



**LIVERPOOL
CITY REGION**
COMBINED AUTHORITY

METROMAYOR
LIVERPOOL CITY REGION

INTERNAL AUDIT UPDATE



Audit and Governance Committee
27 July 2022

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1. Introduction

- 1.1 The purpose of this report is to provide a summary of Internal Audit work completed in the fourth quarter of 2021-22 and first quarter of 2022-23, in respect of the Internal Audit Plans 2021-22 and 2022-23.
- 1.2 The report is prepared for the Audit and Governance Committee to facilitate the discharge of obligations as defined in its Terms of Reference to highlight the outcomes of Internal Audit work as a source of assurance on the effectiveness of the organisation's governance, risk and internal control environment.
- 1.3 Internal Audit is defined as: "an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes." (Public Sector Internal Audit Standards 2017)
- 1.4 The mission of Internal Audit is: "to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight".
- 1.5 This report includes:
 - A summary of Internal Audit Plan delivery for the period;
 - Details of work undertaken, recommendations made, and key items of note;
 - Update on the implementation of recommendations made in the past;
 - A summary of the work undertaken in respect of fraud, bribery and corruption;
 - An update on internal audit performance with reference to the key performance indicators detailed in the Quality Assurance and Improvement Programme (QAIP);
 - An update on the service's compliance with the Public Sector Internal Audit Standards (PSIAS); and
 - A sector update covering the recent CIPFA publication "Internal Audit: Untapped Potential".

2. Summary of Internal Audit Plan Delivery

2.1 Audits Completed

2.1.1 In the period since the last Internal Audit Update, 15 audits were completed. These are shown in Table 1 with items at draft reporting stage shown in italics:

Audit Title	Organisational Risk Opinion	Entity	
		Combined Authority	Merseytravel
Rolling Stock - Business Resilience Arrangements	Minor		Y
Risk Management	Minor	Y	
Insurance Claims	Minor	Y	
Payroll	Moderate	Y	
Mersey Ferries - Ticketing and Admissions	Minor		Y
Travel Centres - Income / Stock Reconciliation	Minor		Y
Fast Tag and T-Flow Account Management	Minor		Y
SIF2 Assurance Framework	Moderate	Y	
The Beatles Story - Information Governance	Minor		Y
Health, Safety and Wellbeing - Operational Transport	Moderate		Y
Procurement	Moderate	Y	
European Structural and Investment Funds (ESIF)	Moderate		
Health, Safety and Wellbeing - Asset Management	Moderate		Y
IT Asset Management	Minor	Y	
Ethics / Standards of Conduct	Minor	Y	

Table 1

2.1.2 The 2021-22 Internal Audit Plan is now completed. Appendix A gives a detailed breakdown of the Internal Audit Plan 2022-23, showing the status of each item of audit work that was contained within the Plan as approved by the Committee.

3. Core Audit

3.1 Background

3.1.1 The “core audit” element of the Internal Audit Plan 2022-23 relates to areas of audit work that are either statutory requirements or requirements of government or are areas of key risk. Coverage of these areas is considered essential to delivering a comprehensive assurance on the effectiveness of internal control, governance and risk management.

3.2 Work Completed

3.2.1 As this report covers audit work completed in respect of the Internal Audit Plan 2021-22, where in effect all planned work was considered “core”, this work is also included in this section of the report. There were 14 such audits completed in the period:

- Merseytravel:
 - Rolling Stock - Business Resilience Arrangements
 - Mersey Ferries - Ticketing and Admissions
 - Travel Centres - Income / Stock Reconciliation
 - Fast Tag and T-Flow Account Management
 - The Beatles Story - Information Governance
 - Health, Safety and Wellbeing - Operational Transport
 - Health, Safety and Wellbeing - Asset Management
- Combined Authority (including Corporate)
 - Risk Management
 - Insurance Claims
 - Payroll
 - Procurement
 - IT Asset Management
 - Ethics / Standards of Conduct

- SIF2 Assurance Framework
- European Structural and Investment Funds (ESIF)

3.3 Organisational Risk Opinion

3.3.1 Six of the audits of Combined Authority specific systems received an organisational risk opinion of “moderate”, and this indicates that the audit identified weaknesses that present a moderate risk to the organisation, and that the risks identified should be considered for inclusion within service risk registers (if these have not already been included). The other nine audits received an organisational risk opinion of “Minor”, which means that a satisfactory level of assurance on the effectiveness of the internal controls reviewed can be derived, and that the risk presented to the organisation by the recommendations made is at a low level.

