



**METROMAYOR**  
LIVERPOOL CITY REGION

# HEAD OF INTERNAL AUDIT ANNUAL REPORT AND OPINION 2021-22



**Audit and Governance Committee: 27 July 2022**

**Merseytravel: 8 August 2022**

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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 and overall opinion of the adequacy and effectiveness of the organisation's framework of governance, risk management and internal control, derived from internal audit work conducted during the year. This is a key part of the governance and assurance frameworks of the organisation.
- 1.2 During 2021-22, 50 audits were completed. The overall organisational risk opinions given in these reports are summarised in Table 1 as:

Organisational Risk Opinion	Number of Audits	Organisation	
		Combined Authority	Merseytravel
Major	1	-	1
Moderate	13	8	5
Minor	29	18	11
Negligible	2	-	2
Advice provided	5	3	2

*Table 1*

- 1.3 In addition to this, advice and guidance was provided in a number of key areas, including attending a number of project/programme boards and Delivery Boards.

- 1.4 Based upon the work undertaken by Internal Audit in respect of 2021-22, the opinion of the Head of Internal Audit on the overall adequacy and effectiveness of the Combined Authority’s and Merseytravel’s framework of governance, risk management and internal control respectively are:

Organisation	Head of Internal Audit Opinion 2021-22	
	Overall Opinion	Capacity for Improvement
	Adequate	Good
	Adequate	Good

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

## 2. Introduction

- 2.1 It is the responsibility of management to establish effective arrangements for governance, risk management and internal control in the organisation.
- 2.2 In accordance with the Accounts and Audit Regulations 2015, the organisation 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 This report sets out:

- A summary of the Internal Audit work undertaken during 2021-22 in accordance with the Internal Audit Plan approved by the Audit and Governance Committee on 3 March 2021 and Merseytravel on 24 March 2021;
- A review of Internal Audit's compliance with the Public Sector Internal Audit Standards (PSIAS);
- A summary of the outcomes arising from the Quality Assurance and Improvement Programme (QAIP) in operation 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 2021-22.

2.8 The report reflects on the single governance, risk and internal control environment which encompasses both the Combined Authority and Merseytravel, reflected in a single Internal Audit Plan, but cognisant of the separate legal entities, contains separate opinions for the Combined Authority and Merseytravel elements of the organisation.

2.9 It is confirmed that there was no material impairment to Internal Audit objectivity during 2021-22. However, the presence of the grant certification function within the audit service, represents a threat to the independence as audit officers have been reviewing and effectively approving grant expenditure for payment. This was highlighted in the Public Sector Internal Audit Standards external assessment conducted in August 2021 and has been reported to the Audit and Governance Committee as part of the Action Plan arising from the review. Work is ongoing to relocate these responsibilities to another part of the organisation so that independence can be restored, although it should be stated that the tangible threat has been managed by maintaining effective separation of duties and management review.

## 3. Internal Control

3.1 During 2021-22, 50 audits were completed. The detailed outputs of the work completed are detailed in Table 2 below:

Auditable Area	Organisational Risk Opinion	Recommendations		
		High	Medium	Advisory
Rolling Stock - Power Supply Project	Moderate	3	1	0
Rolling Stock - Business Resilience Arrangements	Minor	0	1	0
Rolling Stock - IPEMU Proof of Concept	Negligible	0	0	0
Rolling Stock - Asset Ownership	Negligible	0	0	0
Tidal Power - Procurement Review	Moderate	0	10	2
Investment Models	Minor	0	3	0
Investment Schemes - FIF	Moderate	1	3	0
SIF2 Assurance Framework	Moderate	1	1	0
Learning and Development	Minor	2	4	0
Health, Safety and Wellbeing - Corporate Review	Moderate	4	9	0
Payroll	Moderate	0	3	0
Absence Management	Minor	0	7	0
Ethics / Standards of Conduct	Minor	0	2	0
Application Control - Haven System	Moderate	1	9	0
Application Control - Commuter Club	Minor	0	8	0
Application Control - SCADA	Minor	0	6	0
Capital Programme Development	Minor	0	0	0
Procurement & Prepaid Cards	Minor	0	6	0
Creditors and Cheque Control	Minor	0	3	0
Debtors	Minor	0	5	3
Governance Assurance Statement 2021-22	n/a	0	0	0
LCRCA/MT Annual Governance Statement Review 2020-21	n/a	1	0	0
Risk Management	Minor	2	2	2
Insurance Claims	Minor	2	3	0
Procurement	Moderate	0	7	2

