



Auditor's Annual Report

Merseytravel and Liverpool City Region Combined Authority – year ended 31 March 2025

February 2026

Contents

- 01** Introduction
- 02** Audit of the financial statements
- 03** Commentary on VFM arrangements
- 04** Other reporting responsibilities
- 05** Audit fees and other services

- A** Appendix A: Further information on our audit of Merseytravel’s financial statements
- B** Appendix B: Further information on our audit of Liverpool City Region Combined Authority’s financial statements

Our reports are prepared in the context of the ‘PSAA Statement of Responsibilities of Auditors and of Audited Bodies’ and the ‘Appointing Person Terms of Appointment’ issued by Public Sector Audit Appointments Limited. This document is to be regarded as confidential to Merseytravel and Liverpool City Region Combined Authority. It has been prepared for the sole use of the Audit and Governance Committee as the appropriate sub-committee charged with governance. We do not accept any liability or responsibility to any other person in respect of the whole or part of its contents.

01

Introduction

Introduction

Purpose of the Auditor's Annual Report

Our Auditor's Annual Report (AAR) summarises the work we have undertaken as the auditor for Merseytravel and Liverpool City Region Combined Authority ('the Authority') for the year ended 31 March 2025. Although this report is addressed to the Authority, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Auditor Guidance Note 07, issued by the NAO in November 2024, allows auditors to issue a combined Auditor's Annual Report covering more than one body when considered to be appropriate. Most committees, including the Audit and Governance Committee, and finance team members are common between the two entities. We have therefore deemed it appropriate to issue a combined Auditor's Annual Report.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 and the Code of Audit Practice ('the Code') issued by the National Audit Office ('the NAO'). The remaining sections of the AAR outline how we have discharged these responsibilities and the findings from our work. These are summarised below.



Opinion on the financial statements

We issued our audit reports for both Merseytravel and the on 26 February 2026. Our opinion on the financial statements for Merseytravel and the Authority was unqualified.



Reporting to the group auditor

Merseytravel is consolidated into the Liverpool City Region Combined Authority Group Accounts. WGA reporting requirements are undertaken at group level as part of the Liverpool City Region Combined Authority audit.



In line with group audit instructions issued by the NAO, we are required to complete a programme of work on the Authority's Whole of Government Accounts return and report to the group auditor in line with their instructions. The NAO are yet to provide confirmation on the approach to selecting sampled components. Without this information we are unable to complete our work and issue our certificate which concludes the audit of the Liverpool City Region Combined Authority.



Wider reporting responsibilities

The Local Audit and Accountability Act 2014 outlines our additional powers and duties as appointed auditor of Merseytravel and the Authority. These include issuing a report in the public interest, written a recommendations, application for a court declaration, issuing an advisory notice, issuing an application for judicial review or receiving any objections from local electors. We have not exercised any of these additional powers in relation to Merseytravel or the Authority.

Value for Money arrangements

We did not identify any significant weaknesses in Merseytravel's or the Authority's arrangements to secure economy, efficiency and effectiveness in their use of resources. Section 3 provides our commentary on Merseytravel's and the Authority's arrangements.

02

Audit of the financial statements

Audit of the financial statements

Our audit of the financial statements

Our audit was conducted in accordance with the requirements of the Code, and International Standards on Auditing (UK) (ISAs). The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to Merseytravel and the Authority and whether they give a true and fair view of their financial position as at 31 March 2025 and of its financial performance for the year then ended. Our audit reports, issued on 26 February 2026, gave an unqualified opinion on the financial statements for the year ended 31 March 2025.

A summary of the significant risks we identified when undertaking our audit of the financial statements and the conclusions we reached on each of these is outlined in Appendix A. In this appendix we also outline the uncorrected misstatements we identified and internal control recommendations we made.

Qualitative aspects of Merseytravel's and the Authority's accounting practices

We have reviewed Merseytravel's and Liverpool City Region Combined Authority's accounting policies and disclosures and concluded they comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2024/25 appropriately tailored to Merseytravel's and Liverpool City Region Combined Authority's circumstances.

Draft accounts were received from Merseytravel and Liverpool City Region Combined Authority on 30th June 2025 and were of a good quality. Working papers and transactional listings were provided alongside the draft accounts. Merseytravel and Liverpool City Region Combined Authority provided sample evidence and responses to queries in a timely manner to support the audit.

We would like to thank management for their support during the audits.

Other reporting responsibilities

Reporting responsibility	Outcome
Narrative Report	We did not identify any significant inconsistencies between the content of Merseytravel's or the Authority's annual report and our knowledge of each entity, respectively.
Annual Governance Statement	We did not identify any matters where, in our opinion, Merseytravel's or the Authority's governance statement did not comply with the guidance issued by CIPFA/LASAAC Code of Practice on Local Authority Accounting.

Significant matters discussed with management

During our audit we communicated the following significant matters to management:

- **Value for money arrangements (Merseytravel and the Authority):** we have held continuous discussions with management, members of the finance teams, officers across Merseytravel's and Liverpool City Region Combined Authority's business functions and the internal audit team to build an up-to-date and comprehensive understanding of the arrangements in place to secure value for money.
- **Implication of the backstop arrangements (Merseytravel and the Authority):** during audit planning, we concluded that delivery of the 2024/25 audit ahead of the 27 February 2026 backstop deadline was achievable and developed a plan to meet this target. We have held frequent meetings with management to mark progress against this plan to ensure delivery of the audit within the required timeframes.

Audit of the financial statements

Significant developments encountered during 2024/25

There have been several new challenges, specific to 2024/25 that resulted in additional work to ensure we obtained the required assurances. These are discussed in detail in this section of the report. Our intention is to use these to inform a wash-up meeting, to be held between audit team and finance team members, to ensure learnings are taken forward in audits of subsequent years.

- **Implementation of ISA600R – the new standard for auditing groups (Merseytravel and Combined Authority):** the revisions made to ISA (UK) 600 impact how we perform audits of group financial statements. It removed the option to limit the procedures performed over a 'non-significant' component's financial information to desktop analytical procedures. We are now required to perform substantive audit procedures over the group financial statements, including the financial information relating to components in the group, until the residual, untested balances, classes of transaction and disclosures in the group financial statements are below our group materiality. As a result, we have been required to perform substantive procedures on components of both the Merseytravel group and Liverpool City Region Combined Authority group, that previously would only have been subject to desktop analytical procedures.
- **Group accounts (Merseytravel and Combined Authority):** Both Merseytravel and the Combined Authority consolidate several subsidiaries into their group accounts, with the Merseytravel group then ultimately consolidating into the Combined Authority group. The group structure has become increasingly complex, with Chrysalis and the Growth Platform being consolidated into the Combined Authority accounts for the first time in 2024/25.
- **Implementation of IFRS16 – the new accounting standard for leases (Merseytravel and Combined Authority):** both Merseytravel and the Combined Authority were required to apply the requirements of the new standard to all its operating and finance leases, process related adjustments to recognise right-of-use assets and lease liabilities on its Balance Sheet and make associated disclosures in its 2024/25 accounts as required by IFRS 16. Valuations of right-of-use assets disclosed in both Merseytravel's and the Authority's accounts were not completed prior to the publication of their draft statement of accounts, resulting in the identification of

misstatements and in delays in obtaining information to support the audit.

- **Valuation of net defined benefit pension asset / liability (Merseytravel and the Authority):** Both Merseytravel and the Authority are required to apply an appropriate asset restriction in line with the requirements of IFRIC14 when valuing their net defined benefit pension asset / liability. Testing of asset ceiling calculations is complex and requires management judgement.
- **Migration of payroll data (Merseytravel and Combined Authority):** Merseytravel and the Combined Authority transitioned from its old CGI payroll system to the new MyHR system in May 2024. Alongside our standard audit procedures in relation to payroll, we have been required to develop an understanding of the implications of the migration, document and review project governance controls and test data reconciliations.
- **Valuation of long-term debtors – recognition of an expected credit loss allowance (Combined Authority only):** the Combined Authority recognised an expected credit loss allowance against loan amounts owed by Liverpool City Region Digital Ltd, a group component. The calculation of this allowance is complex and requires management judgement.
- **Correspondence from local electors (Combined Authority only):** during the audit of the Authority financial statements, we received correspondence from a local elector. Whilst this resulted in no formal objection notices, we responded to a large number of statutory questions.

03

Our work on Value for Money
arrangements

VFM arrangements

Overall Summary



VFM arrangements – Overall summary

Approach to Value for Money arrangements work

We are required to consider whether Merseytravel and the Authority have made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out and sets out the reporting criteria that we are required to consider. The reporting criteria are:



Financial sustainability - How the Merseytravel and the Authority plan and manage their resources to ensure it can continue to deliver its services.



Governance - How Merseytravel and the Authority ensure they make informed decisions and properly manages their risks.



Improving economy, efficiency and effectiveness - How Merseytravel and the Authority use information about costs and performance to improve the way they manage and deliver their services.

Our work is carried out in three main phases.

Phase 1 - Planning and risk assessment

At the planning stage of the audit, we undertake work so we can understand the arrangements that Merseytravel and the Authority have in place under each of the reporting criteria; as part of this work, we may identify risks of significant weaknesses in those arrangements.

We obtain our understanding of arrangements for each of the specified reporting criteria using a variety of information sources which may include:

- NAO guidance and supporting information
- Information from internal and external sources, including regulators
- Knowledge from previous audits and other audit work undertaken in the year
- Interviews and discussions with officers

Although we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that may suggest there are further risks of significant weaknesses.

Phase 2 - Additional risk-based procedures and evaluation

Where we identify risks of significant weaknesses in arrangements, we design a programme of work to enable us to decide whether there are actual significant weaknesses in arrangements. We use our professional judgement and have regard to guidance issued by the NAO in determining the extent to which an identified weakness is significant.

