

Revised Audit Completion Report

Transport for the North – Year ended 31
March 2023

March 2024



Contents

- 01** [Executive summary](#)
- 02** [Status of the audit](#)
- 03** [Audit approach](#)
- 04** [Significant findings](#)
- 05** [Internal control recommendations](#)
- 06** [Summary of misstatements](#)
- 07** [Commentary on VFM arrangements](#)

[Appendix A: Draft management representation letter](#)

[Appendix B: Draft audit report](#)

[Appendix C: Independence](#)

[Appendix D: Other communications](#)

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Members of the Audit and Governance Committee
Transport for the North
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8 March 2024

Dear Committee Members

Audit Completion Report – Year ended 31 March 2023

We are pleased to present our Revised Audit Completion Report for the year ended 31 March 2023. The purpose of this document is to update members on the position of the audit following clearance of substantially all outstanding matters communicated through the Audit Completion Report issued to members on 15 September 2023. Further in our revised report we summarise our audit conclusions and highlight areas we consider to have resulted in significant adjustments to the draft accounts.

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 issued on 21 July 2023. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate.

Once again, 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 07909 985324 .

Yours faithfully

Signed: 
Daniel Watson (Feb 22, 2024 09:51 GMT)

Daniel Watson

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01

Section 01:

Executive summary

1. Executive summary

Principal conclusions and significant findings

The detailed scope of our work as your appointed auditor for 2022/23 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
- Valuation of the net defined benefit liability

Misstatements and internal control recommendations

Section 5 sets out internal control recommendations and section 6 sets out audit misstatements. Since our last update to members, an adjusted misstatement of £0.7m was identified and there continue to be no unadjusted misstatements. Section 7 outlines our work on Transport for the North's ('TfN') arrangements to achieve economy, efficiency and effectiveness in its use of resources, including the draft VFM commentary which will be included in our Auditor's Annual Report.

Status and audit opinion

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, which includes our draft VFM commentary.



Whole of Government Accounts (WGA)

We have received group instructions from the NAO in respect of our work on TfN's Whole of Government Accounts ('WGA') submission. We will submit our assurance statement promptly after issuing our audit opinion. We will be unable to conclude our procedures as we are still awaiting guidance from the NAO on the components it will be sampling.



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.



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
Review and closure procedures		Including the final audit file review as part of our completion stage, 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. We are awaiting guidance from the NAO on the components it will be sampling.

 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 July 2023 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 £0.341m using a benchmark of 2% of gross operating expenditure at the surplus/ deficit level. Our final assessment of materiality, based on the final financial statements and qualitative factors has remained unchanged.

Use of experts

Management makes use of experts in specific areas when preparing TfN's financial statements. We have also used 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; and
- 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.

How we addressed this risk

We addressed this risk through performing audit work over:

- Accounting estimates impacting amounts included in the financial statements;
- Consideration of identified significant transactions outside the normal course of business; and
- Journals recorded in the general ledger and other adjustments made in preparation of the financial statements.

Audit conclusion

Our work on management override of controls is complete and there are no matters to bring to the Committee’s attention.

4. Significant findings

Net defined benefit liability valuation
£2.3m (2021/22: £10.5m)

Description of the risk

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. This results in an increased risk of material misstatement.

The TfN accounts contain material liabilities relating to the local government pension scheme administered by the Greater Manchester Pension Fund ('GMPF'), which had its last triennial valuation completed as at 31 March 2022.

How we addressed this risk

We completed the following procedures:

- We discussed with key contacts any significant changes to the pension estimates. In addition to our standard programme of work in this area, we evaluated the management controls you have in place to assess the reasonableness of the figures provided by the Actuary and considered the reasonableness of the Actuary's output, referring to an expert's report on all actuaries nationally.
- We reviewed the appropriateness of the key assumptions included within the valuations, compared them to expected ranges and reviewed the methodology applied in the valuation. We considered the adequacy of disclosures in the financial statements.
- We carried out a range of substantive procedures on relevant information and cash flows used by the Actuary as part of the annual IAS 19 valuation.
- We also sought assurance from the auditor of GMPF.

Audit conclusion

We received the requested information from the auditor of GMPF on 24th October 2023. The information provided highlighted material differences between month 12 payroll information and that used by the Actuary based on month 10 estimates. This led management to obtaining a revised Actuary report.

The report showed a revised net pension liability calculated at £0.7m higher than the original valuation included within the draft accounts. Management have adjusted the accounts in full for the information provided within the revised Actuary report. We have included the adjustment to the net pension liability and the related disclosure amendments in Section 6 of this report.

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 2022/23 Code of Practice on Local Authority Accounting, appropriately tailored to TfN's circumstances.

Draft accounts were received from TfN on 31 May 2023 and were of a good quality. TfN provided comprehensive working papers which were of a good 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 2022/23 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

As part of our audit of the financial statements, we obtained an understanding of internal controls sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to the Audit and Governance Committee any significant deficiencies identified during the course of our work.