Auditable Area	Organisational Risk Opinion	Recommendations		
		High	Medium	Advisory
Governance Annual Review	Minor	1	1	0
Growth Platform - Creditors	Minor	0	4	1
ESIF	Moderate	1	3	0
Grant Auditing Arrangements at Local Authorities - Accountable Body Status	Minor	2	0	0
Service Maintenance Contracts	Moderate	0	8	1
Health, Safety and Wellbeing - Asset Management	Moderate	3	6	1
Financial Sustainability of Operators and Contractors COVID	Minor	2	1	1
Alternative Delivery Models	n/a	0	0	0
Recovery Partnerships	n/a	0	0	0
Fast Tag & T-Flow Account Management	Minor	0	5	0
Health, Safety and Wellbeing - Operational Transport	Moderate	2	4	2
Mersey Ferries - Ticketing and Admissions	Minor	2	4	1
Travel Centres - Income / Stock Reconciliation	Minor	1	4	0
Tunnel Tolls Income Recording	Minor	0	2	0
Information Governance	Minor	1	10	1
Rail Operators - Stock Control	Minor	0	9	0
Adult Education Budget	Minor	0	2	0
Digital Infrastructure	Minor	0	0	1
Race Equality	Moderate	0	7	1
Seacombe Ferry Terminal Capital Project	Major	3	4	1
Back Up Management	Minor	0	6	2
Proactive BAU Management	Minor	0	0	7
Asset Management	Minor	0	7	4
Cyber Security - Response (NIST)	Minor	1	3	1
LEP - IT Overview	n/a	0	0	0

**Table 2**

- 3.2 The audit opinions given during the year are summarised in Chart 1 and recommendation priority levels featuring in these reports are summarised in Chart 2:

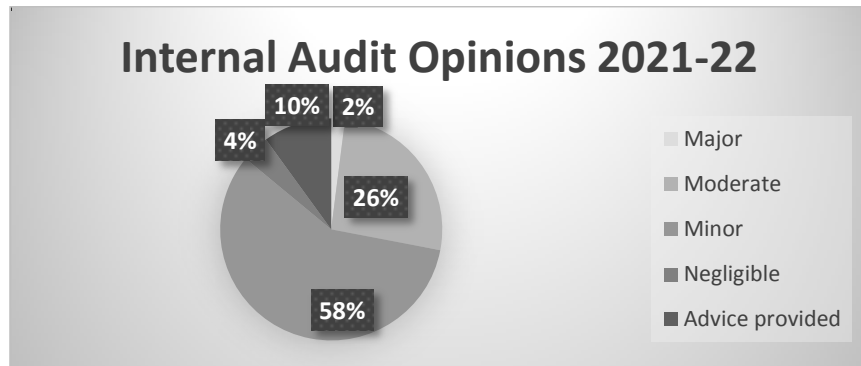


Chart 1



Chart 2

- 3.3 During the year, the Plan was the subject of ongoing review so as to ensure that it was reflective of the changing 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 continued to be an accurate reflection of how these were perceived as the year progressed;
  - New and escalating risks were captured, and an audit included where necessary, including reflecting requests from management;
  - The timing of the audit was most appropriate given the maturity of the risks involved; and
  - The available audit days were used to provide the most comprehensive assurance possible, focusing on those risks that are most pertinent.
- 3.4 This resulted in a number of pieces of work being added to the Plan, and some removed. These were reflected in the Internal Audit Update reports received by the Audit and Governance Committee during the year. Items added were:
- Seacombe Landing Stage – A significant review of the process for identifying and approving the overspends on this capital project.





- External audit request regarding transactional linkages between the Combined Authority and Liverpool City Council, arising from the Best Value Report regarding Liverpool City Council.

Items removed were:

- Business Continuity Management – This was intended to be an extended follow-up on the embedding of recommendations arising from the audit conducted in 2020-21. However, as all recommendations were not implemented and revised implementation dates had been agreed, the planned timing was not appropriate for the audit.
- Brexit Impacts – It has been agreed with client department that this audit should consider the UK Shared Prosperity Fund launched in April 2022 that will replace EU structural funds.
- Freeport – This programme was not sufficiently developed to a stage where it would be timely for an audit to be undertaken.
- Health Safety and Wellbeing (Office Based Services) – Further to initial consideration of the terms of reference for this audit it was determined that the office-based elements had been covered by the Health Safety and Wellbeing Corporate Review.
- Covid-19 Government Funding – It was established that no significant funding had been received further to audit work undertaken during 2020-21.
- Operator of Last Resort (Rail Concession) – Timing was not appropriate given the stage of progress with the wider review.

