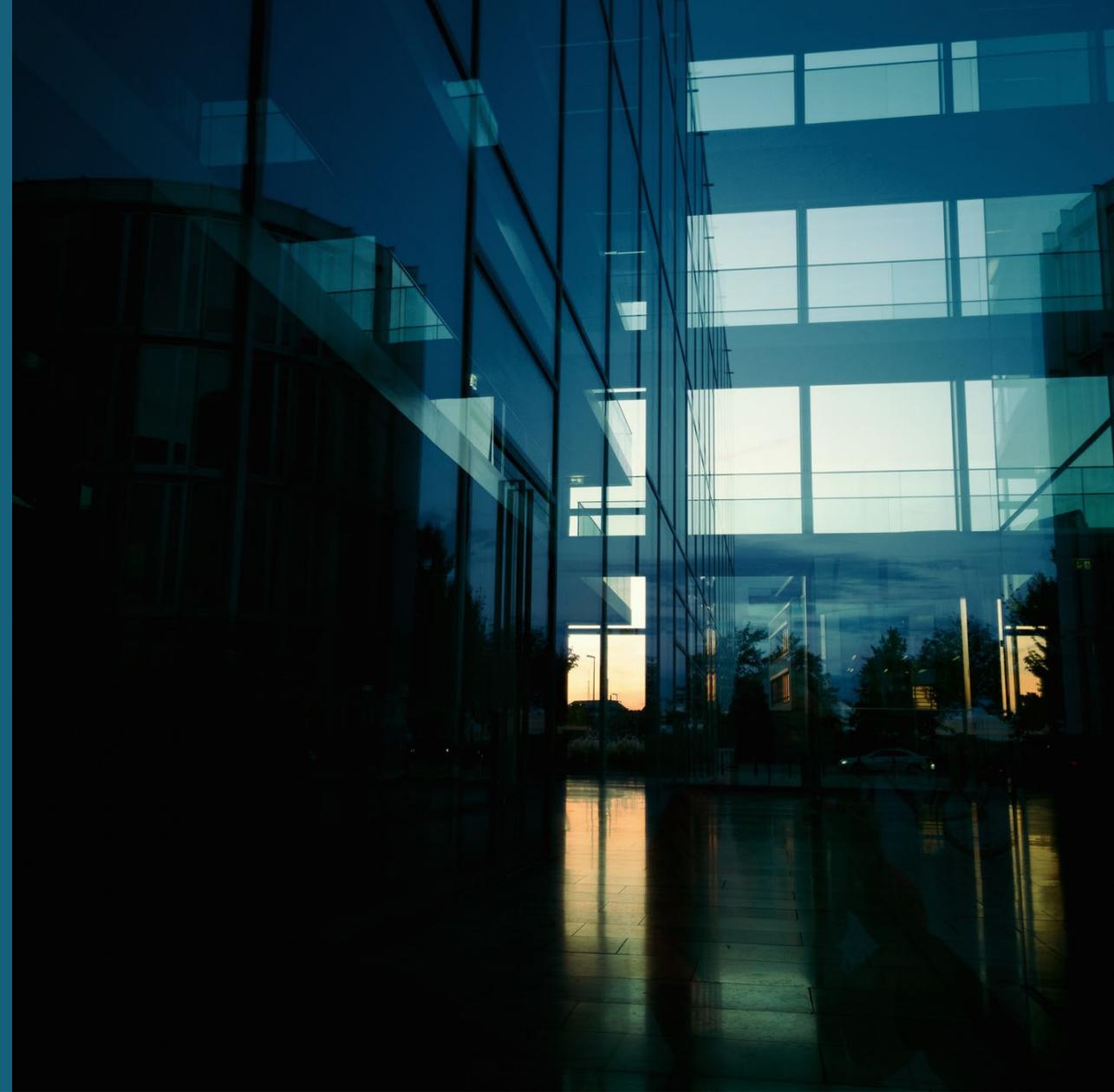


# Auditor's Annual Report

Merseytravel – year ended 31 March  
2021

July 2022



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Our reports are prepared in the context of the 'Statement of responsibilities of auditors and audited bodies' issued by Public Sector Audit Appointments Ltd. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of Merseytravel. No responsibility is accepted to any member or officer in their individual capacity or to any third party.

