



Auditor's Annual Report

Merseytravel and Liverpool City Region Combined Authority – year ended 31 March 2024

February 2025

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Our reports are prepared in the context of the 'Statement of Responsibilities of auditors and audited bodies' and the 'Appointing Person Terms of Appointment' issued by Public Sector Audit Appointments Limited.

Reports and letters prepared by appointed auditors and addressed to the Authority are prepared for the sole use of the Authority and we take no responsibility to any member or officer in their individual capacity or to any third party.

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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 2024. Although this report is addressed to Merseytravel and 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 Authority on 27 February 2025. Our opinion on the financial statements was unqualified.

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.



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 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 its use of resources. Section 3 provides our commentary on Merseytravel's and the Authority's arrangements.

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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 (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 the financial position as at 31 March 2024 and of their financial performance for the year then ended. Our audit reports, issued on 27 February 2025 for both Merseytravel and the Authority gave an unqualified opinion on the financial statements for the year ended 31 March 2024.

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 2023/24 appropriately tailored to Liverpool City Region Combined Authority's circumstances.

Draft accounts were received from Merseytravel and Liverpool City Region Combined Authority on 31st May 2024 and were of a good quality. Working papers and transactional listings were provided alongside the draft accounts. 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:

- **Implications of the backstop arrangements (Merseytravel and the Authority):** during audit planning, we concluded that delivery of the 2023/24 audit ahead of the 28 February 2025 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.
- **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 update and comprehensive understanding of the arrangements in place to secure value for money.

Audit of the financial statements

- **Implementation of IFRS16 (Merseytravel and the Authority):** IFRS16 will be implemented for the first time in the 2024/25 Statement of Accounts. Although not relevant to the 2023/24 audit, we discussed the challenges the Authority should expect to face based on our learning from NHS audits to assist the Authority in its preparations.

Significant difficulties during the audit

During the audit, we encountered difficulties 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.

- **Valuation of net defined benefit pension asset / liability (Merseytravel and the Authority):** Our audit procedures identified that Merseytravel and Liverpool City Region Combined Authority had failed to apply an appropriate asset restriction in line with the requirements of IFRIC14. This resulted in a material misstatements being identified and amended in the final accounts. Merseytravel and Liverpool City Region Combined Authority were required to obtain an updated IAS19 results schedule from the actuary, taking account for the requirements of IFRIC14. This resulted in a duplication of audit work and the requirement to audit amendments posted to the ledger.
- **Valuation of property, plant and equipment liability (Merseytravel and the Authority):** Our audit procedures identified that Merseytravel and Liverpool City Region Combined Authority had not verified the internal building areas and external site plans applied by the valuers as accurate and up to date. This resulted in Merseytravel and Liverpool City Region Combined Authority providing updated plans to the valuers for the purpose of re-calculating valuations for the entire population of assets valued. This resulted in a duplication of audit work and the requirement to audit amendments posted to the ledger.
- **Group consolidation (Authority only):** Our audit procedures in relation to the group consolidation resulted in us obtaining an updated understanding of how the reported £34,972k Chrysalis long term debtor flows through the group. Previously, it was understood that this

lending was provided directly by the Authority to an entity outside the group boundary. However, detailed review of the group identified that the lending is first between two group entities, flowing from the Authority to LCR Chrysalis Holdings GP. This entity then provides lending to an entity outside the group. Whilst this arrangement has no impact on the reporting of the £34,972k long debtor balance in the Authority's single entity or group accounts, it scopes LCR Chrysalis Holdings GP into the group audit due to it holding material balances. In line with the requirement of the General Partnership Act 1907, LCR Chrysalis Holdings GP is not required to produce accounts or obtain an audit report. Because the £34,972k loan balance has historically been the only balance held by LCR Chrysalis Holdings GP, the entity not being consolidated has had no impact on the group accounts. However, the component has since received approximately £3,000k of returns from the lending activities. This balance has incorrectly not been consolidated. Due to the component being in scope of the group accounts, we have been required to perform procedures on material balances in the component's consolidation information.

