



# Audit Completion Report

Transport for the North (TFN)

Year ending 31 March 2019

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Our reports are prepared in the context of the 'Statement of responsibilities of auditors and audited bodies' and the 'Appointing Person Terms of Appointment' issued by Public Sector Audit Appointments Limited.

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Mazars LLP  
1 St Peter Square  
Manchester  
M2 3DE

Transport for the North Board  
2nd Floor,  
4 Piccadilly Place,  
Manchester,  
M1 3BN

19 July 2019

Dear Members

**Audit Completion Report – Year ended 31 March 2019**

We are pleased to present our Audit Completion Report for the year ended 31 March 2019. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks and other areas of management judgement, was outlined in our Audit Strategy Memorandum which we presented on 1 March 2019. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate. We would like to express our thanks for the assistance of your team during our audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 0161 238 9248.

Yours faithfully

Signed: {{\_es\_:signer1:signature}}

Karen Murray  
Mazars LLP

# 1. EXECUTIVE SUMMARY

## Purpose of this report and principal conclusions

The Audit Completion Report sets out the findings from our audit of Transport for the North (TFN) for the year ended 31 March 2019, and forms the basis for discussion at the Transport for the North Board meeting on 31 July 2019.

The detailed scope of our work as your appointed auditor for 2018/19 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 of Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

Sections 2 and 5 of this report outline the detailed findings from our work on the financial statements and our conclusion on TFN's arrangements to achieve economy, efficiency and effectiveness in its use of resources. Section 2 also includes our conclusions on the audit risks and areas of management judgement in our Audit Strategy Memorandum, which include:

- Management override of control
- Revenue recognition
- Intangible Asset valuation – Integrated and Smart Travel (IST)

## Status of our work

As we outline on the following page, our work is substantially complete. Subject to the satisfactory completion of the outstanding work, at the time of issuing this report we have the following conclusions:

### Opinion on the financial statements

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 conclusion

We anticipate concluding that TFN had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. Our draft auditor's report, including proposed conclusion, is provided in Appendix B.

### 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 questions or objections have been raised.

# 1. EXECUTIVE SUMMARY

## Status of our audit work

We have substantially completed our work on the financial statements and Value for Money conclusion for the year ended 31 March 2019. At the time of preparing this report the following matters remain outstanding:

| Audit area  | Status  | Description of outstanding matters  |
|---|---|---|
| Signed final statements and signed Management Representation Letter |  | <p>Following the TFN Board meeting on 31 July 2019 TFN will provide signed and copies of the financial statements, annual governance statement and Management Representation Letter.</p> <p>We will update and conclude our post balance sheet events review, to the date of signing the opinion.</p> |

### Status

-  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

## Misstatements and internal control recommendations

Section 3 sets out our assessment of your internal controls and Section 4 outlines misstatements noted as part of our audit as at the time of issuing this report.



## 2. AUDIT APPROACH

### Our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum in March 2019. We have not made any changes to our audit approach since we presented our Audit Strategy Memorandum

### Materiality

We set materiality at the planning stage of the audit at £632,000 for the financial statements, using a benchmark of 1.5% based on the available forecast of 2018/19 gross expenditure at the time. Our final assessment of materiality was based on the final 2018/19 financial statements and, whilst our application of qualitative factors is unchanged from that at the planning stage, our final materiality levels and trivial thresholds have been revised to reflect the significant reduction in actual expenditure incurred by TFN compared to forecast. These are set out in the table below. We set our trivial threshold (the level under which individual errors are not communicated to the Audit and Risk Assurance Committee and TFN Board) at £14,400 based on 3% of overall materiality.

| Materiality element   | Planning materiality | Post statement materiality |
|---|----------------------|----------------------------|
| Overall materiality   | £632,000             | £480,000                   |
| Performance materiality – 70% of materiality                              | £443,000             | £336,000                   |
| Trivial threshold for reporting to Audit Committee<br>– 3% of materiality | £19,000              | £14,400                    |

We have also calculated materiality for specific classes of transactions, balances or disclosures where we determine that adjustments of a lesser amount than materiality for the financial statements as a whole, could reasonably be expected to influence the decisions of users taken on the basis of the financial statements. We set specific materiality for the following items of account/disclosures:

\* Reflecting movement from one salary band to another

| Item of account/disclosure             | Specific materiality |
|--|----------------------|
| Officer remuneration bandings (Note 9) | £5,000 *             |

## 2. SIGNIFICANT FINDINGS

Set out below are the significant findings from our audit. These findings include:

- our audit conclusions regarding significant risks and enhanced risks/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 10 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year;
- any further significant matters discussed with management; and
- any significant difficulties we experienced during the audit.

