

Auditor's Annual Report

Transport for the North— year ended 31
March 2021

January 2021



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Section 01: **Introduction**

1. Introduction

Purpose of the Auditor's Annual Report

Our Auditor's Annual Report (AAR) summarises the work we have undertaken as the auditor for Transport for the North ('TfN') for the year ended 31 March 2021. Although this report 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 and the Code of Audit Practice ('the Code') issued by the National Audit Office ('the NAO'). The remaining sections of the AAR outline how we have discharged these responsibilities and the findings from our work. These are summarised below.



Opinion on the financial statements

We issued our audit report on 30 September 2021. Our opinion on the financial statements was unqualified.



Value for Money arrangements

In our audit report, issued on the 30 September 2021, we reported that we had not completed our work on TfN's arrangements to secure economy, efficiency and effectiveness in its use of resources and had not identified significant weaknesses in those arrangements at the time of reporting. Section 3 confirms that we have now completed this work and provides our commentary on TfN's arrangements. No significant weaknesses in arrangements were identified and there are no recommendations arising from our work.



Wider reporting responsibilities

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

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

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Section 02:

Audit of the financial statements

2. Audit of the financial statements

The scope of our audit and the results of our opinion

Our audit was conducted in accordance with the requirements of the Code, and International Standards on Auditing (ISAs).

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to TfN and whether they give a true and fair view of TfN's financial position as at 31 March 2021 and of its financial performance for the year then ended. Our audit report, issued on 30 September 2021 gave an unqualified opinion on the financial statements for the year ended 31 March 2021.

Our Audit Completion Report, presented to TfN's Audit and Governance Committee on the 16 September provides further details of the findings of our audit of the TfN's financial statements. This includes our conclusions on the identified audit risks and areas of management judgement, internal control recommendations and audit misstatements identified during the course of the audit.

Qualitative aspects of TfN's accounting practices

We 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 TfN's circumstances.

Draft accounts were received from TfN on 7 June 2021, well in advance of the revised statutory deadlines and were of a good quality. The accounts were supported by good quality working papers and we received full co-operation from the Finance team in responding to our queries on a prompt basis.

Significant difficulties during the audit

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

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Section 03:

Commentary on VFM arrangements

3. VFM arrangements – Overall summary

Approach to Value for Money arrangements work

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 so we can understand the arrangements that TfN has in place under each of the reporting criteria. As part of this work we may identify risks of significant weaknesses in those arrangements. Where we identify significant risks, we design a programme of work (risk-based procedures) to enable us to decide whether there is a significant weakness in arrangements. Although we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that may suggest there are further risks of significant weaknesses. We identified one significant risk and this is outlined on the next page.

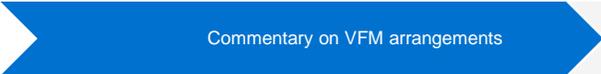
Where our risk-based procedures identify actual significant weaknesses in arrangements, we are required to report these and make recommendations for improvement. There are no significant weaknesses to report.

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

Reporting criteria	Commentary page reference	Risks of significant weaknesses in arrangements identified?	Actual significant weaknesses in arrangements identified?
Financial sustainability	9/10	Yes	No
Governance	12	No	No
Improving economy, efficiency and effectiveness	15	No	No

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3. VFM arrangements – Financial Sustainability

Risks of significant weaknesses in arrangements

We outline below the risks of significant weaknesses in arrangements that we identified as part of our continuous planning procedures and the work undertaken to respond to each of those risks.

Risk of significant weakness in arrangements	Work undertaken and the results of our work
<p>1</p> <p>Reductions in core funding 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).</p> <p>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 can be set.</p>	<p>Work undertaken The majority of expenditure for TfN is dependent upon the receipt of funding from the Department for Transport (DfT) and TfN commits to expenditure only where appropriate funding commitments have been confirmed. 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).</p> <p>We reviewed the 2021/22 financial plan including consideration of any proposed charging of 'core' costs to the Northern Powerhouse Rail programme (NPR). We have obtained evidence to support the direct costs and reviewed the basis of the apportionment of the recharges. These are not unreasonable and were 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 so that TfN can 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 reducing to approximately £3.6m (excluding earmarked reserves) at the end of the 2021/22 financial year. This is still a relatively healthy position for TfN. Total reserves will fall again to £3.0m in 2022/23 and 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 full 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>Conclusions We have not identified any significant weaknesses in arrangements at this time. However, we recognise that TfN cannot continue to draw on reserves without addressing the underlying financial position over the medium term.</p>

3. VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria

TfN's financial planning and monitoring arrangements

As a sub-national Transport Body, TfN is largely subject to the same statutory frameworks as partner local transport and combined authorities. These frameworks include requirements to set a balanced budget on an annual basis and to agree a reserves strategy to manage longer-term risk.

The Annual Business Planning process ensures all significant financial pressures are identified including non-recurring 'one-off' costs. The plan, and associated 2020/21 budget, were approved by the TfN Board prior to the UK entering lockdown in March 2020. The budget is monitored throughout the year and reported to the Audit and Governance Committee (A&GC) and Board as evidenced through our review of Board minutes and attendance at A&GC meetings.

TfN's budget consists of capital and revenue programmes and its core operations. TfN is almost entirely funded by grants from the Department for Transport (DfT) and will commit itself to expenditure only where appropriate commitments have been received from the Department. Therefore the main financial risk is its core operations, covering its main support and back-office functions. In 2020/21, mainly as a result of Covid, there was an underspend of £2.63m against the core budget of £8.2m which increased reserves. Reserves are then available for future deployment, being matched against slipped activity or to meet anticipated shortfalls between core expenditure and funding allocations.

General fund reserves were originally forecast to reduce by £1.4m to £5.1m in 2020/21 but the impact of Covid-19 along with reduced activity and additional cost savings meant that general fund reserves were actually forecast to increase to £9.5m. However, the in-year reduction in grant from DfT of £3m meant the total reserves were £6.5m as at 31 March 2021.

We reviewed a sample of the Monthly Operating Reports presented to TfN's Board during the 2020/21 which reported the monthly and yearly forecast outturn position. These reports contain evidence of a clear summary of TfN's performance, detailing significant variances and providing adequate explanation of the causes.

TfN's arrangements and approach to 2021/22 financial planning

The 2021/22 budget was reported to the March 2021 Board meeting. The report notes a balanced gross budget proposal for the year of up to £78.70m which is fully funded from grants, contributions, contracted income and a drawdown of reserves of £2.54m in line with TfN's reserves strategy.

In respect of the medium term strategy, TfN works in collaboration with DfT and partners when entering into multi-year and high-risk projects to ensure that the right balance of risk share is achieved. As noted previously, TfN will commit itself to expenditure only where appropriate commitments have been received from the DfT. This means the financial risk to TfN is largely mitigated, other than in its core operations.

The core funding allocation for 2020/21 was reduced in January from £10m to £7m and the 2021/22 allocation reduced to £6m. This 40% reduction in TfN's Core funding from 2021/22 has created a significant challenge in relation to the delivery of ongoing activity. In response, all budget holders were asked to critically review their business plans and associated cost base. The outcome of this process resulted in gross expenditure proposed for the operational areas of £7.67m representing a reduction in gross expenditure of £1.52m (16%) and a reduction in net expenditure, after programme recharges, of £2.06m.

Following the funding announcement, TfN's officers engaged with Departmental officials to identify means of mitigating the impact of the reduction to core funding. This resulted in DfT agreeing to allow TfN the flexibility to charge £2.5m of direct and allocated costs previously resourced from the Core allocation into the NPR programme. We have considered this arrangement as part of our response on the significant risk on the previous page and have no matters to report.

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. The current level of 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 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.

3. VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria

This approach will result in general reserves of approximately £3.6m (excluding earmarked reserves) at the end of the 2021/22 financial year. This is still a relatively healthy position for TfN given the risks set out previously. Total reserves will reduce to £3.0m in 2022/23 and to £2m by the end of 2023/24. On this current trajectory, TfN has acknowledged that it will encounter sustainability issues in the medium-term as the ability of reserves to accommodate ongoing activity is placed under pressure. However, TfN will 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).

However, as noted in our response to the significant risk, 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 it’s medium term position once the CSR is concluded, or should it be delayed.

