Appendix 1

# Transport for London
# Audit results report

## Year ended 31 March 2023

## 14 September 2023

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14 September 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 audit results report, summarising the findings of our work on the financial statements for the year ended 31 March 2023.

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

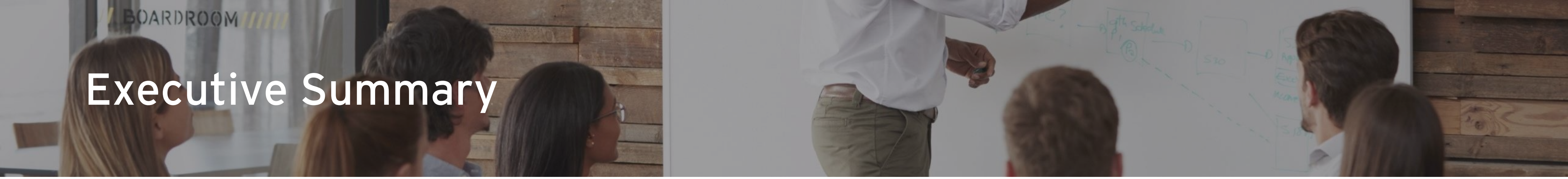
For and on behalf of Ernst & Young LLP

# 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.

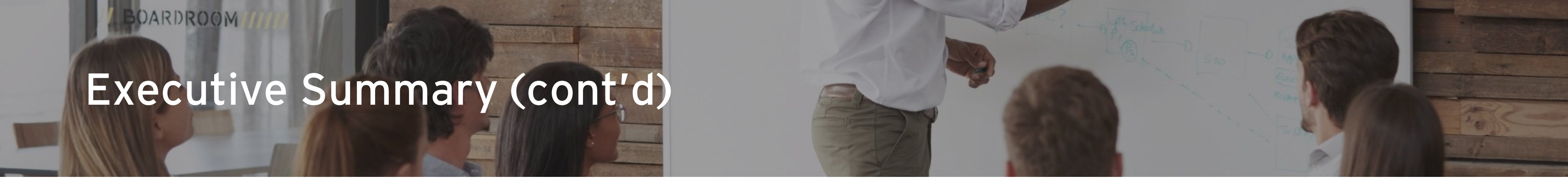
Significant risks identified in the audit plan included the following:

- 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

In our Audit Status Report presented to the  Audit & Assurance Committee on the 05 June 2023 we explained that  there  was some 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, that could impact on our audit opinion. Having completed this work we have concluded that no material uncertainty exists over the going concern period to 31 March 2025 and our opinion is therefore not modified in respect of this matter.

Since the date of our last report to the Audit & Assurance Committee we have included TfL's Minimum Revenue Provision (MRP) as an area of audit focus following scrutiny within the wider sector. The work we have completed to address this risk is outlined in Section 02 of this report.

During the course of the audit we also became aware of five potential instances of non-compliance with laws and regulations. We have provided an summary of these instances and the procedures we have performed in response in Section 02 of this report.



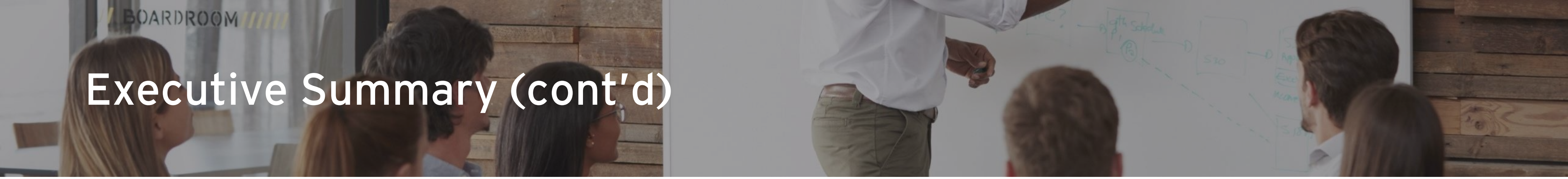

# Executive Summary (cont'd)

## Status of the Audit

Our audit work in respect of the group opinion largely complete. The following key matters relating to the completion of our audit procedures were outstanding at the date of this report :

- Conclusion of Minimum Revenue Provision work;
- Conclusion of consultation procedures in respect of non-compliance events;
- Internal review processes;
- Final checks on the financial statements;
- 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