We have not identified any risks of weakness in arrangements during 2024-25.

Phase 3 - Reporting the outcomes of our work and our recommendations

We are required to provide a summary of the work we have undertaken and the judgments we have reached against each of the specified reporting criteria in this Auditor's Annual Report. We do this as part of our Commentary on VFM arrangements which we set out for each criteria later in this section.




We also make recommendations where we identify weaknesses in arrangements or other matters that require attention from Merseytravel and the Authority. We refer to two distinct types of recommendation through the remainder of this report:

- **Recommendations arising from significant weaknesses in arrangements** - we make these recommendations for improvement where we have identified a significant weakness in the entity's arrangements for securing economy, efficiency and effectiveness in its use of resources. Where such significant weaknesses in arrangements are identified, we report these (and our associated recommendations) at any point during the audit.
- **Other recommendations** - we make other recommendations when we identify areas for potential improvement or weaknesses in arrangements which we do not consider to be significant, but which still require action to be taken.

The table on the following page summarises the outcome of our work against each reporting criteria, including whether we have identified any significant weaknesses in arrangements, or made other recommendations.

VFM arrangements – Overall summary

Overall summary by reporting criteria

Reporting criteria	Commentary page reference	Identified risks of significant weakness?	Actual significant weaknesses identified?	Other recommendations made?
 Financial sustainability	12	No	No	No
 Governance	16	No	No	Yes – see prior year recommendation on page 24
 Improving economy, efficiency and effectiveness	20	No	No	No

Foreword

Merseytravel is the strategic transport advisor to the Liverpool City Region Combined Authority delivering transport services on behalf of the Authority across the region. Merseytravel's focus is on improving connectivity by supporting and maintaining an integrated transport network and improving the customer experience from ticket buying to working with partners to get people to and from major events.

The Liverpool City Region Combined Authority brings together the region's six local authorities – Halton, Knowsley, Liverpool, Sefton, St Helens and Wirral. The authority has taken powers and funding from the national government through a devolution deal. The focus of the Authority is to level up the region through investment in transport, employment and skills, culture, digital and housing.

Both Merseytravel and the Combined Authority reported positive financial results in their draft statement of accounts, with Merseytravel reporting a small surplus and the Combined Authority achieving a breakeven position. Other successes include Merseytravel's increased progression towards the implementation of bus franchising and the Combined Authority's continued investment to support local businesses.

Whilst setting balanced budgets for 2025/26, Merseytravel and the Combined Authority acknowledge the financial outlook is challenging amidst an operating environment dictated by rapidly rising costs. However, the greater flexibilities afforded by the Integrated Settlement present an opportunity for both entities to navigate this challenging environment and work towards their ambitions.

VFM arrangements

Financial Sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services



VFM arrangements – Financial Sustainability

Overall commentary on Financial Sustainability

Financial planning arrangements

The Combined Authority was established on 1 April 2014 as a statutory transport and economic development-related statutory body for Knowsley, Liverpool, St Helens, Sefton, Wirral and Halton local authority areas. Merseytravel was established in 1969 as the Merseyside Passenger Transport Executive and is responsible for executing transport strategy and policy on behalf of the Combined Authority.

Most of Merseytravel's operational activities are funded by the Combined Authority. The Combined Authority is in turn funded by the six Liverpool City Region authorities by way of a levy. Other major sources of income also consist of tunnels tolls to support strategies and spend in relation to transport networks and grants from central government to support the area's economic development, regeneration and transportation systems. The Transport Levy is set annually by the Combined Authority which approves the transport budget, and the amount provided to Merseytravel.

Merseytravel and the Combined Authority have common finance teams and are subject to the same processes for financial planning. Each year, the finance team undertake a rigorous financial planning process for both Merseytravel and the Combined Authority. The output of this process completed during 2024/25 was the budget for 2025/26 and medium-term financial plan (MTFP) to 2029/30 which is completed at a group level, incorporating both Merseytravel and the Combined Authority. This plan was presented to the full Authority in January 2025.

The Combined Authority, at group level which includes Merseytravel, initially set a balanced revenue budget for 2025/26. In setting this budget, there is a planned use of reserves of £14.1m in 2025/26. Of this, There is a net drawing of £11.6m from earmarked reserves, and £2.5m from general reserves (Combined Authority £0.3m and Merseytravel £2.2m). The Combined Authority, at group level, agreed a capital plan for 2025/26 of £345.6m. The vast majority of this spend, being £333.9m is planned to be funded from grants. £3.7m will be funded from additional borrowing, £7.0m planned from reserves and £9.4m funded by revenue contributions.

Following the consolidation of the 2024/25 outturn, the Combined Authority prepared a revised

2025/26 budget. This revised budget which builds in a deeper understanding of integrated settlement implications. It still proposes a balanced budget, with slightly decreased planned drawings on reserves of £13.5m and capital programme of £466m, building in spend deferred from 2024/25.

The planning process to produce the MTFP relies on the input of budget holders to communicate known pressures and budgetary factors to the finance team. These considerations are then used to update forecasts and projections for income and expenditure into the future. The finance team then use these initial projections to inform discussions with budget holders to develop the budgets for their service areas, identifying savings, pressures, growth requests. The MTFP presents a small surplus of £2.3m over its life to 2029/30.

However, we noted that the current MTFP includes no assumptions relating to the impacts of bus franchising. Management have prepared estimates of the impact for Cabinet and presented these separately outside the MTFP, due to the exact impacts not been known with enough certainty to formally report in the Authority's budget. With go-live at the end of 2026, we would expect the 2026/27 budget to include a fully costed impact assessment of bus franchising.

To determine if Merseytravel's and the Combined Authority's budget process identifies pressures and builds them into its plans, we have reviewed the outturn for 2024/25 against initial budget. Merseytravel reported a total revenue underspend of £13.6m, partially offset by income being £5.0m below budget, resulting in a net transfer to revenue reserves of £8.7m. The Combined reported revenue underspend of £49.7m, fully offset by reduced income after increased transfers to general fund reserves. This position was largely driven by reduced grant funded activity.

At group level, there was a total capital underspend of £97.1m, driven largely by delays in transport system upgrade projects (£46.1m) and bus franchising projects (£15.3m). These are multi-year schemes, with slippage being phased into future budgets.

The culmination of the capital and revenue underspends across the group was a total growth in unearmarked, general fund reserves across the group of £15.5m.

VFM arrangements – Financial Sustainability

Overall commentary on Financial Sustainability - continued

Managing and monitoring funding gaps and savings

The Combined Authority group, including Merseytravel, maintain a list of risks and opportunities within the MTFP, with opportunities seen as potential future options to bridge funding gaps. The vast majority of these are identified in the corporate cost space, due to the nature of the Combined Authority being to deliver funding and capital projects rather than extensive services. Across the group, efficiencies of approximately £0.5m were delivered across the corporate cost centres during 2024/25.

In completing this work, management identified options for members to consider to address the future gaps that may be caused by the implementation of bus franchising. These options are being considered to ensure bus franchising is sustainable in the medium and long term.

Ensuring financial plans support the sustainable delivery of services and consistency with other Merseytravel and Authority plans

The Corporate Plan helps to provide an overarching steer of corporate priorities and desired outcomes. The Corporate Plan is supported by the budget setting process. To ensure consistency, the annual review and update of the Corporate Plan is undertaken alongside the budget setting process. Financial sustainability is a key area of focus for the organisation, and this is built into the MTFP process – with use of reserves to balance budgets minimised.

Merseytravel and the Authority have planned finances such that they have significant levels of earmarked reserves. In particular, the Authority has significant infrastructure reserves, which are used to support investment in infrastructure for the region into the future. Merseytravel has significant transport earmarked reserves to support the regions long-term transport projects.

The Corporate Plan is further supported by the Annual Review process. This the Authority's overarching review of the year with a view to summarising how the activities undertaken during the year have aligned to the Authority's ambitions and long-term objectives set out in the Corporate Plan.

Below the MTFP sits other organisational plans. The People Strategy is a multi-year plan that sets

out Merseytravel's and the Authority's ambition to create a working environment where everyone can achieve their potential. The associated costs of implementing this plan are clearly built into the MTFP to ensure the plan is supported through its term to 2025.

Major capital investments are made in accordance with the priority areas outlined in the Investment Strategy. These span regeneration and economic development, housing and transport. Most of the schemes invested in through the Strategic Investment Fund. These schemes are often delivered through partners. Schemes are first assessed through to a pre-development pro forma, which is subject to due diligence to ensure the proposal aligns with the strategic priorities of the Authority. Due diligence focuses on deliverability, affordability, and value for money before proposals are progressed onto the full Authority for consideration. This ensures that all partners to a proposal are working to the same plan, programme, and delivery window.

Managing risk to financial resilience

Risk management is reported to the Audit & Governance Committee, with reports providing details of key activities undertaken to embed the system of corporate risk management.

A Corporate Risk Register is maintained, setting out 6 key risk areas for the organisation - Accountability, Resilience, Environment, Transport, Economic Prosperity and Financial Sustainability. Risk Owners, Potential Impact, Controls and an Action Plan are identified and monitored for each risk area, as part of the Corporate Risk Register. The finance service risk register then sits below the Corporate Risk Register, tracking in detail the considered risks to financial sustainability.

Reserves are also a key strategic tool at management's disposal for managing risk. The draft statement of accounts for Merseytravel reported total usable reserves of £79.3m, with £8.5m unallocated for future use. Usable reserves for the Combined Authority totalled £220.7m at the same date, with £36.7m unallocated for future use. While unearmarked reserves represent 2.4% and 6.9% of expenditure on provision of services for Merseytravel and the Authority respectively, it is key to consider that the nature of these entities means expenditure, in many instances, is met directly by grant funding and would not otherwise be incurred.

VFM arrangements – Financial Sustainability

Overall commentary on Financial Sustainability - continued

In addition, several earmarked reserves are held for general purposes, including financial planning and risk management.

