



Draft Auditor's Annual Report  
**Transport for the North – year ended 31 March 2025**  
November 2025

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Our reports are prepared in the context of the 'PSAA Statement of Responsibilities of Auditors and of Audited Bodies' and the 'Appointing Person Terms of Appointment' issued by Public Sector Audit Appointments Limited. This document is to be regarded as confidential to Transport for the North (TfN). It has been prepared for the sole use of the Audit and Governance Committee as those charged with governance. We do not accept any liability or responsibility to any other person in respect of the whole or part of its contents.

# 01

Introduction

# Introduction

## Purpose of the Draft Auditor’s Annual Report

Our Draft 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 2025 to date. 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. This report is draft as we have not completed our work on the financial statements audit, nor the work on TfN’s Value for Money (‘VFM’) arrangements. Under the Code of Audit Practice (‘the Code’) issued by the National Audit Office, we are required to issue a draft of our Auditor’s Annual Report to the Audit and Governance Committee by the 30 November following the year end for each year, where we have not completed the audit by this date.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 (‘the 2014 Act’) and the Code. The remaining sections of the draft AAR outline how we have discharged these responsibilities and the findings from our work. These are summarised below.



### Opinion on the financial statements

Our work on the financial statement is ongoing. The draft financial statements were published on 30 June 2025, but due to the issues and omissions identified in respect of IFRS 16 implementation we are delayed in completing our work. Section 2 provides detail on our findings so far and the progress we have made. We plan to issue our audit report in February 2026 and plan to issue an unqualified opinion on the financial statements.



### Value for Money (‘VFM’) arrangements

From the work completed so far, we have identified a significant weakness in TfN’s arrangements to secure economy, efficiency and effectiveness in its use of resources. This is in respect of the financial statements being published with omissions in respect of IFRS 16 and requiring a further adjustment to the defined benefit liability. At the time of issuing this report, management have provided us revised draft accounts which incorporate corrections to previously identified misstatements and include disclosures that were omitted from the initial draft. Page 9 describes our approach to Value for Money arrangements work and reporting the outcomes of our work.

Section 3 provides our commentary on TfN’s arrangements at the point of issuing our draft AAR, including a summary of the weakness identified and our recommendations to date.



### Wider reporting responsibilities

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of TfN and to consider any objection made to the accounts. We confirm no objections or questions from local electors, nor any such correspondence from electors has been received.



### Reporting to the group auditor

The NAO, as group auditor, require us to perform specific procedures in support of their work on the Whole of Government Accounts (‘WGA’). Whilst we have received partial instructions, we have yet to receive the full group audit instructions from the NAO.

On completion of the audit, we expect to issue our assurance statement to the NAO. As TfN meets the criteria to be classed as a minor body, we do not expect to be required to complete any detailed procedures. However we are unable to conclude our work on the WGA until we receive confirmation from the NAO that no further work is required to be completed by us.

## Audit of the financial statements

# Audit of the financial statements

## Our audit of the financial statements

Our audit is conducted in accordance with the requirements of the Code, and International Standards on Auditing (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 2025 and of its financial performance for the year then ended.

Our audit is ongoing. We expect to issue our audit report in February 2026, and on resolution of the issues identified to date, plan to issue an unqualified opinion on the financial statements for the year ended 31 March 2025.

## Qualitative aspects of TfN's accounting practices

Draft financial statements were received from TfN on 30 June 2025. We reviewed TfN's accounting policies and disclosures and identified issues related to omission of accounting policies on how TfN accounts for leases under the new leasing standard, and omission of the related required disclosures.

### Implementation of the new leasing standard

This is the first year the requirements of the new leasing standard, IFRS 16 Leases, have been adopted into the accounting framework. The standard removes the requirement to distinguish between operating and finance leases and brings assets used by an entity on the balance sheet. In our Audit Strategy Memorandum ('ASM') presented to the Audit and Governance Committee, we set an enhanced risk of material misstatement around the implementation of this standard.

The implementation of the new standard has had a material impact on TfN's financial statements. However, the financial statements initially did not include accounting policies explaining TfN's approach to leasing arrangements, nor were the required notes to the accounts provided in accordance with the applicable accounting framework. Subsequently, TfN engaged an external party to prepare the necessary disclosures and draft the required accounting policies. A revised draft of the financial statements was submitted to us on 15 October 2025, which was after the completion of our planned fieldwork.

### Disclosures on the defined benefit pension liability

TfN are a scheme employer in the local government pension scheme ('LGPS') for Greater Manchester, the Greater Manchester Pension Fund ('GMPF'). GMPF is a defined benefit pension scheme and accounting for TfN's share of GMPF means extensive disclosures are reported in the financial statements in accordance with the applicable financial reporting framework. TfN use a management's expert to provide them with the transactions, account balances and disclosures required to meet the requirements of accounting for a defined benefit pension scheme.