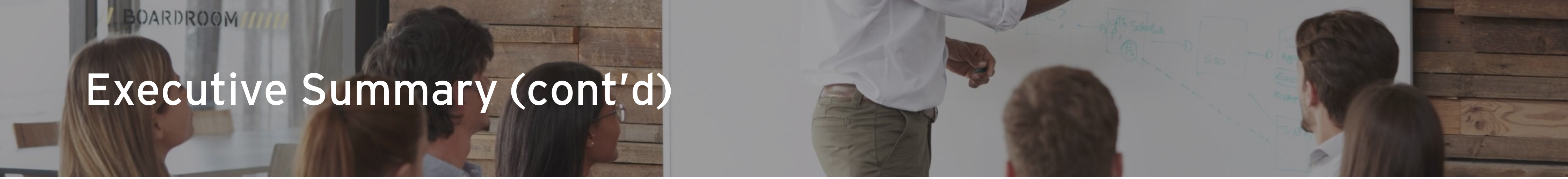
At the date of this report we have identified the following misstatements which management have chosen not to adjust:

- Revenue – Oyster revenue of £8.0m was not included in the year end accrual;
- PPE – there were 5 additional leases for land and buildings not recognised as part of close down procedures totalling £9m.
- Continued unwind of difference in accounting treatment noted in prior years relating to certain contract incentive payments amounting leading to an understatement of £46m to non-current assets.
- Leases – we disagree with the rate used in the calculation of the lease liability for rolling stock which gives rise to a £7m understatement of expenditure recognised in the Comprehensive income and expenditure statement.
- Pension assets – the auditor of TfL Pension Fund identified differences in the valuation of pension assets which gives rise to a difference of £48m in the pension surplus recognised in the balance sheet.
- Provisions – Management has recognised an additional provision for £59.2m. Our assessment based on a review of the assumptions is that this provision is understated by £24m.

Our overall assessment is that the cumulative impact of these unadjusted misstatements does not materially impact the reader's understanding of TfL's assets and liabilities.

## Adjustments

- Two adjustments were made by management to provisions: one for £2m and the other for £59.2m representing legal liabilities that management determined met the requirements under IAS 37.
- 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 had 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.
- Our review of management's Minimum Revenue Provision (MRP) calculation identified that the provision made in respect of PFI had not been calculated from the date at which the PFI asset was bought into operational use. The impact of this is a £47m increase to the MRP charge (and subsequent decrease to the General Fund reserves). This represents an error in previous financial statements and has been adjusted as a prior period correction.
- We identified an error in the prior year disclosure for the Capital Financing Requirement (CFR). The CFR should be calculated directly from the local authority's balance sheet. When we completed this reconciliation an overstatement of £220m in the prior year CFR disclosure was identified.
- Management identified an error in the share capital disclosure in the TTL financial statements which has been restated.




# Executive Summary (cont'd)

## Whole of government accounts

- We have not yet initiated our audit for Whole of Government (WGA) requirements. Our audit work on WGA for 2021/22 is completed and our WGA for 2022/23 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 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.

## Independence

- We reported separately on our independence to the Audit & Assurance Committee meeting held in June. There are no changes to our independence assessment since this date.

## 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. Having completed our planned procedures in respect of financial sustainability we found that arrangements were in place throughout 2022/23 to address financial sustainability including mitigated budget modelling, scenario planning and positive engagement with DfT. Having completed our procedures we did not identify a significant weakness and our opinion is not modified in respect of this 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

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 are our conclusions?

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 the journal entry testing we noted that evidence of authorisation of journals was not available as the management's current journal process does not specifically require a formal authorisation. Management explained that all journals are posted by a separate team which provide assurance that appropriate segregation of duties exists, and there is also a robust year end review of accounts and reconciliations to mitigate the risk of inappropriate journal postings. We agree with these mitigations however we recommend that a robust authorisation and approval process for journals is implemented considering the value and volume of manual journals that are processed.

### 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  are our conclusions?

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 have obtained and reviewed KPMGs  ISAE3402 report and agreed procedures report as part of our procedures over contactless ticketing and Oyster pay as you go. No significant findings were identified from this work,

We have completed our substantive testing of fares and agree that the amount recorded in the financial statements is consistent with underlying supporting documents. In our testing we identified one  misstatement for £8.1m of Oyster revenue that was not included in the P13 accrual. Management has chosen not to adjust the financial statements for this item.

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### 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;
- Reviewed the 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 are our conclusions?

