



Auditor's Annual Report
Transport for the North – year ended 31 March 2024

January 2025

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Introduction

Introduction

Purpose of the Auditor's Annual Report

Our Auditor's Annual Report ('AAR') summarises the work we have undertaken as the auditor for Transport for the North ('TfN') for the year ended 31 March 2024. Although this report is addressed to TfN, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 ('the 2014 Act') and the Code of Audit Practice ('the Code') issued by the National Audit Office ('NAO'). The remaining sections of the AAR outline how we have discharged these responsibilities and the findings from our work. These are summarised below.



Opinion on the financial statements

We issued our audit report on 24 January 2025. Our opinion on the financial statements was unqualified.



Value for Money arrangements

We did not identify any significant weaknesses in TfN's arrangements to secure economy, efficiency and effectiveness in its use of resources. Section 3 provides our commentary on TfN's arrangements.



Wider reporting responsibilities

Group audit instructions have been issued by the NAO. Until we receive further guidance from the NAO as to what work is required of us as component auditors, we are unable to complete our work in respect of the WGA and are unable to issue our audit certificate.

We have not exercised any of the powers provided to us through the 2014 Act.

Where the 2014 Act gives rights to local electors and other parties to ask questions and raise objections, we did not receive any such correspondence.

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Audit of the financial statements

Audit of the financial statements

Our audit of the financial statements

Our audit was conducted in accordance with the requirements of the Code, and International Standards on Auditing (UK) ('ISAs (UK)'). The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to TfN and whether they give a true and fair view of TfN's financial position as at 31 March 2024 and of its financial performance for the year then ended. Our audit report, issued on 24 January 2025 gave an unqualified opinion on the financial statements for the year ended 31 March 2024.

A summary of the significant risks we identified when undertaking our audit of the financial statements and the conclusions we reached on each of these is outlined in Appendix A. In this appendix we also outline the uncorrected misstatements we identified and any internal control recommendations we made.

Qualitative aspects of TfN's accounting practices

We have reviewed TfN's accounting policies and disclosures and concluded they comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24 appropriately tailored to TfN's circumstances.

Draft accounts received from TfN were of a good quality, supported by clear and concise working papers.

Significant matters discussed and difficulties experienced during the audit

The one adjusted misstatement to the accounts was in respect of an issue which required consideration at all entities which account for and disclose a defined benefit pension scheme in their accounts. This required discussions with management to understand the impact on TfN's financial statements. Management engaged positively with making the adjustment and made corrections as required.

During the course of the audit we did not encounter any significant difficulties and had the full co-operation of management. We give our thanks to the Finance Director and his staff for their help throughout the audit.

Other reporting responsibilities

Reporting responsibility	Outcome
Narrative Report	We did not identify significant inconsistencies between the content of the annual report and our knowledge of TfN.
Annual Governance Statement	We did not identify any matters where, in our opinion, the governance statement did not comply with the guidance issued by CIPFA/LASAAC Code of Practice on Local Authority Accounting.

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Our work on Value for Money arrangements

VFM arrangements


Overall Summary





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
- Interviews and discussions with officers

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 have not identified any risks through our procedures.

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 outcome of our work against each reporting criteria, including whether we have identified any significant weaknesses in arrangements, or made other recommendations.

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	11 - 13	No	No	No
 Governance	14 - 17	No	No	No
 Improving economy, efficiency and effectiveness	18 - 20	No	No	No

VFM arrangements

Financial Sustainability

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



VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria

How TfN ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them

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 2023/24 budget were approved by the TfN Board in March 2023. The business planning process identifies key strategic priorities which are linked to operational plans and this provides the expenditure profile and budget for 2023/24. 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 had total budgeted expenditure for 2023/24 of £16.1m.