### **Audit Opinions of Note**

3.5 The work completed yielded one opinion of major organisational risk rating: Seacombe Landing Stage - a Merseytravel capital project. Such an opinion reflects the significant organisational impact associated with the weaknesses highlighted, which resulted in a capital overspend on the project of over 30% on budget, but also the likelihood of such issues recurring if action is not taken as a matter of urgency. The significant weaknesses detected in the management of this capital project included the early warning system and management of risk regarding cost overruns. The report gave rise to eight recommendations, of which three were high priority:

- Where applicable, the designated project lead from Asset Management should provide formal evidence of their review and agreement of changes to a specification/Activity Schedule for a contract during the design phase, to confirm their



consideration of whether the changes are necessary and reasonable in terms of scope and cost. Where the change in cost is significant, they should also be subject to formal review and sign-off by the Technical Services Manager or the Head of Asset Management, who should determine appropriate thresholds for cost changes where this will be required (e.g. changes >£x and y%).

- Whilst the current approach to capital project estimates is that contingency sums are not included in funding requests, where there is a known risk of additional work being required, this should be clearly communicated and quantified in the project risk register and in the initial and subsequent reports to Merseytravel Board on the project. This should include a clear explanation of the degree of uncertainty about both the risk and the estimate of costs, with a range of possible costs being provided (e.g. best case and worse case estimates should the risk crystallise), to help ensure the Board is more clearly sighted on the risks and their possible financial implications and to comply with the requirements of the Constitution (Part 4 Procurement and Contract Procedure Rules: 2.8 (k)) for accurate determination of estimated contract values.
- When the need for significant additional costs to be incurred on a capital project is known, it should be reported to the Board at the earliest opportunity, to allow more time for Merseytravel Board consideration of the impact on the overall capital programme and any funding implications. This should include an estimate of the possible costs with further updates being provided as cost estimates are refined. To provide officers with more clarity on the requirements, 24.5 in the Constitution should be expanded to say Board should be made aware of potential significant variations, including realistic estimates, at the earliest opportunity.

A comprehensive response to the audit was provided by the Executive Director of Place and follow up work is planned so as to establish the progress being made to implement the recommendations.

- 3.6 There were 13 audits undertaken during the year that are worthy of note by virtue of their opinion of “moderate” as detailed in Table 3 below:

Audit Title	Key Findings
<b>Combined Authority</b>	
Tidal Power - Procurement Review	It was identified that there had been an issue with the application of the declarations of interest process to a particular procurement exercise (this did not affect the outcome of the procurement). This learning has been used to strengthen the process for all procurement exercises.
Investment Schemes – Future Innovation Fund	It was identified that the Assessor Marking Scheme process is not subject to any review that would identify notable scoring divergence in the marking of applications.
SIF2 Assurance Framework	Sample testing identified that the LCR National Local Growth Assurance Framework had not always been followed.
Health, Safety and Wellbeing - Corporate Review	It was identified that there was room for development found in the organisation’s ability to demonstrate compliance against relevant health and safety legislation and the incident reporting process.
Payroll	Key findings identified related to the verification of payroll output and reconciliation of the organisation’s establishment list with the payroll.
Procurement	Sample testing identified issues in some spending departments regarding compliance with the requirements of the Constitution and approved procurement procedures and consult with the Procurement team on all high and intermediate value procurements.
ESIF	Key findings related to the reporting to the Combined Authority on the progress of the Ways to Work Programme and with the risk management system in place for the programme.
Race Equality	The key findings related to compliance with the Constitution with regards to approval of contracts.
<b>Merseytravel</b>	
Rolling Stock - Power Supply Project	The report identified a risk that the organisation may be incorrectly considered liable for costs due to the lack of sufficient detail provided by third party contract management and their failure to comply with the process set out in the Implementation Agreement (IA) for agreeing variations with Merseytravel.
Application Control - Haven System	The key finding related to the arrangements in place to manage system

Audit Title	Key Findings
	data.
Service Maintenance Contracts	The key finding related to compliance with the Constitution in respect of approval and omission of reactive costs when approvals have been sought.
Health, Safety and Wellbeing - Asset Management	It was identified that it is not always evidenced on completed risk assessments that identified required actions have been completed.
Health, Safety and Wellbeing - Operational Transport	It was identified that it is not always evidenced on completed health and safety inspection forms and risk assessments that identified required actions have been completed.

