Appendix 1

Transport for London
Audit status report

Year ended 31 March 2023

Status as of 23 May 2023

Building a better working world

Private and Confidential

23 May 2023

Transport for London
Palestra
197 Blackfriars Road
UK SW1H 0BD

Dear Members of the Audit and Assurance Committee,

2022/23 Audit results report

We are pleased to attach our draft audit results report, summarising the status of our audit for the forthcoming meeting of Audit & Assurance Committee. We will update the Audit & Assurance Committee at its meeting scheduled for 05 June 2023 on further progress to that date and explain the remaining steps to the issue of our final opinion.

The audit is designed to express an opinion on the 2023 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 judgements and material internal control findings. Each year sees further enhancements to the level of audit challenge, the exercise of professional judgement 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), 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 International Standards on Auditing in the UK (ISA's UK).

This report is intended solely for the information and use of the Audit and 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

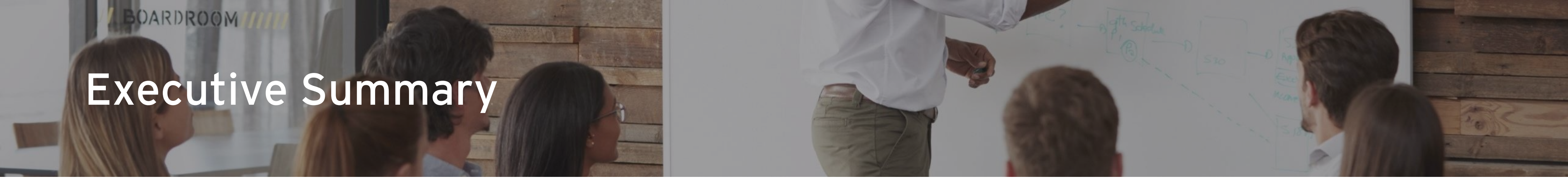
Contents

Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/).The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

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

This report is made solely to the Audit 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

Scope update

In our audit planning report presented at the 30 November 2022 Audit and Assurance Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exceptions:

- Changes in materiality

We updated our planning materiality assessment using the draft consolidated results. Based on our materiality measure of 1% of gross expenditure, we have updated our overall materiality assessment to £87m (Audit Planning Report – £84m). This results in updated performance materiality, at 50% of overall materiality, of £43m ((Audit Planning Report – £42m) and an updated threshold for reporting misstatements of £4.3m (Audit Planning Report – £4.2m).

VFM Risks

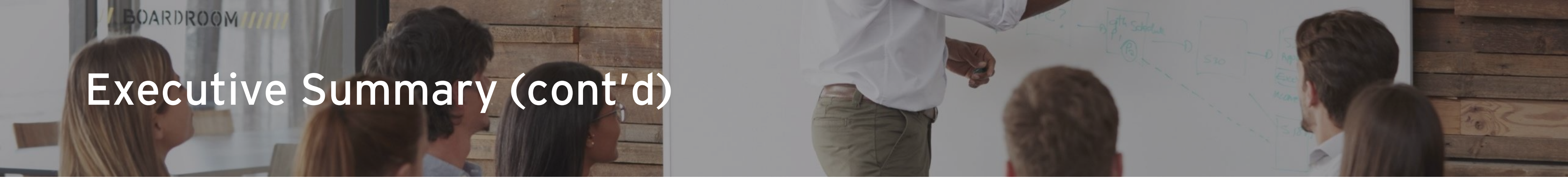
In our audit planning report we communicated that we had not completed our VFM planning. Having completed our VFM planning work we identified two risks of significant weakness, namely Financial Sustainability and Resource Capacity. Section 04 of this report provides further detail.

Significant risks identified in the audit plan included the following:

- Management override of controls
- Revenue recognition with particular focus on fares revenue
- Inappropriate capitalisation of capital projects including capital accruals
- Complexity of accounting for TfL and TTL property portfolios
- Going Concern

At the time of writing this report, there remains uncertainty as to the ongoing funding available from Government in connection with the operational funding gap created by lower fares revenue and future capital funding. The current funding agreement expires on 31 March 2024. At the current time this would result in a similar opinion to the year ended 31 March 2022, being a material uncertainty surrounding the funding of the Group and therefore its ability to continue to operate the current level of services, including the planned capital programme post 31 March 2024. Discussions are on-going and we understand that there may be further updates to this position prior to the financial statement sign off. We will therefore update the position and share our final conclusions, including our draft audit opinion with the Audit & Assurance Committee for review and discussion prior to Board sign off in July.

During the course of our audit we have become aware that Capita has faced a Cyber Breach before the 31 March 2023. TfL use Capita as a service organisation for managing the road user charging services and there is a risk that TfL data may have been implicated in this breach. We are currently working with management to obtain an understanding of the impact and will need to assess the impact, if any, that this will have on our audit procedures and risk assessment.



Executive Summary (cont'd)

Status of the Audit

Our audit work in respect of the group opinion is still in progress. The following key matters relating to the completion of our audit procedures were outstanding at the date of this report (these are the main areas and is not a comprehensive list all outstanding items):

Areas not started which are on track to be completed in June as planned:

- Annual Report and accounts which have not yet been received at the date of this report - completion of the technical review of the financial statements, including taxation, disclosures review and tie out to underlying audit work for TfL and Crossrail;
- Assessment of going concern
- VFM procedures to address financial sustainability risk

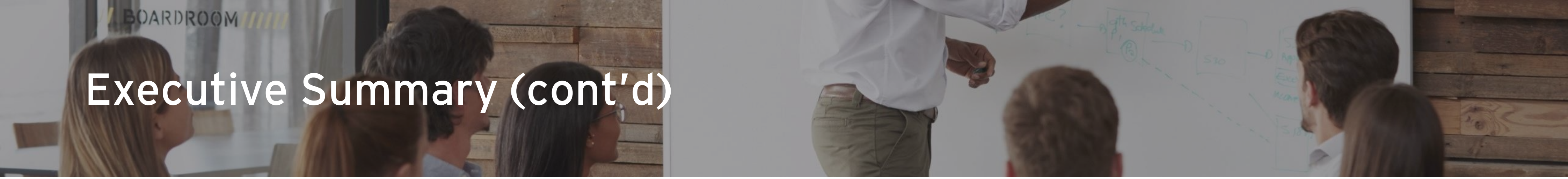
Areas in progress to be completed by the end of June:

- Investment Property valuation work performed by our EY Real Estate Specialists
- Pensions – EY review of actuarial reports, RSM's audit report of investment fund/asset values and individual membership data testing for LPFA
- Fares revenue – KPMG's ISAE3402 and Agreed Upon Procedures report over contactless ticketing and Oyster pay as you go has not yet been received
- Congestion charging revenue – Review of control reports issued by Capita
- Climate risk assessment upon receipt of management's disclosures
- Tax review by our EY Tax Specialists
- Review of treasury derivatives by EY FAAS team
- Review of IBR for leases
- ISA 315 – responses needed for the CDS system

Closing procedures to be undertaken in July:

- Post balance sheet events up to the date of approval of the financial statements;
- Receipt of signed letter of representation.

