MAYOR OF LONDON

TRANSPORT FOR LONDON
EVERY JOURNEY MATTERS

Agenda

Meeting: Audit and Assurance Committee

Date: Wednesday 1 December 2021

Time: 10:00am

Place: Conference Rooms 1&2, Palestra, 197 Blackfriars Road, London, SE1 8NJ

Members

Anne McMeel (Chair)
Dr Lynn Sloman MBE (Vice-Chair)
Cllr Julian Bell
Kay Carberry CBE
Dr Mee Ling Ng OBE
Dr Nelson Ogunshakin OBE

Copies of the papers and any attachments are available on tfl.gov.uk How We Are Governed.

This meeting will be open to the public and webcast live on TfL YouTube channel, 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; Email: sueriley@tfl.gov.uk

For media enquiries please contact the TfL Press Office; telephone: 0343 222 4141; email: PressOffice@tfl.gov.uk

Howard Carter, General Counsel
Tuesday 23 November 2021

Agenda
Audit and Assurance Committee
Wednesday 1 December 2021

1 Apologies for Absence and Chair's Announcements

2 Declarations of Interests

General Counsel

Members are reminded that any interests in a matter under discussion must be declared at the start of the meeting, or at the commencement of the item of business.

Members must not take part in any discussion or decision on such a matter and, depending on the nature of the interest, may be asked to leave the room during the discussion.

3 Minutes of the Meeting of the Committee held on 15 September 2021
(Pages 1 - 8)

General Counsel

The Committee is asked to approve the minutes of the meeting of the Committee held on 15 September 2021 and authorise the Chair to sign them.

4 Matters Arising and Actions List (Pages 9 - 12)

General Counsel

The Committee is asked to note the updated actions list.

External Audit Items

5 EY Annual Audit Report (Pages 13 - 48)

Chief Finance Officer

The Committee is asked to note the report.

6 External Audit Plan TfL, TTL and Subsidiaries - Year Ending 31 March 2022 (Pages 49 - 100)

Chief Finance Officer

The Committee is asked to note the paper.

7 EY Report on Non-Audit Fees for the Period of 1 April - 30 November 2021 (Pages 101 - 104)

Chief Finance Officer

The Committee is asked to note the paper.

8 Task Force on Climate Related Financial Disclosures (Pages 105 - 148)

Chief Finance Officer

The Committee is asked to note the paper.

Audit, Risk and Assurance Items

9 Risk and Assurance Quarter 2 Report 2021/22 (Pages 149 - 178)

Director of Risk and Assurance Report

The Committee is asked to note the report and the supplemental information on Part 2 of the agenda.

10 Independent Investment Programme Advisory Group Quarterly Report (Pages 179 - 188)

General Counsel

The Committee is asked to note the report and the management response.

11 Elizabeth Line Programme Assurance Quarter 2 Report (Pages 189 - 206)

Director of Risk and Assurance

The Committee is asked to note the report.

Accounting and Governance

12 Finance Control Environment Trend Indicators (Pages 207 - 214)

Chief Finance Officer

The Committee is asked to note the paper and the Financial Control Indicators dashboard.

13 Annual Tax Compliance Update (Pages 215 - 230)

Chief Finance Officer

The Committee is asked to note the paper.

14 Legal Compliance Report [1 April - 30 September 2021]

Pages 231 - 254)

General Counsel

The Committee is asked to note the report.

15 Register of Gifts and Hospitality for Members and Senior Staff

(Pages 255 - 260)

General Counsel

The Committee is asked to note the paper.

16 Members' Suggestions for Future Discussion Items (Pages 261 - 264)

General Counsel

The Committee is asked to note the forward plan and is invited to raise any suggestions for future discussion items for the forward plan and for informal briefings.

17 Any Other Business the Chair Considers Urgent

The Chair will state the reason for urgency of any item taken.

18 Date of Next Meeting

Wednesday, 16 March 2022 at 10.00am.

19 Exclusion of Press and Public

The Committee is recommended to agree to exclude the press and public from the meeting, in accordance with paragraphs 3, 5 & 7 of Schedule 12A to the Local Government Act 1972 (as amended), in order to consider the following items of business.

Agenda Part 2

20 Risk and Assurance Quarter 2 2021/22 (Pages 265 - 278)

Exempt supplemental information relating to the item on Part 1.

21 Elizabeth Line Programme Assurance Quarter 2 Report (Pages 279 - 290)

Exempt supplemental information relating to the item on Part 1.

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Transport for London

Minutes of the Audit and Assurance Committee

Teams Virtual Meeting
10.00am, Wednesday 15 September 2021

Members

Anne McMeel	Chair
Dr Lynn Sloman MBE	Vice-Chair
Cllr Julian Bell	Member
Dr Mee Ling Ng OBE	Member

Executive Committee

Howard Carter	General Counsel

Staff

Patrick Doig	Interim statutory Chief Finance Officer
Siwan Hayward OBE	Director of Compliance, Policing, Operations and Security (Minute Reference 60/09/21)
Lorraine Humphrey	Interim Director of Risk and Assurance
Maureen Kirk	Senior Internal Audit Manager
Nico Lategan	Head of Enterprise Risk
Rachel McLean	Chief Finance Officer, Crossrail and Finance Director, London Underground
Richard Mullings	Head of Counter-Fraud and Corruption
James Norris	Interim Head of Project Assurance
Raj Sachdeva	Interim Group Finance Director
Rachel Shaw	Head of Financial Accounting and Tax
Mike Shirbon	Head of Integrated Assurance
Stuart Westgate	Head of Programme Assurance, Crossrail
Sue Riley	Secretariat

Also In Attendance

Janet Dawson	Partner, Ernst & Young
Karl Havers	Partner, Ernst & Young
Doug Johnston	Associate Partner, Ernst & Young (Minute Reference 49/09/21)
Caroline Mulley	Partner, Ernst & Young Senior Consultant, Ernst & Young (Minute
Alison Snellen	Reference 49/09/21)
Jonathan Simcock	Independent Investment Programme Advisory Group, Member (Minute Reference 53/09/21)

46/09/21 Apologies for Absence and Chair’s Announcements

The Chair welcomed everyone to the meeting, including any press or public. This was the first meeting of the Committee being held in person since March 2020 due to the coronavirus pandemic. Due to space restrictions, some staff were also attending the meeting through Teams and the discussions in public were being webcast to TfL’s YouTube channel to ensure that public and press could observe the proceedings and decision making without the need to attend.

The Chair also welcomed James Norris, the recently appointed Interim Head of Project Assurance, to his first meeting of the Committee.

This was Karl Haver's last meeting as the Ernst & Young (EY) external audit partner for TfL, and the Chair thanked him, on behalf of the Committee, for his frank and honest contributions when reporting to Members and assisting the Committee in carrying out its important role. Karl had been TfL's engagement partner since the appointment of EY as TfL's external auditors for the 2015/16 financial year. At the Committee's request he had stayed on an extra year beyond the standard five-year term for lead partners to assist TfL through the extraordinary operational and funding challenges of 2020/21. Janet Dawson, Karl's successor, was then welcomed to the meeting and she looked forward to working with TfL

The Chair also thanked Stuart Westgate, who was attending his last meeting, for his valued contribution in helping to shape TfL and Crossrail's integrated assurance approach.

Patrick Doig was congratulated on his recent appointment as permanent TfL Group Finance Director.

Apologies had been received from Kay Carberry CBE and Dr Nelson Ogunshakin OBE. Apologies had also been received from Simon Kilonback, Chief Finance Officer and from Alison Munro and Joanne White, IIPAG, for whom Jonathan Simcock was deputising.

The Chair reminded those present that safety was paramount at TfL and encouraged Members to raise any safety issues during discussions on a relevant item or with TfL staff after the meeting. No matters were raised.

47/09/21 Declarations of Interest

The Chair noted that, as Vice-Chair of the Elizabeth Line Committee, she would not Chair the meeting for the discussion on the Elizabeth line item (Minute 52/09/21) and the Vice-Chair of the Audit and Assurance Committee would Chair the meeting.

Members confirmed that their declarations of interests, as published on tfl.gov.uk, were up to date and there were no additional interests that related specifically to items on the agenda.

48/09/21 Minutes of the Meeting of the Committee held on 7 June 2021

The Committee approved the minutes of the meeting held on 7 June 2021, subject to Janet Dawson's job title being amended to "Partner" and Jeanne-Marie van Coller's job title being amended to "Senior Manager" and authorised the Chair to sign them.

The Chair advised the Committee that she had also signed all of the minutes of the meetings held since June 2020.

49/09/21 Matters Arising and Actions List

Howard Carter introduced the paper, which set out progress against actions agreed at previous meetings of the Committee and use of delegated authority.

Doug Johnston and Alison Snellen provided a summary of EY's work on sustainability and climate change on behalf of TfL in implementing the requirements of the Task Force on Climate-Related Financial Disclosures, which were mandatory from January 2021. The Vice-Chair welcomed the update and was interested to know how broadly the requirements would be interpreted and how that would reflect in TfL's interactions with its contractors and service providers. Weather changes and events due to climate change were also critical in their impact on transport. A detailed report was scheduled for the next meeting of the Committee.

Action 14/03/21, in relation to the Chair's visit to Finance and Business Services, would be updated to early 2022.

The Committee noted the Actions List.

50/09/21 Annual Audit Letter

Patrick Doig presented the Annual Audit Letter issued by EY.

The Chair noted that due to the lack of a long-term funding solution for TfL, EY's Value for Money assessment identified significant weaknesses in TfL's arrangements for securing economy, efficiency and effectiveness in the use of resources.

She thanked EY and staff for the efficient completion of the annual accounts during a challenging and difficult period.

The Committee noted the letter.

51/09/21 Risk and Assurance Quarter 1 Report 2021/22

Lorraine Humphrey presented the quarterly update on the work of the Risk and Assurance Directorate. Mike Shirbon, Richard Mullings and Nico Lategan also presented for this item.

Internal Audit would continue to monitor any identified trends in increases in poorly controlled and requires improvement reports.

A number of departmental key appointments had recently been made and plans were in place to ensure staffing gaps were being addressed.

The three critical reviews within Project Assurance had been rectified. Issues related to the upward trend in control environment indicators within the technology and data group had been raised with the Chief Technology Officer and Director of Strategy and an internal audit was scheduled.

Members requested further information on the action TfL was taking to progress a temporary site for Seven Sisters Market. **[Action: Secretariat]**

It was reported that the Safety, Sustainability and Human Resources Panel had agreed to receive a quarterly report on second line safety, health and environment assurance, summarising audit activity, thematic trends over time and by strategic risk and TfL team.

It was confirmed that the poorly controlled audit of the bus service delivery model had been discussed with the Managing Director of Surface Transport and all the audit recommendations had been accepted. The number of overdue outstanding actions within Surface Transport were now reviewed at Surface Executive meetings on a regular basis, to help drive improvements.

The Committee noted the report and the supplemental information on Part 2 of the agenda.

52/09/21 Elizabeth Line Programme Assurance Quarter 1 Report 2021/22

The Vice-Chair chaired the meeting for this item.

Rachel McLean and Stuart Westgate introduced the overview of assurance activity for the Quarter 1 Report 2021/22.

It was confirmed that second line assurance was carried out on a four-weekly basis and considered by the Elizabeth Line Committee. Crossrail Trial Operations performance was being closely monitored by the Elizabeth Line Delivery Group, the Independent Investment Programme Advisory Group's Elizabeth line sub-group and the Elizabeth Line Committee.

The Committee noted the report and the supplemental information on Part 2 of the agenda.

53/09/21 Independent Investment Programme Advisory Group Quarterly Report

Jonathan Simcock presented the Independent Investment Programme Advisory Group (IIPAG) quarterly report.

It was agreed that IIPAG would consider TfL's Value for Money in relation to the update to the UK Treasury Green Book and qualitive, non-monetised benefits.

[Action: Michele Watson]

Lessons learnt from the scrutiny and review of capital expenditure would also be applied in relation to operating expenditure, where explicable. Patrick Doig advised that an Executive level Change Steering Group had been established to oversee change and savings activity across the whole organisation, which would help share good practice.

The Committee noted the report and the supplemental information on Part 2 of the agenda.

54/09/21 TfL Statement of Accounts Year Ended 31 March 2021 – Changes Made Prior to Finalisation

Patrick Doig introduced the paper, which set out the material changes to the Statement of Accounts after their presentation to the Committee on 7 June 2021.

The Committee noted the paper.

55/09/21 Effectiveness Review of the External Auditors

Patrick Doig presented the annual report on the effectiveness of the external auditor.

Members noted the good relationships with staff, the robust and transparent relationship with Committee Members and welcomed the return of face to face activity, where appropriate.

Overall, Members and staff were satisfied with EY's performance during 2020/21, despite the challenges of remote working.

The Committee noted the paper and the supplemental information on Part 2 of the agenda.

56/09/21 Appointment of the External Auditors

Patrick Doig introduced the paper updating the Committee on arrangements for appointing external auditors for TfL and its subsidiaries.

The Committee approved the proposal to opt in to the national scheme for the appointment of auditors for a period of five years commencing with the audit of the 2023/24 financial year.

57/09/21 Freedom of Information Update

Howard Carter presented the annual overview of TfL's performance in relation to Freedom of Information and Environmental Information Regulations.

The Committee noted the continued good performance in meeting statutory deadlines and thanked staff for their good work.

The Committee noted the paper.

58/09/21 Finance Control Environment Trend Indicators and Transformation Update

Patrick Doig introduced the quarterly update on the finance control environment trend indicators and an update on the Finance and Business Services Transformation programme.

The Committee noted the paper.

59/09/21 Register of Gifts and Hospitality for Members and Senior Staff

Howard Carter presented the quarterly update on the register of gifs and hospitality for Board Members and senior staff.

The Committee noted the paper.

60/09/21 Enterprise Risk Update – Major Security Incident (ER4)

Siwan Hayward OBE introduced the annual update of Enterprise Risk 4.

The Committee was advised that a range of preventative controls by TfL had been implemented and a number of key risk improvements made, including the appointment of a Chief Information Security Officer. Cultural change across the organisation was also key to preventing cyber and security attacks.

The Committee noted the paper.

61/09/21 Members' Suggestions for Future Discussion Items

Howard Carter presented the current forward plan for the Committee.

The Committee noted the paper.

62/09/21 Any Other Business the Chair Considers Urgent

There was no urgent business.

63/09/21 Date of Next Meeting

The next scheduled meeting was due to be held on Wednesday 1 December 2021 at 10.00am.

64/09/21 Exclusion of Press and Public

The Committee agreed to exclude the press and public from the meeting, in accordance with paragraphs 3, 5 and 7 of Schedule 12A to the Local Government Act 1972 (as amended), in order to consider the following items of business: Risk and Assurance Quarter 1 Report 2021/22; Elizabeth Line Programme Assurance Quarter 1 Report 2021/22; Effectiveness Review of the External Auditors; and Enterprise Risk Update – Major Security Incident (ER4).

The meeting closed at 1.05pm.

Chair: ______________________________

Date: ______________________________

Audit and Assurance Committee

Date: **1 December 2021**

Item: **Matters Arising and Actions List**

This paper will be considered in public

1 Summary

1.1 This paper informs the Committee of progress against actions agreed at previous meetings.

1.2 Appendix 1 sets out the progress against actions agreed at previous meetings.

2 Recommendation

2.1 **The Committee is asked to note the Actions List.**

List of appendices to this report:

Appendix 1: Actions List

List of Background Papers:

None

Contact Officer: Howard Carter, General Counsel
Email: HowardCarter@tfl.gov.uk

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Appendix 1

Audit and Assurance Committee Actions List (to be reported to the meeting on 1 December 2021)

Actions from the meeting held on 15 September 2021

Minute No.	Item/Description	Action By	Target Date	Status/Note
51/09/21	**Risk and Assurance Quarter 1 Report 2021/22** Members requested further information on the action TfL is taking in relation to Seven Sisters Market.	Secretariat	1 December 2021 meeting.	Information circulated. Complete.
53/09/21 (1)	**Independent Investment Programme Advisory Group Quarterly (IIPAG) Report** IIPAG to consider TfL's Value for Money in relation to the update to the UK Treasury Green Book and qualitive, non-monetised benefits.	Michelle Watson	1 December 2021 meeting.	The Finance Investment Appraisal team is producing a note to set out the changes to the Green Book in relation to non-monetised benefits, and how changes to the appraisal processes are being amended. This information and its practical implementation will then be used by Project Assurance and IIPAG in their assessment of the quality of business cases that they review.

Actions from previous meetings:

Minute No.	Item/Description	Action By	Target Date	Status/Note
14/03/21	**Finance and Business Services – End to End Processes** A visit to be arranged for the Chair to meet the staff and see the work in progress, when appropriate	Andy Ferrar	-	Visit took place on 14 October 2021. Complete.

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Audit and Assurance Committee

Date: **1 December 2021**

Item: **EY Annual Audit Report**

This paper will be considered in public

1 Summary

1.1 To inform the Committee of the status of the Annual Audit Report issued by Ernst & Young (EY).

2 Recommendation

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

3 Background

3.1 For 2019/20 and earlier years, the National Audit Office's Code of Audit Practice (the Code) required auditors to prepare an annual audit letter summarises key findings from across the range of the auditor's work and responsibilities under statute and the Code.

3.2 From 2020/21, under the new 2020 Code, auditors are required to prepare an annual report and issue it to each audited body. The auditor's annual report brings together all of the auditor's work over the year. A core element of the auditor's annual report is a commentary on the organisation's arrangements to secure value for money through the economic, efficient and effective use of its resources

4 Update

4.1 EY have issued an unqualified opinion on the TfL financial statements. Their opinion, as in 2019/20, includes a paragraph on material uncertainty relating to the availability of funding to deliver current operational and capital plans. As described in more detail in an updated going concern note to the Accounting Policies section of the financial statements, this sets out that there continues to be material uncertainty as to the level of longer-term future funding to be received from the Government. These uncertainties cast doubt over TfL's ability both to continue operating the level of services currently provided and to continue with all projects currently included in the capital investment plan. If projects or non-essential elements of in-progress projects are not funded, or if changes in services provided are required, there could be a possible impairment of carrying values at 31 March 2021, which are not reflected in the financial statements.

4.2 EY’s opinion on Value for Money is qualified in two respects:

(a) without a longer-term funding agreement in place, TfL is obliged to make short-term decisions, restricting its ability to make progress on and commit to key long-term priorities set by policy makers. This means that TfL is not obtaining the best value for money due to a lack of clarity over long term funding; and

(b) in respect of a series of weaknesses identified by management and Internal Audit in relation to procurement processes in 2018/19. Implementation of an action plan to address these matters commenced during 2019/20, but corrective actions were only completed by 31 March 2021 and were not all in place during the entirety of 2020/21.

4.3 As at the date of the Audit Letter, EY have not yet undertaken the procedures required by the National Audit Office on the accuracy of the consolidation pack prepared by the Corporation for Whole of Government Accounts papers. These procedures are expected to be undertaken between September and November 2021 in line with the revised timetable set by HM Treasury.

List of appendices to this report:

Appendix 1: EY's Annual Audit Report 2020/21

List of Background Papers:
None

Contact: Patrick Doig, Statutory Chief Finance Officer
Email: PatrickDoig@tfL.gov.uk

Appendix 1

Transport for London

Auditor’s Annual Report
Year ended 31 March 2021

12 November 2021

Building a better working world

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.psaa.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 & 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 & 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 & 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.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Hywel Ball, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

Section 1

Executive Summary

Executive Summary: Key conclusions from our 2020/21 audit

Area of work	Conclusion
Opinion on the Corporation's:	
Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Transport for London Group as at 31 March 2021 and of its expenditure and income for the year then ended. The financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21. We issued our auditor's report on 30 July 2021.
Material uncertainty re relating to the availability of funding to deliver current operational and capital plans	We reported a material uncertainty over the availability of funding which may cast significant doubt on TfL's ability to continue to operate the current planned level of services, including the planned capital programme post 11 December 2021, when the Extraordinary Funding and Financing agreement with the DfT is due to end.
Going concern	We have concluded that the Chief Financial Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
Consistency of the annual report and other information published with the financial statements	Financial information in the annual report and published with the financial statements was consistent with the audited accounts.

Area of work	Conclusion
Reports by exception:	
Value for money (VFM)	We identified significant weaknesses in relation to Financial sustainability and Improving economy, efficiency and effectiveness, related to the short term funding agreement with the DfT and also due to the fact that actions to address procurement weaknesses identified in the prior year were not fully implemented for the entirety of the year ended 31 March 2021. We therefore reported by exception on the Corporation's VFM arrangements in the audit report on the financial statements. We have included our VFM commentary in Section 04.
Consistency of the annual governance statement	We were satisfied that the annual governance statement was consistent with our understanding of the Corporation.
Public interest report and other auditor powers	We had no reason to use our auditor powers.

Executive Summary: Key conclusions from our 2020/21 audit

As a result of the work we carried out we have also:

Outcomes	Conclusion
Issued a report to those charged with governance of the Corporation communicating significant findings resulting from our audit.	We issued an Audit Results Report dated 21 July 2021 to the Audit & Assurance Committee.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2020 Code of Audit Practice.	We have not yet issued our certificate for 2020/21 as we have not yet performed the procedures required by the National Audit Office on the Whole of Government Accounts submission. The guidance for 2020/21 is delayed and has not yet been issued.

Fees

We carried out our audit of the Corporation's financial stats in line with PSAA Ltd's "Statement of Responsibilities of auditors and audited bodies" and "Terms of Appointment and further guidance (updated April 2018)". As outlined in the Audit Results Report we were required to carry out additional audit procedures to address audit risks in relation to Silvertown review and additional safe stop costs incurred due to coronavirus pandemic. As a result, we have agreed an associated additional fee with the Chief Finance Officer. We include details of the final audit fees in Appendix 1.

We would like to take this opportunity to thank the Corporation staff for their assistance during the course of our work.

Karl Havers

Partner
For and on behalf of Ernst & Young LLP

Section 2

Purpose and responsibilities

Purpose and responsibilities

This report summarises our audit work on the 2020/21 financial statements.

Purpose

The purpose of the auditor's annual report is to bring together all of the auditor's work over the year. A core element of the report is the commentary on VFM arrangements, which aims to draw to the attention of the Corporation or the wider public relevant issues, recommendations arising from the audit and follow-up of recommendations issued previously, along with the auditor's view as to whether they have been implemented satisfactorily.

Responsibilities of the appointed auditor

We have undertaken our 2020/21 audit work in accordance with the Audit Plan that we issued on 2 December 2020. We have complied with the NAO's 2020 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the NAO.

As auditors we are responsible for:

Expressing an opinion on:

- The 2020/21 financial statements;
- Conclusions relating to going concern; and
- The consistency of other information published with the financial statements, including the annual report.

Reporting by exception:

- If the governance statement does not comply with relevant guidance or is not consistent with our understanding of the Corporation;
- If we identify a significant weakness in the Corporation's arrangements in place to secure economy, efficiency and effectiveness in its use of resources; and
- Any significant matters that are in the public interest.

Responsibilities of the Corporation

The Corporation is responsible for preparing and publishing its financial statements, annual report and governance statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Section 3

Financial Statement Audit

Financial Statement Audit

We have issued an unqualified audit opinion on the Corporation's 2020/21 financial statements.

Key issues

The Annual Report and Accounts is an important tool for the Corporation to show how it has used public money and how it can demonstrate its financial management and financial health.

On 30 July 2021, we issued an unqualified opinion on the financial statements. We reported our detailed findings to the 7 June 2021 Audit & Assurance Committee meeting. We outline below the key issues identified as part of our audit, reported against the significant risks and other areas of audit focus we included in our Audit Plan.

Significant risk	Conclusion
Misstatements due to fraud or error - management override of controls An ever present risk that management is in a unique position to commit 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 obtained sufficient audit evidence regarding any business rationale for unusual transactions, any assumptions for the capitalisation of expenditure, and for judgements and assumptions for significant estimates. During prior year, weaknesses in procurement process controls were identified by management and internal audit. Management has been making progress against the action plan implemented in 2019/20. We have completed additional testing and did not identify any material fraud or error. Our procedures did not identify any material misstatements in the financial statements. We have reported the impact on our value for money considerations later in this report.
Inappropriate Revenue recognition The significant risk only relates to the fares revenue stream. This is due to the complexity and judgements involved in the process to apportion the fares revenue recognised. In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. We have not identified any specific risk areas in relation to expenditure.	We concluded that the basis on which fares revenue is recognised is reasonable. The judgements made related to fares revenue in the financial statements have been appropriately described.

Continued over.

Financial Statement Audit (continued)

Significant Risk	Conclusion
Going concern, including TfL and Crossrail funding There is uncertainty with regards to the going concern assumption for Crossrail and TfL and carrying value of assets, should the funding requirements continue to increase.	The COVID-19 pandemic has had a significant impact on fares income and the availability of funding. An Extraordinary Funding and Financing Agreement has been agreed with the Department for Transport, which provides funding through to 11 December 2021. The fact that the current funding agreement is short term and covers a period of less than twelve months from the approval of the financial statements, our conclusion remains that there is material uncertainty surrounding the funding of the Group and therefore its ability to continue to operate the current level of services, including the planned capital programme post the agreed funding period, however we agree that it is reasonable to prepare TfL's financial statements on a going concern basis. This is included in our opinion.
Inappropriate capitalisation or potential impairment of capital projects including capital accruals TfL, TTL groups and subsidiaries undertake multiple capital projects at any one time, which vary in size, complexity and length of time to complete. In the 2020/21 financial year, TfL's capital expenditure, excluding Crossrail, was budgeted to be £1.4 to £1.5bn. There is a risk of improper capitalisation of cost (through improper calculation of the accruals or improper split between capital and operating expenditure). In addition there is a risk of potential impairment of projects as a result of funding constraints.	We are satisfied that the capitalised costs in the year meet the criteria for capitalisation and are appropriate. We have reviewed impairment assessments performed during the current year and concur with the assessments made by management. As noted above, there is a material uncertainty relating to future funding of capital projects, including those in progress at 31 March 2021.

Continued over.

Significant Risk	Conclusion
Complexity of accounting for TfL and TTL property portfolios TfL and TTL groups have extensive property portfolios, with a total book value for property of £1.6bn as at 31 March 2021 (of which £95.5m was Assets Held for Sale). Included within the portfolios are office buildings and investment properties. The unique and material nature of TfL and TTL group's property portfolios means that small changes in assumptions when valuing these assets can have a material impact on the financial statements. TfL will need to comply with the Mayor's housing programme. The Mayor has committed to prioritising affordable home delivery on surplus or under utilised owned by the GLA Group, including TfL. This might have a negative impact on the valuation of TfL's property portfolio. In prior year, as part of the Group's commercialisation strategy, the Group consolidated properties available for non-operational use in a new subsidiary entity. This resulted in a change in use from 'owner-occupied' to newly separable investment property assets. This could result in inappropriate classification of assets and presentation of revaluation changes. Further, with the continued impact of COVID-19 pandemic on the market conditions and growing uncertainty around valuation, the fair value assessment of property portfolio is also changing.	We concluded that property valuations were within an acceptable range. The disclosures set out in the notes to the financial statements are fundamental to users' understanding of this matter. We concluded that the balances and disclosures in the financial statements and notes appropriately reflect the risk factors identified.

Continued over.

Financial Statement Audit (continued)

In addition to the significant risks, we also concluded on the following areas of audit focus.

Other area of audit focus	Conclusion
Judgemental assumptions impacting TfL's pension deficit At 31 March 2021, TfL's defined benefit pension schemes had a deficit of £5,603.1m (2020: £4,100.6m). The Group's balance sheet reflects the deficit on the TfL defined benefit pension scheme, TfL's share of the deficit on the Local Government Pension Scheme, the deficit on the Crossrail section of the Railways Pension Scheme and the liability for unfunded pensions obligations. Audit of pension scheme assets requires particular care given the current market volatility. There is a risk of potential short to medium term impact of COVID-19 on the net pension liability. The assumptions used to arrive at the value of the pension deficit are judgemental. The setting of these assumptions should be in accordance with IAS19(R) Employment Benefits. Any update to the financial assumptions should be supported by management in the context of the business plans and general outlook. In particular, we expect short to medium term impacts of COVID-19 to be balanced against the long-term nature of the changes in financial assumptions.	During our testing, a difference of £76.5m between the draft pension scheme asset values and the final position included in the TfL Pension Fund accounts was identified – this represents an uncorrected error. We have recorded this as an uncorrected error on our summary of audit differences. No other matters were identified in our testing of the pension deficit.
Leases (IFRS 16) When applying IFRS16 there are a number of judgements and estimates to be taken by management including: Determining the interest rate to be 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 2020/21 financial year end. Assessing the length of - In particular with respect to station and track access. Assessing the value of 'peppercorn' leases – the CIPFA Code requires the recognition of values related to peppercorn leases (this is not required under IFRS adopted in the EU). Calculating an estimate of costs relating to bus contracts – management uses the same allocation across the whole fleet of contracts, based on contracts in place. As the proportion of non-diesel vehicles increases the cost allocation may change.	Determining the interest rate to be 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. Our view is that the rate should be determined at each delivery date for each batch of units, using management's rates to recalculate the accounting, gives rise to a cumulative judgemental difference of £37m higher value for right of use asset and £32m for the related lease liability. We have recorded this as a judgemental difference on our summary of audit differences.

Continued over.

Other area of audit focus	Conclusion
Significant accounting estimates – including complexity of provisions Certain provisions (e.g. Compulsory purchase orders, litigation, claims and disputes) require complex estimates involving high levels of management judgement and uncertainty. TfL, TTL and subsidiaries have complex capital contract and commercial arrangements. A large proportion of TfL's provisions come from its capital investment activities and transformation process. In particular CPO provisions and contractual disputes are subject to significant estimation and include uncertainty around negotiations. We also note that there are some legal proceedings against TfL for which provisions have been recorded. For TfL, TTL groups and subsidiaries we have: • Ensured provision balances meet the recognition criteria under IAS37. • Reviewed and critically evaluated management's judgement and estimates applied in the calculation of provisions in the financial statements. • Performed a retrospective review to assess the accuracy of provisioning and any evidence of management bias. • For completeness, performed unrecorded liabilities testing, minute review etc.	We are satisfied that the provisions made are within an acceptable range, based on the latest available information.
Complexity of accounting and disclosures for TfL's borrowing and treasury management A65 The impact of COVID-19 pandemic has had a significant adverse impact on the UK economy as a whole, with TfL's business in particular experiencing a decline in revenue as a result of reduced services and passenger journeys. Therefore, we have: • Reviewed the borrowings held by TfL, with a particular focus on the conditions/covenants within these financing agreements to assess if TfL have been in compliance with these conditions set out in agreements; • Engaged with our EY Specialists team to perform an independent valuation of a sample of derivative instruments and reperform the measurement of hedge ineffectiveness.	We are satisfied the hedge documentation complies with the key requirements of IFRS 9. Based on our review of the sample of borrowing agreements, TfL are in compliance with all financial conditions attached to these agreements. However, should there ever be such an event that these conditions are not met, the borrowing agreements would still remain in place with TfL being required to provide additional support to the respective financial institutions. The conditions that have been inspected as part of this borrowing agreement review have all been complied with no breaches noted

Continued over.

A65 NEW. Added the inherent risk response for borrowings and derivatives
Author, 10/11/2021

Audit differences

We identified the following misstatements to the financial statements and/or disclosures which were not corrected by management:

Uncorrected misstatements 2021 (£million)	Effect on the current period:	Net assets (Decrease)/Increase				Impact on reserves
	Total comprehensive income Debit/(Credit)	Assets current Debit/ (Credit)	Assets non current Debit/ (Credit)	Liabilities current Debit/ (Credit)	Liabilities non-current Debit/ (Credit)	Impact on brought forward reserves
Errors:						
• Pension asset valuation differences	(88)				77	11
Judgemental differences:						
• IFRS16 – rolling stock – rate used at each delivery date	(0)		37		(32)	(5)
Impact of difference arising in prior year:						
• Difference in accounting for certain contract incentive payments*	2		49			(51)
Total effect of uncorrected misstatements (before tax)	*86*		*86*		*45*	*(45)*
Less: tax effect at current year marginal rate	(0)					
Cumulative effect of uncorrected misstatements before turnaround effect	86					
Turnaround effect of prior year uncorrected misstatements	6					
Cumulative effect of uncorrected misstatements, after turnaround effect	92					

We also identified the following disclosure audit difference:

Gross rental income £77.1m and gross rental expenditure £55.7m are disclosed as within the service areas, however per the CIPFA code it should be disclosed as financing income and expenditure.

Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	We determined materiality for the Group to be £99m which is 1% of Group operational and capital reported in the financial statements. TfL Group's key responsibilities are to provide transportation services across London and to continue to develop the capital's transport infrastructure. TfL has two key purposes; operational responsibilities for transport services and the development of London's transport infrastructure. Both of these elements are of significant interest to the users of the financial statements identified above and therefore TfL expenditure in these areas is of most interest to the users of the financial statements.
Reporting threshold	We agreed with the Audit & Assurance Committee that we would report to the Committee all audit differences in excess of £5m.

Section 4

Value for Money

Value for Money (VFM)

We identified risks of significant weaknesses in the Corporation's VFM arrangements for 2020/21.

Scope and risks

We have complied with the NAO's 2020 Code and the NAO's Auditor Guidance Note in respect of VFM. We presented our VFM risk assessment to the 2 December 2021 Audit & Assurance Committee meeting which was based on a combination of our cumulative audit knowledge and experience, our review of Corporation and committee reports, meetings with management and evaluation of associated documentation through our regular engagement with management and the finance team. We reported that we identified significant risks in respect of:

Financial sustainability **-** TfL has significant financial risks in its business plan to 2024/25 as a result of the material uncertainty relating to future funding required from the GLA and Government beyond March 2021

Improving economy, efficiency and effectiveness - For 2020/21, the Corporation has had the arrangements we would expect to enable it to use information about its costs and performance to improve the way it manages and delivers services except for procurement arrangements whereby the action plan put in place in 2019/20 was not effective for the full 2020/21 financial year due to the impact of COVID-19.

Governance **-** Despite sound governance arrangements around budgeting and the financial planning for TfL as a whole, the governance arrangements relating Crossrail's delivery of the Elizabeth Line was an area of significant scrutiny in 2019/20. We did not identify any material weaknesses in 2020/21.

We had matters to report by exception in the audit report.

Reporting

We completed our VFM arrangements work on 30 July 2021 and identified significant weaknesses in the Corporation's VFM arrangements in relation to the uncertainty with regards to a long-term funding agreement and impact thereof on planning and resource management to maintain service delivery; and whilst an action plan was implemented to address the weaknesses identified in relation to procurement controls, it was not effective for the full financial year.

Our VFM commentary highlights relevant issues for the Corporation and the wider public.

VFM Commentary

In accordance with the NAO's 2020 Code, we are required to report a commentary against three specified reporting criteria:

- Financial sustainability
  How the Corporation plans and manages its resources to ensure it can continue to deliver its services;
- Governance
  How the Corporation ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness:
  How the Corporation uses information about its costs and performance to improve the way it manages and delivers its services.

VFM Commentary

The Corporation has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services except for the areas of significant weaknesses identified.

Introduction and context

The 2020 Code confirms that the focus of our work should be on the arrangements that the audited body is expected to have in place, based on the relevant governance framework for the type of public sector body being audited, together with any other relevant guidance or requirements. Audited bodies are required to maintain a system of internal control that secures value for money from the funds available to them whilst supporting the achievement of their policies, aims and objectives. They are required to comment on the operation of their governance framework during the reporting period, including arrangements for securing value for money from their use of resources, in a governance statement.

We have previously reported the VFM work we have undertaken during the year including our risk assessment. The commentary below aims to provide a clear narrative that explains our judgements in relation to our findings and any associated local context.

For 2020/21, the significant impact that the Covid-19 pandemic has had on the Corporation has shaped decisions made, how services have been delivered and financial plans have necessarily had to be reconsidered and revised.

We have reflected these national and local contexts in our VFM commentary.

VFM Commentary

The Corporation has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services except for the areas of significant weakness identified.

Financial sustainability

For 2020/21, Transport for London (TfL), has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services, significant weaknesses in the Corporation's VFM arrangements in relation to the uncertainty with regards to a long-term funding agreement and impact thereof on planning and resource management to maintain service delivery.

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

TfL's Finance Committee focuses on general financial oversight, TfL's revenue generation (fares, ticketing, commercial development and other income generation) as well as advising the Board as appropriate on matters relating to the Business Plan, Budget, borrowing, Treasury Management and prudential indicators. The committee prepares and presents to the Board a periodic Finance Report which sets out TfL's financial results for the period and year-to-date, as well as assessing this against the approved budget for the year. The committee also reports on TfL's progress against financial commitments under the Extraordinary Funding and Financing package agreed with DfT, for example cost cutting, increased savings and minimum usable cash reserves to be maintained. In addition, as part of the Extraordinary Funding and Financing package agreed with DfT throughout FY20/21, TfL has established an Official Level Oversight Group. This Group is chaired by DfT and has equal representation from DfT and TfL. The objectives of this Group are as follows: to oversee progress of the measures agreed in the Extraordinary Funding and Financing package, to work collaboratively to determine how conditions are being met and to consider proposals for resolution where necessary. The Official Level Oversight Group is a working level group to monitor conditions directly impacting the funding deal and progress towards longer term commitments. These meetings are led and attended by officials from DfT and TfL with associate members from other Government Departments attending as required. Moreover, as part of the spending review settlement, the Government specified that TfL must instate a governance body of non-executive directors to approve, challenge, and oversee all investments made by the group (except Crossrail). The group is called IIPAG (Independent Investment Project Appraisal Group) and comprises a number of construction industry experts. Crossrail has its own governance structures which includes an investment appraisal body.

How the body plans to bridge its funding gaps and identifies achievable savings

Monthly reporting on financial performance and planning to a Finance and Investment Committee enables the Corporation to identify gaps in funding and monitor progress on meeting savings targets. The Corporation uses a Programme Management Office to support identifying and delivering efficiency programmes with oversight provided by an Executive led efficiency and workforce steering group. Periodic and Quarterly reporting on financial performance and planning to the Finance Committee enables TfL to identify gaps in funding and monitor progress against the revised budgets and agreed saving targets per the Extraordinary Funding and Financing packages agreed with DfT throughout FY20/21. TfL identified various areas where cost savings will be implemented to eliminate the shortfall in funding. These areas include capex reductions and deferrals, headcount control and limitations on 60+ concessions. TfL has also set up various committees to challenge TfL spending. TfL also has a governance body of non-executive directors to approve, challenge, and oversee all investments made by the group (except Crossrail). The body is called IIPAG (Independent Investment Project Appraisal Group) and is comprised of a number of construction industry experts. Crossrail has its own governance structures which includes an investment appraisal body. Moreover, as noted above, as part of the Extraordinary Funding and Financing package agreed with DfT throughout FY20/21, TfL has established an Official Level Oversight Group.

Financial sustainability (continued)

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

TfL has a vision and a long-term strategic plan which articulates how it will deliver the Mayor's Transport Strategy and the needs of its stakeholders. Key priorities in the Mayor's Transport Strategy include creating healthy streets and healthy people, creating a good public transport experience and delivering new homes and jobs. The impact of the pandemic has led to significant additional forecasting and budgeting exercises to agree emergency funding arrangements with DfT. At the date of sign off, a short term funding agreement was in place covering the period to 11 December 2021.

Significant weakness identified:

Despite proper arrangements in place regarding the monitoring of performance against budget and available funding as well as having plans to bridge its funding gaps, there is a material uncertainty over the availability of funding which may cast doubt on TfL's ability to continue to operate the current planned level of services, including the planned capital programme post the agreed funding. Without continuous, stable investment to operate and maintain TfL's existing network and ensure it keeps pace with societal expectations, its performance will decline. This will mean fewer people using public transport to travel around London and more people using cars, resulting in increased pollution and congestion. In turn this will have a negative impact on the attractiveness of the City and will negatively impact the local economy. Without a longer-term funding agreement in place, TfL is making short term decisions based on the current funding arrangements. The focus on short-term funding, restricts TfL's ability to make progress on and commit to key long-term priorities set by policy makers. This means that TfL is not obtaining the best value for money due to lack of clarity of long-term funding agreements going forward. As such, we have identified a significant weakness with regards to how TfL plans and manages its resources to ensure it can continue service delivery. This has also been reported on within our Audit Opinion. Agreeing long term funding packages is extremely challenging in the current economic environment with conflicting funding demands on government funding, without an agreed long-term plan TfL will continue to have to make suboptimal decisions and spend significant management time continually reprioritising. Therefore, it is fundamental to the ability of management to appropriately exercise their responsibilities and enable TfL to fulfil its strategic priorities and facilitate Government policies for London, that a longer-term funding plan is agreed.

The Corporation has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services except for the area of significant weakness identified.

Recommendation:

It is recommended that TfL agree a long-term funding plan that will support TfL in achieving best value for money in the long term even if delivering less in overall terms by way of service or service improvement.

The Corporation has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services except for the area of significant weakness identified.

Financial sustainability (continued)

How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system

TfL reports to each Board meeting on key performance areas as reported by the established Committees of the Board which include: Finance Committee; Programmes and Investment Committee; Audit & Assurance Committee; Remuneration Committee; Elizabeth Line Committee and Advisory Panels: Customer Service and Operational Performance Panel; and Safety, Sustainability and Human Resources Panel.

TfL's financial plans include reporting on these wider areas as part of its mechanisms for monitoring the achievement of targets for each of the key performance areas and against conditions set out in funding arrangements with DfT.

How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans.

TfL has submitted a Financial Sustainability Plan to the Government in January 2021 which takes into account the level of uncertainty surrounding medium to long term demand, and presents four financial scenarios to define the possible outcomes for the medium to long term (from 2023/24 to 2029/30). Each of these have been created by combining a passenger demand scenario with a long-term capital planning scenario and funding lever (or additional grant).

TfL have considered plans for medium term service level changes to respond to expected changes in longer term demand driven by the pandemic. TfL have also identified a further four per cent reduction in the kilometres operated on the bus network to respond to expected future travel patterns including a passenger reduction in central London and increase in outer London town centres. There are around 25 such routes where frequency reductions would be worthwhile from an average of about 8 buses per hour to 6.

TfL plans to implement a package of off-peak service reductions on a number of Tube lines, post COVID-19 vaccines being successfully rolled out. TfL will maintain current service levels to support social distancing until COVID-19 vaccines are widely available. TfL estimates these changes will result in an annual saving of £5.6m per annum.

Governance

For 2020/21, TfL has had the arrangements we would expect to see to enable it to make informed decisions and properly manage its risks.

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

TfL's attitude towards business risk is documented in its operational Risk Management Policy. This includes managing risk and assuring controls consistently as set out in TfL's Enterprise Risk Management Framework. The policy refers to regularly identifying, assessing, monitoring, controlling, mitigating and reporting inefficiencies impacting the achievement of objectives to inform decision-making at all levels of the organisation, as well as consideration of risks throughout the business planning process. TfL has an Internal Audit function which has responsibility for providing assurance in respect of corporate governance and risk management across all members and constituent parts of the TfL Group. The Internal Audit team has the appropriate skills and experience and considering the nature, size and complexity of TfL group, the scope of the Internal Audit function appears appropriate. The Audit & Assurance Committee, on behalf of the Board, reviews the Corporation, scope of work and resources of Internal Audit on a regular basis to confirm these remain appropriate. As an independent and objective third line of defence review and support activity, Internal Audit makes recommendations for the improvement of internal control and risk management. There is a process to monitor management's actioning of control recommendations raised by Internal Audit which is closely monitored by the Audit & Assurance Committee at each meeting, where management is challenged if deadlines are missed. TfL has strong controls surrounding fraud. Fraud risk workshops are conducted to target Internal Audit work, and these have assisted with the development of fraud detection procedures. The work is performed by Internal Audit whereby half-year and full-year fraud reports are produced and provided to the Audit & Assurance Committee to be reviewed as part of the overall Risk Management review process. TfL has an Anti-fraud and corruption policy which has been approved by the Board and the Audit & Assurance Committee. TfL has an active counter-fraud department and instances of fraud are published within TfL to act as a deterrent. TfL will always prosecute and push for tough penalties in order to demonstrate their culture of honest and ethical behaviour.

The Corporation has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

How the body approaches and carries out its annual budget setting process

As with local authorities, TfL is a relevant authority for the purposes of Part VIII of the Local Government Finance Act 1988 and is obliged to produce a balanced annual budget. The budget is balanced against a series of factors and risks, including passenger demand, lifespan of TfL's assets and the evolving political landscape. The Mayor and the Assembly are also obliged to produce a balanced budget pursuant to section 85 of the GLA Act. The budget is submitted to the GLA/Mayor of London and goes through a consultation process together with all the other GLA family members, the result of which then forms the final approved consolidated budget. Under the GLA Act, it is the duty of the Mayor and the Assembly to prepare and approve the budgets of the GLA and the functional bodies (including TfL). The Mayor will prepare the draft budgets and submit them to a public meeting of the Assembly for consideration and approval. The Mayor determines TfL's budget, for each financial year, having consulted the London Assembly. TfL's Business Plan and Investment Programme is approved by the TfL Board and sets out how TfL intends to implement the Mayor's Transport Strategy over the period covered by its funding settlement with DfT. It sets out the projects and programmes to be delivered, how they will be funded, and outcomes to be achieved. The targets set out in the budget are measured against the three key themes of the Mayor's Transport Strategy, which are healthy streets and healthy people, a good public transport experience, and new homes and jobs. The above process has been modified as a result of the pandemic, as additional funding has been required from the DfT and therefore additional forecasts, covering a range of scenarios have been prepared for the purposes of agreeing emergency funding.

Governance (continued)

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

Periodic finance and performance reports are prepared which show both financial and operational performance and these are presented to TfL's Finance and Policy Committee and the Board. TfL's annual accounts are prepared in line with the Code of Practice on local Authority Accounting in the United Kingdom which is based upon IFRS. At the end of every quarter, each business unit completes a Business Management Review (BMR) outlining the position of the business unit and how it is performing compared to budget. Senior Reporting Accountants prepare a Performance Report which documents variances against budget. Reviews are then held with the Finance Director and associated action plans are compiled and approved. The report and action plan are then communicated to the Managing Director for further discussion and final approval as part of the BMR. Meetings of the Finance Leadership team involve the Finance Directors from across the business units and the Group Managing Director. There is effective, two-way communication between those charged with governance and its internal and external auditors. The Audit & Assurance Committee drives the system of internal control and has overall responsibility for reviewing the Internal Audit function; its audit plan and scope, findings and monitoring management responses. The Audit & Assurance Committee also considers the plan and findings of EY, provides challenge on relevant points to management and considers the annual report prior to publication.

The Corporation has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/Audit & Assurance Committee.

Published Board papers and minutes evidence the challenge made by non-executive members and the transparency in decision making. Further, any meeting of TfL's Board, committees and/or panels are held in public and anyone is welcome to attend, except where private, personal or specific financial information is to be discussed. TfL's standing orders (published on TfL's website) lay down the decision-making structure and proceedings, together with the Scheme of Delegation. In line with Good Corporate Governance Practice, TfL reviews the effectiveness of its Board and decision-making structure periodically. 2020 review considered the progress made against the recommendations from the externally led review in 2019. It then assessed the Board's performance and contribution during one of, if not the most, challenging year in TfL's history, given the impact of the coronavirus pandemic on staff, services and finances. The Audit & Assurance Committee meets quarterly and is comprised of appropriately skilled and experienced members, has clear terms of reference which emphasises the Committee's role in the relevant aspects of governance, internal control and financial reporting. Other committees of the TfL Board include the Finance Committee which advise on and assist the Board with issues relating to financial matters; Programmes and Investment Committee advise on and assist the Board with issues relating to TfL's overall Investment Programme matters; Remuneration Committee which keep an overview of TfL's reward and remuneration policies and its arrangements for talent management and succession planning; and the Elizabeth Line Committee which is a special purpose Committee established as part of the transition of the Crossrail Project to TfL to simplify decision making and provide assurance and oversight for the TfL Board on the completion and close out of the Crossrail Project and the opening of the Elizabeth line. The Elizabeth Line Committee will receive regular update reports and assurance on the progress of the Crossrail Project including, without limitation, reports and assurance on safety aspects of the Crossrail Project and will provide oversight on the completion and close out of the Crossrail Project and the opening of the Elizabeth line.

Governance (continued)

How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/Audit & Assurance Committee (continued)

TfL Board also has a Customer Service and Operational Performance Panel which advises on all matters relating to TfL's customer service and operational performance as well as a Safety, Sustainability and Human Resources Panel which advises on all matters relating to safety, sustainability and Human Resources, in particular: (a) health, safety and environment (HSE) matters including compliance and assurance; (b) resilience; (c) human resource issues across TfL, including equality and diversity and apprenticeship and graduate programmes; and (d) responsible procurement. During FY20/21, Internal Audit noted some observations regarding Crossrail's lack of audit trail to capture authority of decision making and concerns in relation to Governance and organisational effectiveness at Crossrail. Similar observations were noted by Internal Audit in prior year and to resolve these issues, TfL created a new committee called the Elizabeth Line Committee in FY20/21, which has been established as a special purpose Committee as part of the transition of the Crossrail Project to TfL to simplify decision making and provide assurance and oversight for the Board on the completion and close out of the Crossrail Project and the Opening of the Elizabeth line. We have reviewed the minutes from the Committee's meetings held during the year and note the improvements made throughout the period in terms of both the governance and decision-making structure of Crossrail as well as its operational performance. This has been further verified by management throughout our discussions during the audit. As such, despite the observations made by Internal Audit, we concluded that TfL has proper arrangements in place regarding the governance of Crossrail, hence no risk of material weakness has been identified.

The Corporation has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests)

TfL has an in-house legal team who are on hand to ensure that all legal and regulatory obligations are complied with. TfL also has the following committees in place to discuss any pending issues: Audit & Assurance Committee; Finance Committee; Safety, Sustainability and Human Resources Panel; Corporate and Planning Panel, Rail and Underground Panel, and Surface Transport Panel. During these meetings any issues regarding laws and regulations would be discussed and actions are recorded within the meeting minutes. From a financial perspective, the Audit & Assurance Committee is responsible for ensuring that the TfL Group prepares its annual accounts and other published financial reports in accordance with all relevant legislation and accounting standards. The Board devolves much responsibility to the Finance Committee and approval for the Business Plan, Group Budget and Annual Accounts of the TfL Group is delegated. TfL, in compliance with the GLA Act, keeps a register of interests for its Board Members. In compliance with Company Law, Secretariat keeps a register of interests of the Directors. The central register has been extended to cover all senior staff which is defined as Chief Officers and their direct reports except support staff. The register of interests is updated by the Company Secretariat who emails a form to be completed by the officers on a bi-annual basis. Any new starters of the relevant status will be asked to provide on entry on their appointment and thereafter will be included in the half-yearly update. Declarations of interests of all Board members are available to view on the TfL website. For all staff, other than senior managers as defined above, modes/directorates are required to maintain local registers of interests and of the receipt of gifts and/or hospitality on a modal/directorate basis. Modes/directorates mirror the centralized arrangement with regards to the Register of Interests i.e. creating entries and every six months the entries will be re-circulated and staff will be asked to confirm that it is still correct or provide amended details. Staff who do not currently have an entry are reminded on a half-yearly basis of the need to register an interest that has recently arisen. A register of gifts, interest and hospitality is maintained for all board members and chief officers and is published on TfL's website. The register is maintained by the Director of Corporate Governance. Individual declarations of interest at meetings are stated in the Board minutes.

