detailed in the table below:

Audit Title	Organisational Risk Opinion	Recommendation Priority Levels		
		High	Medium	Advisory
Covid-19 Future Innovation Fund	n/a	0	2	2
Mayoral Programme - Tidal	Minor	0	2	0
ESIF	Minor	0	0	1
Adult Education Budget	n/a	n/a	n/a	n/a
Annual Governance Statement Review 2019-20 (LCRCA)	n/a	n/a	n/a	n/a
Governance Assurance Statement 2020-21 (LCRCA)	n/a	n/a	n/a	n/a
Mayoral Programme - Digital	Minor	0	8	0
LEP Governance Annual Review	n/a	0	2	0
Transforming Cities Fund	n/a	n/a	n/a	n/a
Housing First	Moderate	1	14	0
Investments Pre-Payment Assurance	Moderate	0	3	0

Table 2

3.8 It is pleasing to note that the work completed has yielded no opinions of major organisational risk rating.

3.9 During the year, the Plan was the subject of ongoing review so as to ensure that it was reflective of the risk landscape. The review evaluated the risks presented by each of the audit areas, so as to ensure that:

- The risks as these were perceived when the Internal Audit Plan was compiled was an accurate reflection of how these were perceived later in the year;
- New and escalating risks were captured, and an audit included where necessary; and this is chiefly reflected in the revised Internal Audit Plan which was developed in response to the new and emerging risks to the organisation arising from the Coronavirus pandemic, and was presented to the Committee at its meeting on 23 September 2020;
- The timing of the audit was most appropriate given the maturity of the risk involved; and

- The available audit days were used to provide the most comprehensive assurance possible, focusing on those risks that are most pertinent.

Advice and Guidance on Developing Systems

3.10 During the year, advice and guidance has been provided relating to the following areas. This reflects the fact that the activities of the LCRCA were being developed during the year, and so the associated risks were being understood and controls being designed to mitigate these:

Housing First - Internal Audit is represented on the Project Board for the development of Housing First, and during the year has provided an independent view and advice on internal control, governance, insurance 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.

SIF - the team has provided advice and guidance to a variety of SIF projects, particularly when these have been at the development stage. This has provided valuable assistance in ensuring that relevant considerations such as evidencing defrayal of expenditure have been borne in mind in the agreement of Grant Funding Agreements. A specific review of the Future Innovation Fund was completed which considered the way in which submissions were appraised and awarded in respect of Round 1 and recommendations were made that would help to strengthen the process.

Grant Assurance

3.11 In addition to the advice and guidance provided in respect of developing SIF projects, work has been undertaken by Internal Audit to review the evidence supporting requests for payment associated with grants. This work is vital in providing assurance that grant applicants (including constituent Local Authorities, educational institutions, charities, voluntary organisations and businesses) have complied with the Grant Funding Agreements in place. The table below shows the grant claims that have been audited during 2020-21:



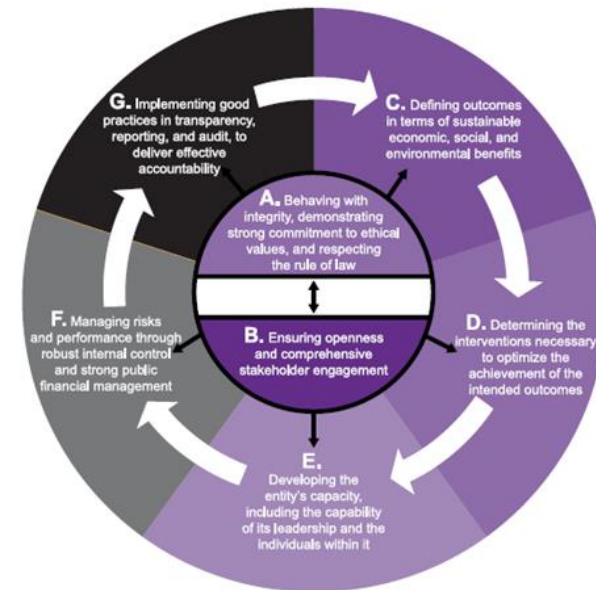
Grant Name	Number of Claims Audited	Value of Claims Audited (£)
BEIS EU Exit Business Readiness Fund	1	403,000
Careers & Enterprise	16	521,816
Growth Hub	5	549,520
Low Energy Hub	3	284,036
Peer Networks	1	45,000
SIF	27	8,782,649
SIF - Pre-Development Funding	29	865,536
SIF - Skills	59	8,548,620
SIF - Transforming Cities Fund	1	52,890
Grand Total	142	20,053,067