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.

No significant findings or recommendations in relation to internal controls have been noted as at the date of this memorandum.

Priority ranking	Description	Number of issues
1 (high)	In our view, there is potential for financial loss, damage to reputation or loss of information. This may have implications for the achievement of business strategic objectives. The recommendation should be taken into consideration by management immediately.	0
2 (medium)	In our view, there is a need to strengthen internal control or enhance business efficiency. The recommendations should be actioned in the near future.	0
3 (low)	In our view, internal control should be strengthened in these additional areas when practicable.	0

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 £10k.

Unadjusted misstatements

None identified from our testing.

Adjusted misstatements

		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: Unusable Reserves			746	
	Cr: Pension Liability				-746
	Adjustment made upon obtaining a revised Actuary report				
	Total adjusted misstatements			746	-746

6. Summary of misstatements

Disclosure amendments

We identified the following adjustments during our audit that have been corrected by management:

- **Cash flow statement** : Net Cashflows from Investing Activities has decreased from £(149k) to £(169k). This difference related to £20k accrued investment income not included in the calculation.
- **Note 20 Cash flow from operating activities** : Increase/ (decrease) in debtors figure has been amended to £676k instead of £696k to ensure consistency with other areas of the financial statements.
- **Note 25 Related Parties** : The total value of grants received from the Department for Transport was incorrectly disclosed as £15.75m instead of £16.75m.
- **Note 27 Defined Benefit Pension Scheme** : An updated IAS 19 report was obtained to include transactions in respect of benefits paid and transfers. The revised report also used results based on actual data. This resulted in disclosure amendments throughout the note.
- **Exit packages** : A new note has been included in the revised Statement of Accounts to disclose the amount and cost of exit packages in line with the requirements of the CIPFA Code.

Other minor presentational and disclosure amendments are included in the revised Statement of Accounts.

07

Section 07:

Commentary on VFM arrangements

3. Commentary on VFM arrangements

Overall summary



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.

Our work is carried out in three main phases.

Phase 1 - Planning and risk assessment

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.

We obtain our understanding of arrangements for each of the specified reporting criteria using a variety of information sources which may include:

- NAO guidance and supporting information;
- Information from internal and external sources including regulators;
- Knowledge from previous audits and other audit work undertaken in the year; and
- Interviews and discussions with staff and directors.

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.

Phase 2 - Additional risk-based procedures and evaluation

Where we identify risks of significant weaknesses in arrangements, we design a programme of work to enable us to decide whether there are actual significant weaknesses in arrangements. We use our professional judgement and have regard to guidance issued by the NAO in determining the extent to which an identified weakness is significant.

We outline the risk that we have identified in relation to financial sustainability and the work we have done to address this risk on page 24. We identified no further risks of significant weaknesses in arrangements.

Phase 3 - Reporting the outcomes of our work and our recommendations

We are required to provide a summary of the work we have undertaken and the judgments we have reached against each of the specified reporting criteria in this Auditor's Annual Report. We do this as part of our Commentary on VFM arrangements which we set out for each criteria later in this section.


We also make recommendations where we identify weaknesses in arrangements or other matters that require attention from TfN. We refer to two distinct types of recommendation through the remainder of this report:

- **Recommendations arising from significant weaknesses in arrangements**
We make these recommendations for improvement where we have identified a significant weakness in TfN's arrangements for securing economy, efficiency and effectiveness in its use of resources. Where such significant weaknesses in arrangements are identified, we report these (and our associated recommendations) at any point during the course of the audit.
- **Other recommendations**
We make other recommendations when we identify areas for potential improvement or weaknesses in arrangements which we do not consider to be significant but which still require action to be taken.

The table on the following page summarises the outcomes of our work against each reporting criteria, including whether we have identified any significant weaknesses in arrangements or made other recommendations.

3. VFM arrangements – Overall summary

Overall summary by reporting criteria

Reporting criteria	Commentary page reference	Identified risks of significant weakness?	Actual significant weaknesses identified?	Other recommendations made?
 Financial sustainability	23	Yes – see risk on page 24	No	No
 Governance	27	No	No	No
 Improving economy, efficiency and effectiveness	32	No	No	No

