

Supplementary Agenda

Meeting: Audit and Assurance Committee

Date: Wednesday 5 June 2024

Time: 10:00am

**Place: Conference Rooms 1 and 2,
Ground Floor, Palestra,
197 Blackfriars Road, London,
SE1 8NJ**

In accordance with section 100(B)(4) of the Local Government Act 1972, the Chair has agreed to accept the following as an item of urgent business on the grounds that the information wasn't available for publication at the time.

Copies of the papers and any attachments are available on [tfl.gov.uk How We Are Governed](https://tfl.gov.uk/How-We-Are-Governed).

This meeting will be open to the public, except for where exempt information is being discussed as noted on the agenda. There is access for disabled people and induction loops are available. A guide for the press and public on attending and reporting meetings of local government bodies, including the use of film, photography, social media and other means is available on www.london.gov.uk/sites/default/files/Openness-in-Meetings.pdf.

Further Information

If you have questions, would like further information about the meeting or require special facilities please contact: Sue Riley, Secretariat Officer

For media enquiries please contact the TfL Press Office; telephone: 0845 604 4141; email: PressOffice@tfl.gov.uk

Andrea Clarke, Interim General
Friday 31 May 2024

**Supplementary Agenda
Audit and Assurance Committee
Wednesday 5 June 2024**

5 Review of Governance and the Annual Governance Statement for Year Ended 31 March 2024 (Pages 1 - 16)

Interim General Counsel

The Committee is asked to note the paper and approve the Annual Governance Statement, as set out in Appendix 1 of the paper, for signing by the Chair of TfL and the Commissioner, for inclusion in the 2023/24 Annual Report and Accounts; and note the progress against the 2023/24 improvement plan, as set out in Appendix 2 to the paper and the plan for 2024/25, as set out in Appendix 3 to the paper.

6 Ernst & Young Report to Those Charged with Governance
(Pages 17 - 58)

Chief Finance Officer

The Committee is asked to note the report.

7 Update on Key Accounting Issues (Pages 59 - 62)

Chief Finance Officer

The Committee is asked to note the paper and the exempt supplementary information on Part 2 of the agenda.

23 Update on Key Accounting Issues (Pages 63 - 68)

Exempt supplementary information relating to the item on Part 1.

Audit and Assurance Committee



Date: 5 June 2024

Item: **Review of Governance and the Annual Governance Statement for Year Ended 31 March 2024**

This paper will be considered in public

1 Summary

1.1 This paper provides a review of compliance with the TfL Code of Governance in 2023/24 and asks the Committee to approve the draft Annual Governance Statement, as set out in Appendix 1, to be signed by the Chair of TfL and the Commissioner for inclusion in the 2023/24 Annual Report and Accounts. The paper also reports on progress against the 2023/24 improvement plan (Appendix 2) and the improvement plan for 2024/25 (Appendix 3).

2 Recommendation

2.1 **The Committee is asked to note the paper and:**

- (a) **approve the draft Annual Governance Statement, as set out in Appendix 1 of this paper, for signing by the Chair of TfL and the Commissioner, for inclusion in the 2023/24 Annual Report and Accounts; and**
- (b) **note the progress against the 2023/24 improvement plan, as set out in Appendix 2 to this paper and the plan for 2024/25, as set out in Appendix 3 to this paper.**

3 Background

3.1 The Accounts and Audit Regulations 2015 require that TfL's Statement of Accounts be accompanied by a Statement on Internal Control, prepared in accordance with proper practices. The Chartered Institute of Public Finance and Accountancy/Society of Local Authority Chief Executives (CIPFA/SOLACE) provides guidance on what should be included in an Annual Governance Statement.

3.2 The Committee monitors TfL's ongoing compliance with TfL's own Code of Governance, which is based on the updated CIPFA/SOLACE Governance Framework and was approved by the Board in March 2008.

4 The 2023/24 Review and the Annual Governance Statement

The 2023/24 Review

- 4.1 The annual review considers the degree of compliance with each undertaking in TfL's Code of Governance.
- 4.2 The 2023/24 annual review concluded that TfL had a satisfactory level of compliance with the Code of Governance and highlighted the potential governance challenges involved in several anticipated changes.

The Annual Governance Statement

- 4.3 The Annual Governance Statement sets out the key elements of TfL's governance and how TfL complies with the core principles in the CIPFA/SOLACE Delivering Good Governance in Local Government Framework. It draws on the Head of Internal Audit's opinion, as set out in the Risk and Assurance Annual Report and Assurance Statement 2023/24 (elsewhere on the agenda for this meeting). The Head of Internal Audit's opinion does not identify any significant governance issues but sets out areas for improvement in 2024/25, including the progress on addressing audit findings on documentation and record keeping.
- 4.4 In February 2022, TfL's Executive Committee was simplified to support a single unified organisation with a centrally set strategic framework that further embeds our Vision and Values. Changes to the governance of the organisation below the Executive Committee have progressed. The funding settlement that was agreed with Government on 30 August 2022 and lasted until 31 March 2024 has been completed and a subsequent capital funding settlement is now in place; the funding provided under it has been paid and there are obligations remaining throughout the year in relation to reporting and oversight.
- 4.5 The draft Annual Governance Statement is included as Appendix 1. Progress against the improvement plan for 2023/24 is set out in Appendix 2.
- 4.6 The improvement plan for 2024/25 is set out in Appendix 3 and rolls forward and updates measures from 2023/24. The plan will be reviewed when a long-term funding settlement is agreed.

List of appendices to this report:

Appendix 1: Annual Governance Statement

Appendix 2: Progress Against Improvement Plan 2023/24

Appendix 3: Improvement Plan 2024/25

List of Background Papers:

TfL Code of Governance

CIPFA Delivering Good Governance in Local Government: Framework 2016 Edition

CIPFA Delivering Good Governance in Local Government: Framework (CIPFA/SOLACE)
Review of Annual Governance Statements 2016/17

CIPFA Developing an Effective Annual Governance Statement 2018

Contact Officer: Andrea Clarke, Interim General Counsel
Email: AndreaClarke@tfl.gov.uk

Annual Governance Statement

The CIPFA/SOLACE Delivering Good Governance in Local Government Framework (the Framework) requires local authorities, which includes TfL, to publish an Annual Governance Statement, and to be responsible for ensuring that:

- its business is conducted in accordance with all relevant laws and regulations;
- public money is safeguarded and properly accounted for; and
- resources are used economically, efficiently, and effectively to achieve agreed priorities which benefit local people.

As a functional body of the Greater London Authority (GLA), TfL is a signatory to the GLA Group Corporate Governance Framework Agreement (the Agreement), which was updated in March 2022. The Agreement is an overarching commitment in relation to the culture and individual behaviours of the GLA Group and contains specific corporate governance commitments. The Board agreed TfL has in place protocols and processes that address all the requirements of the Agreement.

TfL has approved and adopted a Code of Governance (the Code) which is consistent with the Framework and is published online at tfl.gov.uk. This statement explains how TfL complies with the Code and meets the requirements of the Accounts and Audit Regulations 2015 in relation to the publication of a statement on internal control.

TfL's governance framework has been in place since the year ended 31 March 2001 and remains in place at the date of approval of the 2023/24 Statement of Accounts. The key elements of the governance framework are set out below:

Key Elements of TfL's Governance Framework

Chair, Board, Committees and Panels	The Mayor appoints the Board and is the Chair. The Board provides leadership and determines and agrees TfL's strategic direction and oversees the performance of the Executive Committee to deliver the Mayor's Transport Strategy. The Budget, Business Plan and Capital Strategy set out how the Mayor's Transport Strategy will be delivered and are supported by TfL's Group and individual business area Scorecards. The Board's effectiveness is reviewed annually.
Decision Making	Standing Orders set out TfL's decision making process and are regularly reviewed. The roles of Members and the executive are clearly defined. The Board, its Committees and Panels meet in public and all decisions taken are published. The approval of Financial, Programme and Project, Procurement and Land Authority by the Commissioner and Chief Finance Officer is also reported to Committees along with any Mayoral Directions to TfL.

Audit and Assurance Committee	The Committee reviews the effectiveness of the system of internal controls, including the integrated assurance framework and considers fraud and risk management issues. It also reviews the Annual Accounts prior to submission to the Board and TfL's compliance with the UK Corporate Governance Code (where applicable). The Risk and Assurance Directorate and External Auditors support the work of the Committee.
Risk Management	TfL has an Enterprise Risk management system that sets out TfL's Enterprise and Strategic Risks, supported by local risk registers throughout TfL, which are monitored by the appropriate senior manager. The Audit and Assurance Committee oversees the implementation of the risk management system, with individual Committees and Panels reviewing each Enterprise Risk within their remit as per the 12-month rolling schedule. The Executive Committee also regularly reviews all the Enterprise Risks.
Scrutiny and Review	The Board, Committees and Panels each receive regular quarterly reports on TfL's performance. These reports cover: performance against the Scorecard; financial performance; customer and operational performance; safety, health and environment; and human resources. The Audit and Assurance Committee reviews TfL's overall audit and assurance arrangements.
The Commissioner and the Executive Committee	The Commissioner and Executive Committee are responsible for the delivery of day-to-day operations. The statutory Chief Finance Officer (TfL's appointed officer under section 127 of the GLA Act 1999) is responsible for safeguarding TfL's financial position. The postholder reports directly to TfL's managing Chief Finance Officer and, while not on the Executive Committee, plays an active part in TfL strategic decision making through involvement in all key decisions with a significant financial implication and has management responsibility to produce the Business Plan and statutory accounts. The General Counsel, along with the Commissioner, is responsible for ensuring compliance with the law and promoting good corporate governance and high standards of public conduct. The Director of Risk and Assurance comments annually on the effectiveness of the Code.

Applying the Framework Principles

Principle A: Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law. TfL's Code of Conduct for Members and staff reinforces a public service ethos and high standards of behaviour. It is supported by more detailed guidance, including TfL's whistleblowing procedures and guidance on conflicts of interest and through the Modern Slavery Statement. The General Counsel and Commissioner have specific responsibilities to ensure that TfL's decisions meet legal requirements. Inductions for new senior staff and the one new Member of the Board appointed in 2023/24 explicitly covered the importance of behaviours and ethical values. Declarations of interests for Members and the most senior staff are published on tfl.gov.uk and declared at meetings.

Principle B: Ensuring openness and comprehensive stakeholder engagement. TfL has a transparency strategy and publishes a substantial amount of information. It engages with stakeholders and partners through consultation and its work with London Councils and individual boroughs. It cooperates with appropriate organisations to ensure there is independent scrutiny of its financial and operational reporting processes. Board, Committee and Panel meetings are held in public and are routinely webcast contemporaneously on TfL's YouTube channel to further enhance transparency in decision making. TfL has an active social media presence including Facebook, X (formerly Twitter) and YouTube. Members of TfL's Youth Panel now attend meetings of the Board's two Panels to provide the perspective of young people.

