

# Annual Audit Letter

## Transport for the North

Year ending 31 March 2020





## Contents

- 01** Executive summary
- 02** Audit of the financial statements
- 03** Value for money conclusion
- 04** Other reporting responsibilities
- 05** Our fees
- 06** Forward look

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 TfN. No responsibility is accepted to any member or officer in their individual capacity or to any third party. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.

Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales.

# 1. EXECUTIVE SUMMARY

## Purpose of the Annual Audit Letter

Our Annual Audit Letter summarises the work we have undertaken as the auditor for Transport for the North (TfN) for the year ended 31 March 2020. Although this letter is addressed to TfN, 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 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (the NAO). The detailed sections of this letter provide details on those responsibilities, the work we have done to discharge them, and the key findings arising from our work. These are summarised below.

Area of responsibility	Summary
Audit of the financial statements	<p>Our auditor's report issued on 18 November 2020 included our opinion that the financial statements:</p> <ul style="list-style-type: none"><li>• give a true and fair view of TfN's financial position as at 31 March 2020 and of its expenditure and income for the year then ended; and</li><li>• have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20</li></ul>
Other information published alongside the audited financial statements	<p>Our auditor's report included our opinion that:</p> <ul style="list-style-type: none"><li>• the other information in the Statement of Accounts is consistent with the audited financial statements.</li></ul>
Value for money conclusion	<p>Our auditor's report concluded that we are satisfied that in all significant respects, TfN has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.</p>
Reporting to the group auditor	<p>In line with group audit instructions, issued by the NAO on 4 November, we reported to the group auditor in line with the requirements applicable to TfN's WGA return.</p>
Statutory reporting	<p>Our auditor's report confirmed that we did not use our powers under s24 of the 2014 Act to issue a report in the public interest or to make written recommendations to TfN.</p>



## 2. AUDIT OF THE FINANCIAL STATEMENTS

Opinion on the financial statements

Unqualified

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

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 TfN and whether they give a true and fair view of TfN's financial position as at 31 March 2020 and of its financial performance for the year then ended.

Our audit was conducted in accordance with the requirements of the Code of Audit Practice issued by the NAO, and International Standards on Auditing (ISAs). These require us to consider whether:

- the accounting policies are appropriate to TfN's circumstances and have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management in the preparation of the financial statements are reasonable; and
- the overall presentation of the financial statements provides a true and fair view.

Our auditor's report, stated that in our view, the financial statements give a true and fair view of TfN's financial position as at 31 March 2020 and of its financial performance for the year then ended.

There are no other matters to bring to your attention.

### Our approach to materiality

We apply the concept of materiality when planning and performing our audit, and when evaluating the effect of misstatements identified as part of our work. We consider the concept of materiality at numerous stages throughout the audit process, in particular when determining the nature, timing and extent of our audit procedures, and when evaluating the effect of uncorrected misstatements. An item is considered material if its misstatement or omission could reasonably be expected to influence the economic decisions of users of the financial statements.

Judgements about materiality are made in the light of surrounding circumstances and are affected by both qualitative and quantitative factors. As a result we have set materiality for the financial statements as a whole (financial statement materiality) and a lower level of materiality for specific items of account (specific materiality) due to the nature of these items or because they attract public interest. We also set a threshold for reporting identified misstatements to the Audit and Governance Committee. We call this our trivial threshold.

The table below provides details of the materiality levels applied in the audit of the financial statements for the year ended 31 March 2020:

Financial statement materiality	Our financial statement materiality is based on 2% of Gross Operating Expenditure	£1.014 million
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	£30,000
Specific materiality	We have applied a lower level of materiality to the following areas of the accounts: - Senior officer remunerations	£5,000



## 2. AUDIT OF THE FINANCIAL STATEMENTS

### Our response to significant risks

As part of our continuous planning procedures we considered whether there were risks of material misstatement in TfN's financial statements that required special audit consideration. We reported significant risks identified at the planning stage to the Audit and Governance Committee within our Audit Strategy Memorandum and provided details of how we responded to those risks in our Audit Completion Report. The table below outlines the identified significant risks, the work we carried out on those risks and our conclusions.

