Appendix 1

Transport for London
Audit results report

Year ending 31 March 2021

21 July 2021

Private and Confidential

21 July 2021

Transport for London
Palestra
197 Blackfriars Road
UK SW1H 0BD

Dear Members of the Audit and Assurance Committee,

2020/21 Audit results report

This report summarises our final conclusions in relation to Transport for London Group (TfL Group) financial position and results of operations for the year ended 31 March 2021 in respect of those matters that were not concluded at the time of our previous report issued 7 June 2021. The only work outstanding at time of writing of this report are the final procedural matters such as formal Board sign off, receipt of letter of representation and update of subsequent events to the date of singing, which are not expected to give rise to further issues to report. This report should be read in conjunction with our report of 7 June 2021.

The audit is designed to express an opinion on the 2021 financial statements and address current statutory and regulatory requirements. This report, together with our report of 7 June 2021, contains our findings related to the areas of audit emphasis, our views on TfL Group accounting policies and judgements and material internal control findings. Each year sees further enhancements to the level of audit challenge and the quality of evidence required to achieve the robust professional scepticism that society expects. We thank the management team for supporting this process.

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

We are also the auditors of TfL's subsidiaries, Transport Trading Limited Group (TTL Group) and Crossrail Limited. TfL's subsidiaries are subject to the accounting requirements of the Companies Act 2006. We have undertaken our work in accordance with the requirements of UK auditing standards.

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

Yours faithfully

Karl Havers

Partner
For and on behalf of Ernst & Young LLP

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In our Audit Plan we identified a number of key areas of focus for our audit of the financial report of the TfL Group. There have been no changes to the key areas of focus identified in our June 2021 Audit and Assurance Committee paper.

In our June 2021 Audit and Assurance Committee paper we reported and concluded on the following areas of audit focus:

- Management override of controls, required by ISA (UK and Ireland) 240
- Inappropriate capitalisation or potential impairment of capital projects including capital accruals
- Leases (IFRS 16)
- Significant accounting estimates – including complexity of provisions
- Deferred Capital Grants (TTL)

We have no further matters to report with regards to these areas of focus.

With regards to other areas of audit focus identified in our Audit and Assurance Committee paper, where audit procedures were still in progress in June, we summarise our conclusions below:

Going concern, including TfL and Crossrail funding

Subsequent to our reporting in June 2021, an extension to the Extraordinary funding and financing agreement was agreed to 11 December 2021. The funding agreement consists of £1.08bn to support essential services up until 11 December 2021. We note that the funding agreement is subject to several terms and conditions, the following are the agreed conditions to be delivered in 2021/22:

- Delivery of further operating efficiencies of at least £300m in 2021/22 through appropriate revenue sources and/ or cost saving initiatives.
- TfL will commit to set aside at least £100m within the 2021 Funding Period to continue the delivery of healthy streets and active travel programmes.
- TfL will maintain its changes to its expenditure authorisation processes through the Financial Commitment Oversight Group.
- TfL will continue with its existing plan to increase fares in line with their Business Planning assumption of an overall fares increase of RPI+1% on fares under the Mayor's control in January 2022.

We have discussed this funding agreement with senior management and obtained details of the plans to implement the above conditions in the 21/22 period. We have assessed whether the terms and conditions are achievable by TfL by understanding key assumptions underpinning these matters and the associated budget planning for this period. In particular we have understood the various sensitivities to key assumptions, such as passenger demand, control of staff costs and capital projects.

We have understood the options TfL is pursuing to deliver these matters and given the commitment from the DfT to work collaboratively with TfL over the funding period and that it is understood that it is likely that a further short term funding agreement will be put in place to cover the period from 11 December 2021 to 31 March 2022, whilst management continue to with the DfT to secure a longer term funding arrangement.

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Going concern, including TfL and Crossrail funding (continued)

In particular, the plan continues to make significant assumptions in respect of capital projects, with assumptions over the timing of work, delayed commencement or cancellation of certain new projects. We have questioned the scope of these key judgements and in particular the impact of the funding arrangements and challenges on 'in-progress' projects. Management has continued to represent that for all 'in-progress' projects at 31 March 2021, with a value carried forward in the balance sheet, that these projects will be completed, within the funding options available, without any impairment of the spend prior to 31 March 2021. We have included additional wording in our letter of representation in respect of this point.

As reported previously, the fact that the current funding agreements are short term and cover 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.

Further we note that, as previously reported, in the context of value for money, the short term nature of the funding agreements that have been reached inhibits TfL's ability to deliver the transport strategy for London in the most cost effective manner.

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

We have completed the remaining procedures including the assessment of conclusions within KPMG's ISAE3402 report. We have 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.

Complexity of accounting for TfL and TTL property portfolios

We have received the final valuation report and completed our outstanding procedures. We have concluded that the property valuations are within an acceptable range. We concluded that the disclosure set out in notes to the financial statements provide the users with an appropriate explanation of the judgements and estimates relating to property valuation.

Pension accounting

At the time of our June 2021 report, final reports had not been received from the pension schemes and actuaries in respect of year end balances. These have now all been received and reconciled to the financial statements accounting and disclosures. During this process a difference between the original pension scheme asset values and the final higher position included in the TfL Pension Fund accounts was identified of £76.5m – as this asset value is now confirmed, this represents an uncorrected error. In the prior year a similar item arose of £11m lower asset value. This impacts TfL consolidated and entity financial statements. We expect that all errors will be corrected by management, however management has concluded that this item is not material, impacts other comprehensive income rather than income statement, does not impact usable reserves and it is too late to amend the financial statements. We have recorded this as an uncorrected error on our summary of audit differences, which is attached to our letter of representation and ask that the Board consider this position and conclude on the uncorrected error and the reasons for not adjusting if that is the final position.

Climate related risk

We have completed the remaining procedures with regards to climate related risk. We have reviewed the associated narrative in the Annual report and found no matters to report.

Executive Summary

Value for money

We have reported on value for money in our June 2021 Audit and Assurance Committee paper. As noted above, since that date a further short term funding agreement has been put in place, this does not however address the issues previously raised arising from the short term nature of funding. Our conclusion therefore remains the same as reported in June, that there are arrangements in place to secure economy, efficiency and effectiveness, except in relation to two 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.

Audit differences

In addition to audit differences reported in our June 2021 Audit and Assurance Committee paper, we have identified the following disclosure audit difference:

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

Management has concluded that no adjustment will be made for this amount and we have concluded that this misstatement is not material for the users of the financial statements.

Whole of government accounts

We have not yet initiated our audit for Whole of Government (WGA) requirements. We will commence our work on the WGA following approval of the financial statements.

Audit Certificate

The audit certificate is issued to demonstrate that the full requirements of the National Audit Office's 2015 Code of Audit Practice have been discharged for the relevant audit year. We expect to issue the audit certificate once the work on Whole of Government Accounts is complete.

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Independence

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 Karl Havers, your audit engagement partner and the audit engagement team have not been compromised.

We reported separately on our independence to the Audit & Assurance Committee on 7 June 2021, there has been no change to our independence since that date.

02 Summary of audit differences

Audit Differences

Summary of unadjusted differences

In addition we highlight the following misstatements to the financial statements and/or disclosures which were not corrected by management. We request that these uncorrected misstatements be corrected or a rationale as to why they are not corrected be considered and approved by the Audit & Assurance Committee and provided within the Letter of Representation:

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**					

Disclosure misstatements

We have 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.

* This difference was identified in the prior year audit and arises in the accounting for payments made between 2013 and 2018 on a specific contract – our view is that these should have been capitalised and depreciated over the asset life.

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