



# Transport for London Audit planning report

Year ending 31 March 2023

30 November 2022

Appendix 1

Private and Confidential

**Audit and Assurance Committee  
Transport for London  
5 Endeavour Square  
Stratford  
London  
E20 1JN**

30 November 2022

Dear Audit and Assurance Committee Members

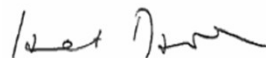
We are pleased to attach our draft Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit and Assurance Committee with a basis to review our proposed audit approach and scope for the 2022/23 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2020 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for Transport for London, and outlines our planned audit strategy in response to those risks.

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 the Board of Directors.

We welcome the opportunity to discuss this report with you on 30 November 2022 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

Enc



# Contents



Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/>). 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 July 2021)" issued by the PSAA (<https://www.psa.co.uk/managing-audit-quality/terms-of-appointment/terms-of-appointment-and-further-guidance-1-july-2021/>) sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature. This report is made solely to the Audit and Assurance Committee and management of **Transport for London** in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit and Assurance Committee and management of Transport for London those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit and Assurance Committee and management of Transport for London for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.





01

# Overview of our 2022/23 audit strategy





## Overview of our 2022/23 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit and Assurance 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
<b>Misstatement due to fraud or error</b>	Fraud Risk	No change in risk or 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.
<b>Management override of controls</b>	Fraud risk	Change in area of focus	<p>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 &amp; Ireland) 240.</p> <p>If TfL's operating expenditure in any financial year within the funding settlement period exceeds the net operating envelope amount set out by the funding settlement agreement and/or non-passenger revenue is lower, this will be for TfL to manage and no additional funding will be provided by the DfT.</p> <p>There is a potential risk relating to recording, or instructing others to record, fictitious journal entries, particularly close to the end of an accounting period, to manipulate operating result in order to meet the quantum stipulated in the 'Operating Envelope'.</p> <p>As the funding provided by the DfT is restricted to specific projects, there is a risk of altering the cost incurred relating to other cost to be included in cost incurred for Major project that is eligible for funding.</p>

## Overview of our 2022/23 audit strategy

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

Risk / area of focus	Audit risk identified	Change from PY	Details
<b>Inappropriate Revenue recognition, required by ISA (UK &amp; Ireland) 240 (including expenditure as required by Practice Note 10)</b>	Fraud risk	Additional area of focus	<p>TfL needs to have robust controls in place to forecast and accurately recognise and report revenue in its financial statements.</p> <p>Based on our previous experience, we have concluded that there is significant risk of material misstatement in the recognition of fare income which comprises £1,764m (P06 Actuals YTD 2022/23) 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.</p> <p>New in 2022/23: The funding settlement from the DfT provides a revenue true-up mechanism that compensates TfL for fluctuations in passenger demand. If passenger demand varies, the DfT will cover the shortfall against the budgeted revenue. The true-up mechanism provides incentive for management to manipulate the revenue amount in order to receive additional compensation from the DfT.</p> <p>The focus of the above fraud risk is related to fares revenue, we will also review journal entries for unusual postings related to manual adjustments to all revenue streams to identify any risk of manipulation of revenue in total terms.</p>
<b>Inappropriate capitalisation of capital projects including capital accruals</b>	Fraud risk	Change in area of focus	<p>Under the current funding agreement with the DfT, TfL has a capital funding envelope and an agreed level of expected capital expenditure.</p> <p>There is a risk of misstating the capital expenditure in order to maximise capital funding receipts.</p>



## Overview of our 2022/23 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit and Assurance 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:
<b>Complexity of accounting for TfL and TTL property portfolios</b>	Significant risk	Change in area of focus	<p>TfL has an extensive property portfolio, with a net book value of investment property and assets held for sales amounting to £1.7bn and £160.9m respectively as at 31 March 2022. Included within the portfolio are office buildings and investment properties.</p> <p>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.</p> <p>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 uncertain economy situation.</p>
<b>Going concern</b>	Significant risk	Changes in the area of focus	<p>In FY22 we concluded that there was a material uncertainty relating to going concern arising as a results of:</p> <ul style="list-style-type: none"> <li>• The requirement to meet conditions set out in the agreements; failure to do so may result in a 'dispute mechanism' that may reduce overall funding</li> <li>• The operation of the inflation review mechanism, which may result in funding below the rate of inflation incurred</li> <li>• Risk of failing to deliver the full efficiency saving programme included in the budget (including the incremental £230m required by DfT)</li> </ul> <p>When we will be completing the FY23 audit, part of the going concern period will be covered by the funding agreement and part by post 31 March 2024 trading. We will need to assess both periods for areas of uncertainty that might give rise to a material uncertainty in going concern.</p>

## Overview of our 2022/23 audit strategy

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

Risk / area of focus	Audit risk identified	Change from PY	Details
<b>Significant accounting estimates - including complexity of provisions</b>	Inherent risk	No change in risk or focus	TfL, TTL and subsidiaries have complex capital contract and commercial arrangements. A large proportion of TfL's provisions come from its compensating and contractual and capital investment activities.  These provisions are subject to significant estimation and include uncertainty around negotiations.
<b>IFRS 16 Leases - Lease accounting, including the complexity of the estimating the Incremental borrowing rate (IBR)</b>	Inherent risk	No change in risk or focus	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 IFRS16 accounting.
<b>Complexity of accounting for infrastructure assets</b>	Inherent risk	New inherent risk	There are extensive capital spent on continuous improvement and upgrades made to the existing infrastructure assets on an annual basis.  There is a risk of not identifying and removing existing cost relating to infrastructure assets which has been replaced by the new improvement and upgrades completed.
<b>Complexity of accounting and disclosures for TfL's borrowing and treasury management</b>	Inherent risk	No change in risk or focus	TfL holds a number of derivative balances including FX forwards and interest rate swaps. Whilst the recalculation of derivative fair values is relatively complex the type of derivatives held by TfL (FX and Interest rate swaps) are not 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.



## Overview of our 2022/23 audit strategy

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

Risk / area of focus	Audit risk identified	Change from PY	Details
<b>Judgemental assumptions impacting TfL's pension deficit</b>	Inherent risk	No change in risk or focus	<p>The assumptions used to arrive at the value of the actuarial valuation of defined benefit obligations is complex and involves significant judgment and estimation. Therefore, we consider the IAS19 as higher estimation risk.</p> <p>At 31 March 2022, TfL's deficit recognised as a liability in the balance sheet amounted to £3,201.5 million. The Group's balance sheet reflects the deficit from Public Sector Section of the TfL Pension Fund Scheme, Local Government Pension Fund Scheme, Crossrail section of the Railways Pension Scheme and the unfunded scheme provisions. TfL uses the services of Barnett Waddingham and XPS Group, actuarial experts to support them with the actuarial assumptions and disclosures supporting the IAS19 figures</p>

# Overview of our 2022/23 audit strategy

---

## Other areas of audit focus

### **ISA 315 (Revised 2019) - Identifying and Assessment of Material Misstatement through Understanding the Entity and Its Environment**

ISA 315 (Revised 2019), Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment, has been revised to (i) encourage a more robust risk assessment, thereby promoting more focused responses to the identified risks; (ii) Clarify current requirements to promote consistency in the application of procedures for risk identification; and (iii) Modernize the standard to keep up with the evolving environment in which entities operate, in particular in relation to the entity's use of information technology.

We will be required to perform new and additional procedures to understand TfL's use of IT, the IT processes related to those IT applications relevant to the audit used in the different accounting processes and, where relevant, the IT general controls (ITGCs) that address IT risks in the IT processes and evaluation of their design effectiveness and whether they have been implemented.

More control observations may be identified and communicated, and the additional evaluations of the components of the system of internal control may help identify deficiencies that are considered to be significant deficiencies.