3.4 Work in Progress

3.4.1 The following items of work are in progress:

- Merseytravel:
 - Application Control - Customer Delivery – Docustore
- Combined Authority (including Corporate):
 - IT Back Up Management
 - IT Cyber Security - Response (NIST)
 - Environment, Energy and Net Zero
 - Grant Auditing Arrangements at Local Authorities - Accountable Body Status
 - Resource Capacity
 - Application Control - Homelessness - In-Form
 - Treasury Management
 - VAT
 - Performance Management - Data Quality

3.5 Recommendations of Note

3.5.1 The audits finalised within the period identified 13 recommendations classed as “high priority”. These are shown in Table 2:

Audit Title	Recommendation	Action Planned by Management
Risk Management	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.	It has been agreed that this recommendation will be implemented by Quarter 2
Risk Management	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.	It has been agreed that this recommendation will be implemented by Quarter 2
Mersey Ferries Ticketing and Admissions	The Mersey Ferries card payment only regime should be considered in the light of Sales Officers using personal cards to facilitate transactions and if it is to be retained Sales Officers must be instructed that they cannot use personal cards on behalf of customers.	Staff who serve customers have been instructed not to use their own cards to carry out a transaction.
Mersey Ferries Ticketing and Admissions	Staff should be instructed that all personal belongings should be deposited in the lockers provided at the commencement of their shift and must not be taken into the sales counter area.	Staff who serve customers have been instructed that personal belongings should be stored in lockers whilst they are working on the sales counter.
Travel Centres, Income and Stock Reconciliation	The safe should be locked at all times when not in use.	Reminder has been issued to team and regular checks to be undertaken and recorded.
SIF 2 Assurance Framework	i) The approved Liverpool City Region National Local Growth Assurance Framework should be followed in all applicable funding scenarios. ii) In addition to adhering to the requirements of the LCRNLGAF, it must be ensured that all points requested to be actioned (particularly those minuted through meeting e.g. Investment Panel) during the course of the project lifecycle, are done so in a timely manner and to a satisfactory level.	Awaiting Response
The Beatles Story –	In order to ensure risks to The Beatles Story business objectives are	A session has been held with the

Audit Title	Recommendation	Action Planned by Management
Information Governance	formally considered, a risk management system should be put in place including compilation of a risk register that includes consideration of IG/IT related risks, and this should be kept under regular review.	Corporate Risk manager and a risk register developed by senior managers. This will form part of a standing agenda item on the senior managers meeting moving forward
Health, Safety and Wellbeing - Operational Transport	A check should be carried out to ensure that all Customer Delivery risk assessments are recorded on the schedule used to monitor their completion and subsequent periodic review. Responsible officers should also be asked to check the schedule for any omissions. This will help ensure all risk assessments are reviewed and updated on a periodic basis.	A review will be completed in line with the recommendation
Health, Safety and Wellbeing - Operational Transport	In order to reduce the risk that required improvements are not implemented, officers responsible for the completion of risk assessments should be reminded to ensure that they are updated to confirm when identified actions have been completed. The responsible officers should review their current risk assessments and update them to confirm if action plans have been implemented.	Awaiting Response
ESIF	The progress of the Ways to Work programme (and the other ESIF programmes) should be reported to the Combined Authority on a regular basis. The report should include commentary on progress, achievements, issues, key risks and programme data such as the numbers of people joining the programme and money spent.	Action will be implemented as per the recommendation.
Health, Safety and Wellbeing - Asset Management	In order to ensure staff in Asset Management have access to completed risk assessments, and guidance on risks relating to general or specific tasks they are completing, management should ensure the risk assessments continue to be available for staff to access either via OnePlace or another medium that is available to all relevant staff.	The updated risk assessments and associated documents will continue to be available to staff on OnePlace and will be added to a spreadsheet record by 31/7/22 by when all risk assessments will have been brought up to date and put onto OnePlace.
Health, Safety and Wellbeing - Asset Management	In order to ensure risk assessments are maintained to reflect and mitigate where possible current relevant risks to help ensure the protection of staff, Asset Management must ensure that the review and updating of all risk assessments is completed as part of the current process being led by the Maintenance Delivery Manager. A process should also be put in place to ensure all risk assessments are subject to regular, periodic review.	Considering the spreadsheet maintained by Customer Delivery with a view to introducing one for Asset Management with dates risk assessments are completed and when they should be reviewed. This will be monitored, and Managers reminded

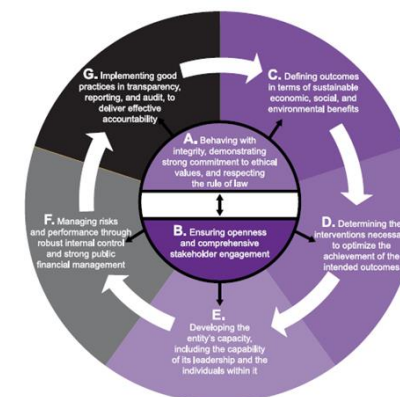
Audit Title	Recommendation	Action Planned by Management
		when risk assessments are due for review. The authors will also be encouraged to monitor when the risk assessments they are responsible for are due for review and to ensure this is completed
Health, Safety and Wellbeing - Asset Management	In order to reduce the risk that required improvements are not implemented, officers responsible for the completion of risk assessments should be reminded to ensure that the risk assessments are updated to confirm when identified actions have been completed, recording the date of completion. As part of the current process to review risk assessments and bring them up to date, previously identified required actions should be reviewed to confirm if they were actioned or are still required and action taken to implement them where applicable.	Officers will be reminded to record at the bottom of risk assessments when actions are completed. If they cannot be completed due to e.g. insufficient time and money, they will also be required to record this on the risk assessment. A 3-month review will be required by the author to ensure they have updated the actions on their risk assessments as this is their responsibility. Will also discuss further with H&S Business Partner any other appropriate monitoring arrangements.