Until the above procedures are completed, we cannot reach our overall conclusion.



Executive Summary (cont'd)

Audit differences

- At the date of this report we have not identified any misstatements that management have chosen not to correct.

Adjustments

- Following increased scrutiny of the accounting for infrastructure assets within the public sector, Management have performed a detailed review of the infrastructure balance and corrected two misstatements:
    - The first misstatement amounts to £4,400m in respect of pooled infrastructure assets which has not been written off once they had reached the end of their useful economic lives in line with management's policy. This adjustment does not impact the net book value of PPE and therefore has no impact on the balance sheet or CIES and only impacts the PPE disclosure. There is also a prior year impact which management have adjusted for.
    - The second misstatement amounts to £28.8m in respect of non-pooled assets which had incurred partial replacement but the original assets had not been written out of the fixed asset register.
- We anticipate, as in previous year, that an adjustment may arise in respect of the IBR rate used in accounting for leases. We shall provide an update on this area in audit results report that we plan to issue to the Committee in July.

Whole of government accounts

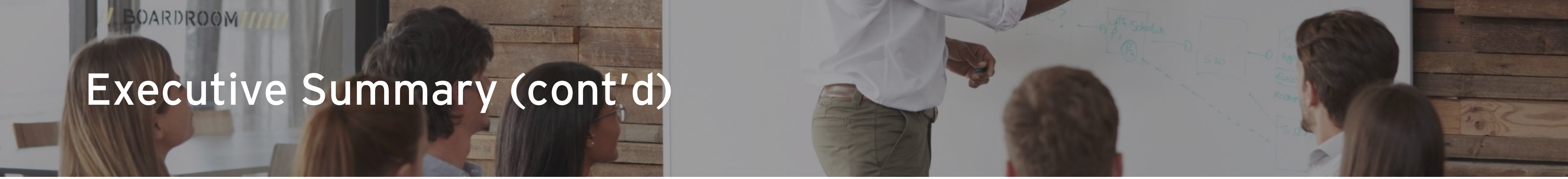
- We have not yet initiated our audit for Whole of Government (WGA) requirements. We will commence our work on the WGA following approval of the financial statements. Our audit work on WGA for 2020/21 is completed and our WGA for 2021/22 is on-going at the date of this report.

Audit Certificate

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

Independence

- We reported separately on our independence to the Audit & Assurance Committee in the papers for this meeting.
- We have yet to complete the audit and the review of the draft financial statements, and therefore further audit differences and disclosure adjustments may be identified. We will report those to the Committee before the conclusion of our work.



Executive Summary (cont'd)

Value for Money

Under the terms of the Code of Audit Practice (the 2020 Code) and associated Auditor Guidance Notes (AGN) we are required to report on significant weaknesses in a body's arrangements identified during the course of the audit.

Financial Sustainability - Longer term funding impacts
We have identified a risk of significant weakness as defined by AGN03 with regards to the financial sustainability of TfL, given there is no long term funding arrangement currently in place. Without a longer-term funding agreement in place, TfL is making short term decisions based on the current funding arrangements. We have yet to complete all of our planned procedures in respect of financial sustainability. We have considered whether the outstanding VFM procedures have an impact on our audit opinion on the financial statements and determined that because they relate to a material item of account there is a potential impact. We will update the Audit & Assurance Committee on further progress once we conclude on the matter.

Governance – Resource capacity
We identified a risk of significant weaknesses as defined by AGN03 with regards to how the authority ensures it has sufficient resource capacity in key roles to allow it to make properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This risk was identified as a result of issues raised with us during our management meetings and from our review of internal audit findings. The risk relates specifically to areas in the business where roles and responsibilities have been transformed during the financial year. Having completed our procedures we did not identify any instances where a lack of records has impacted the quality or effectiveness of services for the year ended 31 March 2023. As a result we have not identified a significant weakness in how the authority ensures it makes properly informed decisions and we have no matters to report by exception in the auditor's report in respect of this risk of significant weakness.

02 Areas of Audit Focus

Areas of Audit Focus

Management override of controls, required by ISA (UK and Ireland) 240

Key Audit Matter | Significant Risk

What is the risk, and the key judgements and estimates?

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.

In our audit plan we explained that we would test procurement transactions in response to this risk. However we have reassessed the risk associated with procurement such that we have we not completed specific testing of this nature.

What is the status of our work?

We have obtained sufficient audit evidence regarding any business rationale for unusual transactions, any assumptions for the capitalisation of expenditure, and for judgements and assumptions for significant estimates.

As part of our response to testing management override of controls we select journal entries for detailed testing. At the date of this report we have completed our journal entry testing (JET) for periods 1-10, and our testing on the remaining periods is in progress. In our JET to date we have not identified any instances of management override of controls.

Our procedures so far have not identified any material misstatements or instances of inappropriate management judgements.

Our response to the key areas of challenge and professional judgement

In our professional judgement, the following were the key areas of challenge related to responding to this risk.

For TfL, TTL group and subsidiaries, we have:

- Robustly challenged management's assumptions on capitalising expenditure as detailed on slide 13;
- Critically reviewed fares revenue as detailed on slide 11;
- Applied professional scepticism by assessing whether management's explanations are logical, reasonable and in line with relevant historic trends supported by sufficient appropriate evidence;
- Evaluated the business rationale for unusual transactions;
- Assessed accounting estimates for evidence of management bias;
- Tested significant transactions that are outside the normal course of business or that appear unusual by agreeing to supporting documentation;
- Performed journal entries testing with specific focus on journals related to cost capitalised indicative of management override (posted by members of management, with unusual descriptions, etc.);
- Evaluated the effectiveness of management's controls designed to address the risk of fraud and the oversight given by those charged with governance of management's processes over fraud.