### Significant risks and key areas of management judgement

As part of our planning procedures we considered the risks of material misstatement in TFN's financial statements that required special audit consideration. Although we report identified significant risks at the planning stage of the audit in our Audit Strategy Memorandum, our risk assessment is a continuous process and we regularly consider whether new significant risks have arisen and how we intend to respond to these risks. We can confirm that no new risks have been identified since we issued our Audit Strategy Memorandum.

#### Significant risk

#### Description of the risk

Management override of controls

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.

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#### How we addressed this risk

We addressed this risk through performing audit work over:

- Accounting estimates impacting on 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.

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#### Audit conclusion

There are no significant matters arising from our work on the management override of controls.

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## 2. SIGNIFICANT FINDINGS (CONTINUED)

### Significant risk

Intangible Asset valuation – Integrated and Smart Travel (IST)

### Description of the risk

The IST will build on existing systems to develop smart ticketing, payment and information technologies to transform travel across the whole region. The project will take a number of years to implement and is split into 3 phases and will lead to the development of an intangible asset.

The valuation of the intangible asset will require application of assumptions and estimates. TfN will need to ensure that the intangible asset is accounted for in accordance with the CIPFA Code of Practice and IAS 38 Intangible Assets. TfN has commissioned PwC to provide advice on the potential accounting treatment that will apply.

There is a risk that assumptions and estimates are not appropriate nor in line with accounting standards.

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### How we addressed this risk

We have

- assessed the competency, objectivity and independence of PwC;
- considered the instructions provided to PwC in respect of the valuation;
- Reviewed the basis of the valuation of the intangible asset and challenging the assumptions made;
- tested transactions to ensure valuation has been appropriately applied; and
- considered the appropriateness of the accounting treatment applied

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### Audit conclusion

We have not identified any significant matters from our testing, and conclude that TFN's Intangible Asset valuation is materially fairly stated.

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## 2. SIGNIFICANT FINDINGS (CONTINUED)

### Significant Risk

Valuation of  
Defined Benefit  
Pension Liability

### Description of the risk

The net pension liability is likely to represent a material element of TFN's balance sheet. TFN is an admitted body of Greater Manchester Pension Fund.

The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in TFN's overall valuation.

Financial assumptions and demographic assumptions will be used in the calculation of TFN's valuation, such as the discount rate, inflation rates and mortality rates. The assumptions should also reflect the profile of TFN's employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes.

There is a risk that the assumptions and methodology used in valuing TFN's pension obligation are not reasonable or appropriate to TFN's circumstances. This could have a material impact to the net pension liability in 2018/19.

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### How our audit addressed this risk

We have:

- Critically assessed the competency, objectivity and independence of the Greater Manchester Pension Fund's Actuary, Hymans Robertson;
- Liaised with the auditors of the Greater Manchester Pension Fund to gain assurance that the controls in place at the Pension Fund are operating effectively. This will include the processes and controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS19 valuation is complete and accurate;
- Reviewed the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Pension Fund Actuary, and the key assumptions included within the valuation. This will include comparing them to expected ranges, utilising information provided by PWC, consulting actuary engaged by the National Audit Office;
- Agreed the data in the IAS 19 valuation report provided by the Fund Actuary for accounting purposes to the pension accounting entries and disclosures in TFN's financial statements

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### Audit conclusion

We have not identified any significant matters from our testing other than the issue set out on page 12.

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## 2. SIGNIFICANT FINDINGS (CONTINUED)

### Enhanced Risk

### Description of the risk

#### Payroll

Payroll expenditure represents a significant percentage of TFN's operating expenses.