Table 3

### Implementation of Recommendations

3.7 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 (additional engagement with directorates has been fruitful in generating focus) 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.

### Advice, Guidance and Consultancy

3.8 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, providing input to project and Delivery Boards and providing an audit view on corporate developments. These inputs are often those most greatly valued by the organisation, and very positive unsolicited feedback has been received in respect of a number of these.

3.9 During the year, the service has contributed to the development of the organisation by providing advice and guidance to project/programme boards, such as Bus Reform, Hydrogen Bus, Rolling Stock, Housing First and, in the last quarter, to the Delivery Boards. This has consisted of providing advice on internal control, risk and governance with a view to influencing project officers to develop a sound framework for project delivery. The support provided has been very well received and positive feedback has been given by a number of senior officers in response.

- 3.10 During the year, the service also worked with the constituent local authorities' audit teams to strengthen its leadership role in relation to its accountable body status. This was particularly pertinent in developing their role in providing assurance in relation to the administration of Covid grant schemes for which the Combined Authority is the accountable body. The audit teams meet on a quarterly basis so as to continue to develop this positive relationship and additional facet to the assurance framework.
- 3.11 The service also responded to a number of ad hoc requests for advice, and these have concerned a wide range of matters across the spectrum of internal control, risk and governance.

## 4. Fraud, Bribery and Corruption

### Responsibilities

- 4.1 It is the responsibility of management to establish and maintain an effective framework of internal control for the prevention and detection of fraud, bribery and corruption, and these responsibilities are reflected in the relevant counter-fraud, bribery and corruption protocols.
- 4.2 Internal Audit has a number of responsibilities in supporting management in the exercise of its fraud, bribery and corruption responsibilities:
- Co-ordination of the organisation’s work on the National Fraud Initiative (NFI);
  - Completion of proactive counter-fraud audit work, which identifies a number of areas for 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 the suite of counter-fraud, bribery and corruption protocols;
  - 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.
- 4.3 The Fraud, Bribery and Corruption Protocol 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 protocols including the Bribery Protocol, Money Laundering Protocol, Confidential Reporting (Whistleblowing) Protocol, Surveillance Protocol and Investigation Protocols, produced by Internal Audit. 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 the Audit and Governance Committee (Merseytravel approval was not required as the amendments were minor in nature) and were issued to all staff.

- 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 Connect Live; the further promotion of the Fraud Awareness e-learning package which highlights the roles and responsibilities of staff in preventing and detecting fraud and presenting to the Executive and Senior Leadership Teams on management's fraud responsibilities.

4.4 A self-assessment of the organisation's counter fraud arrangements against the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption was conducted during the year. In the Fraud Update report presented to the Audit and Governance Committee at its November 2021 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. Table 4 gives an update on the progress being made to address these actions:

Ref	Action	Responsibility	Implementation Due Date	Progress Update
1	Encourage the Executive and Senior Leadership Teams to raise awareness of counter-fraud issues with their teams, including promoting take-up of counter-fraud training, discussion of fraud risks and controls and exploring opportunities for fraud detection and prevention.	Internal Audit to facilitate  ELT/SLT to action	31 March 2022	<b>Completed</b> Head of Internal Audit has discussed with ELT and SLT during the year. This is an area of ongoing focus and activity.
2	Risk Management Policy to be updated to make explicit mention of fraud risk and its treatment, including the escalation of significant fraud risks.	Risk Manager	30 September 2022	To be included in the 2022-23 refresh of the Policy.
3	Support the development of fraud risk assessment by facilitating fraud risk workshops with areas of the business where fraud risks are highest and ensuring that the results of the workshops are used to inform Service Risk Registers. Establish regime of regular reminders to update fraud risks in Service Risk Registers, including consideration of any new/emerging fraud/corruption risks.	Risk Manager/Audit Manager	31 March 2022	<b>In progress</b> Joint audit and risk workshops are being planned to explore fraud risk and ensure this is adequately reflected within Service Risk Registers.



