

Transport for London Audit results report

Year ended 31 March 2022

16 September 2022

Appendix 1

Private and Confidential

16 September 2022

Transport for London
Palestra
197 Blackfriars Road
UK SW1H 0BD

Dear Members of the Audit and Assurance Committee,

2021/22 Audit results report

We are pleased to attach our audit results report. This report should be read in conjunction with our interim status report discussed with the Audit & Assurance Committee on 6 June 2022. In our interim status report, our procedures in respect of some of the areas of audit focus were incomplete. This report outlines the final conclusions in respect of testing in the areas of audit focus, with the exception of our considerations with respect to funding and going concern which are outlined in a separate paper.


The audit is designed to express an opinion on the 2022 financial statements and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit emphasis, our views on TfL Group accounting policies and judgments and material internal control findings. Each year sees further enhancements to the level of audit challenge and the quality of evidence required to achieve the robust professional scepticism that society expects. We thank the management team for supporting this process.

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

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

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

Yours faithfully



Janet Dawson

Partner
For and on behalf of Ernst & Young LLP

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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/audit-quality/statement-of-responsibilities/>). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

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

This report is made solely to the Audit 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 Executive Summary

Executive Summary

Financial statements opinion

In our Audit Plan we identified a number of key areas of focus for our audit of the financial report of the TfL Group. There have been no changes to the key areas of focus identified in our June 2022 Audit and Assurance Committee paper.

As set out in our Audit Planning Report dated 1 December, we set materiality at 1% of gross expenditure. On receipt of the draft financial statements we updated the initial figures set based on budget to our final materiality of £98.4m. Performance materiality was set at 50% of planning materiality at £49.2m and we planned to report misstatements relating to the income statement and balance sheet that have an impact on income and misstatements on the OCI over 5% of planning materiality at £5m.

With regards to other areas of audit focus identified in our Audit and Assurance Committee paper, audit procedures were still in progress in June. This report outlines the final conclusions in respect of testing in the areas of audit focus, with the exception of our considerations with respect to funding and going concern, which are outlined in a separate paper. We have summarised our conclusions below:

Inappropriate Revenue recognition relating to the allocation of fares received based on time periods, services provided by other parties and refunds (Fraud risk)

We have completed the remaining procedures including the assessment of conclusions within KPMG's ISAE3402 report. We have concluded that the basis on which fares revenue is recognised is in accordance with the requirements of IFRS15 - Revenue from contracts with customers as applied by the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22. The judgements made related to fares revenue in the financial statements have been appropriately described. This matter has been reported as a Key Audit Matter in our opinion.

Capital projects (Significant risk)

We have received management's assessment of capital projects following receipt of the updated funding agreement. We have reviewed impairment assessments performed and concur with the assessments made by management. The appropriateness of capitalised expenditure has been reported as a as a Key Audit Matter in our opinion, however given the new funding agreement for capital expenditure, the consideration of impairment of assts in the course of construction is not a Key Audit Matter. We have concluded that we are satisfied that the capitalised costs in the year meet the criteria for capitalisation of IAS16 : Property, Plant and Equipment as applied by the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 and are appropriate.

Property valuation - Complexity of accounting for TfL and TTL property portfolios (Significant risk)

We have received the final valuation report and completed our outstanding procedures. We have concluded that property valuations were within an acceptable range and in compliance with IAS 40: Investment Property as applied by the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22. The disclosures set out in the notes to the financial statements are fundamental to users' understanding of this matter. We conclude that the balances and disclosures in the financial statements and notes appropriately reflect the risk factors identified and are in compliance with the requirements of IAS40 : Investment Property as applied by the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22. This matter has been reported as a Key Audit Matter in our opinion.

Management override of controls (Fraud risk)

We set out our procedures and conclusions in our June 2022 paper, there are no additional matters to report following completion of all of our procedures. This is not a separate Key Audit Matter, however the opinion includes narrative relating to procedures performed to address the risk of management override of controls.