Overall view on arrangements in relation to financial sustainability

We have not identified any significant weaknesses in Merseytravel's and the Combined Authority's arrangements to secure value for money in relation to financial sustainability.

VFM arrangements

Governance

How the body ensures that it makes informed decisions and properly manages its risks



VFM arrangements – Governance

Overall commentary on Governance

Risk management and monitoring arrangements

Merseytravel and the Combined Authority have an established risk management framework. The shared systems of risk management are built into the governance structure of the organisations. As part of the corporate risk management framework, a Risk Management Policy and Handbook are in place to help explain how these principles are implemented in the organisation and sets out how the most significant risks to the organisation are being managed. This was reported in the Risk Management Annual Report 2024/25 to the Audit and Governance Committee.

A key element of the risk management framework is the corporate risk register, encompassing risks across both Merseytravel and the Combined Authority, and all the associated service level risk registers that drive it. The corporate risk register is presented to each meeting of the Audit and Governance Committee, as part of the risk management update. Below the high-level corporate risk register, service risk registers and project risk registers are maintained in line with project management methodology. These registers are used for the day-to-day management of risk, to ensure operational decisions are made with the consideration of real-time risks.

A source of assurance for the organisation comes for the work undertaken by the Internal Audit Team. A single internal audit function completes annual programmes of work for both Merseytravel and the Combined Authority. These programmes of work follow a risk-based approach to determine an annual plan. This plan ensures there is a base level of coverage of core systems that underpin the business-critical activities along-side risk-informed and cyclical work. The planned work can be supplemented, if necessary, by ad hoc reviews in respect of suspected irregularities and other work commissioned by Officers and Members each year. The planned programme of work for 2024/25 was reviewed and approved by the Audit and Governance Committee in March 2024.

Internal audit progress reports are presented to each meeting of the Audit and Governance Committee. These reports include a follow-up on previous recommendations. Our attendance of Audit and Governance Committee's confirms members actively engage with progress reports to understand and manage risks to Merseytravel and the Authority.

At the end of each year, the Head of Internal Audit provides an opinion on the overall adequacy and effectiveness of each organisation's framework of governance, risk management and internal control. These were presented to the Audit and Governance Committee in July of 2025. The opinions for both Merseytravel and the Combined Authority were 'adequate'.

Compliance with CIPFA's Code of Practice on Managing the Risk of Fraud and Corruption is also reviewed and reported to the Audit and Governance Committee on an annual basis.

Budget setting, budgetary control and financial reporting

The 'Funding and Budget Procedure Rules' form part of the Constitution and provides oversight of the budget requirements and specific dates that need to be met. The budget process commences with political engagement with the Metro Mayor and Leaders of the Authority's constituent Councils. This gathers a strategic view for the Authority group to follow, as well as seeking guidance on the appetite for change and budget prioritisation.

Wider engagement with constituent Local Authorities takes place throughout the year on budgetary matters via several different forums: Metro Mayor and Leaders forums, Chief Executives group and at a more detailed and practical level with the Liverpool City Region Finance Directors Group. This ensures the budget setting process meets the needs of key stakeholders.

Budget monitoring is carried out across the organisation throughout the year. The finance team produce monthly information, which is shared with budget holders. The purpose of circulating this information is to identify and communicate areas of under/overspend, pressures and enforce the requirement corrective action where necessary. These reports are subject to internal review by a Strategic Finance Manager prior to being shared with the service areas. Monitoring meetings are then held with Heads of Service and budget holders throughout the month, which feed into the narrative included in the monthly report, shared with Directors.

Throughout the year, Financial Performance reports are considered by the Combined Authority, providing an overview of current performance and setting out any budget adjustments that may require approval.

VFM arrangements – Governance

Overall commentary on Governance - continued

Annually, overall outturn is then reported in July of each year. This overall outturn is then used to inform a revised budget, refreshing the previously agreed annual budget approved by the full authority in the January of that year.

Merseytravel and the Authority prepare a Statement of Accounts, including single entity and group financial statements, annually. Both Merseytravel and the Combined Authority were required to apply the requirements of the new leases accounting standard, IFRS 16, to all its operating and finance leases.

In transitioning to the new standard, Merseytravel identified an asset in its single entity statements and an asset in its group statements (therefore also impacting the Combined Authority Group financial statements) that would require valuations, to be performed by an expert. Whilst management did not expect this to materially impact the financial statements, these valuations were not completed in time to be incorporated into the draft Statement of Accounts, resulting in misstatements being identified. Management acknowledge that work to be performed by valuation experts needs to be commissioned and planned sufficiently in advance of preparing draft financial statements to prevent similar issues in future years.

Decision making framework

Merseytravel and the Combined Authority are subject to the same decision-making arrangements due to them operating within the same governance framework and sharing all their functions. The framework for each organisation is detailed within their respective Annual Governance Statements within the Statement of Accounts for 2024/25.

The Constitution contains the rules governing how each entity operates and how decisions are made, including the Contract Procurement Rules and Financial Regulations, to ensure procedures are efficient, transparent and accountable. Delegated powers of decision making are set out within the Constitution, and this enables certain decisions, within prescribed financial boundaries to be taken by senior officers.

In line with its adoption of the committee style, there are several sub-committees below the full Authority with various responsibilities. These are as follows:

- Appointments and Disciplinary Committee: deals with staff terms and conditions, including the process and procedures for the appointment and dismissal of senior staff and determining pay and grading.
- Audit and Governance Committee: reviews the Combined Authority's and Merseytravel's financial affairs, internal control, corporate governance arrangements and risk management.
- Overview and Scrutiny Committee: scrutinises the decision and actions taken by the Combined Authority and Metro mayor, acts as a critical friend to policy and strategy development, undertake scrutiny reviews into areas of strategic importance for the purpose of the region and monitor the delivery of the strategic plan.
- Transport Committee: undertake transport and travel policy functions on behalf of the Combined Authority, with delegated functions in relation to transport and travel. This therefore has a particular focus on Merseytravel's activities.

To support decision-making in relation to the Combined Authority's joint venture, annual updates are provided to the full Authority that report on delivery progress, partnership performance and commercial reporting. Alongside this formal reporting, there is also a Joint Venture steering group which includes statutory officers from finance, legal and the Executive Leadership Team.

Ensuring legislative and regulatory requirements are met

There are arrangements in place for ensuring Councillors are aware of the behaviours expected under the member code of conduct, and for investigating and considering any complaints made about Councillors. The member code of conduct is overseen by the full Authority. The Audit and Governance Committee reviews annually the counter-fraud arrangements and fraud risks and the Constitution includes an up-to-date Anti-Fraud and Anti-Bribery Strategy and Protocol.

The required frameworks are in place and are designed to promote and maintain high standards of conduct by members. Alongside the constitution and member code of conduct, there are also further detailed protocols to ensure the required statutory and ethical standards are met.

VFM arrangements – Governance

Overall commentary on Governance - continued

Key protocols are officer code of conduct protocol, gifts and hospitality protocol, declarations of interest protocol, bribery protocol, whistleblowing protocol, surveillance protocol, investigation protocol and the anti-money laundering protocol.

The Monitoring Officer has overall responsibility for ensuring that appropriate standards and behaviours are adhered to. However, the statutory officers meet regularly to address matters relating to changes in legislation and regulations.

Overall view on arrangements in relation to governance

We have not identified any significant weaknesses in Merseytravel's and the Combined Authority's arrangements to secure value for money in relation to governance.

VFM arrangements

Improving Economy, Efficiency and Effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services



VFM arrangements – Improving Economy, Efficiency and Effectiveness

Overall commentary on Improving Economy, Efficiency and Effectiveness

Assessing performance and evaluating service delivery

On an annual basis, both Merseytravel and the Combined Authority summarise their annual performance against their stated objectives and goals in the Narrative Report as part of the Statement of Accounts. This outlines the Authority's progress against the Business Plan, key objectives and identified risks. This provides wider stakeholders, including service users, with an overall assessment of activities for the financial year.

Financial performance is monitored at both officer and member level. Monthly reporting is made to the Executive Leadership Team, detailing outturn against budgets to date. The Executive Leadership Team and Strategic Finance Managers are then able to challenge budget holders on any variance to budget and are provided with sufficient oversight to formulate mitigating actions. We have reviewed a sample of the performance reports and Committee minutes which show member challenge of the reported performance.

The Evidence, Research and Intelligence service are responsible for developing and maintaining an evidence base and commissioning evidence-based assessments to allow the organisation to evaluate the impact of both Merseytravel's and the Authority's actions and interventions. These outputs feed into quarterly monitoring reports. The team report against several key criteria, such as how well the project was delivered against its ambitions and time and cost to deliver the project. This help highlight any actions required to the Executive Leadership Team.

Merseytravel and the Combined Authority also make use of delivery boards to provide oversight and scrutiny of service delivery for each business areas or major activity. Each board has a member of the Executive Leadership Team appointed as responsible officer. Board's will then meet between monthly and every 6 weeks to consider progress of projects, pipelines for future schemes and deep dives into flagged areas of concern. The responsible officer is then tasked with reporting back to the Executive Leadership Team.

Throughout 2024/25, monthly corporate reporting dashboards are prepared and reported to the Executive Leadership Team. The dashboard reports key metrics under the headings of finance, governance and workforce for both the Combined Authority and Merseytravel. The dashboards are

then used to inform programme reviews and 'lessons learned' workshops as required to ensure past experiences can be taken forward to better inform future projects.

Effective partnership working

Merseytravel and the Combined Authority work closely with the six local authorities in the Liverpool City Region, public transport operators, Transport for the North, and the business community in delivering their priorities per its overarching plan.