### **Participation in shared investment arrangement managed by GLA**

TfL's requirement to maintain a significant cash balance for operational reasons adds a further dimension of complexity to the overall group cash position. To optimise the opportunity for deploying cash wisely, ie maximising investment opportunities and minimising borrowing costs, TfL plans to participate in the shared investment arrangement managed by the GLA for itself and the other public bodies and to co-ordinate material borrowing decisions and strategy with the GLA.

As of November 2022, the arrangement has not been finalised.



## Overview of our 2022/23 audit strategy

### 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:

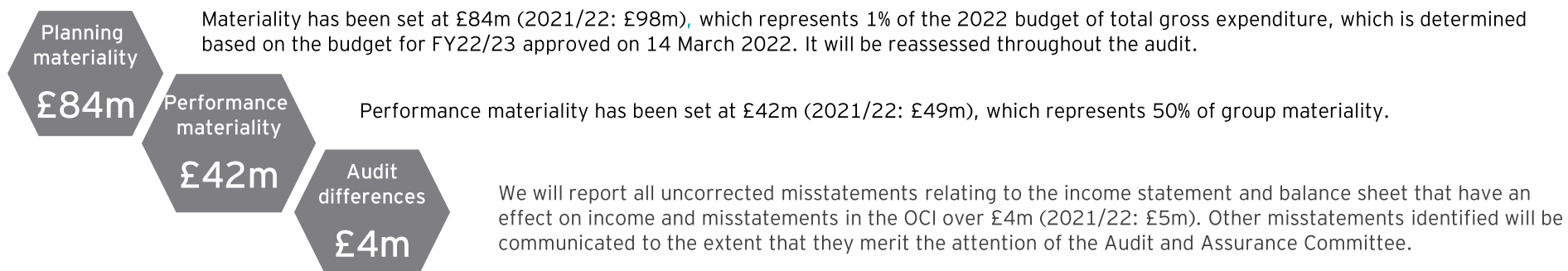
- Possesses more than higher risk to the member firm. A close-monitoring designation involves more judgment and experience.
- Requires specific procedures to be performed as discussed in the report.

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.

We have calculated planning materiality using gross expenditure (being the total of current year operational and capital 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 2022/23 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 2021/22 financial year. This will impact the amount of testing performed.



# Overview of our 2022/23 audit strategy

## Audit scope

This Audit Plan covers the work that we plan to perform to provide you with:

- Our audit opinion on whether the financial statements of Transport for London give a true and fair view of the financial position as at 31 March 2023 and of the income and expenditure for the year then ended; and
- Our commentary on your arrangements to secure value for money in your use of resources for the relevant period. We include further details on VFM in Section 03.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on TfL's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- Strategic, operational and financial risks relevant to the financial statements;
- Developments in financial reporting and auditing standards;
- The quality of systems and processes;
- Changes in the business and regulatory environment; and,
- Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to Transport for London.

Taking the above into account, and as articulated in this audit plan, our professional responsibilities require us to independently assess the risks associated with providing an audit opinion and undertake appropriate procedures in response to that. Our Terms of Appointment with PSAA allow them to vary the fee dependent on "the auditors assessment of risk and the work needed to meet their professional responsibilities". PSAA are aware that the setting of scale fees has not kept pace with the changing requirements of external audit with increased focus on, for example, the valuations of land and buildings, the auditing of groups, the valuation of pension obligations, the introduction of new accounting standards such as IFRS 9 and 15 in recent years as well as the expansion of factors impacting the ISA 540 (revised) and the value for money conclusion. Therefore to the extent any of these or any other risks are relevant in the context of Transport for London audit, we will discuss these with management as to the impact on the scale fee.

### Effects of climate-related matters on financial statements and Value for Money arrangements

Public interest in climate change is increasing. We are mindful that climate-related risks may have a long timeframe and therefore while risks exist, the impact on the current period financial statements may not be immediately material to an entity. It is nevertheless important to understand the relevant risks to make this evaluation. In addition, understanding climate-related risks may be relevant in the context of qualitative disclosures in the notes to the financial statements and value for money arrangements.

We make inquiries regarding climate-related risks on every audit as part of understanding the entity and its environment. As we re-evaluate our risk assessments throughout the audit, we continually consider the information that we have obtained to help us assess the level of inherent risk.

## Overview of our 2022/23 audit strategy

### Value for money conclusion

We include details in Section 03 but in summary:

- We are required to consider whether TfL has made 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.
- Planning on value for money and the associated risk assessment is focused on gathering sufficient evidence to enable us to document our evaluation of TfL's arrangements, to enable us to draft a commentary under three reporting criteria (see below). This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations.
- We will provide a commentary on TfL's arrangements against three reporting criteria:
  - Financial sustainability - How TfL plans and manages its resources to ensure it can continue to deliver its services;
  - Governance - How TfL ensures that it makes informed decisions and properly manages its risks; and
  - Improving economy, efficiency and effectiveness - How TfL uses information about its costs and performance to improve the way it manages and delivers its services.
- The commentary on VFM arrangements will be included in the Auditor's Annual Report.

### Timeline

See Section 07 - we have set out the phasing of our audit in order to meet the planned reporting timetable for a sign off at the end of July 2023.



02

## Audit risks

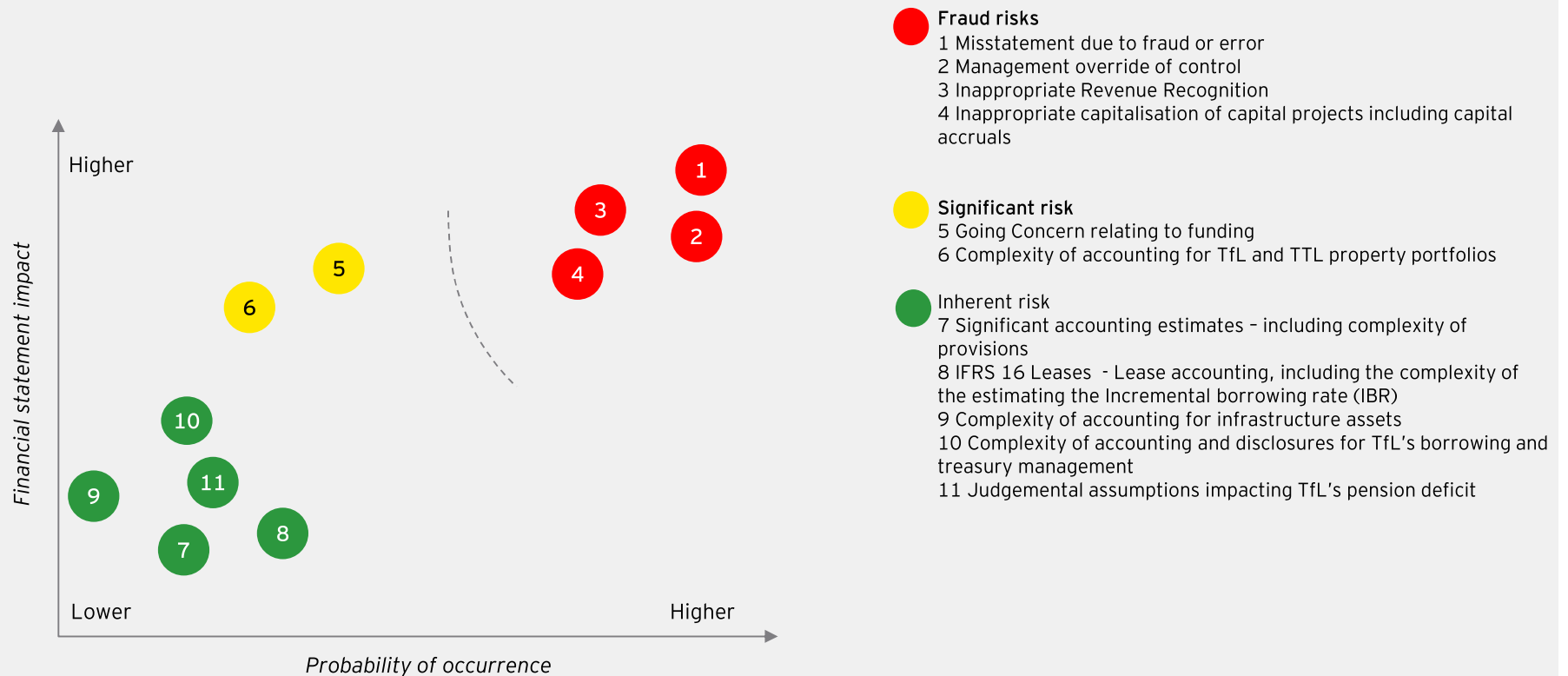


## Audit risks

# Risk assessment

### Risk assessment

We have obtained an understanding of your strategy, reviewed your principal risks as identified in your 2021/22 Annual Report and Accounts and combined it with our understanding of the sector to identify key risks that impact our audit. The following 'dashboard' summarises the significant matters that are relevant for planning our year-end audit:





## Audit 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.

#### 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.

## Audit risks

# 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.

	What is the risk?	What will we do?
<b>Management override of controls*</b>	<p>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 &amp; Ireland) 240.</p> <p>If TfL's operating expenditure in any financial year within the funding settlement period exceed the net operating envelope amount set out by the funding settlement agreement and/or non-passenger revenue is lower, this will be for TfL to manage and no additional funding will be provided by the DfT.</p> <p>There is a potential risk relating to recording, or instructing others to record, fictitious journal entries, particularly close to the end of an accounting period, to manipulate operating result in order to meet the quantum stipulated in the 'Operating Envelope'.</p> <p>As the funding provided by the DfT is restricted to specific projects, there is a risk of altering the cost incurred relating to other cost to be included in cost incurred for Major projects that is eligible for funding.</p>	<p>For TfL, TTL groups and subsidiaries, we will:</p> <ul style="list-style-type: none"><li>▶ Robustly challenge management's assumptions on capitalising expenditure;</li><li>▶ Apply professional scepticism by questioning whether management's explanations are logical, reasonable and in line with relevant historic trends supported by sufficient appropriate evidence;</li><li>▶ Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;</li><li>▶ Test significant transactions that are outside the normal course of business or that appear unusual;</li><li>▶ Evaluating the business rationale for significant unusual transactions;</li><li>▶ Assessing accounting estimates for evidence of management bias;</li><li>▶ Test procurement transactions to identify any material override of controls; and</li><li>▶ Apply professional scepticism and judgement to determine whether the evidence provided is reliable for the purpose which it has been obtained.</li></ul>



## Audit risks

# 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 Revenue recognition, required by ISA (UK & Ireland) 240 (including expenditure as required by Practice Note 10)\***

### Financial statement impact

Misstatements that occur in relation to the risk of fraud in revenue recognition could affect the income accounts. These accounts had the following balances at P6

Fare revenue : £1,764m  
Congestion charges : £462m  
Commercial advertising : £64m  
Rental revenue : £35m

### What is the risk?

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 fraud risk in the recognition of fare income which comprises £1,764m (P06 Actuals YTD 2022/23) 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.

The fraud 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.

The funding settlement from the DfT provides a revenue true-up mechanism that compensates TfL for fluctuations in passenger demand. If passenger demand varies, the DfT will cover the shortfall against the budgeted revenue. The true-up mechanism provides incentive for management to manipulate the revenue amount in order to receive additional compensation from the DfT.

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.



## Audit risks

# 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 Revenue recognition, required by ISA (UK & Ireland) 240 (including expenditure as required by Practice Note 10)\***

### Financial statement impact

Misstatements that occur in relation to the risk of fraud in revenue recognition could affect the income accounts. These accounts had the following balances at P6

Fare revenue : £1,764m  
Congestion charges : £462m  
Commercial advertising : £64m  
Rental revenue : £35m

### 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 uncertain economy situation 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 FY22/23 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 uncertain economy situation and compare the provision amount to actual refund payments made post year end; and
- ▶ 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 adjustments

The focus of the above fraud risk is related to fares revenue, we will also review journal entries for unusual postings related to manual adjustments to all revenue streams to identify any risk of manipulation of revenue in total terms.



## Audit risks

# 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.

	<b>What is the risk?</b>	<b>What will we do?</b>
<p><b>Inappropriate capitalisation of capital projects including capital accruals*</b></p>	<p>Under the current funding agreement with the Department for Transport, TfL has a capital funding envelope and an agreed level of expected capital expenditure. TfL is expected to deliver 10 Major projects by 2023/24 as follows within the budget of £3.5bn:</p> <ul style="list-style-type: none"> <li>• Piccadilly Line Upgrade Phase 1 - Trains</li> <li>• Four Lines Modernisation</li> <li>• Rail System Enhancements for Northern and Jubilee lines</li> <li>• Northern Line Extension</li> <li>• Silvertown Tunnel</li> <li>• Barking Riverside Extension</li> <li>• DLR Rolling Stock Replacement Programme</li> <li>• Elephant &amp; Castle Station Stage 1</li> <li>• Bank Congestion Relief (and necessary associated works)</li> <li>• The Elizabeth Line</li> </ul> <p>There is a risk of misstating the capital expenditure in order to maximise capital funding receipts.</p>	<p>For TfL, TTL groups and subsidiaries we will:</p> <ul style="list-style-type: none"> <li>▸ Review a sample of capital projects (including Crossrail), based on quantitative and qualitative thresholds;</li> <li>▸ Understand key controls and governance surrounding capital project accounting and management;</li> <li>▸ Test controls focused on the effectiveness of the approval process for expenditure and for capitalisation;</li> <li>▸ Meet with management and project managers during the year and attend management's P11 and P13 accruals meetings;</li> <li>▸ Evaluate management's judgements and assumptions used in determining the future benefits expected from the projects and ensuring they are appropriate and supportable;</li> <li>▸ Consider pain/gain arrangements and related accounting treatment;</li> <li>▸ Assess whether or not capitalisation of costs is appropriate;</li> <li>▸ Consider whether, at any stage, assets need to be impaired or written off to reflect any aborted or higher risk projects;</li> <li>▸ Perform detailed testing on a sample of expenditure incurred and capital accruals to source documentation;</li> <li>▸ Assess whether management has reasonably estimated the cost to complete the capital projects;</li> <li>▸ 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;</li> <li>▸ Review claims and contracts for existence of additional obligations or expenditure that is inappropriate to capitalise;</li> <li>▸ Perform additional procedures in response to the continued impact of uncertain economy situation</li> </ul>
<p><b>Financial statement impact</b></p> <p>Misstatements that occur in relation to inappropriate capitalisation including capital accruals would affect the carrying value of assets under construction and capital accruals accounts. These accounts had the following balances in the 2022 financial statements:</p> <p>Balance Sheet Account:</p> <ul style="list-style-type: none"> <li>• Assets under construction: £18,786m; and</li> <li>• Capital accruals: £556m</li> </ul>		





## Audit risks

### 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.

#### Going concern

##### What is the risk?

In FY22 we concluded that there was a material uncertainty relating to going concern arising as a result of:

- The requirement to meet conditions set out in the agreements; failure to do so may result in a 'dispute mechanism' that may reduce overall funding;
- The operation of the inflation review mechanism, which may result in funding below the rate of inflation incurred; and
- Risk of failing to deliver the full efficiency saving programme included in the budget (including the incremental £230m required by DfT).

At the time of performing the FY23 audit, the going concern period to be considered is of at least 12 months from the approval of the financial statements will result in a going concern period past 31 March 2024, the end of the current funding agreement. We will need to perform procedures on the period up to 31 March 2024 covered by the funding agreement and then the period from 1 April 2024 when no funding is in place. We will assess both periods for areas of uncertainty that might give rise to a material uncertainty by taking into considering key assumptions used in forecasts such as :

- Rising input costs and availability challenges e.g., energy prices, staff costs feeding wider inflation;
- Interest rate increases hitting businesses and households;
- Reductions in consumer confidence and spending power meaning that discretionary spend is uncertain;
- Frequent changes in government policy, including uncertainty over periods of support for businesses; and
- Availability of financing.