Executive Summary

Financial statements opinion

Pension accounting (area of audit focus)

At the time of our June 2022 report, final reports had not been received from the pension schemes and actuaries in respect of year end balances. These have now all been received and reconciled to the financial statements accounting and disclosures. During this process a difference between the original pension scheme asset values and the final higher position included in the TfL Pension Fund accounts was identified of £14m - as this asset value is now confirmed, this represents an uncorrected error. In the prior year a similar item arose of £76.5m. This impacts TfL consolidated and entity financial statements. We expect that all errors will be corrected by management, however management has concluded that this item is not material and does not impact usable. We have recorded this as an uncorrected error on our summary of audit differences, which is attached to our letter of representation and ask that the Board consider this position and conclude on the uncorrected error and the reasons for not adjusting if that is the final position.

Infrastructure assets (other matter)

We note that there is a sector wide review of the adequacy of the accounting records relating to infrastructure assets within local authorities. In prior years, TfL had updated fixed asset management systems to separately identify and classify expenditure into appropriate asset types with appropriate asset lives, to allow tracking of any subsequent expenditure and the identification of whether a disposal should be recorded in the year of new expenditure of the previously capitalised amount. We did not identify any material matters to report during our current year testing on this matter.

Climate related risk (other matter)

We have completed the remaining procedures with regards to climate related risk. We have reviewed the associated narrative in the Annual report and have no matters to report. Our audit opinion includes reference to the scope of our work with respect to climate change.

Going concern - Key Audit Matter

Going concern risk

CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 states that an Authority's financial statements shall be prepared on a going concern basis. ISA 570, as applied by Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom, requires auditors to undertake sufficient and appropriate audit procedures to ensure appropriate disclosure within the financial statements of the risks faced by the financial authority and the key assumptions in determining that there is no material uncertainty.

We have assessed management's assessment of going concern and set out our work and conclusions in Appendix D.

Executive Summary

Value for money

We reported 2 areas of focus with respect to value for money in our June 2022 Audit and Assurance Committee paper.

Financial Sustainability

We reported that we identified a significant weakness as defined by AGN03 with regards to the arrangements in place to achieve financial sustainability of TfL, during the 20/21 year, as there was no long term funding arrangement in place. Without a long term funding agreement in place, TfL was making short term decisions based on the current funding arrangements. If long term funding arrangements were in place, management would have been able to make more robust decisions, negotiate better long-term deals with suppliers or contractors and identify synergies and cost saving opportunities. This means that TfL was potentially not obtaining the best value for money due to lack of clarity of long term funding agreements going forward. There is no change in this conclusion for the 21/22 year. The arrangements in place during the year of audit did not give certainty in respect of longer term capital funding and therefore the risk of sub-optimal decision making remained throughout 2021/22.

Improving economy, efficiency and effectiveness

At the time of issuing our June report, our work in relation to procurement and review of whether the improvement programme was implemented was still in progress. This work is now complete and we are satisfied that the weaknesses reported in the prior year have been addressed in 2021/22. We therefore have not included reference to this point in our audit opinion.

Audit differences

During our audit work, we identified certain judgemental misstatements which remain unadjusted items and are recorded in our summary of audit differences. The differences noted are set out in section two.

Whole of government accounts

We have not yet initiated our audit for Whole of Government (WGA) requirements. We will commence our work on the WGA following approval of the financial statements. Our audit work on WGA for 2020/21 is still outstanding due to HMT delays.

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of TfL. We have no matters to report as a result of this work.

We plan to complete the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts after issuing our audit opinion and therefore will certify the completion of the audit at that point.

We have no other matters to report.

Audit Certificate

The audit certificate is issued to demonstrate that the full requirements of the National Audit Office's 2020 Code of Audit Practice have been discharged for the relevant audit year. We expect to issue the audit certificate once the work on Whole of Government Accounts is complete.

Executive Summary

Independence

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

We reported separately on our independence to the Audit & Assurance Committee on 6 June 2022. There has been no change to our independence since that date.

Control observations

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control. We have not identified any significant deficiencies in the design of an internal control that might result in a material misstatement in your financial statements and which are unknown to you.