3. Commentary on VFM arrangements

Financial Sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services



3. VFM arrangements – Financial Sustainability

Risks of significant weaknesses in arrangements

We have outlined below the risks of significant weaknesses in arrangements that we have 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>Financial Sustainability</p> <p>The Integrated Rail Plan (‘IRP’) for the North and Midlands, published in November 2021, set out that the arrangements for Northern Powerhouse Rail (‘NPR’) would transition from a co-client hosted by TfN to sole-clienting by the Department for Transport (‘DfT’). The Transport Development Fund (‘TDF’) grant to TfN for the NPR programme therefore ceases as at 31 March 2022.</p> <p>The 40% reduction to Core funding in 2021/22 was mitigated, with the assistance of the DfT, by £1.5 million of recharges into the NPR programme and a release of £2.5 million of TfN reserves. Neither of these options is available in 2022/23 given the change in arrangements. As a consequence, the full impact of the funding reductions now have to be managed in 2022/23 and beyond. This represents a significant risk in respect of financial sustainability.</p>	<p>Work undertaken</p> <p>We reviewed the financial performance of TfN in 2022/23. Overall, there was a £1.68m underspend on a budget of £16.52m. As work programmes are fully funded by the Department for Transport, the key financial risk for TfN is the budgeted core operational expenditure of £8.84m. For 2022/23, this was funded through the core grant of £6.5m and a contribution from general fund reserves of £0.76m (which was below the original £1.66m budget). The general fund reserve balance as at 31 March 2023 stands at £3.81m.</p> <p>Since the implementation in respect of the NPR programme, the budget for 2023/24 has been in line with 2022/23 budget, which was scaled down considerably, with overall expenditure set at £16.12m (£16.52m - 2022/23). The core operational budget of £8.44m is to be funded mainly from £7.21m of core grant plus £0.03m carried forward from last year to cover one-year DfT initiatives. The overall financial plan for 2023/24 relies on a further contribution from reserves of £0.83m. This will reduce the overall balances to £2.87m as at 31 March 2024. This balance remains above the minimum level of reserves £2m set by TFN.</p> <p>As part of its financial planning, TfN modelled a number of scenarios for the period 2023/24 to 2025/26. This initially identified that, without additional funding from the DfT, there was likely to be a continued need to used reserves. If TfN makes a contribution from reserves of £0.74 over the three-year period, the general fund balance will remain above the agreed minimum £2m balance.</p> <p>Results of our work</p> <p>We have not identified any significant weaknesses in arrangements. Although we are satisfied there is no immediate threat to TfN’s financial sustainability, the use of reserves at current levels is not considered sustainable into the future. Action should be taken to align funding to the reduced cost base to ensure reserves do not fall below the agreed minimum balance in the medium term. These reserves are critical to TfN’s ability to manage future financial risks.</p>

3. VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria - continued

How TfN identifies significant financial pressures that are relevant to its short and medium-term plans

TfN is required to set a balanced budget on an annual basis. The Annual Business Planning process ensures that all significant financial pressures are identified. The plan and associated 2022/23 budget were approved by the TfN Board in June 2022. The business planning process identifies key strategic priorities which are linked to operational plans and this provides the expenditure profile and budget for 2022/23. The budget is underpinned by a reserve strategy, which serves as mitigation against financial risk.

The plan recognises the risks and uncertainties facing TfN in terms of cost pressures, future funding arrangements and potential variations in the costs of the delivery. In order to deliver the activities set out in the Business Plan, TfN has total budgeted expenditure for 2022/23 of £16.52m.

Budgets are assigned to operational managers who monitor the position on a monthly basis. There is regular reporting of the financial position throughout the period, including regular communication to Members through the Monthly Operating Reports which are presented to the Audit and Governance Committee, Scrutiny Committee and Board Meetings as appropriate.

TfN's approach to managing financial risk relies on the following:

- A culture that seeks to limit TfN's exposure to financial risk arising from contracting and business operations; and
- A reserves strategy that ensures TfN always holds a level of cash at bank to guard against residual financial shock.

TfN's outturn report shows a balanced budget position but has relied on a planned contribution of £1.66m from its general fund reserves to manage the shortfall on the core operational budget. Current reserves as at 31 March 2023 have reduced from £4.07m to £3.81m which remains well above the £2m minimum reserves balance agreed with the DfT when TfN was established as a statutory body.

Our work did not identify any evidence to indicate a significant weakness in arrangements.

How TfN plans to bridge funding gaps and identifies achievable savings

Following the changes in respect of the NPR programme, the budget for 2022/23 has been scaled down considerably with overall expenditure set at £16.52m. The budgeted core operational expenditure of £8.84m is to be funded mainly from £6.5m of core grant plus £0.34m to cover one year DfT initiatives. The overall financial plan for 2023/24 relies on a further contribution from reserves of £0.83m. This will reduce the overall balances to £2.87m as at 31 March 2024. This balance remains above the minimum level of reserves £2m set by TfN. In the longer term, TfN expects the core budget will increase from circa £7.5m in 2024/25 to £9.11m in 2025/26.

The transfer of the NPR programme to DfT in April 2022 also resulted in the transfer of the NPR team to the DfT under the TUPE regulations. The new operating model for TfN places more emphasis on investing in TfN's technical capacity and capability. Therefore, the Budget and Business Planning processes have been implemented with a reduced emphasis on commissioned activity.

TfN has modelled a number of scenarios for 2023/24 up to 2025/26. Based on the final funding allocations for the coming year, TfN expects to manage the budget without significant reliance on reserves – maintaining the balance above the minimum £2m balance to 2025/26.