In the initial draft of the financial statements, TfN presented a material defined benefit pension asset as a liability. Management indicated that this treatment was based on their expectation of a revised actuarial report, which was anticipated to materially adjust the pension asset into a liability due to the application of the asset ceiling calculation. Notwithstanding this, TfN reported the net pension asset within non-current liabilities on the balance sheet. The revised version of the financial statements incorporating these adjustments was only provided to us on 28 August, after commencement of our planned fieldwork, resulting in delays to the audit process.

### Public inspection period

TfN are required to publish a notice of public inspection alongside the draft financial statements setting out the period of time for members of the public to ask questions of the auditor and raise objections. Initially the incorrect period of time was specified on the notice, which resulted in a re-issuing of the notice for public inspection to ensure the public had at least the minimum amount of time to be able to ask queries or raise objections.

Reporting responsibility	Outcome
Narrative Report	We have not identified any significant inconsistencies between the content of the annual report and our knowledge of TfN to date.
Annual Governance Statement	We have not identified 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 to date.

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 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 have 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 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.

### 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 draft AAR. 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?
 <b>Financial sustainability</b>	12 – 14	No	No	No
 <b>Governance</b>	15 – 17	Yes – see risk on the following page	Yes – see weakness and recommendation on page 22	No
 <b>Improving economy, efficiency and effectiveness</b>	18 – 20	No	No	No

# VFM arrangements – Overall summary

## 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><b>1 Financial reporting</b></p> <p>On 30 June 2025, Transport for the North (TfN) published its draft financial statements and met the statutory deadline for publishing these statements. On commencement of our work, we found disclosures were omitted from the financial statements related to the new accounting standard for leasing arrangements, <i>IFRS 16 Leases</i>.</p> <p>It appeared TfN were not prepared for the implementation of this accounting standard, given accounting policies and notes to the accounts were missing, the value of the right of use ('ROU') asset matching the lease liability for the lease arrangement, and other expected disclosures were missing for minimum revenue provision, capital expenditure and financing, an adjustment between funding and accounting basis and a reconciliation for the movement in the capital adjustment account.</p> <p>In our judgement, we confirm an identified risk of significant weakness in TfN's governance arrangements for financial reporting.</p>	<p><b>Work undertaken</b></p> <p>To date, we have:</p> <ul style="list-style-type: none"><li>• conducted our audit of the financial statements, noting amendments to the financial statements following the draft published on 30 June 2025; and</li><li>• discussed with management the adjustments made to the accounts.</li></ul> <p><b>Results of our work</b></p> <p>Adjustments were made to accounts for revised ROU asset valuations, revised lease liability value, a new provision for the dilapidation costs associated with the expiry of the lease on the ROU asset, and the revision of the value of the defined benefit pension asset to adjust this into a liability following receipt of the asset ceiling calculation from management's expert Actuary. Whilst adjustments to pensions is common each year due to the timing of receiving revised actuarial reports, and isn't indicative of a significant weakness on TfN's arrangements to prepare and publish draft financial statements, the volume and size of adjustments to the draft financial statements, including for those associated with the implementation of the leasing standard, indicates there is a weakness in management's arrangements to prepare financial statements in accordance with the applicable financial reporting framework and are materially correct. The material nature of these adjustments, especially in a year where a new accounting standard is adopted into the applicable financial reporting framework, is evidence that this is a significant weakness.</p> <p>From our work, we have evidence there is a significant weakness in TfN's governance arrangements for financial reporting, specifically "<i>how the body supports its statutory financial reporting requirements</i>".</p>

# 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**

Transport for the North (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 2024/25 budget were approved by the TfN Board in March 2024. The business planning process identifies key strategic priorities which are linked to operational plans, and this provides the expenditure profile and budget for 2024/25. The budget is underpinned by a reserve strategy, which serves as mitigation against financial risk.

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.

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 2024/25 of £16.46m, split between operational expenditure of £8.89m and hosted expenditure of £7.57m. TfN also planned to draw £1.27m from the general reserve.

TfN's outturn results show an underspend on operational expenditure of £1.22m and a slight overspend on hosted expenditure of £0.02m. The total underspend of £1.2m means total actual expenditure for the period is £15.26m. The resulting underspend has contributed to an overall increase in the level of general reserves of £0.37m, leaving a higher general fund balance at 31 March 2025 than anticipated of £4.74m. The level of reserves remains well above the £2m minimum reserves balance requirement.

