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INTERNAL AUDIT CHARTER 2023-24

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1. Purpose

- 1.1 The purpose of the Internal Audit Charter is to define internal audit's purpose, authority, and responsibility. It establishes the Internal Audit service's position within Liverpool City Region Combined Authority (LCRCA) and Merseytravel and defines the scope of its activities. It also sets out management responsibilities for supporting the work of internal audit.



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- 1.2 The presence, and annual approval of the Internal Audit Charter is a key requirement of the Public Sector Internal Audit Standards issued in June 2017 (hereafter referred to as “the Standards”). The requirements of an Internal Audit Charter are defined in the Standards at Standard 1000: Purpose, Authority and Responsibility. The Charter must:
- define the terms ‘board’ and ‘senior management’ for the purposes of internal audit activity;
 - cover the arrangements for appropriate resourcing;
 - define the role of internal audit in any fraud-related work; and
 - describe safeguards to impairment of independence or objectivity if internal audit or the Head of Internal Audit undertakes non-audit activities.
- 1.3 This Charter is reviewed annually by the Head of Internal Audit and updated as required so as to reflect changes to the Standards or to the operating environment and is presented to the Audit and Governance Committee and Merseytravel Board for approval.

2. Definitions

- 2.1 The Standards define internal auditing as *“an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.”*
- 2.2 The Standards define the Mission of Internal Audit as: *“to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight”*.
- 2.3 The Standards also include ten Core Principles of Internal Audit:
- Demonstrates integrity;
 - Demonstrates competence and due professional care;
 - Is objective and free from undue influence (independent);
 - Aligns with the strategies, objectives, and risks of the organisation;
 - Is appropriately positioned and resourced;
 - Demonstrates quality and continuous improvement;
 - Communicates effectively;
 - Provides risk-based assurance;
 - Is insightful, proactive, and future-focused; and
 - Promotes organisational improvement.
- 2.4 The Standards require that the Internal Audit Charter defines the terms "board", "senior management" and "Chief Audit Executive" in relation to the work of internal audit:

Term	Definition
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<p>The Board</p>	<p>Audit and Governance Committee and the Merseytravel Board assume the role of the Board as defined by the Standards.</p> <p>These Boards are responsible for overseeing the work of internal audit and provide independent review of the Authority’s governance, risk management and control frameworks and oversee the financial reporting and annual governance processes. They help to ensure efficient and effective assurance arrangements are in place.</p>
<p>Senior Management</p>	<p>The Executive Leadership Team (ELT) fulfils the role of “senior management” as defined by the Standards.</p> <p>The Chief Executive (as Head of Paid Service), Executive Director of Corporate Services (as Section 73 Officer) and the Chief Legal Officer and Monitoring Officer, are the statutory officers. The Executive Director of Corporate Services is responsible for ensuring appropriate internal audit arrangements are established and maintained.</p>
<p>Chief Audit Executive</p>	<p>The Head of Internal Audit fulfils the Chief Audit Executive (CAE) role, as defined by the Standards.</p>

3. Public Sector Internal Audit Standards

- 3.1 The Relevant Internal Audit Standard Setters, which includes the Chartered Institute of Public Finance and Accountancy (CIPFA), adopted the Standards with effect from 1 April 2013. These Standards replaced the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006. The Standards encompass the mandatory elements of the Chartered Institute of Internal Auditors (CIIA) International Professional Practices Framework (IPPF).
- 3.2 The Standards were subject to review and update in April 2017 and can be accessed via the following link: [Public Sector Internal Audit Standards \(April 2017\)](#)
- 3.3 Compliance with the Standards is mandatory. CIPFA has developed a Local Government Application Note (LGAN) detailing the sector-specific requirements for compliance with the Standards within Local Authorities and other relevant public sector bodies, including Combined Authorities. This consists of an extensive self-assessment, which facilitates consistent interpretation of the Standards within the public sector environment and enables compliance with the requirements of the Standards to be evaluated.
- 3.4 The Head of Internal Audit must undertake a self-assessment of compliance with the Standards on a regular basis. An external assessment or validation of the self-assessment must also be conducted at least once every five years, by a qualified, independent assessor or assessment team from outside the organisation. The results of these assessments are reported to the Audit and Governance Committee and levels of compliance comprise one of the Internal Audit Service's performance indicators.