Principle C: Defining outcomes in terms of sustainable economic, social, and environmental benefits. TfL meets this objective through its delivery of the Mayor's Transport Strategy, supported by its Vision and Values, Business Plan and the annual Scorecard process. The Business Plan and Scorecard measures flow through to team and individual staff objectives. The quarterly reports to the Board, Committees and Panels, as well as papers seeking authority for projects, provide commentary on how they support the objective of delivering the Mayor's Transport Strategy.

TfL's Vision and Values, launched in 2021, define TfL's purpose as "To move London forward safely, inclusively and sustainability" and its vision as "We'll be a strong, green heartbeat for London". In 2023, TfL launched "Our Strategy", which built on the Vision, purpose and Values, setting out how TfL would achieve its Vision and explaining how everything fitted together to do that. TfL has established five roadmaps to deliver the Vision and Values and these are reviewed annually. They guide planning and decision making, provide direction while maintaining flexibility for different areas of the business to develop their own plans to contribute and support frequent, open reporting on how we are doing. The roadmaps cover:

- Safety and Security – get everyone home safe and healthy, every day;
- Colleagues – be a great place to work for everyone to thrive;
- Customers – give people more reasons to choose sustainable travel;
- Finance – grow our income and control our costs; and
- Green – tackle the climate and ecological emergency.

In 2023, TfL launched “Action on Inclusion” to support a more inclusive workforce. In 2024, TfL launched “Equity in Motion” which set out its plans for creating a fair, accessible and inclusive transport network.

Principle D: Determining the intervention necessary to achieve intended outcomes. The Quarterly Performance Report and other key quarterly reports submitted to Committees and Panels track TfL’s activities in terms of key performance indicators and delivery of the Mayor’s Transport Strategy. These also highlight remedial actions taken where slippage occurs. TfL’s intervention in the governance of the Crossrail project in 2020, enabled the Elizabeth Line Delivery Group and Elizabeth Line Committee to drive the project forward, with the line opening on 24 May 2022, through running and Sunday services introduced on 6 November 2022 and the final integration of the railway on 21 May 2023. Following a period of monitoring performance and the close out of the Crossrail project, the Elizabeth Line Committee was stood down on 25 July 2023. TfL had previously given greater financial independence to its property subsidiary company, now named Places for London Limited, and established a Land and Property Committee to oversee and drive forward schemes that will deliver affordable housing for the Mayor and revenue for TfL. The governance of the Committee has been reviewed, with additional assurance and the Places for London management team is also supported by external experts. Following a review of its safety culture, further consideration is being given to enhancing the Board’s role in the oversight of safety.

Principle E: Developing TfL’s capacity, including the capability of its leadership and individuals within it. The structure of the Executive Committee and the roles and responsibilities of its members were refreshed in February 2022 and revised governance arrangements below this level have been reviewed and implemented. TfL undertakes a wide range of human resources activities to develop the capacity of its colleagues. Regular reports are submitted to the Safety, Sustainability and Human Resources Panel and the Remuneration Committee on this and key initiatives including the Our TfL Programme, leadership programme, succession planning and TfL’s graduate and apprenticeship programmes. During the year, the Remuneration Committee reviewed and supported proposals in relation to resourcing at TfL, including the approach to reward. TfL’s Vision and Values are also intended to develop capacity (see Principle C above). Board Members are developed through induction, briefings and site visits. One new Board Member was appointed and inducted during the year.

Principle F: Managing risks and performance through strong internal control and financial management. TfL’s Enterprise Risk management system sets out TfL’s main strategic risks and mitigations, with more detailed risk registers held throughout TfL. Following a review with the Board and the Executive Committee in May 2022, the Enterprise Risks were updated and the Enterprise Risk Management Framework was changed to reflect TfL’s Vision and Values roadmaps. A 12-month rolling schedule of reviews for the Level 0 Enterprise Risks was established, with risks reviewed and updates provided to the Executive Committee and the relevant Committees and Panels. The Audit

and Assurance Committee maintains overall responsibility for scrutinising TfL's approach to risk and receives reports to each meeting and reports on this to the Board. The Finance Committee scrutinises TfL's financial performance and reports on this to the Board. It monitors the effectiveness of rigorous cost control and scrutiny measures introduced because of the impact of the coronavirus pandemic on TfL's funding and saw TfL make an operational surplus for the first time in its history at financial year end 2024. TfL has also continued to embed the TfL Health, Safety and Environment Management System and has continuous improvement plans in place to enhance the system and strengthen the maturity of compliance.

Principle G: Implementing good practices in transparency, reporting and audit to deliver effective accountability. TfL follows the Government Communication Service guidance on providing clear and accurate information. It has a published transparency strategy and has developed its website and the format of its reports to improve transparency and accessibility. Minutes of meetings, key decisions taken outside of meetings, the registers of Members and the most senior staff's interests and acceptance of gifts and hospitality, along with details of contracts awarded over £5,000 are published on [tfl.gov.uk](https://www.tfl.gov.uk).

Review of Effectiveness

TfL conducts, at least annually, a review of the effectiveness of its governance framework including the system of internal control, which is reported to the Audit and Assurance Committee. There was also an annual Board Effectiveness Review in 2023 led by an external specialist and reported to the Board in October 2023.

TfL continually reviews the effectiveness of its governance arrangements, including all aspects of TfL's operations including its relationships with its group entities. The Risk and Assurance Annual Report and Assurance Statement includes the opinion of the Head of Internal Audit on the overall framework of TfL's governance, risk management and internal control in the year. The opinion for the year ending 31 March 2024 concluded that the overall framework of TfL's governance, risk management and internal control is generally adequate for TfL's business needs and operated in an effective manner. The opinion did highlight three issues to be addressed following audits: insider threats are a significant risk and this spans new and existing employees, non-permanent labour and consultants; weaknesses in the controls around the provision of labour contracts; and gaps in audit trails and supporting documentation and an inconsistent approach to record keeping, particularly in relation to records management for procurement and contracts. The audit of the safety complaints process also found that, while safety complaints were taken seriously, there were inconsistencies at an operational level in how processes were carried out. Processes to manage and handle safety complaints were not always aligned with the requirements of the safety complaints procedure. Audit recommendations have been agreed and are being implemented to address each of these issues.

The significant impact of the coronavirus pandemic on TfL's operational activities and its finances continues to be felt. A 19-month funding settlement was agreed with Government on 30 August 2022 and lasted until to 31 March 2024 and a subsequent capital funding settlement is now in place. Discussions are ongoing in relation to securing long-term capital funding to enable TfL to plan effectively.

Conclusion

TfL is satisfied that appropriate governance arrangements are in place. It recognises that there is always more that can be done and remains committed to maintaining and where possible improving these arrangements. The key ways of doing this are:

- keeping its governance arrangements under continuous review, including through the Board Effectiveness Review;
- addressing issues identified by Internal Audit as requiring improvement;
- reviewing and enhancing performance reporting to focus on key risks and areas for improvement; and
- listening to feedback from key stakeholders.

Signed:

Chair of TfL

Signed:

Commissioner

Improvement Plan 2023/24 Progress

Proposed Activity	Responsible Managing Director	Status Update
<p>Board Effectiveness: Implement the findings from the 2023 externally led Board Effectiveness Review.</p>	<p>General Counsel [Continual]</p>	<p>The review and management response (following informal engagement with Members) was reported to the Board on 18 October 2023. Recommendations have been addressed, with ongoing improvements being monitored. Those relating to Board Member appointments have been considered as part of the ongoing recruitment process.</p>
<p>Land and Property: Continue to embed the effective operation of the Land and Property Committee and the governance of TTL Properties Limited (now called Places for London Limited) and its subsidiary entities.</p>	<p>Chief Customer and Strategy Officer/ General Counsel [Updated]</p>	<p>A new Places for London leadership team was embedded, alongside external expert support and an Independent Investment Programme Advisory Group sub-group. The operation of the Committee was reviewed with its Chair considering the bedding in of the new Places for London organisation and the terms of reference will be kept under review.</p>
<p>Subsidiary Entities: Annual reviews to be undertaken to simplify the structure and reduce unnecessary costs. Continued support to new and existing statutory directors on their duties and responsibilities.</p>	<p>General Counsel [Continual]</p>	<p>An annual review was undertaken in 2023. Advice and guidance continued to be offered to existing and new company directors.</p>
<p>Operating Model and Processes: Continue to develop TfL's operating model and processes in accordance with agreed organisational change programmes.</p>	<p>Executive Committee [Updated/Continual]</p>	<p>This work is ongoing as we continue to embed the operating model and value chain. A review of the support services for Chief Officers has been completed and is being implemented.</p>
<p>TfL Scorecards: Continue to develop TfL's Scorecard and effective operational and performance measurement processes to reflect requests from the</p>	<p>Executive Committee [Continual]</p>	<p>The 2023/24 Scorecards, approved in March 2023, continued to focus on recovery but had additional refinements, as requested by Members. The Audit and</p>

Proposed Activity	Responsible Managing Director	Status Update
Finance and Remuneration Committees for a simplified Scorecard with fewer priorities to help drive performance.		Assurance Committee reviewed and endorsed the audit of the Outturn in April 2024. Further refinements were made to the Scorecards approved for 2024/25.
TfL Management System: Continue with the development of the TfL wide integrated system and implement changes arising from the new leadership structure and the Our TfL Programme review to optimise the system.	General Counsel [Continual]	The development of the Management System is a continual programme. Updates continue to be made to reflect leadership structure changes and the outcome of the Our TfL Programme review.
Safety, Health and Environment: To continue to implement and embed the TfL Safety, Health and Environmental (SHE) Management System.	Chief Operations Officer/ Chief SHE Officer/ Executive Committee [Continual]	This work is ongoing. Updates on the programmes to embed SHE culture throughout TfL were reported to the Safety, Sustainability and Human Resources Panel.
Audit, Assurance and Risk Management: Embed and refine the Audit and Assurance Plan and the Enterprise Risk management system. Enterprise Risks will have oversight by Committees and Panels.	Chief Finance Officer/ General Counsel/ Director of Risk and Assurance/ Executive Committee [Updated/Continual]	The new Enterprise Risks agreed in 2022/23 have been embedded, with individual Enterprise Risks reported to the relevant Committee or Panel to monitor their effectiveness. The review of all Level 1 risks and risk appetite and consequential process was also completed.
Crossrail: As the project is completed, the governance arrangements will be reviewed and further incorporated into TfL's business as usual arrangements.	Executive Committee [Updated]	Following the transition of the remaining activities to TfL on 26 May 2023, the completion of the project was endorsed in July 2023. Elizabeth line reporting has been integrated into TfL operational governance. The Elizabeth Line Committee was stood down on 25 July 2023 with Board-level reporting on future investment, operational performance, safety and all other matters now mapped to the existing meeting structure.