During the audit we have shared observations and improvement recommendations on routine matters which we do not consider material for the Audit & Assurance Committee. In respect of procurement, as reported we have seen actions implemented, some of which represent temporary manual controls to be replaced by system support in future years, which we will continue to monitor.

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for TfL to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We did not identify any issues which required us to issue a report in the public interest.

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of TfL's financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Findings and issues around the opening balance on initial audits (if applicable);
- Related parties;
- External confirmations;
- Going concern;
- Consideration of laws and regulations; and
- Group audits

We have no other matters to report.



02

Summary of audit differences



Audit Differences

Summary of unadjusted differences

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

Uncorrected misstatements 2022 (£million)	Effect on the current period:		Net assets (Decrease)/Increase				Impact on reserves
		Total comprehensive income Debit/(Credit)	Assets current Debit/ (Credit)	Assets non current Debit/ (Credit)	Liabilities current Debit/ (Credit)	Liabilities non-current Debit/ (Credit)	Impact on brought forward reserves
Errors:							
• Pension asset valuation differences		63				14	(77)
Factual Differences:							
▸ IFRS16 – rolling stock – rate used at each delivery date		(4)		50		(41)	(5)
▸ Amounts recoverable from insurers netted in provisions		0		10		(10)	
Impact of difference arising in prior year:							
▸ Difference in accounting for certain contract incentive payments*		2		47			(49)
Total effect of uncorrected misstatements (before tax)		61		107		(37)	(131)
Less: tax effect at current year marginal rate		0					
Cumulative effect of uncorrected misstatements before turnaround effect		61					
Turnaround effect of prior year uncorrected misstatements		2					
Cumulative effect of uncorrected misstatements, after turnaround effect		63					

There are no amounts that we identified that are individually or in aggregate material to the other comprehensive income reported in the year. The impact on reserves brought forward is above our planning materiality which is based on in-year expenditure. However the value is less than 0.5% of reserves and so we have concluded that the impact is not material. Further reclassification and disclosure misstatements which do not impact reported surplus are shown overleaf.



Audit Differences

Summary of unadjusted differences

Further to the differences reported on the prior page, below are reclassification and disclosure misstatements which do not impact reported surplus

Uncorrected misstatements 2022 (£million)	Effect on the current period:		Net assets (Decrease)/Increase				Impact on reserves
		Total comprehensive income Debit/(Credit)	Assets current Debit/ (Credit)	Assets non current Debit/ (Credit)	Liabilities current Debit/ (Credit)	Liabilities non-current Debit/ (Credit)	Impact on brought forward reserves
1. To reclassify grant receipts in advance as a separate line in the face of the financial statement from the creditors :							
Dr: Creditors - short term					40		
Cr: Grants received in advance - short term					(40)		
Dr: Creditors - long term						11	
Cr: Grants received in advance - long term						(11)	
2. Reclassification of rental income from investment property from cost of services line to financing and investment income							
Dr: Gross income - other segments		74					
Cr: Financing and investment income		(74)					
3. Reclassification of operating expenditure from investment property from the cost of services line to financing and investment expenses							
Dr: Financing and investment expenditure		40					
Cr: Gross expenditure - other segments		(40)					



Audit Differences

Summary of unadjusted differences

Disclosure misstatements:

1. The misstatement relates to the non-separation of infrastructure assets and office buildings. Infrastructure assets are a separate class of asset from office buildings as noted in paragraph 4.1.2.2 of the Code. Therefore, infrastructure should be separately identified from "office buildings" in notes 14 & 15.
2. Non-disclosure of items income, expenses and gains/losses by category of financial statement in the funding and risk management note. Paragraph 7.3.2.13 of the CIPFA Code requires additional disclosure of items of income, expense and gains/losses by category of financial instrument either on the face of the financial statements or in the notes.
3. The upward revaluation of the newly classified investment property is incorrectly accounted for in the investment property note. The upward revaluation should be accounted for in the property, plant and equipment note. This should also be credited to the group revaluation reserve line with IAS16.
4. The disclosure relating to the transfer of investment property to assets held for sale amounting to £6.8m is not in compliance paragraph 4.4.2.7 of the Code which says that investment property which subsequently meets the criteria to be classified as held for sale shall continue to be accounted for as investment property but may be reported separately as investment property held for sale.
5. The credit risk section of the funding and financial risk management is not in line CIPFA Code paragraph 7.3.3.13. Paragraph 7.3.3.13 requires changes in the loss allowance to be explained by way of a reconciliation from the opening to closing balance by class of financial instrument and type of credit loss.
6. The split of total assets in the schemes under the pensions note does not fully comply with the CIPFA Code paragraph 6.4.3.45. Paragraph 6.4.3.45 requires equity and debt instruments to be segregated by geography, industry or issuer type. The disclosure should also note whether the disaggregated plan assets are quoted or not.
7. The accounting treatment of the repayments of loans to subsidiaries is not in line with the Code. Capital loans when repaid are debited to cash and credited to the capital receipts reserve. The debt repaid is written off from debtors and debited to the capital adjustment account. Then, if an authority decides to, it can apply the capital receipt to the capital adjustment account.



03 Audit Report



Audit Report

Draft audit opinion

We have audited the financial statements for Transport for London under the Local Audit and Accountability Act 2014 (as amended) and prepared our draft audit report. We anticipate issuing an unqualified opinion on the financial statements. In our report, we draw the readers' attention to management's assessment of a material uncertainty in relation to TfL's ability to meet its liabilities as they fall due, without a reduction in planned service levels, between the date of approval of the accounts and 31 March 2024. This is due to uncertainties in the actual levels of funding the organisation may receive under the Long Term Funding Agreement dated 30 August 2022, with the Department for Transport. Our opinion is not modified in this respect.

Under our National Audit Office Code of Audit Practice 2020, we will report by exception that the lack of a long term funding agreement, during the 2021/22 year resulted in a weakness in arrangements to achieve value for money in the year to 31 March 2022.

Our audit report sets out the key audit matters, our response to the risk and our key observations reported to the Audit and Assurance Committee, as a result of our audit, in our 6 June 2022 and this report.



04

Assessment of Control Environment



Assessment of Control Environment

Financial controls

It is the responsibility of TfL to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether TfL has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. However, as we have adopted a fully substantive approach, we have not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware. During the audit we have shared observations and improvement recommendations on routine matters which we do not consider material for the Audit & Assurance Committee. In respect of procurement, as reported we have seen actions implemented, some of which represent temporary manual controls to be replaced by system support in future years, which we will continue to monitor.



05 Appendices

Appendix A

Audit approach update

We summarise below our approach to the audit of the balance sheet and any changes to this approach from the prior year audit.




Our audit procedures are designed to be responsive to our assessed risk of material misstatement at the relevant assertion level. Assertions relevant to the balance sheet include:

- ▶ Existence: An asset, liability and equity interest exists at a given date
- ▶ Rights and Obligations: An asset, liability and equity interest pertains to the entity at a given date
- ▶ Completeness: There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items
- ▶ Valuation: An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded
- ▶ Presentation and Disclosure: Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting framework

There were no significant changes to our audit approach from the prior year. We carried out a fully substantive audit on all balances.

Appendix B

Summary of communications





Date 	Nature 	Summary 
13 October 2021	Meeting	The partner in charge of the engagement, along with other senior members of the audit team, met with the management team to discuss key audit risks and audit planning
1 December 2021	Report	The audit planning report, including confirmation of independence, was issued to TfL and presented to the Audit and Assurance Committee
6 June 2022	Report	The Audit Results Report as at 6 June 2022 was issues to TfL and presented to the Audit and Assurance Committee. The imterim findings relating to Value for Money arrangements was also presented.
June - September	Various meetings	The partner in charge of the engagement, along with other senior members of the audit team, met with the management team to discuss financial position, risks and significant transactions, progress on the funding arrangements agreement and going concern conclusions.