## Audit risks

# 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.

### Going concern (continued)

#### What will we do?

For TfL, TTL group and subsidiaries, we will:

- ▶ Understand management's assessment of funding requirements and commitments for the going concern period.
- ▶ Consider the historical accuracy of management's budgets and forecasting by comparing the last two years variances in actual outturn, to assess the risk of the budgets used in the funding discussions omitting material commitments.
- ▶ Validate performance to date on efficiency savings programmes, to determine the potential risk of non delivery of the savings assumed within the budget, as well as the additional amounts required by the funding settlement.
- ▶ Understand the nature of the conditions set out in the agreement with the DfT dated 30 August 2022, and validate performance against those conditions and the control mechanisms in place at TfL to monitor performance, to assess the risk of non compliance with conditions which could therefore result in a reduction in funding in the period to 31 March 2024.
- ▶ Challenge each material element of downside risk identified by management, including those related to inflation and cost savings and test to supporting evidence to assess the underlying assumptions and the appropriateness of TfL calculations
- ▶ Stress test the downside risk, using worst case parameters, considered completeness of downside risks and calculate a "worst case" downside risk- this will include using increased inflation rates, reduced cost savings, changes to passenger fares and other reductions to revenue
- ▶ Confirm the position re any assumed support from GLA in the going concern period, such as the availability and planned application of the Transport Reserve and funding facility to TfL.
- ▶ Obtain from GLA and test cashflows, including funding assumptions within the Mayor's budget, to assess the availability of the support outlined in the Mayoral Direction not yet received before the going concern period.



## Audit risks

### 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.

#### Going concern (continued)

#### What will we do?

For TfL, TTL group and subsidiaries, we will:

- ▶ Consider the mitigations available to TfL, challenge the assumptions over access to further borrowing and other potential mitigations to determine the reasonableness of those options.
- ▶ For the period post 31 March 2024, we will challenge the budget and forecast in terms of understanding the ability of TfL to be financially sustainable without additional funding from the DfT.



## Audit risks

# 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.

	What is the risk?	What will we do?
<p><b>Complexity of accounting for TfL and TTL property portfolios</b></p>	<p>TfL has an extensive property portfolio, with a net book value of investment property and assets held for sale amounting to £1.7bn and £160.9m respectively as at 31 March 2022.</p> <p>To determine fair value, management utilises the net income method and discounting of future cash flows to their present value. This uses various assumptions including the anticipated future rental income, maintenance costs and the appropriate discount rate; making reference to market evidence of transaction prices for similar properties. A deduction is made to reflect purchaser's acquisition costs. Values are therefore calculated under level 3 of the fair value hierarchy.</p>	<p>For TfL, TTL groups and subsidiaries, we will:</p> <ul style="list-style-type: none"> <li>▶ Discuss with management and review evidence to gain an understanding of TfL and TTL group's property portfolios;</li> <li>▶ Discuss and review valuation assumptions and methodology applied by external valuers along with the TfL property team;</li> <li>▶ Perform substantive testing and corroborate explanations for property additions, disposals and accounting for lease contracts;</li> <li>▶ 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;</li> <li>▶ Assess the classification of TfL and TTL properties and any material increases or impairments that arise during 2022/23;</li> <li>▶ 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;</li> <li>▶ Review the accounting treatment of valuation movements for non-core assets and ensure it is appropriately disclosed;</li> <li>▶ 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</li> <li>▶ Review and challenge judgements made by the external valuers in light of the uncertainties in the current economy.</li> </ul>
<p><b>Financial statement impact</b></p> <p>Misstatements that occur in relation to the complexity of accounting for TfL and TTL group's property portfolios would affect the net asset value. The accounts had the following balances in the 2022 financial statements:</p> <p>Balance Sheet Account:</p> <ul style="list-style-type: none"> <li>• Investment property: £1,713m</li> <li>• Assets Held for Sales: £161m</li> <li>• Office buildings £74m</li> </ul>		

## Audit risks

### Other areas of audit focus (continued)

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	What will we do?
<p><b>Significant accounting estimates - including complexity of provisions</b></p> <p>TfL, TTL and subsidiaries have complex capital contract and commercial arrangements. A large proportion of TfL's provisions come from its compensating and contractual and capital investment activities.</p> <p>These provisions are subject to significant estimation and include uncertainty around negotiations.</p>	<p>We will:</p> <ul style="list-style-type: none"><li>▶ Critically assess and challenge management's assessment of judgements and estimates.</li><li>▶ Evaluate the accuracy and completeness of the estimation amount made by third party relating to insurances claims.</li><li>▶ Perform unrecorded liabilities testing to identify any omitted provisions.</li></ul>
<p><b>IFRS 16 Leases - Lease accounting, including the complexity of the estimating the Incremental borrowing rate (IBR)</b></p> <p>IFRS 16 was adopted for the first time in the 31 March 2020 financial statements. It requires entities to recognise a right of use asset and corresponding lease liability in its Statement of Financial Position. There are a number of judgements 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.</p>	<p>We will:</p> <ul style="list-style-type: none"><li>▶ Assess the appropriate ness of the interest rate to be used in the calculation of lease liabilities.</li><li>▶ Assess the length of the leases - In particular with respect to station and track access.</li><li>▶ Engage EY FAIT team to evaluate the accuracy of the IBR rate used.</li><li>▶ Re-assess differences identified in prior year.</li></ul>



## Audit risks

### Other areas of audit focus (continued)

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

#### What is the risk/area of focus?

##### **Complexity of accounting for infrastructure assets**

There is extensive capital spent on continuous improvement and upgrades made to the existing infrastructure assets on an annual basis.

There is a risk of not identifying and removing existing cost relating to infrastructure assets which has been replaced by the new improvement and upgrades completed.

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

TfL holds a number of derivative balances including FX forwards and interest rate swaps. Whilst the recalculation of derivative fair values is relatively complex the type of derivatives held by TfL (FX and Interest rate swaps) are not 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.

#### What will we do?

▶ For additions to infrastructure assets in the year, we will understand their nature and whether these are replacement of previous assets. Where this is the case we will test whether an appropriate amount has been removed from the fixed asset register in respect of the original expenditure.

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 has been in compliance with these conditions set out in agreements;
- ▶ Engage with our EY FAAS team to perform an independent valuation of a sample of derivative instruments and reperform the measurement of hedge ineffectiveness.





## Audit risks

### Other areas of audit focus (continued)

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

#### What is the risk/area of focus?

##### Judgemental assumptions impacting TfL's pension deficit

The Local Authority Accounting Code of Practice and IAS19 require TfL to make extensive disclosures within its financial statements regarding its membership to the various scheme.

TfL's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the TfL's balance sheet. At 31 March 2022, TfL's deficit recognised as a liability in the balance sheet amounted to £3,201.5 million. The Group's balance sheet reflects the deficit from Public Sector Section of the TfL Pension Fund Scheme, Local Government Pension Fund Scheme, Crossrail section of the Railways Pension Scheme and the unfunded scheme provisions.

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

#### What will we do?

We will :

- ▶ Liaise with the auditors of TfL Pension Fund and London Pension Fund Authority to obtain assurances over the information supplied to the actuary in relation to Transport for London. We will be sending letters to the auditors and will obtain a copy of the audit findings reports to assess the impact to the schemes of TfL
- ▶ Assess the work of the Pension Fund's actuary (Barnett Waddingham and XPS Group) including the assumptions they have used by engaging EY Pension Consulting team to review and assess the assumptions used.
- ▶ Review and test the accounting entries and disclosures made within the TfL's financial statements in relation to IAS19; and
- ▶ Engage EY Pensions Consulting team to carry out roll forward calculations related to the accounting numbers for the fund, to reconcile the year-end fair value of the schemes asset and actuarial valuation of deficit benefit obligation figures with those from the previous year disclosures.