Table 2

3.6 Annual Governance Review

- 3.6.1 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.

3.6.2 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

3.6.3 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.

3.6.4 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.

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

3.6.6 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.

4. Responsive Audit

4.1 Background

4.1.1 The “responsive audit” element of the Internal Audit Plan 2022-23 relates to work to be conducted in response to identified areas of significant risk to the organisation. So as to ensure that Internal Audit work is relevant and risk-based, meaning that this element of the Plan is not prescribed in advance, but is developed as the result of ongoing consultation and engagement with senior management so as to ensure it adds the value that is required and provides assurance on the key areas of risk.

4.2 Work in Progress

4.2.1 The following items of work are in progress:

Audit Title	Entity	Rationale for Completion
Know Your Customer Checks	Combined Authority	Considered as part of the Supply Chain Management theme. Concerns the increasing global risks in relation to suppliers, and how the organisation seeks to operate in a resilient manner without undue delays or reputational damage.
Gifts, Hospitality and Declarations of Interest	Combined Authority	Considered as part of the Corporate Governance theme. A corporate review to supplement the work on the Annual Governance Review.
Bus Reform	Merseytravel	Key corporate project to provide a new model for the provision of bus services across the City Region.
Freeport	Combined Authority	Considered as part of the Programme, Project, Contract Management theme Concerns key risks relating to project and programme control management and delivery, in order to deliver schemes on time and within budget and to harness projected outcomes for the City Region.

4.3 Advice, Guidance and Consultancy

4.3.1 During the period, the service has provided advice and guidance in a number of areas:

- Attending Delivery Boards to advise on audit and risk matters, and to contribute to the progress of the Boards;
- Continued involvement in providing advice on major projects, including bus reform and rolling stock;
- Making a contribution to the development of new schemes such as the UK Shared Prosperity Fund, by providing input on the role of Internal Audit in this area; and
- Provision of feedback on the draft monitoring and evaluation framework.

5. Implementation of Recommendations

5.1 Background

- 5.1.1 The implementation of recommendations is subject to ongoing monitoring and where dates of agreed action have passed and confirmation of implementation has not been received, Internal Audit contacts managers to establish progress, confirm actions completed or agree revised implementation dates, if appropriate.
- 5.1.2 Significant work continues to be undertaken with members of the Senior Leadership Team (and Executive Leadership Team where necessary) to encourage completion of outstanding recommendations, particularly those that are long-standing. This has generated engagement and has prompted fresh focus and action on progressing the issues, and consequently a number of recommendations have been closed during the period.
- 5.1.3 A number of recommendations have had their implementation dates revised, and these are shown in the Comments column of the tables below. These movements have been the subject of discussions with Internal Audit, and the explanations provided were deemed to be reasonable. However, there will be ongoing attention paid to these recommendations to ensure that timely implementation occurs.

5.2 Combined Authority

- 5.2.1 Table 4 below provides a summary of progress in respect of the implementation of previous recommendations made in respect of Combined Authority specific systems:

Year	Department	Auditable Area	High	Medium	Completed	In Progress	Overdue	Recommendations		Notes
								High Overdue	Extension Requested and Agreed	
Corporate Development & Delivery										
2021-22	Corporate Development	Ethics / Standards of Conduct	0	2	0	2	0	n/a	n/a	
2021-22	HR - Learning & Development	Learning & Development	2	4	0	6	0	0	n/a	
2021-22	HR - Operations	Payroll	0	3	0	3	0	n/a	n/a	
2021-22	HR - Operations	Health, Safety and Wellbeing - Corporate Review	4	9	4	9	0	0	n/a	
2021-22	HR - Strategy & Systems	Ethics / Standards of Conduct	0	2	0	2	0	n/a	n/a	
2021-22	HR - Strategy & Systems	Absence Management	0	7	2	5	0	n/a	n/a	
2020-21	HR - Operations	Payroll	0	5	4	1	2	n/a	n/a	Discussed with HoS - revised implementation dates agreed
2019-20	HR - Strategy & Systems	Recruitment Cards	1	5	5	1	1	1	Yes	Discussed with HoS - revised implementation dates agreed
2019-20	HR - Operations	Recruitment and Selection	2	10	6	6	6	2	Yes	Discussed with HoS - revised implementation dates agreed
2019-20	HR - Strategy & Systems	Time & Attendance	1	6	6	1	1	1	Yes	Legacy system - awaiting software upgrade
2018-19	HR - Operations	Payroll	1	4	5	0	0	0	n/a	
2018-19	HR - Strategy & Systems	Travel, Accommodation & Expenses	0	3	2	1	1	n/a	Yes	Discussed with HoS - revised implementation dates agreed
2017-18	HR / Legal	Ethical Policy Framework	0	10	10	0	0	n/a	n/a	
IT - Service Delivery										
2021-22	IT - Service Delivery	IT - Asset Management	0	7	2	5	0	n/a	n/a	
2020-21	IT - Governance	Software Asset and License Management (FAST)	0	2	2	0	0	n/a	Yes	
2020-21	IT - Service Delivery	Service Desk Management	0	3	2	1	0	n/a	n/a	
2020-21	IT - Governance	Change Management	2	3	5	0	0	0	n/a	
2019-20	IT - Governance	Internet Monitoring	0	3	3	0	0	n/a	n/a	
2019-20	IT - Service Delivery	IT - Service Continuity	0	11	9	2	2	n/a	Yes	Implementation contingent on completion of corporate BCM documentation
2019-20	IT - Service Delivery	Patch & Vulnerability Management	0	1	0	1	0	n/a	n/a	
2018-19	IT - Service Delivery	IT - IT Asset Control (CMDB)	0	6	6	0	0	n/a	n/a	
Corporate Services										
2021-22	Accountancy	Creditors	0	3	0	3	0	n/a	n/a	
2021-22	Accountancy	Procurement & Prepaid Cards	0	6	5	1	0	n/a	n/a	
2021-22	Accountancy	Debtors	0	5	5	0	0	n/a	n/a	
2018-19	Accountancy	Income Reconciliation	1	8	9	0	0	0	n/a	
2021-22	Internal Audit	Risk Management	2	2	0	4	0	0	n/a	
2021-22	Procurement	Procurement	0	7	0	7	0	n/a	n/a	
2019-20	Procurement	Commissioning	2	2	1	3	1	0	Yes	Discussed with HoS - revised implementation dates agreed
2019-20	Procurement	Procurement	0	1	0	1	1	n/a	Yes	Discussed with HoS - revised implementation dates agreed
2017-18	Procurement	Procurement	0	8	7	1	1	n/a	Yes	Discussed with HoS - revised implementation dates agreed
2021-22	Programme Management Office	ESIF	1	3	0	4	0	0	n/a	
Investment & Delivery										
2021-22	Investment	Future Innovation Fund - Tranche 2	1	3	0	4	0	0	n/a	
2021-22	Investment	SIF2 Assurance Framework	1	1	0	2	0	0	n/a	
2021-22	Investment	Investment Models	0	3	2	1	0	n/a	n/a	
2021-22	Programme Delivery	Race Equality	0	7	5	2	3	n/a	Yes	Discussed with Manager - revised implementation dates agreed
2020-21	Investment / PMO / Finance	Pre Payment Assurance	0	3	0	3	0	n/a	n/a	
2020-21	Policy Coordination	Housing First (VFM)	1	14	15	0	0	n/a	Yes	
Place										
2019-20	Customer Delivery	Business Continuity	5	14	16	3	2	0	Yes	Discussed with HoS - revised implementation dates agreed
2021-22	Tidal	QS Procurement	0	10	8	2	2	n/a	Yes	Discussed with Project Director - revised implementation dates agreed
2020-21	Policy Development	Active Travel Fund	0	4	1	3	0	n/a	n/a	
Other										
2021-22	LEP	LEP Governance Annual Review 21-22	1	1	0	2	0	0	n/a	

Table 4

5.3.2 Two recommendations remain open from reports issued prior to 2019-20 which both relate to the updating of organisational policies and are expected to be implemented by September 2022.

5.4 Merseytravel

5.4.1 Table 5 below provides a summary of progress in respect of the implementation of previous recommendations made in respect of Merseytravel specific systems:

Year	Department	Auditable Area	High	Medium	Completed	In Progress	Overdue	High Overdue	Recommendations		Notes
									Extension Requested and Agreed		
	Place										
2021-22	AM - Maintenance Delivery	Health, Safety & Wellbeing	3	6	0	9	0	0	n/a		
2021-22	AM - Maintenance Delivery	Application Control - SCADA Control	0	6	0	6	0	n/a	n/a		
2021-22	AM - Technical Services	Seacombe Ferry Landing Stage - Capital Project	3	4	0	7	0	0	n/a		
2021-22	AM - Technical Services	Service Maintenance Contracts	0	8	1	7	0	n/a	n/a		
2020-21	AM - Technical Services	Application Control - Paxton	2	12	13	1	3	0	Yes	Discussed with Manager - revised implementation dates agreed	
2018-19	AM - Maintenance Delivery	Vehicle Tracking System	1	3	3	1	1	0	Yes	Discussed with Manager - revised implementation dates agreed	
2017-18	AM - Maintenance Delivery	Fleet Management	3	20	22	1	1	1	Yes	Discussed with Manager - revised implementation dates agreed	
2021-22	Bus - Hubs	Travel Centres - Income / Stock Reconciliation	1	4	2	3	0	0	n/a		
2020-21	Bus Services - Contract Management	Bus Services - Contract Management	0	10	7	3	0	n/a	n/a		
2019-20	Bus - Network Performance	Bus Services - Contract Management	0	4	1	3	3	n/a	Yes	Continued Reminders	
2021-22	Customer Delivery	Health Safety & Wellbeing - Operational Transport	2	4	0	6	0	0	n/a		
2021-22	Customer Delivery	Fast Tag & T-Flow Account Management	0	5	1	4	0	n/a	n/a		
2021-22	Customer Delivery	Application Control - Haven System	1	9	10	0	0	0	n/a		
2021-22	Customer Operations (Ferries)	Mersey Ferries - Ticketing and Admissions	2	4	4	2	0	0	n/a		
2021-22	Customer Operations (Ferries)	Application Control - Commuter Club	0	8	5	3	0	n/a	n/a		
2021-22	Customer Operations (Tunnels)	Tunnel Tolls Income Recording	0	2	1	1	0	n/a	n/a		
2020-21	Customer Delivery	Fast Tag Account Management	1	1	1	1	0	0	n/a		
2020-21	Customer Operations (Ferries)	Mersey Ferries - Retail and Stock Reconciliation	1	10	11	0	0	0	Yes		
2020-21	Police Operations (Tunnels)	CCTV	1	8	7	2	1	0	Yes	Discussed with Manager - revised implementation dates agreed	
2019-20	Customer Delivery	Catering Concession - Contract Management	0	5	4	1	1	n/a	Yes	Discussed with Manager - revised implementation dates agreed	
2019-20	Customer Delivery	Ancillary Income and Debt Recovery	3	2	4	1	1	0	Yes	Discussed with Manager - revised implementation dates agreed	
2021-22	The Beatles Story	Information Governance	1	10	1	10	0	0	n/a		
2021-22	Rail - Concession Development	Rail Operators - Ticket Stock Control	0	9	6	3	0	n/a	n/a		
2021-22	Rail / Bus	Financial Sustainability of Operators and Contractors COVID	2	1	3	0	0	0	n/a		
2021-22	Rolling Stock	Rolling Stock - Business Resilience Arrangements	0	1	1	0	0	n/a	n/a		
2021-22	Rolling Stock	Rolling Stock - Power Supply Project	3	1	0	4	0	0	n/a		

Table 5

5.4.2 Two recommendations remain open from reports issued prior to 2019-20 which relate to Vehicle Management. Implementation was originally considered contingent on the creation of a new Fleet Manager post; however the post was not created and alternatively a Fleet Forum has been established and a Fleet Technical Administration Officer post created. With



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the new approach to vehicle management determined, work has been undertaken on implementing outstanding recommendations. The two recommendations that remain open relate to determining a Fleet Management Strategy and updating departmental documentation. Both are expected to be implemented by September 2022.

6. Fraud, Bribery and Corruption

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

6.1.1 The CIPFA Code of Practice on Managing the Risk of Fraud and Corruption is the key guidance document for the sector on managing fraud risk.

6.1.2 In the Counter-Fraud Update report presented to this Board 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 6 below gives an update on the progress being made to address the 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	Completed Head of Internal Audit has presented to ELT and SLT on this subject during 2021-22, but this remains 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	In progress 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	In progress Draft Strategy has been compiled and is to be finalised in 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	31 March 2022	In progress There has been a continued corporate push on levels of mandatory training completion and the completion level for the Fraud Awareness e-learning now sits at 72%. Attention continues to be paid to promoting the training.
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	In progress Risk Manager reviews all Committee reports but there will be a particular emphasis on fraud, bribery and corruption risks going forward.

Table 6

6.2 Proactive Counter Fraud Work

6.2.1 The Internal Audit Plan 2022-23 includes 30 days for proactive counter-fraud work across both Merseytravel and the Combined Authority. It is also of note that key anti-fraud controls are also evaluated as part of a significant number of other audits within the Plan such as Creditors, Payroll and Gifts, Hospitality and Declarations of Interest.

6.2.2 The Plan includes the following areas of focus shown in Table 7:

Audit Title	Days Allocated	Progress
Recruitment and Selection	15	Not commenced
Rail Operators - Stock Control	15	Not commenced

Table 7

6.3 Fraud Risks

6.3.1 Members of the Senior Leadership Team have been reminded to review the fraud risks contained within their Service Risk Registers. This is with the objective of updating of reflecting new and emerging fraud risks, and to ensure that they have acknowledged such risks in their planning and development of internal controls.

6.4 National Fraud Initiative (NFI)

6.4.1 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.

6.4.2 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.

6.5 Reactive Audit Work

6.5.1 There is also a provision of 58 days in the Plan for reactive work such as the investigation of allegations of fraud or irregularity, and this has not been utilised during this quarter.

6.6 Fraud Protocol Framework



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- 6.6.1 All fraud protocols within the Protocol Framework are up to date, having been approved by the Audit and Governance Committee and considered by this Committee at respective meetings in November 2021. Merseytravel approval was not required as the updates were minor in nature.

7. Quality Assurance and Improvement Programme

7.1 Performance Update

7.1.1 The Public Sector Internal Audit Standards (PSIAS) require that the service maintains a Quality Assurance and Improvement Programme (QAIP) which includes a series of performance measures and associated targets.