Areas of Audit Focus

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

Key Audit Matter | Significant Risk

What is the risk, and the key judgements and estimates?

TfL needs to have robust controls in place to forecast and accurately recognise and report revenue in its financial statements. As at 31 March 2023 fares revenue amounted to £4,046.6m.

The significant risk only relates to the fares revenue stream. This is due to the complexity and judgements involved in the process to apportion the fares revenue recognised.

A matrix is in place which determines the allocation of fares revenue based on various apportionment factors which is agreed with the TOCs. The apportionment is automatically calculated within TFL's Central System.
In our audit plan we explained our procedures in relation to the Oyster write back policy. We have reassessed our risk and downgraded this element of fares revenue as a result of previous audit conclusions and materiality.

What is the status of our work?

We have completed our procedures in respect of the Oyster Write back policy and consider management's assumptions over the write-off period to be supportable.

We have completed our controls testing and our transaction testing over invoices and JFT reports and have not identified any misstatements.

We are in progress with the substantive testing of fares to ensure that the amount recorded ties through to underlying supporting documents this includes the testing of balance sheet accounts related to fares revenue such as Receipts in Advance and the PAYG Creditor balance to ensure it is correctly stated.

At the date of this report we are also awaiting KPMG's testing of controls over contactless ticketing and Oyster pay as you go, set out in their ISAE3402 report and agreed procedures report. This is currently outstanding and we are planning to rely on it. Once the remaining information is received, we will be in a position to conclude on whether the basis used to recognise fares revenue and related disclosures in the financial statements are reasonable.

Our response to the key areas of challenge and professional judgement

For Fares Revenue, we have:

- Gained an understanding of the revenue process for fares revenue;
- Performed controls testing over the effectiveness of the cash collection process and sales made at various sales outlets;
- Substantively tested revenue relating to Oyster Pay as You Go, Contactless Pay, Travelcard and Tickets by selecting a sample of sales included in the sales database and agreeing the information to sales returns received. For each return we have then re-performed the calculation of the amount to be recognised as revenue based on the product type and agreed it to the revenue recorded for that period. This calculation also includes the apportionment of revenue between TfL and the Train Operating Companies, which was tested for this sample;
- Agreed the values reported as revenue in advance to the revenue system reports identifying the proportion of revenue relating to future periods for annual or periodic tickets and travel cards purchased in the 2022/23 year. We tested the parameters used in the report to confirm the appropriate calculation of this amount as payments received in advance;
- Compared the assessment of fares apportioned to the Train Operating Companies for reasonableness against latest agreements, settlements in year and correspondence with the Train Operating Companies;
- Reviewed 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
- Planned to review ISAE 3402 controls report and the agreed upon procedures report
- Assessed any changes to underlying assumptions used for the recognition of revenue such as TOC apportionment and Oyster Card releases; and
- Reviewed journal entries for unusual postings related to adjustments to revenue

Areas of Audit Focus

Going Concern

Key Audit Matter | Significant Risk

What is the risk, and the key judgements and estimates?

The going concern period to be considered is of at least 12 months from the approval of the financial statements however the current funding agreement in place only covers the period up to the 31 March 2024. There is a risk that, for the remainder of the going concern period where funding is not in place, TfL will have to make decisions over the current level of services or capital spending if it unable to achieve financial sustainability without any further funding agreements.

What is the status of our work?

Our work in this area is on-going and challenging management's downside risk analysis is an important element of the work we will perform to address our risk of going concern. At the current time the lack of funding across the full going concern period is likely to result in a similar opinion to the year ended 31 March 2022, being a material uncertainty surrounding the funding of the Group and therefore its ability to continue to operate the current level of services, including the planned capital programme post 31 March 2024.

Our response to the key areas of challenge and professional judgement

At the date of this report we have performed the following procedures for TfL, TTL groups and subsidiaries, we have:

- Gained an understanding of management's assessment of funding requirements for the going concern period;
- 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.
- Validated 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.
- Understood 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.

In order to complete our work in this area we will need to obtain management's downside risk analysis and challenge the elements within this analysis and the underlying assumptions for reasonability against supporting documentation. We will sensitise and stress test this downside risk , using worst case parameters, and then consider the mitigations available to TfL should this downside risk transpire.

Areas of Audit Focus

Inappropriate capitalisation of capital projects including capital accruals

Key Audit Matter

Significant Risk

What is the risk, and the key judgements and estimates?

TfL, TTL groups and subsidiaries undertake multiple capital projects at any one time, which vary in size, complexity and length of time to complete. In the 2022/23 financial year, TfL's capital expenditure is £1.8bn including £201m related to Crossrail projects.

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 within the budget of £3.5bn.

There is a risk of misstating the capital expenditure in order to maximise capital funding receipts.

What is the status of our work?

We selected 38 capital projects in our sample including 11 for Crossrail. Of these 38 projects 26 were allocated full scope and the remaining 12 were limited scope.

Procedures have been completed for TfL and TTL groups with no material issues identified. This work is subject to final level reviews.

Our response to the key areas of challenge and professional judgement

For TfL, TTL groups and subsidiaries we have:

- Gained an understanding of key controls and governance surrounding capital project accounting and management;
- Tested controls focused on the effectiveness of the approval process for expenditure and for capitalisation;
- We selected a sample of major projects and tested expenditure capitalised during the financial period to supporting project documentation, including third party reports and valuations and assessed whether the expenditure met the criteria for capitalisation;
- We visited a sample of project sites, and met with project managers to further understand the scope and the progress on projects for a sample of projects, to enable us to consider whether the accounting amounts recorded were consistent with the understanding gained of any delivery challenges encountered, or disputes with contractors and to consider whether this indicated any expenditure did not meet the criteria for capitalisation;
- Compared the latest positions of the projects recorded in respect of "pain or gain" arrangements to contract terms and conditions and to the latest project outturn forecasts to assess the related value recorded in accruals;
- Performed detailed testing on a sample of capital accruals to source documentation to test completeness of costs recognised at 31 March 2023.
- Evaluated whether, at any stage, assets need to be impaired or written off to reflect any aborted or higher risk projects and assessed whether management has reasonably estimated the cost to complete the capital projects; and
- Reviewed claims and contracts for existence of additional obligations or expenditure that is inappropriate to capitalise.

Areas of Audit Focus

Complexity of accounting for TfL and TTL property portfolios

Significant Risk

What is the risk, and the key judgements and estimates?