03

## Value for Money Risks





# Value for Money

## Transport for London's responsibilities for value for money

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

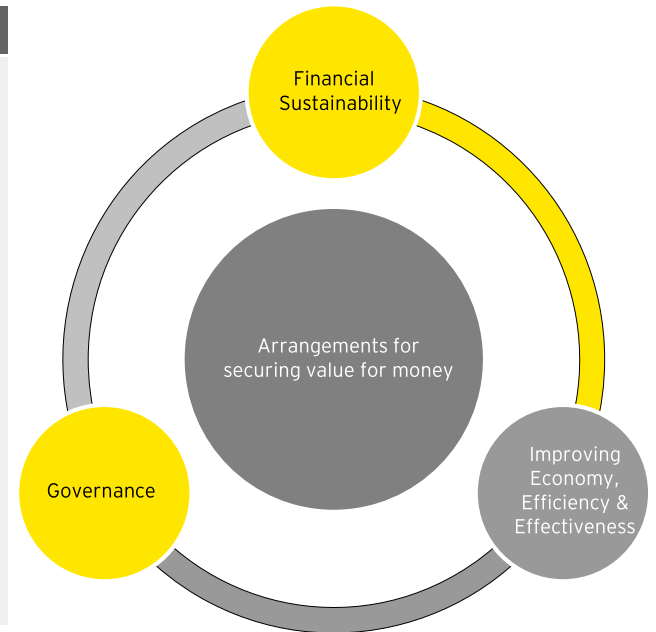
As part of the material published with the financial statements, TfL is required to bring together commentary on the governance framework and how this has operated during the period in a governance statement. In preparing the governance statement, TfL tailors the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This includes a requirement to provide commentary on arrangements for securing value for money from the use of resources.

## Auditor responsibilities

Under the NAO Code of Audit Practice we are required to consider whether TfL has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. The Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to TfL a commentary against specified reporting criteria (see below) on the arrangements TfL has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

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





## Value for Money

### Planning and identifying risks of significant weakness in VFM arrangements

The NAO's guidance notes requires us to carry out a risk assessment which gathers sufficient evidence to enable us to document our evaluation of Transport for London's arrangements, in order to enable us to draft a commentary under the three reporting criteria. This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations.

In considering TfL's arrangements, we are required to consider:

- TfL's governance statement;
- Evidence that TfL's arrangements were in place during the reporting period;
- Evidence obtained from our work on the accounts;
- The work of inspectorates and other bodies; and
- Any other evidence source that we regards as necessary to facilitate the performance of our statutory duties.

We then consider whether there is evidence to suggest that there are significant weaknesses in arrangements. The NAO's guidance is clear that the assessment of what constitutes a significant weakness and the amount of additional audit work required to adequately respond to the risk of a significant weakness in arrangements is a matter of professional judgement. However, the NAO states that a weakness may be said to be significant if it:

- Exposes - or could reasonably be expected to expose - TfL to significant financial loss or risk;
- Leads to - or could reasonably be expected to lead to - significant impact on the quality or effectiveness of service or on TfL's reputation;
- Leads to - or could reasonably be expected to lead to - unlawful actions; or
- Identifies a failure to take action to address a previously identified significant weakness, such as failure to implement or achieve planned progress on action/improvement plans.

We should also be informed by a consideration of:

- The magnitude of the issue in relation to the size of TfL;
- Financial consequences in comparison to, for example, levels of income or expenditure, levels of reserves (where applicable), or impact on budgets or cashflow forecasts;
- The impact of the weakness on TfL's reported performance;
- Whether the issue has been identified by TfL's own internal arrangements and what corrective action has been taken or planned;
- Whether any legal judgements have been made including judicial review;
- Whether there has been any intervention by a regulator or Secretary of State;
- Whether the weakness could be considered significant when assessed against the nature, visibility or sensitivity of the issue;
- The impact on delivery of services to local taxpayers; and
- The length of time TfL has had to respond to the issue.



# Value for Money

## Responding to identified risks of significant weakness

Where our planning work has identified a risk of significant weakness, the NAO's guidance requires us to consider what additional evidence is needed to determine whether there is a significant weakness in arrangements and undertake additional procedures as necessary, including where appropriate, challenge of management's assumptions. We are required to report our planned procedures to the Audit and Assurance Committee.

## Reporting on VFM

Where we are not satisfied that TfL has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources the Code requires that we should refer to this by exception in the audit report on the financial statements.

In addition, the Code requires us to include the commentary on arrangements in the Auditor's Annual Report. The Code states that the commentary should be clear, readily understandable and highlight any issues we wish to draw to TfL's attention or the wider public. This should include details of any recommendations arising from the audit and follow-up of recommendations issued previously, along with our view as to whether they have been implemented satisfactorily.

## Status of our 2022/23 VFM planning

We have yet to complete our detailed VFM planning. However, one area of focus will be on the arrangements that TfL has in place in relation to financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services.

In 2021/22, TfL did not have arrangements in place to obtain value for money due to lack of clarity of long-term funding arrangements going forward, As such, we have identified as significant weakness with regards to how TfL plans and manages its resources to ensure it can continue service delivery. We recommended that the management agree a long term plan for future capital and service investment beyond 31 March 2024, as soon as practicable, in order to allow TfL to put in place arrangements to plan and manage resources to ensure value for money.

We will update the next Audit and Assurance Committee meeting on the outcome of our VFM planning and our planned response to any additional identified risks of significant weaknesses in arrangements.





04

## Audit materiality

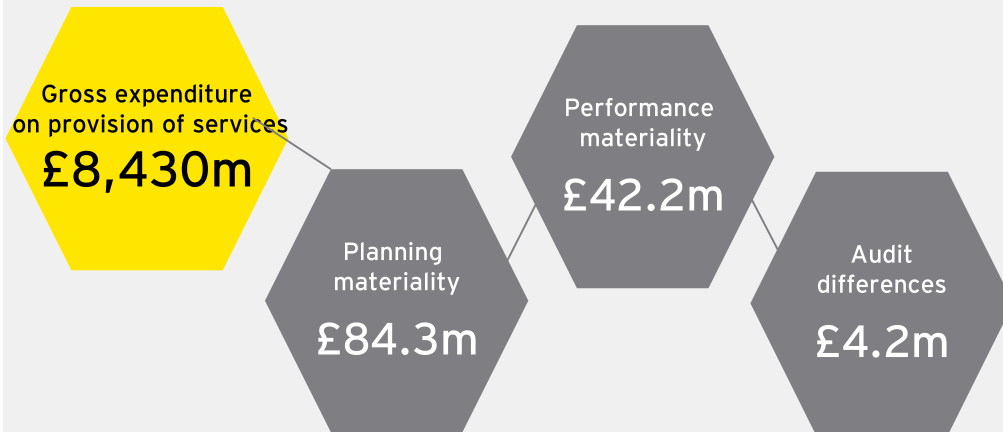


# Materiality

## 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.

For planning purposes, materiality for 2022/23 has been set at £84.3m. This represents 1% of TfL's gross expenditure (current year operating and capital expenditure). This basis has been used as these are the key focus of the funding arrangements in place and therefore of most interest to the users of the financial statements. It will be reassessed throughout the audit process. We have provided supplemental information about audit materiality in Appendix C.



We request that the Audit and Assurance Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

## Key definitions

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

**Performance materiality** - the amount we use to determine the extent of our audit procedures. We have set performance materiality at £42.2m which represents 50% of planning materiality. We have considered previous year audit findings, and the historic trend of adjustments when considering the percentage to apply for TE purposes. Based on prior year audits as well as our work to date, there were number of total corrected and uncorrected audit differences. As a result we plan to apply 50% of PM.

**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 comprehensive income and expenditure 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 and movement in reserves 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.

