Appendix 1

Transport for London

Auditor’s Annual Report
Year ended 31 March 2021

12 November 2021

EY

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.

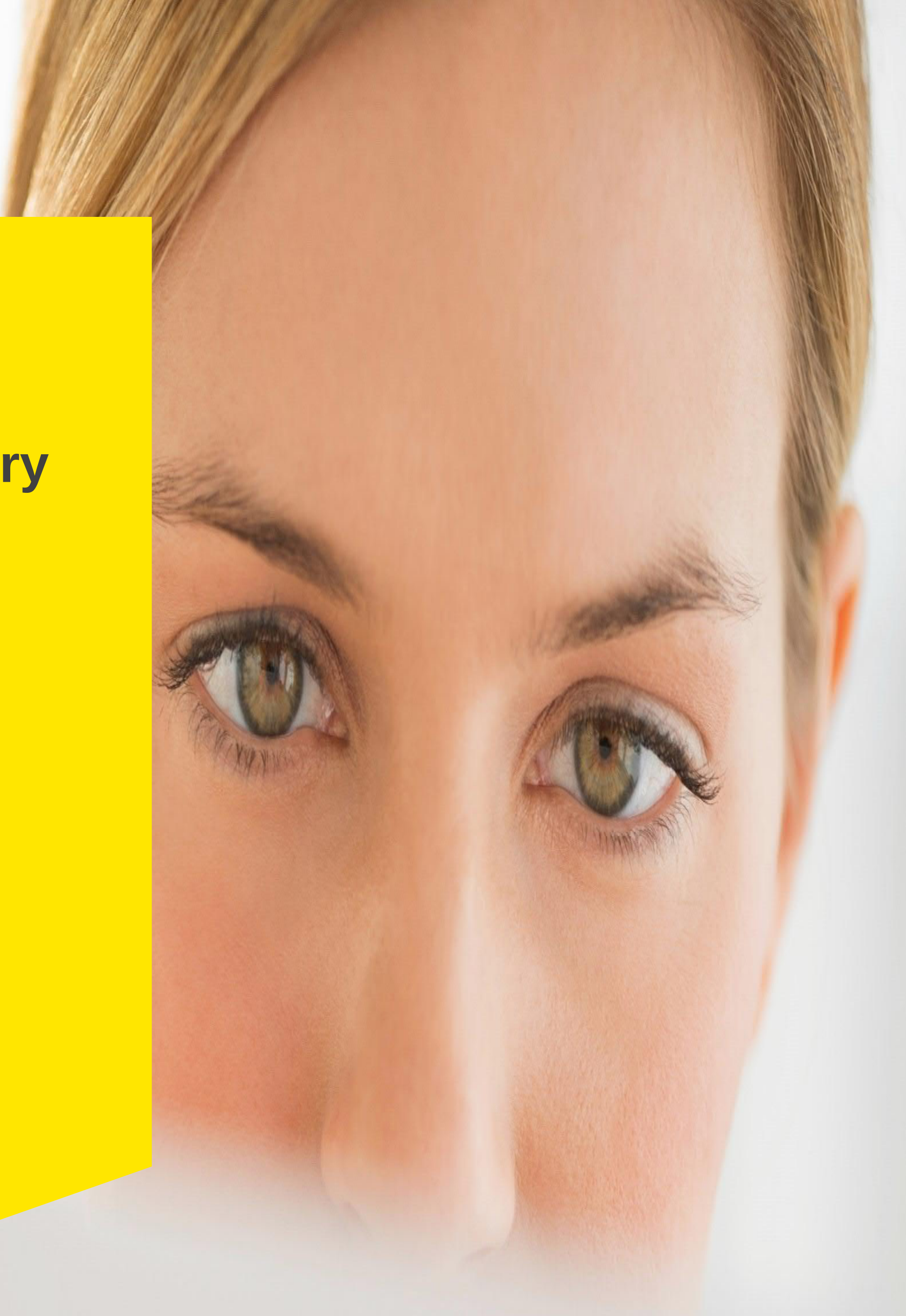
The "Terms of Appointment and further guidance (updated April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure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

Financial Statement Audit (continued)

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.

Financial Statement Audit (continued)

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.

Slide 13

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

Financial Statement Audit (continued)

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.

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.

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.

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

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.

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.

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.

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.

Significant weakness identified:
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.

Recommendation:
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.

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Ernst & Young LLP