Transport for London
Audit planning report
Appendix 1

Year ending 31 March 2022

1 December 2021

Building a better working world

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

The contents of this report are subject to the terms and conditions of our appointment.

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

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.

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.

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.

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:

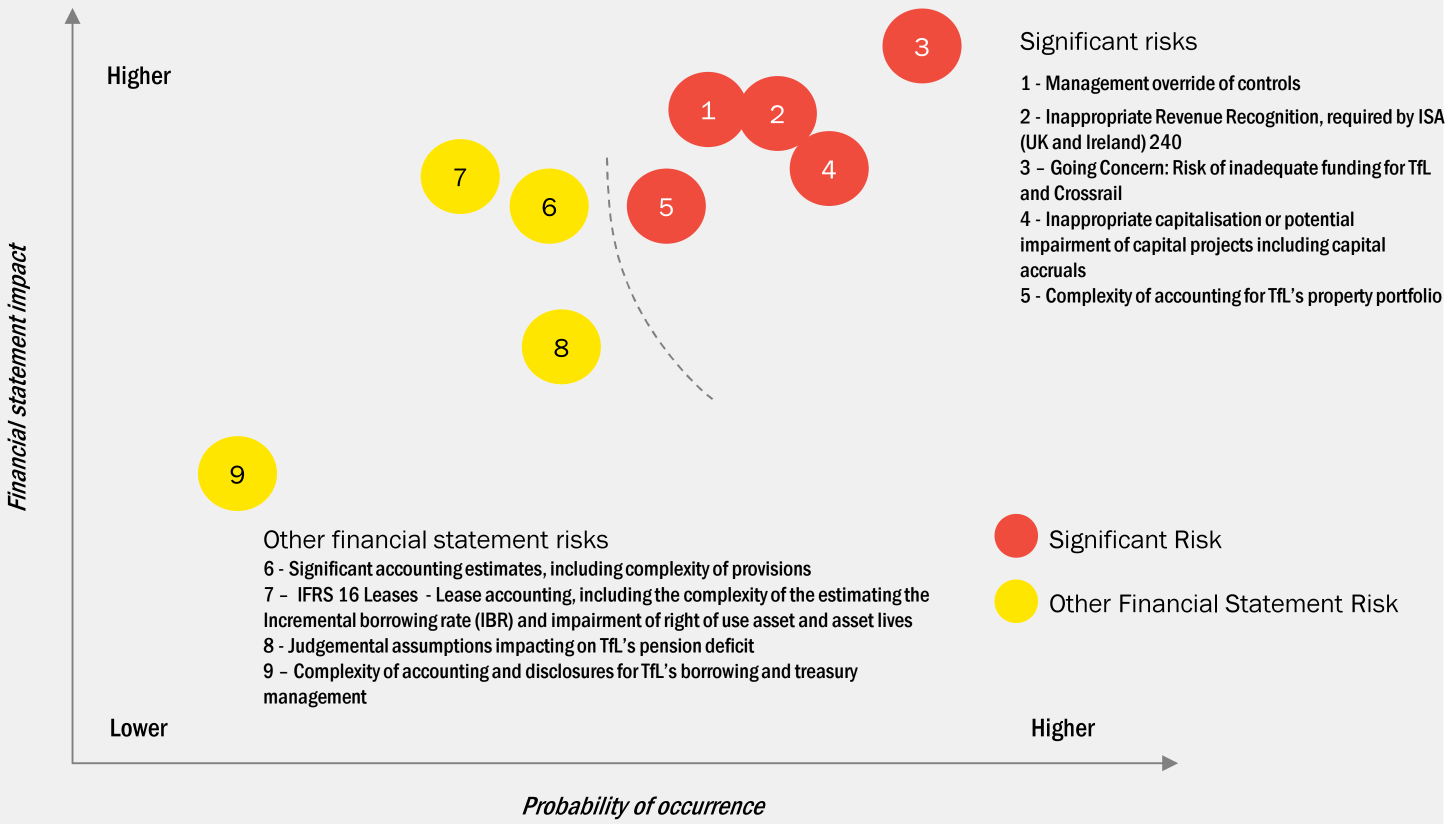
- Areas of higher or significant risk
- Areas involving significant judgment, including accounting estimates with high estimation uncertainty
- Significant events or transactions that occurred during the period