The Corporation has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services except for the area of significant weakness identified.

Improving economy, efficiency and effectiveness

For 2020/21, the Corporation has had the arrangements we would expect to enable it to use information about its costs and performance to improve the way it manages and delivers services except for procurement arrangements whereby the action plan put in place in 2019/20 was not effective for the full 2020/21 financial year due to the impact of COVID-19. This resulted in the need to prioritise exceptional protocols during the pandemic, rather than business as usual changes from the existing action plan.

As such, we have identified a significant weakness with regards to how TfL uses information about its cost to improve the way it manages and delivers services. This has been explained in detail below.

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

The key measure of financial performance that is important to TfL management is expenditure outturn against budget. Whilst also monitoring performance, TfL's priority is to deliver the business plan priorities and the Mayor's Transport Strategy within the set budget, as efficiently as possible. Quarterly Performance Reports are completed that show both financial and operational performance and these are sent to the GLA and presented to the Finance Committee and the Board. These compare year-to-date divisional performance against budget and prior year and explain key variances. Periodic Finance Reports are also produced, but not always published externally unless required for a Board or Committee meeting. At the end of every quarter, each business unit completes a Business Management Review (BMR) outlining the position of the business unit and how it is performing compared to budget. Senior Reporting Accountants prepare a Performance Report which documents variances against budget. Reviews are then held with the Finance Director and associated action plans are compiled and approved. The report and action plan are then communicated to the Managing Director for further discussion and final approval as part of the BMR. Meetings of the Finance Leadership team involve the Finance Directors from across the business units and the Group Managing Director. TfL's Code of Governance is organised into six sections to reflect the six core principles of the CIPFA/SOLACE framework. The sections are Leadership, Relationship, Management, Standards of Conduct, Risk Management, Capacity development and Public Accountability. There is an annual review of performance against the Code of Governance, the results of which are presented to the Audit & Assurance Committee. As part of the review, progress against the Governance Improvement Plan is assessed and the Improvement Plan for the coming year is presented.

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

TfL's Customer Service and Operational Performance Panel meets on a quarterly basis and consists of appropriately skilled and experienced members, has clear terms of reference which emphasises the Panel's role relating to TfL's non-financial operational performance across all TfL services and other customer service performance indicators. The Panel reports any meeting to the Board. Where consideration is given by the Panel to a matter with significant financial consequences, a summary of any comments or recommendations (if any) will be provided to the Commissioner and either the Elizabeth Line Committee, Finance Committee or Programmes and Investment Committee as appropriate. Similar reports are also provided to the Audit & Assurance Committee where a matter of relevance to that Committee is considered.

Improving economy, efficiency and effectiveness (continued)

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

TfL's Code of Governance is organised into six sections to reflect the six core principles of the CIPFA/SOLACE framework. The sections are Leadership, Relationship, Management, Standards of Conduct, Risk Management, Capacity development and Public Accountability. There is an annual review of performance against the Code of Governance, the results of which are presented to the Audit & Assurance Committee. As part of the review, progress against the Governance Improvement Plan is assessed and the Improvement Plan for the coming year is presented.

How the body ensures that commissioning and procuring services is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits.

The TfL Procurement and Contracting Policy supports the organisation's commitments to achieving best value for money for procurement at all goods, works and services throughout the business. The following are the seven steps involved in the TfL Commercial Lifecycle: Phase 1 – Define business need; Phase 2 – Analyse and develop business case; Phase 3 – Set procurement strategy and agree specification; Phase 4 – Procure and contract; Phase 5 – Implement; Phase 6 – Operate and contract manage; Phase 7 – Renew and/or exit. TfL's Programmes and Investment Committee considers the forward programme of Investment Programmes approvals, including when decisions on procurement strategies are required, and indicates if the Committee requires further information or input. In addition, TfL's Safety, Sustainability and Human Resources Panel's terms of reference includes advising on responsible procurement. TfL's Standing Orders set out the scheme of delegations for the approval of certain types of spend. The scheme of delegations indicates when and up to what limits spend or other approvals may be granted by committees or individuals across the organisation. The aim of this scheme of delegation is always to ensure proper scrutiny of all spend by the appropriate levels of authority. Furthermore, EY external audit team have received extensive correspondence from whistle-blowers during the 2020-21 audit, questioning the appropriateness of TfL's procurement policies and decision making with regards to the Silvertown Tunnel project and TfL's Data Centre contract. EY has investigated both allegations through performing additional work around procurement and tendering as well as involving EY forensics team to perform a detailed assessment on the Silvertown Tunnel allegation. Based on the results of work performed, we have not identified any discrepancies with regards to compliance with TfL's policies and internal procedures in relation to both allegations, however some recommendations were made to management in regards to the Silvertown Tunnel procurement.

The Corporation has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services except for the area of significant weakness identified.

<u>Significant weakness identified:</u>
During 2019/20 Transport for London identified a series of weaknesses with the application of procurement rules throughout the organisation. Procurement arrangements were not being followed in all cases, leading to a significant amount of single source tender arrangements and other contracting arrangements that may not have provided value for money. An action plan was put in place to address the weaknesses identified, however it was not effective for the full 2020/21 financial year due to the impact of COVID-19 resulting in the need to prioritise exceptional protocols during the pandemic, rather than business as usual changes from the existing action plan. As such, we identified a significant weakness with regards to how TfL uses information about its cost to improve the way it manages and delivers services.

<u>Recommendation:</u>
TfL should continue to monitor progress against and compliance with the implemented action plan and identify areas of further improvement. Should controls operate effectively throughout 2021/22, we would not expect this matter to be reported as part of VFM conclusion.

The Corporation has agreed two recommendations which we will follow up as part of our 2021/22 VFM arrangements work.

Recommendations

As a result of the VFM procedures we have carried out we have agreed the following recommendations with the Corporation:

Recommendation 1

It is recommended that TfL agree a long-term funding plan that will support TfL in achieving best value for money in the long term even if delivering less in overall terms by way of service or service improvement.

Recommendation 2

TfL should continue to monitor progress against and compliance with the implemented action plan and identify areas of further improvement. Should controls operate effectively throughout 2021/22, we would not expect this matter to be reported as part of VFM conclusion.

The Corporation faces further challenge and change beyond 2021 which will form part of our 2021/22 VFM arrangements work.

Forward look

Looking forward to 2021 and beyond, there is still a level of uncertainty surrounding the funding of the Group and ultimately its ability to continue to operate the current level of services, including the planned capital programme. TfL needs to agree a long-term funding plan that will support TfL in achieving best value for money in the long term even if delivering less in overall terms by way of service or service improvement.

Section 5

Other Reporting Issues

Other Reporting Issues

Governance Statement

We are required to consider the completeness of disclosures in the Corporation's governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it complies with relevant guidance.

We completed this work and did not identify any areas of concern.

Whole of Government Accounts

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts consolidation pack submission. The guidance for 20/21 is yet to be issued. We will liaise with the Corporation to complete this work as required.

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Corporation or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Other powers and duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Other Reporting Issues (cont'd)

Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

We have adopted a fully substantive approach and have therefore not tested the operation of controls.

Our audit did not identify any control issues to bring to the attention of the Audit & Assurance Committee.

Appendix A

Audit Fees

Audit Fees

Our fee for 2020/21 is in line with the audit fee agreed and reported in our fee reporting dated 21 July 2021 to the Audit & Assurance Committee.

Description	Final Fee 2020/21 £	Planned Fee 2020/21 £	Final Fee 2019/20 £
Statutory Audit fee 2020/21 - TfL	120,062	120,062	120,062
Statutory Audit fee 2020/21 - TTL	1,381,750	1,329,700	1,195,927
Statutory Audit fee 2020/21 - Crossrail	134,925	120,000	143,482
Agreed upon procedures – Queens Award for Enterprise	7,500	7,500	-
Agreed upon procedures – Office of Road & Rail Returns	14,500	14,500	12,500
Agreed upon procedures – 3Emotion Hydrogen programme	12,500	12,500	16,321

For 2020/21 the scale fee has been re-assessed to take into account a number of risk factors which includes procedures performed to address the risk profile of the Corporation and additional work to address increase in Regulatory standards. The additional fee for 2020/21 has been discussed with management and remains subject to approval by PSAA Ltd.

We have adopted the necessary safeguards in our completion of this work and complied with Auditor Guidance Note 1 issued by the NAO.

EY | Assurance | Tax | Transactions | Advisory

Ernst & Young LLP

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Audit and Assurance Committee

Date: **1 December 2021**

Item: **External Audit Plan TfL, TTL and Subsidiaries - Year Ending 31 March 2022**

This paper will be considered in public

1 Summary

1.1 To present to the Committee EY's plan for the audit of the financial statements of Transport for London, Transport Trading Limited and its subsidiaries for the year ending 31 March 2022 (the Plan).

2 Recommendation

2.1 **The Committee is asked to note the paper.**

3 Background

3.1 The Plan has been developed by EY and sets out the work that they propose to undertake for the 2021/22 financial year. The Plan sets out the audit strategy and approach for the audit of the financial statements and also encompasses work relating to Value for Money. As set out in the Plan, audit materiality was reduced in 2020/21 to reflect the increased enterprise risk of TfL and remains set at this lower level for 2021/22.

3.2 As was the case for 2020/21, most of the subsidiaries of the TfL group will be claiming exemption from audit this year. TfL's investment property sub-group of subsidiaries, TTL Properties Group, will, however, be producing consolidated audited financial statements for the first time for 2021/22 and the Audit Plan has been drawn up on this basis.

List of appendices to this report:

Appendix 1: Financial Statements Audit Plan 2021/22 from EY

List of Background Papers:

None

Contact: Patrick Doig, Statutory Chief Finance Officer
Email: PatrickDoig@TfL.gov.uk

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Transport for London
Audit planning report
Appendix 1
Year ending 31 March 2022

1 December 2021

The Audit and Assurance Committee

1 December 2021

Transport for London
5 Endeavour Square
Stratford
London
E20 1JN

Dear Members of the Audit and Assurance Committee

We are pleased to enclose our audit planning report for the forthcoming meeting of the Audit and Assurance Committee. The purpose of this report is to provide the Committee with a basis to review our proposed audit approach and scope for the 2022 audit, in accordance with the requirements of the auditing standards and other professional requirements, but also to ensure that our audit is aligned with the Committee's service expectations.

The Transport for London (TfL) Group and Corporation audits form part of our framework contract with Public Sector Audit Appointments Limited. We will complete 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 subsidiary, Transport Trading Limited Group (TTL), Crossrail Limited and TTL Properties Group. TfL's subsidiaries are subject to the accounting requirements of the Companies Act 2006. We will complete our work in accordance with the requirements of UK Auditing Standards.

This report summarises our assessment of the key issues which drive the development of an effective audit for TfL and subsidiaries. We have aligned our audit approach and scope with these.

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

We welcome the opportunity to discuss this report with you on 1 December 2021 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Janet Dawson

For and on behalf of Ernst & Young LLP

Contents

01 Overview of our 2022 audit strategy

Overview of our 2022 audit strategy

The Global COVID-19 pandemic has continued to have an impact on TfL and our planned audit procedures during the current financial year and have continued to consider the impact on our risk assessment and audit strategy. We will continue to reassess throughout the audit.

Going concern and the availability of funding to deliver current operational and capital plans

As previously discussed, TfL has been significantly impacted by the COVID-19 pandemic and associated reduced public transport usage during the past 2 years. Fares revenue declined by £3.1bn (71%) for the 2020/21 financial year. This has improved slightly in 2021/22 due to some increased travel, with fares revenue having increased by £0.6bn (108%) compared to the same period in 2020/21 (based on P06 actuals YTD). Despite this increase, the passenger rates still remain significantly below pre-pandemic levels. This has further impacted other revenue streams such as advertising revenue. The Group provides essential transport services and the level of service, with social distancing adaptations had to be maintained throughout the period, even though passenger numbers had declined. The reduced revenue whilst maintaining service levels, negatively impacted the Group's ability to generate income. Despite increased usage following the removal of social distancing restrictions from 19 July 2021, passenger numbers have remained below 2019/20 levels and there is no certainty that lockdown and/or social distancing measures will not be re-introduced during the second half of financial year 2021/22.

An Extraordinary Funding and Financing Agreement is in place with the Department for Transport, which provides funding through to 11 December 2021. The Group continues to work with the Department for Transport and GLA, with a view to securing longer term funding that is financially sustainable.

At the time of writing this report there remains a level of uncertainty surrounding the funding of the Group and ultimately its ability to continue to operate the current level of services, including the planned capital programme post the current funding agreement. This is similar to the position at the date of sign off of the 31 March 2021 financial statements and our audit opinion included details of this material uncertainty. We will monitor progress on funding agreements throughout the audit and assess the position as at the point of sign off to consider whether there remains the same material uncertainty as in prior year. This will be dependent on the latest funding arrangements that are in place in July 2022 when we expect to complete our audit.

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Climate change risk

Given the importance of forward-looking assessments of climate-related issues, the FRC therefore encourages UK public interest entities to report against the Task Force on Climate-related Financial Disclosure's (TCFD) recommended disclosures and, with reference to their sector, using the Sustainability Accounting Standards Board metrics. The TCFD recommendations require careful planning and consideration, which for many entities will require revisions to existing governance structures, strategic and financial planning, risk management frameworks and data. The FRC has completed a review of climate-related issues as they affect governance, reporting and audit, and the roles of a range of market participants. This scope acknowledged the important role boards, companies, auditors, professional associations and investors to play in considering climate related issues. We plan to improve our consideration of climate-related risks over the course of the audit.

Understanding the impact in the business

We have reflected the impact of COVID-19 on TfL's business, in the completion of our planning risk assessment. Further details are set out in section 2 of this report.

The areas of our existing audit approach where we expect to perform further procedures are:

- Assessment of going concern and funding arrangements
- Assessment of impairment of assets and disclosures in the annual accounts
- Assessment of the current estimate of costs for Crossrail and further delay in planned opening schedule
- Consideration of any material uncertainty in the conclusions of the Group's property values

We will continue to reassess our audit strategy and update over the course of the audit with any additional information obtained.

Overview of our 2022 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Audit risk identified	Change from PY	Details
Misstatement due to fraud or error	Fraud Risk	Revision of focus	There is a risk that the financial statements as a whole are not free from material misstatement whether caused by fraud or error. We perform mandatory procedures regardless of specifically identified fraud risk.
Management override of controls	Fraud risk	No change in risk or focus	Management is in a unique position to perpetrate fraud because of their ability to directly or indirectly manipulate accounting records 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 engagement under ISA (UK & Ireland) 240. During 19/20, weaknesses were identified by management and internal audit in procurement controls and the resulting action plan was implemented during 20/21. We will assess the embedding of these action plans during our testing response to the risk of management override of controls. We will also assess whether the impact of continued remote working and the transition to hybrid working has impacted the effectiveness of the operation of key controls.
Inappropriate Revenue recognition, required by ISA (UK & Ireland) 240 (including expenditure as required by Practice Note 10)	Fraud risk	No change in risk or focus	TfL needs to have robust controls in place to forecast and accurately recognise and report revenue in its financial statements. Based on our previous experience, we have concluded that there is significant risk of material misstatement in the recognition of fare income which comprises £1,144.3m (P06 Actuals YTD 2021/22) generated through various sources including cash and contactless payments, fares which are apportioned with the Train Operating Companies "TOC" and those fares that are recognised over the period of the travel card. The process of revenue recognition is complex and involves significant judgement with regards to the apportionment of revenue between TfL and TOCs. Revenue for the group continues to be impacted by COVID-19 and related restrictions. We will assess the continued impact of COVID-19 on the appropriateness of apportionments to TOCs, refunds of unused tickets, Oyster card releases and other changes in assumptions. We have not identified any specific risk areas in relation to expenditure.

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Overview of our 2022 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Audit risk identified	Change from PY	Details:
Going concern TfL Funding Crossrail funding	Significant risk	No change in the risk or focus	COVID-19 has negatively impacted TfL's ability to generate revenue given the significant drop in passenger journeys, due to travel restrictions and increased work from home. Funding has been agreed to 11 December 2021 and a process continues to agree longer term funding with the Department for Transport and GLA. We will monitor the progress of ongoing funding discussions and assess the impact on capital projects in progress and the Group's ability to maintain levels of service. At the time of writing this report there is still a level of uncertainty surrounding the funding of the Group and ultimately its ability to continue to operate the current level of services, including the planned capital programme post 31 March 2022. This is similar to the position at the date of sign off of the 31 March 2021 financial statements and our audit opinion included details of this material uncertainty. The Crossrail project continues to be complex and as it reaches its conclusion, there will be the finalisation of related costs and contractual matters. The COVID-19 pandemic has significantly affected the business operations of the company, and there are increased levels of uncertainty within the forecasts used as part of the going concern assessment. During the 2020/21 financial year management assessed sources of funding to meet the Group's obligations. In addition to this the Government has also stated in the latest Funding and Financing Agreement dated 31 October 2020 which has been extended to 11 December 2021, that Crossrail remains a vital project for both London and the UK. A further funding package will be separately discussed and agreed for Crossrail. We will monitor the progress of ongoing funding discussions to assess the impact on the Group.

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Overview of our 2022 audit strategy

Audit risks and areas of focus			
Risk / area of focus	**Audit risk identified**	**Change from PY**	**Details**
Inappropriate capitalisation or potential impairment of capital projects including capital accruals	Significant risk	No change in risk or focus	TfL, Transport Trading Limited ('TTL') and subsidiaries undertake multiple capital projects at one time, which vary in size, complexity and length of time to complete. In the 2020/21 financial year, TfL's capital expenditure, excluding Crossrail, was budgeted to be £1.4bn to £1.5bn . Controls need to be effective to appropriately recognise the costs from these significant projects including: • Appropriate split of costs between capital and operating expenditure; • Assessment of the economic useful lives of the asset where costs are capitalised; • Whether to recognise impairments and write-offs for assets to reflect either increased risks of projects being terminated or suspended; • Whether costs capitalised for projects being terminated or mothballed due to funding limitations, are assessed for impairment; • Adequate assessment of estimated cost to complete and relevant pain/gain appropriately accounted for; • In particular, we will continue to assess the impact of Crossrail progress and funding on the ability of TfL to complete and fund other in progress projects; • We will understand what the impact of COVID-19 is on all capital projects selected as part of our sample; and • We will assess the additional spend on exceptional cost incurred to manage the impact of virus in accordance with government regulations. Until longer term funding arrangements covering capital as well as operational expenditure are in place, there is a material uncertainty as to whether any of the projects, included in assets in the course of construction will not be funded to completion and the extent of any changes required, there could be a material impairment in value. This is similar to the position at the date of sign off of the 31 March 2021 financial statements and our audit opinion included details of this material uncertainty.
Complexity of accounting for TfL and TTL property portfolios	Significant risk	No change in risk or focus	TfL and TTL groups have an extensive property portfolio, with a total book value for property of £1.6bn as at 31 March 2021 (of which £95.5m was Assets Held for Sale). Included within the portfolio are office buildings and investment properties. The unique and material nature of TfL and TTL group's property portfolios means that small changes in assumptions when valuing these assets can have a material impact on the financial statements. There is an on-going uncertainty with regards to the valuation and rapid changes in market values in the current market conditions as a result of COVID-19.

Overview of our 2022 audit strategy

Audit risks and areas of focus			
Risk / area of focus	**Audit risk identified**	**Change from PY**	**Details**
Significant accounting estimates – including complexity of provisions	Inherent risk	No change in risk or focus	Certain provisions (e.g. Compulsory purchase orders, litigation, claims and disputes) require complex estimates involving high levels of management judgement and uncertainty. TfL, TTL and subsidiaries have complex capital contract and commercial arrangements. A large proportion of TfL's provisions come from its capital investment activities and transformation process. In particular CPO provisions and certain contract provisions (e.g. claims and disputes) require complex estimates involving high levels of management judgement and uncertainty.
IFRS 16 Leases - Lease accounting, including the complexity of the estimating the Incremental borrowing rate (IBR)	Inherent risk	No change in risk however increased focus due to unadjusted audit differences in the prior financial year	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 relating to accounting for IFRS16 assets and liabilities and an unadjusted audit difference was identified in the prior year audit which affect our risk assessment of the lease accounting in the current year. These matters will be re-assessed in the current year and any changes to contracts assessed for IFS16 accounting. Further, as with all assets, there will need to be an assessment of whether there are any impairments of these IFRS16 assets as a result of the impact of COVID-19.
Judgemental assumptions impacting TfL's pension deficit	Inherent risk	No change in risk or focus	At 31 March 2021, TfL's defined benefit pension schemes had a deficit of £5,603.1 million. The Group's balance sheet reflects the deficit on the TfL defined benefit pension scheme, TfL's share of the deficit on the Local Government Pension Scheme, the deficit on the Crossrail section of the Railways Pension Scheme and the liability for unfunded pensions obligations. The assumptions used to arrive at the value of the pension deficit are judgemental. The setting of these assumptions in accordance with IAS19(R) Employment Benefits will be an area of audit focus.

Overview of our 2022 audit strategy

Audit risks and areas of focus			
Risk / area of focus	Audit risk identified	Change from PY	Details
Complexity of accounting and disclosures for TfL's borrowing and treasury management	Inherent risk	No change in risk or focus	The Group 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 the most complex investment vehicles. The balances held are also not highly material and therefore the risk has been designated as a higher inherent risk.

Other areas of audit focus

Impact of COVID-19

We have reviewed our risk assessment of COVID-19 and its potential effect on TfL and have identified various relevant areas within the Group impacted. Key areas impacted include going concern, funding for future capital projects, ability to generate revenue, the impact on level of service provided and compliance with government changes.

Other areas impacted include the recoverability of debtors, IFRS 16, additional provisions recognised as a result of COVID-19, employee relates costs such as redundancies and pension valuation.

Further details of this risk and our proposed audit approach are included in section 2 of this report.

We have assessed the impact of COVID-19 on our materiality thresholds used, we have adjusted our materiality thresholds accordingly.

Engagement risk assessment

Due to the increased public scrutiny of TfL's funding needs, we have assessed the overall engagement risk for TfL as a close monitoring risk assurance engagement. A close monitoring risk assurance engagement is one in which the engagement:

- Possesses more than higher risk to the member firm. A close-monitoring designation involves more judgment and experience.
- Requires specific procedures to be performed as discussed in the report.

As such, we have performed a risk assessment to identify matters that contributed to the assessment. The main risk identified relates to uncertainty with regards to funding required by TfL and any consequential impact on capital funding and services. We have not found there to be any additional risks to those identified above.

In response to the risk assessment, the audit will be subject to an enhanced Audit Quality review. The team will be supported throughout by our Professional Practice Group and our Financial Reporting Group.

Overview of our 2022 audit strategy

Materiality

We have calculated planning materiality using gross expenditure as our basis, which is consistent with the prior year. We have noted a drop in planning materiality due to reduced gross expenditure for the 2021/22 financial year.

In addition to this we have reassessed the threshold used for performance materiality and retained it at 50% of planning materiality due to increased engagement risk and unadjusted audit differences identified in the 2020/21 financial year. This will impact the amount of testing performed.

Planning materiality
£92.5

Materiality has been set at £92.5m (2020/21: £99m), which represents 1% of the 2021 budget of total gross expenditure, which is determined based on the current P6 period's agreed funding package. It will be reassessed throughout the audit.

Performance materiality
£46.3

Performance materiality has been set at £46.3m (2020/21: £47.3m), which represents 50% of group materiality.

Audit differences
£4.6

We will report all uncorrected misstatements relating to the income statement and balance sheet that have an effect on income and misstatements in the OCI over £4.6m (2020/21: £4.7m). Other misstatements identified will be communicated to the extent that they merit the attention of the Audit and Assurance Committee.

02 Audit risks

Risk assessment

Key audit matters

ISA (UK) 701 is effective for periods commencing on or after the 17 June 2016 and requires that we communicate key audit matters in our auditor's report. Key audit matters are selected from the matters we communicate to you that in our opinion are of most significance to the current period audit and required significant attention in performing the audit.

When determining key audit matters we will consider:

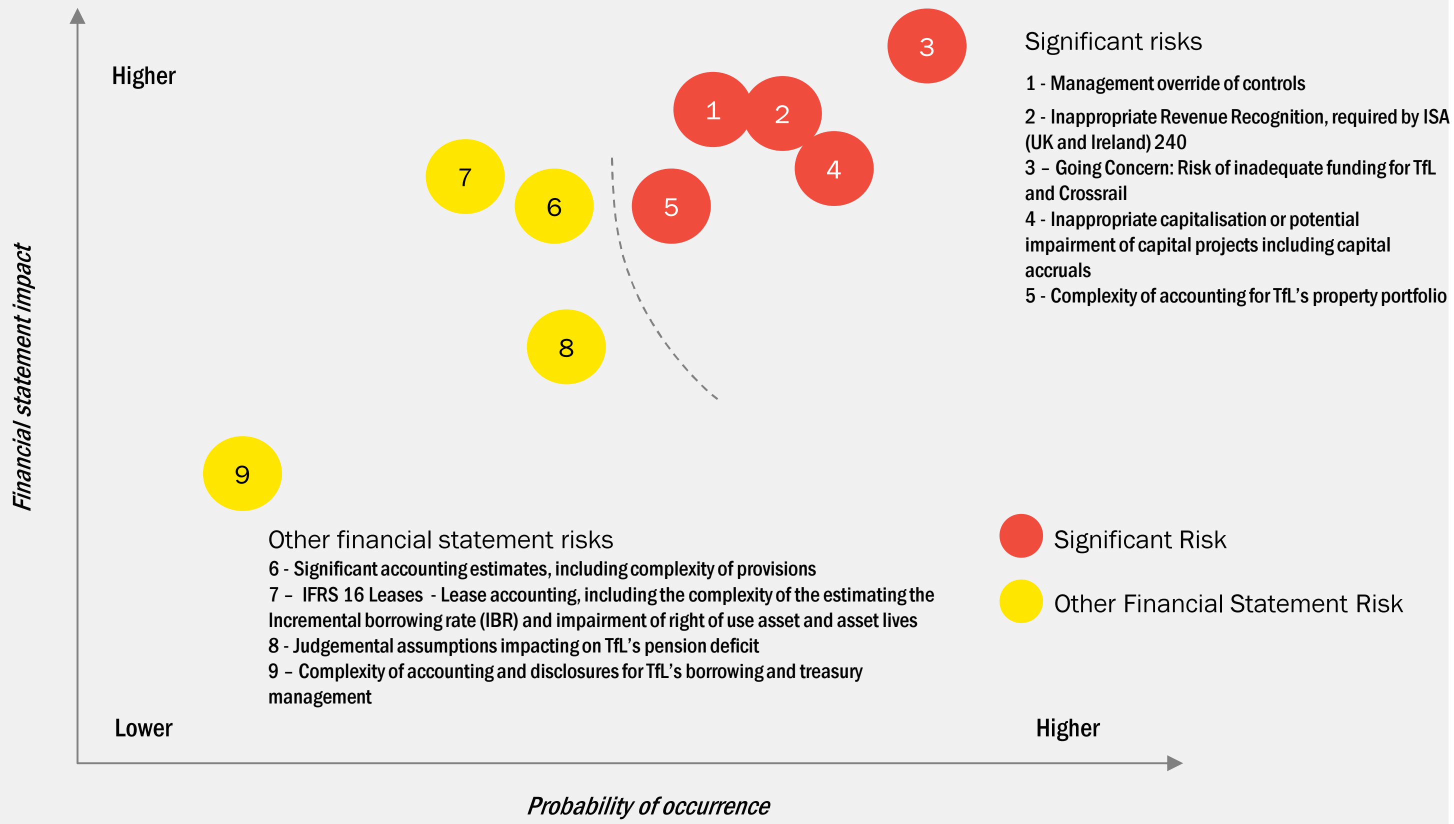
- Areas of higher or significant risk
- Areas involving significant judgment, including accounting estimates with high estimation uncertainty
- Significant events or transactions that occurred during the period

At this stage of the audit we do not know what key audit matters we will include in our auditor's report. However, we have included within this section the most significant assessed 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 audit team. We will confirm the key audit matters to you in our audit results report.

Risk assessment

We have obtained an understanding of your strategy, reviewed your principal risks as identified in your 2021 Annual Report and Accounts and combined it with our understanding of the industry to identify key risks that impact our audit.

The following 'dashboard' summarises the significant matters that are relevant for planning our year-end audit:



Our response to significant risks

Our response to significant risks

We perform specific procedures over significant risks (including fraud risks denoted by*), which includes the identification and testing of the design and implementation of key controls designed to address the risks. We are required to specifically highlight these significant risks to 'those charged with governance' i.e., the Audit & Assurance Committee. We have set out the significant risks identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Fraud risks: We are specifically required to consider the risk of material misstatement due to fraud either through fraudulent reporting of misappropriation of assets. We evaluate information obtained throughout the audit to determine if conditions indicate risks of material misstatement due to fraud. In assessing whether a condition represents a risk of material misstatement due to fraud or just a fraud risk factor, we consider the 'likelihood' of one or more misstatements, and their potential 'magnitude' if the condition occurred. When a risk of material misstatement due to fraud is identified this is assessed as a significant risk.

Significant risks: Auditing standards require us to consider whether any of the risks identified are 'significant' risks to our audit of the Corporation and Group. Significant risks are defined as those with a higher likelihood of occurrence and, if they were to occur, could result in a material misstatement of the financial statements.

Misstatements due to fraud or error*

What is the risk?

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.

We identify and respond to this fraud risk on every engagement under ISA (UK & Ireland) 240.

As part of our risk assessment we consider the current objectives of TfL and areas where there might be judgement with potential for bias to present a particular result, such as reduced operating expenditure.

What will we do?

- Identifying fraud risks during the planning stages.
- Inquiry of management about risks of fraud and the controls put in place to address those risks.
- Understanding the oversight given by those charged with governance of management's processes over fraud.
- Consideration of the effectiveness of management's controls designed to address the risk of fraud.
- Determining an appropriate strategy to address those identified risks of fraud.
- 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.

Our response to significant risks

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Management override of controls*

What is the risk?

During 19/20, weaknesses were identified by management and internal audit in procurement controls and the resulting action plan was implemented during 20/21. We will assess the embedding of those action plans during our testing response to the risk of management override of controls.

TfL's revenue has been significantly impacted by the COVID-19 pandemic which led to a significant decrease in passenger journeys. TfL has had to rely on additional government funding to cushion against the impact of the pandemic. As such there is increased public scrutiny of TfL's financial statements.

With continued reductions in funding from Central Government, TfL's overall budgets, funding agreements and the public nature of the business put pressure on management to achieve performance targets and could lead to manipulation of results.

Whilst no specific additional fraud risks have been identified, we will continue to maintain a heightened level of challenge, professional scepticism and senior team involvement in areas impacted by COVID-19 and be conscious of errors that could occur due to hybrid working and reduced physical oversight of staff.

We will exercise professional scepticism about the evidence obtained electronically and may need to design other audit procedures in order to test the reliability of electronic evidence in the absence of the original physical source document, as well as considering the controls over the process from which the electronic evidence was produced.

What will we do?

For TfL, TTL groups and subsidiaries, we will:

- Robustly challenge management's assumptions on capitalising expenditure;
- Apply professional scepticism by questioning whether management's explanations are logical, reasonable and in line with relevant historic trends supported by sufficient appropriate evidence;
- Perform journal entries testing with specific focus on journals related to costs capitalised, or indicative of management override (posted by members of management, with blank or unusual descriptions, etc.) with specific focus on top side journals;
- Test significant transactions that are outside the normal course of business or that appear unusual;
- Test procurement transactions to identify any material override of controls; and
- Apply professional scepticism and judgement to determine whether the evidence provided is reliable for the purpose which it has been obtained

Our response to significant risks

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

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

Financial statement impact

Misstatements that occur in relation to inappropriate revenue recognition or areas of expenditure which could be manipulated, required by ISA (UK & Ireland) 240 and PN 10, would affect the receipts in advance for travel cards, bus passes and Oyster cards and fares revenue accounts. These accounts had the following balances in the 2021/22 financial statements:

- Income Statement Account: £1,729.1m (P06 Actuals YTD 2021/22)
- Gross Operating expenditure: £3,375m (Actuals YTD 2021/22)

What is the risk?

TfL needs to have robust controls in place to forecast and accurately recognise and report revenue in its financial statements, including:

- £1,144.3m fare revenue (P06 Actuals YTD 2021/22). generated through various sources including cash and contactless payments, fares which are apportioned with the Train Operating Companies "TOC" and those fares that are recognised over the period of the travel card.
- £254.2m (P06 Actuals YTD 2021/22) of congestion charging revenue, which is made up of a high volume of low transaction amounts
- £29.8m (P06 Actuals YTD 2021/22) of commercial advertising revenue which is based on a mixture of minimum guaranteed amount and share based revenue; and
- £105.8m (P06 Actuals YTD 2021/22) of rental revenue generated from over 2,400 contracts.

The significant risk only relates to the fares revenue stream. This is due to the complexity and judgement involved in the process of apportioning of the fares revenue recognised.

In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. We have not identified any specific risk areas in relation to expenditure.

What will we do?

For Fares Revenue, we will:

- Gain an understanding of the revenue process for fares revenue;
- Perform controls testing over the effectiveness of the cash collection process and sales made at various sales outlets;
- Test to ensure that the Receipts in Advance "RIA" and Joint Facility Ticketing "JFT" Debtor balance is correctly stated;
- Test the appropriateness of assumptions used by management on the oyster write-back policy adopted and how the impact of COVID-19 has been considered;
- Recalculate the ageing for a sample of dormant oyster card balances to ensure accuracy;
- Test transactions separately where we are not able to place reliance on the controls in place or where procedures above are not be sufficient;
- Review the minutes of meetings held between TfL and TOCs during FY21/22 to understand whether there were any issues in regards to information communicated by TOCs and settlement between the parties
- Review the ISAE 3402 controls report and the agreed upon procedures report;
- Test the calculation behind any refund provision made as a result of Covid-19 and compare the provision amount to actual refund payments made post year end;
- Assessing changes to underlying assumptions used for the recognition of revenue such as TOC apportionment and Oyster Card releases; and
- Review journal entries for unusual postings related to Covid-19 adjustments to revenue.

Our response to significant risks (continued)

Going concern, including TfL and Crossrail funding

Financial statement impact

Fares revenue declined by 71% for the 2020/21 financial year and despite increased travel in financial year 2021/22 the passenger rates still remain significantly below pre-pandemic levels. The drop in revenue has negatively impacted TfL's funding requirements.

An Extraordinary Funding and Financing Agreement is in place with the Department for Transport, which provides funding through to 11 December 2021. The Group continues to work with the Department for Transport and GLA, with a view to securing longer term funding that is financially sustainable.

Financial statement impact

As part of agreeing the current funding agreement, TfL made undertakings in respect of costs savings including in respect of capex reductions and deferrals, headcount control and financial commitment.

It is also possible that the current ongoing review and negotiation of future funding could deem some current services as non-essential, which could then lead to an impairment of some assets related to those services.

We will monitor the progress of ongoing funding discussions and assess the impact on capital projects in progress and the Group's ability to maintain levels of service.

The Crossrail project continues to be complex and as it reaches its conclusion, there will be the finalisation of related costs and contractual matters. The COVID-19 pandemic has significantly affected the business operations of the company, and there are increased levels of uncertainty within the forecasts used as part of the going concern assessment.

What is the risk?

At the time of writing this report there is still a level of uncertainty surrounding the funding of the Group and ultimately its ability to continue to operate the current level of services, including the planned capital programme post 31 March 2022. This is similar to the position at the date of sign off of the 31 March 2021 financial statements and our audit opinion included details of this material uncertainty.

What will we do?

For TfL, TTL group and subsidiaries, we will:

- Discuss and review the business plan prepared by the management;
- Determining an appropriate strategy to address those identified risks;
- Review the group's forecast;
- Review management's assessment of funding requirements and commitments;
- Assess impact of funding requirements on TfL projects that could result on the cancellation or delay of major projects;
- Evaluate management's judgements and assumptions used in determining the future benefits expected from the projects and ensuring they are appropriate and supportable;
- Assess whether any additional obligations exist within the various contractual arrangements that have been omitted from the financial statements;
- Test the nature of the expenditure incurred to determine if capitalisation is appropriate;
- Obtain an understanding of the latest funding agreements and discussions as at the conclusion of the audit;
- Obtain an understanding of the group's plans for discontinuation of service and assess related assets for impairment; and
- Perform additional procedures in response to the continued impact of COVID-19.

Our response to significant risks (continued)

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Inappropriate capitalisation or potential impairment of capital projects including capital accruals

Financial statement impact

Misstatements that occur in relation to inappropriate capitalisation or potential impairment of capital projects including capital accruals would affect the carrying value of assets under construction and capital accruals accounts. These accounts had the following balances in the 2021 financial statements:

Balance Sheet Account:

- Assets under construction: £20,033.8m; and
- Capital accruals: £656.3m

What is the risk?

TfL, TTL groups and subsidiaries undertake multiple capital projects at any one time, which vary in size, complexity and length of time to complete. In the 2021/22 financial year, TfL's capital expenditure is budgeted to be £1.4bn to £1.5bn.

There is a risk of improper capitalisation of cost (through improper calculation of the accruals or improper split between capital and operating expenditure). In addition there is a risk of potential impairment of projects as a result of funding constraints.

Judgements and controls need to be effective, to appropriately recognise the costs from these significant projects including:

- Appropriate split of costs between capital and operating expenditure;
- Assessment of the economic useful lives of the asset where costs are capitalised; and
- Whether to recognise impairments and write-offs for assets to reflect increased risks of projects being terminated or suspended.

What will we do?

For TfL, TTL groups and subsidiaries we will:

- Review a sample of capital projects (including Crossrail), based on quantitative and qualitative thresholds;
- Understand key controls and governance surrounding capital project accounting and management;
- Test controls focused on the effectiveness of the approval process for expenditure and for capitalisation;
- Meet with management and project managers during the year and attend management's P11 and P13 accruals meetings;
- Evaluate management's judgements and assumptions used in determining the future benefits expected from the projects and ensuring they are appropriate and supportable;
- Consider pain/gain arrangements and related accounting treatment;
- Assess whether or not capitalisation of costs is appropriate;
- Consider whether, at any stage, assets need to be impaired or written off to reflect any aborted or higher risk projects;
- Perform detailed testing on a sample of expenditure incurred and capital accruals to source documentation;
- Assess whether management has reasonably estimated the cost to complete the capital projects;
- Review of capital projects to assess progress and potential impairment, in particular, we will continue to assess the impact of funding agreements on future capital expenditure to complete in progress projects;
- Review claims and contracts for existence of additional obligations or expenditure that is inappropriate to capitalise;
- Review the accounting and test for any COVID-19 payments on projects; and
- Perform additional procedures in response to the continued impact of COVID-19 where appropriate.

Our response to significant risks (continued)

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Complexity of accounting for TfL and TTL property portfolios

Financial statement impact

Misstatements that occur in relation to the complexity of accounting for TfL and TTL group's property portfolios would affect the investment properties account. The account had the following balances in the 2021 financial statements:

Balance Sheet Account:

- Investment property: £1,458.7m
- Assets Held for Sales: £95.5m
- Office buildings £185.2m

What is the risk?

TfL and TTL groups have extensive property portfolios, with a total book value for property of £1.6 billion as at 31 March 2021. Included within the portfolios are office buildings and investment properties.

The unique and material nature of TfL and TTL group's property portfolios means that small changes in assumptions when valuing these assets can have a material impact on the financial statements.

During 19/20 and 20/21, as part of the Group's commercialisation strategy, the Group consolidated properties available for non-operational use in a new subsidiary entity. This resulted in a change in use from 'owner-occupied' to newly separable investment property assets. This could result in inappropriate classification of assets and presentation of revaluation changes.

Further, with the continued impact of COVID-19 pandemic on the market conditions any changes to the assumptions used to value properties within the portfolio could have a significant impact on the financial statements due to the nature of the properties.

What will we do?

For TfL, TTL groups and subsidiaries, we will:

- Discuss with management and review evidence to gain understanding of TfL and TTL group's property portfolios;
- Discuss and review valuation assumptions and methodology applied by external valuers along with the TfL property team;
- Perform substantive testing and corroborate explanations for property additions, disposals and accounting for lease contracts;
- Review 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;
- Assess the classification of TfL and TTL property portfolios, the valuation basis and any material increases or impairments that arise during 2021/22;
- Assess the work of TfL's property valuers. We will involve our EY property valuation team as appropriate to-assist in our review of whether TfL's key assumptions are within an acceptable range based on comparative market data for rental yields;
- Review the accounting treatment of valuation movements for non-core assets and ensure it is appropriately disclosed;
- Consider whether the classification of assets between investment properties, property, plant and equipment and assets held for sale is appropriate and in accordance with IFRS; and
- Review and challenge judgements made by the external valuers in light of the uncertainties in light of COVID-19.

Other areas of audit focus

Other areas of audit focus

IFRS 16 Leases

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. When applying IFRS 16 there are a number of judgements and estimates to be taken by management including:

- Determining the interest rate to be used in the calculation of lease liabilities - Management has utilised the same rate from the date of IFRS 16 adoption for all deliveries of rolling stock in the 2021/22 financial year end.
- Assessing the length of the leases - In particular with respect to station and track access.
- Assessing the value of 'peppercorn' leases – the CIPFA Code requires the recognition of values related to peppercorn leases (this is not required under IFRS adopted in the EU).
- Calculating an estimate of costs relating to bus contracts – management uses the same allocation across the whole fleet of contracts, based on contracts in place. As the proportion of non-diesel vehicles increases the cost allocation may change.

An unadjusted audit difference was identified in the prior year audit which we consider in our risk assessment of the lease accounting in the current year. These matters will be re-assessed in the current year and any changes to contracts assessed for IFRS16 accounting.

Judgemental assumptions impacting TfL's pension deficit

At 31 March 2021, TfL's defined benefit pension schemes had a deficit of £5,603.1 million. The Group's balance sheet reflects the deficit on the TfL defined benefit pension scheme, TfL's share of the deficit on the Local Government Pension Scheme, the deficit on the Crossrail section of the Railways Pension Scheme and the liability for unfunded pensions obligations.

The assumptions used to arrive at the value of the pension deficit are judgemental. The setting of these assumptions in accordance with IAS19(R) Employment Benefits will be an area of audit focus. We will liaise with the TfL pension fund auditor to obtain assurance over pension scheme assets included within the IAS19 balance.

Significant accounting estimates – including complexity of provisions

TfL has provisions for expected compensation and contractual claims that arise in respect of disputes arising in the ordinary course of the business. Certain provisions (e.g. Compulsory purchase orders, litigation, claims and disputes) require complex estimates involving high levels of management judgement and uncertainty. In particular CPO provisions and contractual disputes are based on the professional estimates of lawyers and surveyors of the land acquisition, development value and other factors which are subject to significant estimation and include uncertainty around negotiations.

We will critically assess and challenge management's assessment of judgements and estimates.

Other areas of audit focus

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

The impact of COVID-19 pandemic has had a significant adverse impact on the UK economy as a whole, with TfL's business in particular experiencing a decline in revenue as a result of reduced services and passenger journeys. Therefore, we will:

- Continue an assessment of the borrowings held by TfL, with a particular focus on the conditions/covenants within these financing agreements to assess if TfL have been in compliance with these conditions set out in agreements;
- Engage with our EY Specialists team to perform an independent valuation of a sample of derivative instruments and reperform the measurement of hedge ineffectiveness.

Climate related risks

In response to increasing concerns about the impacts of climate change on the economy and financial stability, the FRC is calling for organisations to be more transparent on how they are addressing climate risk. Whilst reporting, in itself, cannot limit the effect of climate change, transparency of how organisations are responding to this risk provides stakeholders with better information and may guide how they interact with an organisation: whether it is funders deciding whether to fund; employees deciding which organisations they would like to work for; customers deciding which services to use; or suppliers deciding which organisations to sell their products/services to.

As a result we will perform the following audit procedures:

- Obtain an understanding of the Group's climate risk assessment;
- Review the accuracy and completeness of the climate risk assessment;
- Review substantive evidence supporting climate-related disclosures made in the Annual Report; and
- Review climate-related narrative in the Annual Report.
- Engage with our EY Specialists team to perform an independent review of the consistency of the Climate risk narrative disclosures with the financial statements and the relevance to the financial audit.

Value for money “VfM”

Value for money "VfM"

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. For 2021/22, proper arrangements are defined by 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.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

Prior year assessment and impact on current year

In 2020/21, we reported stating that there were arrangements in place to secure economy, efficiency and effectiveness, except in relation to the following areas:

- The uncertainty with regards to a long-term funding agreement and impact thereof on planning and resource management to maintain service delivery; and
- An action plan was put in place to address the weaknesses identified in relation to procurement controls, however it was not effective for the full financial year due to the impact of COVID-19 resulting in the need to prioritise exceptional protocols during the pandemic, rather than business as usual changes from the existing action plan.

As noted earlier in this report, the process to agree a longer term funding arrangement continues and the position at the point of concluding the audit will be reflected in our value for money assessment. With respect to the second point relating to procurement, the action plan was fully implemented by 31 March 2021 and so our testing will consider whether the actions are fully embedded during the 21/22 year.

Value for money “VfM”

What is the risk/area of focus?	What will we do?
Financial sustainability: How the body plans and manages its resources to ensure it can continue to deliver its services	TfL’s operations and ongoing investment programmes are subject to a number of risks, particularly access to long-term funding, the exposure to economic risks associated with revenue reductions, and financial markets disruption impacting on TfL’s ability to borrow. We will: • Review the assumptions included in 2021/22 budget and details of any funding agreements with GLA; • Assess progress made on Crossrail against planned execution and evaluating the impact thereof on funding requirements; • Assess TfL plans for and consider addressing the financial and legal risks it is exposed to on capital projects. Other areas of audit focus include the following: • Understanding the organisation changes that are underway and how these changes will strengthen TfL’s decision making arrangements whilst being mindful of interactions with employees and the impact of disputes such as strike actions on management plans; • How the finance function supports management with clear, summarised and insightful financial and performance information for decision making; • How TfL exercises governance and oversight over key project areas, significant contracts and procurement; • Assess the impact of additional costs capitalised on Crossrail and potential impairment thereof; and • How TfL plans for and consider addressing the financial and legal risks it is exposed to on capital projects.
Improving economy, efficiency and effectiveness: How the body uses information about its costs and performance to improve the way it manages and delivers services	During 2019/20 Transport for London identified a series of weaknesses with the application of procurement rules throughout the organisation. Procurement arrangements were not being followed in all cases, leading to a significant amount of single source tender arrangements and other contracting arrangements that may not have provided value for money. An action plan was put in place to address the weaknesses identified, however it was not effective for the full 2020/21 financial year due to the impact of COVID-19 resulting in the need to prioritise exceptional protocols during the pandemic, rather than business as usual changes from the existing action plan. We will test the progress made against the implemented action plan and consider whether they address the weaknesses identified. We will also consider the period that such changes were in place for and the associated impact on our conclusion as to whether proper arrangements are operating effectively during the year covered by our conclusion.
Governance: How the body ensures that it makes informed decisions and properly manages its risks	We will assess whether TfL has proper arrangements in place in relation to the following: • How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud; • How the body approaches and carries out its annual budget setting process; • How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed; • How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee; • How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests).

03 Audit materiality

Materiality

Group materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality also provides a basis for identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures. We have set materiality on a consistent basis with the previous year.

The amount we consider material at the end of the audit may differ from our initial determination and we will update the above for actual figures rather than budget in due course. We will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date. We will also consider the nature of any audit misstatements identified to determine if there are other factors that could result in errors that may appear immaterial quantitatively but which are material qualitatively.

We welcome the Audit and Assurance Committee's observations on the factors we should consider in arriving at an appropriate basis for setting materiality at and across the TfL Group.

Key definitions

Planning materiality – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Planning materiality for FY2021/22 has been set at £92.6m (2020/21: £99m). This represents 1% of the Company's total group operating and capital expenditure (based on P06 actuals YTD) which is in line with the prior year. Planning materiality will be reassessed throughout the audit process.

Performance materiality –the amount we use to determine the extent of our audit procedures.

We have reassessed the thresholds used for calculating performance materiality. Due to the increased engagement risk and the number of unadjusted differences in the prior year, our ability to assess the likelihood of misstatements, the effectiveness of the control environment and other factors affecting the entity and its financial reporting; we have set performance materiality at £46.3m (2020/21: £47.3 million) which represents 50% of planning materiality.

Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial. The same threshold for misstatements is used for component reporting. We will report to you all uncorrected misstatements over this amount relating to the income statement and balance sheet that have an effect on income or that relate to other comprehensive income.

Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement or disclosures and corrected misstatements will be communicated to the extent that they merit the attention of the Audit and Assurance Committee, or are important from a qualitative perspective.

04 Scope of our audit

Scope of our audit

Objective of our audit

Our objective is to form an opinion on the consolidated financial statements of the TfL and TTL Groups and also on the standalone financial statements for Crossrail Limited and consolidated financial statements for TTL Properties Group under International Standards on Auditing (UK) as prepared by you in accordance with International Financial Reporting Standards as adopted by the EU for TTL and Crossrail and under the CIPFA Code for TfL.

Our responsibilities in relation to the financial statement audit are set out in our engagement letter. We are responsible for forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of the Audit and Assurance Committee. The audit does not relieve management or the Audit and Assurance Committee of their responsibilities.

Audit approach

Our audit involves identifying and understanding the key processes and internal controls, testing and relying on certain identified key controls and undertaking substantive tests of detail of transactions and amounts.

Analytics: We will utilise EY's data analytics tools to analyse greater populations of transactions around expenditure accounts, while aiming to reduce the burden of compliance on TfL's management and finance staff.

In particular we interrogate the financial systems for unusual journal entries through our data analysis. This will include review of:

- manually entered journals by management, identifying journals that are considered likely to be outside of the normal course of daily operations;
- journals posted between accounts we would not expect to be linked, such as income and expenditure accounts;
- those with unusual descriptions and posting details (such as unexpected system users we would not anticipate posting journals themselves, such as senior management); and
- journal entries made on a recurring basis for amounts that suggest a pattern outside of our understanding of the TfL's operations, such as repeated journals just below key authorisation limits and month end journals subsequently reversed and repeated for a significant period of time.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit and Assurance Committee.

Internal audit: We will review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where they raise issues that could have an impact on the financial statements.

