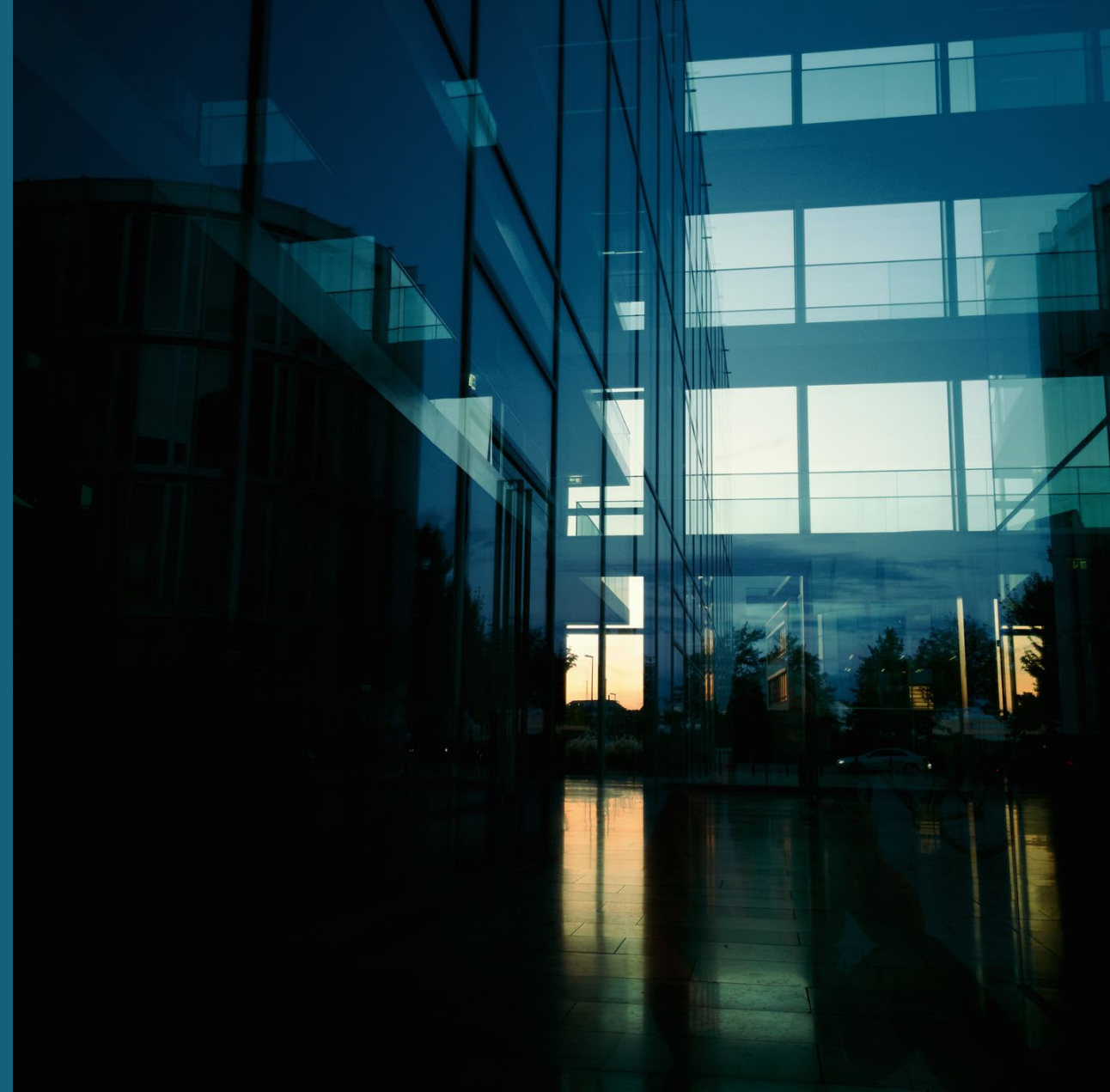


Auditor's Annual Report

Transport for the North – year ended 31
March 2023

March 2024



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Our reports are prepared in the context of the 'Statement of responsibilities of auditors and audited bodies' issued by Public Sector Audit Appointments Ltd. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of Transport for the North. No responsibility is accepted to any member or officer in their individual capacity or to any third party.