7.1.2 Performance measures defined in the QAIP are also included within the Internal Audit Service Plan and are thus reported to senior management in accordance with the corporate quarterly performance reporting process. This provides senior management oversight and scrutiny of performance and of any remedial actions required to meet identified targets.

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

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 result of the recent external assessment (August 2021) details that the service fully complies with the Public Sector Internal Audit Standards.</p>
<p>Percentage of recommendations implemented within a reasonable timescale 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>No variance There are no concerns in respect of recommendations made in 2021-22 and 2022-23 to date.</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 are low.</p>
<p>Percentage of annual senior management survey responses indicating satisfaction with the Internal Audit service provided</p>	100%	100%	<p>No variance Feedback positive although response levels are low.</p>

Description and Purpose	Target	Actual	Variance and Explanation
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.			

Table 8

7.2 Resources

- 7.2.1 The Team's Scheme Auditor left the service at the end of June to take up a new role with Liverpool City Council. The post is being reviewed so as to maximise the opportunity to redefine the duties of the post to align more fittingly to the needs of the organisation.
- 7.2.2 During the quarter, progress has been made to relocate the grant claim review function which has historically been undertaken by Internal Audit. This issue was raised by the external assessment in relation to Public Sector Internal Audit Standards compliance, and is the only recommendation arising from this work still to be implemented (see table 9). It is hoped that the handover process will be completed imminently, and this recommendation can be closed.

8. Public Sector Internal Audit Standards (PSIAS)

8.1 External Assessment

8.1.1 It is a requirement of the PSIAS that the service must be subject to an external assessment of its compliance with the Standards every five years. The service was subject to such an external assessment (peer review validation of self-assessment) against the requirements of the Public Sector Internal Audit Standards (PSIAS) in August 2021.

8.1.2 It was reported to the November Committee meeting that the final report has now been received and this details that the outcome of this assessment was that the service **fully conforms** to the Public Sector Internal Audit Standards.

8.1.3 The recommendations arising from the review, and the associated progress being made to address these, are shown in Table 9. One recommendation remains outstanding:

Ref	Action	Implementation Due Date	Progress Update
1100	<p>1. Internal audit should be removed from the grant awarding process</p> <p>Medium priority</p> <p>At the time of the EQA, 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>	March 2022	Recommendation agreed. It is expected that the handover of responsibilities will be completed imminently.
2400	<p>2. Prepare formal service level agreements for the</p>	April 2022	Completed

Ref	Action	Implementation Due Date	Progress Update
	<p>two external companies</p> <p>Low priority</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>		Service Level Agreements are in place with both entities.
1100	<p>3. Consider reporting to the senior leadership teams on a regular basis</p> <p>Advisory</p> <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>	November 2021	<p>Completed</p> <p>Recommendation agreed. Quarterly attendances at ELT to discuss delivery of the audit plan and related issues commenced in November 2021.</p> <p>Recommendation completed, quarterly ELT attendances to present IA Update commenced November 2021.</p>
1100	<p>4. Consider introducing an annual conformation statement to supplement the declarations of interest returns</p> <p>Advisory</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</p>	Q4 2021-22 and annually thereafter	<p>Completed</p> <p>Recommendation agreed. A statement for the acceptance of the various ethical standards will be drafted and all audit staff will be required to complete this on an annual basis. This will follow a refresher session with the team on ethics.</p> <p>Refresher session undertaken in March 2022 Team Meeting and declarations completed by all staff.</p>



Ref	Action	Implementation Due Date	Progress Update
	ethics, and the seven principles of public life (the Nolan Principles). The HoIA may wish to consider introducing such a statement.		

Table 9

9. Sector Update: CIPFA Report on Internal Audit

9.1 Background

- 9.1.1 CIPFA has conducted a survey of internal audit professionals and stakeholders regarding the role, impact and future of internal audit services in the public sector. The survey received over 800 responses from practitioners, elected members and senior management such as Directors of Finance and Chief Executives.
- 9.1.2 The collation of such a volume of data regarding Internal Audit presents a significant opportunity for internal audit teams and organisations to reflect and learn, and so the key findings and recommendations are set out below so that appropriate actions can be taken to continue to develop internal audit effectiveness at the Combined Authority.
- 9.1.3 The report was published in May 2022 and is entitled “Internal Audit – Untapped Potential”. The full report, which includes an executive summary, is included within this report at Appendix A.