In line with the powers passed to the Combined Authority as a result of the devolution agreement with central government signed in 2015, the Authority has established a Strategic Investment Fund (SIF) to manage devolved funding. The SIF funds the regions capital projects that are largely delivered by partners. Arrangements such as the preparation of an annual strategic investment fund strategy and clear and robust programme assessment procedures ensure the risk of working with partners is effectively managed and strategies are aligned.

Merseytravel on behalf of the Authority is a constituent authority of Transport for the North, which was formed to improve strategic transport decisions across the North of England, by bringing together the North's twenty local transport authorities, business leaders, Network Rail, Highways England and Central Government. This representation of external bodies ensures the coordination of its outputs and support for the overall strategic priorities of the region.

Both Merseytravel and the Combined Authority make considerable use of subsidiary entities to better support the delivery of commercial activities. Merseytravel has three main subsidiaries, as follows:

- Mersey Ferries: operates the Liverpool regions iconic river ferries, ensuring this essential part of the region's history is preserved.
- The Beatles Story: operates the world's largest permanent exhibition purely devoted to telling the story of the lives and times of The Beatles.
- Merseyside Passenger Transport Services: commercial entity owned by Merseytravel to allow for the operation of the lease arrangements in relation to rolling stock.

VFM arrangements – Improving Economy, Efficiency and Effectiveness

Overall commentary on Improving Economy, Efficiency and Effectiveness - continued

These entities are all consolidated into the Merseytravel group. Alongside the Merseytravel group, the following entities are also consolidated into the Liverpool City Region Combined Authority group:

- Chrysalis: oversee funds already committed into development finance projects across Merseyside to meet regeneration objectives.
- Growth platform: provides support to businesses in the city region as part of the group's wider economic growth strategy.

The Combined Authorities annual internal audit plan periodically completes reviews on group entities. This provides oversight from a risk management perspective of subsidiary entities.

In addition to these wholly owned subsidiaries, the Combined Authority also holds a 50% stake in Liverpool City Region Digital Connect Limited, accounted for as a joint venture. This is a joint venture entered into with the purpose of transforming the digital infrastructure of the Liverpool City Region.

Monitoring of delivery of the joint venture is undertaken on an ongoing basis. Activities of the joint venture are governed by the terms of the joint venture agreement. There are remedies for any non-delivery, underperformance or other breaches and, should those circumstances occur, the Combined Authority appointed directors will escalate within the Authority to the joint venture Steering Group.

Procuring and commissioning services

Merseytravel's and the Authority's procurement team and procurement processes ensures that it complies with all legal and regulatory requirements as well as achieving best value in procurement processes. As standard, all procurements are run through the central team unless they are below £20k in value. Below this threshold, the central team will take a risk-based view on whether their involvement is required. Where possible, they look to be involved in all processes with new partners, irrespective of value.

The Procurement Act 2023 came into effect for both Merseytravel and the Combined Authority in February 2025. Various training sessions have taken place to support the team in transitioning to operating in line with the updated legislation. To align to the new Act, the procurement section of the constitution was updated with the latest version being from 6 June 2025.

The work of the procurement team is subject to regular scrutiny from the internal audit function. No adverse findings were identified in relation to the process during 2024/25. Standardised templates and procurement standing orders are used throughout the procurement process to ensure consistency of approach. Any deviation from the procurement rules must be agreed via a waiver process as described in the standing orders and are reported to the Regulatory and Compliance Board.

Overall view on arrangements in relation to governance

We have not identified any significant weaknesses in Merseytravel's and the Combined Authority's arrangements to secure value for money in relation to improving economy, efficiency and effectiveness.

VFM arrangements

Prior year non-significant weaknesses
and recommendations



VFM arrangements – Prior year non-significant weaknesses and recommendations

Progress against non-significant weaknesses and recommendations made in a prior year

As part of our audit work in previous years, we identified the following non-significant weakness and made 'other' recommendations for improvement in Merseytravel's and the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources. The identified weaknesses have been outlined in the table below, along with our view on Merseytravel's and the Authority's progress against the recommendations made, including whether the non-significant weakness is still relevant in the 2024/25 year.

Previously identified significant weakness in arrangements	Reporting criteria	Recommendation for improvement	Our views on the actions taken to date	Overall conclusions
<p>1 Informed decision-making – LCR Digital Connect (Combined Authority 2023/24)</p> <p>In relation to the Combined Authority's joint venture LCR Digital Connect, annual updates are provided to the full Authority that report on delivery progress, partnership performance and commercial reporting. Financial reporting for the rest of the Group is undertaken on a quarterly basis.</p> <p>Given the mounting level of losses reported by the joint venture and the financial and reputational risk this poses to the Authority, we are of the view that annual does not represent the most appropriate frequency of reporting to the full Authority. An increased frequency of reporting on the performance of the joint venture will allow the full Authority to make timely and informed decisions based on current information.</p>	Governance	We recommended that performance of the LCR Digital Connect joint venture should be reported to the full Authority with the same frequency as the wider group, as part of the quarterly reporting, to ensure sufficient oversight at an appropriate level of governance.	<p>We acknowledge that the recommendation was formally presented to the Authority in February 2025, limiting the timeframe for meaningful action to impact arrangements in 2024/25 to be taken.</p> <p>The Authority have taken significant steps to improve the reporting of LCR Digital Connects performance in the form of Mayoral briefings. However, the first full performance report to the Authority is only planned for December 2025.</p>	<p>Whilst acknowledging the significant progress, our recommendation remains unaddressed during 2024/25.</p> <p>We will follow-up progress again during 2025/26.</p>

Other reporting responsibilities

Other reporting responsibilities

Wider reporting responsibilities

Matters we report by exception

The Local Audit and Accountability Act 2014 provides auditors with specific powers where matters come to our attention that, in their judgement, require specific reporting action to be taken. Auditors have the power to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to the law; and
- issue an advisory notice.

We have not exercised any of these statutory reporting powers.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We received several questions from a local elector, to which we have provided responses. We did not receive any objection notices.

Reporting to the group auditor

Whole of Government Accounts (WGA)

Merseytravel is consolidated into the Liverpool City Region Combined Authority Group Accounts. WGA reporting requirements are undertaken at group level as part of the Liverpool City Region Combined Authority audit.

In line with group audit instructions issued by the NAO, we are required to complete a programme of work on the Authority's Whole of Government Accounts return and report to the group auditor in line with their instructions. The NAO are yet to provide confirmation on the approach to selecting sampled components. Without this information we are unable to complete our work and issue our certificate which concludes the audit of the Liverpool City Region Combined Authority.

05

Audit fees and other services

Audit fees and other services

Fees for our work as the appointed auditor of Merseytravel and Liverpool City Region Combined Authority

Our fees (exclusive of VAT and disbursements) as Merseytravel's and the Authority's appointed auditor for the year ended 31 March 2025 are outlined below.

Our fees are designed to reflect the time, professional experience, and expertise required to perform our audit. The main aspects impacting upon the fee this year when compared to the prior year are higher scale fees set by PSAA and additional work to address risks. In line with ethical requirements, we are required to include additional fees where other challenges and risks emerge during the audit to maintain the quality of our work.

We will discuss and agree all additional fees with the Executive Director of Resources before seeking approval from PSAA.

Area of work	Merseytravel		Liverpool City Region Combined Authority	
	2024/25	2023/24	2024/25	2023/24
Planned fee in respect of our work under the Code of Audit Practice (scale fee)	£145,868	£114,092	£159,398	£132,197
<i>Fee variations that will be baked into the scale fee in the subsequent year:</i>				
Additional testing in respect of property plant and equipment valuations	-	£20,000	-	£5,000
Additional work in respect of increased complexity of group accounts (new entities consolidated)	-	-	£12,023	£7,500
Additional work in respect of new audit standards (ISA315R)	-	£9,410	-	£9,410
Additional work required on the group audit under the revised ISA 600 auditing standard	£20,000	-	£15,000	-
Additional work required to audit leases under the new IFRS 16 accounting standard	£10,000	-	£10,000	-
<i>Fee variations arising during the year due to specific risk factors or additional work requirements:</i>				
Additional work in respect of net defined benefit pension asset	£5,000	£10,000	£5,000	£10,000
Additional work in respect of Value for Money risks and significant weakness	-	-	-	£6,000
Additional work required relating to migration of payroll data	£5,000	-	£5,000	-
Additional work required relating to valuation of long-term debtors (expected credit loss allowance)	-	-	£5,000	-
Additional work associated with responding to queries raised by local electors	-	-	£17,500	-
Total fees	£185,868	£153,502	£228,921	£170,107

Appendices

Appendix A: Further information on our audit of Merseytravel's financial statements

Appendix B: Further information on our audit of Liverpool City Region Combined Authority's financial statements

Appendix A: Further information on our audit of Merseytravel’s financial statements

Significant risks and audit findings

As part of our audit of Merseytravel, we identified significant risks to our opinion on the financial statements during our risk assessment. The table below summarises these risks, how we responded and our findings.