Table 3

Corporate Governance

3.12 LCRCA has put in place a Code of Corporate Governance as part of its Constitution. This is held on the intranet for ease of reference for staff.

- 3.13 In order to appraise the effectiveness of corporate governance and provide supporting evidence to inform the Annual Governance Statement (AGS), Internal Audit has conducted a review of the LCRCA's corporate governance arrangements. This has followed the mandatory CIPFA/SOLACE guidance "Delivering Good Governance in Local Government" (2016), which embodies the following Core Principles illustrated by the diagram, right.



"Delivering Good Governance in Local Government" (CIPFA/SOLACE) 2016

- 3.14 The work covered the prescribed areas of governance as defined in the guidance, and engaged with all Heads of Service, Assistant Directors, Directors and the Chief Executive in gaining assurance that there is a comprehensive and effective system of governance in place.
- 3.15 This comprised the completion of a Governance Assurance Statement by each of these senior staff, in which they commented on the adequacy of the governance arrangements within their spheres of influence. The arrangements described in these Statements were generally positive and highlighted an awareness of the principles of good governance. Also, positively, most respondents highlighted their wish to develop and improve their governance arrangements and identified actions to be taken over the next year to do so.
- 3.16 The review has also encompassed a wider review of key aspects of the CIPFA/Solace guidance, particularly to look at areas of governance weakness suggested by the Liverpool City Council Best Value report, published in March 2021, and to highlight

any areas in which the organisation can learn lessons and strengthen its governance so as to provide assurance that the organisation has responded to the report in a positive manner and taken the opportunity to reflect and learn. This links to the work undertaken more specifically to examine the nature and extent of any direct transactional linkages between the organisation and Liverpool City Council which could be a cause for concern as a result of the details released in the Best Value Report. It is positive to note that no areas of concern were identified.

- 3.17 The following table highlights the key findings emanating from the review work undertaken. It should be noted that there was no indication of any of the weaknesses being widespread across the organisation and/or any significant issues having materialised. However, it is felt that by highlighting such weaknesses now, it will help to foster an open and transparent culture, with the ability to take positive immediate action in response. The risk exists that, should action not be taken now to respond to these weaknesses, 'Significant Governance Issues' may materialise as a result.

Key Findings from the Annual Governance Statement Review 2020-21
• Not being fully compliant with the requirements of the Transparency Code.
• A need to further enhance awareness and understanding in relation to the Seven Principles of Public Life (Nolan Principles) across the organisation (however, improvements have been seen since last year).
• A need to enhance understanding of, and compliance with, the Gifts and Hospitality Policy.
• A need to enhance understanding of, and compliance with, the Declarations of Interest Policy.
• Completion of e-learning modules has, in general, been poor across the organisation. However, a new system has been introduced, by People and Organisational Development, to help enhance the process and facilitate completion.
• A lack of clarity as to whether all key partnerships have been formally approved at senior level (n.b. an email was sent to relevant managers following a request by the Chief Executive; to try to obtain clarity and understanding; however, limited responses have been received)
• A lack of performance management information having been reported to Members. It is anticipated the translation of the Corporate Plan in to Service Plans (and further still within Individual Performance Plans), will need to be robustly monitored and reported against utilising appropriate measures.
• A need to further strengthen controls in relation to evidence-based policy-making and understanding of implications and risk of decisions.
• Managers raising concerns regarding staffing levels; and, as such, staffing and operations will need to be reviewed to ensure delivery of service objectives whilst maintaining adequate levels of internal control.