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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 Merseytravel and the Authority plan and manage their resources to ensure they can continue to deliver their 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 outline the risks that we have identified and the work we have done to address those risks later in this report.

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	Yes	No	No
 Governance	16	Yes	No	Yes – see commentary on page 25
 Improving economy, efficiency and effectiveness	21	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.

Merseytravel and the Combined Authority entered 2023/24 amidst a cost-of-living crisis, fuelled largely by ongoing global conflicts and political instability driving economic uncertainty. This has added to cost pressures. Merseytravel and the Authority face similar challenges to other local government bodies in relation to uncertainty in funding. Further devolution being on the horizon provides an added uncertainty for the Combined Authority group.

Despite these challenges and uncertainties, the Authority successfully supported the delivery of Eurovision 2023, with Merseytravel playing a key role in providing transport for the major event. The Combined Authority also supported Merseytravel in delivering the new Headbolt Lane Station in October 2023, forming part of the first expansion of the Merseyrail network in 30 years.

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

Risks of significant weaknesses in arrangements in relation to Financial Sustainability

We have outlined below the risk of significant weaknesses in arrangements that we have identified as part of our continuous planning procedures, and the work undertaken to respond to the risk.

Risk of significant weakness in arrangements	Work undertaken and the results of our work																								
<p>Financial sustainability – how the Authority Group bridges its future funding gaps (Merseytravel and the Combined Authority)</p> <p>The group level 2024/25 budget identifies the following net budget gaps at group level through the life of the Medium-Term Financial Plan:</p> <table border="1" data-bbox="152 699 1006 835"> <thead> <tr> <th></th> <th>2024/25</th> <th>2025/26</th> <th>2026/27</th> <th>2027/28</th> <th>2028/29</th> </tr> </thead> <tbody> <tr> <td>Gap £'000</td> <td>-</td> <td>4,114</td> <td>12,477</td> <td>18,061</td> <td>23,878</td> </tr> </tbody> </table> <p>There is a risk that the Authority will be required to use one off measures, such as drawing on reserves which is not sustainable, if appropriate steps are not taken to identify achievable savings to address future budget gaps.</p>		2024/25	2025/26	2026/27	2027/28	2028/29	Gap £'000	-	4,114	12,477	18,061	23,878	<p>Work undertaken</p> <p>We have reviewed future budgets and financial performance reports to identify if appropriate steps have been taken to address the budget gaps identified in the 2024/25 budget and MTFS.</p> <p>Results of our work</p> <p>The financial performance report up to Q2 of 2024/25, which was reported to the full Authority in January 2025, reported a favourable position of £10.5m at the end of September 2024, which was forecast to become a total net underspend of £9.3m by year end. Review of the report confirmed this was due a mixture of efficiencies and one-off savings.</p> <p>The 2025/26 budget largely addressed the previously identified future gaps. Driven by a mixture of savings and updated assumptions due to further clarity on funding arrangements, the group level budget gaps / (surpluses) for 2025/26 and through the life of the MTFS we as follows:</p> <table border="1" data-bbox="1031 892 2458 1028"> <thead> <tr> <th></th> <th>2024/25</th> <th>2025/26</th> <th>2026/27</th> <th>2027/28</th> <th>2028/29</th> </tr> </thead> <tbody> <tr> <td>Gap / (surplus) £'000</td> <td>-</td> <td>5,091</td> <td>(2,419)</td> <td>(5,571)</td> <td>(5,064)</td> </tr> </tbody> </table> <p>We are satisfied the Authority has taken the required steps to bridge future funding gaps without the need to rely on reserves.</p>		2024/25	2025/26	2026/27	2027/28	2028/29	Gap / (surplus) £'000	-	5,091	(2,419)	(5,571)	(5,064)
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VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria

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 2023/24 was the budget for 2024/25 and medium-term financial plan (MTFP) to 2028/29 which is completed at a group level, incorporating both Merseytravel and the Combined Authority. This plan was presented to the full Authority in February 2024.