Proposed Activity	Responsible Managing Director	Status Update
Transparency: Continue to develop our proactive approach to transparency and maintain performance on responding to Freedom of Information requests.	Chief Customer and Strategy Officer/ General Counsel [Continual]	This work is ongoing. The final outturn on Freedom of Information requests was 4,524 on time, out of 4,540 received (99.6%).
Procurement and Contract Management: Implement 14-point action plan to further improve governance and controls.	Chief Finance Officer [Updated]	Good progress has been made on the action plan and this is reported to the Finance Committee.

Improvement Plan 2024/25

Proposed Activity	Responsible Managing Director	Status Update
<p>Board Effectiveness: Continue to implement the findings from the 2023 externally led Board Effectiveness Review, particularly in relation to Board appointments in 2024. Implement a comprehensive induction programme for new Members. Conduct an internally led Board Effectiveness Review.</p>	<p>General Counsel [Updated/Continual]</p>	<p>Ongoing improvements continue to be monitored and those relating to Board Member appointments have been considered as part of the ongoing recruitment process. A high-level review of Board Effectiveness will be conducted, reflecting that there will be several Members leaving and others joining during the year.</p>
<p>Land and Property: Continue to embed the effective operation of the Land and Property Committee and the governance of Places for London and its subsidiary entities.</p>	<p>Chief Customer and Strategy Officer/ General Counsel [Continual]</p>	<p>The terms of reference of the Committee will be kept under review as the governance model for Places for London is refined.</p>
<p>Subsidiary Entities: Annual reviews to be undertaken to simplify the structure and reduce unnecessary costs. Continued support to new and existing statutory directors on their duties and responsibilities.</p>	<p>General Counsel [Continual]</p>	<p>An annual review will be undertaken later in 2024. Advice and guidance will continue to be offered to existing and new directors.</p>
<p>Operating Model and Processes: Continue to develop and embed TfL's Value Chain, operating model and processes, in accordance with agreed organisational change programmes.</p>	<p>Executive Committee [Updated/Continual]</p>	<p>This work is ongoing. Further changes to the operating model were announced in May 2024.</p>
<p>TfL Scorecards: Continue to develop TfL's Scorecard and effective operational and performance measurement processes to reflect requests from the Finance and Remuneration Committees for a simplified Scorecard with fewer priorities to help drive</p>	<p>Executive Committee [Continual]</p>	<p>The 2024/25 Scorecards were approved in March 2024 and included further refinements.</p>

Proposed Activity	Responsible Managing Director	Status Update
performance.		
TfL Management System: Continue with the development of the TfL wide integrated system and the Our TfL Programme to optimise the system.	General Counsel [Updated/Continual]	The development of the Management System is a continual programme. Updates will continue to be made to reflect the outcome of the Our TfL Programme.
Safety, Health and Environment: To continue to implement and embed the TfL Safety, Health and Environment Management System. To review enhancing the Board's role in the oversight of safety. To address the agreed recommendations from the audit of the safety complaints process.	Chief Operations Officer/Chief SHE Officer/Executive Committee [Updated/Continual]	This work is ongoing.
Audit, Assurance and Risk Management: Continue to embed and refine the Audit and Assurance Plan and the Enterprise Risk management system. Enterprise Risks will have oversight by Committees and Panels.	Chief Finance Officer/ General Counsel/ Director of Risk and Assurance/ Executive Committee [Updated/Continual]	The Enterprise Risks agreed in 2022/23 have been embedded, with individual Enterprise Risks reported to the relevant Committee or Panel to monitor their effectiveness. They will continue to be kept under review, alongside the continued review of all Level 1 risks and risk appetite.
Transparency: Continue to develop our proactive approach to transparency and maintain performance on responding to Freedom of Information requests.	Chief Customer and Strategy Officer/ General Counsel [Continual]	This work is ongoing.
Procurement and Contract Management: Continue to implement the 14-point action plan to further improve governance and controls. This will include addressing agreed recommendations from the audit of document and records management for procurement and contracts around the clarity of	Chief Finance Officer [Continual]	This work is in progress and updates will continue to be provided to the Finance Committee.

Proposed Activity	Responsible Managing Director	Status Update
guidance, introduction on management checks and communication of the importance of using SAP Ariba as intended.		
Insider threat: In line with agreed audit recommendations, undertaking effective checks on candidate references, supporting information, confirmation of qualifications and vetting of candidates. Improvements are also needed to the documentation that fully supports the decision-making process;		This work is in progress and updates will be provided to the Audit and Assurance Committee.
Labour Contracts: In line with agreed audit recommendations, weaknesses in the controls around the provision of labour contracts will be addressed through additional controls to confirm that invoiced labour charges have accurate supporting documentation to ensure that payment is only made for services provided.		This work is in progress and updates will be provided to the Audit and Assurance Committee.

[page left intentionally blank]

Audit and Assurance Committee



Date: 5 June 2024

Item: Ernst & Young Report to Those Charged with Governance

This paper will be considered in public

1 Summary

- 1.1 This report informs the Committee the key risks addressed and the status of the audit work performed to date, by Ernst & Young LLP (EY) during their audit of the Statement of Accounts for the Transport for London Group for the year ended 31 March 2024.

2 Recommendation

- 2.1 **The Committee is asked to note the report.**

Background

- 2.1 EY have, as required by International Auditing Standards, prepared a report for the benefit of those charged with governance. The report outlines the respective responsibilities of the auditor and TfL and provides an overview of the status of the audit and accounting policy changes. The report also comments on judgemental areas within the accounts. EY's report is attached for the Committee's review.

List of appendices to this report:

Appendix 1: EY's Report to Those Charged with Governance

List of Background Papers:

None

Contact: Patrick Doig, Group Finance Director and statutory Chief Finance Officer

Email: PatrickDoig@TfL.gov.uk

[page left intentionally blank]

Transport for London Audit results report

Year ended 31 March 2024

30 May 2024



Private and Confidential
Transport for London
Palestra
197 Blackfriars Road
UK SW1H 0BD

30 May 2024

Dear Members of the Audit and Assurance Committee

2023/24 Audit status report

We are pleased to attach our audit status report, summarising the status of our audit for the forthcoming meeting of the Audit and Assurance Committee. We will update the Audit and Assurance Committee at its meeting scheduled for 5 June 2024 on our progress to date and explain the remaining steps to the issue of our final opinion.

The audit is designed to express an opinion on the 2024 financial statements and address current statutory and regulatory requirements. This report contains our work to date related to the areas of audit emphasis, our views on TFL Group accounting policies and judgements and material internal control findings. Each year sees further enhancements to the level of audit challenge, the exercise of professional judgement and the quality of evidence required to achieve the robust professional scepticism that society expects. We thank the management team for supporting this process.

The TfL Group and Corporation audits form part of our framework contract with Public Sector Audit Appointments Limited. We have undertaken our work in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's Code of Audit Practice, auditing standards and other professional requirements.

We are also the auditors of TfL's subsidiaries, Transport Trading Limited Group (TTL Group) and Places for London Properties Group (Pfl Group). TfL's subsidiaries are subject to the accounting requirements of the Companies Act 2006. We have undertaken our work in accordance with the requirements of International Standards on Auditing in the UK (ISA's UK)

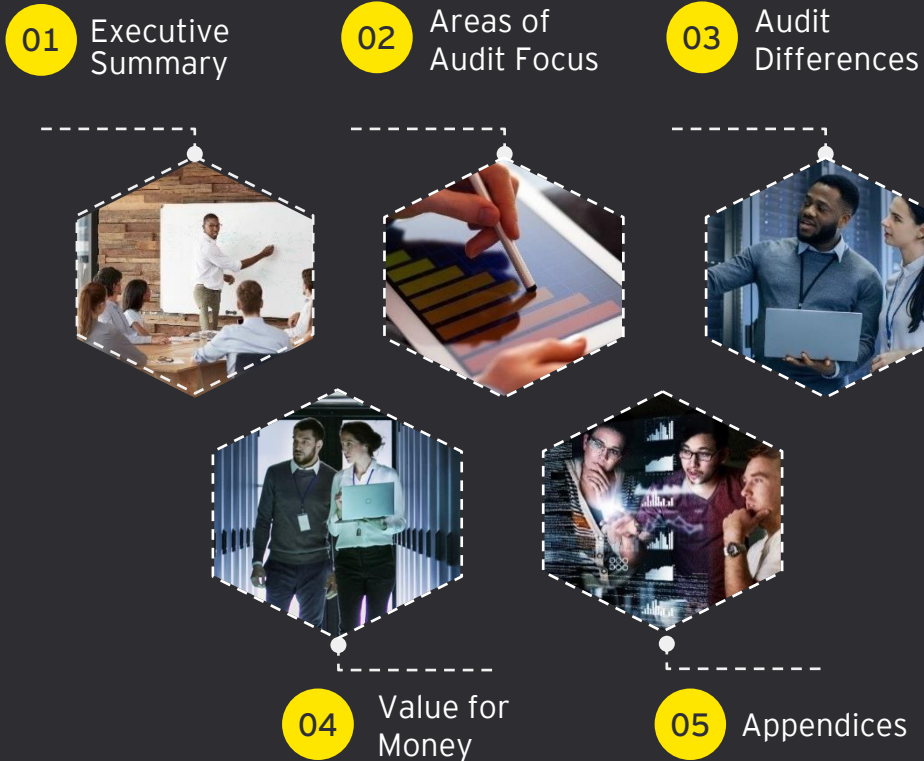
This report is intended solely for the information and use of the Audit and Assurance Committee, Board of Directors and management. It is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss the contents of this report with you at the Audit and Assurance Committee meeting on 5 June 2024.

Yours faithfully

Janet Dawson
Partner
For and on behalf of Ernst & Young LLP

Contents



Public Sector Audit Appointments Ltd (PSAA) issued the “Statement of responsibilities of auditors and audited bodies”. It is available from the PSAA website (<https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The “Terms of Appointment and further guidance (updated April 2018)” issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit and Assurance Committee and management of Transport for London in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit and Assurance Committee and management of Transport for London those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit and Assurance Committee and management of Transport for London for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



BOARDROOM



01 Executive Summary



Executive Summary

Scope update

In our audit planning report presented to the 29 November 2023 Audit Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exceptions:

- ▶ Changes in materiality

We updated our planning materiality assessment using the draft consolidated results. Based on our materiality measure of 1% of gross expenditure, we have updated our overall TfL Group materiality assessment to £132m (Audit Planning Report – £100m). This results in updated performance materiality, at 50% of overall materiality, of £66m ((Audit Planning Report –£50m) and an updated threshold for reporting misstatements of £7m (Audit Planning Report – £5m)

- ▶ VFM Risks

In our audit planning report, we communicated that we had not completed our VFM planning. Having completed our VFM planning work we identified one risk of significant weakness linked to Financial Sustainability. Section 04 of this report provides further detail on this risk.