Ref	Action	Responsibility	Implementation Due Date	Progress Update
	Consider the use of fraud loss estimates to inform the risk assessment.			
4	Utilising the data gathered from the fraud risk assessment, compile and implement a Counter-Fraud Strategy for the organisation. Once compiled, the effectiveness of the Strategy should be evaluated and reported, including within the Annual Governance Statement.	Head of Internal Audit with input from ELT/SLT	30 September 2022	<b>In progress</b> Draft Strategy has been compiled and is to be finalised during 2022-23.
5	As well as providing internal communications on fraud awareness (particularly during International Fraud Awareness Week), consideration should be given to providing fraud awareness and prevention/detection messaging to external customer and other stakeholders.	Head of Internal Audit with input from ELT/SLT	30 September 2022	
6	Monitor the take-up levels of the Fraud Awareness e-learning and follow up to completion with Executive and Senior Leadership Teams as necessary.	Head of Internal Audit	Ongoing	<b>In progress</b> There has been a continued corporate push on levels of mandatory training completion. Take up of the Fraud Awareness e-learning module was at 72% at June 2022.
7	Monitor the quality and completeness of how fraud risks are dealt with in Committee reports and provide input to report authors to support the written guidance.	Risk Manager	Ongoing	<b>In progress</b> Risk Manager reviews all Committee reports but there will be a particular emphasis on fraud, bribery and corruption risks going forward.

Table 4

4.5 During the year, there were no notifications of suspected fraud, bribery or corruption, or investigations of such matters carried out. Whilst this might appear to be a positive statement, the absence of any fraud concerns or reporting may be an indication that staff are not fraud-aware or lack the confidence to come forward. This must continue to be a focus for management.

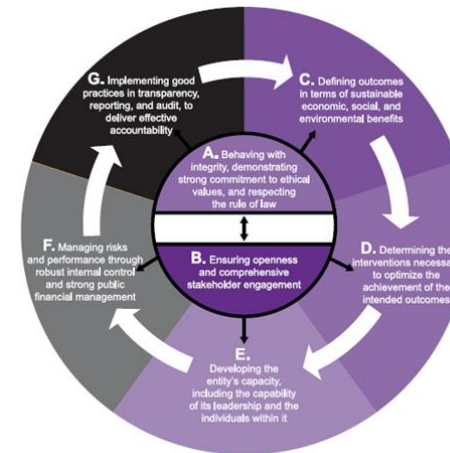




- 4.6 In terms of proactive counter-fraud work, a number of specific pieces of work were completed across the Combined Authority and Merseytravel, but it is worthy of note that review of fraud controls is built into audits across the Audit Plan. All generated an opinion of “Minor”:
- Absence Management
  - Procurement and Prepaid Cards
  - Creditors and Cheque Control
  - Debtors
  - Insurance Claims
  - Fast Tag Account Management
  - Mersey Ferries - Ticketing and Admissions
  - Travel Centres - Income / Stock Reconciliation
  - Tunnel Tolls Income Recording
  - Rail Operators - Stock Control
- 4.7 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.
- 4.8 Matches in respect of the NFI exercise for 2020 were released in January 2021 and the review work has been completed, outcomes were reported to the Audit and Governance Committee at its November 2021 meeting. Investigation of the matches highlighted no significant fraud concerns.

## 5. Corporate Governance

- 5.1 The organisation has put in place a Code of Corporate Governance, which is included in both Combined Authority and Merseytravel Constitutions. These are held on the intranet for ease of reference for staff.
- 5.2 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 organisation’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*

- 5.3 The work covered the prescribed areas of governance as defined in the guidance and engaged with all members of the Executive and Senior Leadership Teams in gaining assurance that there is a comprehensive and effective system of governance in place.
- 5.4 This comprised the completion of a Governance Assurance Statement by each of these officers, in which they commented on the adequacy of the governance arrangements within their respective areas. The arrangements described in these Statements were generally positive and highlighted an awareness of the principles of good governance. In general, the statements highlighted an improvement in relation to items previously identified, and it was pleasing to see engagement taking place to further understanding of how such issues can continue to develop. 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.

5.5 Whilst there has been progress, it is evident that there is still room for development in some of the governance basics, and it is important to continue to ensure that there is awareness of, and compliance with, all the facets of the governance framework, and in doing so, reduce the likelihood of the organisation suffering a serious governance failure. It is acknowledged that many of these items highlighted are already the subject of development and actions. The most significant areas for focus are:

<p>Core Principle A: <b>Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of the law</b></p>	<ul style="list-style-type: none"> <li>• Quality of and compliance with EIA obligations</li> <li>• Awareness of the 7 Principles of Public Life (Nolan Principles)</li> <li>• Completion of mandatory e-learning and key policies</li> </ul>
<p>Core Principle B: <b>Ensuring openness and comprehensive stakeholder engagement</b></p>	<ul style="list-style-type: none"> <li>• Partnership working – reporting on outcomes and documenting agreements</li> </ul>
<p>Core Principle C: <b>Defining outcomes in terms of sustainable economic, social and environmental benefits</b></p>	<ul style="list-style-type: none"> <li>• Continuing to develop plans for our role in achieving net zero carbon</li> <li>• Implementation of social value framework</li> </ul>
<p>Core Principle D: <b>Determining the interventions necessary to optimise the achievement of the intended outcomes</b></p>	<ul style="list-style-type: none"> <li>• Continuation of work supporting LA capacity to deliver</li> </ul>
<p>Core Principle E: <b>Developing the entity's capacity, including the capability of its leadership and the individuals within it</b></p>	<ul style="list-style-type: none"> <li>• Not all Job descriptions are up to date</li> <li>• Induction process for all staff</li> <li>• Aligned procurement/governance across MT and CA</li> <li>• Capacity and skills</li> </ul>
<p>Core Principle F: <b>Managing risks and performance through robust internal control and strong public financial management</b></p>	<ul style="list-style-type: none"> <li>• Health and Safety risk assessments</li> <li>• Understanding of fraud responsibilities</li> <li>• Engagement with Service Risk Registers</li> </ul>
<p>Core Principle G: <b>Implementing good practices in transparency, reporting and audit to deliver effective accountability</b></p>	<ul style="list-style-type: none"> <li>• Continue to develop business continuity plans and cyber security arrangements</li> </ul>

5.6 Improvement in those areas highlighted for attention will be monitored by Internal Audit as part of the follow up process and will continue to be reported to the Executive Leadership Team for oversight.

## 6. Risk Management



- 6.1 The system of corporate risk management is facilitated by Internal Audit, with appropriate operational safeguards in place to preserve independence.
- 6.2 During the year, positive progress has continued to be made in embedding an effective system of risk management across the organisation. In particular, the level and nature of Executive Leadership Team engagement has improved considerably.
- 6.3 This progress has been reflected in a number of positive developments:
- Maintenance of the Corporate Risk Register, which was fully reviewed by the Executive Leadership Team at the start of the year and during the year. This was presented to the Audit and Governance Committee at each of its meetings during the year;
  - Regular risk discussions with members of the Executive Leadership Team individually and as a whole;
  - Greater understanding of risk management and appreciation of its benefits across the organisation, leading to a higher profile;
  - Development of risk management e-learning and face-to-face training packages;
  - Continued development of the Risk Group, including very positive risk discussions and input from each Directorate;
  - Establishment of Service Risk Registers across the Directorates; and
  - A number of risk management workshops held, and advice provided to officers.
- 6.4 During the year, all recommendations emanating from the Internal Audit report issued in 2020-21 were implemented. These were primarily targeted at the facilitation of the risk management system by Internal Audit. A further internal audit was completed in 2021-22, which as well as focusing on the facilitation of the system, had greater focus on the organisation's level of engagement with risk management and its use to support meeting the organisation's objectives. The recommendations reflect the need for all aspects of the organisation to continue to engage fully and effectively with the process, and to develop these levels of engagement in some areas, including ensuring regular review and update of risk registers, ensuring that controls to manage risks are maintained and effective, and ensuring that the completion of actions to reduce the impact/likelihood of risks materialising is a key focus:

- The Risk Manager should take steps to ensure a robust Risk Register is in place for each applicable area of the organisation (by the end of Q1 2022/23). Formal feedback should be provided to the relevant manager and Executive Director in those instances where it is felt the Risk Register does not meet expectations and/or has not been produced. Reminders should be issued on a quarterly basis to prompt Risk Registers being reviewed and updated; and feedback provided to Executive Directors where there is evidence of non-compliance.
- Liaise with your Management Team, in order to ensure effective risk management arrangements are operating on an ongoing basis within each service area, which is evidenced by a robust suite of Risk Registers encapsulating all areas of the directorate.

6.5 Therefore, it is vital that the positive progress made in relation to risk management continues in 2022-23. This should encompass sustained focus on embedding effective risk management arrangements across the organisation and ensuring that the efforts in doing so yield positive outcomes in the achievement of the corporate priorities.

