

# Audit Completion Report

Transport for the North  
Year ended 31 March 2021

September 2021



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Audit and Governance Committee  
2nd Floor,  
4 Piccadilly Place,  
Manchester,  
M1 3BN

8 September 2021

Dear Members

## **Audit Completion Report – Year ended 31 March 2021**

We are pleased to present our Audit Completion Report for the year ended 31 March 2021. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks and other areas of management judgement, was outlined in our Audit Strategy Memorandum which we presented on 18 February 2021. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate.

We would like to express our thanks for the assistance of your team during our audit. If you would like to discuss any matters in more detail then please do not hesitate to contact me on 0161 238 9248.

Yours faithfully

Signed: 

Karen Murray  
Mazars LLP

Mazars LLP  
1 St Peter Square  
Manchester  
M2 3DE

# 01

Section 01:

**Executive summary**

# 1. Executive summary

## Principal conclusions and significant findings

The detailed scope of our work as your appointed auditor for 2020/21 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 and, as outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards on Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

In section 4 of this report we have set out our conclusions and significant findings from our audit. This section includes our conclusions on the audit risks and areas of management judgement in our Audit Strategy Memorandum, which include:

- Management override of controls; and
- Net defined benefit liability valuation
- Intangible assets novation

Section 5 sets out internal control recommendations and section 6 sets out audit misstatements; unadjusted misstatements total, subject to the completion of outstanding matters.

## Status and audit opinion

We have substantially completed our audit in respect of the financial statements for the year ended 31 March 2021.

At the time of preparing this report, matters remaining outstanding are outlined in section 2. We will provide an update to you in relation to the significant matters outstanding through issuance of a follow up letter.

Subject to the satisfactory conclusion of the remaining audit work, we have the following conclusions:



### Audit opinion

We anticipate issuing an unqualified opinion, without modification, on the financial statements. Our proposed audit opinion is included in the draft auditor's report in Appendix B.



### Value for Money

We anticipate having no significant weaknesses in arrangements to report in relation to the arrangements that TfN has in place to secure economy, efficiency and effectiveness in its use of resources. Further detail on our Value for Money work is provided in section 7 of this report



### Whole of Government Accounts (WGA)

We have not yet received group instructions from the National Audit Office in respect of our work on the TfN's WGA submission. We are unable to commence our work in this area until such instructions have been received.



### Wider powers

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 TfN and to consider any objection made to the accounts. No such correspondence from electors has been received.

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# 02

Section 02:

**Status of the audit**

# 2. Status of the audit

Our work is substantially complete and there are currently no matters of which we are aware that would require modification of our audit opinion, subject to the outstanding matters detailed below.

Audit area	Status	Description of the outstanding matters
Pensions		We are awaiting the pension fund assurance letter from the pension fund auditor.
Review and closure procedures		Including reviews of completed work, checking the final version of the financial statements and consideration of any post balance sheet events.
Whole of Government Accounts		Reviewing and submitting the Whole of Governments Accounts consolidation schedules. The NAO has not yet issued guidance to auditors.

-  Likely to result in material adjustment or significant change to disclosures within the financial statements.
-  Potential to result in material adjustment or significant change to disclosures within the financial statements.
-  Not considered likely to result in material adjustment or change to disclosures within the financial statements.



# 03

Section 03:

**Audit approach**

# 3. Audit approach

## Changes to our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum in February 2021 and have not made any changes to our audit approach since then.

## Materiality

Our provisional materiality at the planning stage of the audit was set at £1.014m using a benchmark of 2% of gross operating expenditure. Our final assessment of materiality, based on the final financial statements is £1.25m using the same benchmark.

## Use of experts

Management makes use of experts in specific areas when preparing TfN's financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account.

Item of account	Management's expert	Our expert
Defined benefit liability valuation and disclosures	Hymans Robertson Actuary for the Greater Manchester Pension Fund	PWC - commissioned by the National Audit Office

## Service organisations

International Auditing Standards (UK) (ISAs) define service organisations as third party organisations that provide services to TfN that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as well as evaluating the design and implementation of controls over those services. The table below summarises the service organisations used by TfN and our audit approach.