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# 01

## Section 01: **Introduction**

# 1. 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 for the year ended 31 March 2021. Although this report is addressed to Merseytravel, it is designed to be read by a wider audience including members of the public and other external stakeholders.

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 report on 5 November 2021. Our opinion on the financial statements was unqualified.



### Value for Money arrangements

In our audit report issued on the 5 November 2021 we reported that we had not completed our work on Merseytravel's arrangements to secure economy, efficiency and effectiveness in its use of resources and had not issued recommendations in relation to identified significant weaknesses in those arrangements at the time of reporting. Section 3 confirms that we have now completed this work and provides our commentary on Merseytravel's arrangements. No significant weaknesses in arrangements were identified and there are no recommendations arising from our work.



### Wider reporting responsibilities

As in previous years, we do not expect to be required to complete Whole of Government Accounts work at Merseytravel (as data is included in Liverpool City Region Combined Authority's WGA return on a group basis).

We have not yet received group instructions from the National Audit Office confirming this to be the case. We are unable to issue our audit certificate until this is formally confirmed.

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of Merseytravel and to consider any objection made to the accounts. We did not receive any questions or objections in respect of Merseytravel's financial statements.

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# 02

Section 02:

**Audit of the financial statements**

# 2. Audit of the financial statements

## The scope of our audit and the results of our opinion

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 whether they give a true and fair view of Merseytravel's financial position as at 31 March 2021 and of its financial performance for the year then ended. Our audit report, issued on 5 November 2021 gave an unqualified opinion on the financial statements for the year ended 31 March 2021.

Our Audit Completion Report, presented to Merseytravel's Audit, Risk and Governance Board on the 20 September 2021, provides further details of the findings of our audit of Merseytravel's financial statements. This includes our conclusions on the identified audit risks and areas of management judgement, internal control recommendations and audit misstatements identified during the course of the audit.

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# 03

Section 03:

**Commentary on VFM arrangements**

# 3. VFM arrangements – Overall summary

## Approach to Value for Money arrangements work

We are required to consider whether Merseytravel has 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 plans and manages its resources to ensure it can continue to deliver its services
- **Governance** - how Merseytravel ensures that it makes informed decisions and properly manages its risks
- **Improving economy, efficiency and effectiveness** - how Merseytravel uses information about its costs and performance to improve the way it manages and delivers its services.

At the planning stage of the audit, we undertake work so we can understand the arrangements that Merseytravel has in place under each of the reporting criteria; as part of this work we may identify risks of significant weaknesses in those arrangements. Where we identify significant risks, we design a programme of work (risk-based procedures) to enable us to decide whether there is a significant weakness in arrangements. 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. We did not identify any risks of significant weaknesses through our work on Value for Money arrangements.

Where our risk-based procedures identify actual significant weaknesses in arrangements, we are required to report these and make recommendations for improvement. There are no significant weaknesses to report.

The table below summarises the outcomes of our work against each reporting criteria. On the following pages we outline further detail of the work we have undertaken against each reporting criteria, including the judgements we have applied.

Reporting criteria	Commentary page reference	Risks of significant weaknesses in arrangements identified?	Actual significant weaknesses in arrangements identified?
Financial sustainability	9	No	No
Governance	10	No	No
Improving economy, efficiency and effectiveness	11	No	No

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# 3. VFM arrangements – Financial Sustainability

## Overall commentary on the Financial Sustainability reporting criteria

As Merseytravel and Liverpool City Region Combined Authority share the majority of their financial sustainability arrangements, large elements of our commentary are common across both bodies.

### Background to Merseytravel operating environment in 2020/21

Most of Merseytravel's operational activities are funded from the Transport Levy provided by Liverpool City Region Combined Authority (LCRCA) from funding received from the six Liverpool authorities. The Transport Levy is set annually by the LCRCA which approves the transport budget and the amount provided to Merseytravel.

Merseytravel entered 2020-21 at the start of the national lockdown, and faced a significant operational impact from the effects of the pandemic. Patronage on the transport network across Liverpool reduced significantly, leading to material shortfalls in revenue, Merseytravel worked closely with the Department for Transport to secure additional grant funding, mitigating the lost revenues throughout 2020/21.