	Risk name	Fraud	Error	Judgement	Audit response	Audit findings
1	<p>Management override of controls</p> <p>Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. The unpredictable way in which such override could occur means there is a risk of material misstatement as a result of fraud on all audits. The Audit and Governance Committee should assess this risk as part of its oversight of the financial reporting process.</p>	●	○	○	<p>In line with our methodology, we addressed the management override of controls risk by carrying out audit work on:</p> <ul style="list-style-type: none"> material accounting estimates included in the financial statements to review for evidence of management bias; testing a sample of journals that meet our risk criteria and other adjustments recorded in the general ledger in preparing the financial statements; and significant transactions that are outside the normal course of business or otherwise unusual 	<p>Progress: work complete</p> <p>Our work in relation to material accounting estimates has not identified any issues.</p> <p>We have completed our sample testing of journals that meet our risk criteria and have identified a significant control deficiency in relation to the approval of journal entries posted to the ledger.</p> <p>We have not identified any significant or unusual transactions outside the normal course of business.</p>

Appendix A: Further information on our audit of Merseytravel's financial statements

Significant risks and audit findings - continued

	Risk name	Fraud	Error	Judgement	Audit response	Audit findings
2	<p>Valuation of property, plant and equipment</p> <p>Merseytravel's draft 2024/25 financial statements report property, plant and equipment with a value of £423.2 m as at 31 March 2025, with the equivalent figure being £424.2m for the group accounts. Where a local authority's assets are subject to revaluation, the Code requires that the carrying value should reflect the appropriate fair value as at the year end.</p> <p>Merseytravel has adopted a rolling revaluation model which sees all relevant assets revalued in a five-year cycle, with 2023/24 being the last full revaluation year. As a result, there is a risk that the carrying value of assets is materially misstated as a result of changes in market conditions and other factors since the last formal revaluation.</p> <p>Due to the high degree of estimation uncertainty associated with valuations, we have determined there is a significant risk in this area.</p>	○	●	●	<p>We assessed the risk of valuations changing materially in year, considering the movement in market indices between valuation dates and the balance sheet date, to determine whether these indicate that fair values have moved materially.</p> <p>We reviewed the approach adopted by Merseytravel to assess the risk that assets not subject to valuation at year end are not materially misstated and considered the robustness of that approach.</p> <p>To address this risk for the group audit, we relied on procedures performed by ourselves on the single entity audit of Merseytravel.</p>	<p>Progress: work complete</p> <p>Our work considered the movement on market indices in order to assess whether the carrying values of assets held by Merseytravel which were not formally revalued during the year were materially misstated.</p> <p>We identified an immaterial misstatement whereby Merseytravel undertook an indexation exercise to assess the movement in the valuation of its property, plant and equipment but did not post this movement to the ledger and record it in the financial statements.</p> <p>We have identified a control recommendation in relation to the above finding.</p>

Appendix A: Further information on our audit of Merseytravel’s financial statements

Significant risks and audit findings - continued

	Risk name	Fraud	Error	Judgement	Audit response	Audit findings
3	<p>Valuation of net defined pension asset/(liability)</p> <p>Merseytravel is an admitted body of Merseyside Pension Fund. Merseytravel’s draft group and single entity financial statements for the year ended 31 March 2025 report a net pension liability of £1.7m. This net liability represents offsetting assets and liabilities, as well as an adjustment to apply an ‘asset ceiling’ to ensure that Merseytravel only recognises the proportion of any asset from which it will receive future economic benefits.</p> <p>The valuation of the Local Government Pension Scheme relies on a number of actuarial assumptions and a complex methodology which results in the overall valuation.</p> <p>There are financial assumptions and demographic assumptions used in the calculation, such as the discount rate, inflation rates and mortality rates. The assumptions should also reflect the profile of Merseytravel’s employees and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year-on-year or is updated to reflect any changes.</p> <p>There is a risk that the assumptions and methodology used in valuing Merseytravel’s pension obligation are not reasonable or appropriate to its circumstances. This could have a material impact on the net pension liability in 2024/25.</p>	○	●	●	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> • Obtaining an understanding of the skills, experience and qualifications of the actuary, and considering the appropriateness of the instructions to the actuary from Merseytravel. • Obtaining confirmation from the auditor of the Merseyside Pension Fund that the Pension Fund has designed and implemented controls to prevent and detect material misstatement. This included the controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS19 valuation of the gross asset and liability is complete and accurate. • Reviewing a summary of the work performed by the Pension Fund auditor on the Pension Fund investment assets, and evaluating whether the outcome of their work would affect our consideration of Merseytravel’s share of Pension Fund assets. • Reviewing the actuarial allocation of Pension Fund assets to Merseytravel by the actuary, including comparing Merseytravel’s share of the assets to other corroborative information. • Reviewing the appropriateness of the Pension Asset and Liability valuation methodology applied by the Pension Fund Actuary, and the key assumptions included within the valuation. This includes comparing them to expected ranges, utilising information provided by PwC, consulting actuary engaged by the National Audit Office. • Agreeing the data in the IAS 19 valuation report provided by the Pension Fund Actuary for accounting purposes to the pension accounting entries and disclosures in Merseytravel’s financial statements. 	<p>Progress: work complete</p> <p>We have completed our work in relation to the valuation of Merseytravel’s net defined benefit pension liability. Our procedures have not identified any misstatements, but we have identified a significant control recommendation in relation to managements review and challenge of the work of their actuary.</p>

Appendix A: Further information on our audit of Merseytravel’s financial statements

Significant risks and audit findings - continued

	Risk name	Fraud	Error	Judgement	Audit response	Audit findings
4	<p>Valuation and completeness of right-of-use assets and lease liabilities (implementation of IFRS 16)</p> <p>The IFRS 16 accounting standard is applicable for local authorities from 1 April 2024 and is designed to report information that better shows lease transactions and provides a better basis for users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases.</p> <p>Merseytravel is required to apply the requirements of the new standard to all its operating and finance leases, process related adjustments to recognise right-of-use assets and lease liabilities on its Balance Sheet and make associated disclosures in its 2024/25 accounts as required by IFRS 16.</p> <p>Merseytravel’s draft 2024/25 financial statements report right-of-use assets and lease liabilities of £73.6m and £0.0m respectively, with the equivalent figures in the group accounts being £75.9m and £1.6m. The significant variance between the assets and the liabilities recognised is a result of most of Merseytravel’s right-of-use assets being leased at a peppercorn rate.</p> <p>The valuation of right-of-use assets involves the use of a management expert and the estimation of fair values is complex which creates a risk that the carrying value of those assets revalued in the year is materially misstated. There is also a risk that the revised accounting standard will result in leases which should be newly recognised on the Balance Sheet not being identified by Merseytravel.</p>	○	●	●	<p>We have substantively tested a larger-than-standard sample of leases to confirm the appropriate accounting treatment has been applied and the correct disclosures have been included in the 2024/25 accounts. This involved testing accounting adjustments required under the IFRS 16 transition to adjust the value of both the brought forward and closing liabilities.</p> <p>In addition, for those assets which have been revalued during the year we have:</p> <ul style="list-style-type: none"> assessed the valuer’s qualifications; assessed the valuer’s objectivity and independence; reviewed the methodology used; for a sample of assets, performed testing of the associated underlying data and assumptions; ensured the accounting treatment of the valuation and associated movements are compliant with relevant accounting framework; and sought assurances from management that they have appropriately challenged the valuer’s work. <p>To address this risk for the group audit, we relied on procedures performed by ourselves on the single entity audit of Merseytravel.</p>	<p>Progress: work complete</p> <p>We have completed our work and identified material disclosure misstatements, that have been amended, due to management not including all the disclosures required to disclose the impact of the change in accounting from IAS17 to IFRS16.</p>

Appendix A: Further information on our audit of Merseytravel’s financial statements

Significant risks and audit findings - continued

	Risk name	Fraud	Error	Judgement	Audit response	Audit findings
5	<p>Migration of payroll data</p> <p>Merseytravel transitioned from its old CGI payroll system to the new MyHR system in May 2024, with data being migrated between the two systems for this purpose. The transition affects all entities whose financial information is consolidated into the group, with the exception of The Beatles Story Ltd.</p> <p>There is a risk that the migration will not capture all data held in the prior system. The omission of such data could ultimately lead to material misstatement within the financial statements. The implementation of a new system also poses a significant risk to the integrity and validity of Merseytravel’s reporting if change management processes are not robust, and the new system is not correctly tested and implemented.</p> <p>There is a further risk the migration leads to a loss of data and payroll records during transfer. Such a loss of data may result in a risk that during the audit, we are unable to obtain sufficient and appropriate audit evidence to support transactions entered into by Merseytravel.</p>	○	●	●	<p>We addressed this risk by completing the following additional procedures:</p> <ul style="list-style-type: none"> Assessing Merseytravel’s governance controls that are in place to ensure an effective cutover against the expected governance controls for data migration. Taking assurance over the completeness of the migration by reviewing Merseytravel’s reconciliation of closing data within the old system to opening data in the new system <p>To address this risk for the group audit, we will rely on procedures performed by ourselves on the single entity audit of Merseytravel.</p>	<p>Progress: work complete</p> <p>We have completed our planned work in relation to the payroll migration and have no matters to report to the Audit and Governance Committee.</p>

Appendix A: Further information on our audit of Merseytravel's financial statements

Summary of unadjusted misstatements

The table below outlines that misstatements that have been identified during the audit but not adjusted by management as a result of them individually and in aggregate having an immaterial impact on the financial statements.

Description	Entity	Nature	Comprehensive Income and Expenditure Statement		Balance Sheet	
			Dr (£ '000)	Cr (£ '000)	Dr (£ '000)	Cr (£ '000)
DR: Property, plant and equipment CR: Expenditure (cost of services) <i>Due to uncertainty over the point at which ownership of rolling stock assets under construction pass to Merseytravel, a small amount of costs were treated as revenue instead of being capitalised.</i>	Merseytravel and Merseytravel group	Known error		(1,359)	1,359	
DR: Property, plant and equipment DR: Right of use assets CR: Revaluation reserve <i>Merseytravel failed to recognise fixed asset revaluation gains despite completing and indexation exercise to appropriately identify the movement.</i>	Merseytravel and Merseytravel group	Known error			206 1,237	(1,443)
DR: Taxation and non-specific grant income CR: Rail Services <i>When derecognising an incorrectly capitalised intangible asset, Merseytravel fully amortised the asset rather than appropriately derecognising it. This resulted in a misclassification of expenditure.</i>	Merseytravel and Merseytravel group	Known error	2,150	(2,150)		
Aggregate effect of unadjusted misstatements			2,150	(3,509)	2,802	(1,443)

Appendix A: Further information on our audit of Merseytravel’s financial statements

Internal control observations for Merseytravel

We are responsible for obtaining an understanding of internal control relevant to our audit and the preparation of the financial statements to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Merseytravel’s internal control. Where we identify deficiencies as a result of obtaining this understanding, we report them to management and make appropriate recommendations for their improvement. Below, we summarise our significant findings.

