Section one

Summary for Executive
Summary for Audit Committee

This Annual Audit Letter summarises the outcome from our audit work at Merseytravel (“the Executive”) in relation to the 2017-18 audit year.

Although it is addressed to Members of the Executive, it is also intended to communicate these key messages to key external stakeholders, including members of the public, and will be placed on the Executive’s website.

Audit opinion

We issued an unqualified opinion on the Executive’s financial statements on 31 July 2018. This means that we believe the financial statements give a true and fair view of the financial position of the Executive and of its expenditure and income for the year. The financial statements also include the consolidated financial statements for Executive’s Group, which consists of the Executive itself, Mersey Ferries Ltd, The Beatles Story Ltd and Merseyside Passenger Transport Services Ltd.

Financial statements audit

Our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole. Materiality for the Executive’s accounts was set at £4.5 million which equates to around 1.95 percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

We report to the Executive any misstatements of lesser amounts, other than those that are “clearly trivial”, to the extent that these are identified by our audit work. In the context of the Executive, an individual difference is considered to be clearly trivial if it is less than £0.2 million for the Executive.

We identified 2 significant audit differences relating to the accounting for pensions assets and liabilities with a total value of £10.6 million. These adjustments do not impact on the reported surplus on provision of services or the general fund.

Our audit work was designed to specifically address the following significant risks:

— **Management Override of Controls** – Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. There are no matters arising from this work that we need to bring to your attention.

— **Valuation of PPE** - The Merseytravel policy for asset revaluation is to revalue all PPE required to be measured at fair value every five years. These revaluations exclude infrastructure assets that are required to be carried at depreciated historical cost. The last revaluation was undertaken in 2014/15. Annual reviews are made of the estimated remaining life and current carrying amount of assets, ensuring that significant assets are reviewed annually and other assets are reviewed at least every three years. Adjustments to the carrying amount, or remaining useful life, are made where necessary. The asset valuation and impairment review processes are both estimates and therefore present a level of risk to the audit. During our final audit, we reviewed the output of the Desk-top review and critically assessed the Executive’s formal consideration of indications of impairment within its estate, including the process undertaken and we did not identified any significant issues in respect of this work.
Summary for Audit Committee (cont.)

— **Faster close** – In prior years, the Executive has been required to prepare draft financial statements by 30 June and then final signed accounts by 30 September. For years ending on and after 31 March 2018 however, revised deadlines apply which require draft accounts by 31 May and final signed accounts by 31 July. These changes represent a significant change to the timetable that the Executive has previously worked to. The time available to produce draft accounts has been reduced by one month and the overall time available for completion of both accounts production and audit is two months shorter than in prior years. We have not identified any significant issues in respect of this.

— **New financial system** - Merseytravel upgraded to a new finance system that went live on the 4th December 2017. This upgrade to Agresso involved the migration of data from Open Accounts and therefore there is a risk that data may not have been transferred accurately or completely leading to a material error in the financial statements. A number of issues with regards to the availability of audit trails were found in our review of the project management of the new system upgrade to Agresso. As a result we adapted our audit approach, which included the review of the overall final reconciliation that was performed by the finance team to gain assurance over the completeness and accuracy of the data migration and no issues were found here. We are in the process of seeking a fee variation from the PSAA in respect of the additional work required.

— **Valuation of pension liabilities** - The valuation of the Executive’s pension liability, as calculated by the Actuary, is dependent upon both the accuracy and completeness of the data provided and the assumptions adopted. We have reviewed the processes in place to ensure accuracy of data provided to the Actuary and consider the assumptions used in determining the valuation. We did not identify any issues during our work in this area. Our work also considered the roll forward of the assets undertaken by the actuaries and the allocation of those assets to the Executive. We noted that the actuaries used estimated investment rates of returns for the last few months of 2017/18 and the difference in actual and estimated investment rates of return has had an impact greater than our materiality on the value of the pension fund assets and therefore net liability. The Executive requested a revised IAS 19 report which incorporates that actual returns and the accounts have been amended accordingly. The result is a material increase in the pension assets (and associated reduction in the net pension liability) of £4.6m.