## Audit materiality

---

### Materiality

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 the circumstances that might ultimately influence our judgement. 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 financial statements, including the total effect of any audit misstatements, and our evaluation of materiality at that date.

We also identify areas where misstatement at a lower level than our overall materiality level might influence the reader and develop an audit strategy specific to these areas, including:

- ▶ Remuneration disclosures: we will agree all disclosures back to source data.
- ▶ Related party transactions we will test the completeness of related party disclosures and the accuracy of all disclosures by checking back to supporting evidence.





05

## Scope of our audit



## Scope of our audit

# Our Audit Process and Strategy

### Objective and Scope of our Audit scoping

Under the Code of Audit Practice, our principal objectives are to undertake work to support the provision of our audit report to the audited body and to satisfy ourselves that the audited body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

#### 1. Financial statement audit

##### Our opinion on the financial statements:

- whether the financial statements give a true and fair view of the financial position of the audited body and its expenditure and income for the period in question; and
- whether the financial statements have been prepared properly in accordance with the relevant accounting and reporting framework as set out in legislation, applicable accounting standards or other direction.

##### Our opinion on other matters:

- whether other information published together with the audited financial statements is consistent with the financial statements; and
- where required, whether the part of the remuneration report to be audited has been properly prepared in accordance with the relevant accounting and reporting framework.

##### Other procedures required by the Code:

- Examine and report on the consistency of the Whole of Government Accounts schedules or returns with the body's audited financial statements for the relevant reporting period in line with the instructions issued by the NAO

#### 2. Arrangements for securing economy, efficiency and effectiveness (value for money)

As outlined in Section 03, we are required to consider whether TfL has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources and report a commentary on those arrangements.



## Scope of our audit

# Our Audit Process and Strategy (continued)

### Audit Process Overview

Our audit involves:

- ▶ Identifying and understanding the key processes and internal controls; and
- ▶ Substantive tests of detail of transactions and amounts.

Our initial assessment of the key processes across TfL has identified the following key processes where we will seek to rely on controls, both manual and IT:

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

We will use the findings set out in the independent assurance report (ISAE 3402) for the following service organisation:

- Contactless Payment Future Ticketing (“CPAY”)
- Pay As You Go (‘PAYG’)
- Rail Delivery Group Limited (RDG)

Analytics:

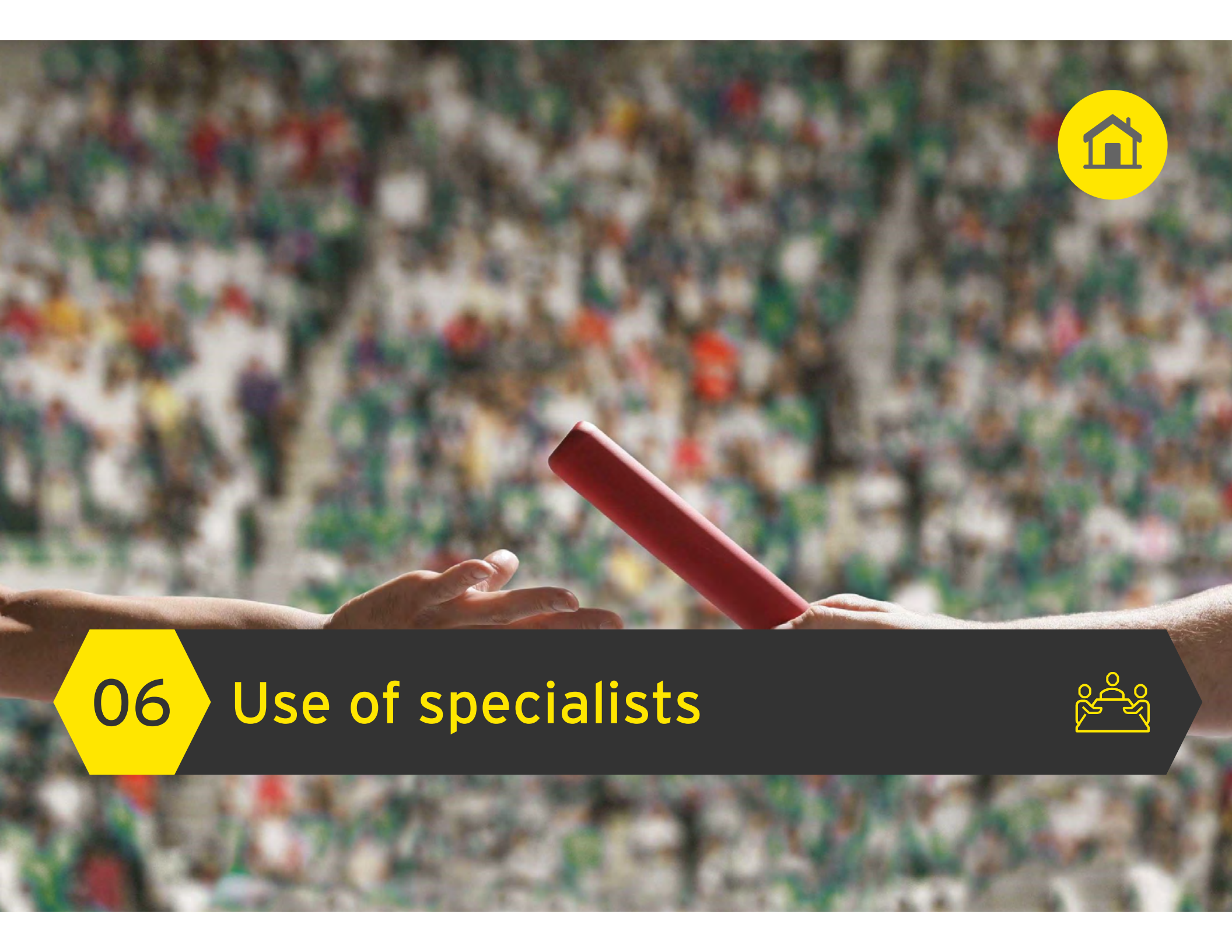
We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- ▶ Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- ▶ Give greater likelihood of identifying errors than random sampling techniques.

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 regularly meet with the Head of Internal Audit, and 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.



06

## Use of specialists



## Use of specialists

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

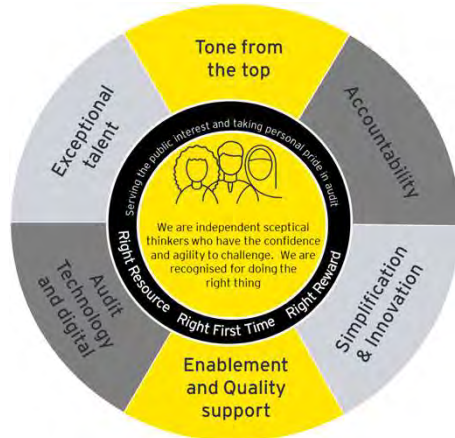
Area	Specialists	Third party specialist
Climate Risk Disclosure	EY Climate Change and Sustainability Services Team	Not applicable
Derivative disclosure	EY FAAS Team	Not applicable
Pensions disclosure	EY Pension Team	XPS Group, Barnett Waddingham
Valuation of Investment Properties	EY Valuations Team	CBRE

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 TfL's business and processes and our assessment of audit risk in out the work; and assess whether the substance of the specialist's findings are properly reflected in the financial statements.

# Developing the right Audit Culture

In July 2021, EY established a UK Audit Board (UKAB) with a majority of independent Audit Non-Executives (ANEs). The UKAB will support our focus on delivering high-quality audits by strengthening governance and oversight over the culture of the audit business. This focus is critical given that audit quality starts with having the right culture embedded in the business.

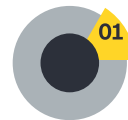


Our audit culture is the cement that binds together the building blocks and foundation of our audit strategy. We have been thoughtful in articulating a culture that is right for us: one that recognises we are part of a wider, global firm and is clear about whose interests our audits serve.