Review of IFRS16 transition disclosures (2024/25)

Description of deficiency

Merseytravel did not perform and sufficiently document review of working papers and actual disclosures relating to the transition to IFRS16, the new accounting standard for leases.

Potential effects

Failure to review the working papers and actual disclosures resulted in Merseytravel failing to identify material omissions from the Statement of Accounts, being the requirement to disclose the impact of transitioning to IFRS16.

Recommendation

Management should ensure that working papers and disclosures, particularly those that are new for the year of account, are subject to review that is documented.

Management response

Management utilised specific IFRS 16 guidance which provided example disclosures to be included within the notes to the financial statements. Management also performed consistency checks with other local government bodies who published their draft statement of accounts prior to the statutory reporting deadline. After discussions with the audit team it appears the guidance and examples management relied on were not complete. Management accepts this point and will look to implement more robust processes for any future accounting standards adopted. Management also accepts that while reviews of workpapers do take place, they are not formally documented and will look to how this can be improved in future.

Appendix A: Further information on our audit of Merseytravel’s financial statements

Other deficiencies in internal control

These control observations are not, in our view, significant control deficiencies but have been reported to management directly and are included in this report for your information. In our view, there is a need to address the deficiencies in internal control set out in this section to strengthen internal control or enhance business efficiency. Our recommendations should be actioned by management in the near future.

Property, plant and equipment and right of use asset indexation (2024/25)

Description of deficiency

Merseytravel’s work to identify potentially material movements on land and building valuations did not include land assets for property, plant and equipment or right of use assets. Merseytravel’s indexations work was also not applied to vessels and surplus assets. In addition to not covering classes of assets, Merseytravel did not post identified valuation movements to ledger.

Potential effects

Whilst the above deficiencies only resulted in immaterial misstatements in 2024/25, failure to review potential movements on the omitted classes of assets could result in material misstatements in future periods. Failure to record valuation movements in the ledger could also result in material misstatements in future periods.

Recommendation

Management should ensure their indexation work covers all asset classes carried at valuation. Management should ensure potential valuation movements identified by the exercise are posted to the ledger to record these movements in the financial statements.

Management response

Management considered the total value of PPE subject to revaluations, the level of inflation, the fact that a full revaluation took place only 12 months prior to the reporting date and the overall materiality of the balances in the financial statements. Management concluded that there was not a material difference due to indexation. The posting of indexation is listed within the notes to the financial statements as an amendment to the Code to include adaptations and interpretations of existing standards that have not yet been adopted, therefore management will look to implement this in the 2025/26 financial statements in line with CIPFA guidance.

Review of journal entries posted to the ledger (2024/25)

Description of deficiency

Journals posted to the Merseytravel ledger by officers are not subject to review by a separate officer at the point in time that they are posted.

Potential effects

As part of our audit work, we identified a mitigating control, whereby budget holders perform ‘bulk’ reviews of journals posted to their cost centres at each month end. However, failure to perform reviews at the point of time that journals are posted could result in erroneous journals being posted and further amendments to reverse them being required. This in turn could increase the risk of errors in the misstatements due to complexity of manually adjusting previously posted journals.

Recommendation

Management should ensure that journals are reviewed at the point they are posted to the ledger.

Management response

Management acknowledges this point however we do not believe it is practicably possible to implement. There were thousands of transactions in 2024/25, the authority would require a large team of very experienced accountants to review and approve each posting which would cost a significant amount of money to implement as well as potentially delay internal and external reporting. Management have implemented a number of mitigating controls around payments, review of budgets and variance analysis of actuals that we believe reduces the risk of material misstatement to an acceptably low level. Management also believe that this approach is consistent with the vast majority of both public and private entities.

Appendix A: Further information on our audit of Merseytravel’s financial statements

Other deficiencies in internal control

These control observations are not, in our view, significant control deficiencies but have been reported to management directly and are included in this report for your information. In our view, there is a need to address the deficiencies in internal control set out in this section to strengthen internal control or enhance business efficiency. Our recommendations should be actioned by management in the near future.

Related parties – declarations of interest (2024/25)

Description of deficiency

As part of our work on Merseytravel’s related parties and related party transactions, the audit team identified that declarations of interest had not been made publicly available for non-voting members of the Combined Authority.

Potential effects

Deficiencies in the process for identifying and reporting related party relationships and related party transactions increase the risk of material non-compliance with laws and regulations and the risk of material misstatement within the financial statements.

Recommendation

Management should ensure that the process for obtaining and publishing declarations of interests for all Combined Authority members is undertaken sufficiently regularly and completely.

Management response

The Registers of Interest for all voting Members of the Combined Authority were completed and published on the Combined Authority’s website. The discrepancies identified by the auditors related to Deputy Cabinet Members, who are not voting Members, and therefore had not previously been required to provide a Register of Interest form.

However, in line with the principles of openness and transparency, we have now requested the outstanding Register of Interest forms from the Deputy Cabinet Members. In addition, as part of the arrangements for the new municipal year, all Deputy Cabinet Members will be required to complete a Register of Interest form, which will also be published on the Combined Authority’s website.

Appendix A: Further information on our audit of Merseytravel’s financial statements

Follow up on significant deficiencies in internal controls identified on prior year audits

Set out below is an update on the action taken by Merseytravel to address significant deficiencies in internal control identified on prior audits, that were not resolved on commencement of our audit.

Review and challenge of IAS19 reports provided by Merseytravel’s actuary (2023/24)

Description of deficiency

Merseytravel engages an external actuarial firm to perform a valuation, in line with the requirements of IAS19, of Merseytravel’s net defined benefit pension asset / liability. When received, management did not perform and document sufficient review and challenge of the actuarial valuation report to identify a material misstatement in the 2023/24 financial statements.

Current year update: through the completion of our audit procedures, we have identified that, in 2024/25, management did not perform and document sufficient review and challenge of the actuarial valuation report, although no misstatements were identified in 2024/25.

Potential effects

Failure to review the report resulted in Merseytravel failing to appropriately account for an asset surplus restriction in line with the requirements of IFRIC14 in 2023/24 (the prior year) resulting in a material misstatement. Continued failure to review the actuarial reports could result in future material misstatements.

Recommendation

Management should ensure a full review of the IAS19 report provided by the actuary is performed and documented. This should include a documented challenge of the assumptions and application of surplus restrictions in line with the requirements of IFRIC14 that have been applied by the actuary.

Management response

An external actuarial firm is engaged due to pensions being a highly complex area for which Merseytravel does not hold the appropriate expertise. Management acknowledges the point however we believe this is a common issue for entities both in the public and private sector.

Appendix A: Further information on our audit of Merseytravel’s financial statements

Follow up on previous internal control points

We set out below an update on internal control points raised in prior periods.

Review of the property valuation report and supporting valuation schedules (2023/24)

Description of deficiency

Merseytravel engages an external valuer to perform valuations of land and buildings. Merseytravel could not provide corresponding floorplans to support those used by the valuer in their calculations. Management did not perform a review of valuations schedule, which detailed the data inputs applied.

Current year update: through the completion of our audit procedures, we have confirmed that Merseytravel undertook procedures to ensure the floorplans provided to the valuer could be supported by evidence held by Merseytravel.

Potential effects

Failure to review the valuation schedule result in misstatements being identified in the valuation schedule. This resulted in misstatements being reported in the draft accounts.

Recommendation

Management should ensure a full review of the valuation report provided by the valuer is performed and documented. This should include a documented reconciliation of data inputs provided by Merseytravel to those applied in the valuations.

Management response

Management engaged expert valuers due to the specialised nature of PPE valuations which can involve many subjective inputs and specialist judgements. We acknowledge the point raised but believe that valuations are fundamentally an estimate and we are comfortable that the valuations undertaken by our external experts were not materially incorrect.

Appendix B: Further information on our audit of Liverpool City Region Combined Authority’s financial statements

Significant risks and audit findings

As part of our audit of Liverpool City Region Combined Authority, we identified significant risks to our opinion on the financial statements during our risk assessment. The table below summarises these risks, how we responded and our findings.

	Risk name	Fraud	Error	Judgement	Audit response	Audit findings
1	<p>Management override of controls</p> <p>Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. The unpredictable way in which such override could occur means there is a risk of material misstatement as a result of fraud on all audits. The Audit and Governance Committee should assess this risk as part of its oversight of the financial reporting process.</p>	●	○	○	<p>In line with our methodology, we addressed the management override of controls risk by carrying out audit work on:</p> <ul style="list-style-type: none"> • material accounting estimates included in the financial statements to review for evidence of management bias; • testing a sample of journals that meet our risk criteria and other adjustments recorded in the general ledger in preparing the financial statements; and • significant transactions that are outside the normal course of business or otherwise unusual <p>To address this risk for the group audit, we will rely on procedures performed by ourselves on the single entity audits of Liverpool City Region Combined Authority and Merseytravel.</p>	<p>Progress: work complete</p> <p>Our work in relation to material accounting estimates has not identified any issues.</p> <p>We have completed our sample testing of journals that meet our risk criteria and have identified a significant control deficiency in relation to the approval of journal entries posted to the ledger.</p> <p>We have not identified any significant or unusual transactions outside the normal course of business.</p>

Appendix B: Further information on our audit of Liverpool City Region Combined Authority’s financial statements