— **Pension Deficit Contributions** – During our final audit visit we identified an additional significant unusual transaction, regarding the payment of pension deficit contributions. As a result, we found one audit adjustment with a total value of £6 million relating to this. This adjustment did not impact the reported general fund balance.
Summary for Audit Committee (cont.)

Other information accompanying the financial statements
Whilst not explicitly covered by our audit opinion, we review other information that accompanies the financial statements to consider its material consistency with the audited accounts. This year we reviewed the Annual Governance Statement and Narrative Report. We concluded that they were consistent with our understanding and did not identify any issues.

Value for Money conclusion
We issued an unqualified conclusion on the Executive’s arrangements to secure value for money (VFM conclusion) for 2017-18 on 31 July 2018.

This means we are satisfied that during the year the Executive had appropriate arrangements for securing economy, efficiency and effectiveness in the use of its resources.

To arrive at our conclusion we looked at the Executive’s arrangements to make informed decision making, sustainable resource deployment and working with partners and third parties.

Value for Money risk areas
We undertook a risk assessment as part of our VFM audit work to identify the key areas impacting on our VFM conclusion and considered the arrangements you have put in place to mitigate these risks. We did not identify any significant risks requiring specific audit attention and procedures to address the likelihood that proper arrangements are not in place to deliver value for money.

High priority recommendations
We raised no high priority recommendations as a result of our 2017-18 work.
Certificate
We issued our certificate on 31 July 2018. The certificate confirms that we have concluded the audit for 2017-18 in accordance with the requirements of the Local Audit & Accountability Act 2014 and the Code of Audit Practice.

Audit fee
Our fee for 2017-18 was £41,275 excluding VAT (2017: £37,819). Further detail is contained in Appendix 2.

Exercising of audit powers
We have a duty to consider whether to issue a report in the public interest about something we believe the Executive should consider, or if the public should know about.

We have not identified any matters that would require us to issue a public interest report.

In addition, we have not had to exercise any other audit powers under the Local Audit & Accountability Act 2014.
Appendices
This appendix summarises the reports we issued since our last Annual Audit Letter.

External Audit Plan
The External Audit Plan set out our approach to the audit of the Executive’s financial statements, including those of the Group and to support the VFM conclusion.

Report to Those Charged with Governance
The Report to Those Charged with Governance summarised the results of our audit work for 2017-18 including key issues and recommendations raised as a result of our observations.

We also provided the mandatory declarations required under auditing standards as part of this report.

Auditor’s Report
The Auditor’s Report included our audit opinion on the financial statements along with our VFM conclusion and our certificate.

Annual Audit Letter
This Annual Audit Letter provides a summary of the results of our audit for 2017-18.
Appendix 2: Audit fees

This appendix provides information on our final fees for the 2017-18 audit.

External audit
As communicated to you in our External Audit Plan 2017-18, our scale fee for the audit is £37,819 plus VAT (£37,819 in 2016/17), which is consistent with the prior year.

However, we propose an additional fee of £3,456 due to the additional work required on the new general ledger system upgrade to Agresso in December 2017. We have discussed and agreed this additional fee with the S151 officer. This is still subject to PSAA’s final determination.

Other services
We did not charge any additional fees for other services.

All fees quoted are exclusive of VAT.
This report is addressed to the Executive and has been prepared for the sole use of the Executive. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointment’s website (www.psaa.co.uk).

External auditors do not act as a substitute for the audited body’s own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG’s work, in the first instance you should contact Tim Cutler, the engagement lead to the Executive, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG’s work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers, by email to Andrew.Sayers@kpmg.co.uk. After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA’s complaints procedure by emailing generalenquiries@psaa.co.uk by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

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CREATE: CRT086281A

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