- ▶ Significant risks:

In our audit planning report, we communicated our fraud risk over Inappropriate Revenue recognition with particular focus on fares revenue. Since our audit planning report, we have extended this risk to also include manual revenue adjustments posted to non-fares revenues.

A summary of our approach to the audit of the balance sheet including any changes to that approach from the prior year audit is included in Appendix A.

Executive Summary (cont'd)

Status of the audit

Our audit work in respect of the group opinion is still in progress. The following items relating to the completion of our audit procedures are outstanding at the date of this report (these are the main areas and is not a comprehensive list of all outstanding items):

Areas not started which are on track to be completed in June as planned:

- ▶ Annual Report and accounts which have not yet been received at the date of this report - completion of the technical review of the financial statements, including taxation, disclosures review and tie out to underlying audit work for TfL and Pfl;
- ▶ Assessment of going concern
- ▶ Intercompany procedures

Areas in progress to be completed by the end of June:

- ▶ Fares revenue - KPMG's ISAE3402 report on apportionment of revenue to TOCs through CPAY and PAYG and Agreed Upon procedures report for Travelcard and Through Ticketing (Non-travelcard agreements)
- ▶ Climate risk assessment and review of management's disclosures
- ▶ Tax review by our EY Tax Specialists
- ▶ Capital projects and capital accruals finalisation of testing
- ▶ Investment Property valuation work performed by our EY Real Estate Specialists and resolution of accounting challenges made
- ▶ Pensions - EY review of actuarial reports, RSM's audit report of investment fund/asset values and individual membership data testing for LPFA
- ▶ Provisions - agreement of assumptions including input from our People advisory specialists
- ▶ Substantive testing - completion of testing for remaining samples for income, expenditure, debtors, creditors
- ▶ Internal review procedures across this work from manager, partner and engagement quality review partner.

Closing procedures to be undertaken in July:

- ▶ Post balance sheet events up to the date of approval of the financial statements;
- ▶ Receipt of signed letter of representation.

Until the above procedures are completed, we cannot reach our overall conclusion.

Executive Summary (cont'd)

Audit differences

- ▶ At this stage of the engagement no audit misstatements have been quantified. Through our work to date we have identified and discussed a number of issues with management that may result in material amendments to the draft statements. Those areas are set out in Section 02 of this report and include matters related to investment property recognition. Management is undertaking further work to determine what amendments may be required. We will provide details to the Audit and Assurance Committee in our audit results report which we plan to issue in July.

Control observations

- ▶ At the date of this report, we have not identified any significant deficiencies in internal controls however our controls work is under-going review processes and until these processes are complete, we cannot formally conclude.

Whole of government accounts

- ▶ We have not yet initiated our audit for Whole of Government (WGA) requirements for 2023/24. Our audit work on WGA for 2022/23 has been completed.

Audit Certificate

- ▶ The Audit Certificate is issued to demonstrate that the full requirements of the National Audit Office's 2020 Code of Audit Practice have been discharged for the relevant audit year. We expect to issue the audit certificate once the work on Whole of Government Accounts is complete. We issued our audit certificate for 2022/23 on the 25th March 2024.

Value for Money

- ▶ Under the terms of the Code of Audit Practice (the 2020 Code) and associated Auditor Guidance Notes (AGN) we are required to report on significant weaknesses in a body's arrangements identified during the course of the audit.

Financial Sustainability - Longer term funding impacts

We have identified a risk of significant weakness as defined by AGN03 with regards to the financial sustainability of TfL, given there is no long term funding arrangement currently in place. Without a longer-term funding agreement in place, TfL is making short term decisions based on the current capital funding arrangements. Having completed our planned procedures in respect of financial sustainability we found that arrangements were in place throughout 2023/24 to address financial sustainability including a revised budget and business plan and effective capital programme management. Having completed our procedures, we did not identify a significant weakness and our opinion is not modified in respect of this matter.

Independence

Please refer to the separate independence and objectivity letter provided to the Audit and Assurance Committee dated 22 May 2024



02

Areas of Audit Focus

Areas of Audit Focus

Misstatements due to fraud or error

Significant Risk

What is the risk, and the key judgements and estimates?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

What is the status of our work?

We have performed enquiries with management and gained an understanding of the oversight and processes in place to address the risk of fraud to determine our audit strategy and risk assessment which is discussed in further detail on the following slides.

Our mandatory procedures over journal entry testing, accounting estimates and significant unusual transactions remain in progress at the date of this report.

Our response to the key areas of challenge and professional judgement

We undertook our standard procedures to address fraud risks, which include:

- ▶ Inquiry of management about risks of fraud and the controls put in place to address those risk;
- ▶ Understanding the oversight given by those charged with governance of management's processes over fraud;
- ▶ Evaluation of the effectiveness of management's controls designed to address the risk of fraud and the oversight given by those charged with governance of management's processes over fraud ;
- ▶ Determining an appropriate strategy to address those identified risks of fraud as detailed on the following pages in this report; and
- ▶ Performing mandatory procedures regardless of specifically identified fraud risks, including:
 - ▶ testing of journal entries and other adjustments in the preparation of the financial statements;
 - ▶ assessing accounting estimates for evidence of management bias; and
 - ▶ evaluating the business rationale for significant unusual transactions.

Areas of Audit Focus

Inappropriate Revenue recognition, required by ISA (UK & Ireland) 240

Key Audit Matter

Significant Risk

What is the risk, and the key judgements and estimates?

TfL needs to have robust controls in place to forecast and accurately recognise and report revenue in its financial statements. As at 31 March 2024 fares revenue amounted to £4,838.5m.

In our audit plan we assessed that the risk of fraud in revenue recognition manifests itself through fares revenue only due to the complexity and judgement involved in the process of apportioning the fares revenue recognised as well as funding incentives. However, since the date of our audit planning report we have expanded this risk to also cover manual adjustments to non-fares revenue streams where there could be an opportunity for manipulation including rental revenue, congestion charging and commercial advertising revenue.

What is the status of our work?

We have completed our controls testing over sales to cash collection and transaction testing over invoices and testing of JFT reports against underlying supporting documents and this work is subject to our internal review processes before we can formally report our conclusions.

At the date of this report, we are also awaiting KPMG's testing of controls over contactless ticketing and Oyster pay as you go, set out in their ISAE3402 report and agreed procedures report. Subject to its conclusions, we plan to place reliance on the report. Once the remaining information is received, we will be able to conclude on whether the basis used to recognise fares revenue and related disclosures in the financial statements are reasonable.

Our response to the key areas of challenge and professional judgement

For Fares Revenue, to date we have:

- ▶ Gained an understanding of the revenue process for fares revenue;
- ▶ Performed controls testing over the effectiveness of the cash collection process and sales made at various sales outlets;
- ▶ Substantively tested revenue relating to Oyster Pay as You Go, Contactless Pay, Travel card and Tickets by selecting a sample of sales included in the sales database and agreeing the information to sales returns received. For each return we have then re-performed the calculation of the amount to be recognised as revenue based on the product type and agreed it to the revenue recorded for that period. This calculation also includes the apportionment of revenue between TfL and the Train Operating Companies, which was tested for this sample;
- ▶ Agreed the values reported as revenue in advance to the revenue system reports identifying the proportion of revenue relating to future periods for annual or periodic tickets and travel cards purchased in the 2023/24 year. We tested the parameters used in the report to confirm the appropriate calculation of this amount as payments received in advance;
- ▶ Compared the assessment of fares apportioned to the Train Operating Companies for reasonableness against latest agreements, settlements in year and correspondence with the Train Operating Companies;
- ▶ Reviewed the minutes of meetings held between TfL and TOCs during FY23/24 to understand whether there were any issues regarding information communicated by TOCs and settlements between the parties; and
- ▶ Assessed any changes to underlying assumptions used for the recognition of revenue such as TOC apportionment and Oyster Card releases.

For Non-Fares Revenue, we have:

- ▶ Reviewed manual journal entries for unusual postings related to adjustments to revenue.

Areas of Audit Focus

Inappropriate capitalisation of capital projects including capital accruals

Key Audit Matter

Significant Risk

What is the risk, and the key judgements and estimates?

Under the current funding agreement with the Department for Transport, TfL has a capital funding envelope and an agreed level of expected capital expenditure. TfL is expected to deliver 10 Major projects in 2023/24 as follows within the budget of £3.5bn:

- ▶ Piccadilly Line Upgrade Phase 1 - Trains
- ▶ Four Lines Modernisation
- ▶ Rail System Enhancements for Northern and Jubilee lines
- ▶ Northern Line Extension
- ▶ Silvertown Tunnel
- ▶ Barking Riverside Extension
- ▶ DLR Rolling Stock Replacement Programme
- ▶ Elephant & Castle Station Stage 1
- ▶ Bank Congestion Relief (and necessary associated works)
- ▶ The Elizabeth Line

There is a risk that capital expenditure is misstated in order to maximise capital funding receipts.

What is the status of our work?

We selected 45 capital projects in our sample for detailed testing including 2 Crossrail projects. Of these 45 projects, 19 have been subject to full scope procedures as we have determined that they are quantitatively material and 7 have been subject to specific scope procedures as we have assessed them to be qualitatively material. The remaining 19 projects have been selected randomly to incorporate unpredictability into our testing and have been subject to limited scope procedures.

Good progress has been made through this work and we are finalising areas of documentation and awaiting requests for final evidence. This work will be subject to internal review procedures before we can formally report on our conclusions.

Our response to the key areas of challenge and professional judgement

For TfL, TTL groups and subsidiaries, to date we have:

- ▶ Gained an understanding of key controls and governance surrounding capital project accounting and management;
- ▶ Tested controls focused on the effectiveness of the approval process for expenditure and for capitalisation;
- ▶ We selected a sample of major projects and tested expenditure capitalised during the financial period to supporting project documentation, including third party reports and valuations and assessed whether the expenditure met the criteria for capitalisation;
- ▶ We visited a sample of project sites, and met with project managers to further understand the scope and the progress on projects for a sample of projects, to enable us to consider whether the accounting amounts recorded were consistent with the understanding gained of any delivery challenges encountered, or disputes with contractors and to consider whether this indicated any expenditure did not meet the criteria for capitalisation;
- ▶ Compared the latest positions of the projects recorded in respect of “pain or gain” arrangements to contract terms and conditions and to the latest project outturn forecasts to assess the related value recorded in accruals;
- ▶ Performed detailed testing on a sample of capital accruals to source documentation to test completeness of costs recognised at 31 March 2024;
- ▶ Evaluated whether, at any stage, assets need to be impaired or written off to reflect any aborted or higher risk projects and assessed whether management has reasonably estimated the cost to complete the capital projects; and
- ▶ Reviewed claims and contracts for existence of additional obligations or expenditure that is inappropriate to capitalise.