Identified significant risk	Our response	Our findings and conclusions
<p><b>Management override of controls</b> In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Because of the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits</p>	<p>We addressed this risk through performing audit work over:</p> <ul style="list-style-type: none"> <li>Accounting estimates impacting on amounts included in the financial statements;</li> <li>Consideration of identified significant transactions outside the normal course of business; and</li> <li>Journals recorded in the general ledger and other adjustments made in preparation of the financial statements.</li> </ul>	<p>We did not identify any material issues to bring to your attention.</p>



## 2. AUDIT OF THE FINANCIAL STATEMENTS

### Our response to significant risks cont.

Identified significant risk	Our response	Our findings and conclusions
<p><b>Defined benefits liability valuation</b></p> <p>The financial statements contain material pension entries in respect of retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. In 2019/20, the local government pension assets and liabilities are subject to triennial revaluation.</p>	<p>We addressed this risk by undertaking the following procedures:</p> <ul style="list-style-type: none"> <li>• Critically assessing the competency, objectivity and independence of the Greater Manchester Pension Fund’s Actuary, HymansRobertson;</li> <li>• Liaising with the auditors of the Greater Manchester Pension Fund to gain assurance that the controls in place at the Pension Fund are operating effectively. This included the processes and controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS19 valuation is complete and accurate;</li> <li>• Testing payroll transactions at TfN to provide assurance over the pension contributions which are deducted and paid to the Pension Fund by TfN;</li> <li>• Reviewing the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Pension Fund Actuary, and the key assumptions included within the valuation. This included comparing them to expected ranges, utilising information provided by PWC, consulting actuary engaged by the National Audit Office; and</li> <li>• Agreeing the data in the IAS 19 valuation report provided by the Fund Actuary for accounting purposes to the pension accounting entries and disclosures in TfN’s financial statements.</li> </ul>	<p>We did not identify any material issues to bring to your attention.</p>



## 2. AUDIT OF THE FINANCIAL STATEMENTS

### Key areas of management judgement and enhanced risks

Key areas of management judgement include accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement. These areas of management judgement represent other areas of audit emphasis.

Identified area of management judgement	Our response	Our findings and conclusions
<p><b>Management judgement</b> Intangible Asset valuation –Integrated and Smart Travel (IST) –Phase 3</p> <p>During 2019/20 TfN acknowledged that due to insufficient bus operator support for the IST proposals an “active pause” was implemented in relation to Phase 3 of the IST project. Consequently, some £4.3m of previously capitalised expenditure has been reversed and the costs charged to revenue. TfN had previously secured Department for Transport agreement that DoT would fund the revenue implications in the event of the scheme not progressing as planned.</p> <p>There is a risk over the completeness and accuracy of the transactions that have now been accounted for as revenue expenditure.</p>	<p>We addressed this risk by:</p> <ul style="list-style-type: none"> <li>• Reviewing the process undertaken by TfN to establish that the value of previously capitalised costs attributable to Phase 3 is materially correct;</li> <li>• Testing a sample of transactions reversed and charged to revenue; and</li> <li>• Reviewing the appropriateness of the accounting treatment and associated disclosures.</li> </ul>	<p>A number of amendments were required to the financial statements to reflect the change in accounting treatment related to the £4.3m impairment of the Phase 3 Abbot scheme and the financing of the £4.3m revenue grant received from the Department for Transport. Following the amendments, we are satisfied that the accounting treatment is appropriate.</p> <p>There are no other material issues to bring to your attention.</p>



## 2. AUDIT OF THE FINANCIAL STATEMENTS

### Internal control recommendations

As part of our audit we considered the internal controls in place that are relevant to the preparation of the financial statements. We did this to design audit procedures that allow us to express our opinion on the financial statements, but this did not extend to us expressing an opinion on the effectiveness of internal controls. We did not identify any deficiencies in internal control as part of our audit.



### 3. VALUE FOR MONEY CONCLUSION

Value for money conclusion	<b>Unqualified</b>
----------------------------	--------------------

#### Our audit approach

We are required to consider whether TfN 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 in order to form our conclusion, and sets out the criterion and sub-criteria that we are required to consider.