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 2024/25, the use of reserves planned within the budget at the start of the year became a contribution to the general fund balance of £0.37m due to the underspend in the year. Within the 2025/26 budget there is a planned use of reserves of £0.7m. When considering the impact this would have to the 2025/26 year end reserves, the balance would remain above the £2m minimum level requirement.

Whilst the use of reserves was agreed upon, using reserves should not be relied on to provide a long-term solution to funding gaps. Considering the level of the core grant and other sources of income remaining stable, combined with a recent history of delivering underspends and holding a general fund balance over twice the value of the minimum level of reserves set by TfN, 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.

### **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').



# 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 – continued

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 (QOR) 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 was prepared in advance of the 2023/24 year for the following three years. 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.

The implementation of the new leasing standard, IFRS 16 Leases, into the financial reporting framework resulted in bringing a lease liability on to the balance sheet, along with a corresponding

right of use asset ('ROU') for that liability. An authority is required to consider the impact this has on its Minimum Revenue Provision (MRP) policy. As TfN has no tangible assets and its last capital expenditure was several years ago, TfN wasn't required to recognise an MRP charge. We found that whilst TfN considered if the treasury management needed updating for the 2024/25 financial year, no consideration was documented for the requirements brought about by the new leasing standard. Whilst we expect the impact to be immaterial, it shows a lack of preparedness by TfN for the implementation of the standard. This forms part of the identified significant weakness, as set out on page 25.

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 (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 2024/25 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.

# VFM arrangements – Financial Sustainability

## Overall commentary on the Financial Sustainability reporting criteria – continued

### 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 the current year and two preceding years, there was a planned use of reserves to fund expenditure for the respective periods, however the outturn for these three years shows a reduced use of reserves than previously anticipated, and position at the 2024/25 period end shows a general fund balance of £4.74m - a sufficient gap to the minimum reserve requirement of £2m. The planned use of reserves in 2025/26 does not lead to a breach in the minimum required level of reserves.

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 Department for Transport (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 2024/25 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 shows 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. Functional and corporate risks are monitored regularly. The corporate risk register is managed and presented on a quarterly basis to OBT and A&GC. The Corporate Risk Register is updated and taken to the TfN Board for consideration bi-annually.

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 full-time Head of Corporate Office & Risk 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 undertake frequent deep dives into areas of risk which the committee consider to be of interest. The results of the deep dives are 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 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.

We are not aware of any adverse reports from regulators or inspectorates or 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 2024/25 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.

On 30 June 2025, TfN published its draft financial statements and met the statutory deadline for publishing these statements. On commencement of our work, we found issues with the presentation and disclosure of transactions, account balances and disclosures in the financial statements.

The main issue related to the financial reporting for the implementation of the new accounting standard for leasing arrangements, IFRS 16 Leases. TfN were not prepared for the implementation of the standard, despite its introduction having been expected in previous years and deferred until 2024/25. This was evidenced by the omission of accounting policies and notes to the financial statements, which were required to be included in TfN's financial statements in accordance with the Code. The impact of the omission of these was material. The impact of reporting depreciation on TfN's right of use (ROU) asset was not properly considered, resulting in other expected disclosures being omitted from the financial statements related to minimum revenue provision, capital expenditure and financing, an adjustment between funding and accounting basis and a reconciliation for the movement in the capital adjustment account. Management were also expecting a revised actuarial report which would materially adjust the defined benefit pension asset into a liability yet reported the net pension asset within non-current liabilities on the balance sheet.

When publishing the draft financial statements, the s151 Officer signs the accounts off as providing a true and fair view. These are made available for public inspection in accordance with the Accounts and Audit Regulations, providing local electors with the opportunity to question management and auditors, and the chance to raise objections on items of account included within the financial statements. It is therefore important to only publish the draft financial statements once management are content the accounts are complete and accurate.

Our work is evidence of a significant weakness in TfN's governance arrangements for financial reporting, specifically *"how the body supports its statutory financial reporting requirements"*.



# 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**

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. It is due to be reviewed again during 2025/26.

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 and was adopted as statutory advice to the Secretary of State for Transport. The STP sets the vision, objectives and the long-term strategic transport priorities of the North.

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. 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 2024/25 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. 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.

# VFM arrangements – Governance

## Overall commentary on the Governance reporting criteria – continued

### **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 updates were considered in 2024/25. 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 (QOR) are published on the TfN website and are available to all Board members and stakeholders, as well as the general public. 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. QOR identifies at a high level where activities are under or over-spending against budget. 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 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 2024/25, 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 & Evaluation dashboard has been created to support the implementation of the STP, to help measure progress towards the ambitions of the STP and 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.