9.2 Key Findings

- 9.2.1 There was a very positive return rate for the survey, a significant increase on when a similar survey was conducted in 2008.
- 9.2.2 It is worthy of note that the focus of the survey and the associated points for development relate to the “system of internal audit” – i.e., the effectiveness of Internal Audit within the context of the wider organisation, its receptiveness to internal audit, its appreciation of the importance of strong governance and the understanding of the internal audit role and its optimal contribution. This is central to some of the challenges faced by some Internal Audit services: their effectiveness may be constrained by a lack of receptiveness and understanding of their role.
- 9.2.3 The findings detail a number of areas of note:
- The perception of Internal Audit has improved, with respondents reflecting on the positive contribution of, and value added by Internal Audit having increased significantly since the last similar survey in 2008;



- Internal Audit's role and work undertaken during the pandemic has assisted Internal Audit's reputation and profile;
- Internal Auditors feel less confident on how effectively they communicate, which could be as a result of changes to methods of working brought about by the pandemic;
- The internal audit consultancy and advisory role, role in new systems development and role as a critical friend as a participant on groups and boards is positive in raising the profile of Internal Audit services, and Internal Audit teams should continue to publicise this aspect of its role.
- There is a significant issue highlighted regarding skills and capacity. It is increasingly difficult to attract internal auditors to public sector roles, and in many cases, Internal Audit teams has reduced in size or have not kept pace with organisational growth, meaning that the ability to deliver a comprehensive assurance may be impacted.
- There are increasing challenges regarding independence of Internal Audit. Brought about by organisational financial pressures, Heads of Internal Audit are increasingly responsible for the management of operational areas of the business as well as the audit function. The report highlights the challenges this can bring for compliance with the Public Sector Internal Audit Standards: "Internal audit must be kept independent to achieve its maximum impact in an organisation. Auditors frequently take on additional roles, which may compromise their independence. They must have a sole focus and a direct reporting line to the leadership team as required by the Public Sector Internal Audit Standards (PSIAS)."
- Understanding of the role of internal audit remains a challenge for organisations, and this lack of understanding gives rise to a risk that internal audit is not being optimised – leading to the report's title and the assertion that internal audit may not be delivering its full potential and maximising its benefit to the organisations it serves. As the report states "Internal audit is often not allowed to unleash its full potential. The importance of its contribution must be fully understood and appreciated by clients – management and audit committees. Internal audit managers must become greater advocates in promoting the function within organisations."

9.3 Relevance of Recommendations to the Combined Authority

9.3.1 The report sets out a number of recommendations for organisations to consider. Below in Table 10, each one is taken in turn and the Head of Internal Audit's view is given, and these have been discussed with the Executive Leadership Team and are considered an accurate reflection from an officer perspective. However, the views and perspective of the Audit and Governance Committee is crucial to ensuring that the organisation takes the appropriate learning from the report:

Recommendation	Commentary	Action
Part of the role of the head of internal audit should be to advocate for and explain the role of internal audit. This could usefully include explaining the nature of internal audit consultancy or advisory work and draw out the benefits of internal audit interventions. Engagement and communication with senior stakeholders are core skills for effective heads of internal audit.	This is considered to be in place. The role, profile and reputation of the service has grown significantly. The Head of Internal Audit engages extensively with the Executive and Senior Leadership Teams.	No further action required, other than to continue the engagement as described.
Internal audit should provide the audit committee with an overview of all work it undertakes to ensure that there is visibility of any advisory activity. This does not necessitate a detailed report to the committee on all advisory work.	This is now included within this report, see 4.6.	Action completed
Leadership teams and audit committees should strengthen their risk management arrangements. Internal audit's annual opinion on risk management should provide clarity over aspects for improvement and identify opportunities for support.	The organisation's development of risk management effectiveness continues. The Head of Internal Audit Annual Report includes a commentary on risk management effectiveness.	No further action other than for the organisation to continue to develop the effectiveness and embeddedness of its risk management arrangements.



Recommendation	Commentary	Action
<p>Organisations should ensure that the responsibilities of internal auditors are recognised – for example, the need to engage at a senior level and have access to commercial and sensitive information. This may warrant a review of role or pay/grading structure and should recognise the unique role of internal auditing rather than simply reflecting line management responsibilities and comparisons with accounting colleagues.</p>	<p>Internal Auditors in the team engage at all levels of the organisation and have access to the required information. The complexity of their roles has been recognised through job evaluation undertaken when the service was restructured in 2020-21.</p>	<p>No further action required</p>
<p>To build sustainable career paths for internal auditors, heads of internal audit, senior management and audit committees should recognise opportunities for models such as secondments, guest auditors and rotational programmes to support internal audit’s skills needs. Rotation of staff within the organisation could also help to build awareness of the benefits and the purpose of internal audit.</p>	<p>This is an area for development.</p>	<p>Head of Internal Audit to review opportunities for broadening opportunities to experience internal audit work, so as to create interest in the profession and enable the service to benefit from broader skills.</p>
<p>Internal audit functions should develop not only a plan of the audit work they will undertake, but also a strategy for their function’s development and how it will flex to meet the future needs of the organisation. This is likely to include the nature of the work, the tools and skills required to undertake it and resources. This should be agreed with top management and the audit committee and progress reported on as part of the quality and improvement programme of the function.</p>	<p>An annual plan of work is prepared, and this contains a responsive element to enable it to flex to meet the needs of the organisation and its changing risks. The Plan has been agreed with the Executive Leadership team and the Audit and Governance Committee.</p>	<p>No further action required</p>
<p>Where an individual manages the internal audit team and delivers the responsibilities of the chief audit executive as set out in PSIAS, the responsibility of the head of internal audit should be recognised in terms of job title, ability to present to senior management committees and meetings, and access to the most senior personnel. Organisations should minimise or avoid passing on additional roles to the head of internal audit. Where heads do have roles beyond internal auditing, there must be adequate safeguards in place to preserve independence in accordance with the</p>	<p>The Head of Internal Audit has responsibilities for risk management and insurance and there are operational safeguards in place to preserve independence.</p>	<p>No further action required</p>