Our work did not identify any evidence to indicate a significant weakness in arrangements.

How TfN plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities

The business plan includes the programmes of activity that will deliver the key priorities and drives the resourcing and financial plans for the organisation, resulting in the annual budget.

The financial plans recognise the ongoing pressure TfN faces in terms of its core operational budget and the impact on its reserves strategy. In-year monitoring reports detail the pressures faced by TfN.

Our work did not identify any evidence to indicate a significant weakness in arrangements.

3. VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria - continued

How TfN ensures that its financial plan is consistent with other plans

The cost of pay awards is estimated each year and revised as part of budget setting. Salary budgets for budget managers are linked to the establishment for the structure.

The Treasury Strategy is updated on an annual basis. It sets out how TfN manages the risks and benefits associated with cash-flow and treasury management. TfN cannot access external credit and is, therefore, reliant upon grant received from DfT to resource its activity. This grant comes in the form of an annual 'core' grant over which TfN has discretion, together with specific grants for programme and development activity. All capital investments are grant funded, and do not present no additional financing or funding issues for TfN.

Risk management is considered in terms of financial plans. The Corporate and Operational risk-registers are regularly updated and reported to the Audit and Governance Committee and Board throughout the year.

The annual business planning process includes workforce requirements and also the requirements of TfN's significant partnerships which includes any in relation to capital projects.

The Audit and Governance Committee and Board consider the updated financial position at various stages throughout the year. This allows for appropriate Member scrutiny and challenge. The financial plan for 2023/24 was considered in March 2023. We have confirmed this through our attendance at Audit and Governance Committee meetings through the year.

The annual budget process includes considerations of TfN's reserves. We confirmed a review was completed in 2022/23 to ensure funding set aside remains in line with strategic and statutory priorities. This is evidenced in the outturn reports presented to the Audit and Governance Committee and Board during the financial year.

Our work did not identify any evidence to indicate a significant weakness in arrangements.

How TfN identifies and manages risks to financial resilience

The financial plan recognises the risks and uncertainties facing TfN in terms of cost pressures, future funding arrangements and potential variations in the costs of the delivery. However, there has been a reliance on contribution from the general fund reserves in 2022/23 to 2024/25 to balance the core operational budget. However, the plan for 2025/26 shows contribution to the general reserve balance keeping it above £2m minimum reserve requirement with DfT.

TfN has agreed a £2m minimum level of reserves to mitigate against unplanned changes to expenditure. In addition, TfN has an understanding with DfT, clearly set out in the Memorandum of Understanding and the Grant Funding Agreements, that DfT will assist with the orderly close down of any activities should this become necessary. In addition, the nature of TfN's business as a statutory sub-national transport body means it is not exposed to unplanned changes in demand for service. Activity in excess of that in the business plan can only be undertaken where additional funding is made available.

The final funding allocation for 2023/24, 2024/25 and 2025/26 were generally positive. This means there is no planned heavy reliance on reserves for these three financial years. As a result, the balance at the end of this three-year period is expected to remain above the agreed £2m minimum.

TfN has an established risk management framework and the Audit and Governance Committee receives regular risk management updates. We reviewed the reports presented during 2023/24 which considered 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.

Our work did not identify any evidence to indicate a significant weakness in arrangements.

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

3. Commentary on VFM arrangements

Governance

How the body ensures that it makes informed decisions and properly manages its risks



3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria

How TfN monitors and assesses risk and how TfN gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

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 part of our audit procedures we considered TfN's Annual Governance Statement. This included consideration of the Statement and our cumulative audit knowledge. We identified no matters indicating a significant weakness in arrangements. Whilst there are some Governance challenges, these are related to operational issues rather than significant weaknesses in arrangements or significant control issues.

TfN has adopted a Risk Management Strategy to create a framework within which risks are identified and evaluated prior to mitigation plans being put in place. Programme and corporate risks are monitored regularly - risk is a standing item on the Audit and Governance Committee agenda. The Corporate Risk Register is provided twice each year to the TfN Board for consideration. During 2022/23, TfN continues to embed its risk management software package which assists directorate and programme teams in the timely capture, escalation and reporting of risks, as set out in the Risk Management Strategy.

The Audit and Governance Committee 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.

TfN has a Risk Manager who is responsible for reporting on risk to the Finance Director who reports to the Audit and Governance Committee. From our attendance at these meetings, we are satisfied reporting is timely and sufficiently detailed to allow for adequate challenge. Project management systems are in place for all programmes and programme Directors report regularly on performance to Programme Boards and to the TfN Board.

TfN has put in place a system of financial governance to manage and control its financial affairs. TfN has outsourced its internal audit and counter-fraud services. The Internal Audit Plan and Head of Internal Audit Report is reviewed by the Audit and Governance Committee. The internal audit plan takes a risk-based approach to determine the priorities for internal audit activity, consistent with TfN's objectives.