## 7. Opinion

7.1 Based upon the work undertaken by Internal Audit in respect of 2021-22, the opinion of the Head of Internal Audit on the overall adequacy and effectiveness of each organisation's framework of governance, risk management and internal control in 2021-22 is:

Organisation	Head of Internal Audit Opinion 2021-22	
	Overall Opinion	Capacity for Improvement
	Adequate	Good
	Adequate	Good

7.2 The **overall opinions** indicate that during 2021-22, taking into account all factors detailed below, the operation of governance, risk management and internal control has been judged as adequate for both organisations. This is the most favourable opinion that can be given and is unchanged from 2020-21. This has arisen as a result of:

- An assessment of the work delivered by Internal Audit during 2021-22, and the generally positive opinions generated from Internal Audit work 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 the positive engagement of the Executive Leadership Team;
- The absence of any significant governance issues arising during the year; and
- Systems and processes for many of the activities of the organisation have become established and have strengthened during the year.

- 7.3 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 increased receptiveness to Internal Audit work and focus on the implementation of Internal Audit recommendations. It recognises that there is work to do to continue to embed effective governance, internal control and risk management into all parts of the organisation but recognises the appetite and capability of staff to embrace these developments positively.

It is pleasing to note that Merseytravel's capacity for improvement rating has increased from "reasonable" for 2020-21 to "good". This is a reflection of the organisation's senior management changes and fresh focus this has brought in addressing long term challenges faced by Merseytravel.

- 7.4 It should be noted the opinion does not imply that Internal Audit has reviewed all risks and assurances relating to the organisations and is not an absolute assurance of the effectiveness of internal control arrangements and the management of risk. For this reason, an opinion of "Adequate" is the most favourable rating that can be given. 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 Statements.

## 8. Effectiveness of Internal Audit

8.1 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 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.

8.2 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 August 2021.

8.3 The assessment was undertaken by CIPFA, the primary body for public sector finance. The assessor was Ray Gard, who is both a CIPFA and ACCA qualified accountant and a Fellow of the Chartered Institute of Internal Auditors. He has many years' experience as a Head of Internal Audit, predominantly in the London boroughs, and he is independent of the Combined Authority.

8.4 The assessment was carried out using a number of sources:

- Review of the service's internal self-assessment and associated evidence;
- Interviews of key staff including internal audit staff, the Head of Internal Audit, Executive Director of Corporate Services and a number of other senior managers;
- Interviews with those charged with governance including the Chair of the Audit, Risk and Governance Board and 2020-21 Chair of the Audit and Governance Committee (owing to the timing of the review and lack of opportunity for the 2021-22 membership to engage with Internal Audit); and
- Questionnaires were distributed to a number of senior managers including the Chief Executive and also to the Audit and Governance Committee membership for 2020-21 (again owing to the timing of the review and the lack of opportunity for the 2021-22 membership to engage with Internal Audit).



- 8.5 The final report confirmed that the outcome of this assessment was that the service **fully conforms** to the Public Sector Internal Audit Standards.
- 8.6 The recommendations arising from the review, and the associated progress being made to address these, are detailed in Table 5 below:

Recommendation	Due Date	Comments/Progress
<p><b>1. Internal audit should be removed from the grant awarding process</b></p> <p><b>Medium priority</b></p> <p>At the time of the review, Internal Audit were required to audit every grant the CA intends to make to external organisations prior to the grant payment being made. This effectively makes Internal Audit part of the grant awarding process and is therefore a potential impairment to their independence and objectivity. The CA's management should review this arrangement and find a solution that removes Internal Audit from the grant awarding process, ideally by relocating this activity to another part of the Authority.</p>	<p>March 2022</p>	<p>Recommendation agreed. It is expected that the handover of responsibilities will be completed imminently.</p>
<p><b>2. Prepare formal service level agreements for the two external companies</b></p> <p><b>Low priority</b></p> <p>The Service should enter into formal service level agreements with the Beatles Story and the Local Enterprise Partnership for the internal audit services provided to them.</p>	<p>April 2022</p>	<p><b>Completed</b></p> <p>Service Level Agreements are in place with both entities.</p>
<p><b>3. Consider reporting to the senior leadership teams on a regular basis</b></p> <p><b>Advisory</b></p>	<p>November 2021</p>	<p><b>Completed</b></p> <p>Quarterly attendances at Executive Leadership Team to discuss delivery of the audit plan and related issues commenced in November 2021 and will continue on a quarterly basis.</p>