The annual payroll expenditure will be derived from a number of different systems during 2018/19. With numerous individual transactions there is a risk that payroll expenditure in the accounts could be incorrectly stated. We therefore identified completeness and accuracy of payroll expenses as an enhanced risk.

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### How our audit addressed this risk

We have:

- Gained an understanding of TFN's system for accounting for payroll expenditure over the course of the year and evaluating the design of the associated controls;
- re-performed the reconciliation between the payroll system and general ledger and investigated any significant adjustments
- performed substantive analytical procedures disaggregated for each month
- Tested a sample of employee expenses to staff records, pay rates, and classification in the ledger.

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### Audit conclusion

We have not identified any significant matters from our testing, and conclude that TFN's payroll expenditure is materially fairly stated.

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## 2. SIGNIFICANT FINDINGS (CONTINUED)

### Qualitative aspects of TFN's accounting practices

TFN is required to prepare its financial statements on a going concern basis by the Code of Practice on Local Authority Accounting (the Code). We have considered the appropriateness of the use of the going concern assumption and have reviewed TFN's accounting policies and disclosures. We are continuing to discuss these disclosures with Management to ensure they comply with the requirements of the Code, appropriately tailored to TFN's circumstances

A number of amendments were required to the draft statements to correct minor presentation and disclosure issues. The most significant amendments of this type are set out in more detail on page 15.

Draft accounts were received from TFN on 24 May 2019, well in advance of the statutory deadline. The accounts were supported by appropriate working papers and officers have dealt promptly with queries throughout the audit.

### Significant matters discussed with management

We have discussed with Management the funding arrangements in place that support TFN and the Memorandum of Understanding with the Department for Transport to assess the appropriateness of the application of the going concern basis on which the Financial Statements are based.

### Significant difficulties during the audit

During the course of the audit we did not encounter any significant difficulties. Our queries were with promptly and we have had the full co-operation of management throughout the audit process. .

### 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 2018/19 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. We have received no correspondence from local electors regarding the 2018/19 accounts.

### 3. INTERNAL CONTROL

The purpose of our audit is 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. We do this in order to design audit procedures to allow us to express an opinion on the financial statement and not for the purpose of expressing an opinion on the effectiveness of internal control, nor to identify any significant deficiencies in their design or operation.

The matters reported here would be limited to those deficiencies and other control recommendations that we 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 matters to report..

We have no internal control recommendations to bring to your attention.



## 4. SUMMARY OF MISSTATEMENTS

We set out below the misstatements identified for adjustment during the course of the audit, above the level of trivial threshold of £14,400. Management has assessed as not being material, either individually or in aggregate, to the financial statements and does not currently plan to adjust.

### Unadjusted misstatements 2018/19

1. In late June 2019, two legal judgements relating to guaranteed minimum pensions and transitional provisions in the Local Government Pension Scheme created additional defined benefit liabilities that not been taken account of in the actuary's estimate of the defined benefit liability as reflected in TFN's draft financial statements. To determine the significance of the changes on the reported pension liability within TFN's financial statements management requested an updated actuarial assessment which set out an estimated £95,000 increase in the pension liability as at 31 March 2019. The adjustment would increase TFN's pension liability by £95,000, with a corresponding increase in the Pension Reserve. The transactions would be included within the service costs (as a past service cost) and adjusted through the Movement in Reserves Statement so that they do not impact on TFN's Usable Reserves. However, based on an assessment of materiality Management have decided not to make this adjustment.
2. Our sample testing of 2018/19 expenditure identified an invoice relating to the purchase of travel cards where the full costs incurred of £19,022 were accounted for within 2018/19. However, a proportion of the cost was a 2019/20 prepayment amounting to £7,926 and was not treated as a prepayment. We have used statistical techniques to extrapolate this error. This estimates a maximum theoretical error rate of £26,600. As this is an extrapolated error and is not material, Management have decided not to amend the financial statements.

### Disclosure amendments

During the course of the audit we identified a number of presentational and disclosure issues. These were all relatively minor and include the issues detailed below. All have been adjusted for in the final version of the financial statements.