<ul style="list-style-type: none"> • A need to enhance monitoring of completion of training identified within IPPs, and the potential impact of non-completion of such training.
<ul style="list-style-type: none"> • A need to ensure robust Service Risk Registers are in place and subsequently reviewed and updated following the publication of the updated Corporate Plan; with the highest scoring risks in Service Risk Registers being escalated for consideration for inclusion in the Corporate Risk Register; and that risks are properly considered in decision making / reports presented to decision makers.
<ul style="list-style-type: none"> • A need to raise awareness and understanding of how to report a data breach.
<ul style="list-style-type: none"> • A need to enhance compliance with the requirements of the Corporate Retention Policy.
<ul style="list-style-type: none"> • A need to ensure directorate policies and procedures are fit for purpose and up to date.
<ul style="list-style-type: none"> • A need to ensure Business Continuity Plan(s) are reviewed and updated.

Table 4

3.18 The corporate Risk Group plays an important role in reviewing the emerging AGS Review findings generated by the work of Internal Audit. In early 2020, the group agreed a broad set of principles/questions to be utilised in assessing and determining whether a finding should be considered as a ‘Significant Governance Issue’. The agreed principles/questions cover whether the issue in question has:

- Resulted in non-achievement of one or more of the LCRCA; and/or
- Resulted in non-achievement of a core principle detailed within the CIPFA guidance; and/or
- Resulted in widespread negative publicity; and/or
- Emanated from a concern about a wrongdoing or malpractice in the workplace that has had a public interest aspect; and/or
- Been raised by an external body/regulator as being of significant concern/high priority; and/or
- Been raised by one of the organisation’s statutory officers as being of significant concern/high priority; and/or
- Required (or will continue to require) significant organisational resources to rectify.

The AGS findings were presented to the Risk Group in May 2021, and none were determined as being ‘significant’ in nature. This was reported to the Director of Corporate Services who has responsibility for producing the AGSs.

Risk Management

- 3.19 The system of corporate risk management is facilitated by Internal Audit, with appropriate operational safeguards in place to preserve independence.
- 3.20 During the year, very positive progress has been made in embedding an effective system of risk management across the organisation, and this has been largely driven by the recruitment of a qualified and experienced Risk Manager.
- 3.21 This progress has been reflected in a number of positive developments:
- Maintenance of the Corporate Risk Register, which has been reviewed and presented to the Audit and Governance Committee at each of its meetings during the year;
 - Presentation of a report to Directors on a number of occasions during the year for the consideration of risk matters, especially highlighting the risks emerging from the pandemic;
 - Session on risk appetite which identified a number of key actions in train/planned in order to develop and articulate the appetite for risk across the organisation;
 - Risk Group continued to meet, focusing on developing the corporate approach to risk and governance matters, so as to improve the manner in which this supports delivery;
 - Establishment of Service Risk Registers for all service areas; and
 - A number of risk management workshops held, particularly at project level, so as to deepen understanding of risk across project management.
- 3.22 It is important that the positive progress made in relation to risk management continues in 2020-21. This should encompass sustained focus on embedding effective risk management arrangements across the organisation.

Fraud

- 3.23 The Anti-Fraud, Bribery and Corruption Policy demonstrates the organisation's commitment to creating an anti-fraud culture and maintaining high ethical standards in its administration of public funds. There is also a suite of complementary policies including the Bribery Policy, Money Laundering Policy, Confidential Reporting (Whistleblowing) Policy, Surveillance Policy and

Investigation Policy. These link to other policies such as the Gifts and Hospitality Policy and the Employee Code of Conduct. During the year, Internal Audit refreshed those policies under its ownership, and these were approved by LCRCA.