4. Responsibilities

- 4.1 The Executive Director of Corporate Services is required to ensure that appropriate arrangements are made for the provision of an effective and comprehensive internal audit service. This includes ensuring that the Chief Audit Executive demonstrates sufficient professional competence and experience and ensuring that the service is appropriately resourced.
- 4.2 The Internal Audit function is responsible for establishing procedures and applying the required resources to ensure that the service conforms to the Mission Statement and Definition of Internal Auditing, the Core Principles, and the Standards. All members of the Internal Audit team must also demonstrate conformance with a Code of Ethics, which is attached at Appendix A.
- 4.3 The Head of Internal Audit must deliver an Annual Report and Opinion in respect of both the Combined Authority and Merseytravel which conclude on the overall adequacy and effectiveness of each organisation's framework of governance, risk management and control. These are used to inform the Annual Governance Statements of the respective organisations.
- 4.4 Senior Management has a responsibility to maintain an effective internal control environment. They must work effectively with Internal Audit by providing relevant input to the audit planning process and completion of audit work, access to relevant staff, records, and assets, and crucially by responding promptly and effectively to recommendations made by Internal Audit. Implementation of recommendations is monitored by Internal Audit and reported to the Audit and Governance Committee. Officers may be required to attend the Audit and Governance Committee to explain their approach to implementation of recommendations and account for any delays or lack of progress.
- 4.5 Where necessary in the conduct of their work, internal auditors are entitled to require and receive:
 - access to all records, documents and correspondence relating to any financial or other relevant transactions, including documents of a confidential nature;
 - access at all reasonable times to any land, premises and officers of the organisation, or officers acting on behalf of the organisation;
 - the production of any cash, assets, or other property of the organisation under an officer's control; and



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- explanations concerning any matter under investigation.

5. Independence of Internal Audit

- 5.1 The Internal Audit service must be independent and internal auditors must be objective in performing their work. The Head of Internal Audit must confirm the organisational independence of the internal audit activity, at least annually, and this is contained within the Annual Report.
- 5.2 The Head of Internal Audit has operational responsibility for the facilitation of the system of corporate risk management, and also the management of the corporate insurance portfolio. Where this is likely to create a potential or perceived conflict or to compromise the independence of the Internal Audit function, the statutory role held by the Head of Internal Audit takes precedence. Operational safeguards are in place to preserve against any perceived impairment of objectivity. For example, the independence of the Head of Internal Audit is maintained when audit work in this area is taking place, using the Executive Director of Corporate Services, Audit Manager and Risk Manager roles to remove the Head of Internal Audit from shaping the audit scope or commenting on findings.
- 5.3 As well as completing an annual statement of conformance with the Internal Audit Code of Ethics (see Appendix A) Internal Auditors complete a corporate Declaration of Interest form on an annual basis, and these are updated if changes are required. Declarations are reviewed and any action required to preserve independence and objectivity is taken, to ensure that the independence of future internal audit work could not be perceived to have been compromised.

6. The Head of Internal Audit

- 6.1 The Executive Director of Corporate Services must be satisfied that the Head of Internal Audit has sufficient skill, experience, and professional competence to work with the Executive and Senior Leadership Teams, the Audit and Governance Committee and Merseytravel Board to appraise and inform the risk management, governance, and internal control arrangements of the organisation.
- 6.2 The Head of Internal Audit is responsible for ensuring that the staffing resources are appropriately utilised and that the members of the Internal Audit team possess the appropriate knowledge, skills, qualifications, and experience to deliver the Internal Audit Plan and to meet the requirements of the Standards.
- 6.3 The Head of Internal Audit reports directly to the Executive Director of Corporate Services. The Head of Internal Audit has an independent right of access to the Chair of the Audit and Governance Committee if required. In exceptional circumstances, where normal reporting channels may be seen to impinge on the objectivity of the audit, the Head of Internal Audit may report directly to the Chair of the Audit and Governance Committee. Where appropriate, the Head of Internal Audit may report matters of concern directly to the Chief Executive.
- 6.4 The Head of Internal Audit, or an appropriate representative of the Internal Audit team, attends all meetings of the Audit and Governance Committee unless, exceptionally, the Audit and Governance Committee decides that they should be excluded from either the whole meeting or from particular agenda items.
- 6.5 Internal Audit co-operates with and assists the appointed External Auditors, who are invited to attend all meetings of the Audit and Governance Committee.

7. Scope of Internal Audit

- 7.1 The Head of Internal Audit has developed and maintains a process for providing an objective evaluation of the effectiveness of the organisation's risk management, governance, and internal control arrangements, culminating in the Head of Internal Audit Annual Report and Opinion.
- 7.2 Internal Audit's activities should be undertaken effectively and efficiently and with due professional care and competence.
- 7.3 In forming the Annual Report and Opinion, Internal Audit must evaluate and contribute to the improvement of governance, risk management and control processes using a systematic, disciplined and risk-based approach. Internal Audit's work is determined through an annual and ongoing risk assessment and planning process, undertaken in conjunction with officers and with regard for the relevant risk registers. The Internal Audit Plan is flexible, so it is able to reflect the changing risk profile of the organisation and is subject to ongoing review and update during the year to ensure that it is fit for purpose and responds effectively to provide assurance on key risks. The Internal Audit Plan is approved by the Audit and Governance Committee and Merseytravel Board.
- 7.4 Internal Audit must assess and make appropriate recommendations for improving the organisation's governance framework in its accomplishment of the following objectives:
- promoting appropriate ethics and values within the organisation;
 - ensuring effective organisational performance management and accountability;
 - communicating risk and control information to appropriate areas of the organisation; and
 - co-ordinating the activities of and communicating information to the Audit and Governance Committee, Merseytravel Board, external audit, internal auditors, and senior management.
- 7.5 Internal Audit must evaluate the effectiveness of, and contribute to, the improvement of risk management by:
- ensuring significant risks are identified and assessed when scoping audit work; and
 - ensuring that audit recommendations are appropriate to address key risk areas identified.