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01

Section 01: **Introduction**

1. Introduction

Purpose of the Auditor's Annual Report

Our Auditor's Annual Report ('AAR') summarises the work we have undertaken as the auditor for Transport for the North ('TfN') for the year ended 31 March 2023. Although this report is addressed to TfN, it is designed to be read by a wider audience including members of the public and other external stakeholders.

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



Opinion on the financial statements

We issued our audit report on 21 March 2024. Our opinion on the financial statements was unqualified.



Value for Money arrangements

In our audit report issued we reported that we had completed our work on TfN's arrangements to secure economy, efficiency and effectiveness in its use of resources and had not issued recommendations in relation to identified significant weaknesses in those arrangements. Section 3 provides our commentary on TfN's arrangements.



Wider reporting responsibilities

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

02

Section 02:

Audit of the financial statements

2. Audit of the financial statements

The scope of our audit and the results of our opinion

Our audit was conducted in accordance with the requirements of the Code, and International Standards on Auditing (ISAs). The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to TfN and whether they give a true and fair view of TfN's financial position as at 31 March 2023 and of its financial performance for the year then ended. Our audit report, issued on 21 March 2024, gave an unqualified opinion on the financial statements for the year ended 31 March 2023.

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 the TfN's accounting practices

We reviewed TfN's accounting policies and disclosures and concluded they comply with the 2022/23 Code of Practice on Local Authority Accounting, appropriately tailored to TfN's circumstances.

Draft accounts were received from TfN on 31 May 2023, well in advance of the revised statutory deadline and were of a good quality. The accounts were supported by good quality working papers and we received full co-operation from the Finance team to complete our work.

Significant difficulties during the audit

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

03

Section 03:

Commentary on VFM arrangements

3. Commentary on VFM arrangements

Overall summary



3. VFM arrangements – Overall summary

Approach to Value for Money arrangements work

We are required to consider whether TfN has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out and sets out the reporting criteria that we are required to consider. The reporting criteria are:



Financial sustainability - How TfN plans and manages its resources to ensure it can continue to deliver its services



Governance - How TfN ensures that it makes informed decisions and properly manages its risks



Improving economy, efficiency and effectiveness - How TfN uses information about its costs and performance to improve the way it manages and delivers its services

Our work is carried out in three main phases.

Phase 1 - Planning and risk assessment

At the planning stage of the audit, we undertake work so we can understand the arrangements that TfN has in place under each of the reporting criteria; as part of this work we may identify risks of significant weaknesses in those arrangements.

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

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

Although we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that may suggest there are further risks of significant weaknesses.

Phase 2 - Additional risk-based procedures and evaluation

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

We outline the risk that we have identified in relation to financial sustainability and the work we have done to address this risk on page 12. We identified no further risks of significant weaknesses in arrangements.

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

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


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

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

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

3. VFM arrangements – Overall summary

Overall summary by reporting criteria

Reporting criteria	Commentary page reference	Identified risks of significant weakness?	Actual significant weaknesses identified?	Other recommendations made?
 Financial sustainability	11	Yes – see risk on page 12	No	No
 Governance	15	No	No	No
 Improving economy, efficiency and effectiveness	20	No	No	No