There are three elements underpinning our culture:

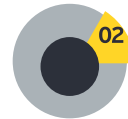
1. Our people are focused on a **common purpose**. It is vital we foster and nurture the values, attitudes and behaviours that lead our people to do the right thing.
2. The essential attributes of our audit business are:
  - ▶ **Right resources** – We team with competent people, investing in audit technology, methodology and support
  - ▶ **Right first time** – Our teams execute and review their work, consulting where required to meet the required standard
  - ▶ **Right reward** – We align our reward and recognition to reinforce the right behaviours

3. The six pillars of **Sustainable Audit Quality** are implemented.



## Tone at the top

The internal and external messages sent by EY leadership, including audit partners, set a clear tone at the top - they establish and encourage a commitment to audit quality



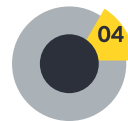
## Exceptional talent

Specific initiatives support EY auditors in devoting time to perform quality work, including recruitment, retention, development and workload management



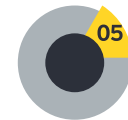
## Accountability

The systems and processes in place help EY people take responsibility for carrying out high-quality work at all times, including their reward and recognition



## Audit technology and digital

The EY Digital Audit is evolving to set the standard for the digital-first way of approaching audit, combining leading-edge digital tools, stakeholder focus and a commitment to quality



## Simplification and innovation

We are simplifying and standardising the approach used by EY auditors and embracing emerging technologies to improve the quality, consistency and efficiency of the audit



## Enablement and quality support

How EY teams are internally supported to manage their responsibility to provide high audit quality

A critical part of this culture is that our people are **encouraged and empowered to challenge and exercise professional scepticism** across all our audits. However, we recognise that creating a culture requires more than just words from leaders. It has to be reflected in the lived experience of all our people each and every day enabling them to challenge themselves and the companies we audit.

Each year we complete an audit quality culture assessment to obtain feedback from our people on the values and behaviours they experience, and those they consider to be fundamental to our audit quality culture of the future. We action points that arise to ensure our culture continues to evolve appropriately.

### 2021 Audit Culture Survey result

A cultural health score of 78% (73%) was achieved for our UK Audit Business

We bring our culture alive by investing in three priority workstreams:

- Audit Culture with a focus on professional scepticism
- Adopting the digital audit
- Standardisation

This investment has led to a number of successful outputs covering training, tools, techniques and additional sources. Specific highlights include:

- Audit Purpose Barometer
- Active Scepticism Framework
- Increased access to external sector forecasts
- Forensic risk assessment pilots
- Refreshed Purpose Led Outcome Thinking training and support materials, including embedding in new hire and trainee courses
- Digital audit training for all ranks
- Increased hot file reviews and improved escalation processes
- New work programmes issued on auditing going concern, climate, impairment, expected credit losses, cashflow statements and conducting effective group oversight
- Development of bite size, available on demand, task specific tutorial videos

*“A series of company collapses linked to unhealthy cultures.....have demonstrated why cultivating a healthy culture, underpinned by the right tone from the top, is fundamental to business success.”*

Sir John Thompson  
Chief Executive of the FRC





07

## Audit timeline







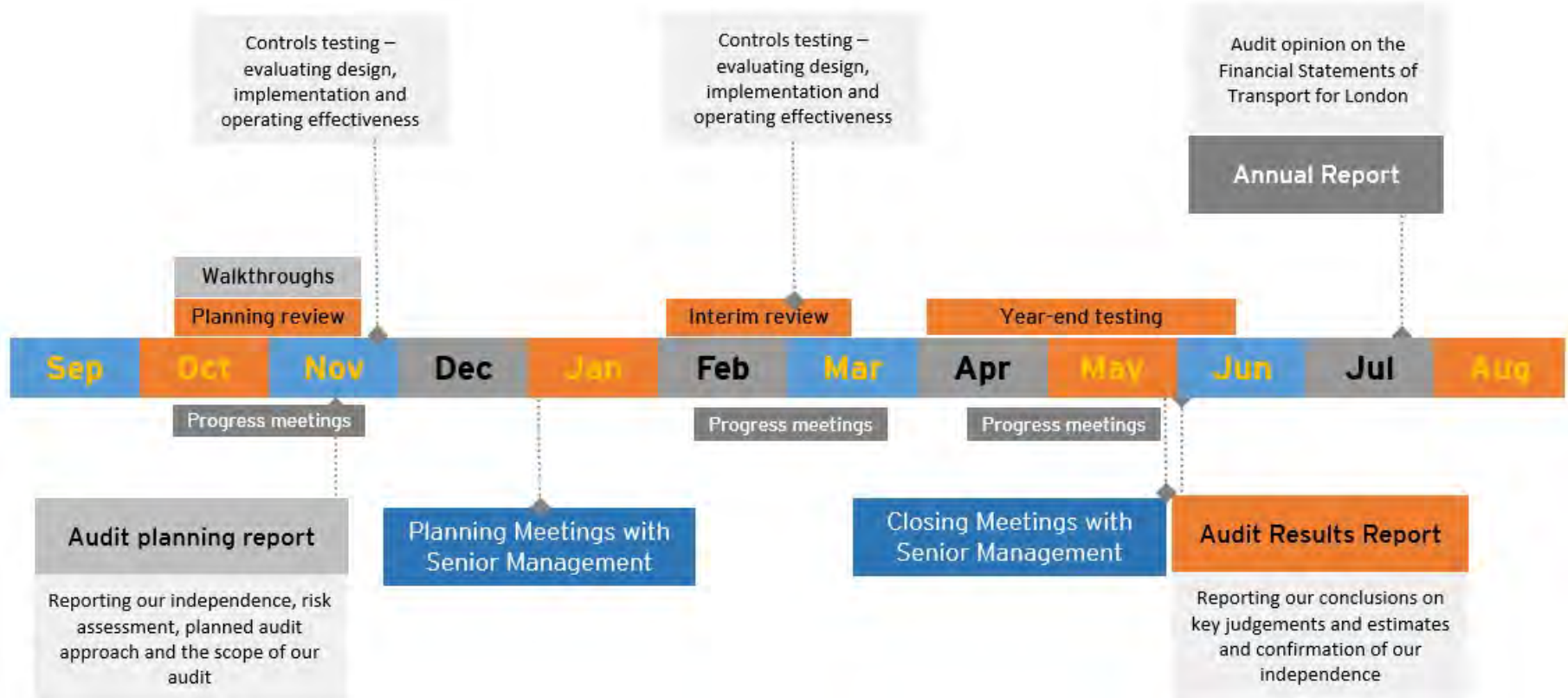
## Audit timeline

# 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 2022/23.

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 Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.





08

# 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
<ul style="list-style-type: none"> <li>▶ The principal threats, if any, to objectivity and independence identified by Ernst &amp; Young (EY) including consideration of all relationships between you, your affiliates and directors and us;</li> <li>▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;</li> <li>▶ The overall assessment of threats and safeguards;</li> <li>▶ Information about the general policies and process within EY to maintain objectivity and independence.</li> </ul>	<ul style="list-style-type: none"> <li>▶ 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;</li> <li>▶ Details of non-audit/additional services provided and the fees charged in relation thereto;</li> <li>▶ 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;</li> <li>▶ 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</li> <li>▶ 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;</li> <li>▶ 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</li> <li>▶ An opportunity to discuss auditor independence issues.</li> </ul>

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.

Non audit fees for the year to date amounted to £17,970, pre approval was obtained for the service and the fees are not material when comparing it to the audit fees.



## 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 and we therefore confirm that EY is independent and the objectivity and independence of Janet Dawson and Philip Young, your audit engagement partners 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 TfL. Examples include where we have an investment in TfL; where we receive 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 those permitted non-audit/additional services set out in Section 5.40 of the FRC Ethical Standard 2019 (FRC ES), and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC's ES or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval. In addition, when the ratio of non-audit fees to audit fees exceeds 1:1, we are required to discuss this with our Ethics Partner, as set out by the FRC ES, and if necessary agree additional safeguards or not accept the non-audit engagement.