Items of account	Service organisation	Audit approach
Payroll	Hawsons	We obtained our assurance by understanding the processes and controls that TfN has in place to assure itself that transactions are processed materially correctly. Our testing included substantive sample testing of transactions.



# 04

## Section 04: **Significant findings**

# 4. Significant findings

In this section we outline the significant findings from our audit. These findings include:

- our audit conclusions regarding other significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 13 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year;
- any significant difficulties we experienced during the audit;

## Significant risks

Management override of controls]	Description of the risk
	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. Due to 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><b>How we addressed this risk</b></p> <p>We addressed this risk through performing audit work over:</p> <ul style="list-style-type: none"> <li>• Accounting estimates impacting 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><b>Audit conclusion</b></p> <p>Our work has provided the assurance we sought in the above areas and has not highlighted any material issues to bring to your attention..</p>



## 4. Significant findings

Net defined benefit liability valuation	Description of the risk
	<p>The net pension liability is likely to represent a material element of TfN's balance sheet. TfN is an admitted body of Greater Manchester Pension Fund, which had its last triennial valuation completed as at 31 March 2019. The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in TfN's overall valuation.</p>
	<p>Financial assumptions and demographic assumptions will be used in the calculation of TfN's valuation, such as the discount rate, inflation rates and mortality rates. The assumptions should also reflect the profile of TfN's employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes. There is a risk that the assumptions and methodology used in valuing TfN's pension obligation are not reasonable or appropriate to TfN's circumstances. This could have a material impact to the net pension liability in 2020/21.</p>
	<p><b>How we addressed this risk</b></p>
	<p>We completed the following procedures:</p>
	<ul style="list-style-type: none"> <li>• Critically assessed the competency, objectivity and independence of the Greater Manchester Pension Fund's Actuary, Hymans Robertson;</li> <li>• Liaised 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>• Tested payroll transactions at TfN to provide assurance over the pension contributions which are deducted and paid to the Pension Fund by TfN;</li> <li>• Reviewed 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>• Agreed 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><b>Audit conclusion</b></p>
	<p>Our work is ongoing as we require the pension fund auditor's letter of assurance. We have not identified any material issues to bring to your attention at this stage.</p>

Intangible assets novation to the local authority	Description of the risk
	<p>Intangible assets related to the Phase 2 IST project are planned to be novated to the local authorities when they become operational. The timing of this is uncertain but it could be prior to 31 March 2021, in which case the accounting entries would need to be recognised in the 2020/21 financial statements.</p>
	<p>There is a risk that the accounting treatment for the novation of intangible assets to the local authority will not be in line with the CIPFA Code of Local Authority Accounting,</p>
	<p><b>How we addressed this risk</b></p>
	<p>We discussed with management and reviewed the accounting treatment of the novation of the intangible assets in the financial statements to ensure that this was in line with the Code.</p>
	<p><b>Audit conclusion</b></p>
	<p>A number of intangible assets are transferring to the Department for Transport rather than local authorities. We identified one material misclassification error relating to the Fares Data Build Tool which had been treated as an impairment of £1.996m in the financial statements but should have been treated as a loss on disposal. This is covered in more detail in section 6 (adjusted misstatements).</p>

# 4. Significant findings

## Qualitative aspects of TfN's accounting practices

We have reviewed TfN's accounting policies and disclosures and concluded they comply with the 2020/21 Code of Practice on Local Authority Accounting, appropriately tailored to the TfN's circumstances.

Draft accounts were received from TfN on 7 June 2021 and were of a good quality and working papers were of a decent standard to support the financial statements.

## Significant difficulties during the audit

During the course of the audit we did not encounter any significant difficulties and we have had the full co-operation of management.

## Wider responsibilities

Our powers and responsibilities under the 2014 Act are broad and include the ability 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 powers as part of our 2020/21 audit.

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. No such objections have been raised.



# 05

Section 05:

**Internal control recommendations**

# 5. Internal control recommendations

The purpose of our audit was to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place relevant to the preparation of the financial statements in order to design audit procedures to allow us to express an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of internal control or to identify any significant deficiencies in their design or operation.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

We have no internal control recommendations to bring to your attention for 2020/21 and there are none relating to 2019/20 to follow up.