Areas of Audit Focus

Going Concern

Key Audit Matter

Significant Risk

What is the risk, and the key judgements and estimates?

The going concern period to be considered is of at least 12 months from the approval of the financial statements however the current funding agreement in place only covers the period up to the 31 March 2026. There is a risk that, for the going concern period where funding is not in place, TfL will have to make difficult decisions over the current level of services or capital spending if it is unable to achieve financial sustainability.

What is the status of our work?

At the date of this report our going concern work including our challenge of management's assumptions and stress testing is in progress as management's assessment was only received on the 16 May 2024. The procedures listed on the right are therefore to be completed. At the date of this report, we are also awaiting management's cash flow forecast covering the going concern period. We will provide our conclusions on the going concern work to the Audit and Assurance Committee in our audit results report planned for July.

Our response to the key areas of challenge and professional judgement

For TfL, TTL group and subsidiaries, we will:

- ▶ Understand management's assessment of funding requirements and commitments for the going concern period;
- ▶ Consider the historical accuracy of management's budgets and forecasting by comparing the last two years variances in actual outturn, to assess the risk of the budgets used in the funding discussions omitting material commitments;
- ▶ Validate performance to date on efficiency savings programmes, to determine the potential risk of non-delivery of the savings assumed within the budget, as well as the additional amounts required by the funding settlement;
- ▶ Validate performance against conditions in the agreement with the DfT dated 30 August 2022 to assess the risk of noncompliance with conditions which could result in TfL having to return funding that has previously been provided;
- ▶ Challenge each material element of downside risk identified by management, including those related to inflation and cost savings and test to supporting evidence to assess the underlying assumptions and the appropriateness of TfL calculations;
- ▶ Stress test the downside risk, using worst case parameters, consider completeness of downside risks and calculate a "worst case" downside risk- this will include using increased inflation rates, reduced cost savings, changes to passenger fares and other reductions to revenue;
- ▶ Confirm the position regarding any assumed support from GLA in the going concern period, such as the availability and planned application of the Transport Reserve and funding facility to TfL;
- ▶ Consider the mitigations available to TfL, challenge the assumptions over access to further borrowing and other potential mitigations to support the going concern position; and
- ▶ Ensure appropriate disclosure of the risks and uncertainties in the financial statements.

Areas of Audit Focus

Complexity of accounting for TfL and TTL property portfolios

Key Audit Matter

Significant Risk

What is the risk, and the key judgements and estimates?

TfL has an extensive property portfolio, with a net book value of investment property amounting to £1.7bn as at 31 March 2024.

To determine fair value, management utilises the net income method and discounting of future cash flows to their present value through engaging an external valuer. The valuations are determined by several assumptions including the anticipated future rental income, maintenance costs and the appropriate discount rate; making reference to market evidence of transaction prices for similar properties. These assumptions can be subjective and a small change in these assumptions can have a material impact on the overall valuation of investment property recognised in the financial statements.

What is the status of our work?

We are in the process of completing our procedures, including the work performed by our specialists, and have not yet concluded our work in this area.

We have raised a number of challenges in our work over investment property which are not yet concluded at the date of this report. The most significant of such relates to several properties held under long term lease arrangements that should be accounted for as finance lease receivables rather than investment property. At the date of this report we are awaiting management's assessment whereby this will be quantified, including considerations of the prior year impact as well as the impact on rental income and tax. This work will be subject to internal review procedures before we can formally report on our conclusions. We will provide our conclusions on this work, along with any audit adjustments, in our audit results report.

Our response to the key areas of challenge and professional judgement

For TfL, TTL groups and subsidiaries, to date we have:

- ▶ Obtained an understanding of management's process and controls around the valuation of properties;
- ▶ Reviewed the valuations report prepared by TfL's external valuers, agreeing the entries in the report back to the financial statements to confirm the accuracy of the entries;
- ▶ Assessed the classification of TfL and TTL properties and any material increases or impairments that arise during 2023/24;
- ▶ Met with TfL's external valuers and discussed the methodology applied and key judgements used in the valuation. Such judgements included the estimated rental value, yield profile and other assumptions that impact the value; and
- ▶ Selected a sample of investment properties based on a number of factors including size, risk and risk. For this sample of properties, we tested source documentation provided by the management to the external valuer. This included agreeing a sample back to underlying lease data.

Areas where work remains in progress:

- ▶ We have engaged our internal valuation experts to assist in our testing of valuations. Our valuation experts are currently reviewing and challenging the valuation approach and assumptions for a sample of properties. This work includes comparing the yields applied to each property to an expected range of yields taking into account available market data and asset specific considerations. They also assess whether the other assumptions applied by the external valuers, such as the estimated rental values, voids and tenant incentives are supported by available data; and
- ▶ Audit work in relation to treatment of long leases including review and challenge of management assessment, agreement of proposed accounting entries and revised disclosures and an assessment of impact in the prior period.

Areas of Audit Focus (cont'd)

Other areas of audit focus and response to significant risks

Significant accounting estimates - including complexity of provisions

What is the risk ?	What did we do?	Status of work
<p>Significant accounting estimates - including complexity of provisions</p> <p>TfL, TTL and subsidiaries recognise a number of provisions related to different liabilities including commercial disputes, compensation and contractual arrangements and property claims.</p> <p>These provisions are subject to significant estimation and include uncertainty around negotiations.</p>	<p>We have critically assessed management’s assessment of judgements and estimates. Specifically, we:</p> <ul style="list-style-type: none"> ▶ Reviewed the methods and/or models used to make the accounting estimates; ▶ Reviewed the assumptions used to make the accounting estimates; ▶ Reviewed risk of management override of control in relation to estimation process; ▶ Evaluated the accuracy and completeness of the estimation amount made by third parties relating to insurances claims, and ▶ Perform unrecorded liabilities testing to identify any omitted provisions. 	<p>At the date of this work report our audit work on provisions is largely subject to review procedures before we can report our conclusions.</p> <p>For one specific area of our provisions work we have engaged our EY People Advisory Specialists to support in assessing the appropriateness of assumptions included in the financial statements and this work remains in progress at the date of this report.</p> <p>We will report the outcome of our work to the Audit and Assurance Committee in our audit results report.</p>

Areas of Audit Focus (cont'd)

Other areas of audit focus and response to significant risks

IFRS 16 Leases - Lease accounting, including the complexity of the estimating the Incremental borrowing rate (IBR)

What is the risk ?	What did we do?	Status of work
<p>IFRS 16 Leases - Lease accounting, including the complexity of the estimating the Incremental borrowing rate (IBR)</p> <p>IFRS 16 was adopted for the first time in the 31 March 2020 financial statements. It requires entities to recognise a right of use asset and corresponding lease liability in its Statement of Financial Position. There are a number of judgements applied including the Incremental Borrowing Rate (IBR) applied. Historically we have reported an unadjusted audit difference in this area hence it remains an area of risk in FY24.</p>	<p>We have:</p> <ul style="list-style-type: none"> ▶ Determined the interest rate to be used in the calculation of lease liabilities including engaging our EY specialists to evaluate the accuracy of the rate used. Management has continued utilising the same rate from the date of IFRS16 adoption for all deliveries of rolling stock in the 2023/24 financial year end accounts; ▶ Assessed the length of leases, in particular with respect to station and track access; ▶ Assessed the value of 'peppercorn' leases - the CIPFA Code requires the recognition of values related to peppercorn leases (this is not required under adopted IFRS); and ▶ Re-assessed the differences identified in the prior year. 	<p>In respect of the first point shown left, the interest rate used in the calculation of lease liabilities, management has utilised the same rate from the date of IFRS16 adoption for all deliveries of rolling stock in the year.</p> <p>Our work to assess and consider this point is in progress and we will report our conclusions to the Audit and Assurance Committee in our audit results report.</p>

Areas of Audit Focus (cont'd)

Other areas of audit focus and response to significant risks

Climate Risk

What is the risk ?	What did we do?	Status of Work
<p>Climate Risk In the context of the changing stakeholder expectations, and the increased regulatory focus, we have embedded a response to the risks presented by climate change into our audit procedures. FY24 is the first year in which it is mandatory for TTL to meet the Task Force on Climate-related Financial Disclosures (“TCFD”) disclosure requirements spelled out by the FRC.</p> <p>We note various physical and transition climate change risks set out in the Task Force on Climate-related Financial Disclosures (“TCFD”) disclosures along with the impact on the financial statements. These include the impact of extreme weather events, as well as shifts in policy, technology, markets and public expectations.</p> <p>We will focus on the completeness of these risks and whether our review of this “other information” identifies inconsistencies with the financial statements and any information we have obtained during the course of our audit.</p>	<p>Our audit work includes input from our Climate Change and Sustainability Specialists (CCaSS). The specific procedures undertaken include:</p> <ul style="list-style-type: none"> ▸ Updating our assessment as to how the characteristics and undertakings of the Group may give rise to climate risks; ▸ Understanding and assessing the Group’s external climate-related commitments; ▸ Understanding and evaluating the process and output relating to management’s assessment of the impact of climate change risk; ▸ Assessing changes to transitional and physical risks which may have an impact on the narrative reporting and audited financial information; ▸ Evaluating the impact of climate change on the narrative reporting in the front half, including review of the mandatory Task Force on Climate-related Financial Disclosures (“TCFD”) disclosures in light of the new requirements; ▸ Assessing the impact of climate change on audited financial information and determining the reasonableness of disclosures; and ▸ Including key observations in our audit opinion. 	<p>At the date of this report we have had initial conversations with management and have received some elements of the draft climate disclosures which are in progress with our review including engagement with our CCaSS team.</p> <p>We are awaiting supporting working papers and assessment to support the financial statement impact and disclosures.</p> <p>We will provide our conclusions to the Audit and Assurance Committee in our audit results report.</p>

Areas of Audit Focus (cont'd)

Other areas of audit focus and response to significant risks

Complexity of accounting and disclosures for TfL's borrowing and treasury management