At the time of writing, the current ratio of non-audit fees to audit fees is approximately 1%. We have adopted the following safeguards as a result./No additional safeguards are required.

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.

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

### Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

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

## Relationships, services and related threats and safeguards

---

### Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of TfL. 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

Other threats, such as advocacy, familiarity or intimidation, may arise. We will keep this area under review and update if there are any changes.

### 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 end 30 June 2022: [https://www.ey.com/en\\_uk/about-us/transparency-report](https://www.ey.com/en_uk/about-us/transparency-report)





09

## Appendices



## Appendix A

---

### Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Housing, Communities and Local Government.




This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

We write separately to you to set out the audit fees for TfL and Group and its subsidiaries.

## Appendix B




# 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
<b>Required communications</b>	 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.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	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	Audit planning report in November 2022.
Significant findings from the audit	<ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	Audit results report and Auditor's Annual Report in July 2023.

## Appendix B




# Required communications with the Audit and Assurance Committee (continued)

		 Our Reporting to you
<b>Required communications</b>	 <b>What is reported?</b>	 <b>When and where</b>
Public Interest Entities	<p>For the audits of financial statements of public interest entities our written communications to the Audit and Assurance Committee include:</p> <ul style="list-style-type: none"> <li>▶ A declaration of independence</li> <li>▶ The identity of each key audit partner</li> <li>▶ The use of non-member firms or external specialists and confirmation of their independence</li> <li>▶ The nature and frequency of communications</li> <li>▶ A description of the scope and timing of the audit</li> <li>▶ Which categories of the balance sheet have been tested substantively or controls based and explanations for significant changes to the prior year, including first year audits</li> <li>▶ Materiality</li> <li>▶ Any going concern issues identified</li> <li>▶ Any significant deficiencies in internal control identified and whether they have been resolved by management</li> <li>▶ Actual or suspected non-compliance with laws and regulations identified relevant to the Audit and Assurance Committee</li> <li>▶ The valuation methods used and any changes to these including first year audits</li> <li>▶ The scope of consolidation and exclusion criteria if any and whether in accordance with the reporting framework</li> <li>▶ The identification of any non-EY component teams used in the group audit</li> <li>▶ The completeness of documentation and explanations received</li> <li>▶ Any significant difficulties encountered in the course of the audit</li> <li>▶ Any significant matters discussed with management</li> <li>▶ Any other matters considered significant</li> </ul>	<p>Audit results report and Auditor's Annual Report in July 2023.</p>






## Appendix B

# Required communications with the Audit and Assurance Committee (continued)

			 Our Reporting to you
Required communications	 What is reported?	 When and where	
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	Audit results report and Auditor's Annual Report in July 2023.	
Misstatements	<ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ Material misstatements corrected by management</li> </ul>	Audit results report and Auditor's Annual Report in July 2023.	
Subsequent events	<ul style="list-style-type: none"> <li>▶ Enquiries of the Audit and Assurance Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements</li> </ul>	Audit results report and Auditor's Annual Report in July 2023.	
Fraud	<ul style="list-style-type: none"> <li>▶ Enquiries of the Audit and Assurance Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving:               <ol style="list-style-type: none"> <li>a. Management;</li> <li>b. Employees who have significant roles in internal control; or</li> <li>c. Others where the fraud results in a material misstatement in the financial statements</li> </ol> </li> <li>▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected</li> <li>▶ Any other matters related to fraud, relevant to Audit and Assurance Committee responsibility</li> </ul>	Audit results report and Auditor's Annual Report in July 2023.	




## Appendix B

# Required communications with the Audit and Assurance Committee (continued)

		Our Reporting to you
Required communications	 What is reported?	  When and where
Related parties	<ul style="list-style-type: none"> <li>▶ Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</li> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the entity</li> </ul>	Audit results report and Auditor's Annual Report in July 2023.
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul> <p>Communication whenever significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p> <p>For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2019:</p> <ul style="list-style-type: none"> <li>▶ Relationships between EY, Transport for London and senior management, its affiliates and its connected parties</li> <li>▶ Services provided by EY that may reasonably bear on the auditors' objectivity and independence</li> <li>▶ Related safeguards</li> <li>▶ Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees</li> </ul>	Audit planning report in November 2022 and Audit results report in July 2023.




## Appendix B

# Required communications with the Audit and Assurance Committee (continued)

		 Our Reporting to you
Required communications	 What is reported?	 When and where
	<ul style="list-style-type: none"> <li>▶ A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit</li> <li>▶ Details of any inconsistencies between the Ethical Standard and Group's policy for the provision of non-audit services, and any apparent breach of that policy</li> <li>▶ Details of any contingent fee arrangements for non-audit services</li> <li>▶ Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard</li> <li>▶ The Audit and Assurance Committee should also be provided an opportunity to discuss matters affecting auditor independence</li> </ul>	
External confirmations	<ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures</li> </ul>	Audit results report in July 2023.
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>▶ 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</li> <li>▶ 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</li> </ul>	Audit results report in July 2023.
Internal controls	<ul style="list-style-type: none"> <li>▶ Significant deficiencies in internal controls identified during the audit</li> </ul>	Audit results report in July 2023.

## Appendix B

# Required communications with the Audit and Assurance Committee (continued)

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Group audits	<ul style="list-style-type: none"> <li>▶ An overview of the type of work to be performed on the financial information of the components</li> <li>▶ 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</li> <li>▶ 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</li> <li>▶ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted</li> <li>▶ 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</li> </ul>	Audit planning report in November 2022 and Audit results report in July 2023.
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report in July 2023.
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report in July 2023.
Auditors report	<ul style="list-style-type: none"> <li>▶ Any circumstances identified that affect the form and content of our auditor's report</li> </ul>	Audit results report and Auditor's Annual Report in July 2023.
Fee Reporting	<ul style="list-style-type: none"> <li>▶ Breakdown of fee information when the audit plan is agreed</li> <li>▶ Breakdown of fee information at the completion of the audit</li> <li>▶ Any non-audit work</li> </ul>	Audit planning report in November 2022 and Audit results report, Auditor's Annual Report in July 2023.
Value for Money	<ul style="list-style-type: none"> <li>▶ Risks of significant weakness identified in planning work</li> <li>▶ Commentary against specified reporting criteria on the VFM arrangements, including any exception report on significant weaknesses.</li> </ul>	Audit planning report in November 2022 and Audit results report, Auditor's Annual Report in July 2023.



## Appendix C

# Additional audit information

### Objective of our audit

Our objective is to form an opinion on Transport for London's consolidated financial statements under International Standards on Auditing (UK) as prepared by you in accordance with with International Financial Reporting Standards as adopted by the EU, and as interpreted and adapted by the Code of Practice on Local Authority Accounting.

Our responsibilities in relation to the financial statement audit are set out in the formal terms of engagement between the PSAA's appointed auditors and audited bodies. 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.

### 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 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 Transport for London'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 Transport for London to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, 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; and
- ▶ Maintaining auditor independence.

## Appendix C

# Additional audit information (continued)

### Other required procedures during the course of the audit (continued)

Procedures required by the Audit Code	<ul style="list-style-type: none"><li>▶ Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement.</li><li>▶ Examining and reporting on the consistency of consolidation schedules or returns with Transport for London's audited financial statements for the relevant reporting period</li></ul>
Other procedures	<ul style="list-style-type: none"><li>▶ We are required to discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice</li></ul>

We have included in Appendix B a list of matters that we are required to communicate to you under professional standards.

### 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 level of work performed on individual account balances and financial statement disclosures.

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

## EY | Assurance | Tax | Transactions | Advisory

### About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit [ey.com](https://www.ey.com).

© 2022 EYGM Limited.  
All Rights Reserved.

ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

**[ey.com](https://www.ey.com)**