Services and deliverables

- Express opinions on, and report to the Audit and Assurance Committee the results of our audits of the consolidated results of the TfL Group, TTL Group and subsidiaries. We determine whether the accounts are free from material error.
- We are required to satisfy ourselves that the 2021/22 accounts of the TfL, TTL Groups and subsidiaries comply with statutory and professional accounting requirements.
- For TfL, this will also include the CIPFA IFRS based Code of Practice on Local Authority Accounting.
- We will provide audit opinions on the consolidated financial statements of the TfL and TTL Groups.
- We will also provide audit opinions on the standalone financial statements for Crossrail Limited and consolidated financial statements for TTL Properties Group.
- For the year ending 31 March 2022, as TTL, the holding company for TfL's trading subsidiaries will offer a guarantee in respect of all liabilities to a majority of its subsidiaries, TfL is proposing to continue to apply section 479A of the Companies Act 2006 that enable certain UK subsidiary companies to claim exemption from the audit of their accounts.

Assessment of Internal Control

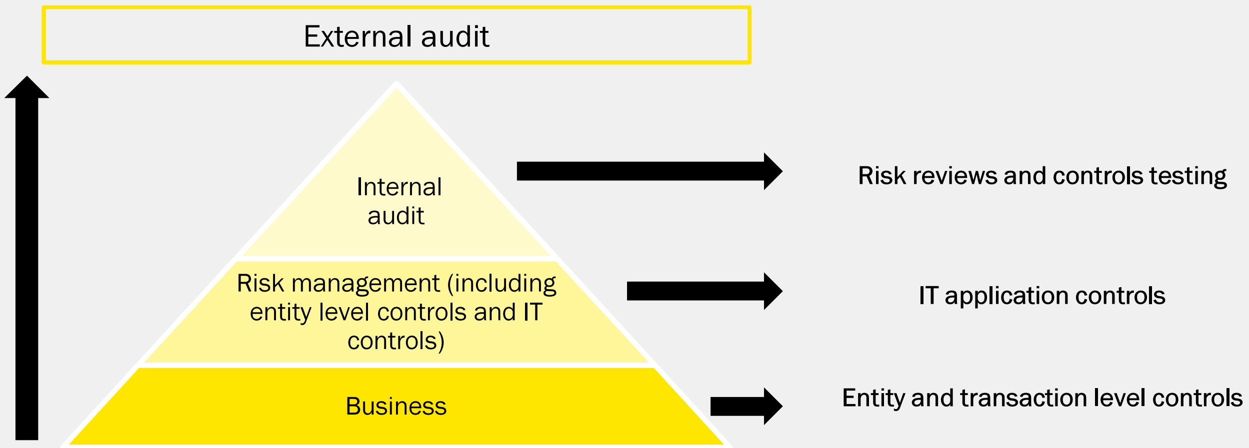
Gaining assurance through the control environment

Internal controls over financial reporting

We will update our understanding of the internal controls over financial reporting used throughout the TfL and TTL Group, with the intention of using a controls-based audit approach again, where we expect this to be robust and efficient. To be able to adopt an efficient controls-based approach, we consider the various layers of assurance and leverage where there is potential to do so, shown in the diagram below. In particular, we review:

- Entity level controls; we will maximise efficiency by seeking to rely on entity level controls and processes, such as budget setting and monitoring process;
- IT systems and applications: we will test the general IT controls built in to the TfL Group's core IT applications, together with IT application controls over your critical business processes; and
- Assurance reports from third parties such as ISAE3402 reporting on revenue and assurance provided by KPMG in respect of the pension fund.

Where we believe that reliance on controls will not be possible due to any ineffective design or operation of the controls, we will provide feedback on areas for improvement compared to what we see as leading practice, and will instead perform additional substantive procedures to support our audit opinion.



Assessment of Internal Control

Gaining assurance through the control environment (continued)

Liaising with Internal Audit

A key part of understanding and monitoring of the control environment is our ongoing liaison with Internal Audit. We will discuss and review Internal Audit's annual plans and reports to inform where specific reviews can assist us in our controls and Value for Money Conclusion work.

Analytics

We will continue to perform data analysis to support our audit procedures, on purchase to pay, payroll and journal entries as well as planned analytics on revenue and capital projects.

Digital audit

As a firm we are focusing more on a data driven audit and innovation. Our digital audit facilitates the analysis of full populations of an organisation's data to produce a more complete picture of the business. We are aiming to refresh the traditional audit testing approach with new, risk-based, technology-enabled techniques that simplify and refine our focus on identification of and response to relevant risks.

TfL Value for Money Assessment and Whole of Government Accounts

We are required to make certain communications for entities that are required, and those that choose voluntarily, to comply with the Code of Practise, as described in Section 2 of the report 'Other areas of audit focus'. In order to form a view to communicate to the Audit and Assurance Committee, we expect our procedures to include:

- Review TfL's Annual Governance Statement to confirm that it is consistent with our understanding of your business and operations; and
- Audit and provide an opinion to the National Audit Office on the Whole of Government Accounts consolidation pack.

We will discuss with you your expectations regarding our communications.

Our audit opinion will report by exception on several of these Code provisions.

Under the statutory guidance issued by the National Audit Office on 1 April 2020, we are required to report on whether the Authority has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. For 2021/22, proper arrangements are defined by the National Audit Office 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.

Section 2 of the report 'Value for Money' sets out our planned audit work.

05 Audit team

Audit team

Audit team structure

Janet Dawson as our Government and Public Sector Assurance Leader has succeeded Karl Havers as the Lead Audit Partner, in line with independence rotation requirements. Janet will be supported by one of our corporate partners, who will be responsible for signing the limited companies audit opinions within the TfL group.

*Jeanne-Marie is currently on maternity leave but expected to rejoin the team during the audit

Janet Dawson
Lead Audit Partner

Caroline Mulley
Associate Partner

Jeanne-Marie van Coller*
Senior Manager

Tax Audit

Nick Wilson
Director

Investment properties

Bertie Foster-Ward
Senior **Manager**

IT Application controls

Maree-Louise Kernick
Associate Partner

Derivative instruments

Sean Whelan
Senior Manager

Pensions

Iain Brown
Partner

Use of specialists

- Our approach to the involvement of specialists, and the use of their work.

When auditing key judgements, we are often required to use the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where EY specialists are expected to provide input for the current year audit are:

Area	Specialists
Investment properties	EY CT-Valuation & Business Modelling
Pensions	EY Advisory, Risk
Derivative instruments	EY Financial Advisory Assurance Services
Incremental Borrowing Rate (IFRS 16)	EY Financial Advisory Assurance Services
Climate risk assessment	EY Financial Advisory Assurance Services

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Group's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- Assess the reasonableness of the assumptions and methods used;
- Consider the appropriateness of the timing of when the specialist carried out the work; and
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements.

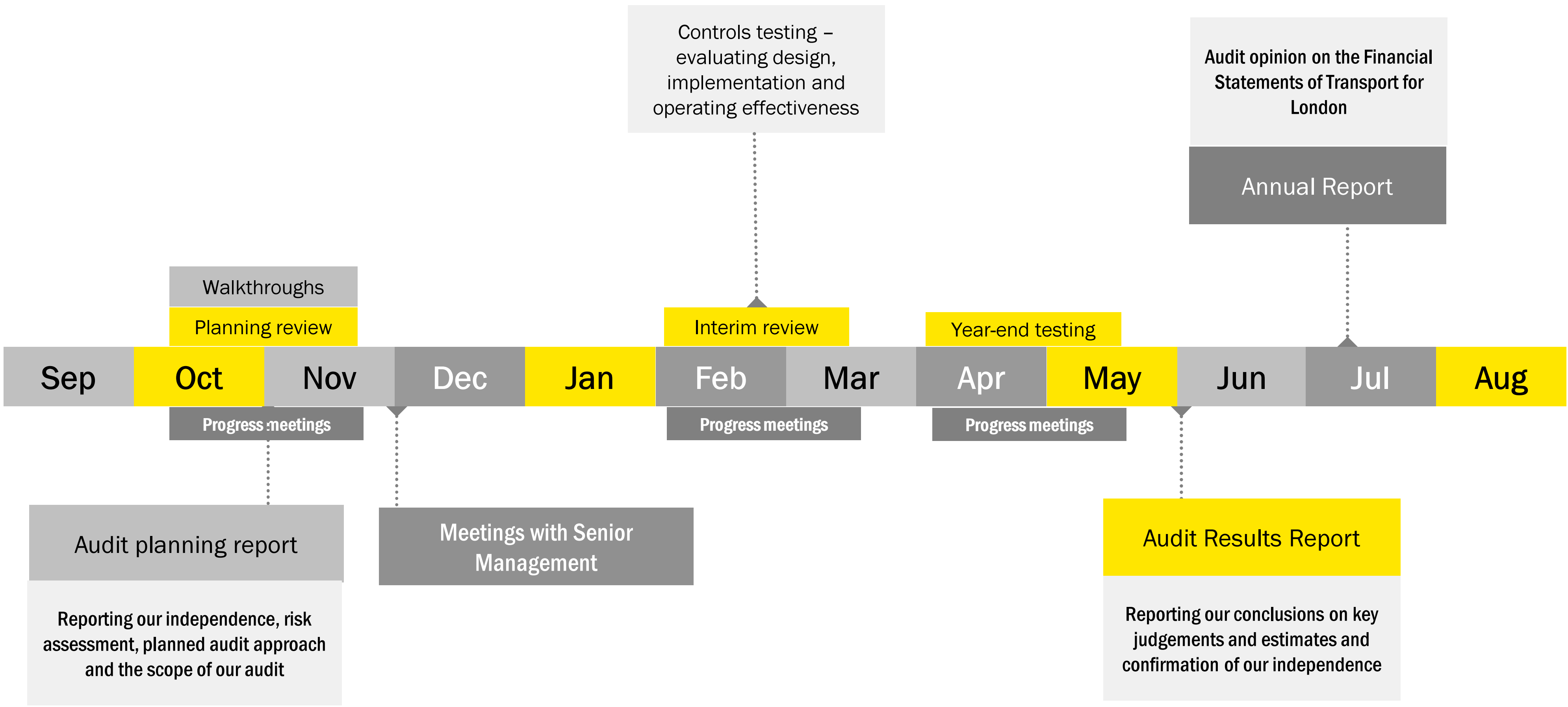
06 Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2022.

From time to time matters may arise that require immediate communication with the Audit and Assurance Committee and we will discuss them with the Audit and Assurance Committee's Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.



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07 Independence

Introduction

The FRC Ethical Standard and ISA (UK) 260 "Communication of audit matters with those charged with governance", requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in December 2019, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	Final stage
► The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between you, your affiliates and directors and us; ► The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ► The overall assessment of threats and safeguards; ► Information about the general policies and process within EY to maintain objectivity and independence.	► In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ► Details of non-audit/additional services provided and the fees charged in relation thereto; ► Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us; ► Details of any non-audit/additional services to a UK PIE audit client where there are differences of professional opinion concerning the engagement between the Ethics Partner and Engagement Partner and where the final conclusion differs from the professional opinion of the Ethics Partner ► Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy; ► Details of all breaches of the IESBA Code of Ethics, the FRC Ethical Standard and professional standards, and of any safeguards applied and actions taken by EY to address any threats to independence; and ► An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Independence

Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non –audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified on main audit areas, i.e. grant claims and debt issuance, we therefore confirm that EY is independent and the objectivity and independence of Janet Dawson, your audit engagement partner and the audit engagement team have not been compromised.

Self interest threats

A self interest threat arises when EY has financial or other interests in your company. Examples include where we have an investment in your company; where we receives significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved.

None of the services are prohibited under either the FRC's Ethical Standard or the Auditor Guidance Note 1 (AGN01) issued by the National Audit Office and the services have been approved in accordance with your policy on pre-approval. AGN01 sets out the requirement that for any year, non audit fees should not exceed 70% of the total fee for all audit work. In addition under Public Sector Audit Appointments Limited requirements when our non audit services cumulatively in any year exceed 20% of the audit fee, then pre approval of services is required.

Non audit fees for the year to date amounted to £48,000, pre approval was obtained for the service and the fees are not material when comparing it to the audit fees.

A separate document will be submitted detailing the non-audit services provided.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4 and AGN01.

There are no other self interest threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of your company. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

Other threats

There are no other threats identified at the date of this report.

Other communications

EY Transparency Report 2021

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 30 June 2021 and can be found here:

EY UK 2021 Transparency Report | EY UK

08 Appendices

Appendix A

Required communications with the Audit and Assurance Committee

We have detailed the communications that we must provide to the Audit and Assurance Committee.

Required communications	What is reported?	Our Reporting to you When and where
Terms of engagement	Confirmation by the Audit and Assurance Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	Discussed within engagement letter
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	Discussed within this report
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. 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	Discussed within this report
Significant findings from the audit	• 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	These matters will be included within our Audit Results Report for the year ending 31 March 2022

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Required communications with the Audit and Assurance Committee (continued)

		Our Reporting to you
Required communications	What is reported?	When and where
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: • Whether the events or conditions constitute a material uncertainty • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The adequacy of related disclosures in the financial statements	If applicable this will be included, as necessary, within our Audit Results Report for the year ending 31 March 2022.
Misstatements	• 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	These matters will be included within our Audit Results Report for the year ending 31 March 2022.
Subsequent events	• Enquiries of the Audit and Assurance Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements	These matters will be included within our Audit Results Report for the year ending 31 March 2022.
Fraud	• Enquiries of the Audit and Assurance 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: 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 • Any other matters related to fraud, relevant to Audit and Assurance Committee responsibility	These matters will be included within our Audit Results Report for the year ending 31 March 2022.

Required communications with the Audit and Assurance Committee (continued)

		Our Reporting to you
Required communications	What is reported?	When and where
Related parties	Significant matters arising during the audit in connection with the entity's related parties including, when applicable: • 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	These matters will be included within our Audit Results Report for the year ending 31 March 2022.
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence. Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: • 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 Communication whenever significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place.	These matters are included within this report and will also be included within our Audit Results Report for the year ending 31 March 2022.

Required communications with the Audit and Assurance Committee (continued)

		Our Reporting to you
Required communications	What is reported?	When and where
External confirmations	• Management's refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures	If applicable this will be included, as necessary, within our Audit Results Report for the year ending 31 March 2022.
Consideration of laws and regulations	• 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 and Assurance 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 and Assurance Committee may be aware of	If applicable this will be included, as necessary, within our Audit Results Report for the year ending 31 March 2022.
Internal controls	• Significant deficiencies in internal controls identified during the audit	These matters will be included within our Audit Results Report for the year ending 31 March 2022.
Group audits	• 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.	These matters are included within this report and will also be included within our Audit Results Report for the year ending 31 March 2022.

Required communications with the Audit and Assurance Committee (continued)

		Our Reporting to you
Required communications	What is reported?	When and where
Representations	Written representations we are requesting from management and/or those charged with governance	These matters will be included within our Audit Results Report for the year ending 31 March 2022.
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	These matters will be included within our Audit Results Report for the year ending 31 March 2022.
Auditors report	• 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	These matters will be included within our Audit Results Report for the year ending 31 March 2022.
Auditor's Annual Report and VFM Commentary	• A summary of the work we have undertaken in accordance with the NAO Code of Practice 2020 • Our commentary on the arrangements in place to achieve value for money	These matters will be included within our Auditors Annual Report for the year ending 31 March 2022.

Appendix B

Additional audit information

Other required procedures during the course of the audit	
In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards, company law and other regulations. We outline the procedures below that we will undertake during the course of our audit.	
Our responsibilities required by auditing standards	• Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion • Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control • Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management • Concluding on the appropriateness of management's use of the going concern basis of accounting • Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation • Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, including the board's statement that the annual report is fair, balanced and understandable, the Audit and Assurance Committee reporting appropriately addresses matters communicated by us to the Audit and Assurance Committee and reporting whether it is materially inconsistent with our understanding and the financial statements • Maintaining auditor independence
Procedures required by UK company law for TTL , Crossrail Limited and TTL Properties Group financial statements	• Opining on whether the information contained in the Strategic Report and the Directors' Report is consistent with the financial statements and those reports have been prepared in accordance with applicable legal requirements; • Reporting by exception if in the light of the knowledge and understanding of the group and its environment obtained in the course of the audit we identify material misstatements in the Strategic Report and Directors' Report.
Procedures required on other information published in the annual report	• Auditing the disclosures contained in the auditable part of the Remuneration Report to ensure it is in agreement with accounting records and returns. • Reviewing the Group's disclosures relating to internal control and risk management systems, governance and going concern for consistency with knowledge gained during the audit.
Procedures required under the Streamlined Energy and Carbon Reporting Framework	• Reviewing the Group's disclosures including Streamlined Energy and Carbon Reporting (SECR) and completeness and accuracy of the climate risk assessment with knowledge gained during the audit.

Additional audit information (continued)

Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines:

- The locations at which we conduct audit procedures to support the opinion given on the Group financial statements
- The level of work performed on individual account balances and financial statement disclosures

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

EY | Assurance | Tax | Transactions | Advisory

Audit and Assurance Committee

Date: **1 December 2021**

Item: **EY Report on Non-Audit Fees for the Period of 1 April - 30 November 2021**

This paper will be considered in public

1 Summary

1.1 This paper sets out for the Committee details of fees billed by EY for non-audit services.

2 Recommendation

2.1 **The Committee is asked to note the paper.**

3 Background

3.1 Under TfL's policy on external audit services EY is required to report to the Audit and Assurance Committee twice yearly on fees billed for non-audit services. EY's report is attached for the Committee's review.

List of appendices to this report:

Appendix 1: Letter from EY

List of Background Papers:

None

Contact: Patrick Doig, Statutory Chief Finance Officer
Email: PatrickDoig@TfL.gov.uk

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Appendix 1

Audit and Assurance Committee
Company Secretariat
Transport for London
Post Point 10 City Hall
The Queen's Walk
London SE1 2AA

1 December 2021

Direct line: 020 7951 2195
Email: jdawson1@uk.ey.com

Dear Sirs

Audit fees – Period ending 30 November 2021

Under Transport for London's policy on external audit services we are required to provide to the Audit and Assurance Committee, a report on fees for all services, we reported the non-audit services incurred in the 6 months to 31 March 2021 to a previous committee meeting. Appendix 1 to this letter includes a summary of our non-audit fees during the period 1 April 2021 to 30 November 2021, these solely relate to independent assurance reports on external reporting.

Yours faithfully

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

Appendix 1
Summary of fees

	TfL Corporation 2021/22 £	Comments
Agreed upon procedures	15,225	Procedures performed for the Office of Rail and Road Returns.
Agreed upon procedures	12,646	Procedures performed for the 3emotion grant claim

Audit and Assurance Committee

Date: **1 December 2021**

Item: **Task Force on Climate-related Financial Disclosures**

This paper will be considered in public

1 Background

1.1 The Committee has recognised climate change as a principle risk for TfL and have asked for an external perspective on the Task force on Climate-related Financial Disclosures (TCFD) and its relevance to TfL. This paper therefore presents the report from our external auditors, Ernst & Young (EY) on the relevant of the TCFD reporting requirements to TfL, as well as prospective next steps needed to make the relevant climate related disclosures in future reporting cycles.

2 Recommendation

2.1 **The Committee is asked to note the paper.**

3 Report summary

3.1 As set out in the appendices, EY are clear that reporting against the TCFD framework should be more than just about compliance with Financial Conduct Authority regulation. Climate risks pose a range of credible business risks that will have significant financial implications for TfL over the coming years. Using the TCFD as a framework and building on TfL's draft Adaptation Report currently in preparation, TfL needs to better understand these risks and develop approaches to actively quantify the potential financial impacts. This will support appropriate steps to mitigate the worst impacts of climate change and establish essential and sustainable financial planning.

3.2 The TCFD framework was established to promote consistent climate-related financial risk disclosures for organisations. It is structured in four thematic areas – Governance, Strategy, Risk management, and Metrics and targets with eleven voluntary recommendations of what to include in financial disclosures.

3.3 TfL has already taken key steps towards improved climate risk disclosures, in line with the TCFD recommendations. Our Corporate Environment Plan and sustainability reports have identified climate change as a key priority for TfL and have set out various ambitions and roadmaps on how to achieve them. Our voluntary reporting against the Adaptation Reporting Power (the power given to the Secretary of State under the Climate Change Act 2008 to direct reporting authorities to report on what they are doing to adapt to climate change) has included an assessment of our assets against climate risks with the next submission due in December 2021. Work has also been done work in relation to integrating climate risks into overall risk management, and raising the profile of climate change internally through the work of the Safety, Health and Environment team and the City Planning team.

3.4 There are still, however, some important considerations and next steps that need to be undertaken for good practice TCFD reporting. As set out in EY's report, good practice TCFD disclosure will require:

(a) a clear governance structure demonstrating board oversight and accountabilities;

(b) a clear description of impact on core strategy and decision-making, including scenario analysis;

(c) clear integration and ownership of climate risks; and

(d) clear targets and transparent methodologies of measuring progress over time.

3.5 In response to the findings in EY's report, TfL have committed to make progress in these areas for its 2021/22 reporting cycle. As a first step it will undertake a detailed gap analysis to examine the "as-is" versus the "to-be" position and will use this to identify the key next steps necessary to allow full compliance in future years.

List of appendices to this report:

Appendix 1: EY Report on Task Force on Climate Related Financial Disclosures

List of Background Papers:

None

Contact: Patrick Doig, Statutory Chief Finance Officer
Email: PatrickDoig@TfL.gov.uk

Overview of TCFD Reporting Requirements

Transport for London

Appendix 1

November 2021

Contents

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Executive Summary

Executive Summary

Introduction

Due to the nature of the services that TfL provide, a broad range of stakeholders are demanding transparency on climate risks. TfL operates to deliver the Mayor Transport Strategy (MTS) and plays a crucial role in delivering other Mayoral strategies and plans. Ensuring alignment with national and mayoral targets (such as carbon neutrality for London by 2030) will require significant financial investment. The Audit Committee have recognised climate change as a principle risk for TFL and have asked for an external perspective on the Task Force on Climate-related Financial Disclosures ('TCFD') and its relevance to TfL.

This is not a detailed current state assessment of TfLs climate processes, nor is it a risk assessment of TfLs exposure to climate change. Instead, this report aims to provide TfL with an overview of climate risk reporting through the TCFD, its relevance to TfL as well as prospective next steps needed to make relevant climate related disclosures in future reporting cycles. We hope it provides good context and a basis on which to structure both a meaningful external disclosure as well as the processes and internal mechanisms needed to accomplish this.

The TCFD

The TCFD Framework was established to promote consistent climate-related financial risk disclosures for use by companies, financial institutions, and investors. It is structured in four thematic areas – Governance, Strategy, Risk management, and Metrics and targets - with eleven voluntary recommendations of what to include in financial disclosures.

The recommendations have gained significant momentum since the TCFD's establishment in 2017 and UK regulators are establishing them as a mandatory disclosure for company filings. Through disclosing against the TCFD recommendations company's are encouraged to develop their internal risk management and strategic planning processes in the context of a better appreciation of the long term climate risks posed to their business. It provides a range of stakeholders the information necessary to make informed long term capital allocation decisions.

The TCFD and its relevance to TfL

For TfL, reporting against the TCFD framework should be more than just about compliance with regulation. Climate risks pose a range of credible business risks that will have significant financial implications over the coming years. Building on work already done through its Adaptation Report, TfL should use the TCFD framework to better understand climate risk exposures and develop approaches to actively quantify their potential financial impacts. This will support the development of appropriate steps to mitigate the worst impacts of climate change and establish essential and sustainable financial planning.

Some of the key considerations as to why climate risks and TCFD reporting are critical to TfLs business:

1	TfL has significant climate risk exposure from both a physical and transition risk perspective	**Physical risks**: Acute and chronic risks to transport infrastructure and safety from flooding, overheating, and more. **Transition risks**: As the UK economy decarbonises, shifts in markets, technology as well as policies will have a significant impact on how TfL operates
2	Broader stakeholders, and attracting/ retaining the right talent	Different stakeholder groups, including the government, investor communities, TfL's employee base and the general public have growing expectations of how TfL should be approaching climate change
3	Alignment to the Mayor of London's Transport Strategy (MTS)	Alignment with the MTS is a critical priority for TfL. Transport and climate adaptation are central to the Mayor of London's vision and TfL will play a critical role in meeting both regional and national level targets. This will have significant financial implications.
4	Impact on important funding considerations	Understanding the magnitude of the future costs of adaptation and mitigation is very important for TfLs longer term viability and securing adequate funding from Mayor of London/DFT
5	Significant financial impacts and accounting implications	There is a growing pressure from regulators on both preparers of financial accounts as well as auditors to better incorporate climate risk considerations into financial accounts and reporting

Executive Summary (cont'd)

Good Practice reporting insights

The coverage of climate risk disclosures has increased significantly, but the quality of these disclosures lags behind. TfL should align with **best practice reporting principles across the TCFD Pillars** to ensure quality of their disclosures:

Governance	Strategy	Risk management	Metrics and targets
► Clear governance structure demonstrating board oversight and accountabilities	► Clear description of impact on core strategy and decision-making, including scenario analysis	► Clear integration and ownership of climate risks	► Clear targets and transparent methodologies of measuring progress over time

At the more mature end of TCFD reporting companies are able to identify potential climatic implications under different future conditions. Scenario analysis is used to do this and companies with more advanced TCFD reports are evaluating future state physical and transition risk impacts using the modelling of publicly available scenarios. This scenario analysis supports companies in quantifying climate risks and their impacts on financial statements. Through this, users of the information can better understand the financial impact of climate-related risks and the actions which companies are taking to mitigate these.

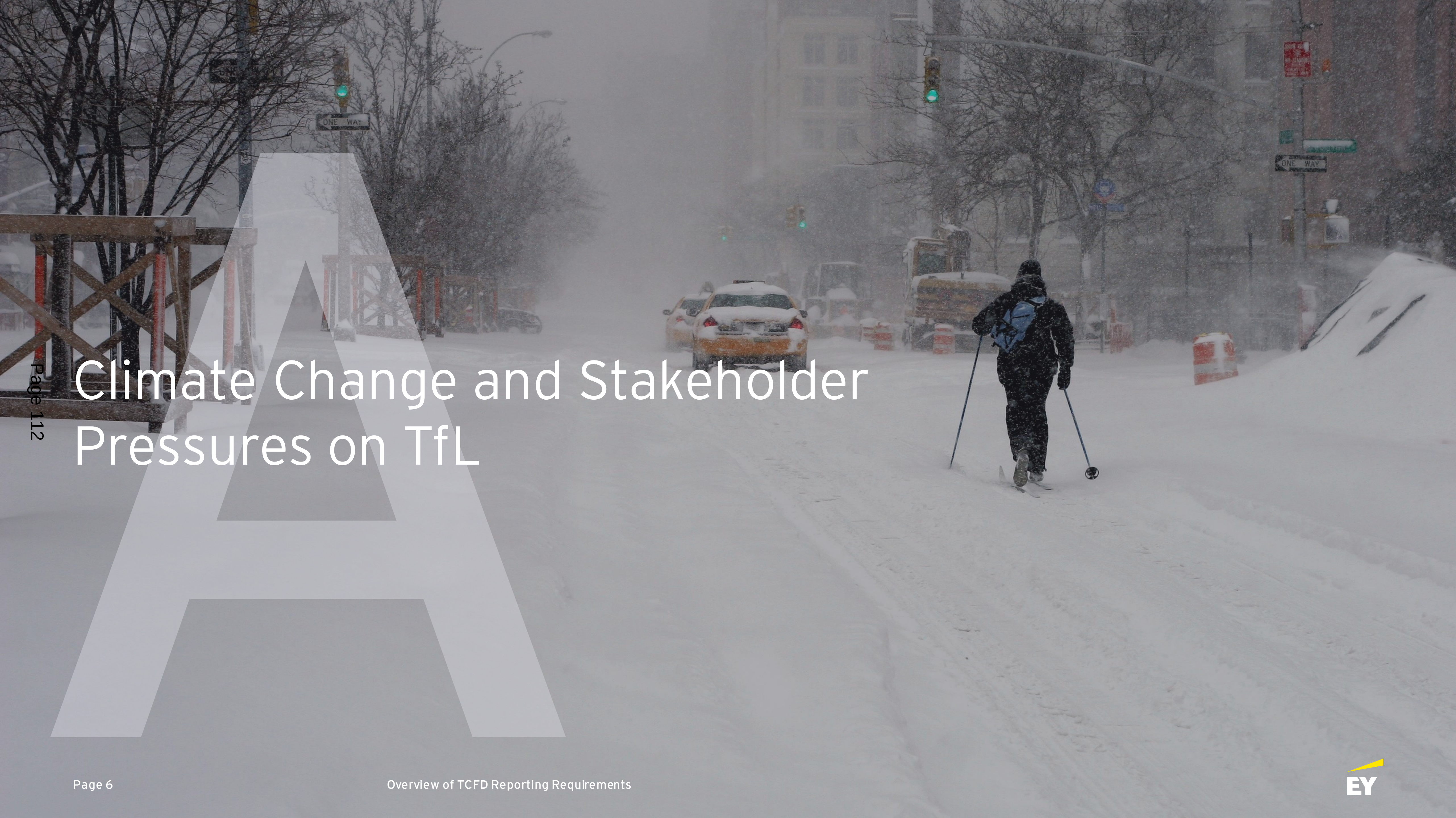
Key considerations for TfL

TfL has already taken key steps towards improved climate risk disclosures, in line with the TCFD recommendations. Your Corporate Environment Plan (CEP) and sustainability reports have identified climate change as a key priority for TfL and have set out various ambitions and roadmaps on how to achieve them. Your voluntary reporting against the Adaptation Reporting Power has included assessing your assets against climate risks with the next submission due in December 2021. TfL have also done work integrating climate risks into overall risk management, and raising the profile of climate change internally, such as through the work of the SHE Corporate Environment and City Planning teams.

There are still, however, some important considerations and next steps that TfL will need to focus on to lay the foundation for good practice TCFD reporting. This is particularly important in the context of ever-changing ambitions and requirements at national and mayoral level, as evidenced by the recent announcement by UK Chancellor Rishi Sunak, who announced the ambition for UK to become the first 'Net Zero Aligned Financial Centre' at COP26 this month, making it mandatory for firms to publish clear, deliverable plans to align with net zero. The core strategy of TfLs business will be increasingly impacted by climate change. Whether through further fleet electrification or redesigning significant parts of its infrastructure, the financial impacts will be wide ranging. In order to support core strategic decisions TfL must develop a clear understanding of what the risks are and how they will impact the business financially.

Key considerations for TfL relate to all four TCFD pillars:

Governance	Strategy	Risk Management	Metrics and Targets
► Coordinated governance structure ► Top level management ownership	► Effect on core strategy and long-term planning ► Coordinated climate strategic priorities	► Adequate integration of climate risks ► Leveraging existing disclosures ► Building on progress by existing teams	► Measuring progress against CEP ► Climate projections and scenarios ► Supply chain engagement ► Financial impact analysis



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Climate Change and Stakeholder Pressures on TfL

EY

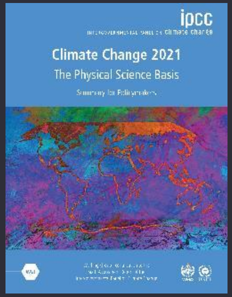
What the science says

The scientific community is unanimous in expressing the extreme risks posed by climate change, which will affect all geographies and sectors. Those sectors specifically reliant on physical infrastructure, such as transportation, will be most vulnerable to the physical impacts of climate change. The most recent report published in August 2021 by the Intergovernmental Panel for Climate Change (IPCC) has again emphasised the danger of delaying the implementation of more ambitious plans for the reduction of emissions and for adaptation, and finds that:

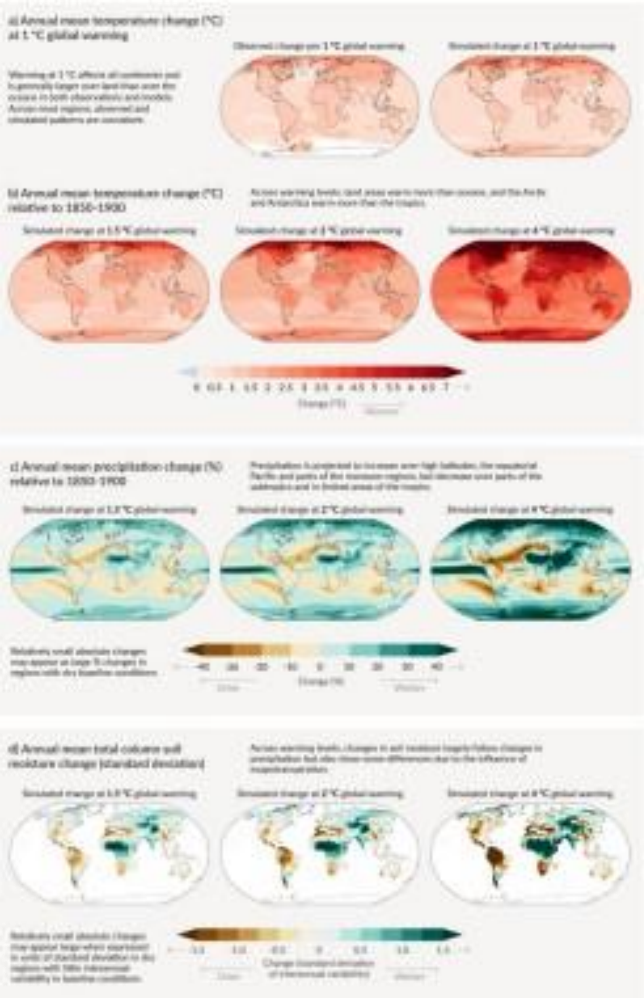
- Warming is increasingly faster
- Warming affects every region in the world, with increasing heat waves, longer warm seasons and shorter cold seasons
- Human actions still have the potential to determine the future course of the climate

The IPCC Report stresses that ‘it is unequivocal that human influence has warmed the atmosphere, ocean and land’. While action is being taken and targets set by businesses and governments globally, **current commitments are not enough to limit global warming to 1.5 degrees Celsius** – the target set out by the Paris Agreement in 2015, a landmark agreement on climate change mitigation. This was clearly found by the UK Committee on Climate Change in a report in June 2021.

The **risks these changes in the global climate will bring are significant, and have to be factored into business reporting and strategy by organisations such as Transport for London (TfL) as early as possible**.



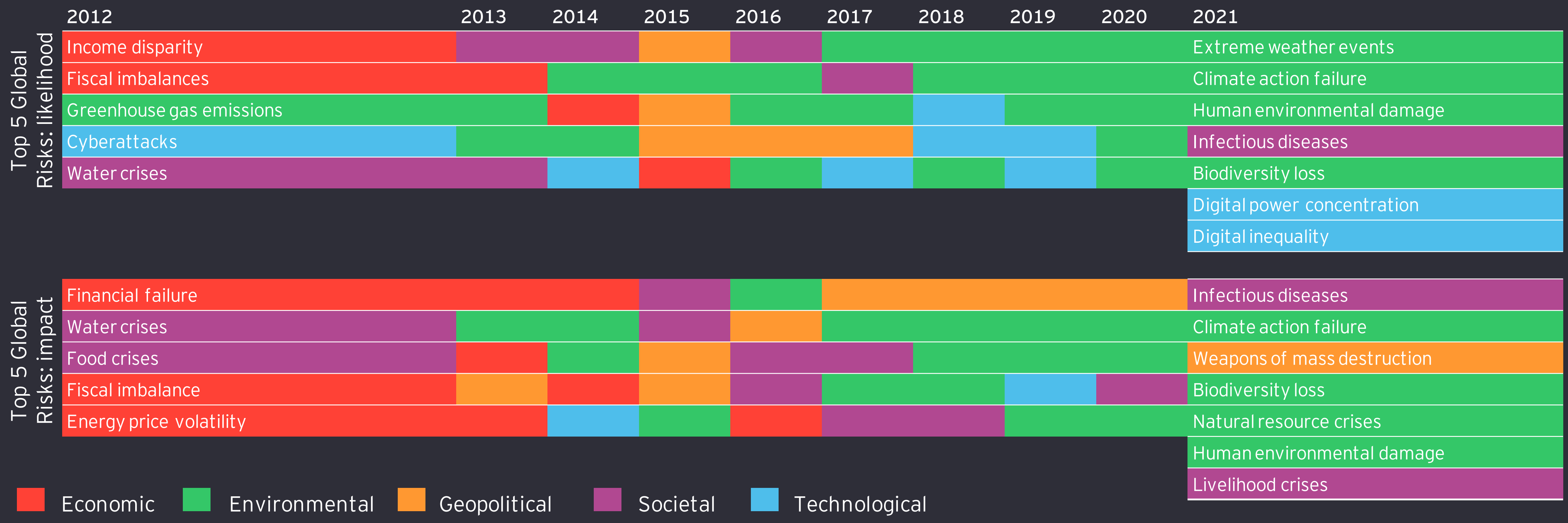
> It is unequivocal that human influence has warmed the atmosphere, ocean and land. The extreme risks posed by climate change are widespread, and rapidly intensifying.
>
> IPCC ARC 6, Summary for Policymakers, 2021



Source: Climate Change 2021, The Physical Science Basis, Summary for Policymakers, IPCC

Climate change poses unprecedented risks to individuals, business and global economic systems

The 2020 edition of the World Economic Forum (WEF) annual Global Risks Report found ‘failure of climate-change mitigation and adaption’ as its top risk in terms of impact. Additionally, for the first time the top five risks in terms of likelihood were all related to climate change and related environmental issues. In 2021, this was only disrupted by the inclusion of infectious diseases. Climate change clearly poses a significant risk to the world economy. Ultimately, if not addressed climate-related risks will impact the financial position, performance and prospects of all businesses.



Sources: World Economic Forum Global Risks Reports, 2021

Government and regulators are responding and increasingly mandating disclosure of climate risks

In response to this understanding of the extreme risks posed by climate change, regulatory bodies are responding. New disclosure requirements on climate change risks are evolving, and both the UK and EU regulatory timeline is changing rapidly. The UK Joint Regulator and Government Taskforce has announced the UK's intention to make Taskforce on Climate-Related Financial Disclosures (TCFD) aligned disclosures mandatory across the economy by 2025.

While demands from regulators are increasing, the legal landscape remains fragmented and hard to navigate, posing further challenges. TfL are directly impacted by a number of national level and mayoral acts, policies and commitments. There is an opportunity to lead by example within the transport sector, signalling the forward looking nature of TfL's strategy as well as the value it brings to its broader stakeholders.

UK/European regulatory timeline

2019

Streamlined Energy and Carbon Reporting (SECR) **Introduced mandatory GHG emission disclosures**

2020

Financial Reporting Council – Major review from February 2020 of the extent to which UK companies and auditors are responding to climate risk

Bank of England Biennial Exploratory Scenario H2 2021 (at earliest) – Launch on the financial risks from climate change – largest banks and insurers

EU Taxonomy Regulation June 2020

Delegated Act setting out minimum technical requirements for the methodology of **<u>EU climate benchmarks</u>** December 2021

<u>TCFD</u> By 2022 – UK Government expects all listed companies and large asset owners to disclose in line with TCFD (announced in Nov. 2020)

2021+

<u>PRA and FCA Climate risk</u>, March 2021 Transition to net zero now included in Prudential Regulation Committee and Financial Conduct Authority remits

H1 - FCA consultation on expanding the scope of the TCFD-aligned Listing Rule to other listed companies and introducing TCFD obligations for asset managers, life insurers and FCA regulated pension providers

By end 2021 FCA aims to extend TCFD-aligned Listing Rule to other listed companies and finalise TCFD obligations for asset managers, life insurers, pension providers – to come into force by 2022 for largest firms

Legislation

Consultations or discussions

Main trends

- The shift from voluntary to mandatory
- Momentum and urgency
- Climate first, broader ESG follows

The Mayor Transport Strategy and London's carbon neutrality target are key drivers for TfL to engage with climate risk disclosures

Due to the nature of the services TfL provide, a broad range of stakeholders (including the general public) are demanding transparency and action on climate risks. TfL specifically operates to deliver the Mayor Transport Strategy (MTS) and plays a crucial role in delivering other Mayoral strategies and plans, such as the London Plan, Health Inequalities, Housing and Economic Strategies, and the London Environment Strategy. Ensuring alignment with these targets will require core strategic decisions and a significant financial investment. Examples of these include the timing of investments into fleet electrification and broader lower carbon infrastructure, as well as the incorporation of an internal carbon price or specific offsetting strategies.

Therefore, government and city-level climate and decarbonisation targets are a particularly powerful driver of engagement with climate risks and climate risk disclosures, such as the TCFD:

UK and Mayor's climate targets

- In April 2021, the UK government enshrined in law their ambitious target to **become net zero by 2050.** At COP26, UK Chancellor Rishi Sunak announced ambition for UK to become the first 'Net Zero Aligned Financial Centre', making it mandatory for firms to publish clear, deliverable plans to align with net zero
- Transport contributes about a quarter of London's carbon emissions. TfL are committed to playing their part in meeting the Mayor's target of **making London a carbon neutral city by 2030**

TfL vision on environment

- As per the Corporate Environment Plan (CEP), **TfL's central vision on environment is to be part of a zero carbon London.** Your Environmental Framework and Ambitions support this target
- **Achieving this vision will require an in-depth understanding of TfL's exposure to physical and transitional climate risks** under different climate scenarios. TCFD disclosures will support this required insight and build the foundation for including climate risk into long-term planning and decision-making

"

We are committed to achieving the Mayor's goal of making London carbon neutral by 2030.

Transport for London Corporate Environment Plan 2021

Sources: TfL Sustainability Report 2021, TfL Corporate Environment Plan 2021

TfL Environmental Framework and Ambitions

TfL Climate Change and Adaptation Ambitions:

- Achieve zero-carbon emissions across our operations and head office buildings by 2030 – zero Scope 1 and 2 emissions by 2030 and zero-carbon emission bus fleet by 2037 or earlier
- Reduce carbon emissions across the lifecycle of our assets and infrastructure – set reduction target for Scope 3 emissions by 2022
- Work with our suppliers to reduce carbon across all products and services we procure
- Understand, prepare and adapt for climate change, now and in the future on our services, infrastructure, staff, contractors and customers

TfL's ambitions also include **going beyond minimum legal requirements** and striving for environmental best practice, benchmarked against peers.

B

Introduction to TCFD

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Origins and evolution of the TCFD Framework

In response to increasing demands for climate-related transparency from investors, lenders, insurers, regulators, policy makers and other stakeholders in the financial markets, at the request of the G20 Finance Ministers and Central Bank Governors, the Financial Stability Board established the Task Force on Climate-related Financial Disclosures (TCFD).

- In 2017, the TCFD released climate-related financial disclosure recommendations designed to help companies provide better information to support informed capital allocation.
- The recommendations outline climate-related considerations to be included in mainstream financial filings, which aim to enable stakeholders to allocate capital efficiently in alignment with a low-carbon transition, and can have a significant impact on investment decision-making.
- Key voluntary climate change reporting initiatives, such as the Climate Disclosure project (CDP), have aligned their question naires (including their transport sector-specific questionnaire) with the TCFD. In addition, the FRC has made climate-related financial disclosures mandatory across a number of geographies

TCFD — TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

Chaired by Michael Bloomberg + 30 members on the TCFD

Recommendations released in June 2017

At the end of 2020, over 1,500 public- and private-sector organizations have announced their support for the TCFD

Including, global financial firms responsible for assets in excess of $150 trillion

> “the TCFD provides recommendations for more effective climate-related disclosures enabling stakeholders to better understand risks, promoting more informed decision making.

Mark Carney
Governor of the bank of England
September 2015

Overview of the four TCFD pillars and 11 recommendations

The TCFD Framework is structured in four thematic areas – Governance, Strategy, Risk management, and Metrics and targets – with eleven voluntary recommendations of what to include in financial disclosures. This helps organisations understand and manage their climate-related risks, both physical and transitional, and opportunities (see detail in Appendix A).

The ultimate aim of the disclosures is to give readers a better idea of the financial impact of climate-related risks and the actions which companies are taking to mitigate or take advantage of these. The strategy pillar recommends that companies describe the climate-related risks and opportunities identified over the short, medium and long term, how they have impacted the business strategy and financial planning, and to describe the resilience of the strategy in light of different climate-related scenarios

TCFD elements	TCFD recommended disclosures
Governance	a. Board oversight
	b. Management's role
Strategy	a. Climate-related risks and opportunities
	b. Impact on the organization's businesses, strategy, and financial planning
	c. Resilience of the organization's strategy
Risk management	a. Risk identification & assessment processes
	b. Risk management process
	c. Integration into overall risk management
Metrics and Targets	a. Climate-related metrics in line with strategy and risk management process
	b. Scope 1, 2, 3 GHG metrics and the related risks
	c. Climate-related targets and performance against targets

Source: "Final Report: Recommendations of the TCFD on Climate-related Financial Disclosures," TCFD website, https://www.fsb-tcfd.org/wp-content/uploads/2017/06/FINAL-TCFD-Report-062817.pdf

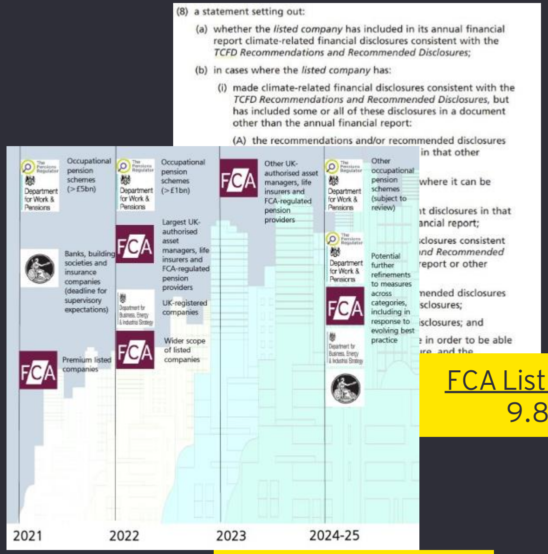
TCFD reporting requirements for TfL

The FCA has published a road map illustrating a path towards mandatory climate-related disclosures across the UK economy aligned with the recommendations of the TCFD. Currently, the requirements for reporting against the TCFD framework have been written into the Listing Rules1 – specifically section 9 (LR9), which is only applicable to Premium Listed entities[2]

TfL does not qualify as premium listed and is therefore not in scope for the current TCFD listing rules that will be effective for periods commencing on or after 1 January 2021.

Importantly, the Department for Business, Energy and Industrial Strategy (BEIS) is currently consulting[3] on expanding the scope to capture more entities – this has not yet been finalised, but we expect it to be implemented for future reporting cycles.

The FCA have consulted on extending the scope to all standard listed equity shares. Due to TfL's listed debt securities it is our view that TfL will fall into scope of the requirements in due course although this hasn't been part of a formal consultation as yet and is dependant on future actions of the FCA. However, because climate risks are pervasive across TfLs corporate structure and developing meaningful TCFD disclosures is both time and resource intensive, we would recommend TfL preparing for the TCFD recommendations as soon as possible



FCA Listing rules: - 9.8.6(8)

FCA scope expansion roadmap

FCA TCFD listing rule scope summary:

2021 – Premium listed companies – Listing rule for a/c periods commencing on or after 1 Jan 2021

2022 (Transport for London) – Listing rule extended to other listed companies and large private companies as well as: asset managers, life insurers and FCA-regulated pension providers

2023 – BEIS – Disclosure rules for smaller in-scope UK authorised asset managers, life insurers and FCA-regulated pension providers

"

Due to TfL's listed debt securities, it is our view that TfL will fall into scope of the TCFD requirements in future reporting cycles

1. Listing rules (disclosure of climate-related financial information) instrument 2020
2. FCA Listing rules Handbook – LR.pdf (fca.org.uk)
3. BEIS – Consultation on requiring mandatory climate-related financial disclosures

Relevance of the TCFD to TfL

Key considerations for why TfL should be reporting against the TCFD

For TfL, reporting against the TCFD framework should be more than just about compliance with FCA regulation. Climate risks pose a range of credible business risks that will have significant financial implications over the coming years. Using the TCFD as a framework and building on TfL's Adaptation Report, TfL should aim to better understand these risks and develop approaches to actively quantify their potential financial impacts. This will support appropriate steps to mitigate the worst impacts of climate change and establish essential and sustainable financial planning.

Below, and in more detail over the following slides, we highlight some of the key considerations as to why climate risks and TCFD reporting are critical to TfLs business:

1	TfL has significant climate risk exposure from both a physical and transition risk perspective	**Physical risks:** Acute and chronic risks to transport infrastructure and safety from flooding, overheating, and more. **Transition risks**: As the UK economy decarbonises, shifts in markets, technology as well as policies will have a significant impact on how TfL operates
2	Broader stakeholders, and attracting/ retaining the right talent	Different stakeholder groups, including the government, investor communities, TfL's employee base and the general public have growing expectations of how TfL should be approaching climate change
3	Alignment to the Mayor of London's Transport Strategy (MTS)	Alignment with the MTS is a critical priority for TfL. Transport and climate adaptation are central to the Mayor of London's vision and TfL will play a critical role in meeting both regional and national level targets.
4	Impact on important funding considerations	Understanding the magnitude of the future costs of adaptation and mitigation is very important for TfLs longer term viability and securing adequate funding from Mayor of London/DFT
5	Significant financial impacts and accounting implications	There is a growing pressure from regulators on both preparers of financial accounts as well as auditors to better incorporate climate risk considerations into financial accounts and reporting

1 Transport is a high risk sector from both a physical and transition point of view

Climate change is already having a detrimental effect on transport in London, and the financial investment required are high. Events such as recent flooding in London, which forced the closure of large sections of London's road and rail network, are only to become more frequent and intense. Similarly, the risk of overheating is increasing, as the Urban Heat Island effect makes the centre of London up to 10°C warmer than the rural areas around the city. Without adequate mitigation, climate change will reduce comfort, safety and reliability on public transport and will negatively affect London's economy. Moreover, the cost of implementing current decarbonisation plans and measures and required financial investment to reach public targets to become zero carbon is high, leading to a range of additional, transitional risks for TfL:

Transport for London

> "The key challenges to public transport posed by climate change include protecting rail assets and streets from flooding, managing heat on public transport, and maintaining service reliability in periods of extreme weather.
>
> Mayor of London Transport Strategy

Physical Risks

Acute Risk

- **Flooding** (tidal, groundwater, surface water): Frequency and severity of flooding increasing on TfL Network as UK winters becoming wetter.
- **Overheating:** Overheating on buses, trains, London Underground linked to technical failures and risk to staff and passengers. Exacerbated by rising average temperatures.
- **Drought:** Infrastructure damage and reduced ground stability from drying summers. Heavy rainfall after drought can destabilise embankments.
- **Storms:** Infrastructure damage from higher intensity, higher frequency wind and rainfall.

Chronic Risk

Risk of higher frequency and severity of the above due to shifts in climate patterns, particularly higher average temperatures, drier summers, and wetter winters.

Transition Risks

Policy and Legal Risks

UK Government mandating TCFD disclosures by 2023. Risk of Net Zero ambitions at Mayor- or Government-level changing (like with COP26 Chancellor announcement).