# VFM arrangements

Identified weaknesses in arrangements  
and our recommendations



# VFM arrangements - Identified significant weaknesses and our recommendations

## Identified significant weaknesses in arrangements and recommendations for improvement

As a result of our work we have identified significant weaknesses in TfN's arrangements to secure economy, efficiency and effectiveness it its use of resources. These identified weaknesses have been outlined in the table below.

Identified significant weakness in arrangements	Reporting criteria	Recommendation for improvement	Our views on the action taken to date
<p><b>1 Financial reporting</b></p> <p>Transport for the North has faced significant challenges in preparing its draft Statement of Accounts for 2024/25. Transport for the North published their accounts by the 30 June 2025 deadline, however the version published contained incomplete disclosures relating to the implementation of IFRS 16 and required a material adjustment relating to the application of an asset ceiling to the defined benefit pension liability. The draft statement of accounts was signed off by the s151 Officer as giving a true and fair view of Transport for the North's financial position despite being aware of these issues.</p> <p>We consider the findings to be evidence of a significant weakness in the body's arrangements for governance, specifically ensuring appropriate processes and systems are in place to support its statutory financial reporting requirements.</p>	Governance	<p>We recommend TfN take steps to improve and support its statutory financial reporting duties, including;</p> <ul style="list-style-type: none"><li>• The body should review and improve its financial accounts preparation processes to ensure they are appropriate to support timely and accurate financial reporting.</li><li>• Review the capacity within the body's Finance team to build resilience into the accounts production and financial reporting processes.</li></ul>	<p>TfN have experienced a lot of change in their finance team following departure of the former Finance Director in July 2025 and appointment of an Interim Finance Director, and a change to the operational staff in the finance team. TfN have brought in new staff and are in the process of training them to carry out their respective roles in the finance team.</p>

Other reporting responsibilities

# Other reporting responsibilities

## Wider reporting responsibilities

### Matters we report by exception

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 group auditor

### Whole of Government Accounts ('WGA')

The NAO, as group auditor, require us to complete the WGA Assurance Statement in respect of TfN. On completion of the audit, we expect to issue our assurance statement to the NAO in line with their instructions. Given TfN meets the criteria for the minor body exemption, we do not expect to carry out any further work.

We are yet to receive the full group audit instructions from the NAO. We are unable to conclude our work on the WGA as we have yet to receive these instructions. We have neither received confirmation from the NAO that no further work is required to be completed by us. Until we receive this, we are unable to conclude our work to discharge our responsibilities to the NAO in respect of WGA.

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 in a draft of our Audit Strategy Memorandum presented to the Audit and Governance Committee in July 2025.

In 2023/24, the introduction of the new auditing standard ISA 315(R) resulted in an additional fee which has since been baked into the scale fee for 2024/25 onwards, as shown in the table below.

The draft financial statements were amended for obtaining a revised actuarial report following commencement of our fieldwork. Similar to the prior year, we expect to charge an additional fee for the audit work carried out for this. The new accounting standard for leases, IFRS 16 Leases, has resulted in additional work in the 2024/25 year which has not been baked into the scale fee set by PSAA for 2024/25. We expect to charge an additional fee for the 2024/25 year which fairly reflects both the work carried out and the fee to be charged within the scale fee in future years. This will be impacted by the quality and preparation issues of the financial statements, and these issues are expected to result in an additional fee for the work required to gain assurance that the financial statements are free from material misstatement. The significant weakness reported on TfN's governance arrangements related to financial reporting required additional work from the audit team.

We note several additional areas of additional fees when compared to the 2023/24 year, and when comparing to the 2024/25 fees set out in our ASM. There is crossover between the areas of work for additional fees, so we will ensure we hold discussions with management to discuss the additional work required on the audit and the additional fees that are required. We must ensure we carry out the right work to obtain sufficient and appropriate audit evidence to support our conclusions on the financial statements audit and our work on TfN's VFM arrangements. We must also aim to be transparent in dealings with TfN and we must aim to find efficiencies in our work to gain reasonable assurance to support our audit opinion.

Area of work	2024/25	2023/24
Scale fee for core audit work	£121,661	£108,251
Additional fees in respect of:		
Implementation of the new auditing standard ISA 315(R)	Included in scale fee	£9,410
Audit work related to obtaining a revised actuarial report and restatement of the accounts for the changes to the Defined Benefit Pension Scheme disclosures	TBC	£7,500
Work carried out relating to IFRS16 – the new accounting standard for leases	TBC	-
Additional work due to quality and preparation issues with the draft financial statements	TBC	-
A significant weakness in TfN's VFM arrangements – identifying a risk, carrying out planned procedures to address the risk, concluding the existence of a significant weakness, and related reporting throughout our work	TBC	-
Total fees	TBC	£125,161

## Fees for other work

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

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