### Merseytravel's financial planning and monitoring arrangements

Merseytravel works closely with LCRCA as part of its financial planning process. In January 2020 Merseytravel set a balanced budget, however due to the impact of Covid and the national lockdown, budget holders were asked to submit revised budgets in October 2020. This was based on conservative income forecasts and required contributions from reserves to produce a balanced budget. Throughout the year a programme of budget monitoring and review was undertaken with budget holders. This provided crucial information in what was a fast-changing and uncertain operating environment as a result of the pandemic. As part of our review we obtained budget documents for a sample of Merseytravel functions. We confirmed that the underlying assumptions made by management appeared reasonable in the context of the pandemic, and were updated regularly throughout the year.

Following cost savings and higher than expected income, Merseytravel reported a breakeven outturn position at 31 March 2021 without the need for a contribution from reserves. The reduction in expenditure and increase in sales actually resulted in a contribution to reserves. We have considered the arrangements in place in respect of budget management as part of the Governance criteria on page 10.

During the year Merseytravel reported its financial position to the Merseytravel Board and Transport Committee. We reviewed a sample of reports presented for 2020/21, which contain detail of performance against levy funding with explanations for any significant variances detailed in the report. The Finance reports also contained information on progress against Merseytravel's approved capital programme and reasons for over or underspends against the budget profile.

As part of the annual accounts process Merseytravel completes a detailed review of its ability to operate as a going concern, highlighting any risk areas for the following financial year. In 2020-21, Merseytravel did not highlight any significant going concern risks. This judgement was predicated by continued receipt of the transport levy, regardless of performance and robust levels of reserves.

### Merseytravel's arrangements for the identification, management and monitoring of funding gaps and savings

As part of the budget setting process, Merseytravel identifies a savings gap for the following year. This is identified through a 'top down' budget, forecasting the difference between expected income and budgeted costs. Work is undertaken by budget holders to close the gap through a combination of removing applications for additional budget, generating additional savings, and generating additional income. Through a combination of the above factors and grant support for Covid-related losses Merseytravel has been able to close the savings gap for 2020/21.

### Merseytravel's arrangements and approach to financial planning

The arrangements for the 2021/22 budget setting process have largely followed the arrangements in place for 2020/21. Increases to the base budget has been limited to contractual inflation, agreed pay awards and changes in grant funding. The 2021-22 budget was approved by Merseytravel in March 2021 and took account of known operational changes.

Using the methodology described above, Merseytravel was able to eliminate any gaps through the budget setting process and set a balanced budget for 2021/22. The 2021/22 budget was approved with no increase in the levy which translated to a small reduction in grant to Merseytravel. This reduction has been managed through efficiencies, a review of fees and charges, alternative funding options and reserves.

**Based upon the above considerations we are satisfied there is not a significant weakness in Merseytravel's arrangements in relation to financial sustainability.**

# 3. VFM arrangements – Governance

## Overall commentary on the Governance reporting criteria

As Merseytravel and Liverpool City Region Combined Authority share the majority of their governance arrangements, large elements of our commentary are common across both bodies.

### Merseytravel’s risk management and monitoring arrangements

Merseytravel has a comprehensive risk management system in place which is embedded into the governance structure of the organisation. The framework is managed by Internal Audit and the Audit, Risk and Governance Board has the responsibility for providing Merseytravel with assurance that the risk management process in place is effective.

Services maintain and update their own risk register, which feeds into the corporate risk register at an organisational level. We have reviewed an example risk register and confirmed it is sufficiently detailed to allow for effective risk management, with each risk having an assigned risk owner and a risk score based on a probability and impact matrix. Where mitigating actions are identified they are assigned a risk owner and due date to provide accountability and allow for effective oversight of the risk.

The corporate risk register provides the executive leadership team with oversight of the key risks faced by its services. Regular updates are taken to the Audit, Risk and Governance Board providing assurance over the effectiveness of the arrangements in place.

In order to provide assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud, Merseytravel in conjunction with the Combined Authority has a team of internal auditors, led by the Head of Internal Audit. The annual Internal Audit plan is agreed with management at the start of the financial year and reviewed by the Audit, Risk and Governance Board prior to final approval.