The planning process to produce the MTFP relies on the input of budget holders to communicate know 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.

When compiling the MTFP, finance are required to apply assumptions in relation to future funding and future cost pressures. These assumptions are discussed at Senior Leadership Team level and where possible marked against publicly available external data. Assumptions that are applied to the MTFP are compared to service budgets and any gaps are identified and discussed with senior

management to address and close any gaps.

Following completion of this process during 2023/24, the Authority reported the following budget gaps over the life of the MTFP:

	2024/25	2025/26	2026/27	2027/28	2028/29
Gap (£'000)	-	4,114	12,477	18,061	23,878

This equates to a cumulative gap of £58,530k over the life of the MTFP. The equivalent cumulative gap over 5 years in the prior year 2022/23 MTFP was £83,075k. A key challenge the Authority faces that has been built into future budgets is the end of several external revenue grant funding agreements and this is the main driver of future gaps. As an example, UK Shared Prosperity Fund grants will cease following 2024/25. However, the Authority has appropriately budgeted for this decrease in income.

Managing and monitoring funding gaps and savings

The Combined Authority group, including Merseytravel, only recently identified the need for savings, with 2023/24 being the first year they were budgeted for. As part of the 2023/24 budget setting process, ELT and SLT were engaged in a process to identify and develop savings, both in terms of short term and one year savings and longer term, multi-year saving proposals. The Authority committed savings of £5,500k, which it managed to achieve.

Given the future gap over the life of the MTFP identified by the Authority, further savings have been planned into the 2024/25 budget and MTFP. In Shape to Deliver is an on-going transformation programme within the organisation, with the aim of looking at how new technologies, processes and systems can better help to deliver ongoing savings and efficiencies. The programme is initially focussing on four areas: back-office modernisation, asset management, bus operations and customer payments.

The annual process has built in a savings identification requirement. When forming annual service level budgets, budget holders are challenged by members of finance, ensuring previous costs are not simply rolled forward, but potential efficiency savings are considered.

VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria - continued

Both Merseytravel and the Combined Authority have a healthy level of reserves. At group level, the Authority had total usable reserves of £291,427k, of which £29,427k were unearmarked for future use. Despite these strong levels of reserves, officers have noted that the use of reserves is not a sustainable means of balancing finances. In particular, the finance regime in which Merseytravel and the Combined Authority operate is likely to continue its trend of funding cuts and a schedule of savings will be required to ensure a suitable level of financial resilience for both Merseytravel and the Combined Authority as the key components of the group remains.

Ensuring financial plans support the sustainable delivery of services and consistency with other Council 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. This is completed annually.

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.

Overall view on arrangements in relation to financial sustainability

As a result of the programme of work performed, we are satisfied Merseytravel's and the Combined Authority's arrangements in relation to financial sustainability are appropriate to secure value for money.

VFM arrangements

Governance

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



VFM arrangements – Governance

Risks of significant weaknesses in arrangements in relation to Governance

We have outlined below the risk of significant weaknesses in arrangements that we have identified as part of our continuous planning procedures, and the work undertaken to respond to the risk.

Risk of significant weakness in arrangements	Work undertaken and the results of our work
<p>Informed decision-making – LCR Digital Connect (Combined Authority)</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.</p> <p>1 Given losses of the joint venture that have accumulated over the 3 years to date, there is a risk that the reporting on LCR Digital Connects activities to the full Authority is not sufficient to allow oversight of the financial risk the Authority is subject to and to allow informed decision making in relation to the running of the joint venture in relation to this risk.</p>	<p>Work undertaken</p> <p>We have reviewed the arrangements the Authority has in place to ensure informed decisions are made in relation to the activities of the joint venture.</p> <p>Results of our work</p> <p>Alongside annual formal reporting to the full Authority, there is a Joint Venture Steering Group which includes statutory officers from finance, legal and the Executive Leadership Team. We have reviewed papers and outputs of this group and confirmed it exercises oversight of the operations of the joint venture.</p> <p>Given there is a structure of annual reporting to the full Authority and steering group below that, there is evidence that the full Authority can make informed decisions based on the reporting it is provided.</p> <p>However, 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 arrangements could be improved and that performance of the LCR Digital Connect 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>