The Government has recently made important announcements concerning both the management of the operational railway (the William-Schapps Review) and rail infrastructure (The Integrated Rail Plan of the North and Midlands).

The Williams-Shapps review sets out a future vision for the operation of the railways, including the creation of a new body, Great British Railways (GBR). It is not clear how this will impact on TfN’s role or its resourcing and it is unlikely this uncertainty will be resolved quickly. On 9 December the GBR transition team launched a call for evidence in support of the Whole Industry Strategic Plan, a 30-year strategy for the UK’s rail system that will inform the transition to GBR. This will not close until February and it is doubtful that any clarity as to TfN’s role will be achieved until well into the next financial year at the earliest. However, TfN has engaged positively with Network Rail (feeding into the GBR transition team) and the DfT to discuss its role in the new arrangements and will continue to manage its operations on the basis of the current operation of the system.

The Integrated Rail Plan of the North and Midlands did not deliver the preferred network that the TfN Board had provided as statutory advice to the Secretary of State for Transport. TfN is proposing to contact the Secretary of State for Transport to consider funding options for the delivery of the preferred Northern Powerhouse Rail (NPR). It is also considering the impact the plan will have on the North’s economic and decarbonisation ambitions. The Government has indicated that it wishes to change TfN’s role from co-client to co-sponsorship and intends to transfer delivery into the DfT. However, there is not sufficient detail at this time to assess the full impact on TfN.

TfN is currently in the process of agreeing the programme of NPR activities that will be delivered through to the end of the financial year and is seeking greater detail from the DfT as to the plans for 2022/23 and beyond. DfT’s position indicates a change to the delivery model and governance for NPR in the new financial year, which may bring about TUPE implications for those working on the programme. Given the importance of the NPR programme to TfN’s overall operations, this may in turn also have implications for TfN’s core budget and wider organisational delivery model and budget. TfN will continue to operate on the basis that it will only commit to activity that it knows to be funded both in the current and future periods.

These uncertainties, combined with ongoing uncertainty regarding the level of the Core settlement for 2022/23 (expected to be announced in January 2022) mean that TfN cannot currently plan for the new financial year with any confidence. However, TfN are seeking a resolution of these issues with the DfT and for a reasonable approach to any programme related costs – including any NPR transition/wind down costs.

Whilst this is challenging, it is not considered to be a significant Going Concern risk for TfN. TfN does not deliver services to the public in the same way that other local authorities do and most activity is discretionary when considered in the medium term. TfN is therefore confident it can manage the programme of activities in line with its financial position. Finally, as noted previously, TfN has a significant level of reserves that it could use to manage any financial impact and also has the additional comfort of the DfT commitment set out in the Memorandum of Understanding. TfN will therefore continue to operate on the basis that funding will be provided to enable it to meet its statutory duties. However, it is expected that TfN will seek to minimise any liabilities, subject to meeting its core objectives.

3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria

Governance structure

TfN operates under a Memorandum of Understanding with the Secretary of State for Transport and Officers meet with representatives of DfT at regular Sponsorship Meetings. The TfN Board is made up of the representatives of the twenty Constituent Authorities in the North who are the voting Members of the Board, together with representatives of the six Rail North Authorities and the Independent Chairman of the Partnership Board who are all co-opted Members on the Board. It also includes representatives of the eleven Local Enterprise Partnerships in the TfN Area and representatives of Highways England, Network Rail and HS2 as co-opted members.

The Northern Powerhouse Rail project is co-cliented with the DfT. A Memorandum of Understanding with the DfT was approved by the TfN Board on the 12th March 2020 setting out governance arrangements including regular reporting of finances, performance, and risk to a Programme Board. All major work programmes also have Programme Boards, attended by representatives of the DfT, where the progress is regularly reviewed against agreed milestones and major decisions are discussed.

The Rail North Partnership Team reports regularly to the Rail North Committee, and is accountable to the Rail North Partnership Board which is made up of officers of the Constituent Authorities and the DfT where decisions in relation to the management of the performance of the contracted railways are made.