Recommendation	Due Date	Comments/Progress
<p>It is good practice to report regularly to the Executive Leadership Team, not only to discuss progress on delivering the audit plan, but to also have a regular dialogue on other matters such as corporate issues and emerging risks where input from Internal Audit would benefit the organisations in achieving their objectives and identifying organisation wide issues and risks that could be considered for inclusion in the audit plan.</p>		
<p><b>4. Consider introducing an annual conformation statement to supplement the declarations of interest returns</b></p> <p><b>Advisory</b></p> <p>It is becoming good practice in local authority internal audit services to enhance their annual declarations of interest returns by introducing or including a statement for internal audit staff to sign to confirm that they have read and understood the PSIAS, the core principles for the professional practice of internal auditing, the code of ethics, and the seven principles of public life (the Nolan Principles). The HoIA may wish to consider introducing such a statement.</p>	<p>Q4 2021-22 and annually thereafter</p>	<p><b>Completed</b></p> <p>Refresher session undertaken in March 2022 Team Meeting and declarations completed by all staff.</p>

*Table 5*

### Quality Assurance and Improvement Programme (QAIP)

8.7 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;

- Engagement with Heads of Service/Assistant Directors and Executive Directors regarding their perception of risk and their associated audit needs;
- Development of the relationship with the Audit and Governance Committee; and
- Continuous review and update of working practices and reflection of associated changes in the Internal Audit Manual.

8.8 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 2021-22, the KPIs adopted, year-end results and associated commentary, are shown in Table 6 below:

Description and Purpose	Target	Actual	Variance and Explanation
<p><b>Compliance with Public Sector Internal Audit Standards (PSIAS)</b> 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><b>No variance</b> The result of the recent external assessment (August 2021) details that the service <b>fully complies</b> with the Public Sector Internal Audit Standards.</p>
<p><b>Percentage of the Internal Audit Plan 2021-22 completed</b> 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><b>No variance</b> The Internal Audit Plan 2021-22 is completed.</p>
<p><b>Percentage of recommendations implemented within a reasonable timescale</b> This measures the extent to which managers feel that the recommendations made are appropriate and valuable in strengthening the control environment and also provides the Board with a view on how effective management action is in responding to recommendations.</p>	100%	100%	<p><b>No variance</b> No concerns in respect of recommendations made in 2021-22.</p>
<p><b>Percentage of client survey responses indicating a "very good" or "good" opinion</b> 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><b>No variance</b> Feedback positive although response levels are low.</p>



Description and Purpose	Target	Actual	Variance and Explanation
<p><b>Percentage of annual senior management survey responses indicating satisfaction with the Internal Audit service provided</b></p> <p>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><b>No variance</b></p> <p>Feedback positive although response levels are low.</p>

Table 6

## 9. Developments

- 9.1 The financial year 2021-22 was again severely affected by the pandemic, which has not only impacted on the Internal Audit team but also on our internal clients, stakeholders and partners. The Internal Audit team has continued to work flexibly to respond to the many changes in government restrictions during the year, and since the relaxation and subsequent lifting of restrictions, has returned to office attendance on a hybrid basis. Our clients have continued to welcome Internal Audit work and have continued to engage positively.
- 9.2 It has been pleasing to see that despite a number of days being lost to Covid-related sickness within the service, the level of completion of the Internal Audit Plan has been positive, having been completed in full.
- 9.3 Communication, engagement and performance management has continued to strengthen within the team, including holding weekly “Goal Setting” sessions and setting quarterly targets for completion of work, having regular team meetings and also evaluating and discussing the results of the two employee surveys conducted during the year. The hard work of the team during another 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 the Audit and Governance Committee.
- 9.4 During the year, the focus on developing a strong risk-based approach has continued to develop positively, using the corporate engagement in risk management to shape and inform audit work. The presence of the Risk Manager within the Audit Service has facilitated clearer linkages between audit and risk to be made, which continues to develop the resonance of internal audit work with clients in terms of how they maintain an effective system of internal control to manage risks.
- 9.5 One of the most pleasing developments during the year was the commencement of regular reporting to the Executive Leadership Team (ELT). This has not only greatly increased awareness of the role and purpose of internal audit but has led to an increased focus amongst the Executive Directors on the outcomes from audit reports and the implementation of associated recommendations. This is a very welcome opportunity for the Head of Internal Audit to engage with the ELT to draw their attention to areas of good practice and areas for development.
- 9.6 The service has continued to develop positive relationships with its stakeholders during the year. This is reflected in the customer feedback obtained. The service has enjoyed good working relationships with officers across the organisation, and



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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. The Audit and Governance Committee has continued to support the work of internal audit.

- 9.7 The forthcoming year presents an opportunity to continue to build on the effectiveness of the service and further develop its contribution to the organisation's assurance framework.

## Appendix A: Organisational Risk Opinions and Recommendation Priority Levels

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