In addition to the above specific meetings and letters the audit team met with the management team multiple times throughout the audit to discuss audit findings.




Appendix C

Required communications with the Audit & Assurance Committee





There are certain communications that we must provide to the Audit Committees of UK entities. We have detailed these here together with a reference of when and where they were covered:

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Terms of engagement	Confirmation by the audit & assurance committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	Discussed within PSAA terms of appointment for TfL and our engagement letter for the subsidiary entities
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Discussed within Planning report presented to the Audit and Assurance Committee on 1 December 2021
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.	Discussed within Planning report and updated in our report of 6 June 2022
Significant findings from the audit	<ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	Discussed within our report on 6 June 2022 and updated in this report

Appendix C

		Our Reporting to you
Required communications	 What is reported?	  When and where
Major Local Audits	<p>For the audits of financial statements of major local audits our written communications to the Audit and Accounts Committee include:</p> <ul style="list-style-type: none"> ▶ A declaration of independence ▶ The identity of each key audit partner ▶ The use of non-member firms or external specialists and confirmation of their independence ▶ The nature and frequency of communications ▶ A description of the scope and timing of the audit ▶ 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 ▶ Materiality ▶ Any going concern issues identified ▶ Any significant deficiencies in internal control identified and whether they have been resolved by management ▶ Subject to compliance with regulations, any actual or suspected non-compliance with laws and regulations identified relevant to the Audit and Accounts Committee ▶ Subject to compliance with regulations, any suspicions that irregularities, including fraud with regard to the financial statements, may occur or have occurred, and the implications thereof ▶ The valuation methods used and any changes to these including first year audits ▶ The scope of consolidation and exclusion criteria if any and whether in accordance with the reporting framework ▶ The completeness of documentation and explanations received ▶ Any significant difficulties encountered in the course of the audit ▶ Any significant matters discussed with management ▶ Any other matters considered significant 	Discussed within our report on 6 June 2022 and updated in this report.
Subsequent events	<ul style="list-style-type: none"> ▶ Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. 	To be confirmed on 21 September 2022.





Appendix C

		 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"> ▶ Whether the events or conditions constitute a material uncertainty related to going concern ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The appropriateness of related disclosures in the financial statements 	Discussed within this report
Misstatements	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Material misstatements corrected by management 	Discussed within our report on 6 June 2022 and updated in this report.
Fraud	<ul style="list-style-type: none"> ▶ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving: <ol style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. ▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▶ Any other matters related to fraud, relevant to Audit Committee responsibility. 	Discussed within our report on 6 June 2022 and updated in this report.
Related parties	<p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	No issues identified during the course of our audit.





Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
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"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence <p>Communications 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"> ▶ Relationships between EY, the company and senior management, its affiliates and its connected parties ▶ Services provided by EY that may reasonably bear on the auditors' objectivity and independence ▶ Related safeguards ▶ Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees ▶ A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit ▶ 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 ▶ Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard ▶ The audit committee should also be provided an opportunity to discuss matters affecting auditor independence 	<p>These matters are included within this report and also included within the Planning Audit Report for the year ending 31 March 2022 and our separate independence report</p>

Appendix C

		 Our Reporting to you
Required communications	 What is reported?	  When and where
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures. 	No issues identified during the course of our audit.
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▶ Enquiry of the audit 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 committee may be aware of 	<p>No issues identified during the course of our audit. Included in our audit opinion.</p> <p>To be confirmed on 21 September 2022.</p>

Appendix C

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit. 	No issues identified during the course of our audit.
Group Audits	<ul style="list-style-type: none"> ▶ An overview of the type of work to be performed on the financial information of the components ▶ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components ▶ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work ▶ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted ▶ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements. 	<p>Included within our Audit Planning Report on 1 December 2021.</p> <p>No issues identified during the course of our audit.</p>
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> ▶ Written representations we are requesting from management and/or those charged with governance 	See under separate cover.
Material inconsistencies and/or misstatements	<ul style="list-style-type: none"> ▶ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	Discussed within this report.
Auditors report	<ul style="list-style-type: none"> ▶ Key audit matters that we will include in our auditor's report ▶ Any circumstances identified that affect the form and content of our auditor's report 	Discussed within this report. Provided in draft under separate cover.