VFM arrangements – Governance

Overall commentary on the Governance reporting criteria

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 2023/24 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 periodically, as part of the internal audit updates, to each meeting of the Audit and Governance Committee. Any major risks identified, or significant changes in risk 'scores' are then 'deep dived' by the full authority as required. This allows risk to be appropriately monitored, and mitigations to manage risks to be discussed.

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. All risk registers in place are refreshed to reflect any significant changes in circumstances in which Merseytravel and the Combined Authority operates and the current challenges and opportunities the two organisations face.

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 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 2024. 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.

As the appointed external auditor for both Merseytravel and the Combined Authority, we have issued unqualified opinions on the Statement of Accounts for both Merseytravel and the Combined Authority for the 2023/24 financial year. We have identified a small number of control deficiencies in 2023/24 and provided associated recommendations to management. Management's attitude to engaging with the external auditors to rectify the identified issues moving forwards corroborates the view that internal control is treated as a priority. We will monitor the Council's progress against these recommendations in future periods.

Budget setting and budgetary control

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 Authorities constituent Council's. 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 budget setting process meets the needs of key stakeholders.

VFM arrangements – Governance

Overall commentary on the Governance reporting criteria - continued

Budget monitoring is carried out across the organisation throughout the year. The finance team produce monthly information, on an accrual's basis, 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.

Formal budget monitoring for Merseytravel and the Combined Authority is reported through the full Authority twice a year, in the form of a financial performance report for April 2023 – September 2023 (reported in December 2023) and a final outturn report (reported in July 2024). These reports represent the bi-annual culmination of the monthly monitoring process, reporting progress against budgets, key pressures and demands that have been encountered and any corrective actions required. The reports also highlight anticipated risks of future slippage to budget to enable Members to further monitor and manage risks to both Merseytravel and the Authority. At group level the Combined Authority delivered an underspend of £31.9m, which with the inclusion of the initially budgeted transfer to reserves of £0.7m, resulted in a total of £32.6m being transferred to reserves during the year. This was largely driven by underspends against multi-year projects such as Bus Reform. The transfers to reserves are intended to fund these projects 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 2023/24.

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.

The Monitoring Officer performed an annual review the constitution. Merseytravel and the Combined Authority have adopted the committee style for decision making and complies with the

legislation regarding the publication of reports, minutes and whether a decision is a key decision or not. 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.

We have reviewed attendance records for all these committees and confirmed that instances of committees being inquorate have vastly reduced in comparison to those identified in 2022/23.

To support the full Authority and its various sub-committees, all reports of the Authority, Merseytravel and associated committees are reviewed by key statutory officers to ensure they are factually accurate and provide relevant information with a view to supporting decision making.

To support decision-making in relation to the Combined Authority's joint venture, annual updates are provided to the full Council 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

VFM arrangements – Governance

Overall commentary on the Governance reporting criteria - continued

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. Key protocols are officer code of conduct, 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 matter relating to changes in legislation and regulations.

Overall view on arrangements in relation to governance

As a result of the programme of work performed, we are satisfied Merseytravel's and the Combined Authority's arrangements in relation to governance are appropriate to secure value for money.

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 the Improving Economy, Efficiency and Effectiveness reporting criteria

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 2023/24, 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 2015 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 the Improving Economy, Efficiency and Effectiveness reporting criteria - continued

These entities are all consolidated into the Merseytravel group. The Combined Authority then consolidate the Merseytravel Group into the Liverpool City Region Combine Authority Group.