In auditing the financial statements, we have concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Management have concluded that there are no material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on TfL's ability to continue as a going concern for a period and they have disclosed the key risks, uncertainties and mitigations available over the going concern period to the 31 March 2025 within their basis of preparation disclosure in the financial statements.

Based on the work we have performed we agree with management's assessment and have not identified any material uncertainties that may cast significant doubt on TfL's ability to continue as a going concern and the financial statement disclosures are appropriate. Our audit opinion is not modified in respect of this matter.

### Our response to the key areas of challenge and professional judgement

Our evaluation of Management's assessment included the following procedures:

► We understood management's assessment of funding requirements and commitments for the going concern period by reconciling 2023/24 and 2024/25 budget, and Q1 forecast back to supporting evidence.

► 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,

► 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 validated the performance against conditions set out in DfT funding agreement dated 30 August 2022 and the control mechanisms in place at TfL to monitor performance, to assess the risk of noncompliance with conditions which could therefore result in a reduction in funding in the going concern period to 31 March 2025.

► We reviewed and challenged the detailed cashflow forecast to the 31 March 2024 and the higher level cashflow forecast to the 31 March 2025 and considered the accuracy of historical cash flow forecasting.

► 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 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 going concern disclosures relating to the ability to deliver current planned operational services within available sources of funding in the financial statements.

# 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 are our conclusions?

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.

### 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

Key Audit Matter

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 are our conclusions?

We selected 51 investment properties for review. Of these 30 samples were tested by EY Real Estate valuation team and the remaining 21 samples were tested by EY Audit team.

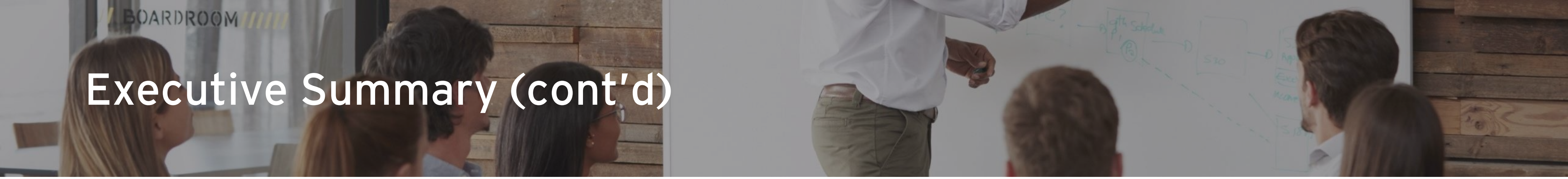
Procedures have been completed for TfL and TTL groups with no material issues identified on the valuation amount.

(continued on next slide)

### 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 management to the external valuer. This included agreeing a sample back to underlying lease data.
- Our sample selections included property that is valued at an estate level. In these instances we have reviewed the valuation model, tested source documentation provided by management to the external valuer and agreed the information 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.




# 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 not to 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. Based on the evidence provided by management, the classification of assets held for sale is considered appropriate.

# Areas of Audit Focus (cont'd)

## Significant accounting estimates – including complexity of provisions

### What is the risk?

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 held by the Group as at 31/03/2023 is £225m.

### What did we do?

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.

See the next page for detail on the provisions included in our sample testing and the key judgements that we focussed on during our audit work.

# 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 and the key judgments involved in each of the provisions.

| Provision | 22-23 | 21-22 | What Judgements are we focused on? |
| --- | --- | --- | --- |
| Sandilands provision | £10.0m | £8.0m | The key judgement is the value of the liability, since a court decision was made on the 27 July 2023, the provision was adjusted to reflect the outcome. |
| Compensation and contractual provision | £59.2m | Nil | More details discussed in part 2 of this paper. Based on the audit procedures performed our audit team assessment is that the provision is understated by £24m and we have included this as an unadjusted audit difference in Section 03 of this report. |
| PFP Awards | Nil | £7.5m | Management has chosen to recognise the liability as a short term accrual rather than a provision in 2022/23. We have validated to the relevant supporting document and review the estimation model. Based on the assessment performed, the provision amount is reasonable. |
| Insurance Claims | £11.7m | £14.6m | We have reviewed the estimation model and review the key assumption used in estimating the value of insurance claims. Based on the assessment performed, the provision amount is reasonable. |
| Holiday pay on overtime provision | £10.9m | £13.3m | We have reviewed the estimation model and significant assumption used in determining the employment tribunal estimate timeline. Based on the assessment performed, the provision amount is reasonable. |
| Provision for Crossrail Property Claims | £45.4m | £56.0m | We have reviewed the estimation model and significant assumption used in determining the amount claim relating to Crossrail Property. Based on the assessment performed, the provision amount is reasonable. |
| Dilapidation | £5.1m | £3.5m | We have reviewed the assumption used in estimating the timing of pay-out for dilapidation in determine the classification of the provision, whether as current or non-current liabilities. |
| Major stations | £6.3m | £11.4m | 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. |
| Legal provision | £8.0m | £6.0m | The key assumption is the estimation of the value and the uncertainty of the legal proceeding conclusion. |