TfL has an extensive property portfolio, with a net book value of investment property and assets held for sale amounting to £1.7bn and £54m respectively as at 31 March 2023.

To determine fair value, management utilises the net income method and discounting of future cash flows to their present value through engaging an external valuer. 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.

What is the status of our work?

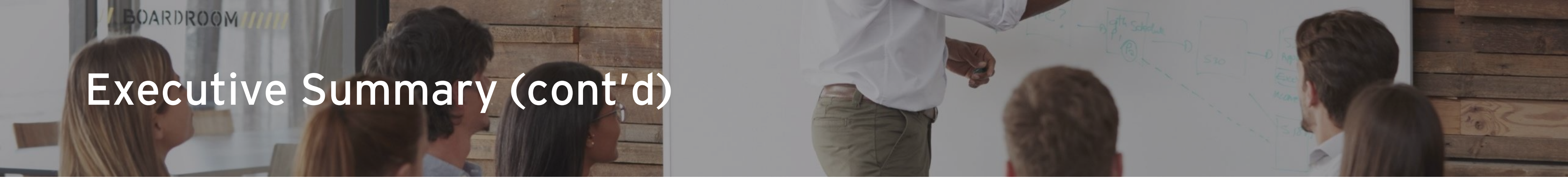
We are in the process of completing our procedures, including the work performed by our specialists, and have not yet concluded that all property valuations within our sample are within an acceptable range.

Our response to the key areas of challenge and professional judgement

For TfL, TTL groups and subsidiaries we have:

- Obtained an understanding of management's process and controls around the valuation of properties;
- Reviewed 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;
- Assessed the classification of TfL and TTL properties and any material increases or impairments that arise during 2022/23;
- Met with TfL's external valuers and discussed the methodology applied and key judgements used in the valuation. Such judgements included the estimated rental value, yield profile and other assumptions that impact the value;
- selected a sample of investment properties based on a number of factors including size, risk, representation across asset classes and segments and including a further random selection. For this sample of properties, we tested source documentation provided by the Group to CBRE. This included agreeing a sample back to underlying lease data.
- We used our internal valuation experts to assist in our testing of valuations. Our valuation experts reviewed and challenged the valuation approach and assumptions for a sample of properties. They compared the yields applied to each property to an expected range of yields taking into account available market data and asset specific considerations. They assessed whether the other assumptions applied by the external valuers, such as the estimated rental values, voids and tenant incentives were supported by available data. They also considered whether other market transactions contradict the assumptions used in the valuation;
- Reviewed the accounting treatment of valuation movements for non-core assets and ensure it is appropriately disclosed; and
- Assessed whether the classification of assets between investment properties, property, plant and equipment and assets held for sale is appropriate and in accordance with IFRS.

See next slide for areas of challenge through the work performed to date.



Executive Summary (cont'd)

Our response to the key areas of challenge and professional judgement

Through the course of the work performed so far we identified 12 investment properties that had not been valued externally as at the 31 March 2023 in accordance with management's accounting policy. The total value of these 12 properties is £8.6m and management has taken the prior year valuation and indexed this using indices provide by the valuer. We have challenged the valuation and indexation procedures and concluded that there is not a risk of material misstatement but we recommend that the policy is followed in future.

We also challenged management's decision to hold 3 properties from the platinum portfolio at their previous valuation rather than at market offers. Management has decided to maintain the fair value at the previous value of £97.8m. We challenged management's decision to not recognise the asset at the fair value, being the offer received, and concluded that it is reasonable as the sales and purchase agreement has not been finalised and there are a number of conditions that need to be met before the offer can be accepted.

We also identified 2 assets which have been classified as assets held for sale for longer than one year. We have challenged the classification of these assets against the requirements of IFRS 5 in particular, the level of commitment to the sale of these properties and whether timely action is taken to address conditions of the sale. We are in the process of finalising our conclusions in this area.

Areas of Audit Focus (cont'd)

Significant accounting estimates – including complexity of provisions

<table>
<tr><th>What is the risk?</th><th>What did we do?</th></tr>
<tr><td>TfL, TTL and subsidiaries have complex capital contracts 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.

The total value of provisions as at 31/03/2023 is £161.5m.</td><td>For a sample of provisions, selected based on risk, we have

‣ Critically assessed and challenged management's assessment of judgements and estimates. This is by comparing all provisions through to the 3 criteria: is there a present obligation based on past event, a reliable estimate of amount for the obligation and a probable economic outflow is expected.
‣ Evaluated the accuracy and completeness of the estimation amount made by third party relating to insurances claims. . This is when a specialist e.g. Gallagher Bassett is used, we perform appropriate IPE checks via direct confirmation and understand their process via completion of a questionnaire created by EY
‣ Performed unrecorded liabilities testing to identify any omitted provisions via obtaining support to third party e.g. invoice. If a transfer occurred, we will query the nature and observe this in the corresponding bank statement.

At the date of this report some of our procedures over provisions are on-going. The next page shows the current status and highlights the key judgments involved in each of the provisions.</td></tr>
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Areas of Audit Focus (cont'd)

Significant accounting estimates – including complexity of provisions

The below table (continued on the next page) includes each of the provisions that we have selected in our sample along with the current status of our work and the key judgments involved in each of the provisions.

Provision	22-23	21-22	Status	What Judgements are we focused on?
Voluntary Severance	£4.8m	£2.4m	In progress	The key assumption that we have challenged is how many people in a grade will volunteer for severance.
Senior management bonus	Nil	£10.8m	In progress	Management has chosen to recognise the liability as a short term accrual rather than a provision in 2022/23. We have yet to complete our work on the appropriateness of the amount and accounting treatment.
PFP Awards	Nil	£7.5m	In progress	Management has chosen to recognise the liability as a short term accrual rather than a provision in 2022/23. We have yet to complete our work on the approach taken.
Insurance Claims	£11.7m	£14.6m	In progress	The key assumption that we have challenged is the estimate of the value of insurance claims which we are in the process of testing through to supporting evidence for a sample of claims.
Holiday pay on overtime provision	£10.9m	£13.3m	In progress	The key assumption that we have challenged here is whether there employment tribunal estimate is based on 2 years or 3 years.
Provision for Crossrail Property Claims	£45.4m	£56.0m	In progress	The key assumption that we have challenged is the value of the claims which we are testing to sample evidence. We have also challenged the split between short and long term.
Dilapidation	£5.1m	£3.5m	In progress	We have challenged whether the provision should be classified as short or long term.