What is the risk ?	What did we do?	Status of work
<p>Complexity of accounting and disclosures for TfL's borrowing and treasury Management</p> <p>TfL holds a number of derivative balances including FX forwards and interest rate swaps. Whilst the recalculation of derivative fair values is relatively complex the type of derivatives held by TfL (FX and Interest rate swaps) are not considered highly complex investment vehicles.</p> <p>In addition to this, TfL holds material levels of borrowing and determining the fair value of this borrowing contains some assumptions would can be open to judgement.</p>	<p>TfL is required to disclose the fair value amount of these derivatives. The fair value amount of this derivative is not included in the bank confirmation. The closing balance of the derivative positions held as at 31 March 2024 year end is £14.3m.</p> <p>In order to evaluate the accuracy of the fair value amount computed using Quantum system, we randomly select a of sample of 6 derivatives (2 FX Swaps , 2 FX forwards and 2 cashflow hedge relationships) and requested the our EY Financial Accounting Advisory Services (FAAS) team to assist us in recomputing an independent fair value amount.</p> <p>The closing balance of borrowings held as at 31 March 2024 is £12.95bn. The engagement team, using independent valuation agency risk spreads obtained by our EY FAAS team, has assessed the reasonableness of managements fair value assessment of Bonds and Borrowings.</p> <p>Additionally in terms of new agreements entered in the current period , the engagement team has obtained and inspected the agreements agreeing them to management's Quantum reports ensuring the accuracy of the recorded information inputted into the system as well as assessing the existence and rights and obligations of each agreement.</p> <p>The engagement team has also obtained 3rd party confirmations confirming the nominal amounts of borrowings provided.</p>	<p>From a derivatives perspective, we are currently awaiting receipt of one outstanding confirmation along with final review procedures before we can communicate the results of our work.</p> <p>For cash and borrowing there were two instances where we were unable to obtain direct confirmation of balances and so we performed alternative procedures to obtain assurance over these balances. This involved obtaining the bank statements and observing the download of the statement from the online portal as at the 31 March 2024 by the finance team.</p> <p>For several short-term investments, specifically treasury bills held with UK Debt Management Office, commercial paper, and long-term borrowings the engagement team were unable to successfully obtain 3rd party confirmations directly from the banks holding these investments. This communication is required as the unconfirmed balance is noted to be material.</p> <p>As a result, we undertook alternative procedures to gain comfort over the balances of these investments. This was done by obtaining the treasury teams email communications from the banks confirming that the deals were made and the outstanding balances as well as through the Bloomberg confirmations portal provided by the finance team. The engagement team has observed the extraction of the Bloomberg confirmations per a Microsoft Teams call. Where emails from the banks have been shared the engagement team has verified the email addresses of the senders and corresponded with the banks to ensure the authenticity of the information shared.</p> <p>At the date of this report 32 confirmations are outstanding from counterparties which will need to be received, or alternative procedures performed, before we can conclude on the work.</p>

Areas of Audit Focus (cont'd)

Other areas of audit focus and response to significant risks

Judgemental assumptions impacting TfL's pension position

What is the risk ?	What did we do?	Status of work
<p>The Local Authority Accounting Code of Practice and IAS19 require TfL to make extensive disclosures within its financial statements regarding its membership to the various schemes.</p> <p>TfL's pension fund position is a material estimated balance and the Code requires that this be disclosed on the TfL's balance sheet. At 31 March 2024, the TfL Pension Fund Section position reported a net surplus £2,313m (2023: net surplus of £1,630m) and the Crossrail Section of Railway Pension Scheme reported a surplus position of £3.39m (2023: net surplus of £1.4m). The LPFA IAS19 disclosure is yet to be received from TfL.</p> <p>The Group's balance sheet reflects the position from the Public Sector Section of the TfL Pension Fund Scheme, Local Government Pension Fund Scheme, the Crossrail section of the Railways Pension Scheme and the unfunded scheme provisions.</p> <p>Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p>	<p>We have :</p> <ul style="list-style-type: none"> ▶ Liaised with the auditors of TfL Pension Fund to obtain assurances over the information supplied to the actuary in relation to Transport for London. We will meet with the auditor to discuss audit risks and findings and also obtain a copy of the audit findings reports to assess the impact to the schemes of TfL; ▶ For the LGPS and Crossrail schemes we have performed substantive analytical procedures on the fair value of plan assets movement from the latest audited financial statement of the pension funds to 31 March 2024 using indices to form an expectation over the year-end asset position; ▶ Assessed the work of the Pension Fund's actuary (Barnett Waddingham and XPS Group) including the assumptions they have used by engaging our EY Pension Consulting team to review and assess the assumptions used; ▶ Reviewed and tested the accounting entries and disclosures made within the TfL's financial statements in relation to IAS19; and ▶ Engaged our EY Pensions Consulting team to carry out roll forward calculations related to the accounting numbers for the fund, to reconcile the year-end fair value of the scheme's assets and actuarial valuation of deficit benefit obligation figures with those from the previous year disclosures. We have also engaged our EY Pensions Consulting team to perform a review of assumptions for all schemes. 	<p>Our work in relation to the present value of defined benefit obligations is still under review by our EY Pensions Advisory Group (EY PAG) having received the information from the actuary.</p> <p>At the date of preparing this report, we are waiting for the IAS19 disclosures for LPFA - Local Government Pension Scheme.</p> <p>Our work in relation to the fair value of plan assets is in progress. We are in regular communications with the auditors of the TfL Pension Fund (RSM) who have communicated that they will provide the audit findings report of the net assets pension fund on and around the 12th July, after which we will be able to undertake our audit of the fair value of the plan assets.</p> <p>We are in progress with our substantive analytical procedures for LPFA - LGPS and expect to receive the audited accounts for the Crossrail Section of the Railway Pension Scheme on or around the 4th July. This will enable us to complete our substantive analytical review procedures in relation to this scheme.</p> <p>We are also still waiting for all IAS19 adjustments and IAS19 disclosures from the draft accounts to complete our work on the disclosures.</p> <p>We will provide our conclusions to the Audit and Assurance Committee in our audit results report.</p>

Areas of Audit Focus (cont'd)

Other areas of audit focus and response to significant risks

Minimum Revenue Provision (MRP)

What is the risk ?	What did we do?	Status of work
<p>Minimum Revenue Provision (MRP)</p> <p>Under the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 [as amended], TfL has a duty to make a revenue provision in respect of the financing of capital expenditure incurred by the local authority in that year or in any financial year prior to that year. As part of the FY23 audit we carried out a detailed review and challenge of the MRP position and as a result we raised several recommendations. There is a risk that these have not been appropriately considered and addressed during FY24 which could impact on the organisations arrangements to secure financial sustainability from a value for money perspective.</p>	<p>We have :</p> <ul style="list-style-type: none"> ▸ Obtained and reviewed management’s updated MRP policy and assessed whether this addresses the recommendations raised in the previous year; ▸ Obtained and reviewed management’s reconciliation of the Capital Financing Requirement to the balance sheet; and ▸ Considered the impact of management’s MRP policy on arrangements to secure financial sustainability as part of our work on value for money work. 	<p>Our audit procedures in respect of MRP remain in progress at the date of this report. We will provide our conclusions to the Audit and Assurance Committee in our audit results report.</p>

Areas of Audit Focus (cont'd)

Other areas of audit focus and response to significant risks

Red route bay enforcement income on the Group's road network

What is the risk ?	What did we do?	Status of work
<p>Red route bay enforcement income on the Group's road network</p> <p>In the 2022/23 financial statements TfL disclosed a contingent liability in respect of Red route bay enforcement income on the Group's road network. This was because, at the time of signing of the 2022/23 financial statements, TfL were in the process of seeking a judicial review at the High Court and on the 17 July 2023 the Chief Adjudicator of the London Tribunals refused TfL's application to review a decision by a panel of Parking Adjudicators (the Determination) that red route bay contraventions cannot be enforced remotely using CCTV as currently done on the TfL Road Network.</p> <p>As an audit team we will need to monitor and understand this position as it evolves over the FY24 year and assess the implication, if any, on the financial statements.</p>	<p>We have :</p> <ul style="list-style-type: none"> ▸ Obtained an understanding and evidence of the outcome of the judicial review and obtained management's assessment of how they will respond to the outcome including any implication on the financial statements; ▸ Considered the implications on our responsibilities towards objectors and also arrangements for value for money. 	<p>The judicial review found in favour of TfL and concluded that the method of raising PCNs, and the fact of the parking bays being within a red route, was sufficient to raise PCNs within the law. The outcome was formally provided in November 2023.</p> <p>We have obtained and reviewed legal advice taken by management and also engaged our own specialists from EY Law in review of this information. At the date of this report we are working to close our responsibilities in relation to the objection received but do not expect this to have a material impact on the financial statements following the judicial review outcome.</p>



03 Audit Differences



Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as 'known' or 'judgemental'. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of audit differences

- ▶ At this stage of the engagement no audit misstatements have been quantified.
- ▶ We have raised a number of challenges in our work over investment property which are not yet concluded at the date of this report and could lead to audit differences. The most significant of such relates to a number of properties held under long term lease arrangements that should be accounted for as finance lease receivables rather than investment property. At the date of this report we are awaiting management's assessment whereby this will be quantified, including considerations of the prior year impact as well as the impact on rental income and tax. We will provide our conclusions on this work, along with any audit adjustments, in our audit results report.



04

Value for Money

Value for money

The Authority's responsibilities for value for money (VFM)

The Authority is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

As part of the material published with its financial statements, the Authority is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Authority tailors the content to reflect its own individual circumstances, consistent with the requirements set out in the CIPFA code of practice on local authority accounting. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

Risk assessment

We are required to consider whether the Authority has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

Page 42 For 2023/24, proper arrangements are defined by 2020 statutory guidance issued by the National Audit Office on 1 April 2020, as:

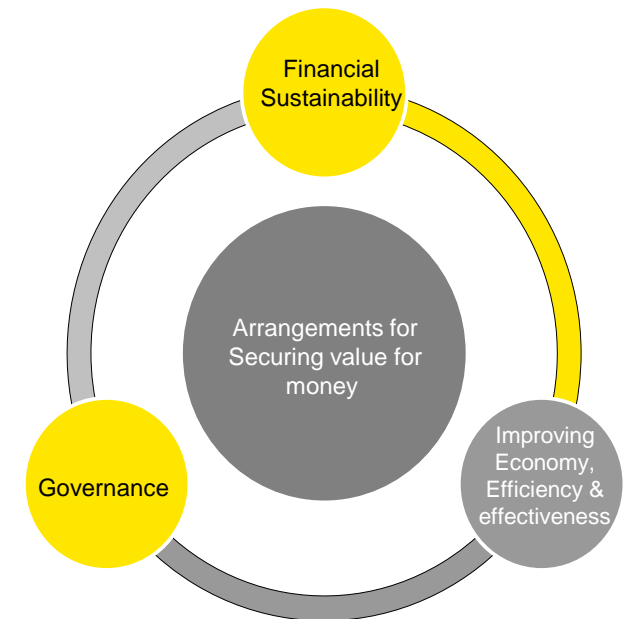
Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services;

- Governance: how the body ensures that it makes informed decisions and properly manages its risks; and
- 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.