Although corporate entities, all 3 major subsidiaries share finance teams and Executives with both Merseytravel and the Authority. Oversight on performance of the entities is communicated the full Authority and various sub-committees via group level reporting.

The Combined internal audit plan for the Authority group included 50 days of internal audit resource committed to reviews of controls of subsidiaries of Merseytravel and the Authority. The organisational risk opinion for these audits completed during 2023/24 was 'minor'. Internal audit work on Merseytravel's and the Authority's subsidiaries is reported to the Audit and Governance Committee in line with the Authority's standard process. 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.

Merseytravel and the Authority maintain a partnership working register which records all key strategic partnerships and relationships. This provides management with a risk-based view of the organisations the Merseytravel and the Authority collaborate with. There is also a code of practise for working within partnerships. This fully formalises the requirements and expectations of officers when working in partnerships to ensure the highest ethical standards are achieved. The Financial Procedure rules set out a clear process for entering new partnership and monitoring arrangements.

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 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 2023/24. 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 improving economy, efficiency and effectiveness

As a result of the programme of work performed, we are satisfied Merseytravel's and the Combined Authority's arrangements in relation to improving economy, efficiency and effectiveness are appropriate to secure value for money.

VFM arrangements

Identified significant weaknesses in arrangements and our recommendations



VFM arrangements - Identified significant weaknesses and our recommendations

Identified non-significant weaknesses in arrangements and recommendations for improvement

As a result of our work, we have identified non-significant weaknesses in the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources. These identified weaknesses have been outlined in the table below.

Identified non-significant weakness in arrangements	Financial sustainability	Governance	Improving the 3Es	Recommendation for improvement	Our views on the actions taken to date
<p>1</p> <p>Informed decision-making – LCR Digital Connect (Combined Authority)</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>		●		<p>We recommend 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>	<p>Management are in the early stages of formulating a response to the recommendation raised.</p>

VFM arrangements – Prior year significant weaknesses and recommendations

Progress against non-significant weaknesses and other 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 2023/24 year.

Previously identified non-significant weakness in arrangements	Reporting criteria	Recommendation for improvement	Our views on the actions taken to date	Overall conclusions
<p>1 Overview and scrutiny arrangements (Merseytravel and the Authority)</p> <p>During the 2022/23 financial year, only two out of the seven Overview and Scrutiny Committee meetings held were quorate.</p> <p>This committee makes up a key part of Liverpool City Region Combined Authority's governance framework, and has the following purposes:</p> <ul style="list-style-type: none"> • Scrutinise the decisions and actions taken by the Combined Authority or the Metro Mayor; • Act as a critical friend to policy and strategy development; and • Undertake scrutiny reviews into areas of strategic importance for the people of the region and monitor the delivery of the strategic plan. <p>By being inquorate, the committee will not be able to deliver this directive of providing challenge and scrutiny reviews of key decisions. The issue of non-attendance has persisted into 2023/24, with two out of the five scheduled meetings being cancelled or inquorate.</p> <p>The committee being inquorate has not delayed the decision-making ability of either entity and when quorate, the minutes of inquorate meetings are reviewed. For this reason, we do not deem the issue to have had a significant impact. As a result, this is deemed only a weakness, and not a significant weakness in arrangements.</p>	<p>Governance</p>	<p>We recommended that the Combined Authority work with members and partner authorities to identify ways of increasing Overview and Scrutiny Committee attendance.</p>	<p>During the 2023/24 financial year the Overview and Scrutiny committee met a total of six times and was quorate on five occasions. The Committee has also been quorate for every meeting held since December 2023. This represents a considerable improvement on the rates of quoracy identified during 2022/23.</p>	<p>Based on the improved levels of quoracy of the committee, we are satisfied the recommendation has been addressed and the weakness is no longer present in 2023/24.</p>

Other reporting responsibilities

Other 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 in relation to Merseytravel or Liverpool City Region Combined Authority.

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 did not receive any such objections or questions in relation to Merseytravel or Liverpool City Region Combined Authority.