(continued on next page)

Areas of Audit Focus (cont'd)

Significant accounting estimates – including complexity of provisions

Provision	22-23	21-22	Status	What Judgements are we focused on?
Major station	£6.3m	£11.4m	Work Complete	We have obtained evidence to support management's judgement's over the estimate of the value of the provision and concluded that here is no misstatement to the balance.
Sandiland trains	£8.0m	£6.0m	In progress	The key assumption is the estimation of the value and the uncertainty of the legal proceeding conclusion.
Rent Payable Hackney	£0	£5.5m	Work Complete	We challenged whether another case could reasonably be expected to occur such that a liability should be recognised. We did not identify any evidence to suggest that this should be the case.
PCB Removal Works	£5.2m	£3.5m	In progress	The key assumption is the valuation of the removal works which we are in the process of testing through to supporting evidence for a sample.
Alstom Provision	£16.2m	Nil	Work Complete	The key judgment is the value of the 5 disputes and the likelihood of the court outcome. We have challenged management's judgement and obtained supporting evidence to support the judgements and concluded that there is no misstatement in the balance.

Areas of Audit Focus (cont'd)

IFRS 16 Leases - Lease accounting, including the complexity of the estimating the Incremental borrowing rate (IBR)

What is the risk?

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.

What did we do?

IFRS 16 was adopted for the first time in the 31 March 2020 financial statements. It requires entities to recognise a right of use asset and corresponding lease liability in its Statement of Financial Position.

When applying IFRS16 there are a number of judgements and estimates to be taken by management including:

- Determining the interest rate to be used in the calculation of lease liabilities - Management has continued utilising the same rate from the date of IFRS16 adoption for all deliveries of rolling stock in the 2022/23 financial year end accounts.
- Assessing the length of leases - in particular with respect to station and track access.
- Assessing the value of 'peppercorn' leases – the CIPFA Code requires the recognition of values related to peppercorn leases (this is not required under adopted IFRS).
- Calculating an estimate of costs relating to bus contracts – management uses the same allocation across the whole fleet of contracts, based on contracts in place. As the proportion for non-diesel vehicles increases the cost allocation may change.

In respect of the first point above, the interest rate used in the calculation of lease liabilities, management has utilised the same rate from the date of IFRS16 adoption for all deliveries of rolling stock in the year. Our view, as reported in the previous years, is that the rate should be determined at each delivery date for each batch of units.

Our work to calculate and determine the impact and materiality of this difference opinion is on-going but we expect to report an unadjusted misstatement to the Audit & Assurance Committee in a future report once we have assessed the materiality of the difference.

Areas of Audit Focus (cont'd)

Complexity of accounting for infrastructure assets

What is the risk?

An issue has been raised via the NAO's Local Government Technical Group that local authorities may not be writing out the gross cost and accumulated depreciation on infrastructure assets when a major part or component has been replaced or decommissioned.

TfL incurs extensive capital spend on infrastructure assets and continuous improvement and upgrades are made to the existing infrastructure assets on an annual basis.

There is a risk that parts or components have not been derecognised when replaced or decommissioned. If this is the case then:

- For assets that have been fully depreciated, the gross cost of the asset and accumulated depreciation will be overstated in the property, plant and equipment note to the balance sheet. This would be a matching error, so no impact on the net book value reported on the balance sheet.
- For assets replaced or decommissioned ahead of their useful economic life (UEL), i.e. The asset is not fully depreciated and has a positive net book value at year end, the error would also impact the balance sheet, where asset values will be overstated.

What did we do?

There are two methods of recording fixed assets in TfL's fixed assets register.

- Pooled Assets (Gross Book Value £32,800m)
- Non-Pooled Assets (Gross Book Value £2,000m)

<u>Pooled Assets:</u>

Pooled assets are assets where costs incurred on certain categories of different asset classes during a financial year are recorded in one asset with an average useful economic life (UEL).

TfL's policy in relation to pooled assets is that, when a pooled asset completes its useful life, the asset is derecognised as it is assumed the asset is no longer used. Any subsequent costs are recorded in a separate pool created in future years.

Following the increased focus on the accounting treatment of infrastructure assets within the public sector, management have performed a detailed review of the infrastructure balance and identified that the asset disposals of pooled assets which had reached the end of their UEL's had not been actioned. In total it was identified that £4.4bn of gross acquisition pooled assets had not been disposed of in line with TfL's policy.

In response to this assessment we:

- Confirmed that the policy applied was consistent with detailed work performed in previous years under the rationalisation asset approach;
- reviewed the UELs of the asset pools included in the adjustment to confirm the accuracy of the adjustment proposed and the impact on the prior year; and
- challenged management's assessment of the total impact including assessing the completeness of the adjustment by evaluating whether any other pools had reached the end of their UEL.

Having completed this work, we agreed with management's assessment that an adjustment was required to the gross acquisition value of pooled assets of £4,400m, £22.1m relating to FY23 assets and £4,408m relating to prior years. This results in a prior period restatement to the Property, Plant and Equipment disclosure within the financial statements. There is no impact to the net book value and therefore no impact on the balance sheet or other primary statements.

We have also confirmed with management that the accounting policy within the financial statements will be updated to make it clear that when pooled items are fully depreciated the gross acquisition value and accumulated depreciation are derecognised.

(continued on next slide)

Areas of Audit Focus (cont'd)

Complexity of accounting for infrastructure assets

What did we do?

Non-Pooled Assets:

Non-pooled infrastructure assets are mainly comprised of land, lifts and escalators and other infrastructure assets. Following audit challenge, management completed a detailed assessment of the non-pooled assets balance to assess whether replacements had occurred but had not resulted in de-recognition of old components. The at risk population from this review was considered to be the Lifts and Escalators population totalling £1.4bn. As part of this review of the Lifts and Escalators balance, management held discussions with the project team to understand an asset's lifecycle and the percentage of replacement an asset may incur at set stages. The selected samples were discussed with delivery leads within the Lifts and Escalators projects team to identify if any part of the assets were replaced as a result of the renewals activity, and if so, to what extent. Judgements have been made through this process to determine the percentage replacement of assets at different stages of replacement.

As a result of this exercise management identified a misstatement of £28.8m to the Net Book Value of the Lifts and Escalators balance within non-pooled assets.