Market Risk

High implementation cost of current carbon reduction plan to achieve zero carbon target. Significant financial investment required into energy infrastructure, vehicles, etc. to meet targets.

Added risk from current short-term financial support and lack of ability to plan for long-term. Requirement for TCFD disclosures in order to access sources of private sector funding.

Inadequate insurance if adaptation measures are found inadequate.

Technology Risk

Need to adapt infrastructure to accommodate shift towards lower-carbon economy, e.g., around electrification.

Reputation Risk

Changing public perceptions and increasing demands for transition to a lower-carbon economy.

Opportunities

Resource efficiency

Opportunity to support electric vehicle infrastructure in line with fleet decarbonisation targets.

Energy source

Opportunity to continue move to cleaner energy sources, investing directly into renewable energy projects, and exploiting waste heat from tube.

Products/services

Opportunity to continue to be most mature low-carbon transport system in Europe, e.g., with greener bus fleet and Ultra Low Emission Zones.

Markets

TCFD disclosures enabling increased revenues through continued access to private sector funding once disclosures have become requirement.

Resilience

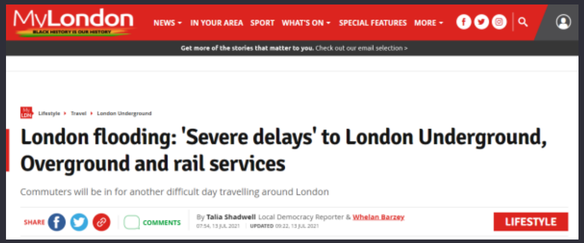
Avoiding higher cost of resilience over time, including synergies between greener infrastructure, pollution impacts, etc. Especially crucial given cost of implementing decarbonisation and adaptation plans.

Sources: MoL Environment Strategy, 2018; MoL Transport Strategy, 2018, TfL CEP 2021

2 Broader stakeholders, and attracting and retaining the right talent

A broad range of key stakeholders are demanding transparency on climate risks. Due to the nature of the service TfL provides, the general public and broader society is one of your most crucial stakeholders. In a similar way to any product/service, consumers are making purpose driven decisions when selecting transport services, seeking out lower carbon footprint options and from climate conscious providers. This includes your employees and future work force.

As highlighted previously, physical climate risks to TfL's infrastructure and London transport more broadly are becoming increasingly more visible. This will further intensify pressures from the general public and your employees.



Pressures from TfL employees and future talent:

As we heard from you, TfL employees are increasingly engaging with the topic of climate change, and climate change risks for TfL specifically. This is evidenced, for example, by your Staff Network Group on Sustainability.

Generally, purpose and value-driven engagement is becoming increasingly more important to employees, especially younger team members. Research by McKinsey & Co in early 2021 found that a purpose-driven organisation drives loyalty and reduces turnover by 25-50%. Extreme weather events, such as the July Flooding events experienced across London, intensify these trends. The same McKinsey & Co study finds that 80% of millennials want to work for a purpose-driven employer. This was found to have been exacerbated by the COVID-19 pandemic.

Understanding climate change impacts and building their consideration into day-to-day operations at TfL will, therefore, also be crucial in order to attract new talent from the market.

Source: McKinsey & Co, 2021

3 Alignment to the Mayor of London's Transport Strategy (MTS)

Alignment with the MTS is a critical priority for TfL. Transport and climate adaptation are central to the vision of the Mayor of London.

Adequately planning for risks resulting from climate change and investing in infrastructure that will be resilient over the long term will play a key part in meeting the MTS' expectations. It recognises the significant disruptions climate change already causes to London transport, including flooding events, heatwaves, droughts, and heavy rainfall increasing in frequency and intensity. It also calls for more London-specific insight and understanding into climate risks, to enable effective mitigation planning.

Policy 9 and Proposals 46 and 47 aim to address these challenges to the transport system, promising an effective response to extreme weather events, continued safe operation, and reliable, comfortable service. It directly references the importance of TfL as a channel to achieve these goals, which makes TfL's ability to understand, manage, and disclose climate risks and opportunities essential.

Relevant Policy and Proposals from MTS:

"

The Mayor, through TfL and the boroughs, and working with stakeholders, will seek to ensure that London's transport is resilient to the impacts of severe weather and climate change, so that services can respond effectively to extreme weather events while continuing to operate safely, reliably and with a good level of passenger comfort.

Policy 9

"

The Mayor, through TfL, will work with transport and other infrastructure providers in London to undertake a dedicated programme of research to understand and prioritise the risk of sever weather and climate change adversely affecting the operation of London's transport network and to minimise any such impacts on the most vulnerable user groups. TfL will lead this work for the transport sector in London.

Proposal 46

"

The Mayor, through TfL, will seek to undertake and implement an evidence-based programme of measures to adapt existing, and to design and build new, transport infrastructure to make it resilient to severe weather conditions and the effects of climate change.

Proposal 47

Source: MoL Transport Strategy, 2018

EY

4 Impact on important funding considerations

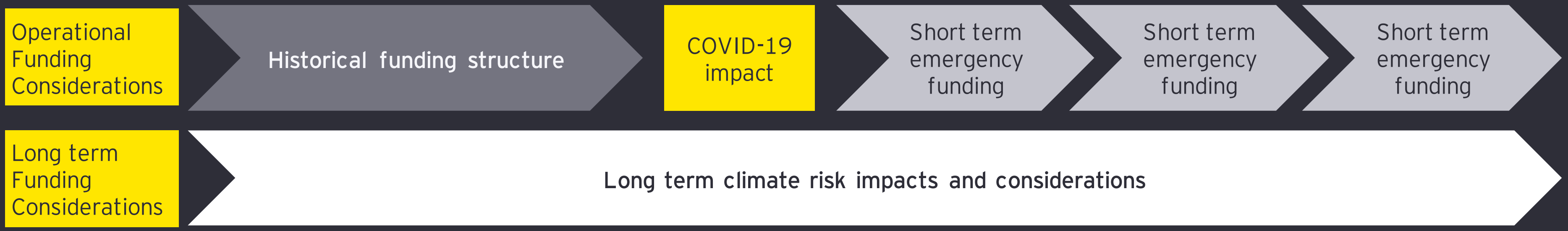
Climate risk is directly linked to funding considerations and access to capital. TfL is uniquely placed to help drive a strong and resilient future for London and continue supporting a more efficient, productive and sustainable city. However, this is entirely dependent on secure, long-term funding that enables it to commit to the next generation of improvements to address London's transport network needs.

There is a risk that current pressures on short-term financial support (greatly intensified by the COVID-19 pandemic and need for six-monthly emergency funding from the Department for Transport) will inhibit longer-term planning leaving TfL underfunded and unable to make the investments necessary to support London and the UK climate ambitions. Understanding the magnitude of the future costs of adaptation and mitigation is very important for TfL's longer term viability and securing adequate funding from the Mayor of London and DfT.

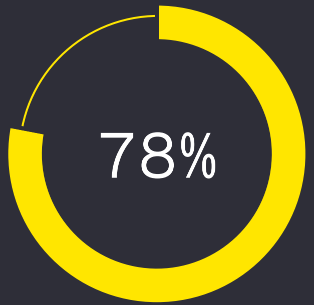
It is imperative that TfL, through its Financial Sustainability Plan and Long Term Capital Plan, is able to clearly communicate the likely future financial impacts of climate change. To do this, TfL will need to quantify the long-term investments needed to appropriately adapt to and mitigate the impacts of climate change.

Climate disclosures along the lines of the TCFD have a crucial role to play in furthering the understanding of climate risks and future costs, and thereby ensuring access to capital. Developing the risk management and financial planning procedures framed by the TCFD will support TfL's financial planning considerations.

Climate considerations are also of increasing importance for securing future private sector funding. Investors are increasingly concerned with the risks surrounding climate change. According to EY's Investor Survey, climate risk considerations are now a key priority in capital allocation decisions across the economy, and more than three-quarters of those who make use of TCFD disclosures note it has a significant impact on investment decision-making.



Short term operational funding considerations makes planning for longer term climate impacts difficult



More than three-quarters of those who make significant use of TCFD information say that it has a **significant impact on investment decision-making**

"Better understanding and quantifying the financial impacts of climate change and establishing what investment is needed now to mitigate and adapt are crucial to establishing TfLs longer term financial viability

5 TfL needs to understand financial impacts and accounting implications

The TCFD aims to support companies to quantify the financial impacts resultant of climate risk. Linked to this, **there is a growing pressure from regulators on both preparers as well as auditors to better incorporate climate risk considerations into financial accounts** and reporting. As expectation surrounding this intensifies, TfL will need to better quantify its climate risks and opportunities, and consider whether its front half narrative is consistent with what is presented in the back half accounts.

> “
>
> It is unclear how forward-looking assumptions and judgements applied in preparation of the financial statements are consistent with narrative discussion of climate change.
>
> FRC (See Appendix A for full detail)

> “
>
> Climate reporting can no longer be simply a narrative report in the front end of financial statements. Climate change has irrefutable monetary impact and must be reflected as such in financial statements.
>
> CDSB

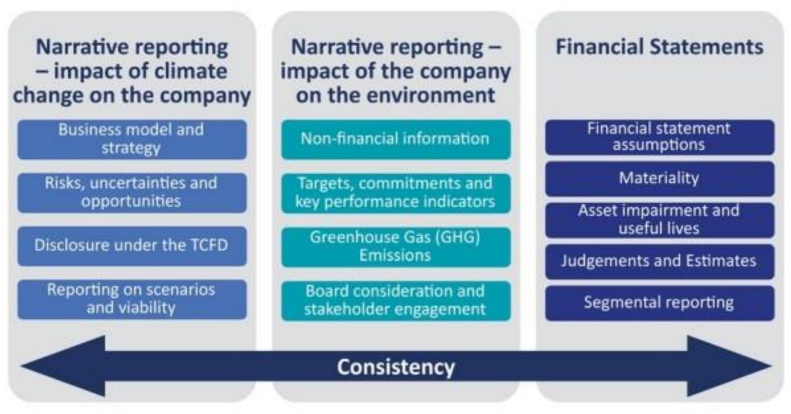
> “
>
> Companies must consider climate-related matters in applying IFRS Standards when the effect of those matters is material in the context of the financial statements taken as a whole.
>
> IFRS

Relevance of climate risk for financial reporting:

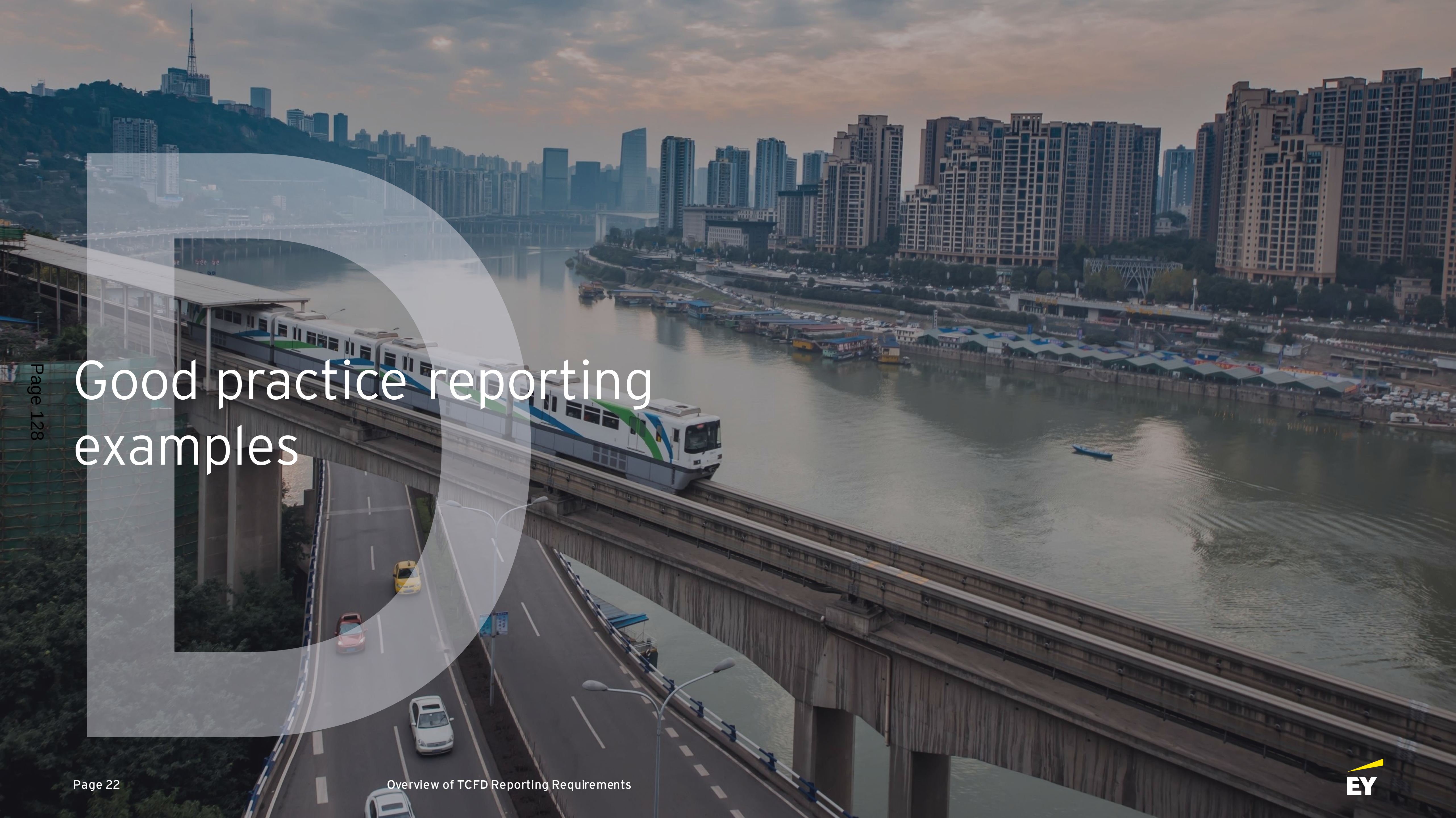
Even where disclosures are not required by a financial standard, we encourage TfL to evaluate and disclose financial implications arising from climate-related risks to address these growing expectations. These may include but are not limited to:

- Asset impairment, including goodwill (IAS 36)
- Changes in the useful life of assets (IAS 16; IAS 38)
- Changes in the fair valuation of assets (IFRS 13)
- Effects on impairment calculations because of increased costs or reduced demand (IAS 36)
- Changes in provisions for onerous contracts because of increased costs or reduced demand (IAS 37)
- Changes in provisions and contingent liabilities arising from fines and penalties (IAS 37)
- Changes in expected credit losses for loans and other financial assets (IFRS 7)

Figure 7.1: Overview of key considerations in respect of climate reporting within the ARA.[18]



Source: FRC Climate thematic review



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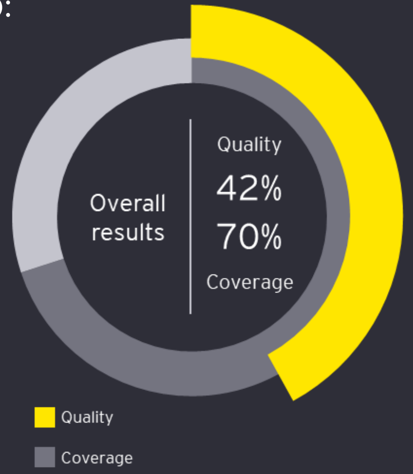
Good practice reporting examples

Good practice and gaps in TCFD disclosures

Companies are approaching TCFD disclosures differently. Good practice TCFD reporting on each pillar includes (see Appendix B for more detail):

Governance	Strategy	Risk management	Metrics and targets
▸ Clear governance structures ▸ Reporting lines and leadership skills ▸ Process and plan over time	▸ Short, medium and long term horizons ▸ Likelihood and impact on business/financial planning ▸ Climate scenario analysis	▸ Clear ownership of risks ▸ Prioritisation of risks ▸ Interconnectivity between climate risks ▸ Impact of climate scenarios	▸ Clear targets ▸ Transparent methodologies ▸ Decarbonisation pathways over time



TfL will need to consider these elements when building TCFD disclosures. EY's **2021 Towards TCFD Compliance Report** reviewed over 100 corporate annual reports of 31 December 2020 FTSE100 and FTSE 260 reporters. It found that:

- Around **50% of the companies reviewed reported against all or most of the 11 TCFD recommended disclosures**
- Commonly, they **included a dedicated 'TCFD section'** within the annual report to describe climate-related impacts, though some took a more integrated approach to TCFD disclosures
- **Very few companies translated climate risk analysis into financial impacts** – a key objective of the TCFD recommendations – and almost no companies referenced it in their financial statements. The **disclosure of climate risks in the financial statements lags behind narrative reporting**

The TCFD recognises that most climate-related risks and opportunities will emerge over the medium and long-term and will be dependent on certain conditions. For TfL to avoid some of these shortfalls in current climate disclosures in the market, you will need to further **develop climate projections alongside the work TfL is doing to prepare for the Adaptation Reporting Power submission in December 2021. This will act as a tool to support the understanding of TfL's resilience under different future conditions.**

- Climate scenario modelling integrates physical climate risks, transition risk and key assumptions to generate future potential scenarios and their pathways. These scenarios can reflect a faster or slower transition depending on different rates of change of key parameters
- Commonly used climate scenarios are the IPCC scenarios (see right). A high climate scenario represents a future where more physical risks will be present for organisations, while a low scenario will expose an organisation to more transition risks as the world moves to a low carbon economy.

The TCFD suggests the development of **at least three distinct and plausible climate change scenarios**, including one adhering to the Paris Agreement, to test the resiliency of the organisation in different climate change futures.

Sources: EY's Global Climate Risk Barometer; IPCC Climate Scenarios

Some of TfL's peers are developing their approaches to climate risk disclosures

Your direct peers are still at an early stage of understanding their climate risk and disclosing them. Nonetheless, they are **increasingly engaging with climate risks and climate risk disclosures, including in the context of climate scenarios** (see Network Rail below):

Network Rail

- Resilience to climate change is one of Network Rail's **top 4 priorities**
- They are mapping all their assets against vulnerability to climate risks by 2024
- They are developing longer term adaptation pathways and scenarios and identifying the relevant investment requirements by 2029
- To achieve this, they plan to engage their people and leadership, step up measurement and systems and processes needed, leverage technology, and consider funding and planning needs
- There are already a number of metrics and targets in place, but plan to develop a more leading metrics and target to measure progress against a more resilient railway

Highways England

- In Highways England's Sustainable Development Strategy, climate risks and climate change adaptation are the number one consideration for their financial capital
- They recognise the crucial impact of climate change adaptation on their:
  - Asset management strategy
  - Strategic growth plans
  - Lean deployment strategy
- They also aim to maximise the benefits of engaging key stakeholders, as well as embed climate change considerations throughout their business
- Key actions of their implementation roadmap include raising the profile of the topic, enhancing environmental management systems and information, creating partnerships, and adapting supplier contracts to include environmental considerations

Sources: Network Rail Environmental Sustainability Strategy; Highways England Sustainable Development Strategy and Action Plan

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Key considerations for TfL

Summary of key considerations for TfL to focus on in future TCFD reporting

TfL has already taken key steps towards improved climate risk disclosures, in line with the TCFD recommendations:

- You have an adaptation report in place, as well as sustainability and SHE reports. In addition, you voluntarily report to the Adaptation Reporting Power 3, which involves assessing climate risks to assets. Your Corporate Environment Plan (CEP) and sustainability reports have identified climate change as a key priority for TfL and have set out ambitions and roadmaps to be achieved. These cover emissions/carbon, materials, waste, biodiversity and more
- You are already partly capturing climate risks in your risk management processes, such as in your ERM system as level 2 risks. You have done work stress testing TfL's processes in the context of climate change and extreme weather projections
- The SHE Corporate Environment and City Planning teams have been proactive in raising the profile of climate change risks and adaptation measures. You have started bringing together key internal stakeholders where there are overlaps between teams and responsibilities
- Your employees are engaging with climate change more actively, such as through the Staff Network Group on Sustainability

These aspects present clear opportunities and should be leveraged when engaging with TCFD reporting to **close key gaps and translate this directly into good practice TCFD disclosures (*see detail on next slide*):**

Governance	Strategy	Risk Management	Metrics and Targets
► Coordinated governance structure ► Top level management ownership	► Effect on core strategy and long-term planning ► Coordinated climate strategy priorities	► Adequate integration of climate risks ► Leveraging existing disclosures ► Building on progress by existing teams	► Measuring progress against CEP ► Climate projections and scenarios ► Supply chain engagement ► Financial impact analysis

Good practice TCFD disclosure will require:

Governance	Strategy	Risk Management	Metrics and Targets
► Clear governance structure demonstrating board oversight and accountabilities	► Clear description of impact on core strategy and decision-making, including scenario analysis	► Clear integration and ownership of climate risks	► Clear targets and transparent methodologies of measuring progress over time

Key considerations and opportunities for TfL to prepare for TCFD disclosures

Governance

- **Coordinated governance structure**
  TfL is a complex organisation with many disparate processes and systems to manage its assets and services. Climate risks are currently managed at divisional project level, as highlighted in Appendix A of the October Climate Change Adaptation Internal Audit report. TfL can work to consolidate a coordinated governance structure and clear ownership of climate risks that will ensure focused decision-making and action on climate planning and implementation

- **Top level management ownership**
  The quarterly Transport Adaptation Steering Group could be used to provide a more coordinated governance structure across TfL's business. Ensuring top level management visibility and ownership will be crucial, and will support communicating accountability externally as part of disclosures (such as TCFD)

Strategy

- **Effect on core strategy and long-term planning**
  Climate change will have significant impacts on TfL's core strategy and service offering. Its impacts should be factored into business strategy making and financial planning early on.
  In addition, TfL has set an ambitious goal to make London transport zero carbon, and is aligned with the Mayor's carbon neutrality target for 2030. To achieve these targets and their underlying ambitions, climate change considerations will have to be factored into long-term planning and decision-making, such as investment decisions

- **Climate projections and scenarios**
  Building on analysis based on climate projections and scenarios will further understanding of the varying outcomes on TfL's infrastructure and services

- **Coordinated strategic climate priorities**
  Strategic priorities on environment are spread across the organisation. TfL would benefit from establishing a unified, holistic strategy and action plan that consolidates these and gives authority to develop and implement a coordinated climate strategy.

Risk Management

- **Adequate integration of climate risks**
  TfL can work to ensure that Climate Change is appropriately integrated into the company level Enterprise Risk Management (ERM) system. Currently, TfL do not have an enterprise risk/level 1 set of risks dedicated to climate change, extreme weather or adaptation. Rectifying this would help ensure climate risks are adequately understood, communicated and factored into decision-making

- **Leveraging existing analysis and progress**
  TfL can leverage existing analysis of the climate-related risks facing the organisation, such as from the National Adaptation Programme, Adaptation Reporting Power 3, as well as TfL's Adaptation, Sustainability and other reports. Moreover, TfL can further develop the SHE Corporate Environment and City Planning teams' work understanding and managing climate risk exposures

Metrics and Targets

- **Measuring progress against CEP**
  The Corporate Environmental Plan (CEP) details TfLs energy and carbon strategy. Metrics and data processes could be developed that allow for better monitoring of TfLs progress against the CEP ambitions. Specifically those that relate to reducing emissions, furthering operational efficiency and successfully adapting to a changing climate

- **Supply chain engagement**
  In order to meet TfL ambitions to monitor key suppliers and decarbonise supply chains, clear procurement processes and performance metrics will be required

- **Financial impact analysis**
  TfLs adaptation report includes the first stages of financial impact analysis in relation to climate change. TfL should aim to further this to better appreciate the financial impacts of adaptation and mitigation plans as well as plans to meet net zero targets. Importantly, consideration should be given to how financial statements should reflect these.

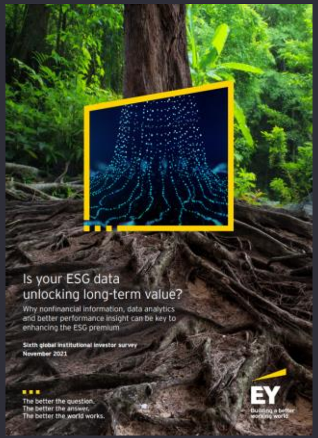
Good practice TCFD disclosure will require:

- Clear governance structure demonstrating board oversight and accountabilities
- Clear description of impact on core strategy and decision-making, including scenario analysis
- Clear integration and ownership of climate risks
- Clear targets and transparent methodologies of measuring progress over time

EY climate change capability and credentials – EY climate resources

In our annual flagship
Global Climate Risk Disclosure Barometer,

we assess the climate change disclosures of over 1,000 of the world's largest organisations to understand how companies are responding to the TCFD Recommendations.



Our annual flagship
Annual Institutional Investor Survey,

includes research that delves into investors' attitudes toward ESG information, nonfinancial reporting and its role in their decision-making – **including climate change reporting and performance.**

The Sustainable Impact Hub, launched in 2018, offers a virtual centre that offers a repository of leading-edge thinking and insights relevant to organizations and businesses that are seeking to create impact and accelerate action.

Topics covered in leadership and PoVs on the Hub include:

- Climate change strategy
- Green finance
- Climate disclosures
- Green EU deal
- Impact of COVID-19 on climate action
- TCFD reporting
- Carbon neutrality/net-zero

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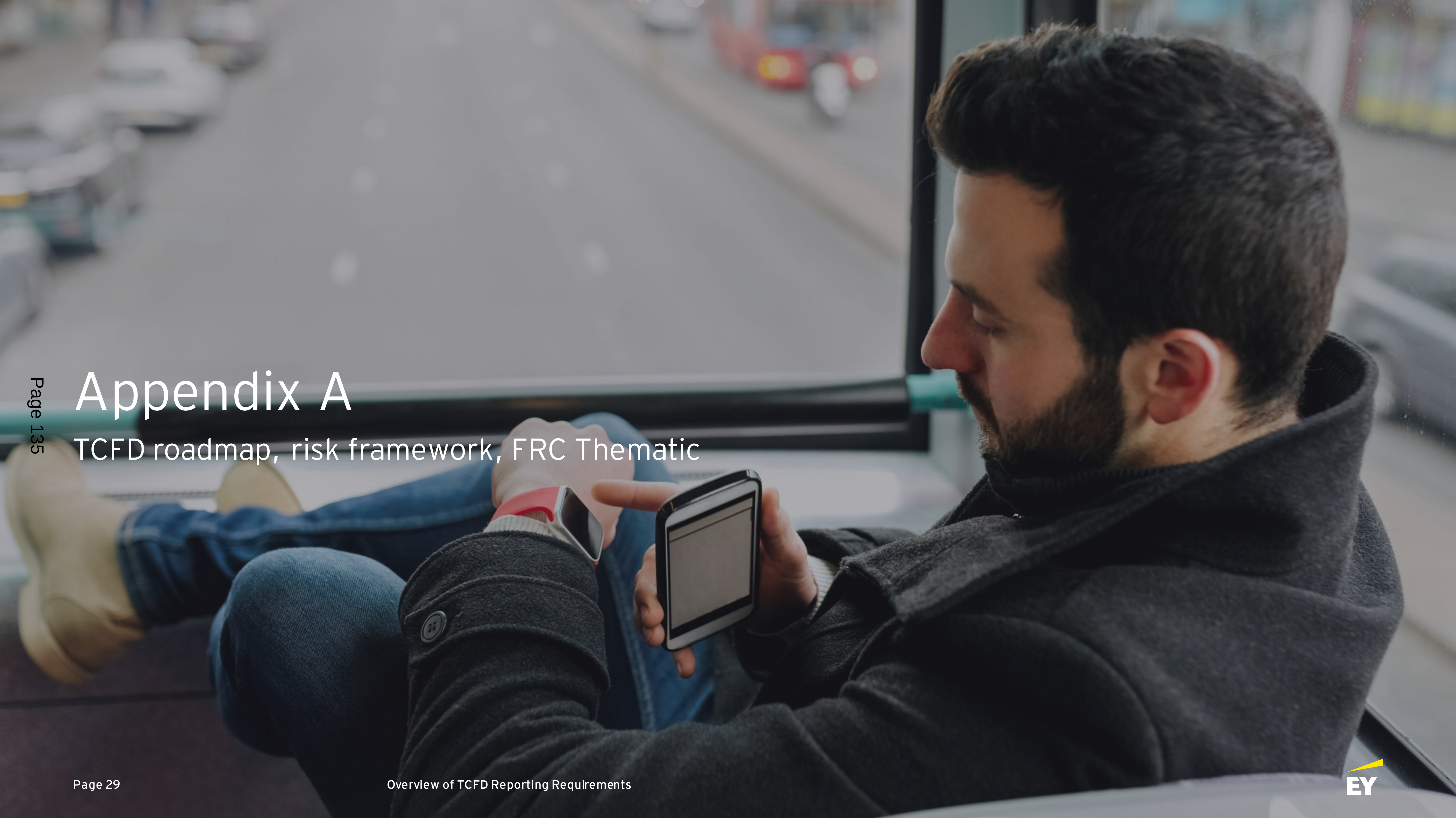


Appendix A

TCFD roadmap, risk framework, FRC Thematic

Detailed FCA Roadmap – TCFD disclosures across the full UK economy by 2025

Below we have summarised the full detail of the FCA Roadmap that sets out an indicative path towards mandatory climate-related disclosures across the UK economy aligned with the recommendations of the Taskforce on Climate-related Financial Disclosures.

Transport for London

		2021	2022	2023
FCA	Premium listed commercial companies	▲ Premium listed commercial companies – new comply or explain Listing rule for a/c periods commencing on or after 1 Jan 2021		
FCA	Other listed companies	● H1 2021 – consultation on extending Listing rule to wider scope of listed companies – and possible mandatory disclosure	▲ Listing rule extended to other listed companies	
BEIS	UK registered companies	● Early 2021, consultation on changes to the CA 2006 to require TCFD disclosures in Strategic Report. Scope tbc but could use revised PIE definition. Regulations made mid-2021	▲ Regulations to require TCFD disclosures in Strategic report – to include large private companies	● Review of case for extension of scope and possible consultation
PRA	Banks, building societies and insurers	⚠ Banks, building societies and insurers (deadline for supervisory expectations) – no additional requirements proposed	● Review of 2021 disclosures to determine whether additional measures required – possible consultation	
FCA	Asset managers, life insurers and regulated pension providers	● H1 2021 – consultation on TCFD obligations for asset managers, life insurers and FCA-regulated pension providers – focus on decision useful information for clients and end investors	▲ Disclosure rules for largest/most connected UK authorised asset managers, life insurers and FCA-regulated pension providers	▲ Disclosure rules for smaller in-scope UK authorised asset managers, life insurers and FCA-regulated pension providers
DWP	Occupational pension schemes	▲ Early 2021 – consultation on draft Regulations – aim to apply from Oct 2021 for Occupational pension schemes (OPS) (>£5bn)	▲ Regulations to apply for OPS (>£1bn)	

▲ Expected/anticipated to be in force but subject to consultations, Parliamentary time, etc. ● Consultation or review planned

Sources: Roadmap towards mandatory climate-related disclosures and Interim Report of the UK's Joint Government-Regulator TCFD Taskforce

In December 2020, the FCA issued a new Listing Rule requiring that, for accounting periods beginning on or after 1 January 2021, companies with a premium listing include a statement in their annual report and accounts (ARA) setting out whether they have made disclosures consistent with the recommendations of the TCFD, or to explain why they have not done so.

Complementary to the FCA's new rule is the proposal issued by the Department for Business, Energy and Industrial Strategy (BEIS) in March 2021, to mandate climate-related financial disclosures beyond premium listed entities to other public interest entities, AIM companies, large private companies and Limited Liability Partnerships (LLPs) for accounting periods beginning on or after 6 April 2022.

> "If TfL are to construct a good practice TCFD disclosure in future reporting cycles, immediate action is needed to build appropriate tools and processes.

EY

TCFD distinguishes physical risks, transition risks, and opportunities

The TCFD provides a taxonomy for climate-related risks and opportunities. Many of these are highly relevant to TfL.

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

Physical Risks

Acute Risk
Acute physical risks refer to those that are event-driven, including increased severity of extreme weather events, such as cyclones, hurricanes, or floods.

Chronic Risk
Chronic physical risks refer to longer-term shifts in climate patterns (e.g., sustained higher temperatures) that may cause sea level rise or chronic heat waves.

Transition Risks

Policy and Legal Risks
Policy actions that attempt to constrain actions that contribute to the adverse effects of climate change or policy actions that seek to promote adaptation to climate change.

Increase in climate related litigation claims being brought before the courts.

Market Risk
Shifts in supply and demand for certain commodities, products, and services.

Technology Risk
Technological improvements or innovations that support the transition to a lower-carbon, energy efficient economic system.

Reputation Risk
Changing customer or community perceptions of an organization's contribution to or detraction from the transition to a lower-carbon economy.

Opportunities

Resource efficiency
Use of more efficient processes, reduced energy and water consumption, less waste resulting in reduced operating costs

Energy source
Use of lower emission sources of energy or decentralized energy sources providing reduced operational costs

Products/services
Development and/or expansion of low emission goods and services to increase revenue and expand market share

Markets
Increased revenues through access to new and emerging markets (e.g., partnerships with governments)

Resilience
Increased market valuation through resilience planning

Source: "Final Report: Recommendations of the TCFD on Climate-related Financial Disclosures," TCFD website, https://www.fsb-tcfd.org/wp-content/uploads/2017/06/FINAL-TCFD-Report-062817.pdf

The FRC Climate Thematic Review

The FRC has completed a review of climate-related issues as they affect governance, reporting and audit, and the roles of a range of market participants. The key findings of their report are summarised below:

How are boards taking account of climate-related challenges?

It is the board's responsibility to consider climate-related issues, but there is little evidence that business models and company strategy are influenced by integrating climate considerations into governance frameworks.

How are companies developing their reporting on climate-related challenges?

An increasing number of companies are providing narrative reporting on climate-related issues. While minimum legal requirements are often being met, users are calling for additional disclosure to inform their decision making. Some companies have set strategic goals such as 'net zero', but it is unclear from their reporting how progress towards these goals will be achieved, monitored or assured. Consideration and disclosure of climate change in the financial statements lags behind narrative reporting. We identified areas of potential non-compliance with the requirements of International Financial Reporting Standards (IFRS).

How are auditors taking account of climate-related challenges?

The quality of support, training and resources provided to the audit practice varied considerably across firms. Firms also need to do more to ensure that their internal quality monitoring has appropriate regard for climate change considerations. Audits reviewed indicated that auditors need to improve their consideration of climate-related risks when planning and executing their audits.

How are professional bodies and audit regulators taking account of climate change in their regulatory responsibilities?

UK professional bodies, and audit regulators in the Crown Dependencies, are responding to climate change, but approaches differ in terms of substance and granularity regarding references to climate-related reporting and the impacts of climate change.

What do investors want to see?

Investors support the Task Force on Climate-related Financial Disclosures framework, but also expect to see disclosures regarding the financial implications of climate change. Investors are themselves facing a changing regulatory environment.

Appendix B

Detail on Good Practice examples and EY Climate Risk Disclosure Barometer

Examples of early stage and advanced peer TCFD disclosures

Disclosures on Governance

- Leading disclosure on climate-related strategy can include:
  - The reports of the relevant board committees should set out how they exercised oversight over climate change related disclosures
  - Explain the overall process and plan, in relation to progress towards full TCFD alignment and broader climate change targets with reference to a timeline *(see Fig.1)*
  - Ensure that stakeholder engagement reporting reflects all key climate-related matters discussed with shareholders and other significant stakeholders, and the impact this had on board decision making and discussions
  - Where a resolution on climate change has been passed in the year, explain the voting results and the views received from shareholders, as well as any actions taken and/or proposed by the company
  - Explain how addressing climate considerations is integrated into the board structure and committees; how the board has oversight of climate change; and management's process for considering climate-related issues, including key responsibilities and the cadence of reporting
  - Disclose a board skills matrix which includes climate competence *(see Fig.2)*
  - Where climate-related working groups or committees are set up, disclose the selection process for the climate expert or group, the expertise, skills and/or any relevant training members received
- Advanced disclosures integrate climate-related governance disclosures across the annual report

Sources: EY's Global Climate Risk Barometer

TCFD progress roadmap	2019	2020	2021
We have made significant progress in improving how we manage our environmental targets and climate-related risks and opportunities. However, we recognise that we can build on these priorities further, to continue enhancing our approach and strengthen the quality of our reporting.	• Launched ITV's Social Purpose strategy • Identified Group CFO as owner for climate-related risks • Set baseline for targets, including SBTs • Carbon neutral across Scope 1, 2 and 3 (for business travel only) • Updated ITV's global emissions data collection process • Launched the Green Team Steering Group • Established Environmental Governance	• Updated Environmental Governance structure • Created Climate Change Delivery Group chaired by Group CFO • Launched ITV's environmental 2030 targets, including SBTs and 100% renewable electricity target by 2025 • Set a Net Zero target by 2030 • Achieved a B rating for Climate Change for our responses in the Carbon Disclosure Project program • Started climate scenario analysis and identified key risks and opportunities with stakeholders • Developed a climate risk register	• Obtain verification for SBT from the SBT initiative • Complete climate scenario analysis quantification of climate-related risks • Finalise emissions reduction roadmaps for all business areas • Launched new global environmental data platform for emissions and waste • Establish business area environmental key performance indicators

Fig.1 ITV Roadmap of environmental governance structure

Board skills and experience

Topics	Olivia Garfield	James Bowling	Christine Hodgson	Kevin Beeston	Philip Remnant	John Coghlan	Dominique Reiniche	Angela Strank	Sharmila Nebhrajani
Strategy	●	●	●	●	●	●	●	●	●
M&A	●	●	●	●	●	●	●	●	
Corporate finance/treasury		●	●	●	●	●			●
Accounting		●	●	●	●	●			●
Regulation	●	●	●	●	●				●
Technology/innovation	●		●			●	●	●	●
Customer	●		●	●			●	●	
Brands			●	●			●	●	
Engineering								●	
Utility sector	●	●	●	●	●	●	●	●	
Environmental science, including climate change			●					●	
People management	●	●	●	●			●	●	●
Commercial procurement	●	●	●	●	●		●	●	
Construction/infrastructure delivery	●			●				●	
Large capital programmes	●	●	●			●	●	●	
Political affairs	●		●	●	●	●	●	●	●

Fig.2 Severn Trent board skills matrix

Examples of early stage and advanced peer TCFD disclosures (cont'd)

Disclosures on Strategy

- Climate change can be categorised as a principle risk in itself, a risk underlying another principle risk (e.g. business resilience), an emerging risk, or a cross-cutting risk
- Leading disclosure on climate-related strategy can include:
  - Describe what the business considers to be the short, medium and long term horizons, and associate climate-related risks and opportunities with the relevant time horizons
  - If climate change has not been identified as a principal risk, explain how directors challenged this outcome and the basis for their conclusion
  - Disclose the likelihood and impact of climate-related principal risk(s) and the significance of climate-related risks relative to other risks
  - Distinguish between physical risks (acute and chronic) and transition risks (policy and legal, technology, market and reputation)
  - Disclose the impact on the business and strategy on areas such as products and services, investment in research and development and operations
  - Disclose the impact on financial planning
  - Ensure disclosures on scenario analysis include the rationale for the scenarios selected, detail on the assumptions made in these scenarios, and the implications on resilience. Explain the impact of scenario analysis on board strategic decisions and financial planning
- Advanced disclosures integrate climate-related strategy disclosures across the annual report

Sources: EY's Global Climate Risk Barometer

Key gaps that remain around disclosures on strategy:

- Clear link to capital allocation plans as a response to climate risk (see Fig.1)
- Use of scenario analysis and planning (see Fig.2)

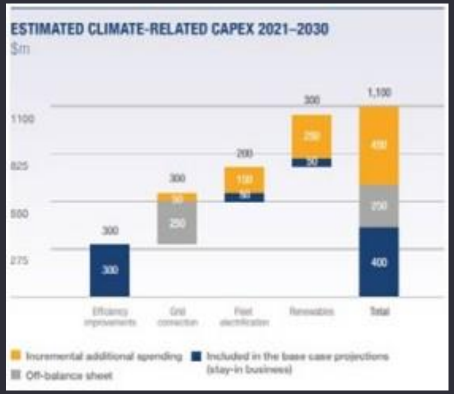


Fig.1 Polymetal capital allocation plans

Fig.2 Polymetal scenarios and time horizons

Examples of early stage and advanced peer TCFD disclosures (cont'd)

Disclosures on Risk management

- Fig.1 demonstrates prioritisation criteria for ESG-related risks
- Leading disclosure on climate-related risk management can include:
  - Reflect the impact of climate risk within the financial statements, such as in relation to forward-looking assumptions and judgments applied
  - Link each risk to a specific business area/risk owner
  - Bring out the interconnectivity between climate change and other principal risks
- Companies in high-risk industries should be explicit on how viability scenarios have considered the impact of climate change
- Advanced disclosures integrate climate-related risk management disclosures across the annual report
- EY can help companies strengthen their consideration of climate-related risks and their impact (per TCFD Strategy pillar), as well as integrating climate-related risks into the wider risk management processes (per TCFD Risk Management pillar) through our EY Enterprise Risk Management Tool

Criteria	Description	Relevance for ESG-related risks
Adaptability	The capacity of an entity to adapt and respond to risks	A risk may be significant and unpredictable; however, an organisation can build in adaptability mechanisms to respond to or absorb the risk. For example, in the 1980s, Shell diversified its portfolio and used scenario planning to prepare and adapt to potential oil price fluctuations that were generally considered unforeseeable.
Complexity	The scope and nature of a risk to the entity's success	Many ESG-related risks are interrelated, global, industry-wide and constantly changing. For example, health care companies are aware of the complex relationship between climate change and health. Climate change impacts may lead to potential disruptions to operations, whilst also leading to health impacts on individuals (increasing the demand for health care services).
Velocity	The speed at which risk impacts an entity	ESG-related risks are often emerging and unforeseen until swift events result in extreme consequences. Climate change impacts often manifest in the form of more extreme or frequent occurrences of known events, such as droughts and floods, and are best understood by studying longer temporal horizons than are usually associated with typical risk management.
Persistence	How long a risk impacts an entity	Risk severity should consider the extent to which the impact will be an acute, one-time impact (e.g., cyclones, hurricanes or earthquakes) versus a chronic issue that will cause ongoing impacts (e.g., sustained higher temperatures or droughts).
Recovery	The capacity of an entity to return to tolerance	Consider how quickly the business would recover if a risk occurred today. For some ESG issues, impacts are irreversible. For example, in the food, beverage and agriculture sector, the impacts of climate change have the potential to alter growing conditions and seasons, increase pests and disease, and decrease crop yield.

Sources: EY's Global Climate Risk Barometer

Fig.1 Application of prioritisation criteria to ESG-related risks (adapted from the COSO ERM Framework)

Examples of early stage and advanced peer TCFD disclosures (cont'd)

Disclosures on Metrics and targets

- Leading disclosure on climate-related risk management can include:
  - Explain targets clearly, e.g., what 'net zero' means, with reference to specific timeframes, base year, milestones etc. Provide a description of methodologies used to calculate targets and measures, including their boundaries.
  - Provide commentary in respect of the Streamlined Energy and Carbon Reporting (SECR) disclosures that is both transparent and meaningful
  - Disclose scope 3 emissions to demonstrate how well you understand the climate exposure of your value chain (See Fig.1 and 2)
  - Disclose decarbonisation pathways, especially given the increased scrutiny on how well companies prepare and contribute to decarbonisation solutions
- Advanced disclosures integrate climate-related metrics and targets disclosures across the annual report

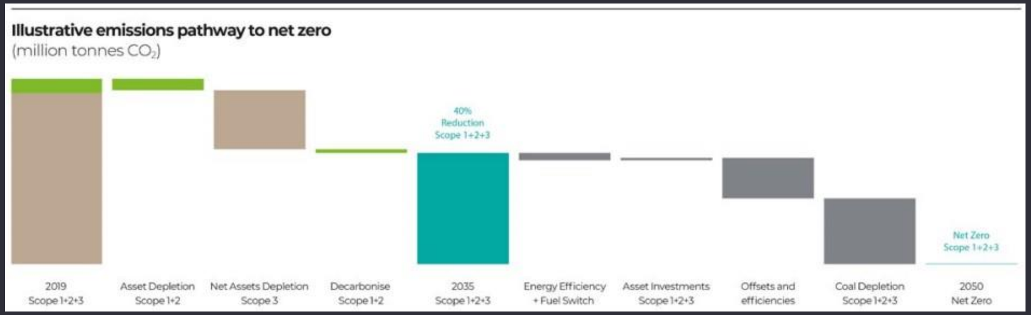
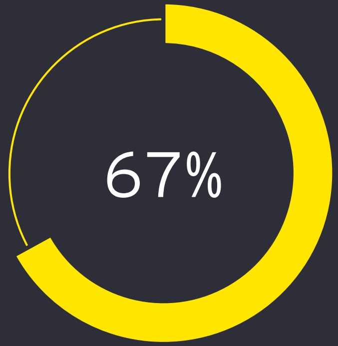


Fig.1 Barclays Scope 3 emissions disclosure

Sources: EY's Global Climate Risk Barometer

EY Climate Risk Disclosure Barometer results and insights

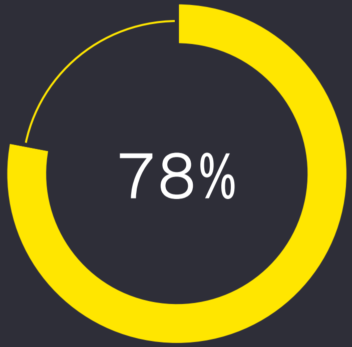
- The 2020 EY Global Institutional Investor Survey found that investors surveyed make significant use of ESG disclosures released using the TCFD framework and that this information has a significant impact on investment decision-making.
- Climate-related disclosures, as recommended by the TCFD, were cited as the most valuable ESG disclosure framework.
- Feedback also suggested that investors may increasingly expect companies to take a robust approach and be less accepting of "light-touch disclosures."



More than two-thirds of investors surveyed say they make "significant use" of ESG disclosures that are shaped by the TCFD.

The top three most valuable ESG disclosure vehicles as per 2020 EY Global Investor Survey

1. Climate-related disclosures in financial reports as recommended by the TCFD
2. Company disclosures based on what management believes is most material to the company's value creation strategy
3. Company-defined reports that integrate financial and nonfinancial information



More than three-quarters of those who make significant use of TCFD information say that it has a significant impact on investment decision-making.

Examines disclosures from over **1100+ companies** (majority of listed companies)

11 exposed sectors in 42 countries

Selected Sectors	Number of companies reviewed
Financial	292
Non-Financial	835
Total	1127

Disclosures made in **Annual, Sustainability** and **CDP Reports etc** published within the **2020 calendar year**

Companies were scored through a multi-tiered system including both the **coverage** and **quality** of the TCFD recommendations

Sources: EY's Global Climate Risk Barometer

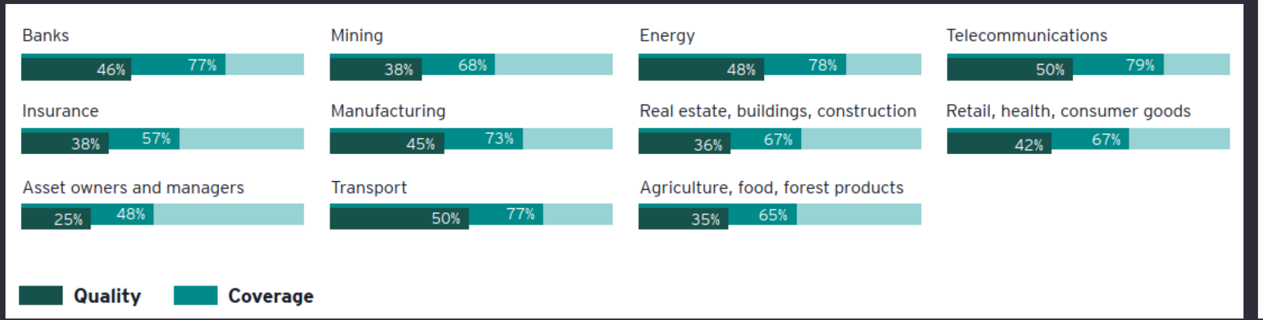
EY Climate Risk Disclosure Barometer results and insights (cont'd)

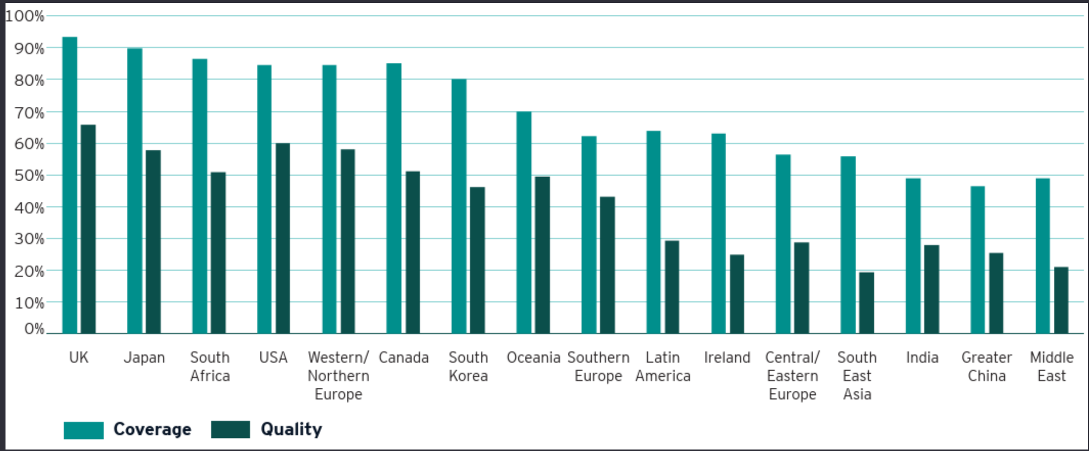
Overall results by sector

- Overall, some progress has been made in addressing climate-related financial disclosures and in line with previous results, coverage of disclosures remains ahead of quality.
- **Sectors with the most significant exposure** to transition risk generally scored higher for their disclosures. These include the banks, energy, manufacturing and **transport sectors**, but more widely encompass sectors with these conditions:
  - High emissions
  - Direct exposure to fossil fuel supply chains
  - Investments in the energy sector or with readily accessible low-carbon substitutes

Overall results by market

- The best and worst performing markets have **not changed significantly** from previous years.
- On average, **higher coverage scores for companies continue to be linked to the maturity of the markets**, where governments, shareholders, investors and local market regulators are active.
- The **UK is leading** on both coverage and quality of disclosures.