3. Commentary on VFM arrangements

Financial Sustainability

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



3. VFM arrangements – Financial Sustainability

Risks of significant weaknesses in arrangements

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

Risk of significant weakness in arrangements	Work undertaken and the results of our work
<p>1</p> <p>Financial Sustainability The Integrated Rail Plan ('IRP') for the North and Midlands, published in November 2021, set out that the arrangements for Northern Powerhouse Rail ('NPR') would transition from a co-client hosted by TfN to sole-clienting by the Department for Transport ('DfT'). The Transport Development Fund ('TDF') grant to TfN for the NPR programme therefore ceases as at 31 March 2022.</p> <p>The 40% reduction to Core funding in 2021/22 was mitigated, with the assistance of the DfT, by £1.5 million of recharges into the NPR programme and a release of £2.5 million of TfN reserves. Neither of these options is available in 2022/23 given the change in arrangements. As a consequence, the full impact of the funding reductions now have to be managed in 2022/23 and beyond. This represents a significant risk in respect of financial sustainability.</p>	<p>Work undertaken We reviewed the financial performance of TfN in 2022/23. Overall, there was a £1.68m underspend on a budget of £16.52m. As work programmes are fully funded by the Department for Transport, the key financial risk for TfN is the budgeted core operational expenditure of £8.84m. For 2022/23, this was funded through the core grant of £6.5m and a contribution from general fund reserves of £0.76m (which was below the original £1.66m budget). The general fund reserve balance as at 31 March 2023 stands at £3.81m.</p> <p>Since the implementation in respect of the NPR programme, the budget for 2023/24 has been in line with 2022/23 budget, which was scaled down considerably, with overall expenditure set at £16.12m (£16.52m - 2022/23). The core operational budget of £8.44m is to be funded mainly from £7.21m of core grant plus £0.03m carried forward from last year to cover one-year DfT initiatives. The overall financial plan for 2023/24 relies on a further contribution from reserves of £0.83m. This will reduce the overall balances to £2.87m as at 31 March 2024. This balance remains above the minimum level of reserves £2m set by TFN.</p> <p>As part of its financial planning, TfN modelled a number of scenarios for the period 2023/24 to 2025/26. This initially identified that, without additional funding from the DfT, there was likely to be a continued need to used reserves. If TfN makes a contribution from reserves of £0.74 over the three-year period, the general fund balance will remain above the agreed minimum £2m balance.</p> <p>Results of our work We have not identified any significant weaknesses in arrangements. Although we are satisfied there is no immediate threat to TfN's financial sustainability, the use of reserves at current levels is not considered sustainable into the future. Action should be taken to align funding to the reduced cost base to ensure reserves do not fall below the agreed minimum balance in the medium term. These reserves are critical to TfN's ability to manage future financial risks.</p>

3. VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria - continued

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

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

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

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

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

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

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

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

How TfN plans to bridge funding gaps and identifies achievable savings

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

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

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

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

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

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

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

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

3. VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria - continued

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

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

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

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

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

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

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

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

How TfN identifies and manages risks to financial resilience

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

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

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

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

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

3. Commentary on VFM arrangements

Governance

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



3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria

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

TfN has approved and adopted a Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework, Delivering Good Governance in Local Government. As part of our audit procedures we considered the TfN's Annual Governance Statement. This included consideration of the Statement and our cumulative audit knowledge. We identified no matters indicating a significant weakness in arrangements. Whilst there are some Governance challenges, these are related to operational issues rather than significant weaknesses in arrangements or significant control issues.

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

The Audit and Governance Committee is responsible for independently monitoring and assessing the adequacy and effectiveness of the risk management framework with particular focus on:

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

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

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

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

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

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

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

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

3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria - continued

How TfN approaches and carries out its annual budget setting process

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

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

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

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

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

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

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

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

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

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

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

TfN's governance arrangements are set out in its Constitution. All decisions relating to the Constitution, approval of the Budget and Business Plan and adoption of the Strategic Transport Plan are reserved to the Board. Other decisions are delegated to Committees, the Chief Executive, and other senior officers under the arrangements set out in the Constitution including the principles and types of decisions made.

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

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

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

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

3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria - continued

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

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

An Audit and Governance Committee is in place. It is independent of the Board and Scrutiny Committees. The Committee is tasked with ensuring, amongst other things, good stewardship of 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 Committee has independent members as well as representatives nominated from the elected members on the Board.

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

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

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

Transport for the North operates under Memorandum of Understanding with the Secretary of State for Transport and Officers of Transport for the North meet with representatives of DfT at regular Sponsorship Meetings. The Rail North Partnership Team reports regularly to the Rail North Committee, and is responsible to the Rail North Partnership Board which is made up of officers of the Constituent Authorities and the DfT where decisions in relation to the management of the performance of the contracted railways are made.

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

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

How TfN monitors and ensures appropriate standards are maintained

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

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

3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria - continued

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

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

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

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

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

3. Commentary on VFM arrangements

Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services



3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

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

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

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

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

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

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

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

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

TfN receives grant funding from DfT which is subject to grant conditions. TfN demonstrates performance against agreed targets and milestones in order to draw down this funding. Where slippage against milestones is identified, remedial measures are taken. Programmes are monitored, and performance is reported regularly to Programme Boards that are established for that purpose. This includes a risk analysis for each programme along with mitigating measures.