TfN’s governance arrangements are set out in its Constitution. All decisions relating to the Constitution, approval of the Budget and Business Plan and adoption of the Strategic Transport Plan are reserved to the TfN Board and also considered by the Partnership Board. Other decisions may be delegated to Committees, the Chief Executive, and other senior officers under the arrangements set out in the Constitution including:

- Scrutiny Committee comprising elected Members appointed by the 20 Constituent Authorities; and
- Audit and Governance Committee consisting of five Board Members and three Independent Members.

Our review of Board and Committee papers confirms the arrangements in place and also that a standard template covering report is used for all reports. This is designed to ensure the purpose, strategic context and governance issues are considered including legal, finance and risk implications. Minutes are published and reviewed by the Board to evidence the matters discussed and any challenges and decisions made.

We have not identified any matters from our review to suggest a weakness in the committee structure of TfN. It is designed to provide assurance that decision making, risk and performance management is subject to appropriate levels of oversight and challenge.

Since March 2020 TfN, in common with the whole of the UK, has been affected by the Covid 19 pandemic. In response to the emergency, TfN implemented its Business Continuity Plan and was able to move to full remote working. The implementation of the Business Continuity Plan has enabled the continuation of TfN’s governance arrangements and enabled its internal system of controls to continue to function. Since March 2020 all TfN’s Boards and Committees have continued to meet through virtual meetings which have continued to be streamed live to the public. There is now a mix of virtual and in-person meetings.

TfN has approved and adopted a Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework, Delivering Good Governance in Local Government as evidenced through our review of the Annual Governance Statement

3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria

TfN’s risk management and monitoring arrangements

TfN has adopted a Corporate Risk Management Strategy that is periodically reviewed, amended and approved by the Audit & Governance Committee (A&GC) as confirmed from our attendance at meetings and review of agendas and papers.

The organisation has adopted a robust process for identifying, assessing and mitigating risks and these are reported regularly to the internal Operations Board of Directors, to the Executive Board and to the A&GC. A risk report is also included in the Monthly Operating Report. In accordance with the Constitution, the Finance Director is responsible for the presentation of Corporate Risks to the TfN Board. We are satisfied these arrangements are in place from our attendance at the A&GC meetings and review of Board minutes.

The Risk Management Strategy (RMS) sets out guidance for how risks are identified, assessed, managed and reported. The RMS has been applied in updating the Corporate Risk Register. To ensure effective management of risks, the report provides information regarding the potential consequences for TfN’s objectives and priorities, and the mitigation measures in place.

The A&GC is responsible for independently monitoring and assessing the adequacy and effectiveness of the risk management framework with particular focus on

- the risk management strategy for managing key risks;
- risk ownership, accountability and the development of mitigating actions;
- the alignment of internal audit and other assurance planning through a risk-based approach to auditing; and
- receiving reports from management on the adequacy and effectiveness of the internal control and risk management framework.

We are satisfied these arrangements are in place from our attendance at the A&GC meetings and review of Board minutes.

TfN is also implementing risk management software to further strengthen the arrangements in place and to

facilitate the timely capture, escalation and reporting of risks.

Our review has established that risk management arrangements detailed in the 2019-20 Annual Governance Statement remain broadly the same as those detailed in the 2020-21 Annual Governance Statement. TfN has a set of policies and procedures available on the website at that support the governance arrangements. These are detailed in the Annual Report and Annual Governance Statement.

TfN has an in-house legal team. The legal implications of all reports are considered and, where appropriate, legal advice is provided within reports that inform decisions to be taken by Members.

TfN has a ‘zero-tolerance’ approach to fraud and corruption. It has adopted Anti-Fraud & Corruption and Whistleblowing Policies. During 2020/21 the A&GC reviewed the systems and controls in place to prevent fraud and corruption as evidenced through our review of minutes and attendance at meetings.

Members are required to make a declaration of their disclosable pecuniary interests. They are also required to declare any disclosable pecuniary interests in the business of the meeting at the start of all meetings of the TfN Board or its Committees.

TfN has adopted a Code of Practice in relation to Gifts and Hospitality. A register of Gifts and Hospitality is maintained by the Monitoring Officer.