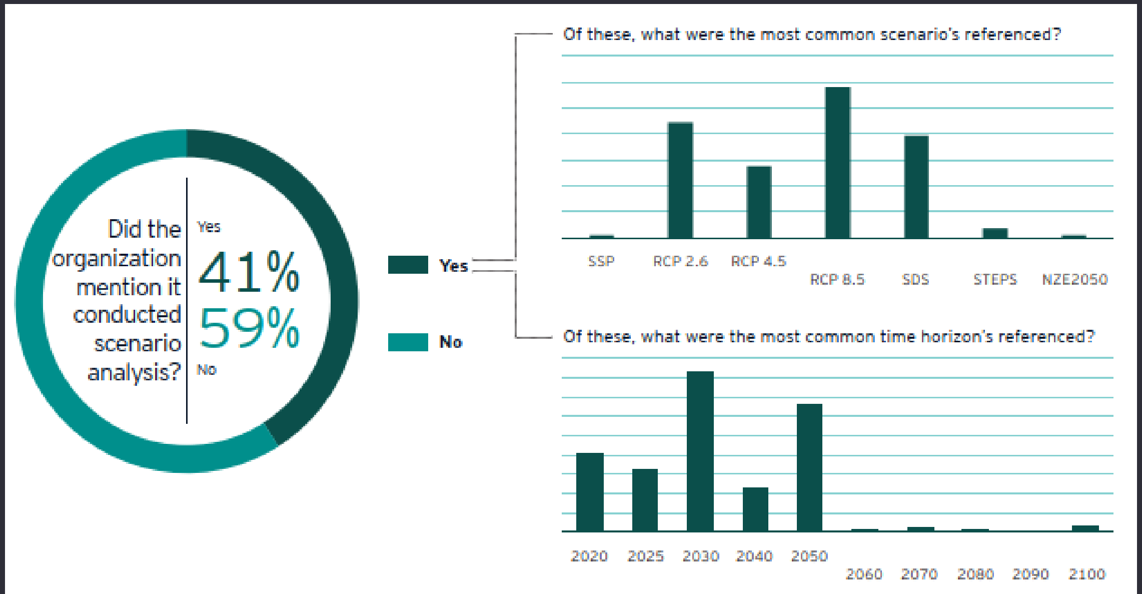


Sources: EY's Global Climate Risk Barometer

EY Climate Risk Disclosure Barometer results and insights (cont'd)

Results on scenario analysis

- **Only 41%** of companies assessed referenced that they have conducted scenario analysis, indicating companies are still struggling with the complexity of how they approach it.
- **RCP8.5** and **RCP 2.6** were the most common scenario's referenced, and **2050** and **2030** were the most common time horizon's referenced.

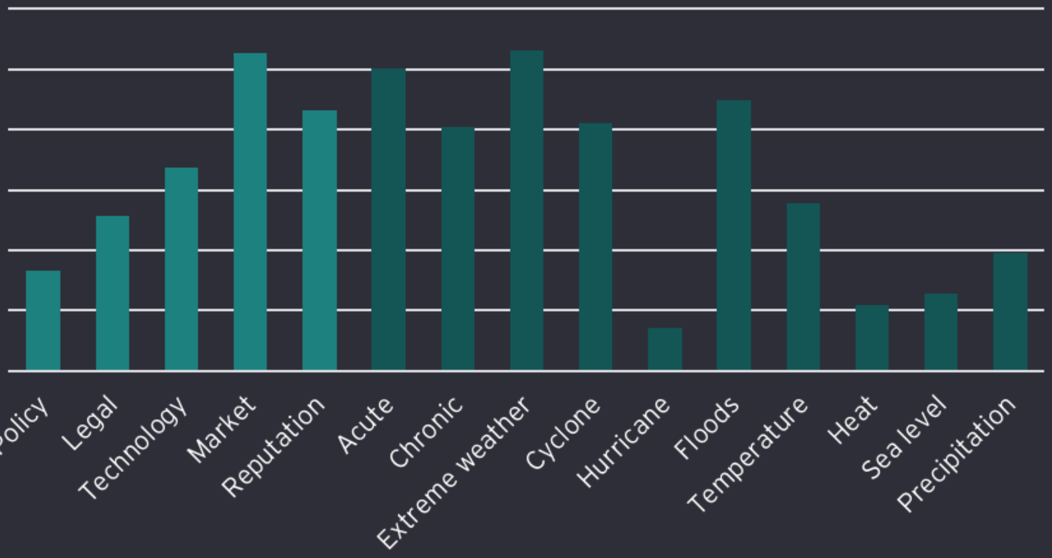


Sources: EY's Global Climate Risk Barometer

Results on risk management

- Approximately 60% of companies referenced physical or transition risks or both (as aligned to TCFD recommendations) in their risk commentary, with 55% of those referencing physical risk.
- Now the physical impacts of climate change are being witnessed more and more, companies are recognizing that they should prepare for physical risks, regardless of when an economy-wide transition occurs.

Most common risks referenced:



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EY Climate Risk Disclosure Barometer results and insights (cont'd)

Although the results show year-on-year improvements in reporting, the research suggests most companies lack the internal capability to understand and act on their current and future exposure to climate risk and opportunity.

Reporting should connect better with risk and opportunity

Many organizations are reporting on metrics that don't correlate directly to risks. For example, disclosing Scope 1 and 2 emissions has no bearing on exposure to physical risks, such as a factory or data center being at increased risk of fire or flood. A more rigorous level of assessment will likely be required to develop the climate-related financial disclosures that drive behavioral change.

Climate scenarios critical to robust risk assessment

To satisfy their stakeholders, organizations should be able to articulate the relative size and time frame around physical and transition risks in their geography and industry, ideally constructing worst case, base case and most likely case scenarios.

Biggest emission-reduction levers in the value chain should be identified

Most organizations currently have opaque supply chains when it comes to carbon. It is incumbent on organizations to work with their suppliers and offer incentives to make them part of the decarbonization process. Just as organizations are examining their supply chains for human rights violations, they should be putting equal energy into analyzing and reducing supply chain emissions.

Organizations that fail to anticipate this potentially nonlinear disruption as the net-zero transition gathers pace may be exposed to climate-related risks and be underprepared for the associated climate-related opportunities.

As organizations consider their next steps toward climate adaptation, organizations should be able to answer the following questions:

- What is the extent of the risk and opportunity my organization is facing as a result of climate change?
- How should my organizational strategy change to respond to the identified risks and opportunities from climate change? And what strategic initiatives will be required?
- What should I do to execute on my decarbonization journey?
- How do I communicate with the market on the extent of my risks and opportunities, the proposed changes to my strategy and the progress on my decarbonization journey?

Sources: EY's Global Climate Risk Barometer

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Audit and Assurance Committee

Date: **1 December 2021**

Item: **Risk and Assurance Quarter 2 Report 2021/22**

This paper will be considered in public

1 Summary

1.1 The purpose of this report is to inform the Committee of the work completed by the Risk and Assurance Directorate during Quarter 2 of 2021/22 (Q2), the work in progress and planned to start, and other information about the Directorate's activities.

1.2 A paper is included on Part 2 of the agenda, which contains exempt supplemental information that is exempt from publication by virtue of paragraphs 3, 5 and 7 of Schedule 12A of the Local Government Act 1972 in that it contains information relating to the business and financial affairs of TfL, that is commercially sensitive and likely to prejudice TfL's commercial position; and information relating to ongoing fraud and criminal investigations and the disclosure of this information is likely to prejudice the prevention or detection of crime and the apprehension or prosecution of offenders. 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 report and the supplemental information on Part 2 of the agenda.**

3 Director Update

3.1 This is the second quarterly report for 2021/22 to the Committee highlighting the activities of the five teams making up the Risk and Assurance Directorate, namely: Enterprise Risk; Internal Audit; Integrated Assurance; Project Assurance; and Counter-fraud and Corruption.

3.2 In this quarter the audit work is behind programme due to the plan for Integrated Assurance being back ended. We have recruited two additional Integrated Assurance Auditors in the team which will help recover the programme (more detail is in section 5.14 below). At the end of Q2, 35 per cent of the Internal Audit plan had been delivered due an Auditor on secondment in the Integrated Assurance team (who then resigned) and the departure of the Technology Information and Security Auditor. Furthermore, there have been a number of new audits added to the plan thereby increasing the total number of audits undertaken. We are currently in discussions with the business to reprioritise audits. Changes to the plan will be reported in the Quarter 3 of 2021/22 (Q3) paper and will reflect this exercise and we are confident that the recovery plan will get the plan back on target.

3.3 Work is ongoing on a number of initiatives to improve the effectiveness of the Directorate. The collaboration working group has identified some quick wins in relation to how communication across the Directorate is delivered with the aim of facilitating two way communication between the leadership team and the staff. The new quarterly Executive Committee Risk and Assurance report was well received and will now be a standing item on the agenda of those meetings.

3.4 Work is continuing on identifying themes and issues to help inform how we plan our work and inform the controls and mitigations on Enterprise and Level 1 Risks. Trials are underway to closer integrate the risk and assurance processes to enable improved risk-based assurance and confirm the second and third line opinion on controls to mitigate risk.

3.5 Good progress has also been made with the Safety, Health and Environment (SHE) Directorate on strengthening the integration of second line assurance work between our two Directorates and a joint paper was recently submitted to the Safety, Sustainability and Human Resources Panel to explain how that work will be taken forward. Further progress updates will be provided to the Panel.

3.6 Assurance of the Elizabeth line has now been fully integrated into the Directorate and is working effectively across second and third line activities. That work is covered elsewhere on the agenda.

3.7 A suspect, convicted of conspiracy to defraud TfL by supplying concessionary Oyster cards to ineligible members of the public through social media, was recently sentenced to nine months imprisonment. This is the seventh successful conviction of individual suspects as part of this protracted investigation (British Transport Police Operation Jetstream) into fraud within TfL concessionary Oyster card schemes.

4 Enterprise Risk Management

4.1 The following Level 0 Enterprise Risks reviews were facilitated by the team in the last quarter and the outcomes will now go forward to the relevant Panels and Committees according to the agreed schedule:

(a) Changes in customer demand (ER9);

(b) Governance and Controls Suitability (ER13); and

(c) Opening of the Elizabeth Line (ER14).

4.2 The top six strategic Level 1 risks for the Elizabeth line have been agreed and workshops arranged to develop these with two completed. Development of these risks is planned to be completed by December 2021.

4.3 The Major Projects Directorate has produced a list of strategic Level 1 risks. Workshops will be held to develop these further with full risk assessments and mitigation strategies.

4.4 We are working with the business to identify where climate change may either be a cause or a consequence to existing risks, which will enable us to better understand, quantify and mitigate the impact of climate change consistently across all parts of TfL. This will support the requirements set out in the Task Force on Climate-related Financial Disclosures reporting guidelines.

4.5 A list of the Level 0 risks is included in Appendix 1.

5 Audit and Assurance

5.1 In TfL, assurance is delivered in accordance with the 'three lines of defence' model:

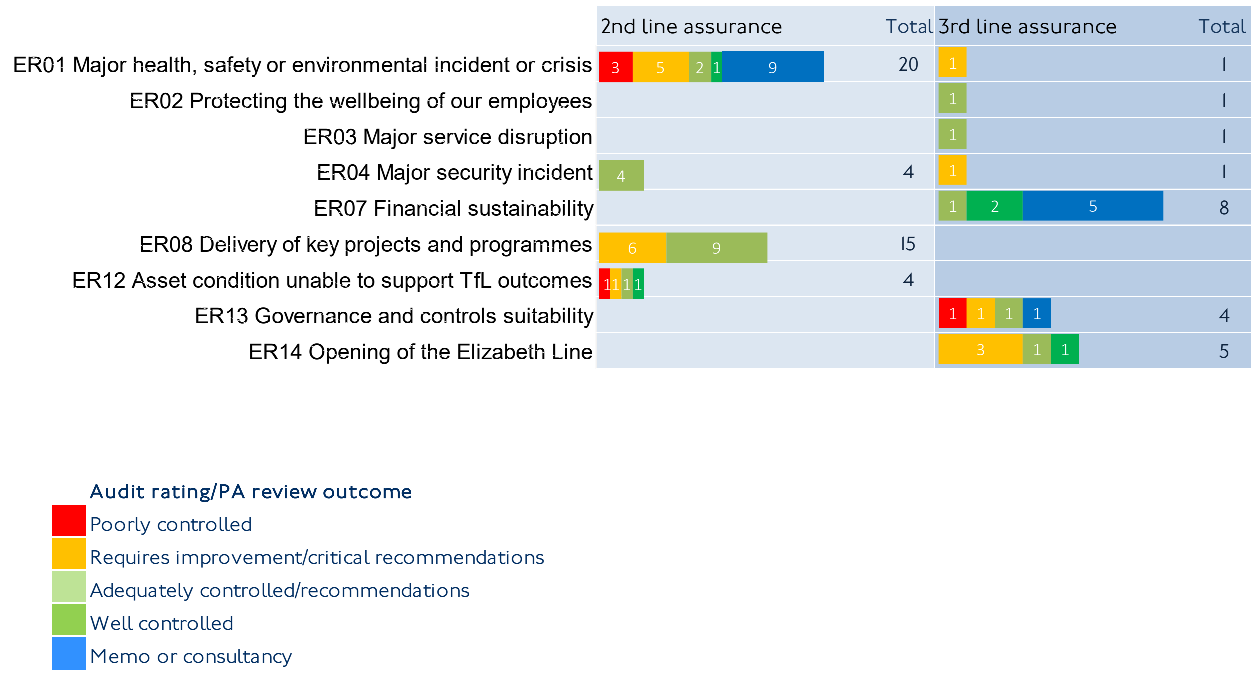
(a) First line of defence – control and monitoring arrangements carried out by the functions responsible for managing the risks/controls;

(b) Second line of defence – typically audit and inspection regimes carried out by teams separate from those responsible for managing the risks/controls, but reporting through the TfL management hierarchy; and

(c) Third line of defence – fully independent audit and review activities, typically with a strategic focus, and reporting to the Executive Committee, this Committee and other Committees and Panels.

5.2 Within the Risk and Assurance Directorate, the Internal Audit team provides third line assurance, whilst the Integrated Assurance and Project Assurance teams provide second line assurance. Further information regarding the work of these teams during Q2 is set out below.

5.3 The table below maps the outcomes of 2021/22 audit and project assurance reviews carried out by the teams in Risk and Assurance to date, up to the end of Q2 against the TfL Enterprise Risks. (If a risk is not listed, this means that no work has been completed against it during the year so far).



Internal Audit

5.4 The Internal Audit plan forms part of the Integrated Assurance plan that the Committee approved on 17 March 2021.

5.5 A full list of audit reports issued during Q2 is included as Appendix 2. Audits in progress at the end of Q2 is included as Appendix 3, work planned to start in Q3 is included as Appendix 4, and details of changes to the audit plan is included as Appendix 5.

5.6 The Internal Audit Q2 summary, included as Appendix 6, includes highlights from work completed during the quarter. It also provides an overview of the delivery of the audit plan, a summary of the reports issued and conclusions and information on overdue audit actions.

5.7 We have commenced our annual audit planning for 2022/23 and are in discussions with the business to develop the plan.

Mayoral Directions

5.8 Mayoral Directions fall into three broad categories: those addressing technical issues relating to statutory powers; those related to commercial development activities; and those related to projects and programmes.

5.9 There have been no new directions since the last meeting of the Committee.

Management Actions

5.10 The team monitors the completion of all Internal Audit management actions and confirms whether management has adequately addressed them. We report by Directorate on the percentage of actions closed on time over the past six periods. Appendix 6 provides additional information relating to action management trends over the last six periods.

5.11 This Appendix also includes information on overdue actions at the end of Q2. There were four actions arising from Internal Audits more than 60 days overdue at that date.

Integrated Assurance

5.12 The Integrated Assurance team carries out second line of defence audits, primarily in relation to health and safety and engineering compliance, and compliance with Payment Card Industry Data Security Standard. Audit reports issued by the team follow a similar system of audit conclusions and priority ratings for issues as the Internal Audit team.

5.13 A summary of work carried out by Integrated Assurance in Q2 is included as Appendix 7.

5.14 Progress against the annual audit plan is currently 25 per cent complete at halfway through the year. It was planned to undertake fewer audits in Quarters 1 and 2 due to two planned retirements and subsequent recruitment, with a greater number of audits in Quarters 3 and 4. Additionally, there are proportionately more shorter audits in Quarters 3 and 4 which will have a positive impact on the measure in the coming months.

5.15 Six audits have been cancelled, five of these were Network and Information System Regulations audits and have been cancelled in agreement with the Chief Information Security Officer due to a change in assurance strategy: we are undertaking fewer audits focussed on higher level governance rather than lower level compliance. A signals maintenance audit has been cancelled as it would duplicate existing assurance from within the last 12 months. All changes to the audit plan are agreed with the sponsor and recorded on our change control log.

5.16 There were two audits concluded as ‘poorly controlled’ in Q2:

(a) 'Commercial Development Estates Management HSE Compliance' - This audit was requested by the Commercial Development management team to assess compliance with their local management system procedures. The audit concluded roles and responsibilities were not always clearly defined in management procedures and/or all controls consistently implemented. There was a risk of potential regulatory non-compliances relating to legionella, fire, asbestos, gas and electrical safety inspections. A programme of actions has been agreed with the Commercial Development team and work is in progress to deliver the actions by the end of 2021.

(b) 'Management of LU station tenants fire risk assessments' - This audit was requested by the Head of Profession (Building Services) to assess how the Retail Property Team and Station Area Managers are assured of compliance with the Regulatory Reform (Fire Safety) Order 2005 in relation to fire risk assessment among London Underground (LU) station tenants. Compliance with the fire risk assessment requirements of the Order and TfL procedures and guidance could not be fully demonstrated. The availability and quality of station tenants’ fire risk assessments, and the inadequate monitoring and assurance arrangements meant LU is not sufficiently aware of the risk from station tenants in order to manage the overall fire risk. An improvement programme has been developed with SHE, Engineering, LU and the Property team and is being tracked.

5.17 In Quarter 1 and 2 Risk and Assurance has improved the reporting of overdue actions to TfL Directors. This is noted to have had a positive impact in reducing the number of long-term overdue actions (over 60 days) from 12 to eight.

Project Assurance

5.18 The Project Assurance team carries out assurance reviews of projects and programmes across TfL’s Investment Programme, with individual projects selected for review following a risk-based assessment. Generally, projects with an Estimated Final Cost over £50m are also subject to (third line) input from the Independent Investment Programme Advisory Group (IIPAG). However, IIPAG’s agreed work-bank is determined by the project’s risk profile, which includes some projects less than £50m, and not all sub-programmes are reviewed. The IIPAG Quarterly Report is included elsewhere on the agenda. Reports from Project Assurance reviews are considered alongside the Authority request at the sub-programme board or operating business board depending on the size of the project.

5.19 Project Assurance also conducts reviews of the sub-programmes to inform annual requests for Authority at the Programmes and Investment Committee.

5.20 Project Assurance reviews do not carry an overall conclusion in the same way as audit reports, however, issues raised may be designated as critical issues. The Project Assurance team follows up on all recommendations to ensure they have been addressed and reports on those that are overdue to the Programmes and Investment Committee.

5.21 Four sub-programme reviews were undertaken during the quarter, with IIPAG involved in all four reviews. In the same time frame 14 project assurance reviews were undertaken, with IIPAG involved in three of these. These reviews gave rise to a total of 69 recommendations being made, of which six were considered to be critical issues.

5.22 A summary of the work completed by the Project Assurance team in Q2 is included as Appendix 8.

Customer Feedback

5.23 There were eight customer feedback forms (CFFs) returned in Q2. Integrated Assurance issued seven questionnaires of which two were returned (29 per cent). Internal Audit issued 12 questionnaires of which six were returned (50 per cent). However, satisfaction rates for both audit teams remains above 90 per cent. A summary of customer feedback forms is included as Appendix 9.

5.24 We have made some changes to the CFF process to try and increase the return rate and will report on the effect this has had on the response rate in the Quarter 4 paper.

6 Counter-fraud and Corruption

6.1 The Counter-fraud and Corruption (CFC) team carries out investigations in all cases of suspected and alleged fraud. They also carry out a proactive programme of fraud awareness, prevention and detection activities designed to minimise TfL's exposure to fraud risk.

6.2 A summary of the team's activities during Q2, including information on significant closed fraud investigations, is included as Appendix 10.

6.3 Of the 15 cases closed in Q2, six resulted in internal disciplinary action being taken against TfL employees, seven were dealt with through referrals to law enforcement agencies and two cases resulted in no action being taken.

6.4 The CFC team continues to raise awareness of fraud and corruption across TfL through targeted sessions and presentations. During Q2, members of the team attended the periodic Business Services meeting to provide a fraud awareness presentation to 190 attendees. The presentation was designed to provide an insight into the types of fraud that could be committed against TfL and by whom, examples of missed opportunities to identify fraudulent activity and how to report fraud. Attendees were also briefed on the most common fraud 'scams' to affect people in their private lives and some useful tips and guidance on how to prevent such frauds.

6.5 Details of significant new and ongoing fraud investigations during Q2 is included in the paper on Part 2 of the agenda.

7 Resources

7.1 At the beginning of Q2 the Directorate was carrying 11 vacancies: two in Project Assurance including the Head of Project Assurance, three in Internal Audit, three in Integrated Assurance, and three support roles including a data analyst role. In Q2 there was one leaver and three new joiners, two in Project Assurance and one Integrated Assurance Auditor.

7.2 Further recruitment activity in the quarter has led to a number of offers being made which will lead to a number of the vacant roles being filled in the next two quarters including the Head of Internal Audit.

8 Control Environment Trend Indicators

8.1 The Q2 indicators are included as Appendix 11.

List of appendices to this report:

Appendix 1: Level 0 and Level 1 Risks
Appendix 2: Internal Audit reports issued in Q2 2021/22
Appendix 3: Work in Progress at the end of Q2 2021/22
Appendix 4: Work planned for Q3 2021/22
Appendix 5: Cancelled/ deferred/new audits from 2021/22 audit plan
Appendix 6: Internal Audit Q2 summary
Appendix 7: Integrated Assurance Q2 summary
Appendix 8: Project Assurance Q2 summary
Appendix 9: Customer Feedback Q2 summary
Appendix 10: Counter-Fraud and Corruption Q2 summary
Appendix 11: Control Environment Trend Indicators

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

List of Background Papers:

None

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Level 0 TfL Enterprise Risks				
Risk No.	**Risk** **Owner** **Manager Mayors Transport Strategy / Corporate Strategy**	**Owner**	**Manager(s)**	**Mayor's Transport Strategy / Corporate Strategy**
ER1	Major safety, health or environmental incident or crisis	Chief Safety, Health and Environment Officer	Head of Insights & Direction; Head of Corporate Environment; Head of Occupational Health & Wellbeing; Head of Transport Strategy & Planning	MTS: Healthy streets and healthy people
ER2	Protecting the wellbeing of our employees	Chief People Officer	Head of Strategic Planning and Governance; Head of Occupational Health & Wellbeing	CS: People and stakeholders
ER3	Major service disruption	Managing Director, London Underground and TfL Engineering	Director of Network Management; Director of Bus Operations; Director of Rail and Sponsored Services; Director of LU Asset Performance & Capital Delivery; Chief Operating Officer; Director of People and Cultural Change	MTS: A good public transport experience
ER4	Major security incident	Managing Director, Surface Transport	CTO & Director of Strategy; Director Compliance Policing & On-Street; Managing Director - LUL	MTS: Healthy streets and healthy people
ER5	Supply chain disruption	Chief Finance Officer	Chief Procurement Officer	MTS: A good public transport experience
ER6	Loss of stakeholder trust	Managing Director Customers, Communications and Technology	Director of News and External Relations; Group Finance Director; Director of Legal	CS: People and stakeholders
ER7	Financial sustainability	Chief Finance Officer	Group Finance Director	CS: Finance
ER8	Delivery of key projects and programmes	Director of Major Projects	Director of Project & Programme Delivery; Director, Network Extensions; LU Director of Asset Performance and Capital Delivery	MTS: A good public transport experience
ER9	Changes in customer demand	Managing Director Customers, Communications and Technology	CTO & Director of Strategy; Director of City Planning; Director of Innovation; Director of Public Transport Service Planning	CS: Finance
ER10	Inability to support new ways of working	Chief People Officer	CTO & Director of Strategy; Chief People Officer; Estates Management Director	MTS: A good public transport experience

Level 0 Risks

Level 0 TfL Enterprise Risks				
Risk No.	**Risk**	**Owner**	**Manager(s)**	**Mayor's Transport Strategy / Corporate Strategy**
ER11	Disparity leading to unequal or unfair outcomes	Director of Diversity, Inclusion and Talent	Chief Safety, Health & Environment Officer; CTO & Director of Strategy; Director of City Planning; MD Customer, Communications & Technology; Strategic Planning Manager	CS: People and stakeholders
ER12	Asset condition unable to support TfL outcomes	Managing Director, London Underground and TfL Engineering	Director of TfL Engineering Delivery	MTS: A good public transport experience
ER13	Governance and controls suitability	General Counsel	Director of Legal	MTS: All MTS themes
ER14	Opening of the Elizabeth Line	TfL Commissioner	Chief Operating Officer; Operations Business Manager	MTS: A good public transport experience

Internal Audit reports issued in Q2 2021/22 **Appendix 2**

- There were 10 reports issued during the quarter

Enterprise Risk	Directorate	Ref	Audit title	Summary of Finding	Conclusion	H	M	L
ER02 Protecting the wellbeing of our employees	Human Resources	21 008	Headcount Controls Process	The medium priority issues identified were as follows: - Robust local headcount controls limit the value and need for checks to be undertaken by both the HR Strategic and Governance team and Chief People Officer; - Time consuming and labour intensive processes; - Review requirements not being met or prioritised by business areas, risks inaccurate or irrelevant standards, policies and procedures being used; - A large volume of documents in TfL's Management System (TMS) library are overdue for review. Automatic reminder notifications from the TMS have been disabled and there is no risk based approach on where to concentrate efforts.	Adequately Controlled	0	2	0
ER03 Major service disruption	London Underground	21 011	Engineering Resource Model	There was one medium issue around inadequate resource forecasts from the business.	Adequately Controlled	0	1	3
ER07 Financial sustainability	Customers, Communication and Technology	21 056	Thales' Annual Financial Report for the Connect Contract	We have only been able to provide reasonable assurance on one aspect of the areas we reviewed (verification of data). However, the information we have obtained for the other areas (cost verification, variances, services deliver and explanation of costs) provides a good basis for management, which is best placed to undertake further investigation of these areas.	Memo	0	0	0
ER07 Financial sustainability	Customers, Communication and Technology	21 024	ACE-funded projects: The Cultural Recovery Fund Part 2	The London Transport Museum (LTM) successfully applied to the Arts Council England (ACE) for a second grant of £875,000 towards its running costs. This was for the period April-June 2021. Certain conditions had to be met before payment was made; one of which was a certified statement of income and expenditure. Internal Audit confirmed that the statement, in all material aspects, accurately reflects the LTMs income and expenditure during the period April-June 2021.	Memo	0	0	0

Enterprise Risk	Directorate	Ref	Audit title	Summary of Finding	Conclusion	H	M	L
ER07 Financial sustainability	Finance	20 612	Management of the Procurement and Supply Chain Improvement Programme (Phase I)	The expected controls, systems and processes are adequate for the effective management and delivery of the Procurement and Supply Chain Improvement Programme. On this basis, we have concluded that the control environment for this area is adequately controlled.	Adequately Controlled	0	0	0
ER07 Financial sustainability	Finance	21 025	Bank reconciliations	No issues were identified in this review. Key controls over bank reconciliations were found to be well designed and operating effectively.	Well Controlled	0	0	0
ER13 Governance and controls suitability	General Counsel	21 055	BEIS white paper	We reviewed the Department for Business, Energy and Industrial Strategy (BEIS) White paper and drafted a response to BEIS on behalf of TfL. Should this become legislation there are a number of areas which would impact TfL.	Memo	0	0	0
ER14 Opening of the Elizabeth Line	Crossrail	20 504	Alternative Delivery Model Strategy	There was one high priority issue which was around a lack of management oversight of any issues which may arise in the delivery of the strategy.	Requires Improvement	1	1	0
ER14 Opening of the Elizabeth Line	Crossrail	20 511	Monitoring Professional Service and Framework Development Consultants (FDCs).	There was one medium and three low issues. The medium issue was around inconsistent completion of Works Orders.	Adequately Controlled	0	1	3
ER14 Opening of the Elizabeth Line	Crossrail	20 502	Management of works deferred to LU	The audit identified two high, two medium and one low priority issue. The high priority findings are as follows: 1) Crossrail had not confirmed and communicated the full scope and programme of planned works to be transferred to the Residual Works Team; 2) The RWT sponsorship team does not have an equivalent representative at Crossrail to liaise with.	Requires Improvement	2	3	1

Work in progress at the end of Q2 2021/22

Appendix 3

- There were 16 audits in progress at the end of the quarter

Enterprise risk	Directorate	Ref	Audit title	Objective	Current Status
ER01 Major health, safety or environmental incident or crisis	Finance	21 003	Construction Design and Management (CDM) Regulations	To provide assurance that the arrangements regarding Commercial Development acting as the Client under the CDM Regulations are adequate and effective.	In Progress
ER02 Protecting the wellbeing of our employees	General Counsel	21 042	Gifts and Hospitality	Provide assurance on the adequacy and effectiveness of controls around gifts and hospitality.	In Progress
ER03 Major service disruption	Pan TfL	21 010	Climate Adaptation - Planning	To provide assurance that controls over TfL core systems resilience to climate change are adequate.	Reporting
ER04 Major security incident	Customers, Communication and Technology	20 402	Enterprise IT Security Layer	Provide assurance on the governance, accountability, adequacy, and effectiveness of TfL's enterprise IT security layers.	Reporting
ER07 Financial sustainability	Customers, Communication and Technology	21 026	Clean Mobile Energy (7th review)	Certify costs in respect of EU funding.	Reporting
ER07 Financial sustainability	Customers, Communication and Technology	21 032	Fixed Asset Accounting	To determine the effectiveness of the processes and controls for accounting for TfL's fixed assets.	In Progress
ER07 Financial sustainability	Finance	20 611	Tenant Billing	Provide assurance over the adequacy and effectiveness of the tenant billing and rent collection processes including lessons learned.	Reporting
ER07 Financial sustainability	Finance	21 058	Governance of Single Sourcing Requests	To provide assurance that the governance process in place to manage the use of single sourcing (or non-competitive) procurements is robust and effective and in line with recommendations from previous audit findings on Single Source Requests.	In Progress
ER07 Financial sustainability	Finance	21 059	Governance of Contract Variation Recommendations	To provide assurance that the governance process in place to manage the use of contract variations is robust and effective.	In Progress

Enterprise risk	Directorate	Ref	Audit title	Objective	Current Status
ER07 Financial sustainability	Finance	21 060	Management of Defined Costs -Track Programme Contract	To provide assurance that the controls around the management of defined costs are effective.	In Progress
ER07 Financial sustainability	Human Resources	21 031	Pensioner Payroll	Provide assurance on the adequacy and effectiveness of controls for Pensioner Payroll.	In Progress
ER07 Financial sustainability	Surface Transport	21 064	Additional Dedicated Home to School and College Transport Funding (Part 2)	Provide assurance that conditions attached to the Additional Dedicated Home to School and College Section 31 Grant S31/5137 have been complied with.	In Progress
ER07 Financial sustainability	Finance	21 028	Commercial Development's asset management strategy to maximise secondary revenue income	To provide assurance over the adequacy and effectiveness of Commercial Development's asset management strategy for maximising secondary revenue income and the extent to which these are being delivered in line with the business plan.	In Progress
ER10 Inability to support new ways of working	Customers, Communication and Technology	20 405	Digital accessibility TfL	Provide assurance that the main TfL website is in line with Web Content Accessibility Guidelines (WCAG) 2.1 principles and requirements.	Reporting
ER14 Opening of the Elizabeth Line	Crossrail	20 507	Crossrail HSE framework	To provide assurance over the adequacy and effectiveness of the Health, Safety and Environment framework.	In Progress
ER14 Opening of the Elizabeth Line	Crossrail	21 062	Disposal of Temporary Assets	To provide assurance that the controls around the disposal of temporary assets are adequate and effective.	In Progress

Work planned to start in Q3 2021/22

Appendix 4

- There are 19 audits planned to start during the quarter

Enterprise risk	Directorate	Ref	Audit title	Objective
ER01 Major health, safety or environmental incident or crisis	Safety, Health and Environment	21 005	Strategic Review of the SHE management system	Provide assurance over the adequacy and effectiveness of the updated Safety, Health and Environment management system.
ER02 Protecting the wellbeing of our employees	Human Resources	21 007	Core Line Manager Training (staff wellbeing)	Provide assurance on the adequacy and effectiveness of online manager training to support wellbeing of staff.
ER03 Major service disruption	Pan TfL	21 066	Climate Adaptation – roles, responsibilities, and knowledge	To provide assurance that roles and responsibilities around Climate Adaptation are clearly allocated and understood.
ER04 Major security incident	Customers, Communication and Technology	21 012	Cubic entity - review of systems	Assess the adequacy and effectiveness of access controls, availability and performance of systems.
ER04 Major security incident	Customers, Communication and Technology	21 014	Data Loss Prevention	Assess the adequacy and effectiveness of data leakage prevention controls in relation to personal, sensitive and confidential data.
ER04 Major security incident	Customers, Communication and Technology	21 016	Security of Bring your Own Devices (BYOD)	Provide assurance on the effectiveness of the strategy to ensure security of TfL data during use of BYOD.
ER07 Financial sustainability	Customers, Communication and Technology	21 029	LTM Security of Valuable Collections	Provide assurance on the adequacy and effectiveness of controls in place supporting Collections.
ER07 Financial sustainability	Finance	21 027	Commercial Development Financial Sustainability Plan	To provide assurance that the controls over the Financial Sustainability Plan in Commercial Development are adequate and effective.
ER07 Financial sustainability	Finance	21 057	Effectiveness of the due diligence process for new tenants	Provide assurance on the adequacy and effectiveness of Commercial Development's due diligence process for new retail tenants including financial vetting.
ER07 Financial sustainability	Finance	21 065	Tenant Billing Lessons Learned	Provide assurance over lessons learned on the tenant billing and rent collection processes and procurement.

Enterprise risk	Directorate	Ref	Audit title	Objective
ER10 Inability to support new ways of working	Finance	21 038	SAP Business Planning Consolidation Tool (BPC)	To assess and evaluate the adequacy of the development and implementation of the SAP BPC enhancements, the preventative controls for daily loads of data, and the roles and accountabilities (RACI) for access controls.
ER10 Inability to support new ways of working	Finance	21 039	The Estate Management Strategy	Provide assurance on the adequacy and effectiveness of the Estate Management Strategy to show efficiency - cost per full time equivalent space and to reduce associated head office running costs.
ER13 Governance and controls suitability	Customers, Communication and Technology	21 045	Recruitment	Provide assurance on the adequacy and effectiveness of controls within recruitment.
ER13 Governance and controls suitability	General Counsel	21 063	Conflicts of Interest	Provide assurance of the adequacy and effectiveness of controls around conflicts of interest.
ER14 Opening of the Elizabeth Line	Crossrail	21 048	Crossrail Complaints Commissioner Accounts	Provide assurance on the accuracy of the Crossrail Complaints Commissioners Accounts for 2020/21.
ER14 Opening of the Elizabeth Line	Crossrail	21 049	Employer's Completion Process	To provide assurance that the controls around the Employer's Completion Process are effective.
ER14 Opening of the Elizabeth Line	Crossrail	21 051	Information Management and Transfer	To review the effectiveness of controls around information management and transfer from Crossrail to TfL.
ER14 Opening of the Elizabeth Line	Crossrail	21 053	Organisational Effectiveness	To provide assurance that the Elizabeth line organisation governance is adequate and effective.
ER14 Opening of the Elizabeth Line	Crossrail	21 061	Demobilisation of Tier 1 Contractors - phase 2	To provide assurance that the controls around Tier 1 contractor demobilisation are adequate and effective.

Changes to the 2021/22 audit plan

Appendix 5

- There were 14 changes to the plan since the last Committee: 4 new, 6 cancellations and 4 deferral

Ref	Audit Title	Status	Audit Comments
21 063	Conflicts of Interest	New	Provide assurance of the adequacy and effectiveness of controls around conflicts of interest.
21 064	Additional Dedicated Home to School and College Transport Funding (Part 2)	New	Provide assurance that conditions attached to the Additional Dedicated Home to School and College Section 31 Grant S31/5137 have been complied with.
21 065	Tenant Billing Lessons	New	Provide assurance over lessons learned on the tenant billing and rent collection processes and procurement.
21 066	Climate Adaptation – roles, responsibilities and knowledge	New	To provide assurance that roles and responsibilities around Climate Adaptation are clearly allocated and understood.
21 006	Call it Out campaign	Deferred	Confirmed with Head of Counter-Fraud and Corruption to defer this review as it is not ready for an audit due to known process issues that need rectifying. Will revisit this review as part of annual audit planning for 2022/23.
21 009	Movers and Leavers		Following plan re-prioritisation as a result of resource constraints, this is being deferred. External audit already review aspects of this annually. Will revisit this review as part of annual audit planning for 2022/23.
21 021	London Highways Alliance Contract (LOHAC) Strategy		Due to reprioritisation as a result of resource constraints this audit will be deferred to the 2022/23 plan.
21 033	Record to Account		Following plan re-prioritisation as a result of resource constraints, this is being deferred. It was initially a medium priority. Will revisit this review as part of annual audit planning for 2022/23.
21 022	Payments to contractors	Cancelled	Director of Business Services confirmed that this area will be covered as part of the Procurement Improvement Programme (PIP).
21 002	Carbon Reduction Strategy (including climate adaptation)		This audit is cancelled after discussions with the Chief Safety, Health and Environment Officer and to defer for 12-18 months as the focus is currently on adaptation.
21 020	Software Development of the Contactless Payments System		This audit was cancelled due to the Auditor that was undertaking this review leaving. It was not possible to reschedule for later in the year due to no availability in the business to support. Will be considered for 2022/23 plan.
21 035	Use of Consultants		Following plan re-prioritisation as a result of resource constraints, this is being cancelled. Elements of this will be covered within the PIP phase 2 review. Will revisit a specific review of this as part of annual audit planning for 2022/23.

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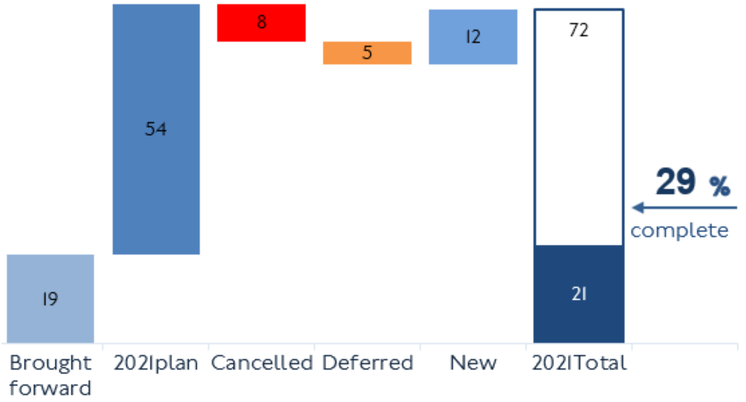
Ref	Audit Title	Status	Audit Comments
21 040	Transformation	Cancelled	Following plan re-prioritisation as a result of resource constraints, this is being cancelled as area still has some work to do. Will revisit this review as part of annual audit planning for 2022/23.
21 054	Transition of Crossrail people		This audit scope will be incorporated into the Organisation Effectiveness audit (21503) and therefore Is cancelled as a separate audit.

Appendix 6: Internal Audit Q2 Summary

Audit plan 2021/22 in Q2



We are behind on the 2021/22 plan which at the end of Period 7 stood at 35 per cent. This is due to a large number of audits carried over from the previous year and the effect of current vacancies in the team and continued difficulties in recruitment of TIS auditors. One of the general auditors ,after completion of her secondment placement, has left and a TIS auditor has now also left TfL.

A number of new audits were added in Q1 and Q2 thereby increasing the overall size of the plan. Since the end of Q2 we have cancelled a number of audits to account for the loss of staff and the new audits added to the plan in Q2.

There were no poorly controlled reports issued. There were two requires improvement audit reports issued in the quarter. These were both against Enterprise Risk 14 and were on related topics “Works deferred to LU” and the “Alternative Delivery Model”. Actions have been agreed with management to address all the issues and are being followed up.

Reports

10 Issued In Q2

48 Issued In the Last 4 Quarters

Audit ratings by Directorate - last 4 Quarters

	PC	RI	AC	WC	M/C
Crossrail		4	2	1	2
CCT		5	1		5
Finance		4	1	1	2
Gen.Counsel		2			2
HR		2	1	1	1
LU			1	1	1
Surface	1	3		1	3
Total	**2.1%**	**41.7%**	**12.5%**	**10.4%**	**33.3%**

- PC Poorly Controlled
- RI Requires Improvement
- AC Adequately Controlled
- WC Well Controlled
- M/C Memo/Consultancy

Action Management

Overall TfL Performance

Measure	No.	%	6-period trend
Closed on time	25	17%	
Extended	111	76%	

11 Overdue

184 Open

By Directorate

	Overdue	Closed on time
CCT	4	17%
Crossrail	3	10%
Finance		0%
Gen. Counsel	4	8%
HR		17%
LU		67%
Major Projects		
Surface		16%
SHE		100%

Based on actions due in the last six periods

- 0-30 days
- 31-59 days
- 60-99 days
- 100+ days

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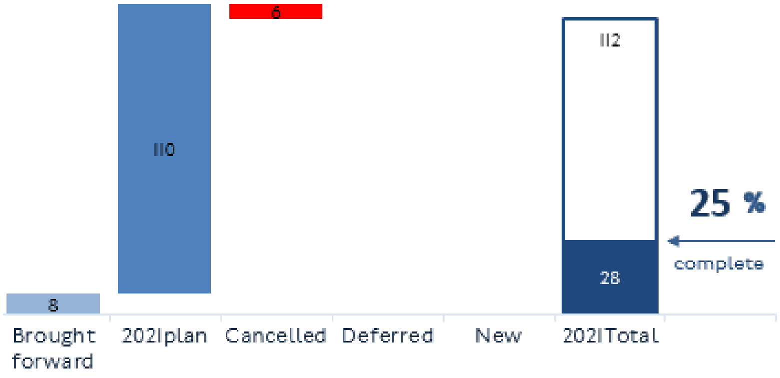
Appendix 7: Integrated Assurance Audit Q2 Summary

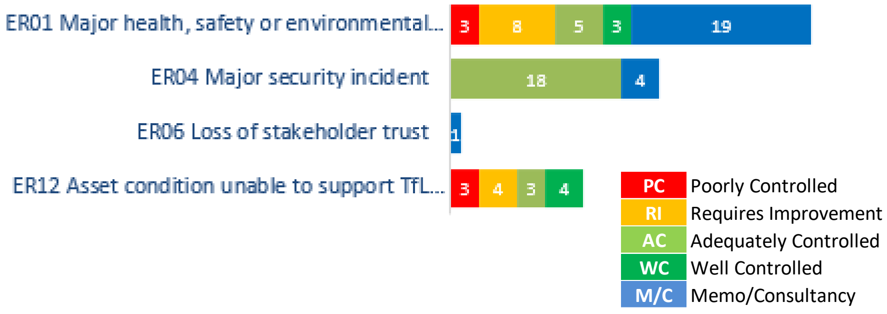
Audit plan 2021/22 in Q2



Audit ratings by Directorate - last 4 Quarters

	PC	RI	AC	WC	M/C
CCT			9		3
Finance	1		2		2
LU	3	8	7	5	18
MPD				1	
Pan TfL			1		1
Surface	2	4	7	1	
Total	**8.0%**	**16.0%**	**34.7%**	**9.3%**	**32.0%**

Audit Rating By Enterprise Risk – last 4 Quarters



Key Highlights

As reported last quarter we remain behind on the audit plan. Two recent recruitments and a greater number of shorter audits in the second half of the year means we are confident of achieving our target.

16 audits were completed in Q2, two were concluded as poorly controlled. Both have programme of actions in place and are discussed in greater detail in the body of the report.
'Commercial Development Estates HSE Compliance'.
'Management of LU station tenants fire risk assessments'.

Three audits were concluded as Requires Improvement:

- LU Operational Communications - The standard requirements were not fully complied with by the Communication Review Groups and SHE teams providing assurance. Systems were in place but were yet to be implemented in all areas.
- LU Track Competence Management - Elements of management system document R2631 had not been fully implemented. Some of the issues raised had been previously identified and will be resolved in a revised version.
- Engineering Temporary Works Coordinator - The internal standards were not fully complied with by Lift and Escalator Engineering, with possible risk of failure and adverse impact on health and safety.

Action Management

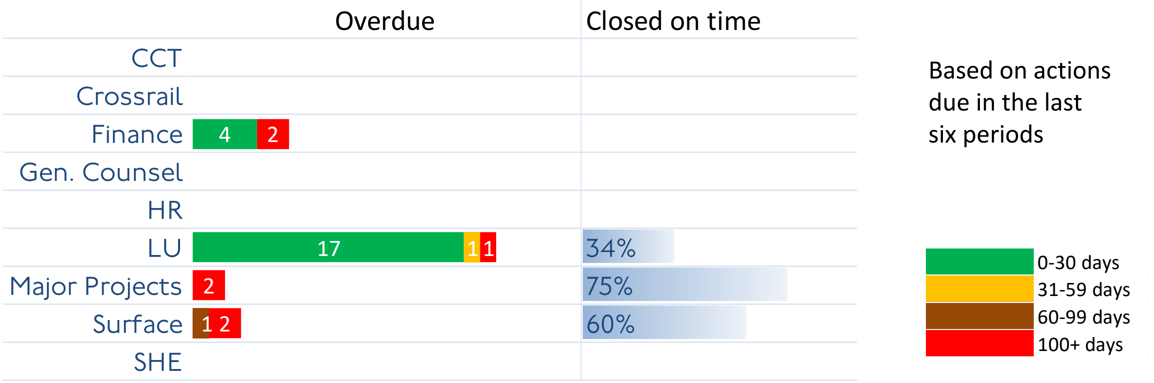
Overall TfL Performance

Measure	No.	%	6-period trend
Closed on time	38	38%	
Extended	26	26%	

30 Overdue

106 Open

By Directorate



From the reviews undertaken in Quarter 2 we are continuing to see evidence of resourcing issues across a number of sub-programmes. This has been raised and discussed at an Executive level meeting and further updates will be provided at future Executive level meetings. We are also seeing a continuing lack of robustness in the preparation and reporting of estimated final costs, with varying degrees of appropriate benchmarking being undertaken to support these.

Sub-Programme Reviews

	Recommendation (Critical Issues)	Commentary
LU Signalling and Control	5 (0)	The London Underground (LU) Signalling and Control asset strategy has moved away from the historical 'big bang' upgrade approach and is now focussed on a "do minimum" approach, making incremental improvements to the existing systems through the replacement of components as the need arises due to end of life and obsolescence. We recommended that the 10 projects within the sub-programme should be managed as a programme to maximise efficiencies and oversight, with suitable levels of staff resource in commercial and project sponsorship to support the complexities, benchmarking requirements and management of the additional projects in the programme.
LU Track and Drainage	3 (1)	The sub-programme is delivering to an acceptable standard, despite challenging circumstances, but delivery confidence for future years is low. The programme is under significant pressure as a result of numerous factors, most notably a depleted number of completed designs as a result of the furloughing of designers for an extended period in 2020. This is resulting in work having to be re-prioritised, delivery opportunities lost and lower value for money. The critical issue raised requires that the impacts from this need to be clearly set out to Directors together with rectification plans for design pipeline. Staff shortages are also being seen in most areas.
Silvertown Tunnel (STT)	4 (0)	Construction is underway, the new Silvertown Tunnel (STT) is due to open in summer 2025. The programme is split into two parts; the main Public Private Partnership (PPP) Contract delivered by Riverlinx; with non-PPP scope, delivered by TfL, including supporting infrastructure works and user charging for Blackwall Tunnel and STT. The sub-programme is well managed and consists of three delivery teams (Riverlinx, STT and Surface Transport Project and Programme Delivery), however, there is no programme level integrated schedule to ensure adequate oversight and scrutiny on delivery and performance, together with the identification of additional tier 1 milestones.

	Recommendation (Critical Issues)	Commentary
Major Stations	3 (0)	This sub-programme mainly consists of Bank Station Capacity Upgrade (BSCU), Elephant & Castle Station Capacity Upgrade (ECSCU) and HS2 Programme Works. It is well managed but the governance structure and reporting of the HS2 Programme appears complicated. Resources remain a challenge, especially the loss of project managers. BSCU continues to be managed well under the Supplementary Agreement with the main contractor, and the focus is now on preparing for the blockade starting in January 2022. The Developer Agreement for ECSCU remains unsigned at the time of drafting this report. In the meantime, early works contracts have been let to take advantage of the BSCU blockade. The TfL-HS2 relationship appears very contractual with HS2 Ltd not sharing the detailed programme, making design changes without appropriate impact assessments and challenging TfL costs. The working relationship needs to be addressed urgently.

Overdue Recommendations

At the end of Q2 there were 46 open recommendations across 10 sub-programmes. Of these, 22 recommendations were overdue against their original completion date, with one of these being a critical issue relating to the Barking Riverside Extension project and the project team being under-resourced.

Customer Feedback Form Summary in Q2 2021/22

Appendix 9

Internal Audit has issued seven questionnaires, two returned (29%), average score of 91.1%
Integrated Assurance has issued 12 questionnaires, six returned (50%), average score of 93.3%

Internal Audit Customer Feedback Summary	Average score	Very Good	Good	Satisfactory	Poor	Very Poor
1) The assignment timing was agreed with me and there was appropriate consideration of my other commitments as the work progressed	90.0%	1	1	0	0	0
2) The assignment was completed and report issued within appropriate timescales	90.0%	1	1	0	0	0
3) Communication prior to the assignment was appropriate, including the dates and objectives	90.0%	1	1	0	0	0
4) Throughout the assignment I was kept informed of the work's progress and emerging findings	60.0%	0	0	2	0	0
5) The Internal Audit team demonstrated a good understanding of the business area under review and associated risks, or took time to build knowledge and understanding as the work progressed	90.0%	1	1	0	0	0
6) The Internal Audit Team acted in a constructive professional and positive manner	100.0%	1	0	0	0	0
7) A fair summary of assignment findings was presented in the report	100.0%	2	0	0	0	0
8) Assignment recommendations were constructive, practical and cost-effective	100.0%	2	0	0	0	0
9) My concerns were adequately addressed and the review was beneficial to my area of responsibility and operations	100.0%	2	0	0	0	0
Total	**91.1%**	**11**	**4**	**2**	**0**	**0**

Integrated Assurance Customer Feedback	Average Score	Satisfied	Dissatisfied	Not applicable
Accuracy of the findings	100.0%	6	0	0
Communication with us during the audit	100.0%	6	0	0
Effectiveness of the management actions	100.0%	6	0	0
Our professional manner	100.0%	6	0	0
Our receptiveness to your concerns	80.0%	4	1	1
Our understanding of your area	100.0%	5	0	0
Scheduling of the audit	83.3%	5	1	0
Time taken to receive the final report	83.3%	5	1	0
Total	**93.3%**	**43**	**3**	**1**

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Appendix 10: Counter-fraud and Corruption Q2 Summary

Fraud investigation

During Q2, four new cases were opened (2020/21 Q2: five new cases) and 15 cases were closed. Of the four newly opened cases, one case related a TfL email account compromise, which led to an unsuccessful attempt to defraud TfL with a fraudulent invoice for payment. Six financial investigations were conducted on 11 subjects and 14 bank accounts. Two Suspicious Activity Report (SAR) checks were undertaken. The Counter-fraud and Corruption (CFC) team also undertook investigations into 31 miscellaneous referrals during the quarter.