The overall criterion is that, ‘in all significant respects, TfN had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.’ To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- informed decision making;
- sustainable resource deployment; and
- working with partners and other third parties.

Our auditor’s report, stated that that, in all significant respects, TfN put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31st March 2020.

Sub-criteria	Commentary	Arrangements in place?
Informed decision making	<p>There is evidence that TfN acts in the public interest, demonstrating and applying the principles and values of sound governance. Transport for the North’s governance arrangements are set out in its Constitution which was reviewed and updated in 2019/20. Approved and adopted Code of Corporate Governance in place, consistent with the principles of the CIPFA/SOLACE Framework, Delivering Good Governance in Local Government.</p> <p>Risk management arrangements are in place. Risks are reported to the North’s Operating Board, Audit and Governance Committee, Department for Transport (DfT) and Transport for the North Board.</p> <p>Scrutiny Committee in place with elected Members appointed by the 20 Constituent Authorities. Audit and Governance Committee established consisting of five Board Members and three Independent Members.</p> <p>Work is continuing on the Assurance Framework in 2020/21 to provide for a consistent evidence-based decision making process.</p> <p>Long term Strategic Transport Plan Investment Programme in place. All major work programmes also have Programme Boards which are attended by representatives of the DfT.</p>	Yes



### 3. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Arrangements in place?
Informed decision making	<p>TfN has a framework to monitor and measure progress and performance to help ensure that value for money is achieved. During 2019/20 Transport for the North has developed a new monthly operating report providing both qualitative and quantitative performance information. We are not aware of any significant data quality issues in terms of financial or performance information.</p> <p>In 2020/21, TfN will seek to publish a Northern Transport Charter setting out the case for local decision-making over transport investment.</p>	Yes
Sustainable resource deployment	<p>TfN achieved a £0.92m surplus on its revenue position for 2019/20. The financial position has been reported to the Audit and Governance Committee during the year.</p> <p>There has been a £30m underspend on the capital programme. This has been largely due to the cancellation of the Phase 3 ABBOT scheme within the Integrated and Smart Travel programme. The decision to develop alternative options also contributed to higher revenue costs. This is covered in more detail in our significant risk on the following page.</p> <p>The Core Grant allocations held in the General Fund Reserve provide the basis for the medium-term financial plan. TfN is party to a Memorandum of Understanding (MoU) with the Department for Transport that gives it the required comfort that it will continue to receive the necessary funding to discharge its statutory obligations into the future.</p>	Yes
Working with partners and other third parties	<p>There are many examples of TfN working with partners and other third parties.</p> <p>A Partnership Board is in place to advise on matters relating to transport in the area including elected and Local Enterprise Partnership representatives from all areas of the North, along with the Secretary of State for Transport and representatives from Highways England, Network Rail and HS2 Ltd. During 2019/20, the membership was widened to include groups representing the interests of those with disabilities, environmental concerns, TUC representatives and passenger transport user groups.</p> <p>Transport for the North carries out extensive stakeholder engagement through its Engagement team and the wider organisation.</p> <p>In 2020/21, TfN will be working in collaboration with the DfT on the High Speed North Integrated Rail Plan setting out the next 20 years of investment in HS2, NPR and other major rail schemes in the North.</p>	Yes



### 3. VALUE FOR MONEY CONCLUSION

#### Significant audit risks

The NAO’s guidance requires us to carry out work to identify whether or not a risk to our conclusion exists. Risk, in the context of our work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at TfN being inadequate. In our Audit Strategy Memorandum, we reported that we had identified one significant audit risks.