Appendix D

Going concern - Key Audit Matter

Going concern risk

CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 states that an Authority's financial statements shall be prepared on a going concern basis; the accounts should be prepared on the assumption that the functions of the Authority will continue in operational existence for the foreseeable future and can only be discontinued under statutory prescription.

However, ISA 570, as applied by Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom, still requires auditors to undertake sufficient and appropriate audit procedures to ensure appropriate disclosure within the financial statements of the risks faced by the financial authority and the key assumptions in determining that there is no material uncertainty.

To do this, the auditor must review management's assessment of the going concern basis applying IAS1 Presentation of Financial Statements.

We completed the following procedures:

- ▶ We understood management's assessment of funding requirements and commitments for the going concern period by reconciling 2022/23 and 2023/24 budget, and Q1 forecast back to supporting evidence and confirmation of funding provided to date by the Department for Transport ('DfT').
- ▶ We considered 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.
- ▶ We validated performance to date on efficiency savings programmes, to determine the potential risk of non delivery of the savings assumed within the budget ('central case forecast'), as well as the additional amounts required by the funding settlement.
- ▶ We validated the performance against conditions set out in Extraordinary Funding and Financing funding agreements with the DfT, which have been in place following the impact of the COVID-19 pandemic 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 going concern period to 31 March 2024.
- ▶ We understood the nature of the conditions set out in the agreement with the DfT dated 30 August 2022. In particular, we understood the terms and availability of funding related to inflation, cost savings, the dispute mechanism and the utilisation of funding for the planned operating services or capital purposes.
- ▶ We challenged each material element of downside risk identified by management, including those related to inflation and cost savings and tested to supporting evidence to assess the underlying assumptions and the appropriateness of TfL calculations.
- ▶ We stress tested the downside risk, using worst case parameters, considered completeness of downside risks and calculated a "worst case" downside risk- this included using increased inflation rates, reduced cost savings, changes to passenger fares and other reductions to revenue.
- ▶ We obtained confirmation from GLA on the availability and planned application of the Transport Reserve and funding facility to TfL during the GC period.

Appendix D

Going concern - Key Audit Matter

We completed the following procedures (continued):

- ▶ We obtained the Mayoral Direction setting out the executive decision, making available the funding facility from GLA.
- ▶ We obtained from GLA and tested cashflows, including funding assumptions within the Mayor's budget to assess the availability of the support outlined in the Mayoral Direction.
- ▶ We considered the mitigations available to TFL, challenged the assumptions over access to further borrowing and other potential mitigations to determine the reasonableness of those options.
- ▶ We assessed the adequacy of the disclosures of the material uncertainty relating to the ability to deliver current planned operational services within available sources of funding in the financial statements.

Conclusions

We concluded that there is a material uncertainty relating to the ability to deliver current planned operational services within available sources of funding.

As set out in management's description within note d) of Accounting Policies, the funding agreement reached on 30 August 2022, together with funding and facilities confirmed by the Greater London Authority, provides the necessary funding to operate agreed levels of services and to meet the commitments of all capital projects currently recorded in assets in the course of construction at 31 March 2022. However, as set out in note d) of Accounting Policies, there is a material uncertainty which may cast significant doubt on TFL's ability to continue to operate the current planned operational services within available sources of funding. This is caused by the combination of the risks and uncertainties of the following:

- the 'dispute mechanism' within the funding settlement agreement dated 30 August 2022, with the Department for Transport ('funding settlement');
- the inflation review mechanism within the funding settlement agreement; and
- the ability to delivery cost savings in addition to those already assumed in TFL's budget ('central case forecast').

Our opinion is not modified in respect of this matter.

Our responsibilities and the responsibilities of management with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

 **Appendix E**

Management representation letter

See under separate cover

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