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

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

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

Performance is reported on a regular basis to Programme and Partnership Boards which monitor TfN's performance against agreed targets and milestones and these ensure remedial action is identified and taken where necessary. The Partnership Board is a forum in which the elected Members of TfN engage and consult with the business leaders of the area through representatives of the 11 northern Local Enterprise Partnerships, and with the national transport delivery agencies such as Network Rail, Highways England and HS2.

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

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

3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

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

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

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

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

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

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

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

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

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

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

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

3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

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

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

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

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

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

04

Section 04:

**Other reporting responsibilities and
our fees**

4. Other reporting responsibilities and our fees

Matters we report by exception

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

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

We have not exercised any of these statutory reporting powers.

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

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

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

Whilst we have received group instructions from the National Audit Office for 2022/23, we are unable to issue our audit certificate as we are still awaiting guidance from the NAO on the components it will be sampling.

4. Other reporting responsibilities and our fees

Fees for work as TfN's auditor

We reported our proposed fees for the delivery of our work under the Code of Audit Practice in our Audit Strategy Memorandum presented to the Audit and Governance Committee in August 2023. Having completed our work for the 2022/23 financial year, we can confirm that our fees are as follows:

Area of work	2021/22 fees	2022/23 fees
Planned fee in respect of our work under the Code of Audit Practice	£33,000	£35,902
Additional fees in respect of Defined Benefit Pensions Schemes as a result of changes in regulatory expectations (recurring)	£3,200	£298 *
Additional fees in respect of the audit work related to obtaining a revised actuarial report and restatement of accounts for the changes to Defined Benefit Pension Scheme disclosures	-	£5,000
Additional fees in respect of work arising from the change in the Code of Audit Practice in respect of Value for Money arrangements (recurring)	£5,000	£5,000
Additional fees in respect of work arising from the change in auditing standards: ISA 315(R)	-	£3,000
Total fees **	£41,200	£49,200

* the change in planned fee in 2022/23 in respect of the work under the Code of Audit Practice included part of the additional fee in respect of Defined Benefit Pensions Schemes, but not all. The fee brings this in line with prior year

** fees subject to PSAA approval

Fees for other work

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



Appendix

A. Further information on our audit of the financial statements

Significant risks and audit findings

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

Risk	Our audit response and findings
<p>Significant Risk 1</p> <p>Management override of controls</p> <p>In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.</p>	<p>We addressed this risk through performing audit work over:</p> <ul style="list-style-type: none">Accounting estimates impacting amounts included in the financial statements;Consideration of identified significant transactions outside the normal course of business; andJournals recorded in the general ledger and other adjustments made in preparation of the financial statements. <p>Audit conclusion</p> <p>Our work on management override of controls is complete and there are no matters to bring to the Committee's attention.</p>
<p>Significant Risk 2</p> <p>Net defined benefit liability valuation</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 liabilities relating to the local government pension scheme administered by the Greater Manchester Pension Fund (GMPF), which had its last triennial valuation completed as at 31 March 2022</p>	<p>We completed the following procedures:</p> <ul style="list-style-type: none">We discussed with key contacts any significant changes to the pension estimates. In addition to our standard programme of work in this area, we evaluated the management controls you have in place to assess the reasonableness of the figures provided by the Actuary and considered the reasonableness of the Actuary's output, referring to an expert's report on all actuaries nationally;We reviewed the appropriateness of the key assumptions included within the valuations, compared them to expected ranges and reviewed the methodology applied in the valuation. We considered the adequacy of disclosures in the financial statements;We carried out a range of substantive procedures on relevant information and cash flows used by the actuary as part of the annual IAS 19 valuation;We also sought assurance from the auditor of the Greater Manchester Pension Fund. <p>Audit conclusion</p> <p>We identified an amendment arising from information communicated to us by the Pension Fund auditor. This information indicated benefits paid and transfers disclosed in the draft accounts were materially different, affecting the net pension liability. A revised updated Actuary report was obtained and resulted in an adjusted misstatement of £746k.</p>

Daniel Watson- Director

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Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services*. Operating in over 90 countries and territories around the world, we draw on the expertise of 40,400 professionals – 24,400 in Mazars' integrated partnership and 16,000 via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

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