Risk	Work undertaken	Conclusion
<p><b>Phase 3 – Integrated and Smart Ticketing Project</b></p> <p>During 2019/20 TfN concluded that Phase 3 of the Integrated and Smart Ticket project, to develop an information system to manage accounts-based ticketless transport transactions should not progress as the bus operators confirmed that they were unwilling to accept the system based on the proposal at that time.</p> <p>Consequently, in July 2019 the TfN Board agreed to an “active pause” as it became clear that the project could not continue in its current form.</p>	<p>We reviewed the governance and decision making arrangements that lead to TfN concluding that the project could not proceed in line with existing project plans.</p>	<p>In the July 2019, the TfN Board considered a report setting out a number of options following the decision to pause the project. Two options were proposed for further evaluation and these were again considered by the Board in September with a more detailed feasibility analysis in the October meeting.</p> <p>These options were reported to the December meeting of the Overview and Scrutiny Board. Our review confirms that it contained a detailed and clear analysis of the remaining options and included a discussion of the key benefits and risks.</p> <p>A further report to the January TfN Board proposed a way forward for Phase 3 of the Integrated and Smart Travel (IST) Programme (Option A). This recognised both developments within the bus industry in terms of investment in contactless payment technology, and the possible implications of rail industry reform. However, ultimately, TfN was unable to commit to further expenditure without a greater degree of certainty that the proposed system will be fully utilised by public transport providers noting that in a de-regulated market, TfN has no ability to require bus operators to adopt the system.</p> <p>It was therefore recommended not to pursue Option A and that the current procurement is cancelled. TfN obtained legal advice on the implications of cancelling the procurement at this stage, and confirmed that they had the right to cancel the procurement.</p> <p>On the basis of work completed, we conclude that for 2019/20, Transport for the North had appropriate governance and decision-making arrangements in place in respect of the decision not to proceed with Phase 4 of the Integrated and Smart Ticket project.</p>



## 4. OTHER REPORTING RESPONSIBILITIES

Exercise of statutory reporting powers	No matters to report
Completion of group audit reporting requirements	Below testing threshold
Other information published alongside the audited financial statements	Consistent

The NAO's Code of Audit Practice and the 2014 Act place wider reporting responsibilities on us, as TfN's external auditor. We set out below, the context of these reporting responsibilities and our findings for each.

### Matters on which we report by exception

The 2014 Act provides us with specific powers where matters come to our attention that, in our judgement, require reporting action to be taken. We 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 law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

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 the WGA Assurance Statement in respect of its consolidation data. We submitted this information to the NAO on 24 November 2020.

### Other information published alongside the financial statements

The Code of Audit Practice requires us to consider whether information published alongside the financial statements is consistent with those statements and our knowledge and understanding of TfN. In our opinion, the other information in the Statement of Accounts is consistent with the audited financial statements.



## 5. OUR FEES

### Fees for work as TfN's auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, presented to the Audit and Governance Committee in February 2020.

Having completed our work for the 2019/20 financial year, we can confirm that our final fees are as follows:

Area of work	2019/20 proposed fee	2019/20 final fee
Delivery of audit work under the NAO Code of Audit Practice	33,000	33,000
Plus additional fees in respect of accounting for the impairment of the Phase 3 – Integrated and Smart Ticketing Project	4,200*	4,200*

\* Subject to agreement by PSAA and confirmation from PSAA of 2019/20 scale rates for additional work.

### Fees for other work

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



## 6. FORWARD LOOK

### Financial outlook

TfN achieved a £0.92m surplus on its revenue position for 2019/20 with a £30m underspend on the capital programme. This has been largely due to the cancellation of the Phase 3 ABBOT scheme within the Integrated and Smart Travel programme. The Core Grant allocations held in the General Fund Reserve provide the basis for the medium-term financial plan.

TfN will continue to have a critical strategic oversight role for the Investment Programme across TfN work programmes in 2020/21. It will have to manage its medium-term financial plan by ensuring that its financial resource is aligned to the Business Plan objectives in a sustainable manner and managing key inherent financial risk that arises from TfN's organisational and legal design.

The COVID-19 pandemic and the consequences of local and regional lockdowns and restrictions will have a significant impact on the UK economy for years to come. There is also uncertainty stemming from the UK's new trading arrangements with the European Union. While this may not directly impact on TfN's supply chains, the impact on the overall economy may create indirect pressures.

### How we will work with TfN

Our 2020/21 audit will focus on the risks that the challenges noted above present to TfN's financial statements and ability to maintain proper arrangements for securing value for money. We have commented on the changes to the Value for Money requirements in the new Code of Audit Practice in the next section.