1. The Notes to the Accounts have been re-ordered to ensure that the Expenditure and Funding Analysis is given appropriate prominence within the financial statements;
2. Note 3 – Accounting policies – Additional disclosure added relating to Going Concern to make it clear that TFN is party to a Memorandum of Understanding with the Department for Transport;
3. Note 11 to the financial statements required amendment to ensure it was consistent with the figures disclosed on the Comprehensive Income and Expenditure Statement;
4. Note 19 has been updated to ensure each constituent element of usable reserves are disclosed and agrees to the Balance Sheet figure of £9,627k;
5. Note 27 – Related Party transactions – Additional disclosures included to set out the position in relation to Members and Senior Officers.

# 6. VALUE FOR MONEY CONCLUSION

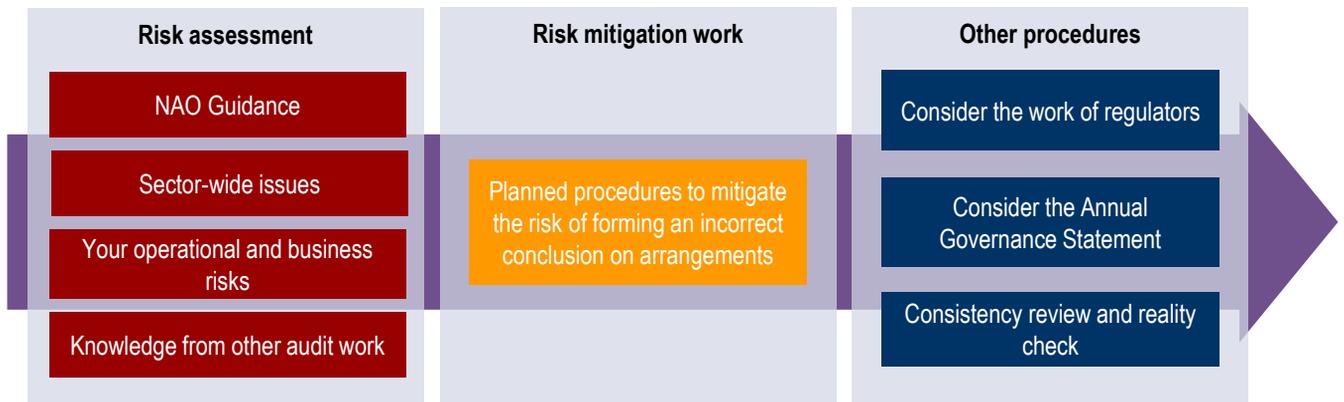
## Our approach to Value for Money

We are required to form a conclusion as to whether the TFN has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our conclusion, and sets out the criterion and sub-criteria that we are required to consider.

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

- Informed decision making;
- Sustainable resource deployment; and
- Working with partners and other third parties.

A summary of the work we have undertaken is provided below:



## Significant Value for Money risks

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

The work we carried out in relation to the significant risks is outlined overleaf.