# 06

Section 06:

**Summary of misstatements**

## 6. Summary of misstatements

This section outlines the misstatements identified during the course of the audit, above the trivial threshold for adjustment of £38,000. There were no unadjusted errors. The table below outlines the misstatements that have been adjusted by management during the course of the audit.

### Adjusted misstatements

		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: Intangible Assets (Impairments) Cr: CIES Net cost of services Dr: CIES Other operating expenditure (loss on disposal) Cr: Intangible Assets (Disposals)	1,996	1,996	1,996	1,996
Impairments on intangible assets of £1.996m in the net cost of services should be shown as a loss on disposal in year rather than an impairment. This impacts on related notes in the financial statements such as the intangible assets note 15. The amounts are reversed out via the movement in reserves statement therefore there is no impact on the TfN's revenue account.					
<b>Total adjusted misstatements</b>		<b>3,992</b>	<b>3,992</b>		

### Disclosure amendments

We identified a number of trivial errors that were adjusted in the financial statements (eg. typos). Other disclosure errors noted below.

**Note 26 Grant income credited to services:** One misclassification error of £56k which should be shown in the Rail North grant line rather than rail north contributions.

**Narrative statement and notes to the financial statements:** The narrative statement was updated in a number of areas. For example to provide more information on TfN's main achievements during 2020/21 and to include a paragraph on the resignation and replacement of the Chairman.



# 07

Section 07:

**Value for Money**

# 7. Value for Money

## Approach to Value for Money

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 and sets out the reporting criteria that we are required to consider. The reporting criteria are:

- **Financial sustainability** - How TfN plans and manages its resources to ensure it can continue to deliver its services
- **Governance** - How TfN ensures that it makes informed decisions and properly manages its risks
- **Improving economy, efficiency and effectiveness** - How TfN 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 to understand the arrangements that TfN has in place under each of the reporting criteria and we identify risks of significant weaknesses in those 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 significant weaknesses in arrangements exist.

The table overleaf outlines the risks of significant weaknesses in arrangements that we have identified, the risk-based procedures we have undertaken, and the results of our work.

Where our risk-based procedures identify actual significant weaknesses in arrangements we are required to report these and make recommendations for improvement. Where such significant weaknesses are identified, we report these in the audit report.

The primary output of our work on TfN's arrangements is the commentary on those arrangements that forms part of the Auditor's Annual Report. We intend to issue the Auditor's Annual Report in September/October 2021.

## Status of our work

We are yet to complete our work in respect of TfN's arrangements for the year ended 31 March 2021. At the time of preparing this report, we have not identified any significant weaknesses in arrangements that require us to make a recommendation, however we continue to undertake work on TfN's arrangements.

Our draft audit report at Appendix B outlines that we have not yet completed our work in relation to the TfN's arrangements. As noted above, our commentary on TfN's arrangements will be provided in the Auditor's Annual Report in September/October 2021.



# 7. Value for Money

## Risks of significant weaknesses in arrangements

In our Audit Strategy Memorandum we reported the risks of significant weaknesses in arrangements that we had identified as part of our planning procedures. Our responses to those identified risks is outlined in the table below.