We will continue to support TfN through our audit work and through our attendance at Audit and Governance Committee where we will inform the Committee about our progress on the audit, report our key findings and share our insight on any changes we are aware about in the sector. We will continue to offer accounting workshops to finance officers, and the audit team will continue to work with officers to share our knowledge of new accounting developments and we will be on hand to discuss any issues as and when they arise.



## 6. FORWARD LOOK

### Changes to the Code of Audit Practice

The Code of Audit Practice (the Audit Code), issued by the Comptroller and Auditor General, prescribes the way we carry out our responsibilities as your auditors. On 1<sup>st</sup> April 2020 a new Code came in to force and will apply to our work from 2020/21 onwards.

The new Audit Code continues to apply the requirements of International Standards on Auditing (ISAs) to our audit of the financial statements. While there are changes to the ISAs that are effective from 2020/21 the Audit Code has not introduced any changes to the scope of our audit of the financial statements. We will continue to give our opinion on the financial statements in our independent auditor's report.

There are however significant changes to the work on value for money arrangements, and the way we report the outcomes of our work to you.

#### The auditor's work on value for money arrangements

From 2020/21 we are still required to satisfy ourselves that you have made proper arrangements for securing the economy, efficiency and effectiveness in your use of resources, however unlike under the 2015 Audit Code, we will no longer report in the form of a conclusion on arrangements. Instead, where our work identifies significant weaknesses in arrangements, we are required to report those weaknesses to you, along with the actions that need to be taken to address those weaknesses.

Our work on value for money arrangements will focus on three criteria, specified in the revised Audit Code:

- Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the body ensures that it makes informed decisions and properly manages its risks; and
- 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.

Under the new Audit Code we will be expected to report and make recommendations as soon as we identify a significant weakness in arrangements, as opposed to reporting our conclusion on arrangements at the end of the audit cycle as has previously been the case.

#### Reporting the results of the auditor's work

We currently issue you with an Annual Audit Letter which provides a summary of our work across all aspects of our audit. From 2020/21 the Annual Audit Letter will be replaced by the Auditor's Annual Report. This will continue to provide a summary of our work over the year of audit but will also include a detailed commentary on your arrangements in place to achieve economy, efficiency and effectiveness. This commentary replaces the conclusion on arrangements that was previously provided and will include details of any significant weakness identified and reported to you, follow up of any previous recommendations made, and the our view as to whether recommendations have been implemented satisfactorily.

The guidance supporting the new Audit Code is being developed by the National Audit Office and we will provide you with any further updates to our approach arising from this guidance when it is released.



## 6. FORWARD LOOK

### Redmond Review

In September 2020, Sir Tony Redmond published the findings of his independent review into the oversight of local audit and the transparency of local authority financial reporting. The report makes several recommendations that, if implemented, could affect both the financial statements that local authorities are required to prepare and the work that we as auditors are required to do.

The report and recommendations are wide-ranging, and includes:

- the creation of the Office of Local Audit and Regulation (OLAR), be created to manage, oversee and regulate local audit;
- reviewing reporting deadlines;
- reviewing governance arrangements in local authorities, including the membership of the Audit Committee; and
- increasing transparency and reducing the complexity of local authority financial statements.

The recommendations and findings will now be considered by the Ministry of Housing, Communities and Local Government and we look forward to working with all stakeholders to implement changes to ensure the development and sustainability of local audit.

The full report is available here: <https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-independent-review>



## CONTACT

### Engagement lead

Director: Karen Murray

Phone: 0161 238 9248

Mobile: 07721 234 043

Email: karen.murray@mazars.co.uk

### Engagement manager

Manager: Campbell Dearden

Phone: 0191 383 6304

Mobile: 07881 283 348

Email: campbell.dearden@mazars.co.uk

Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services\*. Operating in over 90 countries and territories around the world, we draw on the expertise of 40,400 professionals – 24,400 in Mazars' integrated partnership and 16,000 via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

\*where permitted under applicable country laws

The contents of this document are confidential and not for distribution to anyone other than the recipients. Disclosure to third parties cannot be made without the prior written consent of Mazars LLP