## 5. VALUE FOR MONEY CONCLUSION (CONTINUED)

| Risk   | Work undertaken and findings  |
|--|---|
| <p>At the beginning of 2018 Transport for the North (TfN) received parliamentary approval to become a statutory organisation as the first Sub-national Transport Body in England. TfN brings together nineteen local transport authorities alongside Network Rail, Highways England, and HS2 Ltd to work with Central Government. Key objectives of TfN include:</p> <ul style="list-style-type: none"> <li>• Development and implementation of the Strategic Transport Plan</li> <li>• Coordination and delivery of a smart ticketing system for the whole of the North</li> </ul> <p>Being established as a stand-alone entity allows TfN to hold its own funds, enter into transactions and directly employ staff. This has required TfN to implement a range of arrangements to help ensure appropriate governance, assurance and accountability processes are in place to support delivery of corporate objectives.</p> | <p>We will review the effectiveness of the governance and decision making arrangements that TfN has established to underpin key decision making since its establishment as a stand alone body</p> <p><b>Findings</b></p> <p>Our review has confirmed that TFN undertook extensive preparatory work to ensure new and appropriate governance structures were established in the run up to 1 April 2018.</p> <p>TfN existed as a shadow organisation and established a shadow board that met in the weeks before receiving Parliamentary approval. The Shadow Board received a paper presented by the Chief Executive that set out proposed Governance structures and arrangements. This allowed for early discussion so that clarifications and amendments could be proposed for fuller consideration in April 2018.</p> <p>TfN prepared and adopted a draft Constitution in the months prior to 1 April 2018 with an early draft of the Constitution provided to Constituent Authorities as early as March 2017. The draft Constitution was discussed and endorsed in principle by TFN's Shadow Board at its meeting on 8 February 2018.</p> <p>The Board also:</p> <ul style="list-style-type: none"> <li>• noted and approved key appointments and voting rights,</li> <li>• established a Partnership Board and agreed membership of the Board,</li> <li>• agreed the establishment and composition of an Audit and Governance Committee alongside establishment of a Scrutiny Committee and</li> <li>• agreed on an appropriate schedule of meetings consistent with this.</li> </ul> <p>TFN have continued to maintain an overview of the effectiveness and appropriateness of those arrangements and re-considered and adopted more appropriate arrangements where applicable with the Constitution being updated on a six monthly cycle to reflect required changes.</p> <p>The constitution clearly set out a requirement for prompt establishment and maintenance of a risk register of Corporate and departmental / programme level risks as it was recognised that this would form an essential element of effective corporate governance.</p> <p>TFN's approach to managing risk is set out in the Risk Management Strategy which provides guidance regarding the identification, assessment, management and reporting of risks. Each programme and corporate function within TFN has its own risk register that is updated on either a monthly or fortnightly cycle, with clear reporting in line with governance arrangements.</p> <p><b>Conclusion</b></p> <p>On the basis of work we have completed we conclude that for 2018/19 Transport for the North had appropriate governance and risk management arrangements in place to help both deliver and progress attainment of the corporate objectives.</p> |

## 5. VALUE FOR MONEY CONCLUSION (CONTINUED)

### Significant Value for Money risks

| Risk   | Work undertaken and findings   |
|--|--|
| <p><b>Risk heading</b></p> <p>The development of SMART ticketing is clearly a substantial programme that represents a significant financial investment with planned expenditure of £48.6m in 2018/19. It is integral to the achievement of TFN's strategic goals. However, the latest 2018/19 budget monitoring report sets out there have been a number of delays affecting the various phases of the project and consequently it is forecast that year end expenditure is likely to be £13.1m.</p> | <p>We will establish and assess the governance and financial monitoring arrangements have been put in place to oversee the delivery of the Integrated and Smart ticketing project</p> <p><b>Findings</b></p> <p>Integrated and Smart travel is a major project with Transport for the North (TFN) working with operators, transport authorities and the Department for Transport to develop and implement a scheme designed to make passenger travel simpler. Project implementation is planned over 3 phases that run concurrently with Phase three being the most significant. The project has a likely implementation date of 2021 and a had forecast expenditure of some £48m in 2018/19.</p> <p>Progressing the project is dependent on DfT approval but the expected approvals have been subject to delay leading to the reduced project expenditure in 2018/19. A project of this magnitude is particularly sensitive to change and this was recognised by TFN as there were significant technological and stakeholder challenges to overcome during the year.</p> <p>During 2018/19 progress has been achieved with submission and approval of the Phase 2 full business case document and received approval to progress to delivery. The IST programme's Phase 3 project received Outline Business Case approval and began to progress towards Full Business Case submission. As the project progresses key decisions on the future direction of the project will need to be determined.</p> <p>Detailed project management arrangements are in place that confirm clear lines of reporting and accountability right up to the main TFN Board. Structures in place covering areas that include governance, risk management and financial management. TFN has established a detailed IST Programme handbook which sets out in comprehensive detail the processes, tools and templates to be used in the management and delivery of the IST programme.</p> <p>A project Board is in place to help oversee delivery of the project. Fortnightly review meeting are scheduled that include project stakeholders and interested parties to report on progress and identify issues at an early stage.</p> <p>Within the Project management Office for the scheme there is a Risk manager who works in conjunction with the main Risk Manager for TFN. There are not separate risk registers, rather a joint risk management approach is in place with project risks being included in the main Corporate Risk register of TFN and considered at various forum including the Partnership Board and the Audit &amp; Governance Committee. -Risks are managed by the project teams and Senior Project Manager and reported to Project Board then onward/upward to Exec Board.</p> <p><b>Conclusion</b></p> <p>On the basis of work we have completed we conclude that for 2018/19 Transport for the North had appropriate governance and financial monitoring arrangements in place.</p> |