Significant risks and audit findings - continued

	Risk name	Fraud	Error	Judgement	Audit response	Audit findings
2	<p>Valuation of property, plant and equipment</p> <p>The Combined Authority’s draft 2024/25 financial statements report property, plant and equipment with a value of £270.3m as at 31 March 2025, with the equivalent figure being £694.4m for the group accounts. Where a local authority’s assets are subject to revaluation, the Code requires that the carrying value should reflect the appropriate fair value as at the year end.</p> <p>Liverpool City Region Combined Authority has adopted a rolling revaluation model which sees all relevant assets revalued in a five-year cycle, with 2023/24 being the last full revaluation year. As a result, there is a risk that the carrying value of assets is materially misstated as a result of changes in market conditions and other factors since the last formal revaluation.</p> <p>Due to the high degree of estimation uncertainty associated with valuations, we have determined there is a significant risk in this area.</p>	○	●	●	<p>We assessed the risk of valuations changing materially in year, considering the movement in market indices between valuation dates and the balance sheet date, to determine whether these indicate that fair values have moved materially.</p> <p>We reviewed the approach adopted by the Authority to assess the risk that assets not subject to valuation at year end are not materially misstated and considered the robustness of that approach.</p> <p>To address this risk for the group audit, we will rely on procedures performed by ourselves on the single entity audits of Liverpool City Region Combined Authority and Merseytravel.</p>	<p>Progress: work complete</p> <p>Our work considered the movement on market indices in order to assess whether the carrying values of assets held by the Authority which were not formally revalued during the year were materially misstated.</p> <p>We identified an immaterial misstatement whereby Merseytravel (forming part of the Combined Authority group) undertook an indexation exercise to assess the movement in the valuation of its property, plant and equipment but did not post this movement to the ledger and record it in the financial statements.</p> <p>We have identified a control recommendation in relation to the above finding.</p>

Appendix B: Further information on our audit of Liverpool City Region Combined Authority's financial statements

Significant risks and audit findings - continued

	Risk name	Fraud	Error	Judgement	Audit response	Audit findings
3	<p>Valuation of net defined pension asset/(liability)</p> <p>Liverpool City Region Combined Authority is an admitted body of Merseyside Pension Fund. The Combined Authority's draft financial statements for the year ended 31 March 2025 report a net pension liability of £0.0m, with the equivalent figure being £1.7m for the group accounts. Although its net liability is £0.0m, this represents offsetting assets and liabilities, as well as an adjustment to apply an 'asset ceiling' to ensure that the Combined Authority only recognises the proportion of any asset from which it will receive future economic benefits.</p> <p>The valuation of the Local Government Pension Scheme relies on a number of actuarial assumptions and a complex methodology which results in the overall valuation.</p> <p>There are financial assumptions and demographic assumptions used in the calculation, such as the discount rate, inflation rates and mortality rates. The assumptions should also reflect the profile of the Combined Authority's employees and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year-on-year or is updated to reflect any changes.</p> <p>There is a risk that the assumptions and methodology used in valuing the Combined Authority's pension obligation are not reasonable or appropriate to its circumstances. This could have a material impact on the net pension liability in 2024/25.</p>	○	●	●	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> • Obtaining an understanding of the skills, experience and qualifications of the actuary, and considering the appropriateness of the instructions to the actuary from the Authority. • Obtaining confirmation from the auditor of the Merseyside Pension Fund that the Pension Fund has designed and implemented controls to prevent and detect material misstatement. This included the controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS19 valuation of the gross asset and liability is complete and accurate. • Reviewing a summary of the work performed by the Pension Fund auditor on the Pension Fund investment assets, and evaluating whether the outcome of their work would affect our consideration of the Authority's share of Pension Fund assets. • Reviewing the actuarial allocation of Pension Fund assets to the Authority by the actuary, including comparing Merseytravel's share of the assets to other corroborative information. • Reviewing the appropriateness of the Pension Asset and Liability valuation methodology applied by the Pension Fund Actuary, and the key assumptions included within the valuation. This includes comparing them to expected ranges, utilising information provided by PwC, consulting actuary engaged by the National Audit Office. • Agreeing the data in the IAS 19 valuation report provided by the Pension Fund Actuary for accounting purposes to the pension accounting entries and disclosures in the Authority's financial statements. <p>To address this risk for the group audit, we will rely on procedures performed by ourselves on the single entity audits of Liverpool City Region Combined Authority and Merseytravel.</p>	<p>Progress: work complete</p> <p>We have completed our work in relation to the valuation of the Authority's net defined benefit pension liability. Our procedures have not identified any misstatements, but we have identified a significant control recommendation in relation to managements review and challenge of the work of their actuary.</p>

Appendix B: Further information on our audit of Liverpool City Region Combined Authority’s financial statements

Significant risks and audit findings - continued

	Risk name	Fraud	Error	Judgement	Audit response	Audit findings
4	<p>Valuation and completeness of right-of-use assets and lease liabilities (implementation of IFRS 16)</p> <p>The IFRS 16 accounting standard is applicable for local authorities from 1 April 2024 and is designed to report information that better shows lease transactions and provides a better basis for users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases.</p> <p>The Combined Authority is required to apply the requirements of the new standard to all its operating and finance leases, process related adjustments to recognise right-of-use assets and lease liabilities on its Balance Sheet and make associated disclosures in its 2024/25 accounts as required by IFRS 16.</p> <p>The Combined Authority’s draft 2024/25 financial statements report right-of-use assets and lease liabilities of £39.9m and £37.6m respectively, with the equivalent figures in the group accounts being £115.7m and £39.2m.</p> <p>The valuation of right-of-use assets involves the use of a management expert and the estimation of fair values is complex which creates a risk that the carrying value of those assets revalued in the year is materially misstated. There is also a risk that the revised accounting standard will result in leases which should be newly recognised on the Balance Sheet not being identified by the Combined Authority.</p>	○	●	●	<p>We have substantively tested a larger-than-standard sample of leases to confirm the appropriate accounting treatment has been applied and the correct disclosures have been included in the 2024/25 accounts. This involved testing accounting adjustments required under the IFRS 16 transition to adjust the value of both the brought forward and closing liabilities.</p> <p>In addition, for those assets which have been revalued during the year we have:</p> <ul style="list-style-type: none"> assessed the valuer’s qualifications; assessed the valuer’s objectivity and independence; reviewed the methodology used; for a sample of assets, performed testing of the associated underlying data and assumptions; ensured the accounting treatment of the valuation and associated movements are compliant with relevant accounting framework; and sought assurances from management that they have appropriately challenged the valuer’s work. <p>To address this risk for the group audit, we will rely on procedures performed by ourselves on the single entity audits of Liverpool City Region Combined Authority and Merseytravel.</p>	<p>Progress: work complete</p> <p>We have completed our work and identified material disclosure misstatements, that have been amended, due to management not including all the disclosures required to disclose the impact of the change in accounting from IAS17 to IFRS16.</p>

Appendix B: Further information on our audit of Liverpool City Region Combined Authority’s financial statements

Significant risks and audit findings - continued

	Risk name	Fraud	Error	Judgement	Audit response	Audit findings
5	<p>Migration of payroll data</p> <p>The Combined Authority transitioned from its old CGI payroll system to the new MyHR system in May 2024, with data being migrated between the two systems for this purpose. The transition affects all entities whose financial information is consolidated into the group, with the exception of The Beatles Story Ltd.</p> <p>There is a risk that the migration will not capture all data held in the prior system. The omission of such data could ultimately lead to material misstatement within the financial statements. The implementation of a new system also poses a significant risk to the integrity and validity of the Combined Authority’s reporting if change management processes are not robust, and the new system is not correctly tested and implemented.</p> <p>There is a further risk the migration leads to a loss of data and payroll records during transfer. Such a loss of data may result in a risk that during the audit, we are unable to obtain sufficient and appropriate audit evidence to support transactions entered into by the Combined Authority.</p>	○	●	●	<p>We addressed this risk by completing the following additional procedures:</p> <ul style="list-style-type: none"> Assessing Merseytravel’s governance controls that are in place to ensure an effective cutover against the expected governance controls for data migration. Taking assurance over the completeness of the migration by reviewing Merseytravel’s reconciliation of closing data within the old system to opening data in the new system <p>To address this risk for the group audit, we will rely on procedures performed by ourselves on the single entity audits of Liverpool City Region Combined Authority and Merseytravel.</p>	<p>Progress: work complete</p> <p>We have completed our planned work in relation to the payroll migration and have no matters to report to the Audit and Governance Committee.</p>

Appendix B: Further information on our audit of Liverpool City Region Combined Authority's financial statements

Summary of unadjusted misstatements

The table below outlines that misstatements that have been identified during the audit but not adjusted by management as a result of them individually and in aggregate having an immaterial impact on the financial statements.

Description	Entity	Nature	Comprehensive Income and Expenditure Statement		Balance Sheet	
			Dr (£ '000)	Cr (£ '000)	Dr (£ '000)	Cr (£ '000)
DR: Property, plant and equipment CR: Expenditure (cost of services) <i>Due to uncertainty over the point at which ownership of rolling stock assets under construction pass to Merseytravel, a small amount of costs were treated as revenue instead of being capitalised.</i>	Merseytravel and Combined Authority group	Known error		(1,359)	1,359	
DR: Property, plant and equipment DR: Right of use assets CR: Revaluation reserve <i>Merseytravel failed to recognise fixed asset revaluation gains despite completing and indexation exercise to appropriately identify the movement.</i>	Merseytravel and Combined Authority group	Known error			206 1,237	(1,443)

Appendix B: Further information on our audit of Liverpool City Region Combined Authority's financial statements

Summary of unadjusted misstatements (continued)

Description	Entity	Nature	Comprehensive Income and Expenditure Statement		Balance Sheet	
			Dr (£ '000)	Cr (£ '000)	Dr (£ '000)	Cr (£ '000)
DR: Taxation and non-specific grant income CR: Place <i>When derecognising an incorrectly capitalised intangible asset, Merseytravel fully amortised the asset rather than appropriately derecognising it. This resulted in a misclassification of expenditure.</i>	Merseytravel and Combined Authority group	Known error	2,150	(2,150)		
CR: Corporate Management and Corporate Costs DR: Financing and Investment Income DR: Short-Term Creditors CR: Other Long-Term Liabilities DR: Right-of-Use Assets <i>Elements of the adjustment to the valuation of Mann Island for IFRS 16 were not processed correctly by the Combined Authority.</i>	Combined Authority and Combined Authority group	Known error	111	(441)	1,797 330	(1,797)
Aggregate effect of unadjusted misstatements			2,261	(3,950)	9,791	(8,102)

Appendix B: Further information on our audit of Liverpool City Region Combined Authority's financial statements

Internal control observations for Liverpool City Region Combined Authority

We are responsible for obtaining an understanding of internal control relevant to our audit and the preparation of the financial statements to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Combined Authority's internal control. Where we identify deficiencies as a result of obtaining this understanding, we report them to management and make appropriate recommendations for their improvement. Below, we summarise our significant findings.