In response to this assessment we:

- Challenged the completeness of the review performed to ensure that their was an appropriate rationale for no detailed review being performed over the remaining non-pooled assets balance. Management were able to demonstrate that the remaining balance related to land and other immaterial asset classes and therefore we agree with management's assessment of the at risk population;

- Tested a sample of assets included in the adjustment and challenged the assumptions made over the replacement percentage applied and corroborated this to external evidence where possible.

Having completed this work we agree that a total NBV adjustment of £28.8m is required to be disposed of from lifts and escalators as at 01 April 2022 as a result of renewals expenditure incurred. Management has chosen to record the full adjustment in FY23 on the basis of materiality.

We recommend that going forwards a review of pooled asset remaining useful lives is incorporated into closedown processes to ensure that any pools that have reached the end of their useful life are written off in line with TfL's accounting policy. We also recommend that TfL revisits its processes to ensure that the capital team are clearly highlighting when expenditure is a replacement to their Finance Business Partners. This will help the finance team to identify assets to be written out of the fixed asset register at the date of replacement rather than having to work through the complexities during closedown which could lead to this check being missed again in the future.

Areas of Audit Focus (cont'd)

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

What is the risk?	What did we do?
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.	TfL is required to disclose the fair value amount of these derivatives. The fair value amount of this derivative is not included in the bank confirmation. The closing balance of the derivative positions held as at 31 March 2023 year end is £14.4m. In order to evaluate the accuracy of the fair value amount computed using Quantum system, we randomly select a of sample of 8 derivatives (2 FX Swaps , 2 FX forwards and 4 cashflow hedge relationships) and requested FAAS team to assist us recomputing an independent fair value amount. We are currently pending the result from the EY FAAS specialist team. The closing balance of borrowings held as at 31 March 2023 is £15,562m. The engagement team using independent valuation agency risk spreads obtained by our FAAS team has assessed the reasonableness of managements fair value assessment of Bonds and Borrowings. The assessment has found managements calculations to be appropriate. Additionally in terms of new agreements entered into in the current period , the engagement team has obtained and inspected the agreements agreeing them to managements quantum reports ensuring the accuracy of the recorded information inputted into the system as well as assessing the existence and rights and obligations of each agreement. The engagement team has also obtained 3rd party confirmations confirming the nominal amounts of borrowings provided. Per our inspections there have been no matters of concern identified.

Areas of Audit Focus (cont'd)

Judgemental assumptions impacting TfL's pension position

What is the risk?

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 pension schemes.

TfL's pension position is a material estimated balance and the Code requires that this is disclosed on TfL's balance sheet.

The Group's balance sheet reflects the pension position from:

- Public Sector Section of the TfL Pension Fund Scheme;
- Local Government Pension Fund Scheme;
- Crossrail section of the Railways Pension Scheme; and
- Unfunded scheme provisions.

Accounting for these schemes 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.

As at the date of this report IAS 19 reports have not been received from the actuaries, which is in line with the closedown timetable. This means that our audit procedures including assessing the work of the actuaries, assessment of assumptions, testing of disclosures and engagement of our EY Pension team to perform roll forward calculations have not been started. We shall report our findings from review of this work ahead of our sign off in July.

In addition to the procedures described above, the Local Government Pension Scheme has undergone a triennial valuation as at the 31 March 2022, with the impact of this revaluation impacting the liability as at the 31 March 2023 for the first year. In a triennial valuation year we perform additional procedures over the source membership data used in the triennial valuation. At the date of this report we have selected a sample of members and are awaiting evidence from the London Pension Fund Authority to support the key member data points that form the basis of the revaluation.

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Areas of Audit Focus (cont'd)

Judgemental assumptions impacting TfL's pension position

What is the risk?

In addition, we are aware that two of the schemes (TfL Pension Fund and the Crossrail section of the Railways Pension Scheme) are in a surplus position as at the 31 March 2023. Under IAS 19, when an entity has a surplus in a defined benefit plan, it shall measure the net defined benefit asset at the lower of:

(a) the surplus in the defined benefit plan; and

(b) the asset ceiling, where the asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Determining the value of the asset ceiling is a complex and subjective calculation which is assessed based on the underlying deeds of the schemes. The complexity of the underlying deeds means that legal advice is required to interpret the requirements in respect of recognising surpluses.

At the date of this report TfL has requested legal advice in respect of the deeds and we will then use our EY Pensions Specialists to re-perform the calculation and evaluate the consistency of the calculation with the underlying deeds and legal advice to ensure appropriate recognition of the surplus in the financial statements.

03 Audit Differences

Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as 'known' or 'judgemental'. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of adjusted differences

- Following increased scrutiny of the accounting for infrastructure assets within the public sector, management have performed a detailed review of the infrastructure balance and corrected two misstatements:

The first misstatement amounts to £4,400m in respect of pooled infrastructure assets which has not been written off once they had reached the end of their useful economic lives. This adjustment does not impact the net book value of PPE and therefore has no impact on the balance sheet or CIES and only impacts the PPE disclosure. There is also a prior year impact which management have adjusted for.

The second misstatement amounts to £28.8m in respect of non-pooled assets which had been replaced but the original assets had not been written out of the fixed asset register.

We agree with management's assessment of these differences and the decision to adjust the financial statements for these amounts.

- We have yet to complete the audit and the review of the draft financial statements, and therefore further audit differences and disclosure adjustments may be identified. We will report those to the committee before the conclusion of our work.

Summary of unadjusted differences

- At the date of this report we have not identified any misstatements that management have chosen not to correct.
- We anticipate, as in previous year, that an adjustment may arises in respect of the IBR rate used in accounting for leases. We shall provide an update on this area in audit results report that we plan to issue to the Committee in July.
- We have yet to complete the audit and the review of the draft financial statements, and therefore further audit differences and disclosure adjustments may be identified. We will report those to the Committee before the conclusion of our work.