We have reviewed the Internal Audit Plans for 2020/21 and 2021/22 and confirmed work is planned on a risk based approach. The risk rating of each audit area determines the audit scope and how resources will be used, particular attention for has been paid in ensuring that the Internal Audit plan reflects the changing risk landscape including the impact of the pandemic. Progress reports are presented to each Audit, Risk and Governance Board including follow up reporting of recommendations not fully implemented by agreed due dates. This allows the Committee to effectively hold management to account on behalf of Merseytravel. At the end of each financial year the Head of Internal Audit provides an opinion on the overall adequacy and effectiveness of Merseytravel’s framework of governance, risk management and control. For 2020/21 this gave an adequate level of assurance.

### Merseytravel’s arrangements for budget setting and budgetary control

Merseytravel has a detailed annual budget setting process whereby budget holders are required to provide detailed budgets for all cost and income headings within their service. Information from the budget is used to update the Medium Term Financial Plan annually. The budget is also reviewed and updated where significant changes occurred such as receipt of new funding.

The detailed budgets prepared include the agreed staffing establishment. Any changes to the establishment requires approval through the Executive Leadership Team. The Combined Authority and Merseytravel is currently looking to enhance the arrangements around workforce planning and deliver improvements in the future.

The consolidated budget is then presented to Merseytravel Board for approval. As part of our review of a sample of functional budgets we were able to confirm the budget returns contained the necessary details and had been appropriately uploaded into the financial system.

In parallel, all Directors and Heads of Service are required to prepare a Delivery Plan that details strategic actions that link through to the combined authorities corporate plan. These are reviewed quarterly against agreed actions and outputs with reports going to Executive Leadership team and directors. Bi annually reports are taken to the Overview and Scrutiny Committee of the Combined Authority.

Following approval of the budget, progress is monitored on a monthly basis including the preparation of monthly monitoring reports and challenge on key variances to agreed budgets. A member of the finance team attends a number of committees and boards, so they aware of any financial issues raised, and can raise appropriate challenge to ensure the financial aspects of any key decisions have been appropriately considered.

As set out in the previous section, the financial position is reported to Merseytravel Board and includes sufficient detail to allow for effective review and challenge at the senior leadership level.

# 3. VFM arrangements – Governance

## Overall commentary on the Governance reporting criteria (continued)

### Merseytravel's decision making arrangements and control framework

Merseytravel has an established governance structure in place which is set out within its Annual Governance Statement. This is supported by Merseytravel's constitution and scheme of delegation which shows the levels of authority required for all key decisions. Directors and Heads of Service have clear responsibilities linked to their roles and the structure in place allows for effective oversight of Merseytravel's operations and activity. Reports are presented to appropriate committees and boards in accordance with the Scheme of Delegation for the appropriate scrutiny and approval of decisions.

Decisions which require 'new' investment or expenditure for projects or schemes not included in the annual budget must go through the appropriate process whether a delegated decision or approval by Merseytravel Board for consideration and approval before any expenditure can be incurred. All reports must follow a standard format which ensures that all financial, legal, risk and regulatory matters have been considered in reaching the recommended decision. We have reviewed an example project decision taken to Investment Panels and confirmed the decision making process was supported by appropriate justification for the investment, including the strategic fit, planned programme management and financial implications.

Merseytravel has a full suite of governance arrangements in place. These are set out in the Merseytravel's Statement of Accounts and Annual Governance Statement. We reviewed these documents as part of our financial statements audit and confirmed they were consistent with our understanding of the arrangements in place. In addition to the Constitution, Merseytravel has Codes of Conduct that officers and members need to be aware of and adhere to. All formal meetings include a request for Declarations of interests from all attendees at the start of the meeting. Merseytravel also has a Gifts and Hospitality policy which sets out the limited occasions when gifts or hospitality may be acceptable.

In addition there are a number of policies including Anti Bribery, money laundering, and other areas of regulatory compliance that staff are required to keep up to date on through the completion of regular mandatory e-learning modules.

**Based on the above considerations we are satisfied there is not a significant weakness in Merseytravel's arrangements in relation to governance.**

# 3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

## Overall commentary on the Improving Economy, Efficiency and Effectiveness reporting criteria

As Merseytravel and Liverpool City Region Combined Authority share the majority of their arrangements for improving economy, efficiency and effectiveness, large elements of our commentary are common across both bodies.

### Merseytravel’s arrangements for assessing performance and evaluating service deliver

Each Directorate and Service within the Combined Authority including Merseytravel prepares a Delivery Plan which includes key actions and milestones and forms the focus of monthly discussions with Directorates. Financial performance is also reviewed monthly with services which identifies where resources may be refocused where there are emerging or new priorities.