- 7.6 Internal Audit must assist the organisation in maintaining an effective control environment by evaluating its effectiveness and efficiency and by promoting continuous improvement. Internal Audit must evaluate the adequacy and effectiveness of controls in responding to risks within the organisation's governance, operations and information systems regarding:
- achievement of the organisation's strategic objectives as defined by the Corporate Plan;
 - reliability and integrity of financial and operational information;
 - securing value for money through the economy, effectiveness, and efficiency of activities;
 - safeguarding of the Authority's assets and interests from losses of all kinds, including those arising from theft, fraud, irregularity, corruption, or bribery; and
 - compliance with laws, regulations, policies, procedures, and contractual obligations.
- The Head of Internal Audit must ensure appropriate internal audit arrangements are in place in respect of partnership or joint working arrangements.
- 7.7 Internal Audit may provide an advisory and consultancy service. Such work often arises as a result of a specific request by senior management. The aim of the consultancy service is to provide advice and guidance to help senior management to improve the Authority's risk management, governance, and internal control arrangements, and therefore this would not usually inform the Head of Internal Audit's Annual Opinion.
- 7.8 The Head of Internal Audit must consider the effect on the work required to formulate the Annual Opinion before accepting consultancy work or management requests. Approval would be sought from the Audit and Governance Committee for any significant additional consulting services not already included in the Internal Audit Plan prior to accepting the engagement, if it is deemed that undertaking this work could compromise delivery of the agreed Internal Audit Plan or impinge on the Head of Internal Audit's ability to deliver the Annual Report and Opinion.
- 7.9 Managing the risk of fraud, bribery and corruption is the responsibility of management. The Executive Director of Corporate Services has specific responsibilities in relation to the detection and investigation of fraud and may request Internal Audit to assist with the investigation of suspected fraud or corruption. Internal Audit should be notified of all suspected or detected fraud, corruption, or impropriety, to inform its work and its opinion on the control environment.

- 7.10 The Executive Director of Corporate Services and Head of Internal Audit will ensure that the Authority is seeking to ensure appropriate governance and operational arrangements in place to counter fraud, bribery, and corruption, in accordance with the (non-statutory) requirements of the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption (2014). Compliance with the Code and ongoing actions to achieve compliance will be reported to the Audit and Governance Committee.
- 7.11 Progress reports on the work of Internal Audit will be presented to the Audit and Governance Committee on a quarterly basis during the year, in accordance with the requirements of Internal Audit's Quality Assurance and Improvement Programme (QAIP). These reports will detail the key findings, opinions and key recommendations arising from Internal Audit work completed in each period.
- 7.12 The culmination of the work completed by Internal Audit during the year is the Head of Internal Audit Annual Report and Opinion, which is produced in respect of the Combined Authority and Merseytravel. These presented to Senior Management, Audit and Governance Committee and Merseytravel Board respectively on an annual basis following financial year end. Each report sets out the Head of Internal Audit's opinion, based upon the work completed during the year, on the overall adequacy and effectiveness of the framework of governance, risk management, and internal control in the Combined Authority and in Merseytravel, respectively. The report conforms to the Standards.
- 7.13 If the Head of Internal Audit or the Audit and Governance Committee or Merseytravel Board considers that the level of audit resources or its terms of reference in any way limits the scope of Internal Audit or prejudices the ability of internal audit to deliver a service consistent with the Definition of Internal Auditing and the Standards, the statutory officers should be advised accordingly.



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APPENDIX A

INTERNAL AUDIT CODE OF ETHICS

Requirements

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

If individual internal auditors have membership of a professional body, they must also comply with the relevant requirements of that body.

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

The Code of Ethics includes two essential components:

1. **Principles** that are relevant to the profession and practice of internal auditing; and
2. **Rules of Conduct** that describe behaviour expected of internal auditors.

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

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

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

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



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

Applicability and Enforcement

This Code of Ethics applies to both individuals and entities that provide internal auditing services. Organisational disciplinary procedures, and those of professional bodies, may be invoked in cases of breaches of this Code of Ethics.

Integrity

Principle 1:

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

Rules of Conduct:

Internal Auditors:

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



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

Competency

Principle 2:

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

Rules of Conduct:

Internal Auditors:

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

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

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

Further information on the Nolan Principles can be accessed via the following link:

<https://www.gov.uk/government/organisations/the-committee-on-standards-in-public-life>



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Objectivity

Principle 3:

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

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

Rules of Conduct:

Internal Auditors:

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

Confidentiality

Principle 4:

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

Rules of Conduct:

Internal Auditors:

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



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