Risk of significant weakness in arrangements	Financial sustainability	Governance	Improving the 3Es	Work undertaken and conclusions reached
<p>1 <b>Reductions in core funding</b> TfN's 'Core' funding allocation of £6m for 2021/22 is a £4m reduction on the current allocation for 2020/21 and is £5.2m less than that requested in the CSR for 2021/ 22 (£11.2m). The gap in funding for 2021/22 will largely be met by charging core costs to NPR programmes and drawing on general fund balances.</p> <p>There is a risk that arrangements will not be in place to ensure that all costs will be fully funded for 2021/22 and that a proper and realistic budget will be set.</p>	●			<p><b>Work undertaken</b> We reviewed the 2021/22 financial plan including consideration of any proposed charging of 'core' costs to the Northern Powerhouse Rail programme (NPR). The majority of expenditure for TfN is dependent upon the receipt of funding from the Department for Transport (DfT) and TfN will only commit itself to expenditure where appropriate commitments have been received. Therefore the main financial risk to TfN is with the core operational budget which is relatively small at £8.6m.</p> <p>Following the announcement of the funding reduction, DfT agreed to allow TfN the flexibility to charge £1.54m of central core costs into the NPR programme as well as appropriate direct costs (£0.95m). We have obtained evidence to support the direct costs and reviewed the basis of the apportionment of the recharges. These are not unreasonable and broadly in line with similar recharges on the IST programme in 2019/20 which were £1m.</p> <p>The current level of retained reserves of £6.67m is above the agreed minimum level of £2m. This provides TfN with the ability to sustain an expenditure run rate at a level which is above its core funding allocation in the short to medium-term to continue to support key developments. It also provides a level of risk mitigation against future financial uncertainty in the short term. The Board agreed to a release of general fund reserves of £2.60m (subsequently refined to £2.54m) for 2021/22, allowing TfN to set a Core budget envelope of £8.6m. This approach will result in general reserves of approximately £3.6m (excluding earmarked reserves) at the end of the 2021/22 financial year which is still a relatively healthy position for TfN. Total reserves will fall to £3.0m in 2022/23 and then to £2m by the end of 2023/24. On this current trajectory, TfN has acknowledged that it will face sustainability challenges in the medium-term as the reserves are utilised. To address this, TfN intends to perform a review of its expenditure and its reserves strategy once it has clarity with regard to its long term funding settlement through the Comprehensive Spending Review (CSR) expected later in 2021.</p> <p>However, this position needs to be carefully managed to ensure that TfN maintains sufficient cash and the resources to meet liabilities. TfN will need to consider how it will address its medium term position once the CSR is concluded, or should it be delayed.</p> <p><b>Conclusions</b> We have not identified any significant weaknesses in arrangements at this time but we recognise that TfN cannot continue to draw on reserves without addressing the underlying financial position over the medium term.</p>



# Appendices

A: Draft management representation letter

B: Draft audit report

C: Independence

D: Other communications

# Appendix A: Draft management representation letter

Karen Murray  
1 St Peter Square  
Manchester  
M2 3DE

September 2021

Dear Karen

### Transport for the North - audit for year ended 31 March 2021

This representation letter is provided in connection with your audit of the financial statements of Transport for the North for the year ended 31 March 2021 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (the Code).

I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy ourselves that I can properly make each of the following representations to you.

#### My responsibility for the financial statements and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the financial statements in accordance with Code.

#### My responsibility to provide and disclose relevant information.

I have provided you with:

- Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other material;
- Additional information that you have requested from us for the purpose of the audit; and
- Unrestricted access to individuals within Transport for the North you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Finance Director that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information. As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

#### Accounting records

I confirm that all transactions that have a material effect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Board and relevant committee meetings, have been made available to you.

#### Accounting policies

I confirm that I have reviewed the accounting policies applied during the year in accordance with the Code and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the financial position, financial performance and cash flows of Transport for the North

#### Accounting estimates, including those measured at fair value

I confirm that any significant assumptions used by the Transport for the North in making accounting estimates, including those measured at fair value, are reasonable.

#### Contingencies

There are no material contingent losses including pending or potential litigation that should be accrued where:

- Information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- The amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against Transport for the North have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the Code.

# Appendix A: Draft management representation letter

## Laws and regulations

I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom. We have complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

## Fraud and error

I acknowledge my responsibility as Finance Director for the design, implementation and maintenance of internal control to prevent and detect fraud and error. I have disclosed to you:

- All the results of my assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- All knowledge of fraud or suspected fraud affecting the Transport for the North involving:
  - management and Those Charged With Governance;
  - employees who have significant roles in internal control; and
  - others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the Transport for the North's financial statements communicated by employees, former employees, analysts, regulators or others.

## Related party transactions

I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with the requirements of the Code. I have disclosed to you the identity of Transport for the North's related parties and all related party relationships and transactions of which I am aware.

## Impairment review

To the best of my knowledge, there is nothing to indicate that there is a permanent reduction in the recoverable amount of the property, plant and equipment and intangible assets below their carrying value at the statement of financial position date. An impairment review is therefore not considered necessary.

## Charges on assets

All Transport for the North's assets are free from any charges exercisable by third parties except as disclosed within the financial statements.

## Future commitments

I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities..

## Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the Group Accounting Manual, relevant legislation and IFRSs require adjustment or disclosure have been adjusted or disclosed. Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

## Other matters

I can confirm in relation to the following matters that:

- I have carried out an assessment of the potential impact of the United Kingdom leaving the European Union, including the potential outcomes at the end of the Implementation Period.
- COVID-19 - we have assessed the impact of the COVID-19 Virus pandemic on Transport for the North and the financial statements, including the impact of mitigation measures and uncertainties, and are satisfied that the financial statements and supporting notes fairly reflect that assessment.

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# Appendix A: Draft management representation letter

## Going concern

I confirm that I have carried out an assessment of the potential impact of the COVID-19 Virus pandemic on Transport for the North, including the impact of mitigation measures and uncertainties and am satisfied the going concern assumption remains appropriate and that no material uncertainty has been identified. To the best of my knowledge there is nothing to indicate that the Transport for the North will not continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

## Annual Governance Statement

I am satisfied that the Annual Governance Statement (AGS) fairly reflects the Transport for the North's risk assurance and governance framework and I confirm that I am not aware of any significant risks that are not disclosed within the AGS

## Unadjusted misstatements

I confirm that the effects of any uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to this letter as an Appendix.

Yours sincerely

Finance Director

# Appendix B: Draft audit report

## Independent auditor’s report to the members of Transport for the North

### Report on the audit of the financial statements

#### Opinion on the financial statements

We have audited the financial statements of Transport for the North for the year ended 31 March 2021, which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Transport for the North as at 31<sup>st</sup> March 2021 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor’s responsibilities section of our report. We are independent of the Transport for the North in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC’s Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Finance Director’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on Transport for the North’s ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Finance Director with respect to going concern are described in the relevant sections of this report.



# Appendix B: Draft audit report

## Other information

The Finance Director is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

## Responsibilities of the Finance Director for the financial statements

As explained more fully in the Statement of Responsibility for the Accounts, the Finance Director is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, and for being satisfied that they give a true and fair view. The Finance Director is also responsible for such internal control as the Finance Director determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Finance Director is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 and prepare the financial statements on a going concern basis on the assumption that the functions of Transport for the North will continue in operational existence for the foreseeable future. The Finance Director is responsible for assessing each year whether or not it is appropriate for Transport for the North to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Based on our understanding of Transport for the North, we identified that the principal risks of non-compliance with laws and regulations related to the Local Government Act 2003 (and associated regulations made under section 21) and the Local Audit and Accountability Act 2014 (and associated regulations made under section 32) and we considered the extent to which non-compliance might have a material effect on the financial statements.



# Appendix B: Draft audit report

We evaluated the Finance Director’s incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that the principal risks were related to posting manual journal entries to manipulate financial performance; management bias through judgements and assumptions in significant accounting estimates; and significant one-off or unusual transactions.

Our audit procedures were designed to respond to those identified risks, including non-compliance with laws and regulations (irregularities) and fraud that are material to the financial statements. Our audit procedures included but were not limited to:

- discussing with management and the Audit and Governance Committee the policies and procedures regarding compliance with laws and regulations;
- communicating identified laws and regulations throughout our engagement team and remaining alert to any indications of non-compliance throughout our audit; and
- considering the risk of acts by Transport for the North which were contrary to applicable laws and regulations, including fraud.

Our audit procedures in relation to fraud included but were not limited to :

- making enquiries of management and the Audit and Governance Committee on whether they had knowledge of any actual, suspected or alleged fraud;
- gaining an understanding of the internal controls established to mitigate risks related to fraud;
- discussing amongst the engagement team the risks of fraud; and
- addressing the risks of fraud through management override of controls by performing journal entry testing.

There are inherent limitations in the audit procedures described above and the primary responsibility for the prevention and detection of irregularities including fraud rests with management and the Audit and Governance Committee. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

We are also required to conclude on whether the Finance Director’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate. We performed our work in accordance with Practice Note 10: Audit of financial statement and regularity of public sector bodies in the United Kingdom, and Supplementary Guidance Note 01, issued by the National Audit Office in April 2021.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council’s website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor’s report.