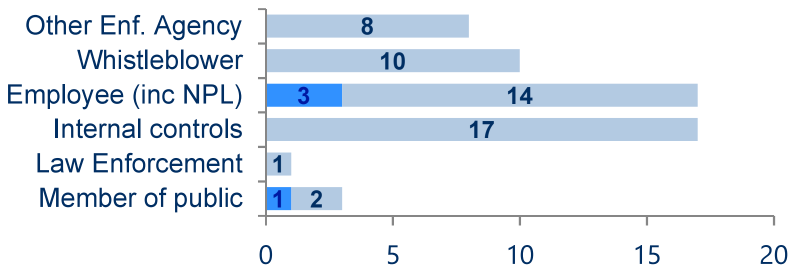
Fraud prevention

- Members of the CFC team have developed a new SharePoint site, which went live in August 2021. The site, which is also embedded within the new TfL Security platform provides fraud and corruption prevention advice to TfL employees, useful links to relevant training packages and latest fraud news and trends affecting businesses and individuals. The site will continue to be developed to include guidance for senior managers of how to effectively conduct business area fraud risk reviews and assessments
- Members of the CFC team met with the Procurement and Supply Chain and Legal teams to discuss the ongoing development of a new Declarations of Interest (DoI) portal and updated DoI guidance. CFC provided feedback on the features of the portal and proposed changes to the guidance. Further meetings will take place in due course.

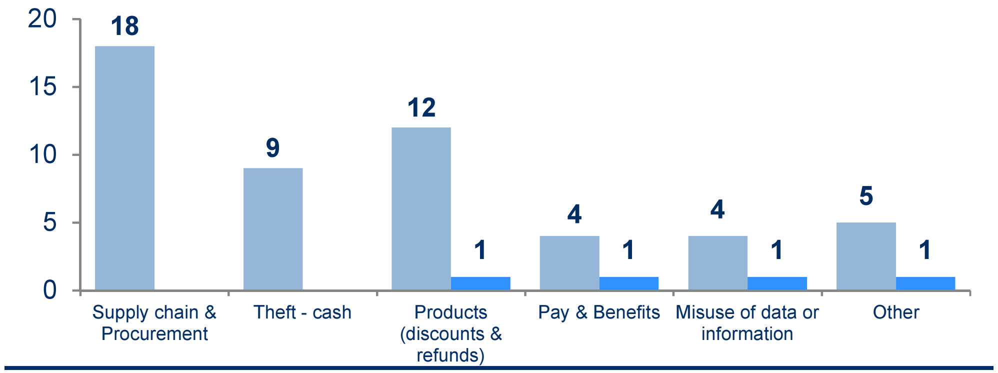
Cases by directorate

Investigations	B/F	New	Closed	C/F
LU	30	1	9	22
Surface Transport	6	0	2	4
CCT	8	1	1	8
Crossrail	3	0	0	3
Major Projects	1	0	0	1
Commercial Dev.	1	0	1	0
General Counsel	0	2	0	2
Human Resources	1	0	0	1
Finance	2	0	2	0
Total	**52**	**4**	**15**	**41**

Cases by source New and Brought Forward



Cases by type New and Brought Forward



Significant closed cases

Case 19-925 Allegation of fraud within applications for private hire driver licensing

A BBC undercover investigation identified that a non-TfL training centre was fraudulently supplying BTec qualifications which were subsequently being used within applications for Private Hire Vehicle Driver Licenses. The case was referred to the Metropolitan Police, who arrested two suspects on suspicion of fraud. Following a review of the evidence the Police deemed the suspects actions as exam malpractice rather than a criminal offence of fraud and the case was closed. Separately, TfL Legal successfully defended several civil court actions brought by drivers and applicants who had their licences or applications revoked as a result of this investigation. The exemption for external qualifications has now been removed. The case is now closed.

Case 18-752 Theft from Passenger Operated Machine (POM) – Oxford Circus

A Customer Service Assistant stole £2300 between August and December 2018. Following a Company Disciplinary Interview, the employee was dismissed, and a case file was submitted to the British Transport Police. The ex-employee was charged with 13 counts of theft. He appeared at Inner London Crown Court on 2 August 2021 whereby he pleaded guilty to all charges. He was sentenced to three months imprisonment, suspended for 18 months and ordered to pay £2540 compensation to TfL. This case is now closed.

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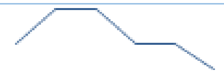
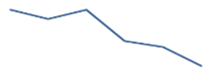
Control Environment Indicators

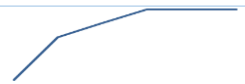
Audit indicators – rolling average (4 Quarters)

	Q1 20/21	Q2 20/21	Q3/20/21	Q4 20/21	Q1 21/22	Q2 21/22	Q3 21/22	Q4 21/22	Trend
Poorly Controlled	5.3%	0.0%	0.0%	0.0%	2.5%*	2.1%			
Requires Improvement or Poorly Controlled	50%	58.6%	59%	50%	50%	43.8%			

Technology

	Q1 20/21	Q2 20/21	Q3/20/21	Q4 20/21	Q1 21/22	Q2 21/22	Q3 21/22	Q4 21/22	Trend
Internal system availability	99.99%	99.96%	99.99%	99.89%	99.87%	99.81%			

Information Governance – rolling total

	Q1 20/21	Q2 20/21	Q3/20/21	Q4 20/21	Q1 21/22	Q2 21/22	Q3 21/22	Q4 21/22	Trend
Number of FOI requests	2687	2551	2315	2205	2286	2488			
On time FOI responses	99.4%	99.7%	99.8%	99.9%	99.9%	99.9%			

* Notes: Correction to last Q1 2021/22 - a mis calculation made last quarter as only took consideration for the Q1 2021/22 instead of rolling 4 quarters.

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Audit and Assurance Committee

Date: **1 December 2021**

Item: **Independent Investment Programme Advisory Group Quarterly Report**

This paper will be considered in public

1 Summary

1.1. This paper presents the Independent Investment Programme Advisory Group (IIPAG) Quarterly Report for December 2021. It describes the work undertaken since the last report presented to the Committee in September 2021.

2 Recommendation

2.1 **The Committee is asked to note the Independent Investment Programme Advisory Group's Quarterly Report and the management response.**

3 IIPAG Quarterly Report

3.1 Under its Terms of Reference, IIPAG is required to produce quarterly reports of its advice on strategic and systemic issues, logs of progress on actions and recommendations and the effectiveness of the first and second lines of project and programme assurance.

3.2 IIPAG's Quarterly Report for December 2021 is included as Appendices 1 and 2 to this paper.

3.3 Figure 1 sets out the status of the IIPAG recommendations at the end of each of the last three quarters, none of the recommendations overdue at the end of Quarter 2 relate to critical issues.

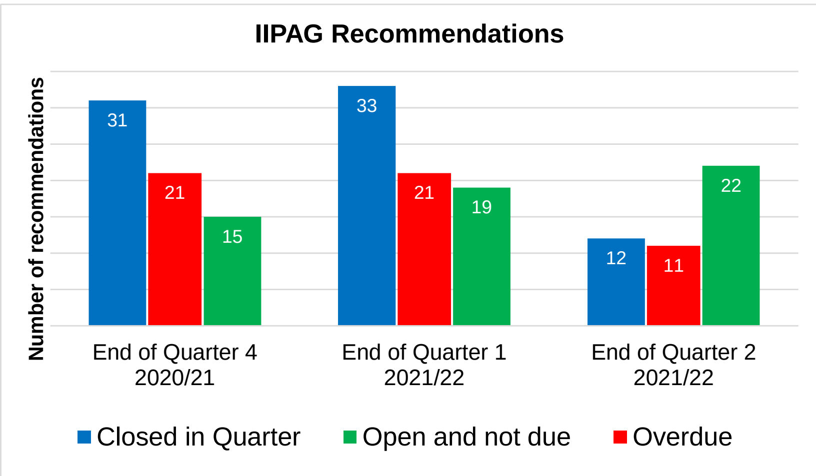

Figure 1: Status of IIPAG Recommendations

3.4 There were no new unagreed or critical IIPAG recommendations made during Quarter 2.

4 Management Response to IIPAG Quarterly Report

Common Themes from Reviews

4.1 We note the identification of the common themes that IIPAG have highlighted. These align with specific recommendations raised from the assurance reviews undertaken. We will continue to monitor the completion of management actions within the business which address the specific recommendations.

Asset Information in TfL

4.2 Outlined below are the actions we are undertaking in response to the recommendations raised by IIPAG in their report on Asset Information in TfL.

4.3 A common State of Good Repair (SoGR) framework has now been agreed for all TfL assets. The framework has been applied to an initial selection of around 20 asset types and is actively being rolled out to more asset groups. The level of maturity, of both asset data and the SoGR metrics, differs by asset type and a number of asset types will need to develop their base data over the coming years to support this approach. However, the SoGR framework has, for the first time, provided a common framework that all TfL asset condition/health is mapped to, and is providing a basis for comparison and alignment of approaches. SoGR is being supported by other metrics, including risk, fault trends and obsolescence; all of which is feeding into the risk-based asset prioritisation which takes account of asset criticality.

4.4 A combined SoGR metric for assets has been added to the TfL scorecard. The top-level metric is a combination of 15 individual asset groups. A dashboard has been developed to monitor and report on the top-level and supporting SoGR metrics. The aim is to improve the information in the dashboard over the coming months and launch it, so it is accessible to all TfL staff before the end of this financial year.

4.5 We fully support the recommendation to hold regular asset health reviews at senior executive meetings. Currently appropriate asset strategy/engineering representatives attend the London Underground (LU) Executive meeting and Surface Transport Leadership meetings. Andy Lord (Managing Director of LU and TfL Engineering) currently attends the TfL Executive Committee meeting. Going forward we will work with the executive groups and this Committee to agree what and when asset health will be on the agenda.

Progress with Value for Money

4.6 As recognised by IIPAG, significant progress has been made since we established our approach to delivering value for money across the Investment Programme at the meeting of the Committee in December 2020. The reduction in TfL revenue associated with the coronavirus pandemic has made the financial imperative for change even more urgent. This has led to a strong focus from senior management and the associated cultural shift necessary for driving through fundamental change. We now have the governance structures in place in order to continue delivering greater value for money, and this work will continue as we enact the Capital Efficiencies Plan submitted to the Department for Transport in July 2021.

4.7 Through to the end of 2021, we will be implementing processes which will ensure more robust scrutiny of project business cases and stage gate reviews, alongside specific value for money challenges. Moving into 2022, focus will be on implementing a pan-TfL standardised outcome framework which can be used during business planning and prioritisation, improving our approach to benefits tracking and aggregation, and exploring how equity is considered in programme and portfolio planning.

List of appendices to this report:

Appendix 1: Independent Investment Programme Advisory Group - Quarterly Report to Audit and Assurance Committee December 2021

Appendix 2: Common Themes

List of Background Papers:

None

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Independent Investment Programme Advisory Group – Quarterly Report to Audit and Assurance Committee December 2021

1. Introduction

1.1. This report to the Committee describes IIPAG's activities in September and October 2021. It describes common themes emerging from reviews and reports the outcome of two cross-cutting reviews.

2. IIPAG activity

2.1. In September we engaged in a number of reviews ahead of the October meeting of the Programmes and Investment Committee:

- LU Track and Drainage
- Silvertown Tunnel
- Major Stations
- LU Signalling and Control

2.2. At the time of writing we are undertaking reviews which will be considered at the December meeting of the Programmes and Investment Committee:

- Railway Systems Enhancements
- LU Fleet
- Barking Riverside Extension
- East London Line Housing Infrastructure Fund

2.3. We are engaged in continuous assurance of the 4LM programme. We are also participating in some targeted or interim reviews for Executive governance, covering Central Line Improvement Programme, Piccadilly Line Upgrade and the New Oyster Reader technology project.

2.4. The accompanying paper from TfL Project Assurance describes management progress in implementing IIPAG's recommendations from sub-programme and project reviews

3. Common themes from reviews

3.1. Whilst no new strategic issues have emerged from recent reviews, we have taken stock of our experience over the past 18 months to review the most common themes that arise repeatedly. These fall into the following 8 categories:

- The systems and processes for project control and reporting
- Capability and resources
- Programme/portfolio management
- Costs and risk

- Commercial and contracting strategies
- Governance
- Value for money:
- Information

3.2. Appendix 2 provides further detail on what is covered by these themes. We will be monitoring how often they arise in sub-programme and project reviews, and will also ensure that our cross-cutting work continues to address these issues.

4. Progress with cross-cutting work

4.1. We have completed two further reports, on Asset Information and Progress on Value for Money, which were submitted to the October meeting of the Programmes and Investment Committee.

<u>Asset Information</u>

4.2. Our report on Asset Information is the first part of a two part study into the way information on assets is generated and used within TfL. This first part considers how data on asset condition, risk and performance (asset health) is presented at senior level, how it is interrogated and used, and how this translates to business decisions. The second part of the study, later this year, will consider how asset information is generated, its completeness and quality.

4.3. TfL is an asset intensive organisation: reliable asset performance underpins customer experience across all modes and the business spends a significant proportion of its budget on sustaining and renewing its fixed and mobile assets. With this background, the importance of maintaining a good understanding at senior level of current asset health and trends is evident. In addition, good practice suggests that visible senior level leadership and commitment is crucial to effective asset management.

4.4. We found that improvements have been made in several areas over the past two years. For example, awareness of asset health and focus on asset issues at senior level has been increasing and spending is being prioritised on renewals through the business planning process. Concerns remain however that availability of transparent asset data at senior level and visibility of asset health 'on the ground' and its implications, in terms of costs and impact on service levels, could be improved.

4.5. We found that improving the visibility of asset health and risks at senior level could be greatly helped by developing a common set of metrics across the whole of TfL, such as the 'state of good repair' used by Surface for their highways assets, by which key trends could be tracked. Such metrics could be consolidated into an assets' scorecard which, if well designed, would aid concise communication of asset information at senior level.

4.6. We recommended reviews of asset health at senior executive meetings and annually at the Programmes and Investment Committee. We also suggested inclusion of designated asset strategy or engineering specialists in senior level meetings to aid focus on asset issues, demonstrate TfL's commitment to sound management of its asset base and create a direct ‘flow down’ to the business from the highest level on asset related issues.

Progress with Value for Money (VfM)

4.7. IIPAG reported in spring 2020 on TfL’s approach to value for money, focussing on business cases and prioritisation. The 2021 review assessed what progress had been made. We found that TfL has established a comprehensive improvement programme, with appropriate governance to ensure senior level oversight and promotion of the various initiatives. Some significant progress has been made, notably in creating a stronger VfM culture, developing business case guidance and training, strengthening the project initiation stage, and in prioritisation. There is more to do, and we made recommendations for strengthening governance, further clarifying TfL’s VfM approach, enhancing skills and improving data and evidence.

4.8. We are currently undertaking a review of lessons learned from recent major procurements, and we are finalising our report on Contract Forms. We are also scoping a follow up review on the Procurement and Supply Chain transformation programme, and the second part of our review of Asset Information.

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Appendix 2: Common Themes

This appendix provides further detail on the common themes emerging from assurance reviews. These themes are not universal across TfL and there is much that is going well.

1) The systems and processes for project control and reporting
    a) Project, programme and portfolio hierarchy.
    b) Scope, cost and schedule baselines.

2) Capability and resources - most frequently shortages in TfL’s own engineering, commercial, and project management resources.

3) Portfolio management
    a) Existence/quality of overarching strategies.
    b) Programme prioritisation.
    c) Pipeline planning.

4) Costs and risk
    a) Robustness of cost estimates.
    b) Tracking of costs against estimates and the reasons for changes.
    c) Adequacy of risk allowances.
    d) Optimism in forecast progress and spend.

5) Commercial
    a) Commercial and contracting strategies.
    b) Strategic supply chain relationship.

6) Governance
    a) Complexity and integration of financial, commercial and project approval processes.
    b) Rigour of Pathway gates and challenge in decision making at key project stages (especially in the face of schedule pressure).
    c) Governance structures, clarity of roles and responsibilities.

7) Value for money (VfM)
    a) TfL’s VfM policy and approach.
    b) Robust, comprehensive and up-to-date business cases.
    c) Consideration of VfM in prioritisation.
    d) Treatment of social and environmental objectives and benefits.

8) Information
    a) Understanding of asset health.
    b) Project and programme reporting.
    c) Post investment evaluation/lessons learnt.

Improvements are underway to address many of these issues, and we note that steps are being taken to ensure that these efforts are appropriately integrated.

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Audit and Assurance Committee

Date: **1 December 2021**

Item: **Elizabeth Line Programme Assurance Quarter 2 Report 2021/22**

This paper will be considered in public

1 Summary

1.1 This paper provides an overview of programme assurance activity in relation to the Elizabeth line during Quarter 2 of 2021/22.

1.2 A paper is included on Part 2 of the agenda which contains supplementary information that is exempt from publication by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972 in that it contains information relating to the business affairs of TfL. Any discussion of that exempt information must take place after the press and public.

2 Recommendation

2.1 The Committee is asked to note the paper and the supplemental information in Part 2 of the agenda.

3 Background

3.1 The Crossrail Integrated Assurance Framework (IAF) was established in June 2019, based on a Three Lines of Defence (3LoD) model comprising:

(a) Line 1 - Crossrail management controls functions;

(b) Line 2 - Crossrail's Project Programme Assurance (PPA) team; and

(c) Line 3 - TfL Internal Audit and (as of January 2021) a sub-group of the Independent Investment Programme Advisory Group (IIPAG-CRL).

3.2 This paper reports specifically on Line 2 (PPA), Line 3 (Internal Audit) and Line 3 (IIPAG-CRL) assurance progress.

3.3 The teams meet periodically with a panel of advisers and the Project Representative to ensure that assurance is carried out by the right team, at the right time and to avoid duplication and minimise overlap of effort. This forum has recently been renamed from CPAG (Crossrail Programme Assurance Group) to ELPAG (Elizabeth Line Programme Assurance Group), highlighting the shift from Crossrail Construction Project to cover the full operation of the Elizabeth line.

4 Line 2 (PPA) Assurance

4.1 As part of the transition arrangements between TfL and Crossrail, Line of Defence 2 (LoD2) has now transferred to TfL's Risk and Assurance Directorate.

4.2 Overall, the Elizabeth line is now at a more mature level of readiness and while there are several performance and reliability issues to be addressed, there is increased confidence that the railway is on track to Revenue Service, and the question is now one of precise timing of its opening.

4.3 LoD2 assurance continues to be undertaken, principally, on a real-time, continual assurance basis, through participation in project meetings and related activities, and providing real-time feedback to the project and operational teams. Additionally, where deemed appropriate, a series of Targeted Assurance Reviews will be recommended where there is evidence of a number of risks to either the entry into Trial Operations or Revenue Service, or to the live operation whilst in Revenue Service. Reporting is through the LoD2 Periodic Assurance Review (PAR) Reports.

4.4 Since the last meeting of the Committee, LoD2 has issued PAR Reports covering Periods 5, 6 and 7 2021/22, which have provided input to the periodic Integrated Assurance Report to the Elizabeth Line Delivery Group and this Committee.

4.5 In relation to the timeline to complete, based upon our Period 7 assessment, it is the opinion of LoD2 assurance that whilst the schedule for completing Crossrail is under significant pressure, considering the balance of risks, it is currently most likely to be on-track to open within 'first half of 2022'. Positive progress has been made in the last period in readiness for Trial Operations. The Trials Operations plan has been split into two phases to enable Phase One, which started on 20 November 2021, with the lower risk trials using staff only, and Phase Two to commence in January 2022 following the completion of a number of critical activities during December 2021. This enables mass evacuations using large numbers of public volunteers to be carried out. In taking this approach, the integrity of the Trial Operations plan remains intact, whilst also allowing the completion of critical works.

4.6 Regarding cost to complete, current costs and financial commitments are still within the approved budget. Costs to complete the works remain under pressure but cost reduction works are ongoing, as are contract close out negotiations with the Tier 1 suppliers ensuring all remaining costs are fully understood and provisioned for.

4.7 On completion of the works, the project has continued to make significant progress since the last report, key progress highlights including:

(a) the introduction of a new release of Siemens software ELR100, improving the system reliability performance;

(b) Trial Running in the Central Operating Section continues with increasing periods of 12 trains per hour;

(c) stations progress continues with the total transfer of responsibility for eight stations to their respective Infrastructure Manager; four stations to Rail for London (Infrastructure) Limited – Paddington, Woolwich, Custom House and Abbey Wood; and four stations to London Underground (LU) – Tottenham Court Road, Farringdon, Liverpool Street and Whitechapel; and

(d) maintenance productivity and access continue on the trajectory to support projected Revenue Service requirements.

4.8 Key indicators of maintenance performance are being refined to provide greater clarity around the average fault identification and diagnosis interval and the overall fault-to-fix cycle time.

4.9 The upcoming LoD2 assurance activity is currently being planned and approval will be sought with all key stakeholders.

5 Line 3 (TfL Internal Audit) Assurance

5.1 The Crossrail Internal Audit Plan for 2021/22 was approved by the Crossrail Audit and Assurance Committee on 16 March 2021.

5.2 In Quarter 2 2021/22 (Q2) we issued three reports, have two in progress and have a number of audits being planned to commence in Quarter 3 2021/22 (Q3).

Audit Delivery

5.3 Summary information of the three reports issued in Q2 are set out below.

5.4 The Alternative Delivery Model Strategy audit was found to be ‘Requires Improvement’ and there was one high priority issue which was around a lack of management oversight of any issues which may arise in the delivery of the strategy.

5.5 The Monitoring Professional Service and Framework Development Consultants audit was found to be “Adequately Controlled’. There was one medium and three low priority issues. The medium issue was around inconsistent completion of Works Orders.

5.6 The Management of works deferred to LU audit was found to be ‘Requires Improvement’ and identified two high, two medium and one low priority issue. The high priority findings are:

(a) Crossrail had not confirmed and communicated the full scope and programme of planned works to be transferred to the Residual Works Team (RWT); and

(b) the RWT sponsorship team does not have an equivalent representative at Crossrail to liaise with.

5.7 A full list of audit reports issued during Q2 is included as Appendix 1. Audits in progress at the end of Q2 is included as Appendix 2, work planned to start in Q3 is included as Appendix 3, and details of changes to the Audit Plan is included as Appendix 4.

Management Actions

5.8 There were no actions overdue.

Changes to the Audit Plan

5.9 Line of Defence 3 (LoD3) (TfL Internal Audit) regularly review and update the Audit Plan throughout the year, in liaison with management, to reflect changing business priorities. There was one change to the plan in Q2.

6 Line 3 (IIPAG-EL) Assurance

6.1 The terms of reference of the IIPAG-EL sub-group require the group to provide a look ahead of its proposed areas of interest and work. The work plan has been integrated into the overall Integrated Audit and Assurance Plan, which is maintained by LoD2 and is reviewed and coordinated regularly within the Elizabeth Line Programme Assurance Group coordinated by LoD2/ PPA. Progress with the three main areas of focus is summarised as follows:

(a) Baseline 1.2 (BL1.2) – the sub-group has received regular updates from LoD2, the Project Representative and other stakeholders with a particular interest in the transition period between Trial Running and Trial Operations. Details have been reviewed and feedback provided to the Trial Operations Readiness review. A number of recommendations were made together with LoD2 in support of the transition to Phase 1 of Trial Operations;

(b) supporting the work of the Railway Assurance Board – Crossrail (RAB-C) and its successor, the Integrated Technical Assurance Panel (ITAP) – the sub-group has engaged with RAB-C and ITAP, gaining an understanding of the planning arrangements and implications for closing out the remaining assurance dependencies. This continues to be a key area of focus for the Assurance team; and

(c) digital railway – the sub-group has completed its review of this area including an assessment of cyber security concerns.

6.2 The overall assessment by LoD3 (IIPAG-EL sub-group) is that the overall assurance framework has continued to operate effectively over the last quarter.

7 Integrated Audit and Assurance Plan

7.1 The 3LoD IAF maintains an integrated plan of assurance activity coordinated through the Elizabeth Line Programme Assurance Group forum. The areas proposed to be covered prior to Revenue Service is attached as Appendix 5.

List of Appendices to this report:

Appendix 1 – Line 3 (TfL Internal Audit) Reports issued by the end of Q2 2021/22
Appendix 2 – Line 3 (TfL Internal Audit) Work in progress at the end of Q2 2021/22
Appendix 3 – Line 3 (TfL Internal Audit) Work due to start in Q2 2021/22
Appendix 4 – Line 3 (TfL Internal Audit) Changes to the 2021/22 Audit Plan
Appendix 5 – Audit and Assurance List

Supplemental information on Part 2 of the agenda

List of Background Papers:

None

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Internal Audit reports issued in Q2 2021/22 **Appendix 1**

- There were three reports issued during the quarter

Enterprise Risk	Directorate	Ref	Audit title	Summary of Finding	Conclusion	H	M	L
ER14 Opening of the Elizabeth Line	Crossrail	20 504	Alternative Delivery Model Strategy	There was one high priority issue which was around a lack of management oversight of any issues which may arise in the delivery of the strategy.	Requires Improvement	1	1	0
ER14 Opening of the Elizabeth Line	Crossrail	20 511	Monitoring Professional Service and Framework Development Consultants	There was one medium and three low priority issues. The medium issue was around inconsistent completion of Works Orders.	Adequately Controlled	0	1	3
ER14 Opening of the Elizabeth Line	Crossrail	20 502	Management of works deferred to LU	The audit identified two high, two medium and one low priority issue. The high priority findings are as follows: 1) Crossrail had not confirmed and communicated the full scope and programme of planned works to be transferred to the Residual Works Team (RWT); 2) the RWT sponsorship team does not have an equivalent representative at Crossrail to liaise with.	Requires Improvement	2	3	1

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Work in progress at the end of Q2 2021/22

Appendix 2

- There were two audits in progress at the end of the quarter

Enterprise risk	Directorate	Ref	Audit title	Objective	Current Status
ER14 Opening of the Elizabeth Line	Crossrail	20 507	Crossrail HSE framework	To provide assurance over the adequacy and effectiveness of the Health, Safety and Environment framework.	In Progress
ER14 Opening of the Elizabeth Line	Crossrail	21 062	Disposal of Temporary Assets	To provide assurance that the controls around the disposal of temporary assets are adequate and effective.	In Progress

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Work planned to start in Q3 2021/22

Appendix 3

- There are six audits planned to start during the quarter

Enterprise risk	Directorate	Ref	Audit title	Objective
ER14 Opening of the Elizabeth Line	Crossrail	21 048	Crossrail Complaints Commissioner Accounts	Provide assurance on the accuracy of the Crossrail Complaints Commissioner Accounts for 2020/21.
ER14 Opening of the Elizabeth Line	Crossrail	21 049	Employer's Completion Process	To provide assurance that the controls around the Employer's Completion Process are effective.
ER14 Opening of the Elizabeth Line	Crossrail	21 050	Management of Crossrail direct contracts	To provide assurance that the controls around the management of Crossrail direct contracts are adequate and effective.
ER14 Opening of the Elizabeth Line	Crossrail	21 051	Information Management and Transfer	To review the effectiveness of controls around information management and transfer from Crossrail to TfL.
ER14 Opening of the Elizabeth Line	Crossrail	21 053	Organisational Effectiveness	To provide assurance that the Elizabeth line organisation governance is adequate and effective.
ER14 Opening of the Elizabeth Line	Crossrail	21 061	Demobilisation of Tier 1 Contractors -phase 2	To provide assurance that the controls around Tier 1 contractor demobilisation are adequate and effective.

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Changes to the 2021/22 audit plan

Appendix 4

- There was one change to the plan since the last Committee: one cancellation

Ref	Audit Title	Status	Audit Comments
21 054	Transition of Crossrail people	Cancelled	This audit scope will be incorporated into the Organisational Effectiveness audit (21 053) and therefore is cancelled as a separate audit.

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Draft Audit and Assurance List November 2021 – Appendix 5

Audit and Assurance – Areas to be covered

Priority	Topic	Targeted Review / Continuous Assurance	Who	When
1	Reliability of Performance (System, Train, Integration)	Continuous Assurance	LoD2 (Line 2 Assurance) / IIPAG (Independent Programme Assurance Group)	Ongoing
2	Romford Control Centre (RCC). Resilience of team (numbers, training, capacity) to deal with busy operations & incidents (in view of number of Operational Restrictions, Alarms during the transition)	Targeted Review	LoD2 / IIPAG	Nov/Dec
3	Gate process for readiness assessment as we go through the Phases of Trial Operations, Revenue Service and into Stage 5b, c.	Continuous Assurance	LoD2 / IIPAG	Ongoing
4	Technical and Safety Assurance and Approvals for entry into Trial Operations and Passenger Service – including ORR, RfLi acceptance	Continuous Assurance	LOD2 / IIPAG	Ongoing
5	RFLI Maintenance effectiveness (People, Process, Systems, Suppliers)	Targeted Review	LoD2 / IIPAG	Dec/Jan
6	Schedule review – Assurance of the Schedule and Cost of the revised schedule	Continued Assurance	LoD2 / IIPAG	Ongoing
7	TfL Procurement and Supply Chain Capacity to take on the procurement of Elizabeth Line's existing contracts.	Audit	Audit Team	Dec/Jan
8	Assurance of works handed over to the Residual Works team (scope, cost, risk)	Project Assurance	TfL Project Assurance	TBC
9	Information transfer – (excluding asset data), Emails, Contract documents (Soft & hard copies), Contract negotiation information	Audit	Audit Team	Dec/Jan

Audit and Assurance – Areas to be covered

Priority	Topic	Targeted Review / Continuous Assurance	Who	When
11	Operational Readiness (People, process, interfaces) of all parties to receive the Elizabeth Line (RFLi, LUL, Network Rail, TfL, MTR) as we integrate the later Stages 5b, 5c.	Targeted Review	LoD2 / IIPAG	Feb/Mar
12	Management of Direct Contracts (Bond Street & Canary Wharf) **(Under Review due to potential overlap)**	Audit	Audit Team	Feb/Mar
13	Organisation Effectiveness **(Under review due to potential overlap)**	Audit	Audit Team	Nov/Dec

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TRANSPORT FOR LONDON
EVERY JOURNEY MATTERS

Audit and Assurance Committee

Date: **1 December 2021**

Item: **Finance Control Environment Trend Indicators**

This paper will be considered in public

1 Summary

1.1 This paper provides a report to the Committee on the Financial Control Environment Trend Indicators.

2 Recommendation

2.1 **The Committee is asked to note the paper.**

3 Background

3.1 This paper reports on the Quarter 2 Financial Control Environment Trend Indicators, that informs the Committee as to the control environment across Finance, Business Services and Procurement.

List of appendices to this report:

Appendix 1: Financial Indicators Dashboard

List of Background Papers:

None

Contact: Raj Sachdeva, Group Finance Director
Email: rajivsachdeva@tfl.gov.uk

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TfL Audit and Assurance Committee
Performance Metrics
Quarter 2, 2021/22

1 December 2021

Appendix 1

Audit Committee performance metrics to Q2, 2021/22

Total operating income: £101m lower than the Revised Budget. Passenger income is £1,250m in the year to date, which is almost double that from last year, but (£120m) below Budget. This is driven by lower journeys across all modes, partly a result of the delay to Step 4 of the Government's roadmap, followed by the holiday season. Journeys have increased since the end of the Summer, but Tube journeys are not yet reaching expected levels. Other operating income is £19m higher than Budget, driven by higher Road User Charging, media and property income.

Operating costs £68m below Budget: lower underlying costs (£30m), timing differences (£9m) and release of central contingency held to mitigate high risk uncertainties e.g. RUC revenues (£30m).

Total capital expenditure (excluding Crossrail): £72m lower than Budget, largely a result of project slippage and deferrals, partly driven from the short term and stop-start nature of the current funding agreements.

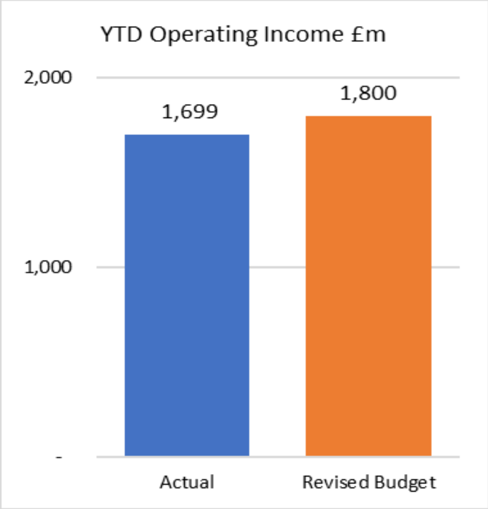
Forecasting accuracy

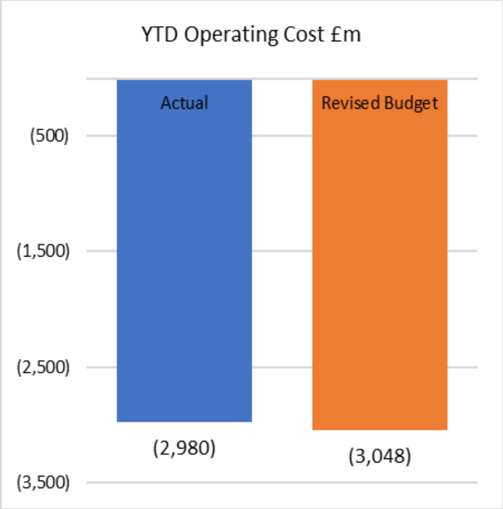
Quarterly Forecasting Accuracy*

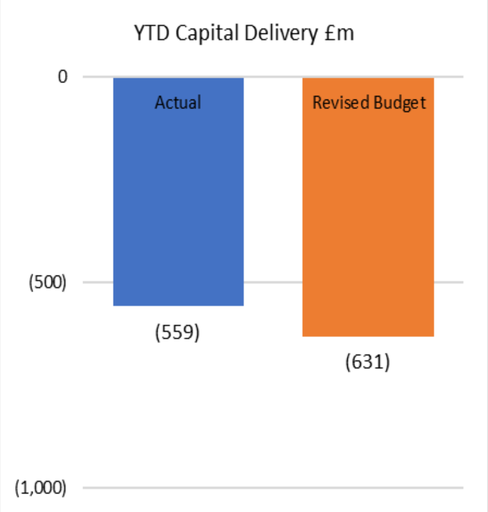
£m	*Q3 2021*	*Q4 2021*	*Q1 2022*	*Q2 2022*
Operating Income	**697**	**699**	**800**	**899**
Variance to reported Budget	100	29	196	(137)
Operating Cost	**(1,517)**	**(1,967)**	**(1,487)**	**(1,494)**
Variance to reported Budget	29	268	71	75
Capital Delivery**	**(289)**	**(517)**	**(271)**	**(288)**
Variance to reported Budget	27	20	191	202
Net Cashflow	**87**	**(78)**	**42**	**74**
Variance to reported Budget	98	(5)	(163)	44

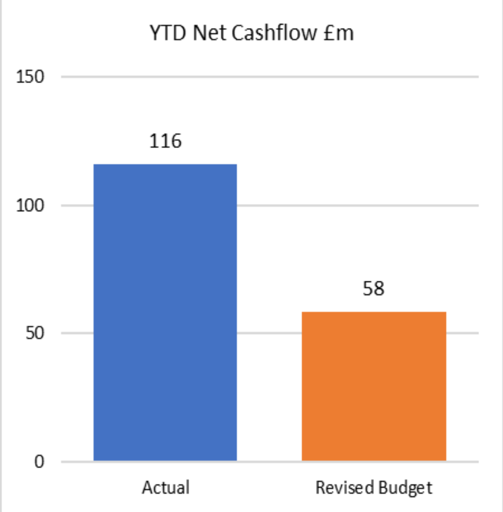
YTD Forecasting Accuracy - Q2 2021/22

£m	*YTD*
Operating Income	
Actual	1,699
Revised Budget	1,800
Operating Cost	
Actual	(2,980)
Revised Budget	(3,048)
Capital Delivery	
Actual	(559)
Revised Budget	(631)
Net Cashflow	
Actual	116
Revised Budget	58









*Reporting is against the 2020/21 Revised Budget for Q3-Q4, the March TfL Budget for Q1 2022 and the 2021/22 Revised Budget for Q2 2022

** Total TfL capital expenditure excludes amounts relating to Crossrail

Audit Committee performance metrics to Q2, 21/22

Value of open items > 30 days on the bank reconciliation has remained steady but volume has dropped significantly as a large volume of postings with low value were cleared in Q2 . The number of open items continues to be reviewed by the BSF O2C team to actively clear out the more than 30 days.

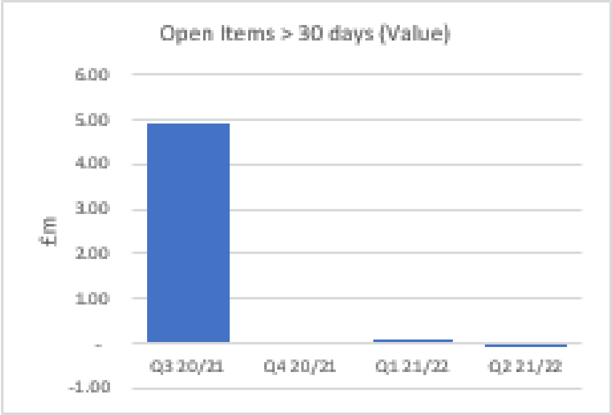
The volume of manual postings have decreased significantly from 1.8k in Q1 to 0.3k in Q2 due to lower number of invoices raised in Q1 vs Q4 of last fiscal year which were settled in the succeeding quarter.

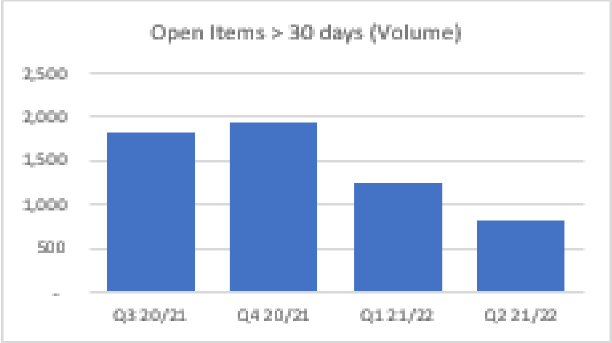
Finance/BSF will continue to review manual postings to seek further automation opportunities.

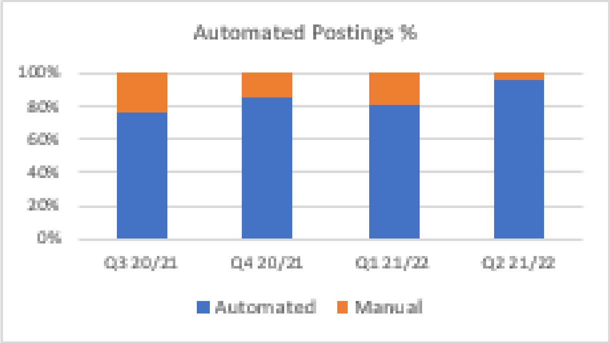
Processing payments

Quarterly Figures

£m	Q3 20/21	Q4 20/21	Q1 21/22	Q2 21/22
Open Items < 30 days (£m Value)	(18.6)	(7.8)	(11.8)	(11.0)
Open Items > 30 days (£m Value)	4.90	0.05	0.06	(0.09)
Open Items < 30 days (Volume)	935	946	871	1,816
Open Items > 30 days (Volume)	1,819	1,927	1,263	817
Automated Postings %				
Automated	6,710	8,946	7,145	8,512
Manual	2,075	1,524	1,782	339
Automated	76%	85%	80%	96%
Manual	24%	15%	20%	4%







Audit Committee performance metrics to Q2, 21/22

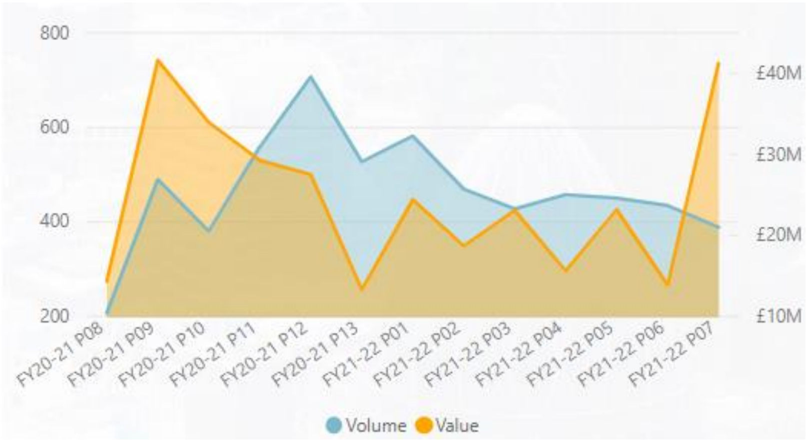
Retrospective PO by Value and Volume:
- Increase in retrospective PO in P7 due to a £1 4m Arriva Rail London payment
- Monitoring and behaviour change initiative continues with the Procurement and Supply Chain Improvement Programme deploying new tools (Ariba) and processes over the next FY.

Benefits Delivery:
- Benefit delivery forecast continues to increase as Benefit Methodology embeds and work continues with finance to reconcile savings.

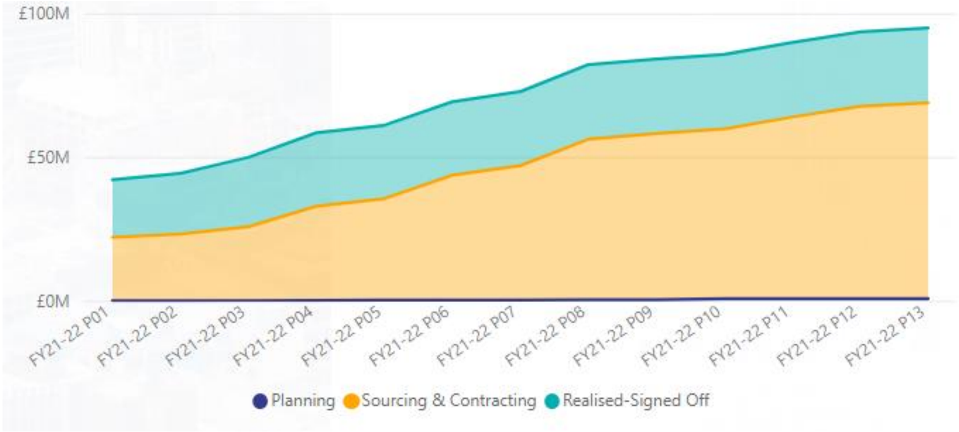
Non Competitive Transaction (NCTs) by Value and Volume:
- Direct award volume falls in period 7

Procurement activity

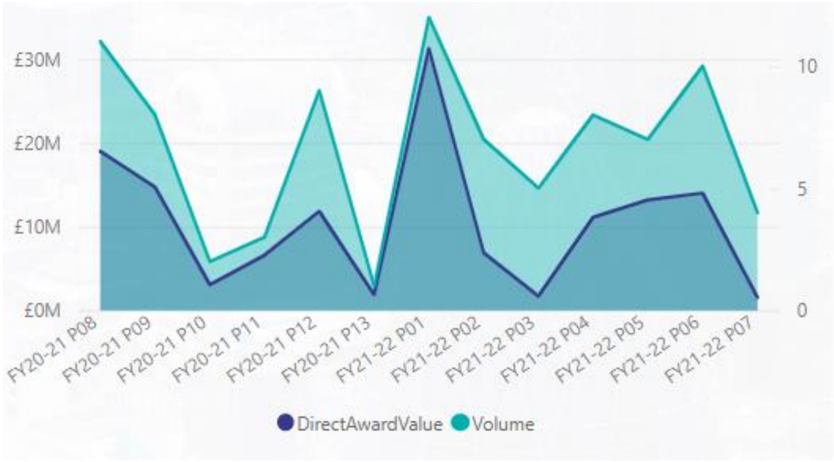
Retrospective PO Spend



Benefit Delivery

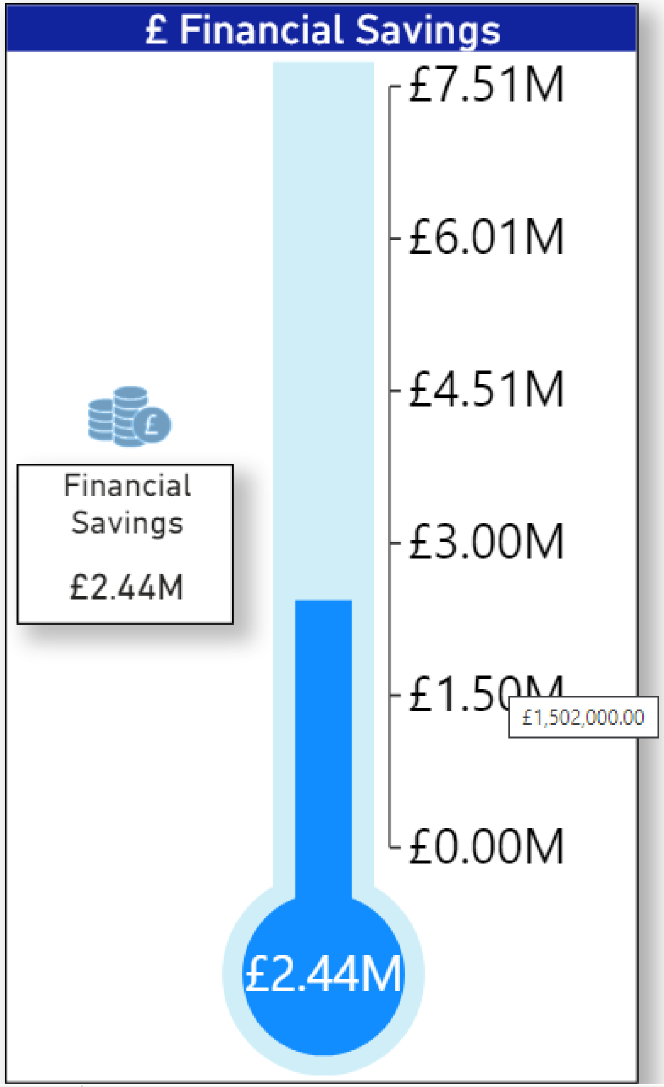


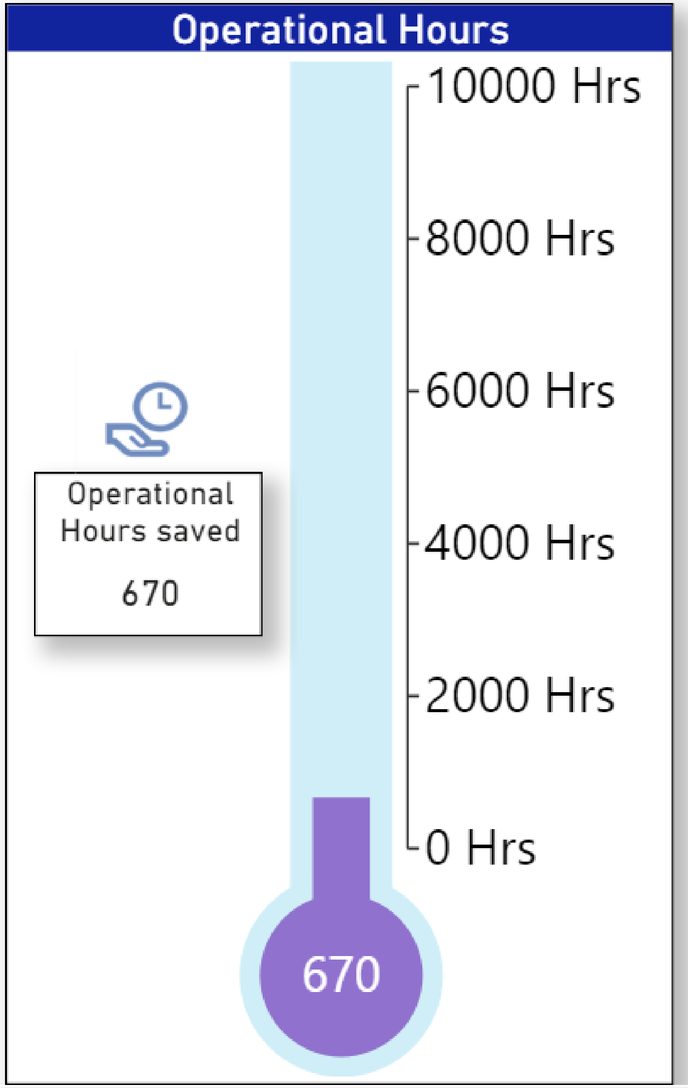
Direct Awards (Previously NCTs)



Audit Committee performance metrics to Q2, 21/22

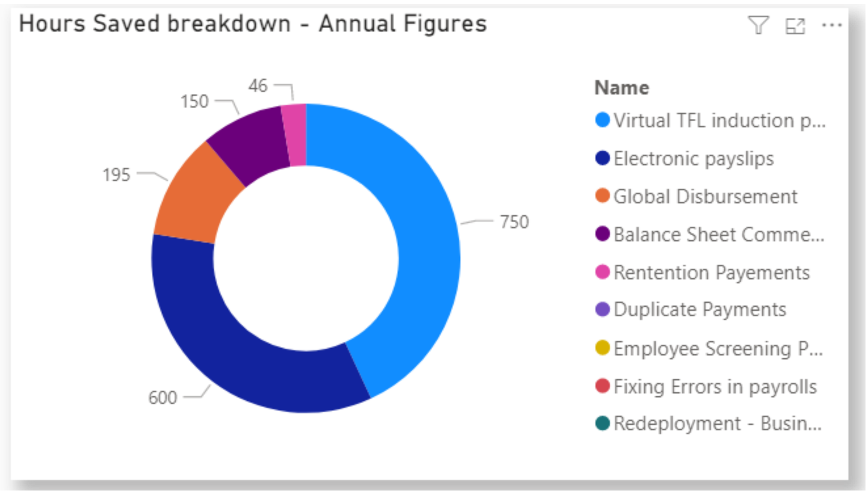
Business Services Function: additional savings and cost avoidance (summary)

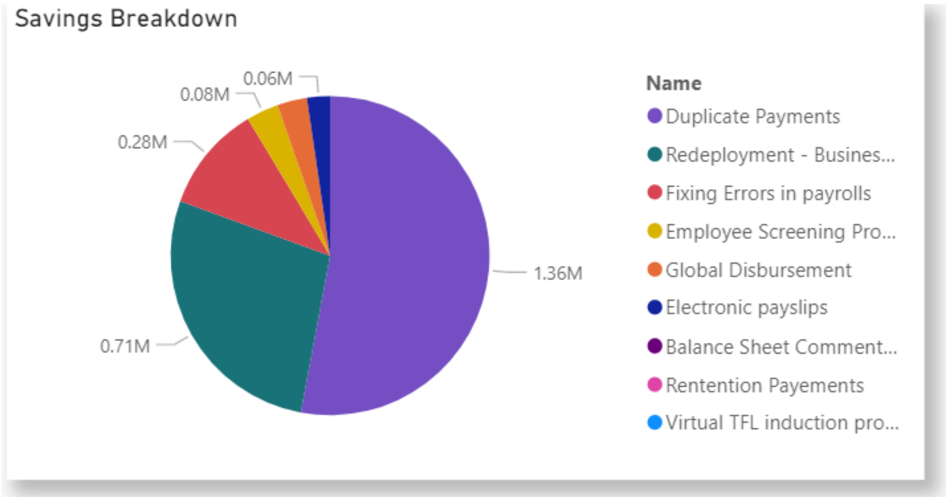




Audit Committee performance metrics to Q2, 21/22

Business Services Function: additional savings and cost avoidance (breakdown)





	Area	Name	Benefits	Sum of Financial
1	Purchase to Pay	Duplicate Payments - Identified and stopped	Ensured duplicate payments are idendtified and stopped and root cause understood. Most cases this is due to vendors sending the same invoices multiple times for processing.	£1,365,108
2	H2R- Recruitment	Redeployment - Business Savings	Redundancy savings and associated medical cost savings for the business through placement of displaced and medically redeployed employees into suitable alternative employment.	£711,698
3	H2R- Employee Payments	Fixing Errors in payrolls	This is the value of the errors identified whilst checking the payrolls from April 2021 to 31st August 2021. The main reason for this is incorrect input into SAP.	£278,842
4	H2R- Employee Services	Employee Screening Provider	New Vetting partner in place to carry out Pre Employment Checks (including Criminality Checks) for new employees to TfL. The new supplier came in 30% cheaper than the previous supplier and have so far delivered an excellent service in the first 6 Months.	£84,000
5	Order to Cash	Global Disbursement	Savings realised through lower stationary, printing and postage costs	£78,000

Audit and Assurance Committee

Date: **1 December 2021**

Item: **Annual Tax Compliance Update**

This paper will be considered in public

1 Summary

1.1 The purpose of this report is to present to the Committee the key policies and documents that form TfL's Tax Governance Framework and to detail the steps being taken to ensure TfL is compliant with all relevant tax legislation.