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 Quarterly Operating Reports which are presented to the Audit and Governance Committee ('A&GC'), and 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 results show an underspend on both operational and hosted expenditure. An underspend on operational expenditure of £0.9m and on hosted expenditure of £1.3m result in total actual expenditure of £13.9m - £2.2m under the budgeted expenditure set for the 2023/24 period of £16.1m. The resulting underspend led to a reduced use of reserves in 2023/24 than what was originally planned, leaving a higher reserve balance at 31 March 2024 than anticipated, being £4.4m for the General Fund. This has increased from the 2022-23 year end position of £3.9m. The level of reserves remains well above the £2m minimum reserves balance requirement.

In March 2024, the TfN Board approved the Budget for 2024/25. The plan showed budgeted expenditure of £16.5m, being a slight increase to the level budgeted in 2023/24. As expected, TfN will remain almost entirely funded by grants from the Department for Transport ('DfT'). The 2024/25 budget does however include a drawdown from reserves of £1.3m to fund budgeted expenditure for the year. With the general fund position at the end of the 2023/24 year being £4.4m, there is sufficient room for use of reserves and to remain above the £2m minimum reserve requirement at the 2024/25 year end.

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

How TfN plans to bridge its funding gaps and identifies achievable savings

A minimum level of reserves has been agreed with DfT at £2m. This minimum level of reserves and related reserving requirements can be reconsidered on an ongoing basis in light of any changes in the nature and quantum of activity carried out at TfN. For 2023/24, the use of reserves planned within the budget at the start of the year was reduced due to the underspend in the year. Overall the level of reserves increased from the 2022/23 year, and was above the £2m minimum level requirement. Within the 2024/25 budget there is a planned use of reserves of £1.3m. When considering the impact this has to reduce the reserves reported at the 2023/24 year end, it is expected the level of reserves at the 2024/25 year end will remain above the £2m minimum level requirement.

Whilst the £1.3m use of reserves was agreed upon, using reserves should not be relied on to provide a long-term solution to funding gaps. Within the outlook following the 2024/25 year end, it is expected the core grant will increase to £9.3m per year to fund expenditure in future years, so we are satisfied the use of reserves here is not evidence of reliance on reserves to fund expenditure in the long-term.

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

VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria – continued

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 business plan is aligned to the Strategic Transport Plan ('STP') which TfN is required to produce and approve as their statutory duty.

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 Quarterly Operating Reports detail the pressures faced by TfN and the performance in delivering services whilst facing those pressures.

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

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 annual business planning process includes workforce requirements and the requirements of TfN's significant partnerships.

The Treasury Management 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. Where there are capital investments, these are grant funded and do not represent funding or financing 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 A&GC and Board throughout the year for scrutiny and input from Members.

The A&GC and Board consider the updated financial position at various stages throughout the year. This allows for appropriate Member scrutiny and challenge. The Quarterly Operating Reports for the respective periods were presented at the earliest opportunity at each A&GC meeting. We have confirmed this through our attendance at A&GC meetings through the year and review of the minutes of these meetings.

The annual budget process includes considerations of TfN's reserves. We confirmed a review was completed in 2023/24 to ensure funding set aside remains in line with strategic and statutory priorities. This is evidenced in the outturn reports presented to the A&GC 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. Both in 2022/23 and 2023/24, there was a planned use of reserves to fund expenditure for the respective periods, however the outturn for both years shows a reduced use of reserves than previously anticipated, and position at the 2023/24 period end shows a general fund balance of £4.4m - a sufficient gap to the minimum reserve requirement of £2m. The plan for 2024/25 using reserves of £1.3m still keeps the level of reserves above the minimum requirement.

From 2025/26 onwards, it is expected there will be additional core grant income to meet the funding of expenditure in each financial year, avoiding substantial use of reserves to fund expenditure. The balance on reserves is expected to remain above the agreed £2m minimum in the medium to long term.

TfN has agreed a £2m minimum level of reserves to mitigate against unplanned changes to expenditure. TfN has an understanding with DfT, clearly set out in the Memorandum of Understanding between TfN and DfT, 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.