- 3.24 The Internal Audit service also raised the profile of fraud issues amongst officers by participating in International Fraud Awareness Week, which involved a range of fraud-related messaging featuring on the intranet and staff briefing; and the further development of a Fraud Awareness e-learning package which highlights the roles and responsibilities of staff in preventing and detecting fraud.
- 3.25 Internal Audit has a number of responsibilities in the prevention and detection of fraud, bribery and corruption:
- Co-ordination of the organisation's work on the National Fraud Initiative (NFI);
 - Completion of proactive anti-fraud audit work, which identifies a number of areas for anti-fraud review based upon areas of highest fraud risk;
 - Supporting the compilation of fraud risks within Service Risk Registers, and use of this to inform the proactive counter fraud work undertaken;
 - Production and maintenance of a suite of Counter-Fraud policies;
 - Investigation of referrals of suspected fraud and irregularity;
 - Receiving notification of suspected fraud or irregularity, reports of suspected money laundering (the Head of Internal Audit is the designated Money Laundering Reporting Officer), and the receipt of confidential reports ("whistleblows"); and
 - Being consulted for advice and guidance on matters of conduct and probity.
 - Co-ordination of the organisation's work on the National Fraud Initiative (NFI);
 - Compilation of a Counter-Fraud Internal Audit Plan, which identifies a number of areas for proactive anti-fraud review for completion;
 - Co-ordination of the compilation of the Fraud Risk Register, and use of this to inform the proactive counter fraud work undertaken;
 - Production and maintenance of a suite of Counter-Fraud policies;
 - Investigation of referrals of suspected fraud and irregularity;
 - Receiving notification of suspected fraud or irregularity, reports of suspected money laundering (the Head of Internal Audit is the designated Money Laundering Reporting Officer), and the receipt of confidential reports ("whistleblows"); and
 - Being consulted for advice and guidance on matters of conduct and probity.

3.26 A self-assessment of the organisation’s counter fraud arrangements against the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption was conducted during the year. In the Counter-Fraud Update report presented to this Committee at its January meeting, it was noted that a full review of the organisation’s compliance with the guidance had been undertaken, and that this had resulted in a number of action points. The following table gives an update on the progress being made to address these actions:

Ref	Action	Progress Update
1	Monitor the take-up levels of the Fraud Awareness e-learning and follow up to completion with Assistant Directors/Heads of Service and Directors if necessary.	Monitoring of take up levels continues. Manager also have access to management information regarding e-learning and staff receive reminders. Internal Audit has also issued its own reminders to managers and has reinforced with corporate communications. 446 members of staff have completed the awareness e-learning – representing 45% of the workforce.
2	Conduct comparison of fraud risks with other Mayoral Combined Authorities.	In progress Session to be held with other Mayoral Combined Authorities July 2021.
3	Consider running Fraud Risk Workshops within Departments, especially those where fraud risks have been identified as most significant.	In progress Session was held with Travel Centres Operations Managers in May 2021. Further sessions to be held on the basis of risks identified in the fraud risks in Service Risk Registers.
4	Undertake review of fraud risks in Service Risk Registers and ensure actions to address fraud risks are included for all. Establish regime of regular reminders to update fraud risks in Service Risk Registers, including consideration of any new/emerging fraud/corruption risks.	In progress Risk Manager continues to liaise with Heads of Service to ensure fraud risks are appropriate and reviewed.
5	Strengthen guidance to Committee report authors relating to the consideration of fraud risks in the Risk section of the reports.	Completed Updated guidance has been produced and included within the Committee report template.
6	Include within the Annual Governance Statement commentary on the performance and effectiveness of the organisation’s counter fraud strategy.	Completed Included in AGS Findings Summary for 2020-21 for consideration for inclusion by the author.

Table 5

- 3.27 During the year, there were no notifications of suspected fraud, bribery or corruption, or investigations of such matters carried out.
- 3.28 In terms of proactive counter-fraud work, a number of pieces of work were completed across the LCRCA and Merseytravel:

Audit Title	Key Findings
Fast Tag Account Management	Administration of accounts is good but further work is required in respect of review of historic accounts to ensure that business users are not benefitting from the residents' discount toll charge
Tunnels Cash Toll Recording	No significant findings
Travel Centres	Stock reconciliations not always undertaken in accordance with established procedures and investigation of discrepancies not always recorded sufficiently
Staff Benefits	Periodic inspection of bikes and equipment obtained under the bike to work scheme not being undertaken
Creditors (inc BACS Application Management)	No significant findings
Insurance Claims	In-house claims team does not have visibility of all types of insurance-reportable incidents occurring in the organisation. Management of the motor claims handler could be improved
Mersey Ferries - Retail and Stock Reconciliation	Lack of separation of duties in respect of stock taking
Spaceport Closure	Management of the remaining stock at closure was not as robust as it could have been.
Mersey Ferries - Ticketing and Admissions	No significant findings
Credit Cards	Transaction logs and supporting evidence incomplete in some cases.