Monthly performance report by directorates following review by Executive Directors are presented to the Executive Leadership Team (ELT). Consolidated performance against delivery plans are also reported to ELT and to the Combined Authority Overview and Scrutiny Committee. We have reviewed examples of these reports presented to ELT and confirmed these include RAG ratings of the Directorate’s performance against actions, with performance updates and remedial actions for discussion.

Financial monitoring and reporting of performance against year-to-date budgets includes explanations of any variance against agreed budget, financial risks and actions taken. Through our review of Board and committee minutes we have confirmed the Finance Reports are sufficiently detailed to allow for effective performance analysis, covering key areas such as budget updates, spend against budget, forecast revenue outturn and capital outturn. Variances are accompanied by detailed explanations with remedial actions highlighted where necessary.

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

### Merseytravel’s arrangements for effective partnership working

The Combined Authority and Merseytravel works closely with the six local authorities in the Liverpool area, public transport operators, Transport for the North, and the business community in delivering its priorities, per its transport plan, Authority’s Corporate Plan, and LEP Delivery Plan.

Merseytravel works collaboratively with the Local Enterprise Partnership and its constituent local authorities to promote and deliver inclusive economic growth. The Local Enterprise Partnership also ensures that the views of businesses are represented in strategic decision making.

Merseytravel is a constituent authority of Transport for the North, which was formed to improve strategic transport decision across the North of England, by bringing together the North's twenty local transport authorities, business leaders, Network Rail, Highways England, HS2 and Central Government. This representation on a number of external bodies ensures the coordination of its outputs and support for the overall strategic priorities for the region

Merseytravel maintains a Partnership working register which records all key strategic partnerships and relationships. This provides management with a risk based view of the organisations it collaborates with.

The above arrangements provide examples of effective partnership working.

### Merseytravel’s arrangements for commissioning services

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. The Authority has recently strengthened its policies and processes to ensure best practise and these are available to all staff via a SharePoint hub. Standardised templates and procurement standing orders are used throughout the procurement process to ensure consistency of approach.

Any deviation from procurement rules have to be agreed via a waiver process as described in the standing orders and are reported to the Regulatory and Compliance Board.

**Based on the above considerations we are satisfied there is not a significant weakness in Merseytravel’s arrangements in relation to improving economy, efficiency and effectiveness.**

# 04

Section 04:

**Other reporting responsibilities and  
our fees**

# 4. Other reporting responsibilities and our fees

## 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 did not receive any such objections or questions.

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

The NAO, as group auditor, requires us to complete a WGA Assurance Statement in respect of its consolidation data. As in previous years we do not expect to complete Whole of Government Accounts work at Merseytravel as data is included in Liverpool City Region Combined Authority’s WGA return on a group basis.

We have not yet received group instructions from the National Audit Office confirming this to be the case. We are unable to issue our audit certificate until this is formally confirmed.

## 4. Other reporting responsibilities and our fees

### Fees for work as Merseytravel's auditor

We reported our proposed fees for the delivery of our work under the Code of Audit Practice in our Audit Strategy Memorandum presented to the Audit, Risk and Governance Board in July 2021. Having completed our work for the 2020/21 financial year, we can confirm that our fees are as follows:

Area of work	2019/20 fees	2020/21 fees
Scale fee in respect of our work under the Code of Audit Practice	£29,121	£29,121
Additional testing on Defined Benefit Pensions Schemes and Property, Plant and Equipment	£7,067	£7,067*
Additional testing as a result of the implementation of new auditing standards: ISA 220 (Revised): Quality control of an audit of financial statements; ISA 540 (Revised): Auditing accounting estimates and related disclosures; and ISA570 (Revised) Going Concern	-	£1,500*
Other additional costs (mainly relating to additional testing and reporting of uncertainties in key estimates as a result of Covid-19)	£5,032	-
Additional work arising from the change in the Code of Audit Practice in respect of Value for Money arrangements	-	£6,000*
<b>Total fees</b>	<b>£41,220</b>	<b>£43,688</b>

\* Fee variations subject to approval and confirmation by the Public Sector Audit Appointments Ltd (PSAA).

### Fees for other work

We confirm that we have not undertaken any non-audit services for Merseytravel in the year.

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