We confirmed that the Audit and Governance Committee received regular updates on the Audit Plan. Internal Audit reports highlight weaknesses and recommend actions where required to strengthen processes or procedures. These are regularly reported to the Audit and Governance Committee which holds management to account where weaknesses are identified. The Committee monitors management actions in response to recommendations and this is reported on a regular basis. The Governance Committee challenges management if recommendations are not implemented within the agreed timeframe. The Finance Director has overall responsibility for ensuring the effectiveness of internal controls.

A Counter Fraud Plan is in place. We confirmed there is also regular reporting to the Governance Committee on counter fraud activities, including fraud investigations where applicable.

TfN has adopted procurement approval procedures which ensure that all procurements comply with its contract procurement rules.

TfN holds a 'Memorandum of Understanding with the DfT. This document has been drawn up collaboratively to set down the obligations, principles and working arrangements that underpin the relationship between the two parties. The aim is to provide both the Department and TfN with the information and lines of communication needed to ensure the effective functioning of both bodies and to ensure an effective partnership between the two. It also includes TfN's governance framework which establishes the control environment, by setting out the control activities to be undertaken, how they will be undertaken and who will do them; and develops the foundations for governance, review and reporting framework around the integrated organisation.

Our work did not identify any evidence to indicate a significant weakness in arrangements.

3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria - continued

How TfN approaches and carries out its annual budget setting process

The financial plan recognises the risks and uncertainties facing TfN in terms of future cost pressures, funding arrangements and potential variations in the costs of delivery. The plan is supported by consultation with other partners and stakeholders. We have reviewed the budget setting arrangements through observation and discussions with officers.

The annual business planning process involves all programme teams and support teams to produce a 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. These reports provide updates on progress and seek approval for the workplans being developed.

Our work did not identify any evidence to indicate a significant weakness in arrangements.

How TfN ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed

TfN produces Quarterly Operating Reports which provides a range of operational, programme, financial, resourcing and risk information. This is accessible on the TfN website and is provided to TfN governance forums including the Board, Audit and Governance Committee and Scrutiny Committee.

Supporting this process are monthly review meetings between finance officers and each budget holder. These are used to monitor activity, provide information for the monthly reports and produce periodic budget revisions.

The draft financial statements for the year ending 31 March 2023 were published on the statutory deadline of 31 May 2023. Our audit of the financial statements did not identify any matters to indicate a significant weakness in the accuracy of the financial information prepared by TfN and reported in the process of preparing the accounts. In our experience, management takes appropriate and timely action to address audit matters raised.

We are not aware of any adverse reports from regulators or inspectorates. We are not aware of any issues in terms of the working relationship with DfT.

We have reviewed TfN Board minutes and confirmed there was regular reporting of the financial position throughout the 2022/23 financial year. This included detail of movements in the budget and forecast outturn between quarters. The reports detailed the in-year pressures as well as planned mitigations. The outturn position was not significantly different to that reported to Members during the year for the core operational spend but there were amendments to the programme spend as expected.

Our work did not identify any evidence to indicate a significant weakness in arrangements.

How TfN ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency

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 Board. Other decisions are delegated to Committees, the Chief Executive, and other senior officers under the arrangements set out in the Constitution including the principles and types of decisions made.

Decisions in relation to Strategic Plans or Statutory Advice to Government have to be fully supported. Some plans are subject to public consultation and there are arrangements in place to support this

Board decisions are subject to appropriate scrutiny under TfN's principle of "Scrutiny First". The Scrutiny Committee comprises elected representatives from the 20 Constituent Authorities and all major decisions are subject to scrutiny before presentation to the Board for a decision. All decisions are made in public unless an obligation of confidence requires TfN to take them in private.

All reports contain details of the options considered and the advice provided by officers regarding any legal and financial and other key implications. The minutes include the reasons supporting the decisions made. Our review of Board papers indicates reports are sufficient to allow proper debate and decision making.

The revised Strategic Transport Plan was subject to a statutory consultation exercise during which officers and Members considered in detail the representations made by members of the public and stakeholders. The revised Strategic Plan will be available for public inspection on the website in 2024.

3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria - continued

TfN has established a Scrutiny Committee made up of elected representatives from the its Constituent Authorities. The Board made a decision at its inaugural meeting to adopt a “Scrutiny First” model and so all major decisions are subject to scrutiny before they are presented to the Board. The Scrutiny Committee therefore has an opportunity to influence the Board’s decisions before they are made, rather than reviewing decisions after they have been taken.

The Committee meets regularly and is supported by TfN officers. It subjects proposals to scrutiny before they are presented to the TfN Board, with the recommendations of the Scrutiny Committee being included in the officer’s final report to the Board.