2 Recommendations

2.1 The Committee is asked to note the Anti-Tax Evasion Policy and the Anti-Tax Evasion Statement, the TfL Annual Tax Strategy and the Senior Accounting Officer Policy.

3 Background

3.1 Over recent years there has been an increased focus from HM Revenue and Customs (HMRC) to ensure that tax compliance and governance issues are properly considered and understood at the highest levels within organisations. This has included making directors personally responsible for the tax affairs of the companies they manage.

3.2 Due to this increased focus, it is considered appropriate that the Audit and Assurance Committee is provided with an annual tax update focusing on tax governance. It is intended that this annual update will occur each December to coincide with the annual Senior Accounting Officer sign off (see Section 6).

3.3 The Head of Tax and Financial Accounting and the Tax Department hold quarterly update meetings with the statutory Chief Finance Officer to review significant activities and provide an opportunity to discuss all tax risks and concerns.

3.4 The Anti-Tax Evasion and Senior Accounting Officer policies, the Anti-Tax Evasion Statement and the TfL Annual Tax Strategy have all been reviewed by the Tax Department in November 2021, but no changes to the any of them as originally drafted have been considered necessary. The appendices present the documents as originally drafted for information purposes only.

3.5 TfL has a low risk appetite in relation to tax matters and when evaluating tax planning the organisation's reputation and corporate and social responsibilities are always considered. TfL seeks to be transparent and open about its approach to tax which has led to HMRC awarding TfL a 'low risk' tax rating.

3.6 The TfL Tax and Financial Accounting Department manages a range of controls and procedures to ensure that tax risks are mitigated, that TfL is compliant with all relevant tax legislation and that TfL retains its low risk tax status.

4 Anti-Tax Evasion Policy and Statement

4.1 The Criminal Finances Act 2017 created a new corporate criminal offence of failure to prevent either domestic or foreign tax evasion.

4.2 This legislation makes it a criminal offence for a body corporate or partnership to fail to prevent the facilitation of tax evasion by one of its associates (employee, contractor or any other person providing services on their behalf).

4.3 Prosecution under the legislation could lead to:

(a) an unlimited fine;

(b) public record of the conviction; and

(c) significant reputational damage and adverse publicity.

4.4 A defence exists in the legislation for having 'reasonable prevention procedures' in place. The following steps have been taken to ensure TfL is able to demonstrate reasonable prevention procedures are in place:

(a) a six-monthly risk assessment is undertaken by the Tax Department in conjunction with the Risk and Assurance department. This risk assessment considers key areas of risk where tax evasion could be facilitated and ensures that sufficient controls are in place to mitigate the risk. The risks captured on the latest assessment (November 2021) are currently held on TfL's Enterprise Risk Assessment Matrix and have been assessed as low or very low risk.

(b) the Criminal Finances Act 2017 is included in the wider Fraud Awareness ezone training course.

(c) the Anti-tax evasion policy at Appendix 1 is held on the TMS Management System and is linked to both Fraud team and Group Tax SharePoint sites. While not a strict requirement of the legislation it further demonstrates TfL's commitment to having a zero tolerance approach to all forms of tax evasion. Everyone working for, or on behalf of, TfL or any subsidiary company must comply with this policy.

(d) the Anti-tax evasion statement at Appendix 2 has been published on TfL's website.

5 Tax Strategy

5.1 The Finance Act 2016 requires large companies with UK operations (turnover of more than £200m or a balance sheet exceeding £2bn) to publish their tax strategy on their external website and update it annually.

5.2 The tax strategy must include the following details:

(a) the organisation's approach to risk management and governance of its UK tax;

(b) the organisation's attitude towards tax planning;

(c) the level of risk the organisation is willing to accept in relation to UK tax; and

(d) the organisation's approach to dealing with HMRC.

5.3 TfL's tax strategy is included at Appendix 3. This is reviewed annually by the Tax Department and the statutory Chief Finance Officer and is updated each March in accordance with the legislation and is published on TfL's website.

6 Senior Accounting Officer

6.1 The Finance Act 2009 introduced the Senior Accounting Officer (SAO) legislation for large companies. This legislation applies to UK incorporated companies, as defined by the Companies Act 2006, which means that Transport Trading Limited and all corporate subsidiaries must comply with the legislation; the Corporation is exempt.

6.2 The SAO should be the most senior person in an organisation with responsibility for financial accounting and with an overall view of accounting processes. The SAO for the group is the statutory Chief Finance Officer.

6.3 The SAO is required to ensure that appropriate accounting arrangements are in place to enable tax liabilities to be calculated accurately. These arrangements must be monitored on an ongoing basis. The SAO must also provide an annual certificate to HMRC which confirms that appropriate accounting arrangements were in place throughout the financial year or provide an explanation as to why such a declaration cannot be made.

6.4 The certificate for the Transport Trading Limited group must be submitted to HMRC by 31 December each year. Failure to do so will result in a £5,000 penalty which is levied on the SAO personally.

6.5 Details of the TfL SAO sign off procedure are included in the SAO Policy at Appendix 4. The SAO certificate for the accounting period ended 31 March 2021 will be submitted before 31 December 2021.

List of appendices to this report:

Appendix 1: Anti-Tax Evasion Policy
Appendix 2: Anti-Tax Evasion Statement
Appendix 3: TfL Tax Strategy
Appendix 4: Senior Accounting Officer Policy

List of Background Papers:

None

Contact: Patrick Doig, Statutory Chief Finance Officer
Email: PatrickDoig@TfL.gov.uk

Policy

P010 A1 Anti-Tax Evasion Policy

Policy statement

Appendix 1

1 Background

In the light of the Criminal Finances Act 2017, Transport for London has decided to adopt a statement of our corporate value on anti-facilitation of tax evasion. Transport for London strives to conduct all of its business dealings in an honest and ethical manner. The statement governs all our business dealings and the conduct of all persons or organisations who are appointed to act on our behalf.

We require all our employees and any associates who have, or seek to have, a business relationship with TfL and/or any member of our Group, to familiarise themselves with our anti-tax evasion value statement and to act at all times in a way which is consistent with our anti-tax evasion value statement.

2 Anti-tax evasion value statement

Transport for London and its subsidiaries (“TfL”) have a zero-tolerance approach to all forms of tax evasion, whether under UK law or under the law of any foreign country.

Employees and **Associates** (as defined at Section 5) of TfL must not undertake any transactions which:

a) cause TfL to commit a tax evasion offence; or

b) facilitate a tax evasion offence by a third party.

TfL strives to act professionally, fairly and with integrity in all our business dealings and relationships wherever we operate and implementing and enforcing effective systems to counter tax evasion facilitation.

At all times, business should be conducted in a manner such that the opportunity for, and incidence of, tax evasion is prevented.

3 Who must comply with this policy?

This policy applies to all persons working for TfL or on TfL’s behalf in any capacity, including employees at all levels, directors, officers and **Associates**, including but not limited to agency workers, seconded workers, volunteers, interns, contractors, external consultants, third-party representatives and business partners, sponsors or any other person associated with us, wherever located.

4 Who is responsible for this policy?

The Senior Accounting Officer (SAO), supported by the Chief Officers of TfL, has overall responsibility for ensuring that this policy complies with our legal obligations, and for ensuring our employees and **associates** comply with it. The SAO for the group is the Statutory Chief Finance Officer. This policy is adopted by TfL. It may be varied or withdrawn at any time, in TfL's absolute discretion. Employees in leadership positions are responsible for ensuring those reporting to them understand and comply with this policy and are given adequate training on fraud.

5 Definitions

For the purposes of this policy:

Associates includes contractors or an agent of TfL (other than a contractor) who is acting in the capacity of an agent, or any person who performs services for and on behalf of TfL who is acting in the capacity of a person or business performing such services.

Tax Evasion means an offence of cheating the public revenue or fraudulently evading UK tax, and is a criminal offence. The offence requires an element of fraud, which means there must be deliberate action, or omission with dishonest intent.

Foreign Tax Evasion means evading tax in a foreign country, provided that the conduct is an offence in that country and would be a criminal offence if committed in the UK. As with **tax evasion**¸ the element of fraud means there must be deliberate action, or omission with dishonest intent.

Tax Evasion Facilitation means being knowingly concerned in, or taking steps with a view to, the fraudulent **evasion** of **tax** (whether UK **tax** or **tax in a foreign country** by another person, or aiding, abetting, counselling or procuring the commission of that offence. Tax evasion facilitation is a criminal offence, where it is done deliberately and dishonestly.

Tax evasion is not the same as tax avoidance or tax planning. Tax evasion involves deliberate and dishonest conduct. Tax avoidance is not illegal and involves taking steps, within the law, to minimise tax payable (or maximise tax reliefs).

Tax means all forms of UK taxation, including but not limited to corporation tax, income tax, value added tax, stamp duty, stamp duty land tax, national insurance contributions (and their equivalents in any non-UK jurisdiction) and includes duty and any other form of taxation (however described).

6 Corporate responsibilities

TfL has completed a risk assessment and has established procedures governing certain transactions with third parties designed to prevent specific areas of possible tax evasion by a third party.

7 What team members and associates must not do

Employees and **Associates** must at all times adhere to TfL's anti-tax evasion value statement and must ensure that they read, understand and comply with this policy. It is not acceptable for employees or **associates** to:

a) Engage in any form of facilitating Tax Evasion or Foreign Tax Evasion
b) Aid, abet, counsel or procure the commission of a Tax Evasion offence or Foreign Tax Evasion offence by another person
c) Fail to promptly report any request or demand from any third party to facilitate the fraudulent Evasion of Tax by another person, in accordance with this policy
d) Engage in any other activity that might lead to a breach of this policy
e) Threaten or retaliate against another individual who has refused to commit a Tax Evasion offence or a Foreign Tax Evasion offence or who has raised concerns under this policy
f) Commit an offence under the law of any part of the UK consisting of being knowingly concerned in, or taking steps with a view to, the fraudulent evasion of tax.

8 Prevention through vigilance

There is not an exhaustive list of Tax Evasion opportunities. At a more general level, the best defense against Tax Evasion and facilitation of Tax Evasion remains the vigilance of our employees and **Associates** and the adoption of a common-sense approach supported by our clear procedures for challenging wrongdoing. In applying common sense, team members must be aware of the following:

a) Is there anything unusual about the manner in which an **Associate** of TfL is conducting their relationship with TfL or the third party?
b) Is there anything unusual about the third party's or **Associate's** conduct or behavior in your dealings with them?
c) Are there unusual payment methods?

Unusual payment methods and unusual conduct of third parties with **Associates** can be indicative that a transaction may not be as it seems.

9 How to raise a concern

Our employees have a responsibility to take reasonable action to prevent harm to TfL and we hold our employees accountable for their actions and omissions. Any actions that breach the Criminal Finances Act 2017 and the tax laws of wherever we operate bring harm to TfL and will not be tolerated.

You are responsible for properly following TfL's policies and procedures. These ensure that all taxes are properly paid. If you are ever asked by anyone either inside or outside our organisation to go outside our standard procedures, this must be reported without delay, as someone may be attempting to evade tax. Please refer to TfL's Challenging wrongdoing page for details on how you can report any queries or concerns.

Signed by: A.J. King.

Date: 10.12.2020

Transport for London Appendix 2
Anti-Tax Evasion Statement

In the light of the Criminal Finances Act 2017, Transport for London has decided to adopt a statement of our corporate value on anti-facilitation of tax evasion. Transport for London strives to conduct all of its business dealings in an honest and ethical manner. The statement governs all our business dealings and the conduct of all persons or organisations who are appointed to act on our behalf.

We request all our employees and all who have, or seek to have, a business relationship with TfL and/or any member of our Group, to familiarise themselves with our anti-tax evasion value statement and to act at all times in a way which is consistent with our anti-tax evasion value statement.

Anti-tax evasion value statement

Transport for London and its subsidiaries ("TfL") have a zero tolerance approach to all forms of tax evasion, whether under UK law or under the law of any foreign country.

Employees and Associates of TfL must not undertake any transactions which:

(a) cause TfL to commit a tax evasion offence; or

(b) facilitate a tax evasion offence by a third party.

We are committed to acting professionally, fairly and with integrity in all our business dealings and relationships wherever we operate and implementing and enforcing effective systems to counter tax evasion facilitation.

At all times, business should be conducted in a manner such that the opportunity for, and incidence of, tax evasion is prevented.

What is the facilitation of tax evasion?

For the purposes of this statement:

Associates includes contractors or an agent of TfL (other than a contractor) who is acting in the capacity of an agent, or any person who performs services for and on behalf of TfL who is acting in the capacity of a person or business performing such services.

Tax Evasion means an offence of cheating the public revenue or fraudulently evading UK tax, and is a criminal offence. The offence requires an element of fraud, which means there must be deliberate action, or omission with dishonest intent.

Foreign Tax Evasion means evading tax in a foreign country, provided that the conduct is an offence in that country and would be a criminal offence if committed in the UK. As with **tax evasion**, the element of fraud means there must be deliberate action, or omission with dishonest intent.

Tax Evasion Facilitation means being knowingly concerned in, or taking steps with a view to, the fraudulent **evasion** of **tax** (whether UK **tax** or **tax in a foreign country** by another person, or aiding, abetting, counselling or procuring the commission of that offence. Tax evasion facilitation is a criminal offence, where it is done deliberately and dishonestly.

Tax evasion is not the same as tax avoidance or tax planning. Tax evasion involves deliberate and dishonest conduct. Tax avoidance is not illegal and involves taking steps, within the law, to minimise tax payable (or maximise tax reliefs).

Tax means all forms of UK taxation, including but not limited to corporation tax, income tax, value added tax, stamp duty, stamp duty land tax, national insurance contributions (and their equivalents in any non-UK jurisdiction) and includes duty and any other form of taxation (however described).

Transport for London

Appendix 3

Tax Strategy

Transport for London (TfL) has adopted the following set of tax principles which it believes illustrate good practice in the area of tax management and tax transparency, takes into consideration its public purpose and balances the interests of its stakeholders.

The TfL Tax Strategy is reviewed and approved on an annual basis.

Background

TfL is a statutory corporation established by Section 154 of the Greater London Authority (GLA) Act 1999. It is a functional body of the GLA, and reports to the Mayor of London. The legal structure of TfL is complex and comprises:

- The Corporation, which is treated like a local authority for tax purposes. It is exempt from corporation tax, and is a Section 33 body, which entitles it to recover VAT incurred on costs relating to its non-business activities; and

- Transport Trading Limited and its trading subsidiaries, which are assessable to corporation tax and VAT in accordance with current legislation.

Our approach to tax risk management and governance

TfL has controls and procedures in place to manage tax risks, and strives to ensure these remain effective and up to date. These controls and processes are documented and reviewed annually during the Senior Accounting Officer sign-off process.

In accordance with the requirements of the Criminal Finances Act 2017, TfL has undertaken a risk assessment, which is reviewed on a quarterly basis, to ensure that reasonable procedures are in place to prevent the facilitation of tax evasion by persons associated with TfL.

TfL is committed to meeting all legal requirements and aims to comply with the spirit as well as the letter of the law. TfL completes all tax returns and makes all tax payments in an accurate and timely manner.

TfL will engage external tax specialists, where it is appropriate to do so, to ensure a high level of tax compliance.

Attitude to tax planning and tax risk

TfL will claim such reliefs and incentives as it is properly entitled to, and will take reasonable steps to minimise its tax liabilities, where it is appropriate and responsible to do so.

TfL has a low risk appetite in relation to tax matters and does not use artificial tax structures or undertake transactions whose sole purpose is to create an abusive tax result.

When evaluating tax planning the organisation’s reputation and corporate and social responsibilities are always considered.

Relationships with tax authorities

TfL is transparent about its approach to tax and discusses the interpretation of tax legislation with HMRC, in real-time, particularly where the tax treatment is unclear. HMRC are kept up to date regarding major changes or transactions within the business, so that any potential tax risks can be addressed at an early stage.

TfL seeks to develop and maintain strong, mutually respectful relationships with HMRC.

TfL has been awarded a ‘low risk’ tax rating by HMRC.

Antony King
Statutory Chief Finance Officer
Transport for London

Published on 12 March 2021 to comply with Finance Act 2016 Schedule 19.

Appendix 4

Policy

P012 A1 Senior Accounting Officer Policy

Contents

1 Purpose

The purpose of this Senior Accounting Officer (SAO) policy is to set out the requirements of the SAO legislation and the assurance processes that have been developed to ensure that TfL meets it's SAO obligations.

2 Scope

The SAO legislation applies to UK incorporated companies (as defined by the Companies Act 2006), which together with other companies in the same group have a turnover in the preceding year of more than £200m or a balance sheet total of £2bn.

This policy therefore applies to Transport Trading Limited (TTL) and its subsidiaries as well as TfL Trustee Company Limited, the SAO legislation does not apply to London Transport Insurance (Guernsey) Limited as this company is not incorporated in the UK. As TfL (the statutory corporation) is not a company incorporated under the Companies Act the rules will not apply to TfL as an entity. Hence when TfL is referred to in this policy, reference is being made to the wider TfL group.

3 Senior Accounting Officer Policy

3.1 Background

The rules were introduced in the Finance Act 2009 to make SAOs of certain qualifying companies, responsible for ensuring and certifying that *appropriate tax accounting arrangements* have been established and are maintained. The arrangements are those which enable the company's relevant tax liabilities to be calculated in all material respects.

3.2 SAO Legislation

3.2.1 Who is the SAO

The SAO should be the most senior person in an organisation with responsibility for financial accounting, and with an overall view of accounting processes. For TfL the Statutory Chief Finance Officer is the SAO.

3.2.2 Responsibilities of the SAO

The SAO is responsible for taking reasonable steps to ensure that *appropriate accounting arrangements* are in place, to enable tax liabilities to be calculated accurately.

The SAO must monitor these arrangements on an ongoing basis and identify any respects in which the arrangements fall short of the requirements.

The SAO must provide an annual certificate to HM Revenue & Customs (HMRC), which confirms that *appropriate accounting arrangements* were in place throughout the financial year, or provide an explanation as to why such a declaration cannot be made. The certification must be filed by the deadline for filing the company accounts i.e. 31 December.

3.2.3 Appropriate Accounting Arrangements

Tax accounting arrangements are:

- The framework of responsibilities, policies, appropriate people and procedures in place for managing the tax compliance risk; and
- The systems and processes which put this framework into practice.

The tax accounting arrangements must allow for the tax liabilities of the company to be calculated accurately in all material aspects.

The steps an SAO must take to ensure the company establishes and maintains appropriate tax accounting arrangements might include such responsible actions as:

- Establishing and monitoring processes;
- Ensuring staff and businesses to whom work is outsourced are appropriately trained and qualified to undertake their functions; and
- Instituting improvements where shortcomings have been found in the tax accounting arrangements.

3.2.4 Reasonable steps

Reasonable steps are the steps a person in this situation would normally be expected to take to:

- Ensure awareness of all taxes and duties for which the company is liable;
- Ensure that risks to tax compliance are properly managed; and
- Enable the various returns to be prepared with an appropriate degree of confidence.

The steps that are reasonable will depend on the particular circumstances within which tax accounting is taking place. The SAO may delegate some or all of the control and monitoring activities to other people. If so, in taking reasonable steps, the SAO should think about and take account of the risks of delegating.

3.2.5 Penalties

There are two penalty provisions for non compliance which can be levied on the SAO personally. Both have a maximum fine of £5,000:

i. failure to comply with the main duty to establish and maintain appropriate tax accounting arrangements, and

ii. failure to provide a certificate, or providing an incorrect certificate

A penalty of £5,000 can also be levied where a company fails to notify HMRC of the name of the SAO by the end of the period for filing the company's accounts. Confirmation has been received that TfL's Directors' & Officers' Liability insurance will cover fines and penalties up to a limit of £250k.

3.3 TfL approach

The processes and procedures TfL have in place are robust and fully compliant with the legislation, they have been discussed with HMRC both before the commencement of the SAO legislation and at subsequent risk review meetings.

The main duty of the SAO is to take reasonable steps to monitor the tax accounting arrangements of the company on an ongoing basis, this is achieved by regular update meetings with the Tax Department and the inclusion of tax risks on appropriate risk registers as required.

In order to give the SAO the comfort required to sign the annual certificate, an assurance plan has been developed which spans all of the taxes covered by the SAO sign off. The plan notes the risks associated with each tax together with the assurance that can be taken from the controls that exist to eliminate these risks. The assurance plan will be signed by those responsible for making sure the controls are working correctly. Where weaknesses are identified these will be documented along with the steps to be taken to mitigate such risks.

Where the signatories to the assurance plan have relied on the work of others, sub-sign offs will be obtained e.g. the work of the BSF. Separate assurance plans will be signed by companies whose accounting systems are not centralised (i.e. Crossrail Ltd and London Transport Museum). The sub sign offs and separate assurance plans will certify that there are sufficient controls in place to mitigate the key SAO risks for which individuals are responsible. Alternatively where controls are currently insufficient, action will be taken to resolve any weaknesses.

4 Person accountable for this document

Name	Job title
Rachel Shaw	Head of Tax and Financial Accounting

5 Abbreviations

Term	Definition
SAO	Senior Accounting Officer
HMRC	HM Revenue & Customs

6 Document history

Issue no.	Date	Changes	Author
A1	November 2021	New document as per CR-15335.	Emily Clark

Audit and Assurance Committee

Date: **1 December 2021**

Item: **Legal Compliance Report (1 April 2021 – 30 September 2021)**

This report will be considered in public

1 Summary

1.1 This paper summarises the information provided by each TfL Directorate for the Legal Compliance Report for the period 1 April 2021 – 30 September 2021.

2 Recommendation

2.1 The Committee is asked to note the report.

3 Background

3.1 The Legal Compliance Report is compiled from information supplied through questionnaires completed by each TfL Directorate and follow up discussions concerning known legal compliance issues.

4 Scope of the Report

4.1 The Directorates were asked to identify where they are aware of any alleged breaches of law between 1 April 2021 and 30 September 2021. The questionnaire sought responses concerning the following:

(a) prosecutions against TfL;

(b) formal warnings or notices from the Health and Safety Executive, the Office of Rail and Road (ORR), the London Fire Commissioner, the Environment Agency, the Information Commissioner or other Government agencies;

(c) investigations by an Ombudsman;

(d) alleged legal breaches notified by local authorities or other bodies;

(e) judicial reviews;

(f) involvement in inquests;

(g) commercial/contract claims in excess of £100,000;

(h) personal injury claims;

(i) proceedings in relation to discrimination on the grounds of race, sex, disability, age, religion or belief, sexual orientation, equal pay or breach of contract;

(j) wrongful or unfair dismissal;

(k) actions to recover unpaid debt in excess of £5,000;

(l) breaches of EU/UK procurement rules and/or the Competition Act;

(m) other material breaches of the law;

(n) any other material compliance issues; and

(o) any initiatives introduced by Directorates to address compliance issues.

4.2 The reporting periods for the graphs included in this report follow the six monthly Legal Compliance reporting periods from April to September and October to March. Graphs are included where there is sufficient data from which to consider any trend analysis. The graphs commence in the reporting period covering 1 October 2016 – 31 March 2017. Each period includes any ongoing matters carried over from previous reporting periods where applicable. In accordance with TfL's commitment to transparency, the Legal Compliance Report is included in this public paper.

5 Commentary on Legal Compliance Issues

Prosecutions

5.1 A notice of intention to prosecute was received on 12 May 2020 from the London Borough of Hackney, for an alleged breach of planning permission for the erection of an external timber deck structure with a canopy at 196 Shoreditch High Street, London E1. Following discussion with the sub-tenant, the structure has now been removed and the matter has been closed.

5.2 A notice of intention to prosecute was received on 28 August 2020 from the London Borough of Tower Hamlets for alleged breaches of the Health Act 2006, planning consent under the Town and Country Planning Act 1991 and the Health and Safety at Work Act 1974 in relation to smoking of shisha in a shop at 568 Mile End Road, London E3. Previous enforcement notices received in April 2014 and April 2017 for the same alleged breach were addressed with the tenant. However, in 2020 the tenant reopened the shisha bar. On 5 February 2021, the London Borough of Tower Hamlets charged the tenant with an offence under the Health Act 2006. The tenant was fined and ordered to pay costs. The matter has been closed.

Formal Warnings or Notices from the Health and Safety Executive (HSE) or Office of Rail and Road (ORR)

5.3 London Underground (LU) previously reported that the ORR issued LU with an Improvement Notice following the tragic death of a member of the public who fell into the gap between the platform and the train at Waterloo station on the Bakerloo line on 26 May 2020. The ORR confirmed it had closed the Improvement Notice on

22 December 2020. The Rail Accident Investigation Branch (RAIB) has also carried out an investigation and published its report on 21 September 2021 including three recommendations which LU are responding to. A date for the inquest is awaited.

5.4 In the last report LU reported a Notification of Contravention, received on 21 January 2021, following a visit in December 2020 from the HSE to the Long Rail facility at Ruislip depot. The notification identified gaps in compliance with the Provision and Use of Work Equipment Regulations in relation to the guarding and isolation of work equipment. LU stopped the use of the machine in question while steps were taken to address all the actions required in the notification. The HSE is satisfied that LU has remedied all the issues and the matter is now closed.

Formal Warnings or Notices from the London Fire Commissioner (LFC)

5.5 Surface Transport reported an Alterations Notice issued on 11 March 2021 by the LFC in relation to Victoria Coach Station. The notice requires LFC to be notified before making any changes to the premises which may result in a significant increase in risk from any change to or the reduction in provision of the sprinkler system and the system capacity and any change to/reduction in the provision of the fire detection and warning system, until such time as the notice is withdrawn.

5.6 London Underground reported two new deficiency notices received under the Regulatory Reform (Fire Safety) Order 2005 from the LFC following routine inspections at underground stations during the reporting period. The first notice was issued on 12 July 2021 for Oxford Circus London Underground station for failure to manage tenancies with regards to fire compliance or to ensure that the tenant was compliant with requirements for safe escape routes, suitable storage of flammable substance, adequate storage solutions and electrical safety. Immediate action was undertaken to comply with the notice and the inspection regime has been reviewed. The second notice was issued on 21 July 2021 for Highbury and Islington London Underground station for non-compliance with requirements for storage of flammable materials and use of plastic cable ties to hold up ceiling mesh. The issues were addressed and the inspection regime has been reviewed.

5.7 Finance (Commercial Property) reported seven new deficiency notices and one enforcement notice under the Regulatory Reform (Fire Safety) Order 2005, during this reporting period, from the LFC following routine inspections at various TfL retail tenancies at LU stations. A plan has been developed to monitor, support and improve fire safety at the tenanted retail units on the TfL estate.

5.8 The first notice was issued on 28 May 2021 on a retail tenant at Bank Monument station for failure to manage fire safety. The tenant has addressed all the issues.

5.9 The second notice was issued on 14 June 2021, on a retail tenant at Ealing Common LU station for breaches in relation to electrical safety, lack of fire-fighting equipment, inadequate safety training and Fire Risk Assessment. The tenant has addressed all the issues.

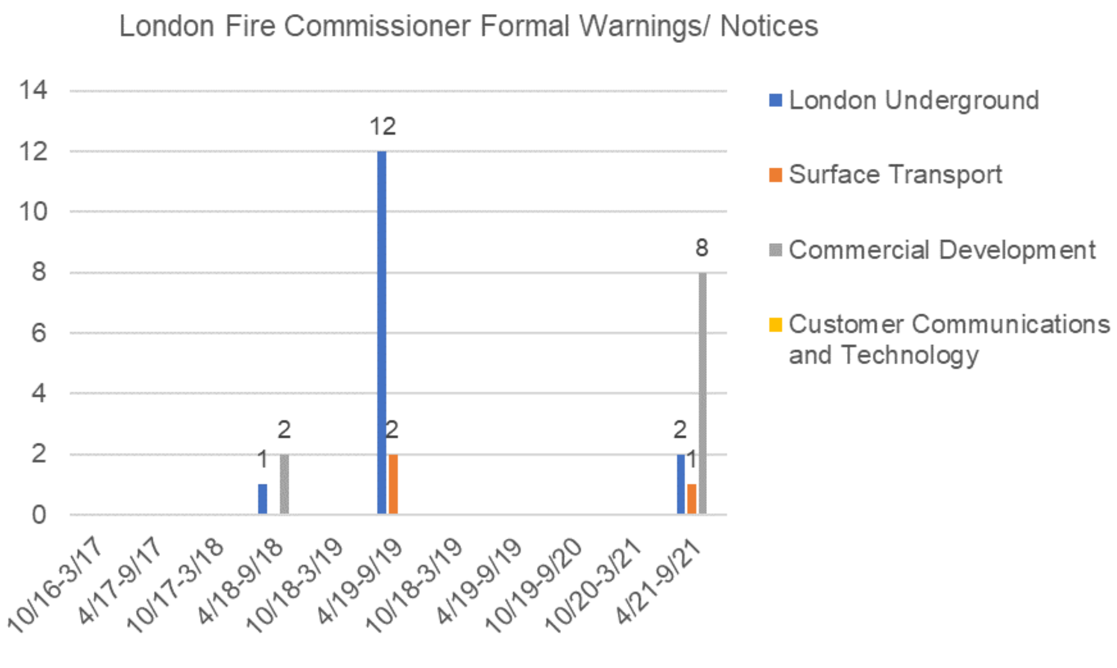
5.10 The third notice was issued on 12 June 2021 on a retail tenant at Oxford Circus for fire compliance issues including blocked fire escape routes, inadequate electrical safety and excessive storage of flammable materials. An enforcement notice was also issued under the Regulatory Reform (Fire Safety) Order 2005 on 12 July 2021 on a retail tenant at Oxford Circus for inadequate storage of flammable substances and goods, lack of electrical safety and insufficient training. The tenant has addressed all the issues in relation to both notices.

5.11 The fourth notice was issued on 31 August 2021 on a retail tenant at Southfields LU station, in relation to issues concerning electrical safety, failure to undertake training and lack of Fire Risk Assessment. The tenant has addressed all the issues.

5.12 The fifth notice was issued on 6 September 2021 on a retail tenant at Gloucester Road London Underground station for obstruction of sprinklers, lack of staff training and inadequate Fire Risk Assessment. The tenant has addressed all the issues.

5.13 The sixth notice was issued on 7 September 2021 on a retail tenant at Sloane Square LU station for breaches in relation to storage of goods and flammable materials, electrical safety, unauthorised cooking in the retail unit and lack of Fire Risk Assessments. The tenant has addressed all the issues.

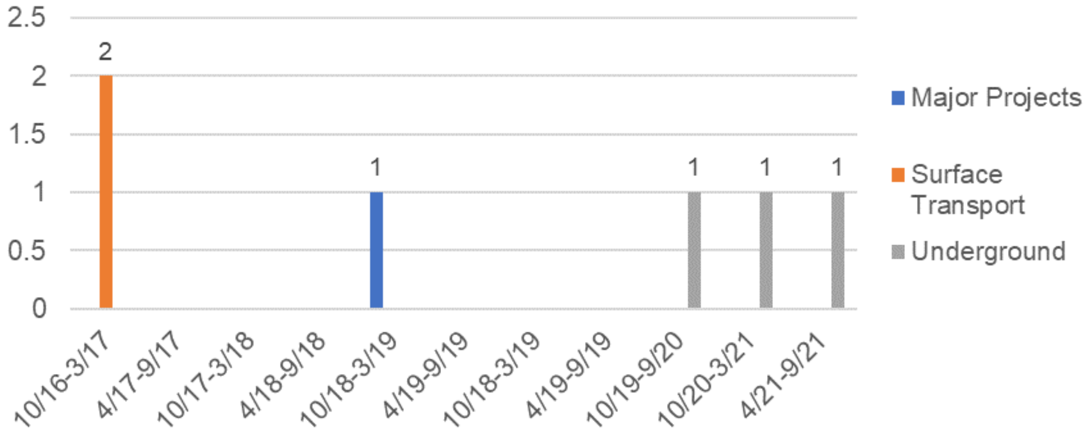
5.14 The seventh notice was issued on 8 September 2021 on a retail tenant at Hounslow West LU station for matters concerning electrical safety, inadequate staff training and Fire Risk Assessment. The tenant has addressed all the issues.



Formal Warnings or Notices from the Environment Agency

5.15 LU previously reported a notice from the Environment Agency received on 7 October 2019 in relation to equipment containing polychlorinated biphenyls (PCBs) on the train network. The notice required the phase out and removal of all assets containing PCBs by 2023. LU has implemented a removal plan and continues to work to remove the PCBs.

Environment Agency Formal Warnings



Formal Warnings or Notices from the Information Commissioner

5.16 The Information Commissioner's Office (ICO) investigates alleged instances of non-compliance with the UK General Data Protection Regulation (UK GDPR), the Data Protection Act (DPA) 2018 and the Privacy and Electronic Communications (EC Directive) Regulations 2003 (the PECR) (together, data protection legislation), the Freedom of Information Act 2000 (the FOIA) and the Environmental Information Regulations 2004 (the EIRs).

5.17 No formal action was taken by the ICO in the reporting period in connection with TfL's compliance with data protection legislation.

5.18 A requirement of the UK GDPR is for all data breaches posing a risk to individuals' rights and freedoms to be reported to the ICO, within 72 hours, and for affected data subjects to be informed of the breach if it represents a high risk to their rights and freedoms.

5.19 One data breach occurred in the reporting period which TfL reported to the ICO. The ICO noted that the risk to individuals was low and did not consider any action was required.

5.20 There were 10 new complaints to the ICO in the reporting period about TfL's compliance with data protection legislation.

5.21 One complaint related to information withheld from a subject access request, was determined to be unfounded. Four[1] complaints related to late responses to requests for access to personal data. Four complaints related to accidental disclosure of

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[1] One complaint was not attributed to a directorate due to information not being available and therefore it is not included in the Information Commissioner Formal Warnings/Notices graph

personal data relating to an individual to the incorrect person. One complaint related to data minimisation, resulting in deletion of data and amendment of a form. In each instance, the ICO found that the legislation had not been complied with but did not consider enforcement action to be necessary.

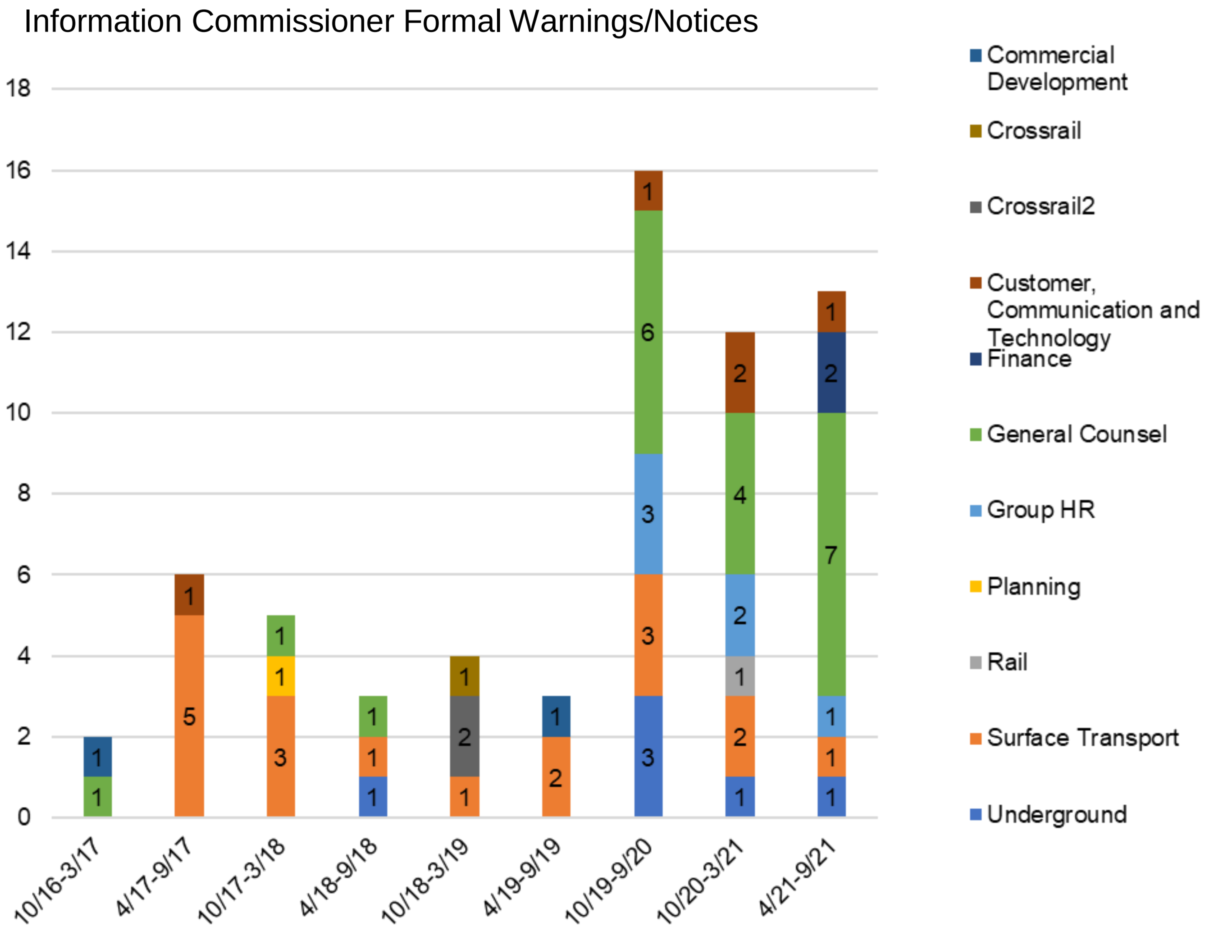
5.22 The FOIA and the EIRs give a general right of access to information held by public authorities. Public authorities are generally required to respond to requests for information within 20 working days and provide the requested information unless an exemption applies. Any person who has made a request to a public authority for the disclosure of information under the FOIA or the EIRs can apply to the ICO for a decision on whether a request has been dealt with in accordance with the FOIA or EIRs. Unless the complaint is resolved informally, the ICO records the outcome in a published Decision Notice. Appeals against the ICO's decisions are heard by the First-Tier Tribunal (Information Rights).

5.23 In the reporting period 1059 requests were made to TfL under the FOI Act and EIRs and all were replied to on time.

5.24 There was one complaint to the ICO open at the end of the last reporting period, about the refusal of a request under the FOI cost limit. A Decision Notice was issued by the ICO in this reporting period which upheld the refusal.

5.25 A further three Decision Notices were issued by the ICO relating to complaints received in this reporting period about TfL's compliance with the FOI Act. In each case the ICO found that TfL had complied with the Act; one complaint concerned the use of the law enforcement exemption to withhold data on the locations where most Penalty Charge Notices (PCNs) had been issued for bus lane contraventions, a second complaint concerned the refusal as vexatious of a request relating to the Hammersmith Bridge and the third concerned the use of the exemption protecting personal data in a request arising from a PCN.

5.26 A further two complaints made to the ICO received during this reporting period were resolved informally.



Formal Warnings or Notices from any other Government Department or Agency Indicating a Breach of Law

5.27 No warnings or notices were reported for this period.

Investigation by an Ombudsman

5.28 In the last report, General Counsel (which includes the Licensing, Regulation and Charging Directorate) reported two outstanding investigations and three new investigations.

5.29 In the first outstanding investigation relating to a taxi/PHV licence renewal application, the complainant alleged that TfL's delay in handling their application caused a loss of earnings. TfL, on recommendation of the LGO, acknowledged that there had been a delay in processing the application and offered a payment, but this was rejected. The complainant brought a claim for loss of earnings which the court dismissed on 7 December 2020. TfL renewed its previous offer but this was also rejected and the complainant brought another claim. The matter is ongoing.

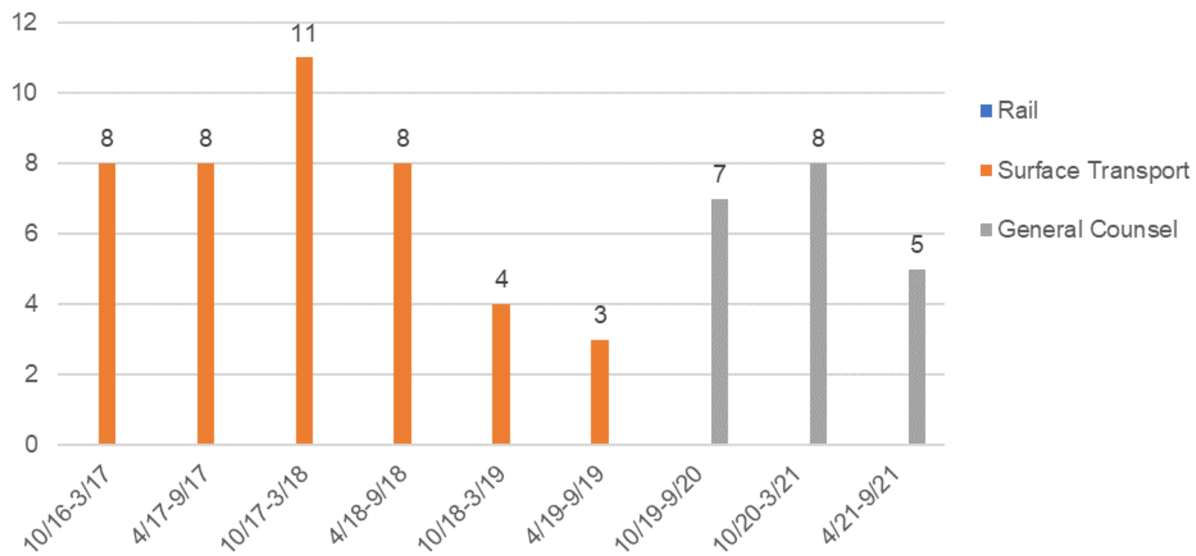
5.30 In the second outstanding investigation, a complaint was made by a passenger against a PHV driver who alleged they were injured when leaving the vehicle. The complainant wanted to make a personal injury claim. TfL advised that any personal injury claim must be made through the driver's insurance. The LGO acknowledged that TfL provided the correct advice but found that there was a lack of clarity in responses which caused the complainant inconvenience and delay. On the LGO's recommendation TfL made a payment to the complainant and reminded staff of the procedures to follow.

5.31 The first new investigation relates to a complaint about TfL's handling of a representation challenging the issue of Congestion Charging PCNs. The complainant had changed their vehicle listed on their resident discount and asked TfL to transfer their annual charge payment to a new vehicle. The vehicle details were changed but the residence discount payment was not transferred to the new vehicle. This resulted in PCNs being issued to the complainant in error. On recommendation of the LGO, TfL made a payment to the complainant and agreed to review the relevant training to avoid a reoccurrence.

5.32 The second new investigation relates to a complaint about TfL's handling of a taxi/PHV licence renewal application in which the applicant's medical declaration was provided by a doctor who is under investigation by the General Medical Council without having reviewed the applicant's medical history. TfL requested a medical declaration completed by the applicant's own doctor. A decision is awaited.

5.33 The third new investigation is in relation to a complaint about TfL's handling of a new application for a PHV driver's licence made at the beginning of lockdown in 2020. On recommendation of the LGO, TfL made a payment to the complainant and agreed to process the application in line with procedures.

Investigations by Ombudsman



Notices Received Regarding any Alleged Breach of Law by a Local Authority or Other External Agency

5.34 Finance (Commercial Development) reported four outstanding enforcement notices carried over from the last report and one new enforcement notice.

5.35 The first outstanding enforcement notice (received on 25 February 2014) was from the London Borough of Haringey relating to an unauthorised front extension to units at 231-243 High Road and 249a High Road Tottenham. The tenant failed to remove the extension by 31 July 2014 as required by the notice. TfL wrote to the tenant to remind them of their lease obligations and the risk of prosecution by the London Borough of Haringey. The tenant lodged an appeal with the Planning Inspectorate. The enforcement notice remains stayed while a property management company prepares proposals for the frontages of the properties and all the adjacent properties. In January 2019, the Government approved a London Borough of Haringey Compulsory Purchase Order of TfL-owned land on site to enable a wider borough led regeneration scheme. On 5 August 2021 the developer announced it is no longer progressing with the development. TfL will now seek to remove the unauthorised front extension and will continue to liaise with the London Borough of Haringey to resolve the matter.

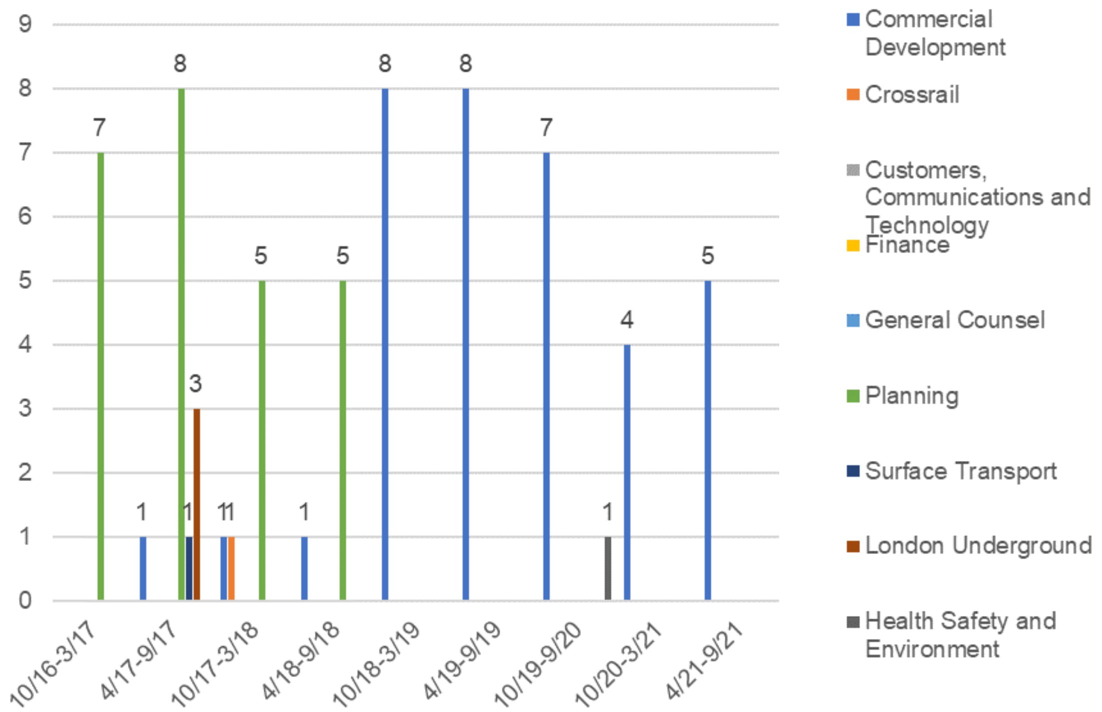
5.36 The second outstanding enforcement notice (received on 24 January 2018) from the London Borough of Hackney relates to a breach of planning control at a site at Holywell Lane in Shoreditch (under the East London Line). The site is being used as a car park although it was granted temporary planning permission for use as office/ retail/ mixed use. The tenant submitted a planning application to the London Borough of Hackney to regularise the use of the site. The application was refused and the tenant appealed. The appeal was refused, however due to the pandemic the London Borough of Hackney delayed the enforcement action against the tenant until July 2021. The tenancy was terminated on 31 October 2021 and the matter is now closed.

5.37 The third outstanding enforcement notice (received on 11 April 2018) was from Westminster City Council regarding a contravention of the control of advertising by a TV screen positioned behind a shopfront of a retail store in the West One Shopping Centre. The tenant confirmed that they have existing planning consent for the shop front and challenged the notice without success. The tenant complied with the enforcement and no further action was taken by Westminster City Council. The matter is closed. TfL has written to the long leaseholder to ensure that the terms of the lease are enforced.

5.38 The fourth outstanding enforcement notice (received on 6 December 2019) was from the London Borough of Camden relating to a number of alleged breaches of planning permission at 366/366A Kilburn High Road, London. TfL continues to liaise with the tenant and the London Borough of Camden on this matter.

5.39 The new enforcement notice (received on 23 August 2021) was from the London Borough of Havering relating to an advertisement display on a billboard at Upminster Bridge, Upminster Road, without consent. The notice required removal of the billboard within 28 days. The billboard was removed within the timescale and the matter is now closed.