Recommendation	Commentary	Action
standards. For example, a budget should be provided to fund the commissioning of internal audit assurance in those areas that come under the responsibility of the head.		
As a minimum, the head of internal audit should report to a member of the executive team for administration purposes and also have a reporting line to the chair of the audit committee.	This is in place- the Head of Internal Audit reports to the Executive Director of Corporate Services and can also directly access the Chair of the Audit and Governance Committee as required.	No further action required
There should be regular private meetings between the audit committee and the head of internal audit with no management present. If such meetings are diarised, this avoids either party having to ask for such a meeting to be arranged before/after a planned committee meeting, which can create an expectation that significant issues need to be discussed. Such meetings should not prevent there being open and regular communication between the head of internal audit and audit committee chair throughout the year and between committee meetings.	This will need to be established with the incoming Chair.	Head of Internal Audit to consult incoming Chair of Audit and Governance Committee with a view to arranging private meetings.
Internal audit plans should set out what other assurances are available, and any work internal audit has undertaken to consider the reliability/scope of those assurances. If internal audit has not undertaken any such assessment this should also be noted. For example, the internal audit plan could include a different aspect of the second line each year to provide assurance on those functions. CIPFA will be publishing guidance on assurance frameworks in autumn 2022. While internal audit has an important part to play and significant insight to bring to the framework, the framework itself should be owned by the organisation, typically with sponsorship and oversight from the audit committee. • Organisations should use CIPFA’s guidance to review and improve their assurance arrangements.	The Head of Internal Audit has conducted a basic assurance mapping exercise, but this requires review and update.	Head of Internal Audit to initiate a review of the organisation’s assurance framework following publication of the CIPFA guidance. This will be used to strengthen the linkages to other assurances in the 2023-24 Internal Audit Plan.

Recommendation	Commentary	Action
<p>Internal audit plans should provide information on any areas not included within the plan and where the head of internal audit believes that assurance may be required. This should include an explanation of the rationale for non-inclusion, which can be used to inform discussions around prioritisation of the use of internal audit resources to facilitate a meaningful discussion with the audit committee.</p>	<p>The Head of Internal Audit provides a detailed commentary to the Audit and Governance Committee and the Executive Leadership Team on work completed and any items of work not able to be completed. The Internal Audit Plan is structured in a responsive way that facilitates the inclusion of the main risks, meaning that non-inclusion or non-completion of work in relation to a key risk is unlikely, but would be transparently reported should it occur.</p>	<p>No further action required.</p>
<p>For local government with education responsibilities, consider an annual internal audit report that splits out schools' audit work from the main opinion. This would make clearer the nature and quantum of assurance on which the opinion relating to the organisation's central risk management, governance and control environment is based.</p>	<p>Not applicable</p>	<p>No action required.</p>

Table 10

9.3.2 The Committee will be kept updated of progress in respect of the three actions highlighted above.



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Appendix A: Internal Audit Plan 2022-23 Status Update

Auditable Area	Entity		Organisational Risk Opinion	Status
	LCRCA	Merseytravel		
CORE				
IT Application Control - Docustore		Y		Commenced
IT Application Control - In-Form	Y			Commenced
Business Continuity Management	Y			
Staffing and Capacity	Y			Commenced
Payroll	Y			
Key Financial Systems - VAT	Y			Commenced
Key Financial Systems - Treasury Management	Y			Commenced
Annual Governance Review	Y			
Risk Management	Y			
Environment, Energy and Net Zero	Y			Commenced
Procurement	Y			
Proactive Counter-Fraud	Y			
Performance Management	Y			Commenced
Programme / Project Assurance - Delivery Boards	Y			
Financial Sustainability	Y			
City Region Sustainable Transport Settlement	Y			
Investment Schemes / Assurance Frameworks	Y			
Capital Schemes	Y	Y		
Rolling Stock		Y		
Transport Operators		Y		
ICT Technical Audit	Y			
RESPONSIVE				
Bus Reform		Y		Commenced
Corporate Governance - Gifts, Hospitality & Declarations of Interest	Y			Commenced
Data Management	Y			
Equality	Y			
Government Funding	Y			
Grant Assurance	Y			Ongoing
Health, Safety and Wellbeing	Y			
HR Operations and Systems	Y			
Programme / Project / Contract Management - Freeport	Y			Commenced
Stakeholder Engagement, Communications and Reputation Management	Y			
Supply Chain Management - Know Your Customer	Y			Commenced

Appendix B: Organisational Risk Opinions and Recommendation Priority Levels

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