An Audit and Governance Committee is in place. It is independent of the Board and Scrutiny Committees. The Committee is tasked with ensuring, amongst other things, good stewardship of TfN’s resources and promoting proper internal control by reviewing TfN’s control systems and monitoring its compliance with legislation, relevant standards, codes of practice and policies. The Committee has independent members as well as representatives nominated from the elected members on the Board.

All policies and proposals developed by TfN are considered first at Officer Reference Groups, made up of officers from all the Constituent Authorities, and then by the internal Operating Board of TfN Directors. Policies and proposals are then further considered by the Executive Board comprising the Chief Executives (or their nominees) of all the Constituent Authorities, before being reported to the TfN Board.

All major work programmes have Programme Boards set up. These are attended by representatives of the DfT, as well as the relevant officers from TfN. The progress of the programme is regularly reviewed against agreed milestones and any major decisions or implications are discussed.

During 2021/22 the NPR project was co-cliented with the DfT (as it had been in previous years) under a Memorandum of Understanding which set out governance arrangements including regular reporting of finances, performance, and risk to the Programme Board. Following the publication of the IRP for the North and Midlands by Government in November 2021 this role changed to that of co-sponsor in 2022/23.

TfN operates under Memorandum of Understanding with the Secretary of State for Transport and Officers of TfN meet with representatives of DfT at regular Sponsorship Meetings. The Rail North Partnership Team reports regularly to the Rail North Committee, and is responsible 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.

During 2022/23 TfN migrated to produce quarterly monitoring reports (see above) that bring together performance and financial information to provide greater transparency in relation to ongoing operations. This report is provided to all members of the TfN Board, the Scrutiny Committee and the Audit and Governance Committee so that all members have the information they need to challenge TfN’s performance.

We have reviewed TfN minutes for its committees and the Board during the year. We have not identified any evidence of a weakness in TfN’s arrangements. The reports we reviewed support informed decision-making and were clear about the decisions or recommendations members were asked to make.

How TfN monitors and ensures appropriate standards are maintained

The Monitoring Officer, supported by an in-house legal team, monitors compliance with legislative requirements and reviews all Board and Committee papers before decisions are taken to ensure legislative compliance. The Monitoring Officer has statutory reporting responsibilities in relation to any unlawful decisions or maladministration and these are clearly understood.

The Constitution sets out how TfN operates, how decisions are made and the rules and procedures which are followed to ensure that these are efficient and transparent to local people. It is subject to review at least annually. There are established codes of conduct for members and officers and a register of gifts and hospitality is in place. Members are required to make declarations of their disclosable pecuniary interests and also to declare any disclosable pecuniary interests relevant to the business of the meeting at the start of all meetings of the TfN Board or its Committees. Where appropriate, Members are then expected to take no part in discussions around any such business, and to leave the meeting. Members’ Declarations of Interests are available on the TfN website.

3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria - continued

The Annual Governance Statement ('AGS') is published. It provides a review of the effectiveness of TfN's Governance Framework. TfN has a zero-tolerance approach to fraud and corruption. It has adopted Anti-Fraud & Corruption and Whistleblowing Policies.

A Treasury Management Strategy is approved each year with the current version approved in February 2023. There is no history of non-compliance with laws and regulations and treasury management activity. This is supported by our audit work and the information provides by both management and those charged with governance during our audit.

The Finance Director as the Section 151 Officer has responsibility for ensuring proper arrangements for financial management and has statutory reporting duties in respect of unlawful expenditure and financially imprudent decision making

Our work did not identify any evidence to indicate a significant weakness in arrangements.

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

3. Commentary on VFM arrangements

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



3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

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

How financial and performance information has been used to assess performance to identify areas for improvement

There are established and effective processes for reviewing financial and performance information and to use this to identify and inform areas for improvement.

The Quarterly Operating Report is published on the TfN website and is available to all Board Members and stakeholders, as well as the general public. There are 20 KPIs which are routinely monitored as part of the monthly reports. These are organisational KPIs which set out targets for TfN for delivery. Of the 20 KPIs, 15 were achieved in year. Whilst progress was made on the remaining five KPIs, they were not fully completed in year and have been carried forward into 2023/24. TfN continues to assess the implications of the IRP for the delivery of KPIs in relation to the Northern Powerhouse Rail programme. The Quarterly Operating Report also include a range of other performance metrics around staffing. Examples include sickness rates, employee turnover and diversity information.

In addition, TfN undertakes periodic budget revisions. These identify where there are under / overspends and highlight mitigating activity where appropriate. These are reported to the TfN Board. Our review found these reports contained variance analysis with explanations to identify the cause of the variances and action being taken where required. The monthly operating report concludes with an assessment of the outturn position for the year citing the key reasons for any under / over spends. Areas of adverse performance feed into the TfN risk register where relevant..

TfN's financial performance is reported on a regular basis to the Board with details of the financial position along with rationale for any changes and factors to be taken into account. Reports include HR implications and impact assessments.

Our work did not identify any evidence to indicate a significant weakness in arrangements.