TfN has an established risk management framework and the A&GC receives regular risk management updates. We reviewed the reports presented during 2023/24 which considered the periodic and yearly forecast outturn position. These reports contain evidence of a clear summary of the 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.

VFM arrangements

Governance

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



VFM arrangements – Governance

Overall commentary on the Governance reporting criteria

How TfN monitors and assesses risk and how the body 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 consider the TfN's Annual Governance Statement ('AGS'). This included consideration of the Statement and our cumulative audit knowledge. We identified no matters indicating a significant weakness in arrangements. Whilst a Governance Improvement Plan is included within the AGS, this are not indicative of significant weaknesses in arrangements or significant control issues, rather this show the continuous improvement commitments of TfN to strengthen and improve governance arrangements on a regular basis.

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 A&GC agenda. The Corporate Risk Register is updated and taken to the TfN Board for consideration, as well as for consideration.

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

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

TfN has a Risk Manager who is responsible for reporting on risk to the Finance Director who reports to the A&GC. From our attendance at these meetings, we are satisfied reporting is timely and sufficiently detailed to allow for adequate challenge. Following consultation with members of the A&GC, TfN will undertake frequent deep dives into areas of risk which the committee consider to be of interest. The results of the deep dives will be presented back to the A&GC within a reasonable timeframe to allow for sufficient work to be done, including producing an action plan where areas of deficiency are identified.

TfN has put in place a system of financial governance to manage and control its financial affairs. TfN outsources its internal audit and counter-fraud services. The Internal Audit Plan and Head of Internal Audit Report is reviewed by the A&GC. 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 A&GC received regular updates on the Internal Audit work through update reports referencing performance against the plan. Internal Audit reports highlight weaknesses and recommend actions where required to strengthen processes or procedures. These are regularly reported to the A&GC which holds management to account where weaknesses are identified. The A&GC monitors management actions in response to recommendations and this is reported on a regular basis. A&GC 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 A&GC 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.

A Memorandum of Understanding has been signed between TfN and 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 DfT 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.

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 inspection of relevant documentation made available to us.

The annual business planning process involves all programme teams and support teams to produce a Business Plan and Annual Budget. Reports are provided to the TfN Board, Partnership Board and Scrutiny Committee between the commencement of business planning in the Autumn and the approval of the budget in March, in advance of the coming financial year. 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, A&GC 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 regular reporting and produce periodic budget revisions.

The draft financial statements for the year ending 31 March 2024 were published on the statutory deadline of 31 May 2024. 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 2023/24 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.

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 STP 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.

The constitution was reviewed and updated at the Board meeting in March 2023 following recommendations from the General Purpose Committee to amend the constitution.

TfN has a statutory duty to produce a plan on behalf of the North of England to set out strategic ambitions for transport across the region, specifically pan-regional infrastructure and issues common to partners whereby efficiencies are gained through addressing these regionally. The STP approved by Board in March 2024 fulfils this duty. The STP sets the vision, objectives and the long-term strategic transport priorities of the North. Throughout 2023/24, updates were provided to the Board on its development, inviting thorough scrutiny of the plan as it is being developed. Members were given the opportunity to query the plan and scrutinise it further. The STP was approved by Board in March 2024 and was adopted as statutory advice to the Secretary of State for Transport.

The announcement by the Government to cancel Phase 2 of HS2 led to a necessary assessment of the implications of the cancellation and the Network North policy on the second STP. We can see through review of Board minutes the assessment of these matters, and this is addressed within the STP.

Board decisions are subject to appropriate scrutiny under TfN's principle of "Scrutiny First". The Scrutiny Committee comprises elected representatives from the 21 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.

VFM arrangements – Governance

Overall commentary on the Governance reporting criteria – continued

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

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.

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 A&GC is in place and is independent of the Board and Scrutiny Committees. The A&GC is tasked with ensuring, amongst other things, good stewardship of the TfN's resources and promoting proper internal control by reviewing the TfN's control systems and monitoring its compliance with legislation, relevant standards, codes of practice and policies. The A&GC 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.