Alleged Breaches of Law by a Local Authority/Other External Agency



Decisions Subject to a Judicial Review

5.40 Surface Transport reported an outstanding judicial review application issued on 13 August 2020 by the taxi groups United Trade Action Group (UTAG) and the Licensed Taxi Drivers' Association Limited (LTDA) against TfL and the Mayor in relation to TfL's interim London Streetspace Guidance issued to boroughs, the Streetspace Plan and a scheme implemented on the A10/Bishopsgate. On 20 January 2021, the Court allowed the claims and quashed the Streetspace Plan, TfL's interim Borough Guidance and the A10 Bishopsgate Order.

5.41 TfL appealed to the Court of Appeal which allowed the appeal on all grounds at a hearing on 15-16 June 2021. The court set aside the grant of judicial review in respect of the Plan, Guidance and A10 Order, and set aside the High Court's orders quashing them. The court made a full costs order in favour of TfL and the Mayor and ordered UTAG and the LTDA to pay £50,000 on account within 14 days. The court refused permission to appeal. On 19 August 2021, UTAG and the LTDA made an application to the Supreme Court seeking permission to appeal. A decision from the court is awaited.

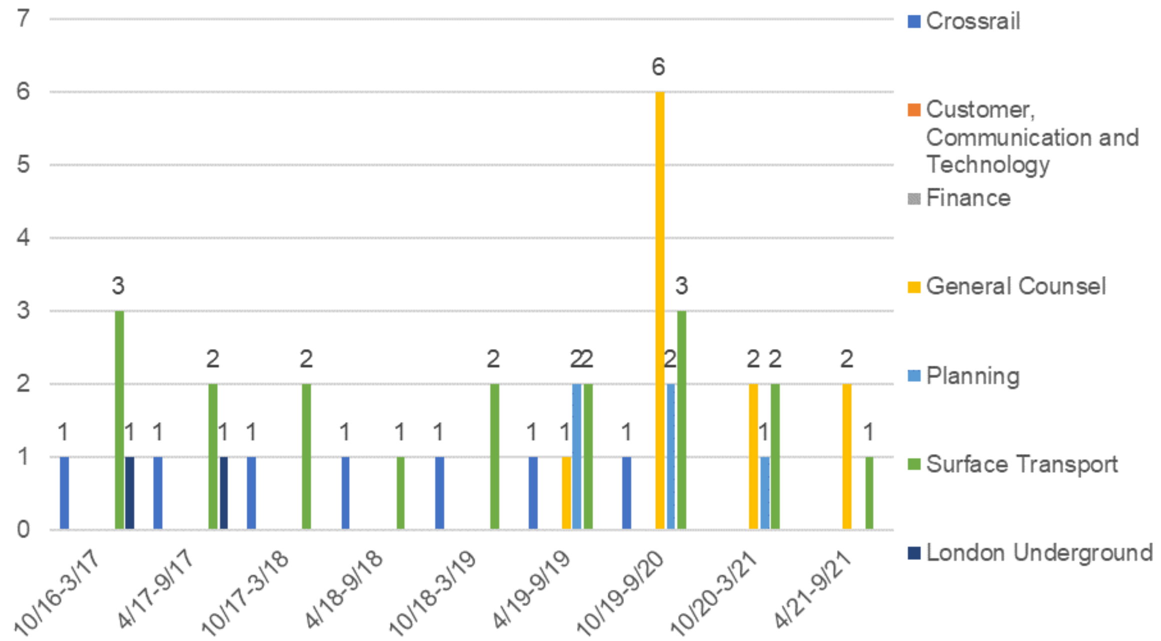
5.42 General Counsel reported two outstanding judicial review claims during the reporting period and one claim seeking a High Court declaration. The first outstanding judicial review claim was issued on 6 November 2020 by UTAG against TfL's decision in August 2020 to grant a London PHV operator's licence to

Transopco UK Ltd (trading as "FreeNow"). Transopco is named as an Interested Party and the grounds are that FreeNow enables PHV drivers to ply for hire in London using an App which is unlawful because plying for hire is an activity reserved to hackney carriages and that FreeNow's drivers are committing a separate offence of accepting bookings without a PHV operator's licence. UTAG was granted permission to proceed with the judicial review claim on the basis that the Court should look at whether PHVs engaged via apps are plying for hire and whether PHV drivers are accepting bookings. This follows a Supreme Court judgment given in February 2021 in relation to the worker status of drivers operating for Uber and comment in the judgment relating to the contractual relationship between operators and drivers as set out in their terms and conditions and how that affects compliance with the Private Hire Vehicles (London) Act 1998 (the 1988 Act). The claim will be heard from 23 to 25 November 2021.

5.43 Uber London Limited also issued a claim on 19 May 2021 seeking a declaration from the Court as to whether the 1998 Act requires a PHV operator who accepts a booking from a passenger to enter into a contract with that passenger to provide the journey. Both TfL and UTAG have been named as defendants and this claim will also be heard from 23 to 25 November 2021 at the same time as the judicial review referred to above.

5.44 The second outstanding judicial review claim was issued on 10 November 2020 against the London Borough of Hounslow challenging decisions to implement a temporary version of the proposed C9 Cycleway. TfL, as designer and funder of the scheme, was named as an Interested Party. On 15 November 2021 the claim was discontinued brining this matter to an end.

Judicial Reviews of decisions by TfL[2]



[2] Judicial Reviews in which TfL is a claimant or an interested party are not included in the table.

Inquests

5.45 This section reports on those inquests in which TfL is either a witness, has been asked to provide information to the Coroner or is, or may be, an interested person.

5.46 Of the five such inquests relating to LU, one had a conclusion of suicide and one accidental death. The outcomes for the remaining three inquests are awaited.

5.47 Of the 11 such inquests relating to Surface Transport, seven inquests had a conclusion of accident and four are awaited.

5.48 The seven inquests concerned the tragic deaths of Dane Chinnery, Mark Smith, Donald Collett, Robert Huxley, Phillip Logan, Dorota Rynkiewicz and Phillip Seary on 9 November 2016 when a tram derailed and overturned on a curve as it approached the Sandilands junction in Croydon. Those inquest began on 17 May 2021 before the Senior Coroner and a jury and concluded on 22 July 2021. The jury conclusion was accident and the narrative as to the contributing factors of the accident were:

Tram Operations Limited (TOL)

(a) The risk assessment process failed to sufficiently identify the risk of the tram overturning and crashing at the tight Sandilands curve at high speed with the probability of fatalities.

(b) TOL identified the importance of line of sight driving and route knowledge but failed to identify additional measures to mitigate risk.

(c) The lack of a “just culture” discouraged drivers from reporting health and safety concerns.

The Driver

The driver lost awareness and became disorientated ahead of the Sandilands curve probably due to a micro sleep. Following this the driver failed to hit the braking point by which time the tram was travelling too fast to negotiate the Sandilands curve. The result was a high-speed derailment, the tram overturning and seven fatalities.

5.49 The Senior Coroner heard evidence at the inquests about Prevention of Future Deaths (PFD) and concluded that there were four areas in which she should make a PFD report with a view to preventing future deaths. One issue addressed to TfL and Bombardier is in respect of current tram stock and the risk of passenger ejection through tram doors. The Senior Coroner states that consideration should be given in relation to current and future trams as to whether tram doors can be adapted now or in the future so as to strengthen them. This has also been addressed to the Department for Transport (DfT) who are asked to disseminate the conclusion to all tram door manufacturers, UKTram to disseminate to UK tramways and the Light Rail Safety Standards Board (LRSSB).

5.50 The other areas which are addressed to other organisations are:

(a) automatic braking systems – it is appropriate for a fresh assessment to be made of whether automatic braking systems would be appropriate for trams to prevent overspeeding which is addressed to UKTram, DfT and the LRSSB;

(b) reporting of incidents – all tramway operators consider subscribing to CIRAS (or to another similar anonymous reporting scheme) and look at whether such schemes are used, and if not, why not which is addressed to DfT and UKTram to be disseminated to all tramway operators; and

(c) a centrally funded national tram safety passenger group – DfT to consider setting up a group that covers all different operators which has also been addressed to Transport Focus.

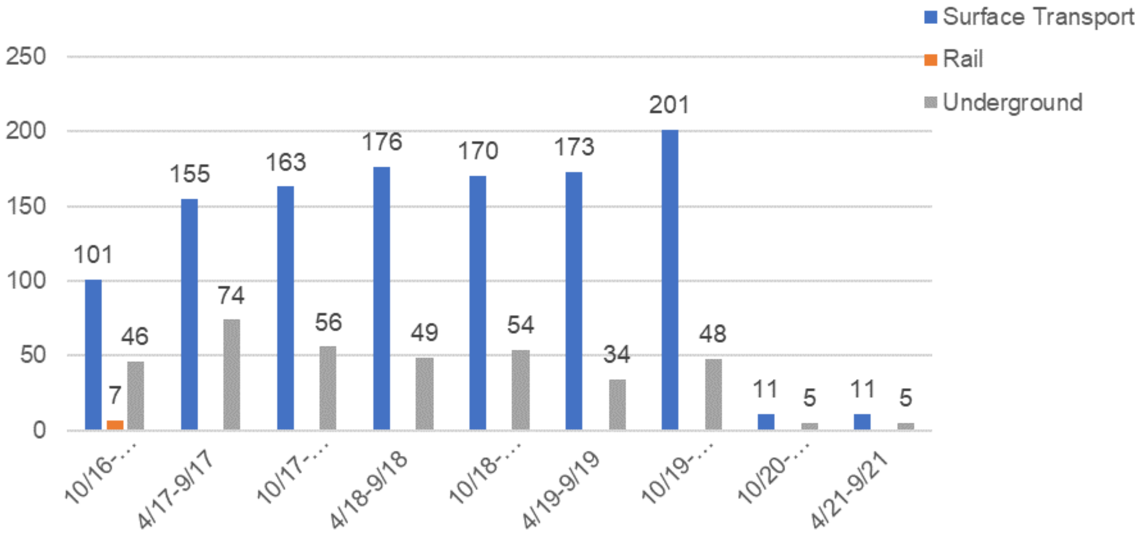
5.51 A response to the PFD report was provided on 17 November 2021.

5.52 Five of the families have written to the Attorney General to request that he considers using his powers under section 13 of the Coroner's Act 1988 to apply to the High Court for an order seeking fresh inquests. The Senior Coroner provided submissions to the AG about her approach to the inquests. The outcome from the AG's review is awaited.

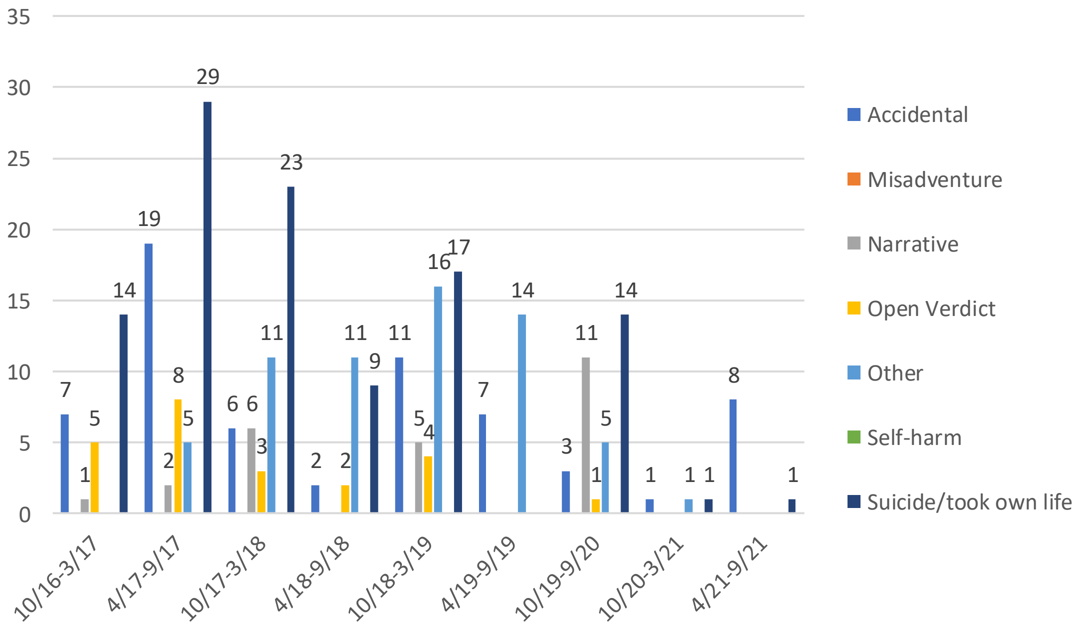
5.53 TfL assisted the Senior Coroner throughout the Inquests. Mark Davis, General Manager of London Trams, was in attendance throughout the Inquests in keeping with our commitment to ensure that we learn lessons for the future to ensure nothing like this accident happens again. Those who lost their lives, their family and friends, and all others affected by this incident remain in our thoughts and we continue to offer support to those people directly affected as well as the wider community.

5.54 The inquest concerning the death of Ella Adoo-Kissi-Debrah concluded in December 2020. The Coroner ruled that Ella died of asthma contributed to by exposure to excessive air pollution. The Mayor and TfL were Interested Persons in the inquest. Ella's family and estate have subsequently issued a claim for damages in the High Court against several Government departments, the Mayor and TfL. The parties are responding.

Inquests[3]



Inquest Findings



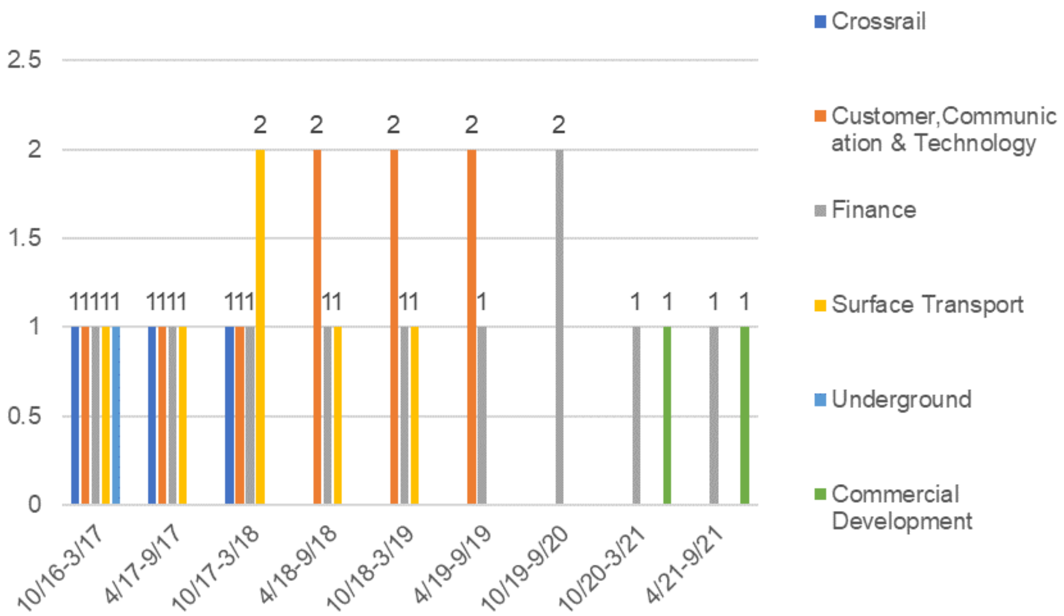
[3] Inquests in which TfL is not an interested party, are not included in the table

Commercial / Contract Claims Brought by or Against TfL in Excess of £100,000 (Not Including Personal Injury Claims)

5.55 Finance previously reported that on 9 September 2016 the TfL Trustee Company Limited, TfL's pension trustee subsidiary, issued proceedings against HMRC for overpaid VAT on fund management services. A stay of the proceedings has been agreed, pending the outcome of two test cases. One of the test cases is being appealed and TfL will review its position once that has been determined.

5.56 Finance (Commercial Development) reported that legal proceedings were issued on 23 March 2021 against the London Borough of Hackney in relation to the lease arrangements for Kingsland Viaduct. TfL is seeking a declaration regarding future rent payments due to the London Borough of Haringey for remaining term of the lease (75 years). A hearing date is awaited.

Commercial/ Contract Claims



Personal Injury Claims

5.57 LU has been the subject of 107 claims for personal injury that were closed during the reporting period, of which 24 claims were employers' liability claims by staff and 83 claims were for public liability by customers/members of the public.

5.58 Of the 83 claims for public liability, 63 were closed without payment and 20 were settled.

5.59 Of the 24 claims for employers' liability, six were closed without payment and 18 were settled.

5.60 Surface Transport has been the subject of 116 claims for personal injury that were closed during the reporting period, of which one claim was for employers' liability and 115 claims were for public liability.

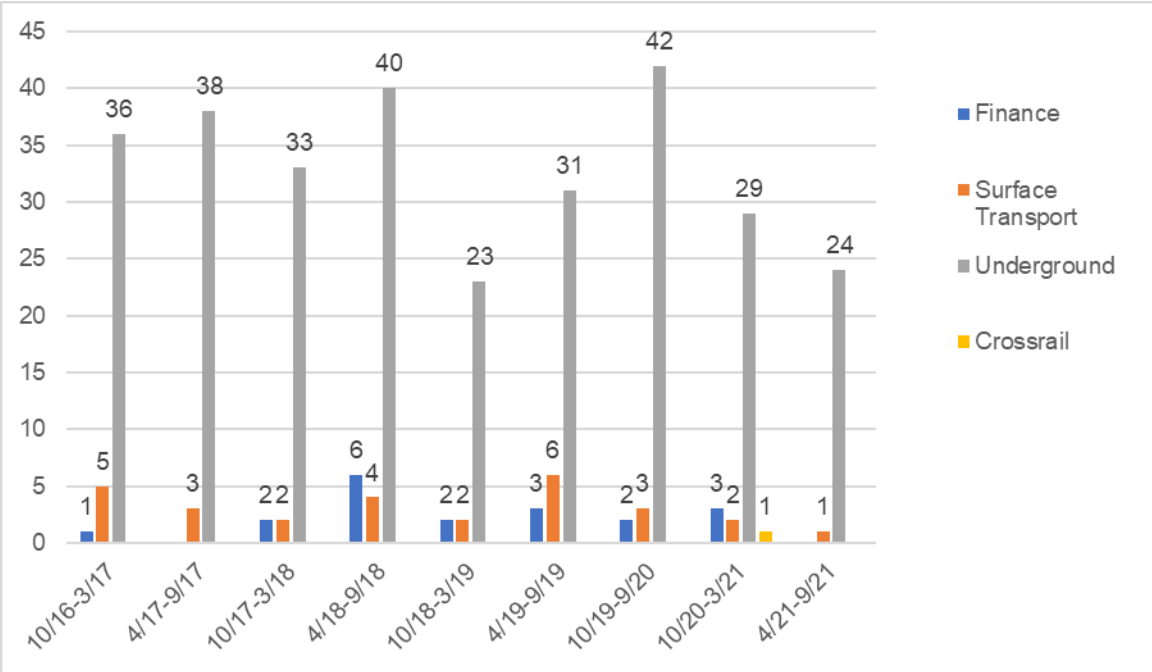
5.61 Of the 115 claims for public liability, 91 were closed without payment and 24 were settled.

5.62 The one claim for employers' liability was closed without payment.

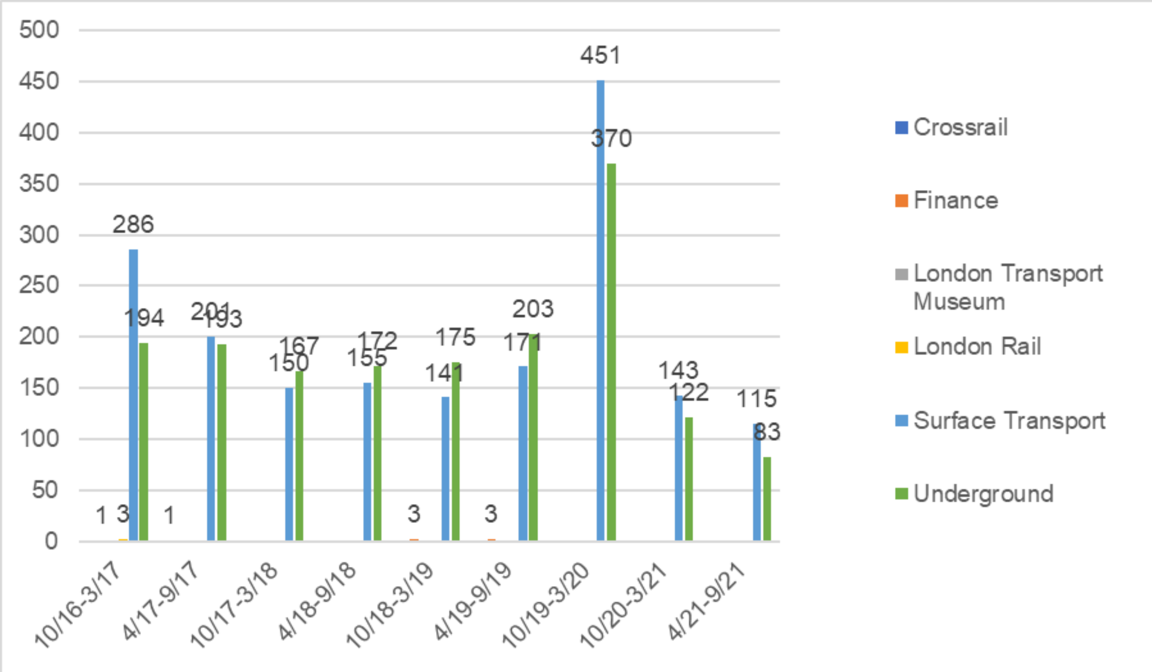
5.63 Out of the total of 223 personal injury claims closed during this period, 161 were closed without payment and 62 were settled.

Personal Injury Claims Concluded in the Reporting Period

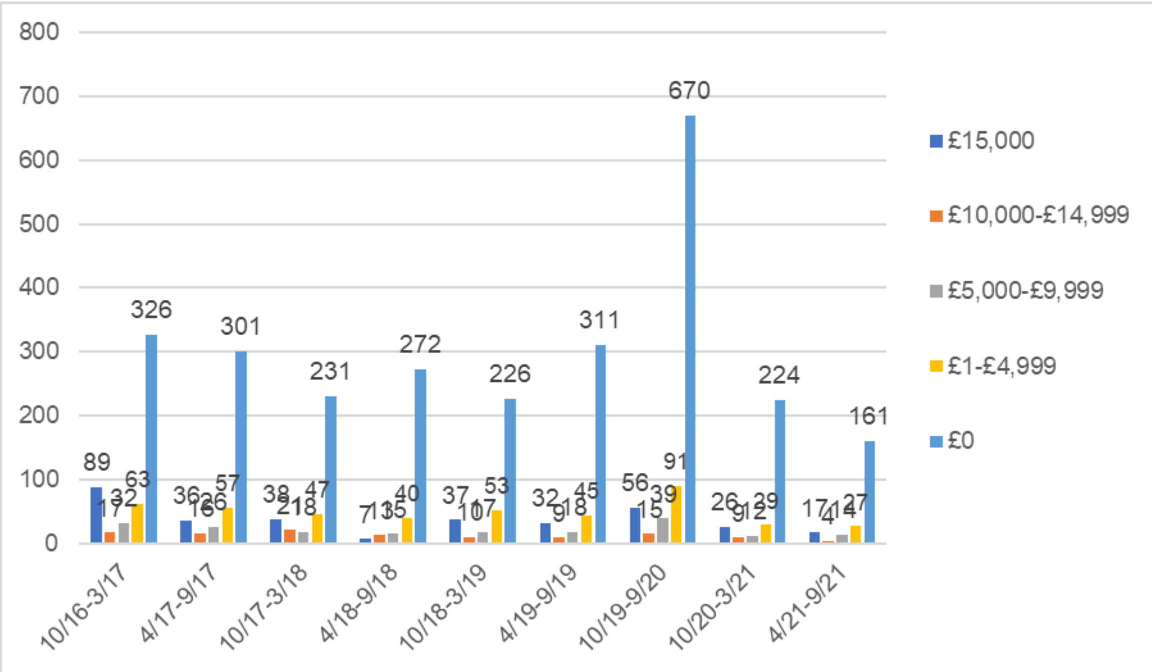
Personal Injury Claims – Concluded Employers' Liability (Staff)



Personal Injury Claims – Concluded Public Liability (Customers)



Personal Injury Claims – Concluded Cases



Employment Tribunal (ET) Proceedings

5.64 TfL continues to take a proactive and robust approach to managing ET cases, coupled with training programme for managers on the latest developments in the law and best practice so as to avoid employment disputes as far as possible.

5.65 LU has been the subject of 67 ET claims during the period of this report. 48 were carried forward from the previous period and 19 were reported for the first time in this period. Of the 67, 16 were for unfair dismissal, one was for constructive unfair dismissal, 19 were for disability discrimination, one was for trade union detriment, one for trade union rights, nine were for sex discrimination, 13 were for race discrimination, one was for victimisation, one was religious discrimination, one was for breach of contract and four were for unlawful deductions from wages.

5.66 Surface Transport has been the subject of 20 ET claims during the period. 18 were carried forward from the previous period and two were reported for the first time this period. Of the 20, five were for unfair dismissal, three were for constructive unfair dismissal, two were for race discrimination, two were for unpaid holiday pay, one was for equal pay, one was for discrimination on the grounds of pregnancy/ maternity leave and six were for disability discrimination.

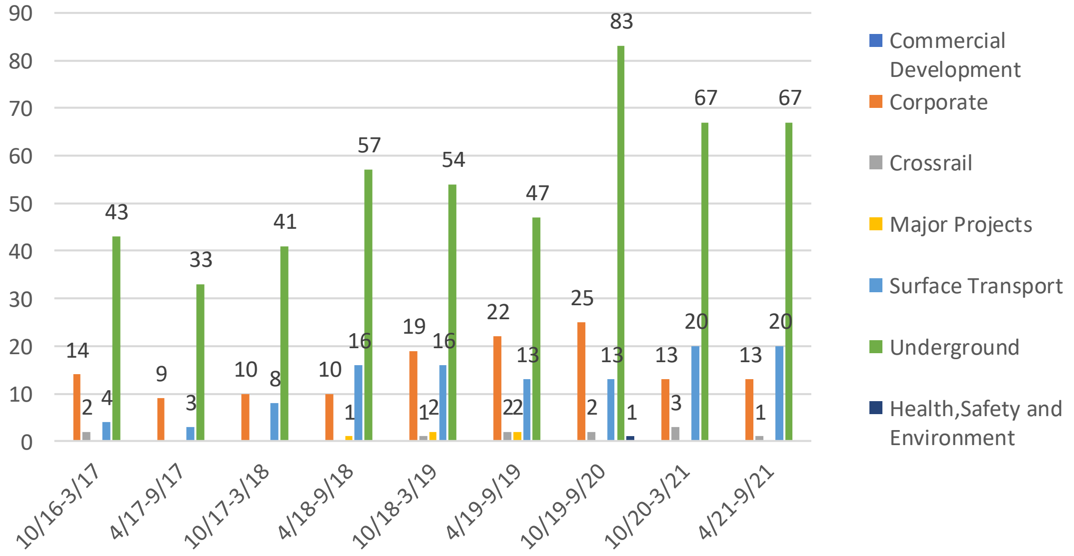
5.67 Professional Services have been the subject of 13 ET claims during the period. Nine were carried forward from the last period and four were reported for the first time this period. Of the 13, three were for disability discrimination, four were for unfair dismissal, one was for breach of contract, one was for constructive unfair dismissal, three were for race discrimination and one was for health and safety detriment.

5.68 Crossrail has been the subject of one ET claim which was carried forward from the last period. The claim was for unfair dismissal.

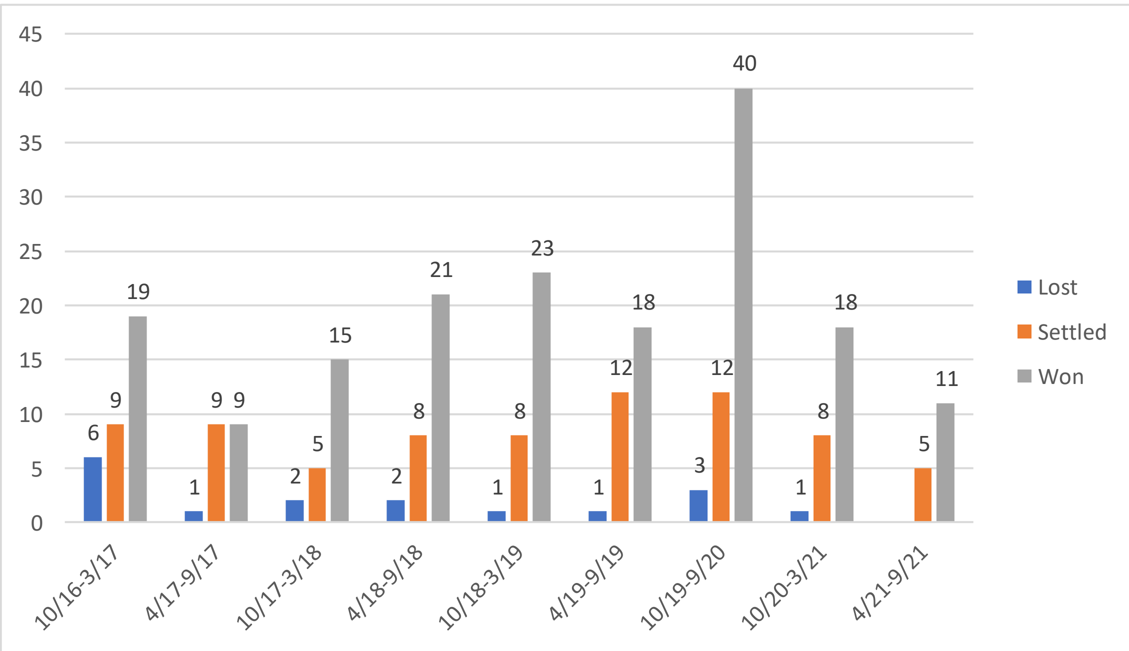
5.69 Of the total of 101 ET claims brought during the period, 84 cases are ongoing and 17 were concluded during the period. Of the 17 ET cases concluded during this period, three were withdrawn, three were struck out, five were won, and five were settled.

5.70 Of the total 101 ET claims, 76 were carried forward from the last period and 25 were reported for the first time during this period.

Total number of Claims[4]



Employment Tribunal Cases Concluded
*Claims won include withdrawn and struck out claims

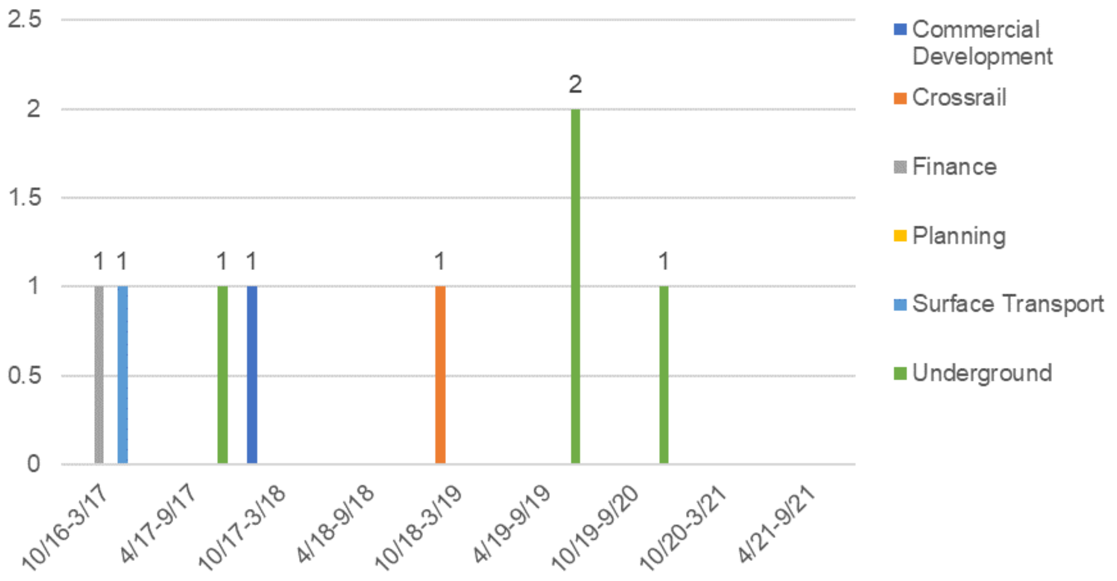


[4] A number of the reported claims have more than one ground of claim (for example a claimant may claim unfair dismissal and race discrimination or sex discrimination and race discrimination). Where this is the case, the claim is reported once. Where claims involve unfair dismissal, these are reported as the main claim. In cases where there is no obvious main claim (such as multiple types of discrimination) one head of claim is selected.

Civil Debt in Excess of £5,000

5.71 No civil debt claims in excess of £5,000 were reported for this period.

Unpaid Debt



Other Material Compliance Issues

5.72 Following a BBC broadcast in November 2019 regarding fraudulent practices of some colleges offering BTEC qualifications in London including topographical qualifications required for a private hire vehicle driver's licence, General Counsel reviewed the licences of 422 drivers who obtained their qualifications via a company associated with the allegations. 143 previously licenced drivers had their licences revoked and 279 applicants had their applications refused. Following this action, 80 affected applicants and drivers appealed the decisions to the Magistrates' Court. All appeals have now been dismissed or withdrawn.

5.73 Finance (Commercial Development) previously reported a dispute in relation to highways land that was vested in various London boroughs which TfL maintain and was transferred to TfL on 3 July 2000 pursuant to the GLA Roads and Side Roads (Transfer of Property) Order 2000. Of the 32 London boroughs, agreement has been reached for land transfers with 30 boroughs. The two remaining boroughs and TfL referred the various disputes between them to arbitration. Certain issues were then appealed following the arbitrator's decision and the arbitration was stayed to allow this process to take place. This litigation concluded with a Supreme Court judgment on 5 December 2018 in TfL's favour. TfL continues to progress discussions with the boroughs concerning the specific land that is to transfer following this ruling. A further arbitration with the City of London to determine the outstanding issues on three sites in the City of London took place on 6, 7 and 8 October 2021. A decision is awaited.

5.74 Surface Transport reported one outstanding claim from the last reporting period for unpaid invoices brought by a Claimant who provided traffic surveys to TfL. The payments were suspended following an internal investigation and there is also a police investigation. A hearing is awaited.

5.75 General Counsel previously reported that on 3 October 2020, TfL notified Ola UK Private Limited (Ola) that it would not be granted a new London PHV operator's licence at the expiry of its licence on 3 October 2020. TfL concluded that Ola was not fit and proper to hold such a licence after discovering a number of failures that could have risked public safety. On 20 October 2020, Ola appealed TfL's decision. The hearing of the appeal is listed for five days on 13-17 December 2021. Pending the outcome of the appeal, Ola may continue to operate and TfL will closely scrutinise Ola and its compliance with the conditions for the duration of the appeals process. The matter is ongoing.

5.76 Crossrail reported that on 9 June 2021, a claim was brought by an individual in the High Court against Crossrail (CRL) and a number of its contractors and sub-contractors alleging blacklisting and breach of data protection law. CRL and all the other defendants are defending the claim and the matter is ongoing.

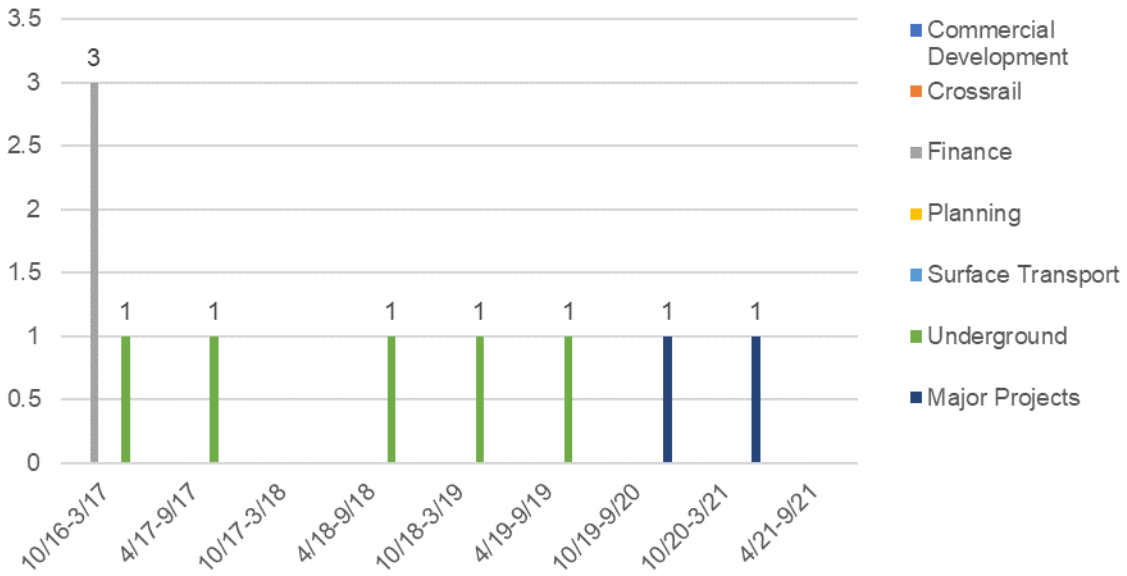
5.77 Following the end of this reporting period, Surface Transport reported a new claim arising out of ongoing protests by Insulate Britain on the TLRN and national road network. On 4 October 2021 Insulate Britain staged a protest around Blackwall Tunnel and Hanger Lane in London on the TLRN resulting in obstruction of the highway and significant road traffic disruption. In response to a further protest on the TLRN at Old Street (A501) on 8 October 2021 an application was made to the High Court for an interim injunction preventing further protests designed to obstruct the highway by any persons including Insulate Britain and 112 named defendants. The injunction was granted and covers the A501 (including the area of protests in Old Street) and 13 other key locations on the TfL Road Network, where any disruption in the movement of traffic is a danger. Further protests took place [5]on 27 October 2021 on the A40 Gypsy Corner and on 4 November 2021 on Bridge Street in Westminster which impacted other roads in the area including the TLRN. Following this, an application for a further interim injunction was applied for and granted on 4 November 2021 covering additional key safety locations and A roads including six bridges on the TLRN. TfL continues to monitor the position.

[5] The report was updated on 10 December 2021 to include reference to the protest action taken on 27 October 2021.

Breaches or Alleged Breaches of EU/UK Procurement Rules and/or the Competition Act 1998

5.78 No breaches or alleged breaches were reported for this period.

Breaches or Alleged Breaches of EU/UK Procurement Rules and/or the Competition Act 1998



Other Known Breaches

5.79 No other known breaches were reported.

Management of Compliance Issues

5.80 TfL's legal and compliance risks are managed as part of TfL's overarching strategic risk management framework. A range of operational and assurance processes are in place to mitigate these risks at all levels in the organisation, taking into account during this reporting period the particular challenges presented in response to the coronavirus pandemic.

5.81 These safeguards are supported by the provision of advice on, and training in, relevant legal and corporate governance issues, which are tailored to the needs of TfL's business units and adjusted where possible to take account of increased home working as a consequence of the pandemic.

5.82 The legal and compliance framework is the subject of continuous review and improvement. Initiatives to address compliance across TfL have included:

(a) ongoing work to update contractual and commercial templates and forms to ensure they align with legal requirements;

(b) promoting TfL’s compliance with information governance legislation (including the FOI Act, Environmental Information Regulations, The Data Protection Act 2018 and UK General Data Protection Regulation, GDPR) and associated statutory Codes of Practice, including in the area of Transparency to the business;

(c) training on FOI, Data Protection, GDPR and records management;

(d) ongoing promotion and refresh of e-learning courses on Freedom of Information, Data Protection and records management, including mobile versions available for staff without PC access;

(e) the use of Data Protection Impact Assessments, to review proposed new or changed uses of personal data;

(f) the promotion through the TfL Management System of Information Governance policies, instructions and guidance;

(g) the promotion and maintenance of a programme of pro-active publication of information, to improve transparency and simplify the handling of FOI requests. This includes the publication of all TfL’s FOI replies;

(h) preparation of replies of FOI/EIR requests (including decisions on the use of exemptions and the application of the fees regulations) and requests from data subjects to exercise their rights;

(i) carrying out of internal reviews of whether a FOI/ EIR request was handled in accordance with the relevant legislation and responding to the Information Commissioner’s Office in the event they undertake any investigatory action;

(j) monitoring and reporting on performance against the information governance legislation requirements;

(k) ongoing bespoke training to the business and Human Resources on a range of employment issues including employment law updates, reasonable adjustments requirements and effective case management and providing guidance and best practice learned from ET cases;

(l) training on a range of legal issues including online training on managing contractor and supplier relations, procurement procedures, the Equality Act 2010 and Public Sector Equality Duty and NEC contracts;

(m) continued support with the use of TfL’s e-tendering system to assist users to comply with the procurement regulations, and to observe the principles of transparency, equal and fair treatment of suppliers;

(n) continued production of instructions, guidance and templates in the TfL Commercial Toolkit to support compliance with regulations and governance;

(o) ongoing work to identify and address areas of weakness in TfL’s processes, helping to implement corrective actions where appropriate; and

(p) the ongoing issue of the Commercial Law Bulletin to the Commercial teams to support the dissemination of important messages relating to regulatory and legal issues.

6 Conclusions

6.1 The Legal Compliance Report for the period 1 April 2021 to 30 September 2021 sets out the legal and compliance matters of which TfL senior management is aware. There are no material breaches of the law which would affect TfL's continued operations.

6.2 Notwithstanding the ongoing impact of the pandemic, reported matters continue to be broadly in line with previous reports.

List of Appendices to this report:

None

List of Background Papers:

None

Contact Officer: Howard Carter, General Counsel
Email: HowardCarter@tfl.gov.uk

Audit and Assurance Committee

Date: **1 December 2021**

Item: **Register of Gifts and Hospitality for Members and Senior Staff**

This paper will be considered in public.

1 Summary

1.1 This paper sets out details of the gifts and hospitality declared by the Board and senior staff. Details of those accepted by Members and the most senior staff are routinely published on our website. In line with the Greater London Authority (GLA) Group Framework Agreement, we submit a regular report to the Committee on the gifts and hospitality accepted by Board Members and senior staff. For these reports, we have extended the staff coverage to anyone on the top level organisation chart published on https://tfl.gov.uk/corporate/about-tfl/how-we-work/corporate-governance/chief-officers.

1.2 This report covers a three-month reporting period, from 1 August to 31 October 2021. The restrictions on travel and social distancing introduced from March 2020 to manage the coronavirus pandemic mean that the benchmarking data is impacted as restrictions were in place for the same period in 2020. While the figures for the current year show an increase, these are still below the baseline prior to the coronavirus pandemic.

1.3 During the three months covered by this report, no declarations were made by Members. A total of 35 declarations were made by senior staff, of which 23 were declined and 12 were accepted.

2 Recommendation

2.1 **The Committee is asked to note the paper.**

3 Background

3.1 TfL's policy on gifts and hospitality applies to TfL Board Members, all staff who work for TfL and staff contracted to work for TfL including on advisory groups or through a third party. It covers both gifts and hospitality offered directly or offered through a spouse or partner.

3.2 The policy was last reviewed and updated in November 2017. It starts from the premise that any gifts or hospitality offered should usually be declined. No offer should be accepted where there is a possibility, or a perception, of being influenced by it. The guidance provides advice on the few circumstances where acceptance might be appropriate but, as a guiding principle, Members and staff are advised to err on the side of caution. Acceptance of any offer requires line manager approval and an explanation as to why acceptance is appropriate.

3.3 The policy is being reviewed and amendments will be made to the guidance in the light of operational experience and to make it consistent with changes in the GLA's policy, which included an increase in the threshold for declaration, which has been raised from £25 to £50.

3.4 Currently, Board Members and staff are required to register with the General Counsel any gift or hospitality received in connection with their official duties that has a value of £25 or over, and also the source of the gift or hospitality. For staff, declarations are made at the end of every month. As the acceptance of any offers of gifts or hospitality by Members is uncommon, they are asked to confirm any declarations at the end of every quarter. Offers accepted by Members and the most senior staff are then reviewed and published on tfl.gov.uk on a quarterly basis.

3.5 Gifts and hospitality declarations from Members, the Commissioner and Managing Directors, the General Counsel and the Chief Finance Officer have been published on tfl.gov.uk since 2012.

4 Reporting Period and Issues for Consideration

4.1 There were no declarations by Members during the three-month period from 1 August to 31 October 2021.

4.2 A total of 35 declarations of offers were made by senior staff in this period and 23 of these were declined.

4.3 Table 1A shows the current period and the previous two periods. Table 1B shows the same reporting periods for the previous year. An accurate comparison is difficult due to the impact of measures to control the coronavirus pandemic.

4.4 The offers received and accepted have been reviewed to ensure they comply with the policy and guidance. Where there are concerns that the policy or guidance is not being followed, these are raised with the member of staff and their line manager.

Table 1A: Figures reported to this meeting

	01/02/21-30/04/21	**01/05/21-31/07/21**	**01/08/21-31/10/21**
Period reported to Committee	3 months	3 months	3 months
Total offers	1 (5*)	15	35
Total declined	1	11	23
Total accepted	0 (4*)	4	12
Monthly average			
Total offers	<1	5	12
Total declined	<1	3	8
Total accepted	0	1.3	14

***** Items were registered but fell outside of the policy.

Table 1B: Figures reported to previous meetings and monthly averages

	01/02/20-30/04/20	**01/05/20-31/07/20**	**01/08/20-31/10/20**
Period reported to Committee	3 months	3 months	3 months
Total offers	57	*	16
Total declined	42	-	6
Total accepted	15	-	10
Monthly average			
Total offers	19	-	5.3
Total declined	14	-	2
Total accepted	5	-	3.3

List of appendices to this report:

Appendix 1: Register of Gifts and Hospitality

List of Background Papers:

Corporate Gifts and Hospitality Register

Contact Officer: Howard Carter, General Counsel
Email: HowardCarter@tfl.gov.uk

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Gifts and Hospitality - TfL Senior Leadership Team - Appendix 1
1 August to 31 October 2021

Name of Officer	Donor/Provider of Gift/Hospitality	Detail of Gift/Hospitality	Reason for Accepting Gift / Hospitality	Date of Event/Hospitality
Craig Graeme	John O'Connolly - FEC Development Management Ltd)	Lunch	Networking	18/08/2021
Craig Graeme	Laing O'Rourke	Speaking engagement in Manchester	Networking	08/09/2021
Craig Graeme	Rob Perinns - Berkeley Group	Dinner	Networking	12/08/2021
Craig Graeme	London Chamber of Commerce	Guest speaker at private Roundtable Lunch	Networking	22/09/2021
Craig Graeme	Urban Ovation	Discussion Forum - Transit Oriented Development	Networking	23/09/2021
Field Stephen	Ian Skinner, Senior Associate, Willis Towers Watson	Service review meeting and lunch	Review Meeting and Networking	02/08/2021
Leaker Jane	Reply S.p.A.	Seat at table at the 2021 IoIC Awards 2021	Awards ceremony with dinner	24/09/2021
Lord Andy	Stork and May	Stork & May annual reception	Networking, Private invitation	14/09/2021
Powell Gareth	Keolis	Keolis UK Global Light Rail Awards	Stakeholder	06/10/2021
Powell Gareth	Vendigital, Richard Daley, Director	Discussion & Dinner	Stakeholder	07/10/2021

Gifts and Hospitality - TfL Senior Leadership Team - Appendix 1
1 August to 31 October 2021

Shashi Verma	World Resources Institute, Washington DC	Honorarium for presenting at an event organised. A fee of $800 was offered and will be directed to Voice of World, a disability charity.	Accepted only to support a charity.	27/08/2021
Smith Howard	Howard Johnston (Chair of the Dinner)	Dinner at the Roundhouse	Networking	20/10/2021

Audit and Assurance Committee

Date: **1 December 2021**

Item: **Members' Suggestions for Future Discussion Items**

This paper will be considered in public

1 Summary

1.1 This paper presents the current forward plan for the Committee and explains how this is put together. Members are invited to suggest additional future discussion items.

2 Recommendation

2.1 **The Committee is asked to note the forward plan and is invited to raise any suggestions for future discussion items.**

3 Forward Plan Development

3.1 The Board and its Committees and Panels have forward plans. The content of the plan arises from a number of sources:

(a) standing items for each meeting: minutes; matters arising and actions list; and any regular quarterly reports. For this Committee these include quarterly risk and assurance reports; Elizabeth line programme assurance quarterly updates; and IIPAG quarterly updates;

(b) regular items (annual, half-year or quarterly) which are for review and approval or noting: examples include the legal compliance report, integrated assurance plan, and TfL annual report and accounts;

(c) matters reserved for annual approval or review: examples include those already mentioned above as well as annual audit fee; and

(d) items requested by Members: the Deputy Chair of TfL and the Chair of this Committee will regularly review the forward plan and may suggest items. Other items will arise out of actions from previous meetings (including meetings of the Board or other Committees and Panels) and any issues suggested under this agenda item.

3.2 The Committee is required to meet in private, on an annual basis, with the Director of Risk and Assurance, External Auditors and Chief Finance Officer. These discussions are scheduled after the following Committee dates:

1 December 2021	Director of Risk and Assurance
16 March 2022	Chief Finance Officer

4 Current Plan

4.1 The current plan is attached as Appendix 1. Like all plans, it is a snapshot in time and items may be added, removed or deferred to a later date.

List of appendices to this report:

Appendix 1: Audit and Assurance Committee Forward Plan

List of Background Papers:

None

Contact Officer: Howard Carter, General Counsel
Email: HowardCarter@tfl.gov.uk

Audit and Assurance Committee Forward Plan 2021/22 **Appendix 1**

Membership: Anne McMeel (Chair), Dr Lynn Sloman MBE (Vice Chair), Cllr Julian Bell, Kay Carberry CBE, Dr Mee Ling Ng OBE and Dr Nelson Ogunshakin OBE

Standing Items		
Risk and Assurance Quarterly Report	Director of Risk and Assurance	Quarterly
Elizabeth Line Quarterly Assurance Update	Chief Finance Officer, Crossrail	Quarterly
Finance Control Environment Trend Indicators	Chief Finance Officer	Quarterly
IIPAG Quarterly Report	Head of Project Assurance	Quarterly
Register of Gifts and Hospitality	General Counsel	Quarterly

16 March 2022		
Integrated Assurance Plan 2022/23	Director of Risk and Assurance	Annual
Critical Accounting Policies	Chief Finance Officer	Annual
Personal Data Disclosure to Police and Other Statutory Law Enforcement Agencies (2021)	Director of Compliance, Policing, Operations and Security	Annual
Enterprise Risk Update – Governance and Controls Suitability (ER13)	General Counsel	Annual

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

Agenda Item 20

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of the Local Government Act 1972.

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of the Local Government Act 1972.

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of the Local Government Act 1972.

Agenda Item 21

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