How TfN evaluates the services it provides to assess performance and identify areas for improvement

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 this funding. Where slippage against milestones is identified, remedial measures are taken. Programmes are monitored, and performance is reported regularly to Programme Boards that are established for that purpose. This includes a risk analysis for each programme along with mitigating measures.

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.

Our work did not identify any evidence to indicate a significant weakness in arrangements.

How TfN ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve

Performance is reported on a regular basis to Programme and Partnership Boards which monitor TfN's performance against agreed targets and milestones and these ensure remedial action is identified and taken where necessary. 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 11 northern Local Enterprise Partnerships, and with the national transport delivery agencies such as Network Rail, Highways England and HS2.

TfN reviewed the membership of the Partnership Board. This led to it widening its membership to include representatives of the Northern, North West and Yorkshire & Humber Regional TUC areas, Disability Rights UK, Transport Focus and the Committee on Climate Change. This has broadened the interests represented on the Partnership Board, particularly in relation to the environment and the interests of the travelling public.

TfN carries out stakeholder engagement through its Engagement team and the wider organisation. TfN officers meet regularly with members and officers of Parliament, members and officers of other authorities, representatives of the Welsh and Scottish devolved governments, representatives of business organisations, and other stakeholders, such as community groups. The types of events vary from attending All Party Parliamentary Groups meetings in Parliament, including the Transport Across the North APPG for which TfN is the secretariat; to roundtable events, and speaking engagements across the North and the rest of the UK.

3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

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

TfN's Annual Conference 2023 took place in Newcastle. Speakers included the Transport Secretary and the Shadow Transport Secretary, TfN representatives, Board Members, Government Ministers, and other relevant stakeholders.

TfN has also brought together a number of informal Members Working Groups to ensure the views of TfN's constituent authorities and their communities are heard and understood via their elected representatives. This engagement has contributed to the development of TfN's different programmes and initiatives.

The Quarterly Operating Report has continued to deliver during 2022/23 providing members and the public with detailed information about the performance of TfN's major programmes.

See also the constitution which covers joint working and partnerships including the role of the secretary of state and the DfT as well as its Partnership board, the Highways North board, the Rail North Partnership Board and Rail North Limited.

TfN has worked collaboratively with the other Sub-National Transport Bodies and inputted into co-ordinated engagement with key national bodies such as the DfT, National Highways, Network Rail and the Office for Road and Rail.

Following notable achievements reported by TfN relation to 2022/23:

- Implemented a revised TfN Operating model with accompanying restructure and cost reduction programme;
- Developed the governance for the NPR co-sponsor board;
- Delivered analytical support programme for the NPR SOBC programme;
- Updated the Northern Powerhouse Independent Economic Review scenarios for the revised STP;
- Finalised the draft STP ready for consultation in summer 2023;
- Launched EV Charging Infrastructure framework and online toolkit;
- Published TRSE research and mapping tool and finalise the strategy for consultation;

- Published the Freight and Logistics Strategy;
- Completed an evidence-based assessment of the need for interventions in the RIS Programme;
- Continued to work as part of the Manchester Recovery Task Force to develop a 'blueprint' that aligns infrastructure and service changes – and then began to apply the experience gained to consideration of issues relating to the East Coast Main Line;
- Continued to work as part of the RNP to ensure that the North's priorities are reflected in the Business Plans of Northern and TPE;
- Worked with partners across the North to define the scope of work for a Connected Mobility Strategy; and
- Worked collaboratively with the six (non-statutory) sub-national Transport Bodies on issues of common interest.

The North already has the first phase of rail devolution through the Rail North Partnership, through which DfT works jointly with TfN to oversee the specification and delivery of the Northern and TransPennine Express service contracts.

The transfer of the NPR programme to DfT in April 2022 (in line with the direction set out in the IRP) resulted in the transfer of the Northern Powerhouse Rail team (circa 17 posts) to the DfT under the TUPE regulations. The new operating model for TfN places more emphasis on investing in TfN's technical capacity and capability. Therefore, the Budget and Business Planning processes have been implemented with a reduced emphasis on commissioned activity.

3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

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

How TfN commissions or procures services, how TfN ensures this is done in accordance with relevant legislation, professional standards and internal policies, and how TfN assesses whether it is realising the expected benefits

TfN has adopted procurement approval procedures which ensure that all procurements comply with its contract procurement rules. All contracts are subject to legal review and the purchasing system ensures that procurement is carried out in a way which complies with all relevant legislative requirements. This is also sets out in the constitution, amongst other things, the contract procedures rules and financial regulations.

Our work did not identify any evidence to indicate a significant weakness in arrangements.

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

Appendices

A: Draft management representation letter

B: Draft audit report

C: Independence

D: Other communications

Appendix A: Draft management representation letter

To be provided to us on client headed note paper

XX March 2024

Dear Daniel

Transport for the North - audit for year ended 31 March 2023

This representation letter is provided in connection with your audit of the financial statements of Transport for the North ('TfN') for the year ended 31 March 2023 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 2022/23 ('the Code'), as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets ('the Code Update') published in November 2022, and applicable law.