Having completed our VFM planning work we identified one risk of significant weakness:

- Financial sustainability: Longer term funding impact

We have completed our planned VFM procedures and have no matters to report by exception in the auditor's report. We include, on the next page, our findings from our work on the risk of significant weakness we identified. We plan to issue the VFM commentary by the end of September as part of issuing the Auditor's Annual Report.



Value for money

Responding to a risk of significant weakness in VFM arrangements

What is the risk of significant weakness ?

Limitation of the Authority's ability to fully manage, commit and prioritise critical asset renewal schemes and capital enhancement programmes as a result of changes in funding for the capital programme which may lead to significant impact on the effectiveness of service delivery by the Authority to the public.

Reporting Criteria

Financial Sustainability: How the body plans to bridge its funding gaps and identifies achievable savings.

The effectiveness of service delivery and ensuring the rail network remains safe and operable are dependent largely on the continuous investment in enhancement programs and reinvestment on asset renewals. The achievement of this is set out in the Business Plan published by TfL in 2023. The Business Plan detailed a capital renewals investment plan of £850m and the Authority plans to spend an average of £1.35bn per year on the enhancement programme and new capital investment. TfL budgeted for £500m of support from central government in the coming year with business planning assumptions that TfL is not expecting to pay for major signalling or rolling stock. The Government considered TfL's request for capital funding in the context of the current financial and funding environment and agreed to provide £250m to TfL which is £250m short of the planned assumption.

As a result of this, TfL has had to consider contingency plans, detailing which elements of capital expenditure (i.e. assets renewals and enhancement programmes) can be re-prioritised or delayed. There is a risk that this could have a significant impact of the achievement of the strategic outcomes and long-term commitments which includes the Mayor's Transport Strategy, asset management objectives as well other corporate plans. This could also result in a significant impact on the effectiveness of service delivery where a key priority is to ensure the rail network remains safe and operable.

What did we do?

To address this risk, we performed the following procedures:

- Considered and assessed the mitigations identified by the management as a result of the shortage in capital funding.
- Reviewed the revised plan to assess the actions taken by management to address the shortages in capital funding.
- Reviewed the latest budget, business plan and other related documents that would demonstrate that management have considered this matter in their forecasts.

What are our conclusions?

Our work and assessment confirmed that management has reflected and considered the shortage of £250m in their Business Plan and Budget for 2024/25. We have noted that management has taken action to reprioritize some of the capital enhancement and renewals spend as a mitigation to cover the shortage in the capital funding. Further, TfL were able to reach an arrangement with a key supplier to provide an opportunity for management to significantly rephase the cash profile.

As management were able to mitigate the impact of a shortage in capital funding settlement through the matters discussed, we concluded that the risk identified does not result in a significant weakness in arrangement in relation to reporting criteria of *Financial Sustainability: How the body plans to bridge its funding gaps and identify achievable savings.*



05 Appendices

Appendix A – Audit approach update

Audit approach update

We summarise below our approach to the audit of the balance sheet and any changes to this approach from the prior year audit.

Our audit procedures are designed to be responsive to our assessed risk of material misstatement at the relevant assertion level. Assertions relevant to the balance sheet include:

- ▶ Existence: An asset, liability and equity interest exists at a given date
- ▶ Rights and Obligations: An asset, liability and equity interest pertains to the entity at a given date
- ▶ Completeness: There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items
- ▶ Valuation: An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded
- ▶ Presentation and Disclosure: Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting framework

Our audit approach is designed to place reliance on controls in the following areas:

- ▶ Fixed assets (Manual and IT)
- ▶ Revenue (Manual)
- ▶ Purchase and payable (IT)
- ▶ Payroll (Manual and IT)

- ▶ For all other areas we take a substantive audit approach. This approach is consistent with our audit approach in the prior year.

Appendix B – Summary of communications

Summary of communications

Date	Nature	Summary
13 November 2023	Report	The audit planning report, including confirmation of independence, was issued to the audit and assurance committee.
29 November 2023	Meeting	The partner in charge of the engagement, along with other senior members of the audit team, met with the audit and assurance committee to discuss the audit plan.
9 January 2024	Meeting	The partner in charge of the engagement, accompanied by other senior members of the audit team, met with senior members of the management team to discuss forward planning
Oct 2023-July 2024	Meetings	The partner in charge of the engagement, accompanied by other senior members of the audit team, met with senior members of the management team to discuss key business plans, budgets, risks and perform mandatory audit enquiries.
22 May 2024	Letter	Letter issued to the audit and assurance committee confirming and detailing our Audit Fees for the year ended 31 March 2024.
22 May 2024	Letter	The letter issued to the audit and assurance committee confirming and detailing our independence.
29 May 2024	Meeting	Audit status report was issued to the audit and assurance committee

In addition to the above specific meetings and letters the audit team met with the management team multiple times throughout the audit to discuss audit findings.

Appendix C - Required communications with the Audit and Assurance Committee

Required communications with the Audit Committee

There are certain communications that we must provide to the Audit Committees of UK entities. We have detailed these here together with a reference of when and where they were covered:

Required communications	What is reported?	Our Reporting to you
		When and where
Terms of engagement	Confirmation by the audit committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies
Planning and audit approach	<p>Communication of:</p> <ul style="list-style-type: none"> ▶ The planned scope and timing of the audit ▶ Any limitations on the planned work to be undertaken ▶ The planned use of internal audit ▶ The significant risks identified <p>When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.</p>	Audit Planning Report in November 2023
Significant findings from the audit	<ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	Audit results report in July 2024.

Appendix C - Required communications with the Audit and Assurance Committee(cont'd)

Our Reporting to you

Required communications

What is reported?

When and where

Public Interest Entities

For the audits of financial statements of public interest entities our written communications to the audit committee include:

Audit results report in July 2024.

- ▶ A declaration of independence
- ▶ The identity of each key audit partner
- ▶ The use of non-EY firms or external specialists and confirmation of their independence
- ▶ The nature, frequency and extent of communications
- ▶ A description of the scope and timing of the audit
- ▶ Which categories of the balance sheet have been tested substantively or controls based and explanations for significant changes to the prior year, including first year audits
- ▶ Materiality
- ▶ Any going concern issues identified
- ▶ Any significant deficiencies in internal control identified and whether they have been resolved by management
- ▶ Subject to compliance with regulations, any actual or suspected non-compliance with laws and regulations identified relevant to the audit committee
- ▶ Subject to compliance with regulations, any suspicions that irregularities, including fraud with regard to the financial statements, may occur or have occurred, and the implications thereof
- ▶ The valuation methods used and any changes to these including first year audits
- ▶ The scope of consolidation and exclusion criteria if any and whether in accordance with the reporting framework
- ▶ The identification of any non-EY component teams used in the group audit
- ▶ The completeness of documentation and explanations received
- ▶ Any significant difficulties encountered in the course of the audit
- ▶ Any significant matters discussed with management
- ▶ Any other matters considered significant

Appendix C - Required communications with the Audit Committee (cont'd)

Our Reporting to you

Required communications	What is reported?	When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty related to going concern ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The appropriateness of related disclosures in the financial statements 	Audit results report in July 2024.
Misstatements	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Material misstatements corrected by management 	Audit results report in July 2024.

Appendix C - Required communications with the Audit Committee (cont'd)

Our Reporting to you

Required communications	What is reported?	When and where
Fraud	<ul style="list-style-type: none"> ▶ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving: <ul style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. ▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▶ Matters, if any, to communicate regarding management's process for identifying and responding to the risks of fraud in the entity and our assessment of the risks of material misstatement due to fraud ▶ Any other matters related to fraud, relevant to Audit Committee responsibility. 	Audit results report in July 2024. Audit planning report in November 2023
Related parties	Significant matters arising during the audit in connection with the entity's related parties including, when applicable: <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	Audit results report in July 2024.

Appendix C - Required communications with the Audit Committee (cont'd)

Our Reporting to you

Required communications	What is reported?	When and where
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, integrity, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence <p>Communications whenever significant judgements are made about threats to integrity, objectivity and independence and the appropriateness of safeguards put in place.</p> <ul style="list-style-type: none"> ▶ Communication of relevant information to those charged with governance, to enable them to provide concurrence on the non-audit services being provided. For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2019: ▶ Relationships between EY, the company and senior management, its affiliates and its connected parties ▶ Services provided by EY that may reasonably bear on the auditors' integrity, objectivity and independence ▶ Related safeguards ▶ Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees ▶ A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit 	Letter shared with the Audit and Assurance Committee date 22 May 2024.

Appendix C - Required communications with the Audit Committee (cont'd)

Our Reporting to you

Required communications	What is reported?	When and where
	<ul style="list-style-type: none"> ▶ Details of any inconsistencies between the Ethical Standard and Group's policy for the provision of non-audit services, and any apparent breach of that policy ▶ Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard ▶ The audit committee should also be provided an opportunity to discuss matters affecting auditor independence 	
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures. 	Audit results report in July 2024.
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▶ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of 	Audit results report in July 2024.
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit. 	Audit results report in July 2024.