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

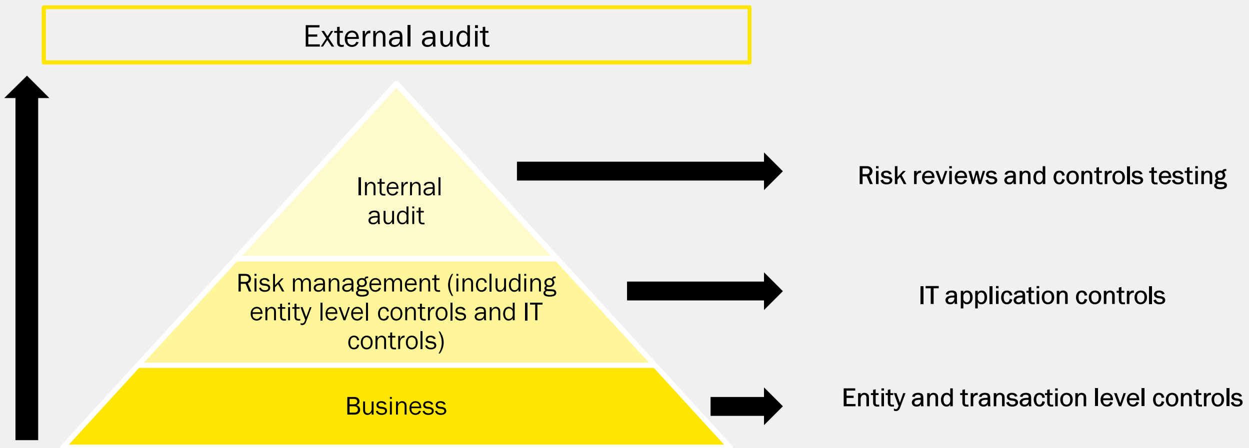
Gaining assurance through the control environment

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	IT Application controls	Derivative instruments	Pensions
Bertie Foster-Ward Senior **Manager**	Maree-Louise Kernick **Associate Partner**	Sean Whelan **Senior Manager**	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

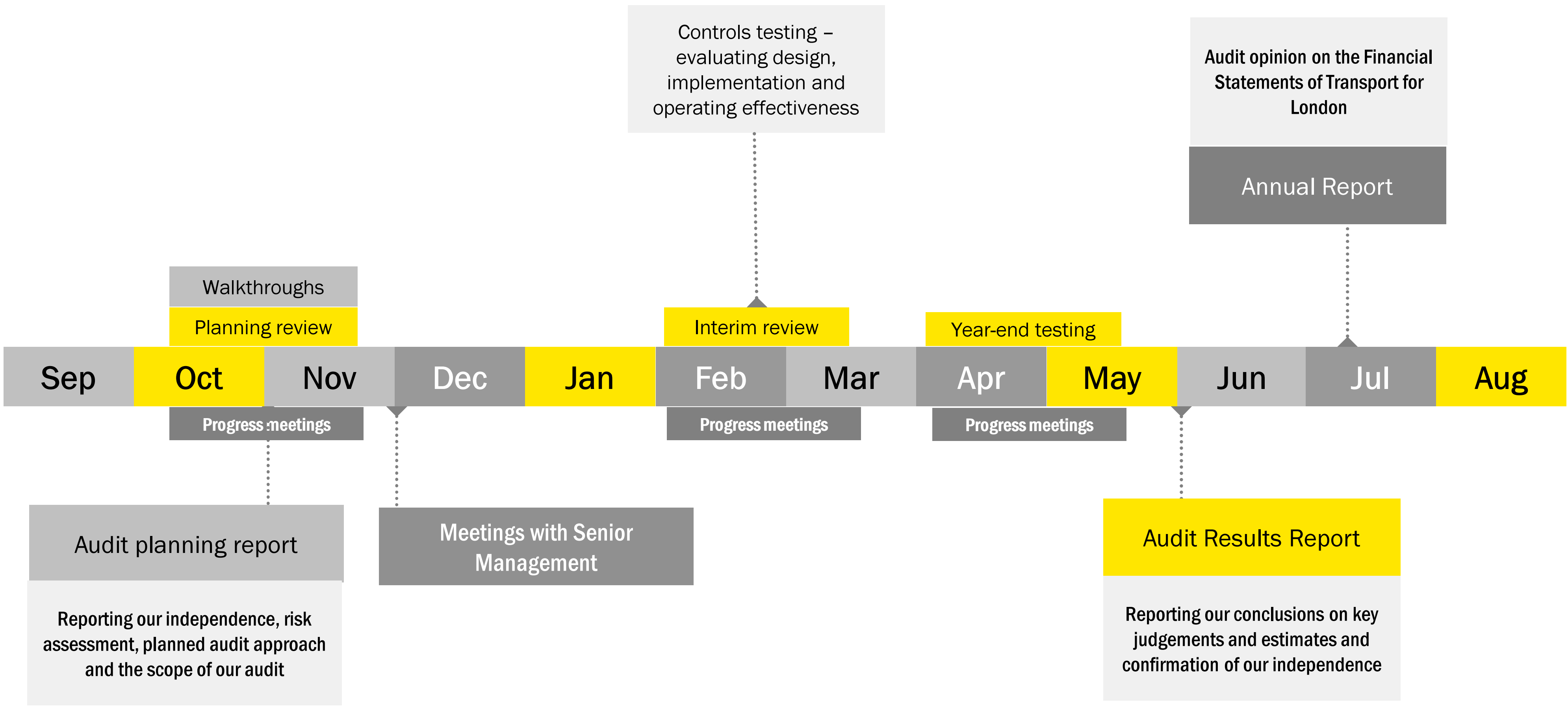
Audit timeline

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.



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.

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

Required communications with the Audit and Assurance Committee

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

		Our Reporting to you
Required communications	What is reported?	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

Appendix A

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)

Required communications	What is reported?	Our Reporting to you: 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)

Required communications	What is reported?	Our Reporting to you: 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.

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.

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