Table 6

- 3.29 The organisation participates in the National Fraud Initiative co-ordinated by the Cabinet Office. Data from the Payroll, Creditors and concessionary travel 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 are fed into a national report at the end of each cycle.

3.30 Data for this cycle was uploaded during October 2020 in accordance with the NFI timetable, and matches were received in late January 2021. Work on investigating the matches has been undertaken and no significant issues were identified.

Other Points of Note

3.31 There were 2 audits undertaken during the year that is worthy of note by virtue of their opinion of “moderate”:

Audit Title	Key Findings
Housing First	Procedures and documentation in respect of personalisation budgets could be strengthened to reduce the risk of errors and/or fraud. Roles, responsibilities and expectations could be more clearly articulated and communicated. Safety and Inclusion Plans did not appear to be up to date which has led the department to review the reporting system to identify potential reporting errors.
Investments Pre-Payment Assurance	A lack of clarity exists in terms of different teams understanding the respective roles and responsibilities of others involved; and understanding how processes interlink between teams to ensure a fully joined up and seamless approach. Ultimately this could impact on the ability to detect fraud or error.

Table 7

Implementation of Recommendations


3.32 During the year, follow up audits have been undertaken, so as to provide assurance that internal audit recommendations made have been implemented. The results of this work have been reported to each meeting of the Audit and Governance Committee. Generally, progress made in relation to audit recommendations has been positive, and has demonstrated the engagement of management in the audit process, and during the year, there have been no occasions on which the Audit and Governance Committee has been informed of concerns with the implementation of recommendations.

Impact of Coronavirus

- 3.33 Coronavirus started to have an impact during mid-March 2020, when it became apparent that significant changes to methods of working would have to be made. All staff who could work from home, including all Internal Audit staff, commenced doing so on 24 March 2020 following the Prime Minister's announcement of the national lockdown. During the months that ensued, in line with the national picture, the Internal Audit team continued to work from home except for a brief return to the office during last summer.
- 3.34 Following a brief hiatus in Internal Audit work in the first quarter of the year (when the team was being equipped for home working), and coinciding with a review and reappraisal of the Internal Audit Plan to recognise the new and emerging risks, the team commenced delivery during quarter 2 and continued to deliver the Plan to completion. This not only reflects very positively on the team's ability to react to and thrive in challenging circumstances but is also testament to the organisation's receptiveness to internal audit.
- 3.35 It is worthy of note that the Internal Audit section has also been called upon to provide advice and guidance to services in how they can manage delivery within a framework of appropriate control.

4. Opinion

4.1 Based upon the work undertaken by Internal Audit in respect of 2020-21, the opinion of the Head of Internal Audit on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and internal control in 2020-21 is:


 <p>LIVERPOOL CITY REGION COMBINED AUTHORITY</p>	Head of Internal Audit Opinion 2020-21	
	Overall Opinion	Capacity for Improvement
	Adequate	Good

4.2 This **opinion** indicates that during 2020-21, taking into account all factors detailed below, the operation of governance, risk management and internal control has been judged as **adequate**, meaning that it meets the minimum standards. This has arisen as a result of:

- An assessment of the work delivered by Internal Audit during 2020-21, and the generally positive opinions generated from Internal Audit work in respect of the LCRCA during the year;
- Considerable improvement in embedding an effective system of risk management during the year, including the regular review of the Corporate Risk Register; and
- Systems and processes for many of the activities of the organisation have become established and have strengthened during the year.

4.3 The **capacity for improvement** rating indicates the extent to which it is the Head of Internal Audit's belief that the level of control will improve over the next year. This is based upon management's response to Internal Audit work and the expediency of implementation of Internal Audit recommendations, and the positive developments in the area of risk management and corporate planning/performance management. It recognises that there is work to do to continue to embed effective governance, internal control, risk management, and corporate planning and performance management into all parts of the organisation, but recognises the appetite and capability of CA staff to embrace these developments positively.