Appendix C - Required communications with the Audit Committee (cont'd)

Our Reporting to you

Required communications	What is reported?	When and where
Group Audits	<ul style="list-style-type: none"> ▶ An overview of the type of work to be performed on the financial information of the components ▶ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components ▶ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work ▶ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted ▶ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements. 	Audit planning report in November 2023 and Independence letter in May 2024.
Written representations we are requesting from management and/or those charged with governance	▶ Written representations we are requesting from management and/or those charged with governance	Audit results in July 2024
System of quality management	▶ How the system of quality management (SQM) supports the consistent performance of a quality audit	Audit results in July 2024
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	▶ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results in July 2024
Auditors report	<ul style="list-style-type: none"> ▶ Key audit matters that we will include in our auditor's report ▶ Any circumstances identified that affect the form and content of our auditor's report 	Audit results in July 2024

Appendix C - Required communications with the Audit Committee (cont'd)



Our Reporting to you

Required communications	What is reported?	When and where
Fee Reporting	<ul style="list-style-type: none"> ▶ Breakdown of fee information when the audit plan is agreed ▶ Breakdown of fee information at the completion of the audit ▶ Any non-audit work 	Audit fee letter in May 2024.
Value for Money	<ul style="list-style-type: none"> ▶ Risks of significant weakness identified in planning work ▶ Commentary against specified reporting criteria on the VFM arrangements, including any exception report on significant weaknesses. 	Audit status report - May 2024 Auditors Annual Report - September 2024

Appendix D – Outstanding matters

Outstanding matters

The following items relating to the completion of our audit procedures are outstanding at the date of the release of this report:

Item	Actions to resolve	Responsibility
Annual Report and accounts	Completion of the technical review of the financial statements including disclosures review and tie out to underlying audit work.	EY and management
Going concern review and disclosures	Review of management's disclosure and downside scenario analysis. EY central review process and finalisation of disclosures and opinion wording.	EY and management
Investment Property Valuation	Completion of sample testing by our EY Real Estate Specialists and completion of sample testing by our audit team including resolution of accounting challenges raised	EY and management
Pensions	Review of IAS 19 actuarial reports, review of RSM's audit report in respect of TfL pension fund, assessment of accounting for surpluses and individual membership data testing for LPFA.	EY and management
Fares Revenue	Review of KPMG's ISAE3402 report and agreed upon procedures report	EY and management
Congestion Charging revenue	Review of controls reports issued by Capita and IPE procedures	EY
Rental income	Testing of sample selected	EY and management
Taxi Private Hire revenue	Completion of reconciliation procedures	EY and management
Climate Risk assessment	Review of climate disclosures by our EY Climate Change specialist once disclosures have been prepared.	EY and management
Tax	Testing in progress including review by EY Tax specialists	EY
Leases	Review of IBR and assessment of audit differences	EY
Cash	Resolution of cash confirmation from HSBC which did not include certain bank accounts.	EY and management
Debtors	Completion of substantive sample testing and receipt of outstanding evidence and response to queries.	EY and management
Creditors	Completion of substantive sample testing and receipt of outstanding evidence and response to queries.	EY and management

Appendix D – Outstanding matters

Outstanding matters

Item	Actions to resolve	Responsibility
Investments	A number of confirmations outstanding from counterparties	Management
Intercompany	Testing to be performed on intercompany adjustments	EY and management
Capital projects & accruals	Final documentation procedures for our capital projects sample. Outstanding evidence to be received for accruals.	EY and management
PPE	Responses to challenges raised on impairment and evidence to support additions.	Management
Provisions	Completion of testing including EY specialist involvement.	EY
Income and Expenditure	Completion of substantive sample testing and receipt of outstanding evidence and response to queries.	EY and management
Payroll	Queries to resolve on reconciliation of headcount figures.	EY and management
Journals testing	Completion of substantive testing for sample selected.	EY
Review procedures	Internal review procedures must take place across all areas before we can finalise our conclusions.	EY

Until all our audit procedures are complete, we cannot confirm the final form of our audit opinion as new issues may emerge or we may not agree on final detailed disclosures in the Annual Report. At this point no issues have emerged that would cause us to modify our opinion, but we should point out that key disclosures on going concern, climate-related matters and pensions remain to be finalised and audited. We will share a draft of our proposed opinion with the Audit and Assurance Committee in July.

EY | Building a better working world

EY exists to build a better working world, helping to create long-term value for clients, people and society and build trust in the capital markets.

Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via ey.com/privacy. EY member firms do not practice law where prohibited by local laws. For more information about our organization, please visit ey.com.

Ernst & Young LLP

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited.

Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

© 2024 Ernst & Young LLP. Published in the UK.
All Rights Reserved.

UKC-024050 (UK) 07/22. Creative UK.

ED None

Information in this publication is intended to provide only a general outline of the subjects covered. It should neither be regarded as comprehensive nor sufficient for making decisions, nor should it be used in place of professional advice. Ernst & Young LLP accepts no responsibility for any loss arising from any action taken or not taken by anyone using this material.

ey.com/uk

[page left intentionally blank]

Audit and Assurance Committee



Date: 5 June 2024

Item: Update on Key Accounting Issues

This paper will be considered in public

1 Summary

- 1.1 This paper provides an update on the preparation of the draft TfL Group Statement of Accounts for the year ended 31 March 2024, focusing on the key accounting issues under consideration.
- 1.2 A paper is included on Part 2 of the agenda, which contains supplementary information that is exempt from publication by virtue of paragraphs 3 and 5 of Schedule 12A of the Local Government Act 1972 in that it contains information on the financial or business affairs of TfL and where a claim to legal professional privilege is being made. Any discussion of that exempt information must take place after the press and public have been excluded from this meeting.

2 Recommendation

- 2.1 **The Committee is asked to note the paper and the exempt supplementary information on Part 2 of the agenda.**

3 Progress Update

- 3.1 The draft Statement of Accounts are being prepared in accordance with the provisions of the Local Audit and Accountability Act 2014 and the Accounts and Audit Regulations 2015 (the Regulations). The form, content and accounting policies followed in preparing the Statement of Accounts are as prescribed in the Regulations and by the Code of Practice on Local Authority Accounting which is developed and published by the CIPFA/LASAAC joint committee (the Code). The Code is based on International Financial Reporting Standards.
- 3.2 The preparation of the draft Statement of Accounts for the year ended 31 March 2024 is well progressed, although the external audit by Ernst & Young LLP (EY) is ongoing. The draft Statement of Accounts will be published for public inspection shortly and, along with the accompanying draft Annual Report, will be presented to the Board for consideration at its meeting of 24 July 2024.
- 3.3 At the 24 July 2024 meeting of the Board, we will recommend a delegation is provided to the Committee to approve the Statement of Accounts. This will enable the Committee to approve the accounts at the meeting on 18 September 2024 and for the audited accounts to be finalised and published ahead of the deadline set in the Regulations of 30 September 2024.

4 Key accounting issues

Accounting Policies

- 4.1 There have been no changes to the Code for 2023/24 that have had a material impact on the financial statements.

Treatment of Historic Long Leases

- 4.2 An area highlighted in the audit work to date is the accounting treatment of historic 'long leases'. These are leases that have a term that may be for the majority of the useful economic life of the asset e.g. over 100 years. This may have an impact on the classification of some investment properties currently recognised on the TfL Group, Transport Trading Limited (TTL) Group and Places for London balance sheet.
- 4.3 We are finalising the accounting paper and collation of audit evidence, which we will share with EY in early June 2024.

Disclosure of IAS 19 Pension Fund Surplus

- 4.4 The Group Balance Sheet includes the surplus on the Public Sector section of the TfL Pension Fund, TfL's share of the surplus on the Local Government Pension Scheme, the surplus on the Crossrail Shared Cost Section of the Railways Pension Scheme (RPS), and the liability in respect of unfunded pension obligations, all calculated in accordance with International Accounting Standard (IAS) 19 Employment Benefits.
- 4.5 The IAS 19 basis of valuation is different to that used by the Fund Actuary in the triennial valuations which determine the level of contributions that TfL is required to make to the TfL Pension Fund. This is due to the different rules applying to the two valuation bases, particularly the different discount rate. The discount rate for the IAS 19 valuation is required to be based on AA corporate bond yields, but the discount rate for the funding valuation is based on expected returns on the Scheme's assets. There are also differences in the other assumptions. The pension fund Trustees are required to adopt "prudent" assumptions, whereas IAS 19 requires "best estimate".
- 4.6 The draft Statement of Accounts will recognise the full surplus of the TfL Pension Fund, the share of surplus on the Local Government Pension Scheme and the Crossrail Shared Cost Section of the RPS on the Balance Sheet under the IAS 19 basis of valuation.
- 4.7 IAS 19 limits the measurement of the defined benefit assets to the 'present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan'. It was concluded in the 2022/23 audit that recognition of the full surplus was the appropriate treatment.
- 4.8 The Code requires that IAS 19 does not impact on Council Tax rates. The income and expenditure account therefore includes an appropriation from or to the Pensions Reserve. The result of these entries is that the pension deficit is

not charged to the General Fund, and is instead charged to a separate reserve, and only the actual contributions paid to the pension funds impact on the General Fund.

Property Valuations

- 4.9 In 2019/20, the majority of TfL's investment properties were consolidated into a commercial property portfolio and transferred to a TfL subsidiary, now known as Places for London Limited. This was established as a vehicle to support delivery of homes under the Mayor's Transport Strategy and grow a sustainable income stream. In the last two financial years there have been further minor phases of other properties transferred.
- 4.10 All valuations were undertaken by external professionally qualified valuers in accordance with the appropriate sections of the Red Book, RICS Valuation – Global Standards published by the Royal Institution of Chartered Surveyors and are compliant with International Valuation Standards.

5 Audit Opinion

- 5.1 Under the Local Audit and Accountability Act 2014, TfL's auditors, EY are required to opine on the following:
- (a) whether the financial statements, in their opinion, give a true and fair view of the financial position of the Transport for London Corporation and Group as at 31 March 2024 and of its expenditure and income for the year then ended;
 - (b) whether the financial statements have been prepared properly in accordance with the Code; and
 - (c) whether they are satisfied that, in all significant respects, TfL has put in place proper arrangement to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2024.
- 5.2 EY's update in respect of audit progress in relation to the above is not covered by this paper but is addressed in the EY Report to Those Charged with Governance included elsewhere on the agenda.

6 Subsidiary Companies Audit Exemption

- 6.1 For the year ended 31 March 2014, the Group took advantage of changes under section 479A of the Companies Act 2006 that enable certain UK subsidiary companies to claim exemption from audit of their accounts.
- 6.2 The exemption is conditional on a parent undertaking giving a guarantee to its subsidiary in respect of all liabilities of that subsidiary outstanding at the balance sheet date, and on 5 June 2014, under authority delegated by the Board on 26 March 2014, the then Finance and Policy Committee agreed that, for the year ended 31 March 2014 and for future years until withdrawn, the holding company for TfL's trading subsidiaries, TTL, will offer the guarantee to a majority of its subsidiaries.

- 6.3 For the year ended 31 March 2024, Crossrail Limited is no longer required to be separately audited under the project agreements between the Department for Transport and TfL. Therefore, on 25 July 2024 we will request approval of an ongoing guarantee by TTL of all the outstanding liabilities of Crossrail Limited for the year ended 31 March 2024 and for future years until withdrawn by the Board. This will enable the Crossrail Limited accounts for the year ended 31 March 2024 to be exempt from audit.
- 6.4 This means that for the year ended 31 March 2024, all of TTL's subsidiaries, except for Places for London Limited, will claim exemption from audit.

List of appendices to this report:

A paper containing exempt supplementary information is included on Part 2 of the agenda.

List of Background Papers:

None

Contact Officer: Patrick Doig, Group Finance Director and statutory Chief Finance Officer
Email: PatrickDoig@TfL.gov.uk

By virtue of paragraph(s) 3, 5, 7 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

[page left intentionally blank]