04 Value for Money

Value for Money

The Authority's responsibilities for value for money (VFM)

The Authority 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 its financial statements, the Authority is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Authority tailors the content to reflect its own individual circumstances, consistent with the requirements set out in the Cipfa code of practice on local authority accounting. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

Risk assessment

We are required to consider whether the Authority has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

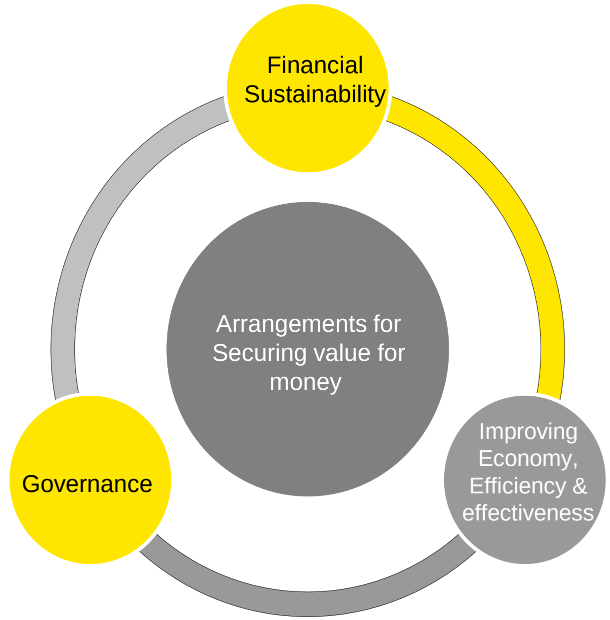
For 2022/23, proper arrangements are defined by 2020 statutory guidance issued by the National Audit Office on 1 April 2020, as:

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

Having completed our VFM planning work we identified two risks of significant weakness:

- Financial sustainability: Longer term funding impact
- Governance: Resource capacity

At the date of this report we have yet to complete all of our planned procedures in respect of financial sustainability. We have considered whether the outstanding VFM procedures have an impact on our audit opinion on the financial statements and determined that because they relate to a material item of account there is a potential impact. As a result, we are unable to issue our audit opinion on the financial statements. We plan to complete our planned VFM procedures by the middle of June. We will then determine whether we need to report by exception in the auditor's report in respect of VFM arrangements. We will then also issue our audit certificate and VFM commentary in the Auditor's Annual Report.



Value for Money

Responding to a risk of significant weakness in VFM arrangements

What is the risk of significant weakness?	What arrangements did this impact?	What will we do?
Longer term funding impacts TFL provides a vital role in operating and maintaining essential and safe transport services in the capital and contributes to the Government's economic recovery from the pandemic. To continuously carry out this obligation, On 30 August 2022, a long-term Funding Settlement was agreed with the Department for Transport which provides funding until 31 March 2024. The Government recognises that further capital funding beyond this funding deal may be required by TfL should it not be able to generate such resources from its own means however at the date of this report, additional funding has yet to have been secured. Without a longer-term funding agreement in place, TfL is making short term decisions based on the current funding arrangements. If longer-term funding arrangements were in place, management would be able to make more robust decisions, negotiate better long-term deals with suppliers or contractors and identify synergies and cost saving opportunities. As such, we have identified a risk of significant weakness with regards to how TfL plans and manages its resources to ensure it can continue service delivery in its current form.	How the body plans and manages its resources to ensure it can continue to deliver its services	To address this risk we will: ‣ Review and challenge management's budgets and consider the impact of uncertain funding on the future financial position; ‣ Consider and assess the mitigations identified by management should longer term funding not be agreed; and ‣ understand and assess management's scenario planning depending on future uncertainties over funding levels and sources.

Value for Money

Responding to a risk of significant weakness in VFM arrangements

What is the risk of significant weakness?	What arrangements did this impact?	What did we do?
Resource Capacity across the Organisation TfL as an organisation has gone through extensive transformation during 2022/23 and this has resulted in resource capacity issues in a number of key areas. There is a risk that, with insufficient resources in place, controls are not appropriately maintained or evidenced which could reasonably be expected to lead to significant impact on the quality or effectiveness of service.	Governance: How the authority ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee;	To address this risk we: ‣ Performed enquires of key management personnel across the organisation; ‣ Reviewed internal audit reports for the year and assessed the impact of the findings identified.

Findings

Through our conversations with management we noted a number of instances where resource capacity was raised as an issue across the organisation. This is supported by the number of internal audit reports issued in the year which have received a rating of “Poorly Controlled” or “Requires Improvement”. Our assessment of the findings here suggests that capacity constraints across the organisation are impacting the ability of the organisation to retain adequate records and evidence to support that controls are functioning appropriately. Although this could lead to issues should the evidence be required, we did not identify any instances where a lack of records has impacted the quality or effectiveness of services for the year ended 31 March 2023. As a result we have not identified a significant weakness in how the authority ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency and we have no matters to report by exception in the auditor’s report in respect of this risk of significant weakness.

Recommendation

We recommend that management assesses the resourcing need across the organisation and ensures that appropriate importance is placed on evidencing the control environment when making this assessment.

05 Appendices

Appendix A – Audit approach update

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

Our audit approach is designed to place reliance on controls in the following areas:

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

For all other areas we take a substantive audit approach. This approach is consistent with our audit approach in the prior year.

Appendix B – Summary of communications

Summary of communications

Date	Nature	Summary
19 October 2022	Meeting	The partner in charge of the engagement, accompanied by other senior members of the audit team, met with senior members of the management team to discuss audit planning.
14 November 2022	Meeting	The partner in charge of the engagement, accompanied by other senior members of the audit team, met with senior members of the management team to discuss the Audit Planning Report.
25 November 2022	Meeting	The partner in charge of the engagement, accompanied by other senior members of the audit team, met with the CFO to discuss key audit risk areas.
30 November 2022	Report	The audit planning report, including confirmation of independence, was issued to the audit & assurance committee.
Feb-March 2023	Meetings	The partner in charge of the engagement, accompanied by other senior members of the audit team, met with senior members of the management team to discuss key business plans, budgets, risks and perform mandatory audit enquiries.
15 March 2023	Meeting	The partner in charge of the engagement attended the meeting of the audit & assurance committee.
May 2023	Meetings	Audit close meetings with the management team to discuss the preliminary findings of the audit.
19 May 2023	Letter	A letter issued to the audit & assurance committee confirming and detailing our independence.
19 May 2023	Letter	A letter issued to the audit & assurance committee confirming and detailing our Audit Fees for the year ended 31 March 2023.

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

Required communications with the Audit & Assurance Committee

There are certain communications that we must provide to the Audit & Assurance Committee. 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.	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	▶ 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	Audit results report in June 2023 and Auditors Annual Report in July 2023.

Appendix C - Required communications with the Audit & Assurance Committee (cont'd)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Public Interest Entities	For the audits of financial statements of public interest entities our written communications to the audit and assurance committee include: ▸ 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 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 identification of any non-EY component teams used in the group audit ▸ 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	Audit results report and Auditor's Annual Report in July 2023.