- 4.4 It should be noted the opinion does not imply that Internal Audit has reviewed all risks and assurances relating to the organisation and is not an absolute assurance of the effectiveness of internal control arrangements and the management of risk. The purpose of this opinion is to contribute to the assurances available to the organisation which underpin the assessment of the effectiveness of its governance framework, including the system of internal control, which are encapsulated in the Annual Governance Statement.
- 4.5 As noted in the Introduction to this report, the opinion expressed above does not relate to LCRCA, which, as a separate legal entity, attracts its own Annual Report and Opinion, which is prepared for the Audit and Governance Committee.
- 4.6 As noted in the Introduction to this report, the opinion expressed above does not relate to Merseytravel, which, as a separate legal entity, attracts its own Annual Report and Opinion, which is prepared for the Audit, Risk and Governance Board. However, for the information of this Committee, the opinion provided in respect of Merseytravel is:

	Head of Internal Audit Opinion 2019-20	
	Overall Opinion	Capacity for Improvement
	Adequate	Reasonable

5. Effectiveness of Internal Audit

5.1 In establishing and demonstrating the effectiveness of Internal Audit, there are a number of requirements set out in the Public Sector Internal Audit Standards (PSIAS):

- External peer assessment of compliance with the PSIAS, required every five years;
- Internal assessment of compliance with the PSIAS, ideally conducted annually; and
- Establishment and maintenance of a Quality Assurance and Improvement Programme (QAIP), designed to ensure the quality of internal audit work and its development and improvement over time.

External Peer Assessment

5.2 In 2017, the service was the subject of an external peer assessment, conducted by peer local authorities, of the extent to which the service complies with the mandatory framework for Internal Audit in the UK Public Sector: Public Sector Internal Audit Standards (PSIAS). The overall assessment was that the service “generally complies” with the PSIAS, the highest opinion that can be given. An Action Plan was issued, and the recommendations have since been implemented.

5.3 As the PSIAS determine that this must take place every five years, the re-assessment will take place in Summer 2021.

Internal Assessment

5.4 An internal assessment of compliance was completed during the year, and it is the opinion of the Head of Internal Audit that the service continues to “generally comply” with the PSIAS. The self-assessment indicated 83% compliance with its requirements.

5.5 There were a number of actions arising from the self-assessment, and these fell into two categories – those felt to be essential to compliance with the PSIAS, and secondly, those felt to be improvements that could be made so as to continue the development of the service. The actions arising from the self-assessment, and the progress made to date is detailed in the following table:

Ref	Action	Progress Update
	PSIAS	
1112	Include relevant detail to committee/board to enhance transparency in relation to the safeguards relating to roles and responsibilities that fall outside of internal auditing	Completed Included within Internal Audit Charter presented to the ARG Board and Audit and Governance Committee March 2021 meetings.
1312	Confirm independence and qualifications of assessor to Board and Committee prior to the external assessment	Completed Included detail in PSIAS section of Internal Audit Update Report presented to ARG Board and Audit and Governance Committee July 2021 meetings.
2330	To delete archived records which are past their retention period	Completed Records that have passed their retention period have been deleted.
	PSIAS Development	
2200, 2230	Further embed the process of auditor and manager discussion re scope/most pertinent risks/available time budget; and pre-audit discussions with client to aid the process of scoping the audit review	In progress Embedding of fully risk-based audit approach continues, with team session held in June 2021 to progress the implementation.
2410	Review/formalise arrangements with Beatles Story and the LEP.	In progress

Table 8

Quality Assurance and Improvement Programme (QAIP)

5.6 During the year, so as to ensure that the Service not only continues to comply with the PSIAS, but to ensure that the service continues to develop and modernise, the following actions were (and continue to be) taken:

- Staff participation in relevant professional seminars and completion of relevant Continuing Professional Development requirements;
- Increasing the focus on risk in internal audit work and reports, linking explicitly to the risk registers and engaging with the Risk Manager to ensure a contemporary view of organisational risk is reflected in audit work;
- Recruitment of a Principal Auditor who is professionally qualified and suitably experienced;
- Engagement with Heads of Service and Directors regarding their perception of risk and their associated audit needs;
- Development of the relationship with the Audit, Risk and Governance Board; and

- Continuous review and update of working practices and reflection of associated changes in the Internal Audit Manual.