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3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria

Internal audit

TfN employs an Internal Audit provider, RSM Risk Assurance Services LLP (RSM). The Internal Audit Plan is based on TfN’s corporate objectives, risk profile and assurance framework as well as other factors including changes within the sector. The audit plan is agreed by the A&GC and is monitored throughout the year including monitoring management responses against target completion dates. Where dates are missed explanations are provided and considered by the A&GC. RSM attend each committee meeting and report on progress against the Plan. Our review of minutes and attendance at A&GC confirmed the arrangements in place.

We consider all reports as part of our attendance at A&GC. Whilst there is no formal Head of Internal Audit Opinion, all reports issued during the year have been either substantial or reasonable assurance and there is no indication from our review of significant weaknesses in arrangements.

Performance management

During 2020/21 TfN has produced monthly monitoring reports that bring together performance and financial information. This report is provided to all members of the TfN Board, the Scrutiny Committee and the A&GC so that all members have the information they need to challenge TfN’s performance. We have not identified any significant weaknesses in arrangements from our review of Board minutes and attendance at the A&GC meetings.

Audit and Governance Committee

The committee structure includes an A&GC. This Committee comprises five Board Members and three Independent Members. The are terms of reference in place for the A&GC and these are in line with expectations. The Committee’s purpose is to “provide independent review and assurance to members on the risk management and control framework”.

The A&GC Chair reports into TfN Board after each meeting and an Annual Report is produced. We have attended meetings held during the year. Whilst all meetings were held remotely, we identified no evidence that this affected the performance of the Committee.

The A&GC considers the risk management arrangements, the Annual Accounts, Annual Governance Statement and progress with the delivery of both internal and external audit plans.

Budget setting TfN

Through the annual Business Planning process, involving all programme teams and support teams to produce a comprehensive Corporate Business Plan and Annual Budget. Reports are provided to the TfN Partnership Board, Board and Scrutiny Committee between the commencement of business planning in the Autumn and the approval of the budget in March which provide updates on progress and seeks approval for the workplans being developed.

In 2020/21 a Member Working Group was established to improve the planning and budgeting process and TfN also established a Steering Group, led by the CEO, to manage the process and take key decisions.

Monthly review meetings are held between finance officers and each budget holder. These are used to monitor activity, provide information to the MOR and produce periodic budget revisions.

3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

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

Performance management

There has been regular reporting on TfN’s financial and operational performance throughout the year providing an opportunity for TfN to identify and investigate any areas of under delivery. Reports are presented to the Board where performance is scrutinised and challenged. The Monthly Operating Report is published on the TfN website and is available to all TfN Board Members and TfN’s partners, as well as the general public.

There are 16 KPIs which are routinely monitored as part of the monthly reports and the outturn position is reflected in the financial statements. These are organisational KPIs rather than operational KPIs and set out targets for TfN for delivery. We are satisfied that these are monitored and reported and action taken where necessary to ensure that they remain on track.

Out of the 16 KPIs, 10 have been achieved. There are a further 5 that are not delivered by the year end and in each case, reasonable explanations have been provided for the delay. One of the KPIs, relating to Integrated and Smart Travel has been cancelled. This is because the programme is no longer funded by the DfT.

There are other metrics reported in the Monthly Operating Reports such as HR metrics for sickness, employee turnover and diversity for example.

TfN undertakes periodic budget revisions that are presented as reports to the TfN Board for approval. These identify where there are under / overspends and highlight mitigating activity where appropriate. Our review found that these contained variance analysis with explanations to identify the cause of the variances and action taken where required.

Based on our review of a sample of reports and our understanding of the reporting framework,, there is sufficient monitoring, reporting and overall scrutiny of both the performance and the financial position of TfN.

Based on our review, we are satisfied the monthly operating reports cover Northern Powerhouse Rail, Investment Programmes, Major Road Network and Strategic Rail. They include appropriate details in respect of the risk analysis for each programme along with mitigating measures.

TfN’s arrangements for commissioning services

TfN receives grant funding from DfT which is subject to grant conditions. TfN demonstrates performance against agreed targets and milestones in order to draw down funding. Where slippage against milestones is identified, remedial measures are taken. Programmes are monitored, and performance is reported regularly to Programme and Partnership Boards that are established for that purpose.