TfN operates under the Memorandum of Understanding with DfT 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. This Board is made up of officers of the constituent Authorities and the DfT where decisions are made in relation to the management of the performance of the contracted railways.

During 2023/24 TfN produced Quarterly Operating Reports 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 A&GC, giving all the information they need to challenge TfN's performance. The reports are published online within the transparency area of TfN's website.

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.

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

How TfN monitors and ensures appropriate standards

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 and was taken to the Board meeting in March 2023. Updates were also considered in March 2024. 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 conflicts of interest are identified, Members are then expected to take no part in discussions around any such business. Members' Declarations of Interests are on the TfN website.

The 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 along with the budget and business plan for the year. 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.

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



VFM arrangements – Improving Economy, Efficiency and Effectiveness

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

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 Reports are published on the TfN website and are available to all Board members and stakeholders, as well as the general public. Within the Business Plan for the year, 11 key milestones were set, with a date by which the milestone should be reached. Within each Quarterly Operating Report an update is provided on the progress in reaching each milestone, ensuring TfN is delivering on its business plan for the year. The Quarterly Operating Reports also include a range of other performance metrics around staffing. Examples include sickness rates, employee turnover and diversity information. The performance information is accompanied by the financial information updates commented on previously.

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

How TfN ensures it delivers its role within significant partnerships and engages with stakeholders it has identified, in order to assess whether it is meeting its objectives

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. TfN reviewed the membership of the Partnership Board, which led to a widening its membership to include representatives of the Disability UK, the Committee on Climate Change, Transport Focus, the Northern Chambers of Commerce, the Directors of Public Health, three regional Trade Union Congress ('TUC') representatives and a DfT observer. This has broadened the interests represented on the Partnership Board, particularly in relation to the environment and the interests of the public. This Board continues to meet quarterly.

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.

TfN's Annual Conference took place in Liverpool in February 2024. Attendees included the Rail Minister, and Mayors of Liverpool City Region, Greater Manchester and West Yorkshire, as well as some of the region's other political and business leaders, government and industry representatives, and other 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 Reports have continued to deliver information to Members and stakeholders throughout 2023/24, detailing the performance of TfN's major programmes, and other financial information.

The constitution details joint working and partnerships also, 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. TfN's notable achievements are set out in its Annual Report and demonstrate the outcomes of delivering with stakeholders and working within those significant partnerships.

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

VFM arrangements – Improving Economy, Efficiency and Effectiveness

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

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 the TfN.

At the end of the 2023/24 year, the STP was approved by Board and adopted as statutory advice to DfT. Following approval, a monitoring and evaluation dashboard has been created to support the implementation of the STP, ensuring TfN embed and fully consider their STP in their Business Plan and other activities.

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

How TfN assesses whether it is realising the expected benefits where it commissions or procures services

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 set 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.

Other reporting responsibilities

Other reporting responsibilities

Matters we report by exception

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

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

We have not exercised any of these statutory reporting powers.

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

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

TfN is considered to be a 'minor body' for the purpose of consolidation into WGA, therefore is exempt from submitting a WGA return. As auditor of a minor body, we are not required to issue an assurance statement on completion of our audit. However, as the group auditor retains the right to ask questions of component auditors, we are unable to conclude our work in respect of the WGA. For this reason we are unable to issue our audit certificate on signing our audit report.

Once we receive further guidance from the NAO, we will work with management to complete our WGA work and issue our audit certificate shortly after, to conclude the 2023/24 audit process.