Review of IFRS16 transition disclosures (2024/25)

Description of deficiency

The Authority did not perform and sufficiently document review of working papers and actual disclosures relating to the transition to IFRS16, the new accounting standard for leases.

Potential effects

Failure to review the working papers and actual disclosures resulted in the Authority failing to identify material omissions from the Statement of Accounts, being the requirement to disclose the impact of transitioning to IFRS16.

Recommendation

Management should ensure that working papers and disclosures, particularly those that are new for the year of account, are subject to review that is documented.

Management response

Management utilised specific IFRS 16 guidance which provided example disclosures to be included within the notes to the financial statements. Management also performed consistency checks with other local government bodies who published their draft statement of accounts prior to the statutory reporting deadline. After discussions with the audit team it appears the guidance and examples management relied on were not complete. Management accepts this point and will look to implement more robust processes for any future accounting standards adopted. Management also accepts that while reviews of workpapers do take place, they are not formally documented and will look to how this can be improved in future.

Appendix B: Further information on our audit of Liverpool City Region Combined Authority's financial statements

Other deficiencies in internal control

These control observations are not, in our view, significant control deficiencies but have been reported to management directly and are included in this report for your information. In our view, there is a need to address the deficiencies in internal control set out in this section to strengthen internal control or enhance business efficiency. Our recommendations should be actioned by management in the near future.

Property, plant and equipment and right of use asset indexation (2024/25)

Description of deficiency

The Authority's work to identify potentially material movements on land and building valuations did not include land assets for property, plant and equipment or right of use assets. The Authority's indexations work was also not applied to vessels and surplus assets. In addition to not covering classes of assets, the Authority did not post identified valuation movements to ledger.

Potential effects

Whilst the above deficiencies only resulted in immaterial misstatements in 2024/25, failure to review potential movements on the omitted classes of assets could result in material misstatements in future periods. Failure to record valuation movements in the ledger could also result in material misstatements in future periods.

Recommendation

Management should ensure their indexation work covers all asset classes carried at valuation. Management should ensure potential valuation movements identified by the exercise are posted to the ledger to record these movements in the financial statements.

Management response

Management considered the total value of PPE subject to revaluations, the level of inflation, the fact that a full revaluation took place only 12 months prior to the reporting date and the overall materiality of the balances in the financial statements. Management concluded that there was not a material difference due to indexation. The posting of indexation is listed within the notes to the financial statements as an amendment to the Code to include adaptations and interpretations of existing standards that have not yet been adopted, therefore management will look to implement this in the 2025/26 financial statements in line with CIPFA guidance.

Review of journal entries posted to the ledger (2024/25)

Description of deficiency

Journals posted to the Authority ledger by officers are not subject to review by a separate officer at the point in time that they are posted.

Potential effects

As part of our audit work, we identified a mitigating control, whereby budget holders perform 'bulk' reviews of journals posted to their cost centres at each month end. However, failure to perform reviews at the point of time that journals are posted could result in erroneous journals being posted and further amendments to reverse them being required. This in turn could increase the risk of errors in the misstatements due to complexity of manually adjusting previously posted journals.

Recommendation

Management should ensure that journals are reviewed at the point they are posted to the ledger.

Management response

Management acknowledges this point however we do not believe it is practicably possible to implement. There were thousands of transactions in 2024/25, the authority would require a large team of very experienced accountants to review and approve each posting which would cost a significant amount of money to implement as well as potentially delay internal and external reporting. Management have implemented a number of mitigating controls around payments, review of budgets and variance analysis of actuals that we believe reduces the risk of material misstatement to an acceptably low level. Management also believe that this approach is consistent with the vast majority of both public and private entities.

Appendix B: Further information on our audit of Liverpool City Region Combined Authority's financial statements

Other deficiencies in internal control

These control observations are not, in our view, significant control deficiencies but have been reported to management directly and are included in this report for your information. In our view, there is a need to address the deficiencies in internal control set out in this section to strengthen internal control or enhance business efficiency. Our recommendations should be actioned by management in the near future.

Related parties – declarations of interest (2024/25)

Description of deficiency

As part of our work on the Combined Authority's related parties and related party transactions, the audit team identified that declarations of interest had not been made publicly available for non-voting members of the Combined Authority.

Potential effects

Deficiencies in the process for identifying and reporting related party relationships and related party transactions increase the risk of material non-compliance with laws and regulations and the risk of material misstatement within the financial statements.

Recommendation

Management should ensure that the process for obtaining and publishing declarations of interests for all Combined Authority members is undertaken sufficiently regularly and completely.

Management response

The Registers of Interest for all voting Members of the Combined Authority were completed and published on the Combined Authority's website. The discrepancies identified by the auditors related to Deputy Cabinet Members, who are not voting Members, and therefore had not previously been required to provide a Register of Interest form.

However, in line with the principles of openness and transparency, we have now requested the outstanding Register of Interest forms from the Deputy Cabinet Members. In addition, as part of the arrangements for the new municipal year, all Deputy Cabinet Members will be required to complete a Register of Interest form, which will also be published on the Combined Authority's website.

Appendix B: Further information on our audit of Liverpool City Region Combined Authority's financial statements

Follow up on significant deficiencies in internal controls identified on prior year audits

Set out below is an update on the action taken by Merseytravel to address significant deficiencies in internal control identified on prior audits, that were not resolved on commencement of our audit.

Review and challenge of IAS19 reports provided by the Authority's actuary (2023/24)

Description of deficiency

The Authority engages an external actuarial firm to perform a valuation, in line with the requirements of IAS19, of the Authority's net defined benefit pension asset / liability. When received, management did not perform and document sufficient review and challenge of the actuarial valuation report to identify a material misstatement in the 2023/24 financial statements.

Current year update: through the completion of our audit procedures, we have identified that, in 2024/25, management did not perform and document sufficient review and challenge of the actuarial valuation report, although no misstatements were identified in 2024/25.

Potential effects

Failure to review the report resulted in the Authority failing to appropriately account for an asset surplus restriction in line with the requirements of IFRIC14 in 2023/24 (the prior year) resulting in a material misstatement. Continued failure to review the actuarial reports could result in future material misstatements.

Recommendation

Management should ensure a full review of the IAS19 report provided by the actuary is performed and documented. This should include a documented challenge of the assumptions and application of surplus restrictions in line with the requirements of IFRIC14 that have been applied by the actuary.

Management response

An external actuarial firm is engaged due to pensions being a highly complex area for which the Authority does not hold the appropriate expertise. Management acknowledges the point however we believe this is a common issue for entities both in the public and private sector.

Group consolidation (2023/24)

Description of deficiency

Liverpool City Region Combined Authority consolidates several component entities into its group accounts. With the help of legal, the finance team are responsible for reviewing the financial information of entities within the group boundary and determining if they are within the scope consolidation. Although not required by law, the failure to produce formal accounts for one entity within the group resulted in finance not identifying balances requiring consolidation.

Current year update: through the completion of our audit procedures, we have identified that, in 2024/25, management prepared accounts for all entities within the group boundary.

Potential effects

Failure to recognise components requiring consolidation may result in material misstatement. Although the 2023/24 misstatement was immaterial, changes or increases in activity of the component could result in material misstatement in the group accounts in future periods if the component is not consolidated.

Recommendation

Management should ensure accounts are produced for LCR Chrysalis Holdings GP and that an audit report is obtained for the accounts. Management should ensure the entity is included as part of the group's consolidation workings.

Management response

Management reviews each subsidiary at year end and considers the materiality of each component when determining whether it should be consolidated and are comfortable that this approach does not cause a material issue within the accounts. We acknowledge the recommendation of obtaining audited accounts for LCR Chrysalis and will look to do so in future.

Appendix B: Further information on our audit of Liverpool City Region Combined Authority's financial statements

Follow up on previous internal control points

We set out below an update on internal control points raised in prior periods.

Review of the property valuation report and supporting valuation schedules (2023/24)

Description of deficiency

The Authority engages an external valuer to perform valuations of land and buildings. The Authority could not provide corresponding floorplans to support those used by the valuer in their calculations. Management did not perform a review of valuations schedule, which detailed the data inputs applied.

Current year update: through the completion of our audit procedures, we have confirmed that the Authority undertook procedures to ensure the floorplans provided to the valuer could be supported by evidence held by Liverpool City Region Combined Authority.

Potential effects

Failure to review the valuation schedule result in misstatements being identified in the valuation schedule. This resulted in misstatements being reported in the draft accounts.

Recommendation

Management should ensure a full review of the valuation report provided by the valuer is performed and documented. This should include a documented reconciliation of data inputs provided by Merseytravel to those applied in the valuations.

Management response

Management engaged expert valuers due to the specialised nature of PPE valuations which can involve many subjective inputs and specialist judgements. We acknowledge the point raised but believe that valuations are fundamentally an estimate and we are comfortable that the valuations undertaken by our external experts were not materially incorrect.

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