In addition, TfN has a specific committee (the Rail North Committee) to oversee its role in the co-management with DfT of the northern rail franchises via the Rail North Partnership.

Under its Regulations, TfN is required to establish a Partnership Board to advise it on all matters relating to transport to, from and within its area. The Partnership Board is a forum in which the elected Members of TfN engage and consult with the business leaders of the area, through representatives of the eleven northern Local Enterprise Partnerships, and with the national transport delivery agencies, Network Rail, Highways England and HS2.

TfN has adopted procurement approval procedures which ensure all procurements comply with its contract procurement rules. All contracts are subject to legal review and the purchasing system ensures procurement is carried out in a way which complies with all relevant legislative requirements.

3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

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

There was one high risk and one very high risk (after mitigations) reported in the Corporate Risk Register in July. The high risk relates to a delay in the release of the Integrated Rail Plan will delay the submission of the Northern Powerhouse Rail Strategic Outline Case (SOC). There is a risk that the recommendations within the IRP when it is published may not be aligned with the route / phasing advice that TfN has previously provided to the Secretary of State for Transport. This would severely impact on the ability of the NPR programme to deliver TfN's preferred network. Although TfN has some mitigations in place, TfN ultimately has no direct involvement in the IRP and is unable to influence its conclusions. TfN may be unable to agree (as co-clients) the full suite of activity for 2021/22 and therefore this may cause delays to the proposed programme activity in 2021/22 including commissioning and mobilising programme teams.

Whilst these are significant risks for TfN, there is sufficient evidence the issues have been subject to close scrutiny, monitoring and reporting as part of the risk management arrangements in place. These do not represent a significant weaknesses in TfN's arrangements.

The very high risk relates to the replacement of the franchise system by service contracts directly funded by the Treasury through Great British Rail which potentially diminishes influence over operations. In particular, the publication of the Rail Reform White Paper has insufficient detail about the role of TfN and other devolved bodies to allow a clear appreciation of their future role. These challenges have created the following risks:

- passenger enhancements (such as the completion of new train programmes and additional services) will continue to be delayed with lower service offerings on routes.
- current services could be cut due to the increased cost of the subsidy required from the Treasury. In addition, the reduced current services could further impact future schemes, making schemes less viable as they have to be assessed against lower demand forecasts.
- TfN could have a different role in service delivery following the publication of the Williams-Shapps review. The role of devolved bodies and the Rail North Partnership are not outlined in the White Paper which currently proposes rail contracts aligning under a new organisation (Great British Rail).

This could result in less investment in services and infrastructure as a result of weaker business cases. It could see the franchise system being replaced by service contracts directly funded by the Treasury through Great British Rail over operations.

Again, although TfN has a number of mitigations in place, it acknowledges that it does not have the full range of levers within its current powers and responsibilities to implement these mitigations effectively. Instead, the avoidance or reduction of the assessed impacts will be contingent on partners and members taking further actions.

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Section 04:

**Other reporting responsibilities and
our fees**

4. Other reporting responsibilities and our fees

Matters we report by exception

The Local Audit and Accountability Act 2014 provides auditors with specific powers where matters come to our attention that, in their judgement, require specific reporting action to be taken. Auditors have the power to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to the law; and
- issue an advisory notice.

We have not exercised any of these statutory reporting powers.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We did not receive any such objections or questions.

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

The NAO, as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data.

We have not yet received group instructions from the National Audit Office therefore we are unable to issue our audit certificate until this work is completed.

4. Other reporting responsibilities and our fees

Fees for work as TfN's auditor

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

Area of work	2019/20 fees	2020/21 fees
Planned fee in respect of our work under the Code of Audit Practice	£33,000	£33,000
Additional testing on Defined Benefit Pensions Schemes as a result of changes in regulatory expectations	-	£2,950*
Additional fees in respect of accounting for the impairment of the Phase 3 – Integrated and Smart Ticketing Project	£4,200	-
Additional fees in respect of the transfer and disposal of intangible assets	-	£2,550*
Additional work arising from the change in the Code of Audit Practice in respect of Value for Money arrangements	-	£5,000*
Total fees	£37,200	£43,500

* Fee variations subject to confirmation from PSAA.

Fees for other work

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

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*where permitted under applicable country laws.