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Audit fees and other services

Audit fees and other services

Fees for our work as TfN's auditor

We reported our proposed fees for the delivery of our work under the Code of Audit Practice in our Audit Strategy Memorandum presented to the Audit and Governance Committee in July 2024. Having completed our work for the 2023/24 financial year, we can confirm that our fees are as follows:

Area of work	2023/24 fees	2022/23 fees
Planned fee in respect of our work under the Code of Audit Practice	£108,251	£35,902
Additional fees in respect of:		
Defined benefit pension schemes as a result of changes in regulatory expectations *	-	£298
Audit work related to obtaining a revised actuarial report and restatement of accounts for the changes to the Defined Benefit Pension Schemes disclosures	£7,500	£5,000
The work arising from the change in the Code of Audit Practice in respect of Value for Money arrangements *	-	£5,000
The work arising from the change in auditing standards: ISA 315(R)	£9,410	£3,000
Total fees	£125,161	£49,200

* Following the procurement exercise conducted by PSAA for audits from 2023/24 through to 2027/28 and the resulting increase in fees, these fees better reflect the audit work required under the current Code of Audit Practice published by the NAO and the regulatory expectations of the Financial Reporting Council ('FRC'). This has eliminated fee variations on the items marked with an asterick where we needed to charge a fee variation in the prior year. The exception is our work on ISA 315(R) as PSAA have yet to factor in the additional work brought about by the changes to this auditing standard.

Fees for other work

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

Appendices

Appendix A: Further information on our audit of the financial statements

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Significant risks and audit findings

As part of our audit of TfN, we identified significant risks to our opinion on the financial statements during our risk assessment. The table below summarises these risks, how we responded and our findings.

Risk	Our audit response and findings
<p>Valuation of the net defined benefit pension liability</p> <p>The financial statements contain material pension entries in respect of retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.</p> <p>The TfN accounts contain material assets and liabilities relating to the local government pension scheme ('LGPS') administered by the Greater Manchester Pension Fund ('GMPF'), which had its last triennial valuation completed as at 31 March 2022.</p>	<p>How we addressed this risk</p> <p>To address the risk on the valuation of the net defined benefit pension liability we:</p> <ul style="list-style-type: none"> critically assessed the competency, objectivity and independence of the LGPS actuary, Hymans Robertson ('Hymans'); liaised with the auditors of the LGPS, GMPF, to obtain confirmation that the controls are designed and implemented appropriately, including the processes and controls in place to ensure data provided to the actuary for the purposes ensuring the valuation is complete and accurate; we reviewed the appropriateness of the pension asset and liability valuation methodologies applied by Hymans, and the key assumptions included within the valuation, including comparing them to expected ranges, utilising information provided by PwC, consulting actuary engaged by the NAO; and we agreed the data in the IAS 19 valuation reports provided by Hymans for accounting purposes to the pension accounting entries and disclosures in the financial statements. <p>Audit conclusion</p> <p>During the course of the audit, a technical issue arose which impacted not just TfN but the wider sector. The issue was in respect of the impact of secondary contributions and accounting for a restriction of an asset surplus which could arise following settlement of an authority's LGPS liabilities. Management queried the actuary in respect of the issue and this led to a revised actuary report being used to update the draft statement of accounts. The value of the adjustment was £338k.</p> <p>Our work in this area is complete. Other than the matter above, we have no issues to bring to your attention.</p>

Appendix A: Further information on our audit of the financial statements

Significant risks and audit findings – continued

Risk	Our audit response and findings
<p>Management override of controls</p> <p>This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur. 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 there is a risk of material misstatement due to fraud on all audits.</p>	<p>How we addressed this risk</p> <p>We addressed the management override of controls risk through performing audit work over:</p> <ul style="list-style-type: none"> • accounting estimates; • manual journal entries; and • significant transactions outside the normal course of business or otherwise unusual. <p>Audit conclusion</p> <p>Our work in this area is complete. We have no matters to bring to your attention.</p>

Internal control observations in the year and from the previous year

During the course of our audit, we obtain an understanding of TfN’s internal control environment and control activities relevant to the preparation of the financial statements. Our audit is not designed to express an opinion on the effectiveness of TfN’s internal controls, but where we identify significant deficiencies in internal controls, we are required to communicate those to the Audit and Governance Committee.

We have not identified any deficiencies in TfN’s internal controls during our audit, nor do we have any recommendations in the prior year to follow up on.

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