5.7 A key element of the QAIP, in evidencing that the service complies with the PSIAS, operates in an efficient and effective manner, and is perceived as adding value to the organisation's operations, is the adoption of a set of key performance indicators (KPIs). These feature in the Internal Audit Update Report, which is presented to each meeting of the Audit and Governance Committee. For 2020-21, the KPIs adopted, their year-end results and associated commentary, are shown in the table below:

Description and Purpose	Target	Actual	Variance and Explanation
<p>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.</p>	100%	100%	<p>No variance The results of self-assessment reveal that the service continues to "generally comply" with the Standards.</p>
<p>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.</p>	100%	100%	<p>No variance The 2020-21 Plan has been completed.</p>
<p>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.</p>	100%	100%	<p>No variance Acceptance of recommendations is generally high.</p>
<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%	100%	<p>No variance Feedback positive although response levels were low.</p>
<p>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.</p>	100%	100%	<p>No variance Feedback positive although response levels were low.</p>

Table 9

6. Developments

- 6.1 During the year, the staffing of the team evolved with the completion of a modest restructure which gave the opportunity for the appointment of a new Principal Auditor, who is CIPFA-qualified and suitably experienced, who joined the team in March 2021.
- 6.2 In spite of the fact that this vacancy existed for most of the year, and in light of the compounding pressures presented by the pandemic, the level of completion of the Internal Audit Plan has been extremely positive, and this has arisen through strengthening the performance management arrangements within the team, including holding weekly “Goal Setting” sessions and setting quarterly targets for completion of work. The hard work of the team during such a challenging year is recognised and sincerely appreciated and has been the subject of positive comment by not only senior management in the organisation, but also by this Committee and the Audit, Risk and Governance Board.
- 6.3 During the year, the focus on modernising the service has continued, reflected in a more streamlined and risk-based approach. This has enabled very favourable comparison with our peers and has facilitated the effective completion of the Internal Audit Plan.
- 6.4 The relationships held by Internal Audit with stakeholders have continued to be positive during the year, and it is pleasing that despite the year being one of unprecedented challenges, the perception of the service has continued to be good, and its reputation has been maintained. This is reflected in the customer feedback obtained. The service has enjoyed good working relationships with officers across the organisation, and officers are thanked for their support during the year in enabling the completion of audit work and the development of the system of internal control. The relationship with the external auditor, Mazars, has also been good, allowing for a positive level of liaison and co-ordination of effort.
- 6.5 In terms of the relationship of Internal Audit with the Audit and Governance Committee, the streamlined and effective reporting of Internal Audit matters to the Committee has facilitated a very positive relationship.

7. Looking Ahead

- 7.1 The new financial year presents an opportunity to continue to contribute to the maintenance and development of robust internal control, governance and risk management across the organisation. The key developments that are already in train for the year include:
- Development and approval of a fully risk-based Internal Audit Plan, which draws on corporate and service risk information, and the views of Internal Audit, to arrive at a Plan which is reflective of the key risks facing the organisation. Crucially, this approach encourages a risk focus within audits and in the audit report, and also allows for a dynamic approach to the Plan which is able to reflect the changing and emerging risks faced by the organisation; crucially those arising from the Coronavirus pandemic and the recovery of the organisation and the City Region as a whole, reflected within the Corporate Plan;
 - Continuing to strengthen the linkages between audit and risk, and using this to inform audit work at every level from planning to reporting;
 - Production of a Service Plan which sets a clear strategic direction for the service and its development, linking this to the continued compliance with PSIAS and how the service contributes to the achievement of corporate priorities; and
 - Strengthening the work undertaken on counter-fraud, to increase the focus on proactive work linked to the key fraud risks facing the organisation.
- 7.2 The continued development and progress of the service will be reported to the Audit and Governance Committee, and the service looks forward to sharing its success with the Committee during 2021-22.