Reporting to the NAO in respect of Whole of Government Accounts consolidation data

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.

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Audit fees and other services

Audit approach

Fees for audit and other services – Merseytravel

Our fees (exclusive of VAT) for the audit of Merseytravel for the year ended 31 March 2024 are outlined below:

Area of work	2023/24 Proposed Fee	2022/23 Actual Fee
Planned fee in respect of our work under the Code of Audit Practice (scale fee)	£114,092	£36,189
Additional testing in respect of property plant and equipment and defined benefit pension valuations *	£20,000	£1,767
Additional testing in respect of new audit standards (ISA220, ISA540, ISA570)	-	£1,875
Additional work in respect of changes to Value for Money code of auditor practise	-	£6,000
Additional work in respect of infrastructure assets	-	£7,500
Additional work in respect of national pension issue related to triennial reviews	-	£7,500
Additional work in respect of net defined benefit pension asset **	£10,000	£5,000
Additional work in respect of group accounts	-	£12,500
Additional work in respect of legal issue	-	£5,000
Additional work in respect of new audit standards (ISA315R) ***	£9,410	£6,000
Additional work in respect of Value for Money risks and significant weakness	-	£6,500
Total fees	£153,502	£95,831

*We encountered difficulties in obtaining the required information from Merseytravel’s valuers to support out testing of property, plant and equipment valuations. Following additional time from senior team members to obtain information, we identified errors in the valuations because of floorplans not being supported, resulting in the valuer re-preparing valuations.

**Testing of the net defined benefit pension asset requires additional procedures to ensure Merseytravel have applied appropriate considerations have been applied in line with the requirements of IFRC14. Completion of these procedures identified errors discussed later in this report, resulting in additional audit requirements.

***This is an additional fee for a change in auditing standards that has been agreed with PSAA. The fee will be baked into the scale fee from 2024/25 onwards.

Audit fees and other services

Fees for audit and other services – Liverpool City Region Combined Authority

Our fees (exclusive of VAT) for the audit of Liverpool City Region Combined Authority for the year ended 31 March 2024 are outlined below:

Area of work	2023/24 Proposed Fee	2022/23 Actual Fee
Planned fee in respect of our work under the Code of Audit Practice (scale fee)	£132,197	£43,402
Additional testing in respect of property plant and equipment and defined benefit pension valuations *	£5,000	£1,767
Additional testing in respect of new audit standards (ISA220, ISA540, ISA570)	-	£1,875
Additional work in respect of changes to Value for Money code of auditor practise	-	£6,000
Additional work in respect of infrastructure assets	-	£7,500
Additional work in respect of national pension issue related to triennial reviews	-	£7,500
Additional work in respect of group accounts **	£7,500	£12,500
Additional work in respect of new audit standards (ISA315R) ***	£9,410	£6,000
Additional work in respect of minimum revenue provision	-	£3,000
Additional work in respect of correspondence received from a local elector	-	£25,000
Additional work in respect of net defined benefit pension asset ****	£10,000	-
Additional work in respect of Value for Money risks and significant weakness *****	£6,000	£6,500
Total fees	£170,107	£121,044

* We encountered difficulties in obtaining the required information from the Authority's valuers to support out testing of property, plant and equipment valuations. Following additional time from senior team members to obtain information, we identified errors in the valuations because of floorplans not being supported, resulting in the valuer re-preparing valuations.

** As part of our work on the group consolidation, we identified a technically complex query requiring the input of our central technical team. The resolution of the issue also resulted in additional audit requirements.

*** This is an additional fee for a change in auditing standards that has been agreed with PSAA. The fee will be baked into the scale fee from 2024/25 onwards.

**** Testing of the net defined benefit pension asset requires additional procedures to ensure the Authority have applied appropriate considerations have been applied in line with the requirements of IFRC14. Completion of these procedures identified errors discussed later in this report, resulting in additional audit requirements.

***** Due to risks of weakness identified during the audit, we were required to perform additional procedures to address these risks.

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