Appendix C - Required communications with the Audit & Assurance Committee (cont'd)

Required communications	What is reported?	Our Reporting to you When and where
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ▸ Whether the events or conditions constitute a material uncertainty 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	Audit results report and Auditor's Annual Report in July 2023.
Misstatements	▸ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▸ The effect of uncorrected misstatements related to prior periods ▸ A request that any uncorrected misstatement be corrected ▸ Material misstatements corrected by management	Audit results report and Auditor's Annual Report in July 2023.
Fraud	▸ Enquiries of the audit & assurance committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▸ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▸ Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving: a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. ▸ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▸ Matters, if any, to communicate regarding management's process for identifying and responding to the risks of fraud in the entity and our assessment of the risks of material misstatement due to fraud ▸ Any other matters related to fraud, relevant to audit & assurance committee responsibility.	Audit results report and Auditor's Annual Report in July 2023. Audit planning report in November 2022

Appendix C - Required communications with the Audit & Assurance Committee (cont'd)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Related parties	Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ▸ Non-disclosure by management ▸ Inappropriate authorisation and approval of transactions ▸ Disagreement over disclosures ▸ Non-compliance with laws and regulations ▸ Difficulty in identifying the party that ultimately controls the entity	Audit results report and Auditor's Annual Report in July 2023.
Consideration of laws and regulations	▸ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▸ Enquiry of the audit 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	Audit results report and Auditor's Annual Report in July 2023.
Significant deficiencies in internal controls identified during the audit	▸ Significant deficiencies in internal controls identified during the audit.	Audit results report and Auditor's Annual Report in July 2023.
Fee Reporting	▸ Breakdown of fee information when the audit plan is agreed ▸ Breakdown of fee information at the completion of the audit ▸ Any non-audit work	Audit fee letter in May 2023
Value for Money	▸ Risks of significant weakness identified in planning work ▸ Commentary against specified reporting criteria on the VFM arrangements, including any exception report on significant weaknesses.	Audit planning report in November 2022 and Audit results report, Auditor's Annual Report in July 2023.

Appendix C - Required communications with the Audit & Assurance Committee (cont'd)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence. Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: ▸ The principal threats ▸ Safeguards adopted and their effectiveness ▸ An overall assessment of threats and safeguards ▸ Information about the general policies and process within the firm to maintain objectivity and independence Communications whenever significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place. For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2019: ▸ 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 & assurance committee should also be provided an opportunity to discuss matters affecting auditor independence	Audit planning report in November 2022 and Independence letter in May 2023.
External confirmations	▸ Management's refusal for us to request confirmations ▸ Inability to obtain relevant and reliable audit evidence from other procedures.	Audit results report and Auditor's Annual Report in July 2023.

Appendix C - Required communications with the Audit & Assurance Committee (cont'd)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Group Audits	▸ An overview of the type of work to be performed on the financial information of the components ▸ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components ▸ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work ▸ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted ▸ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements.	Audit planning report in November 2022 and Audit results report in July 2023.
Written representations we are requesting from management and/or those charged with governance	▸ Written representations we are requesting from management and/or those charged with governance	Audit results report in July 2023.
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	▸ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report in July 2023.
Auditors report	▸ Key audit matters that we will include in our auditor's report ▸ Any circumstances identified that affect the form and content of our auditor's report	Audit results report in July 2023.

Appendix D - Outstanding matters

Outstanding matters

The following items relating to the completion of our audit procedures are outstanding at the date of the release of this report:

Item	Actions to resolve	Responsibility
Annual Report and accounts	Completion of the technical review of the financial statements including disclosures review and tie out to underlying audit work.	EY and management
Going concern review and disclosures	Review of management's disclosure and downside scenario analysis. EY central review process and finalisation of disclosures and opinion wording.	EY and management
Impairment assessment for PPE	Completion of TfL impairment assessment review	EY
Investment Property Valuation	Completion of sample testing by our EY Real Estate Specialists	EY
Pensions	Review of IAS 19 actuarial reports, review of RSM's audit report in respect of TfL pension fund, assessment of accounting for surpluses and individual membership data testing for LPFA.	EY and management
Fares Revenue	Review of KPMG's ISAE3402 report and agreed upon procedures report	EY and management
Congestion Charging revenue	Review of controls reports issued by Capita and IPE procedures	EY
Rental income	Queries raised on a handful of evidence	EY and management
Taxi Private Hire revenue	Samples selected undergoing review	EY and management
Climate Risk assessment	Review of climate disclosures by our EY Climate Change specialist once disclosures have been prepared.	EY and management
Tax	Testing in progress including review by EY Tax specialists	EY
Derivatives	Awaiting some confirmations & sample testing by EY specialist team	EY
Leases	Review of IBR and assessment of audit differences	EY
ISA 315	Responses needed for CDS system	Management
VFM	Completion of procedures to address financial sustainability risk	EY

Appendix D – Outstanding matters (continued)

Item	Actions to resolve	Responsibility
Receivables	Loan certificate for Joint Venture (Earls Court)	EY and management
Treasury	Pending confirmation from third parties for derivatives and borrowings	EY and management
Provisions	11 selected - Awaiting some support for some remaining provisions.	EY and management
Capital Projects	Pending queries for a handful of projects	EY and management
Infrastructure assets	Evidence to support samples selected for testing and consultation procedures for prior period adjustment.	EY and management
Consolidation	Testing on consolidation schedule once received	EY and management
Bad Debt Provision	Review & Consideration by EY	EY
Grants	Testing in progress with EY	EY
PFI	To complete work once disclosures obtained	EY
Payroll	Evidence for samples required & headcount, reconciliation request outstanding	EY and management
Journals	Evidence for sample for p10-13 awaited for testing	EY and management
Inventories	Testing of samples in progress	EY
Joint Ventures	Testing to be completed by EY, some support outstanding	EY and management
Creditors	Testing in progress including some support outstanding	EY and management
Gross expenditure	Some queries outstanding	EY and management
Review procedures	EY internal review procedures	EY
Post Balance Sheet Event Review	Procedures performed up and till the date of approval of the financial statements.	EY and management
LoR	Receipt of signed letter of representation	EY and management

Until all our audit procedures are complete, we cannot confirm the final form of our audit opinion as new issues may emerge or we may not agree on final detailed disclosures in the Annual Report. At this point no issues have emerged that would cause us to modify our opinion, but we should point out that key disclosures on going concern, directors' remuneration and climate-related matters remain to be finalised and audited.

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ED None