# APPENDIX A

## DRAFT MANAGEMENT REPRESENTATION LETTER

### TO BE PROVIDED ON CLIENT HEADED NOTE PAPER

Client address  
31<sup>st</sup> July 2019

Dear Karen

#### **Transport for the North- audit for year ended 31 March 2019**

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 2019 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 2018/19 (the Code) 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 ourselves that I can properly make each of the following representations to you.

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

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

Executive summary

Significant findings

Internal control  
recommendations

Summary of  
misstatements

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conclusion

Appendices

# APPENDIX A

## DRAFT MANAGEMENT REPRESENTATION LETTER

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

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

### Contingencies

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

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

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

All material matters, including unasserted claims, that may result in litigation against 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 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.

I have disclosed to you:

- all the results of my assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting 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.

# APPENDIX A

## DRAFT MANAGEMENT REPRESENTATION LETTER

### 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 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.

### Future commitments

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

### Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the Code 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.

### 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.

### Unadjusted misstatements

I confirm that the effects of the uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole.

Yours faithfully  
Finance Director .....



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

#### Report on the financial statements

##### Opinion

We have audited the financial statements of Transport for the North for the year ended 31 March 2019, 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 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of Transport for the North as at 31<sup>st</sup> March 2019 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 2018/19

##### 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 TFN 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 as applicable to public interest entities, 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

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Finance Director's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Finance Director has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about TFN's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

##### Other information

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

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

We have nothing to report in this regard.

# APPENDIX B

## DRAFT AUDITOR'S REPORT

### 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 2018/19, 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 2018/19 and prepare the financial statements on a going concern basis, unless TFN is informed of the intention for dissolution without transfer of services or function to another entity. The Finance Director is responsible for assessing each year whether or not it is appropriate for TFN 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.

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

### 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.

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

#### Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that, in all significant respects, Transport for the North has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

#### Basis for conclusion

We have undertaken our review in accordance with the Code of Audit Practice issued by the Comptroller and Auditor General, having regard to the guidance on the specified criterion issued in November 2017, as to whether TFN had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider in satisfying ourselves whether TFN put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

# APPENDIX B

## DRAFT AUDITOR'S REPORT

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, TFN had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

### Responsibilities of Transport for the North

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

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

We are required under section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Transport for the North has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice requires us to report to you our conclusion relating to proper arrangements. 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.

### 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.

### Certificate

We certify that we have completed the audit of Transport for the North in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

[Signature]

Karen Murray  
For and on behalf of Mazars LLP

Mazars LLP  
1 St Peter Square  
Manchester  
M2 3DE

31 July 2019

Executive summary

Significant findings

Internal control  
recommendations

Summary of  
misstatements

Value for Money  
conclusion

Appendices

# APPENDIX C INDEPENDENCE

## Auditor 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. In particular there are no independence threats from our non-audit work disclosed below.

We also confirm that we have received confirmation from our external experts regarding their independence.

## Audit & non-audit fees

We reported our expected audit fees in our Audit Strategy Memorandum. Below we report the audit and non-audit fees at this, our Audit Completion phase. We confirm that we have completed no non-audit work at TFN.

| Audit fees              | 2018/19 (actual) | 2018/19 (planned) |
|-------------------------|------------------|-------------------|
| Transport for the North | £33,000          | £33,000           |
| <b>Total audit fees</b> | <b>£33,000</b>   | <b>£33,000</b>    |

## CONTACT

Director: Karen Murray

Phone: 0161 238 9248

Mobile: 07721 234043

Email: [karen.murray@mazars.co.uk](mailto:karen.murray@mazars.co.uk)

Senior Manager: Chris Whittingham

Mobile: 07909 982497

Email: [chris.whittingham@mazars.co.uk](mailto:chris.whittingham@mazars.co.uk)