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 myself 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 the Code, as amended by the Code Update, and applicable law.

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 TfN 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, as amended by the Code Update, and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on TfN's financial position, financial performance and cash flows.

Accounting estimates

I confirm that any significant assumptions used by TfN in making accounting estimates, including those measured at current or fair value, are reasonable.

Appendix A: Draft management representation letter (continued)

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 undisclosed contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against TfN 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, as amended by the Code Update, and applicable law.

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.

TfN has 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 and I believe I have appropriately fulfilled those responsibilities. 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; and
- all knowledge of fraud or suspected fraud affecting TfN 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 TfN'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, as amended by the Code Update, and applicable law.

I have disclosed to you the identity of TfN'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 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 of TfN's assets are free from any charges exercisable by third parties except as disclosed within the financial statements.

Appendix A: Draft management representation letter (continued)

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.

Service Concession Arrangements

I am not aware of any material contract variations, payment deductions or additional service charges in relation to TfN's PFI schemes to which you have not been made aware.

Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the Code, as amended by the Code Update, and applicable law, 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.

Reinforced Autoclaved Aerated Concrete (RAAC)

I can confirm we have carried out an assessment of the potential impact of Reinforced Autoclaved Aerated Concrete (RAAC) on TfN. Based on this there is no indication of a need for a material impairment of TfN's property, plant and equipment or investment property balances.

Other matters

- I confirm that TfN has carried out an assessment of the potential impact of the Covid-19 Virus pandemic on TfN, including the impact of mitigation measures and uncertainties, and there is no significant impact on the TfN's operations from restrictions or sanctions in place.
- I confirm that TfN has carried out an assessment of the potential impact of Russian Forces entering Ukraine on TfN, including the impact of mitigation measures and uncertainties, and that the disclosures in the Narrative Report fairly reflects that assessment.
- I confirm that TfN has carried out an assessment of the potential impact of the on-going global banking challenges on TfN, in particular whether there is any impact on TfN's ability to continue as a going concern and on the post balance sheet events disclosures. In this regard I confirm that our exposure with Silicon Valley Bank, Credit Suisse, Signature Bank or any other bank in a distress situation is not material.

Going concern

To the best of my knowledge there is nothing to indicate that TfN 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 TfN'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.

Yours sincerely

Paul Kelly
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 2023, 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 2022/23, as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets ("the Code Update"), published in November 2022.

In our opinion, the financial statements:

- give a true and fair view of the financial position of Transport for the North as at 31st March 2023 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 2022/23 as amended by the Code Update.

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 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, and taking into account the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 as amended by the Code Update, 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.

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. The Finance Director is responsible for the other information. 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.

Appendix B: Draft audit report (continued)

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 the Finance Director's Responsibilities, 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 2022/23 as amended by the Code Update, 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 2022/23 as amended by the Code Update 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.

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

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), the Local Government Finance Acts of 1988, 1992 and 2012, and the Accounts and Audit Regulations 2015, and we considered the extent to which non-compliance might have a material effect on the financial statements.

To help us identify instances of non-compliance with these laws and regulations, and in identifying and assessing the risks of material misstatement in respect to non-compliance, our procedures included, but were not limited to:

- inquiring with management and the Audit and Governance Committee, as to whether Transport for the North is in compliance with laws and regulations, and discussing their 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.

Appendix B: Draft audit report (continued)

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 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 February 2023.

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. This description forms part of our auditor's 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 opinion, 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 2023.

We have nothing to report in this respect.

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 Transport for the North's 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, and to report where we have not been able to satisfy ourselves that it has done so. 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.

Appendix B: Draft audit report (continued)

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 January 2023.

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.

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:

- our work in respect of Transport for the North's Whole of Government Accounts consolidation pack.

Daniel Watson, Key Audit Partner

For and on behalf of Mazars LLP

One St Peter's Square, Manchester, M2 3DE





XX March 2024

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
 <p>Compliance with Laws and Regulations</p>	<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>
 <p>External confirmations</p>	<p>We did not experience any issues with respect to obtaining external confirmations.</p>
 <p>Related parties</p>	<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"> 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 b. they have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the applicable financial reporting framework.
 <p>Going concern</p>	<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 (continued)

Other communication	Response
 <p>Subsequent events</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>Matters related to fraud</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 obtain written representations from management, and the Audit and Governance Committee, confirming that</p> <ul style="list-style-type: none"> a. they acknowledge their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud; 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; c. they have disclosed to the auditor their knowledge of fraud or suspected fraud affecting the entity involving: <ul style="list-style-type: none"> i. Management; ii. Employees who have significant roles in internal control; or iii. Others where the fraud could have a material effect on the financial statements; and 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.

Daniel Watson - Director

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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.

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