# Appendix B: Draft audit report

## Report on Transport for the North's arrangements for securing economy, efficiency and effectiveness in its use of resources

### Matter on which we are required to report by exception

We are required to report to you if, in our view we are not satisfied that Transport for the North has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

We have not completed our work on Transport for the North's arrangements. On the basis of our work to date, having regard to the guidance issued by the Comptroller and Auditor General in April 2021, we have not identified any significant weaknesses in arrangements for the year ended 31 March 2021.

We will report the outcome of our work on the Transport for the North's arrangements in our commentary on those arrangements within the Auditor's Annual Report. Our audit completion certificate will set out any matters which we are required to report by exception.

### Responsibilities of Transport for the North

Transport for the North is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

### Auditor's responsibilities for the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We are required under section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that Transport for the North has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of Transport for the North's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our work in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in April 2021.

### Matters on which we are required to report by exception under the Code of Audit Practice

We are required by the Code of Audit Practice to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under sections 28, 29 or 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

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# Appendix B: Draft audit report

## Use of the audit report

This report is made solely to the members of Transport for the North, as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members of Transport for the North those matters we are required to state to them in an auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of Transport for the North, as a body, for our audit work, for this report, or for the opinions we have formed.

## Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed

- the work necessary to issue our assurance statement in respect of Transport for the North’s Whole of Government Accounts consolidation pack; and
- the work necessary to satisfy ourselves that Transport for the North has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

[Signature]

Karen Murray, Audit Partner  
For and on behalf of Mazars LLP

1 St Peter Square  
Manchester  
M2 3DE

September 2021



# Appendix C: Independence

As part of our ongoing risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent.



# Appendix D: Other communications

Other communication	Response
<b>Compliance with Laws and Regulations</b>	<p>We have not identified any significant matters involving actual or suspected non-compliance with laws and regulations.</p> <p>We will obtain written representations from management that all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements have been disclosed.</p>
<b>External confirmations</b>	<p>We did not experience any issues with respect to obtaining external confirmations.</p>
<b>Related parties</b>	<p>We did not identify any significant matters relating to the audit of related parties.</p> <p>We will obtain written representations from management confirming that:</p> <ul style="list-style-type: none"> <li>a. they have disclosed to us the identity of related parties and all the related party relationships and transactions of which they are aware; and</li> <li>b. they have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the applicable financial reporting framework.</li> </ul>
<b>Going Concern</b>	<p>We have not identified any evidence to cause us to disagree with the Finance Director that Transport for the North will be a going concern, and therefore we consider that the use of the going concern assumption is appropriate in the preparation of the financial statements.</p> <p>We will obtain written representations from management, confirming that all relevant information covering a period of at least 12 months from the date of approval of the financial statements has been taken into account in assessing the appropriateness of the going concern basis of preparation of the financial statements.</p>

# Appendix D: Other communications

Other communication	Response
<p><b>Subsequent events</b></p>	<p>We are required to obtain evidence about whether events occurring between the date of the financial statements and the date of the auditor’s report that require adjustment of, or disclosure in, the financial statements are appropriately reflected in those financial statements in accordance with the applicable financial reporting framework.</p> <p>We will obtain written representations from management that all events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed.</p>
<p><b>Matters related to fraud</b></p>	<p>We have designed our audit approach to obtain reasonable assurance whether the financial statements as a whole are free from material misstatement due to fraud. In addition to the work performed by us, we will obtain written representations from management, and the Audit and Governance Committee as ‘those charged with governance’ confirming that:</p> <ul style="list-style-type: none"> <li>a. they acknowledge their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud;</li> <li>b. they have disclosed to the auditor the results of management’s assessment of the risk that the financial statements may be materially misstated as a result of fraud;</li> <li>c. they have disclosed to the auditor their knowledge of fraud or suspected fraud affecting the entity involving:               <ul style="list-style-type: none"> <li>i. Management;</li> <li>ii. Employees who have significant roles in internal control; or</li> <li>iii. Others where the fraud could have a material effect on the financial statements; and</li> </ul> </li> <li>d. they have disclosed to the auditor their knowledge of any allegations of fraud, or suspected fraud, affecting the entity’s financial statements communicated by employees, former employees, analysts, regulators or others.</li> </ul>



## Mazars

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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.