(continued on next page)

# Areas of Audit Focus (cont'd)

## Significant accounting estimates – including complexity of provisions

| Provision | 22-23 | 21-22 | What Judgements are we focused on? |
|---|---|---|---|
| Voluntary Severance | £4.8m | £2.4m | We have reviewed the estimation model and assumption used in determining the number of personnel that will be in a grade will volunteer for severance. Based on the assessment performed, the provision amount is reasonable. |
| Senior management performance award | Nil | £10.8m | Management has chosen to recognise the liability as a short term accrual rather than a provision in 2022/23. We have validated to the relevant supporting document and review the estimation model. Based on the assessment performed, the provision amount is reasonable. |
| Commercial dispute provisions | £21.4m | £9m | We have reviewed management's assessment and obtained evidence to support the judgements and assumptions made. We concluded that the provision amount is reasonable. |

## What are our conclusions?

Overall we are satisfied that the provisions balances are fairly stated and the assumptions are supportable.

We identified one unadjusted misstatement of £24m as described on the previous page which leads to an understatement of the liability. This item is included as an unadjusted difference in our letter of representation.

# 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.

We have calculated that this difference in judgement leads to an overstatement of the non-current asset balance of £29m with a corresponding overstatement of £20m to retained earnings, a £2m understatement of the operating lease liability and an understatement of £7m to expenditure. This is reported as an unadjusted audit difference in Section 03 of this report.

# 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)

Pooled Assets:

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 £4,408m, £552m relating to FY23 assets and £3,856m 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 there 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.<br><br>The closing balance of the derivative positions held as at 31 March 2023 year end is £14.4m.<br><br>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 EY Global Treasury & Commodity Advisory Services team to assist us recomputing an independent fair value amount.<br><br>Based on the work performed by EY Global Treasury & Commodity Advisory Services team there is no material variance noted.<br><br>The closing balance of borrowings held as at 31 March 2023 is £15,562m.<br><br>The engagement team, using independent valuation agency risk spreads obtained by our EY Global Treasury & Commodity Advisory Services team, has assessed the reasonableness of managements fair value assessment of Bonds and Borrowings. The assessment has found management's calculations to be appropriate.<br><br>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 in the prior year, we have engaged our EY Pensions specialist to perform a roll forward check of the liabilities of each of these schemes. No significant differences have been identified from this work.

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. We selected a sample of members and agreed the data inputs to source evidence and engaged our EY pensions team to perform a recalculation of the liabilities. Having completed this work we did not identify any misstatements.

(continued on next slide)

# 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.

After consideration of the Trust Deed and Rules, the Group has assessed that under IFRIC 14 TfL has an unconditional right to a refund of surplus assets for accounting purposes assuming the gradual settlement of plan liabilities. As a result, the net pensions surplus has been recognised in full. We have considered this assessment and consulted internally with our technical specialist and EY Pensions Specialists and agree with this judgement which has also been disclosed separately within the accounts.

# Areas of Audit Focus (cont'd)

## Minimum Revenue Provision (MRP)

### What is the risk?

Under the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 [as amended], TfL has a duty to make a revenue provision in respect of the financing of capital expenditure incurred by the local authority in that year or in any financial year prior to that year.

Since 2008 the regulations (paragraph 28) have stated:

*A local authority shall determine for the current financial year an amount of minimum revenue provision which it considers to be prudent*.

Recent public cases have come to our attention whereby local authorities have not charged sufficient MRP which has then resulted in financial sustainability issues and impacts on service delivery. There is a risk that TfL has not complied with the legislative requirements in relation to MRP in assessing is provision and setting aside a prudent amount.

Through our review of this issue we have also considered the robustness of the arrangements in place to review the annual MRP policy and considered whether or the current policy provides sufficient detail and information on how the provision is calculated. The MRP policy is approved each year by the Board and it is therefore important that sufficient detail is included to enable the Board to fulfil their responsibilities to assess the provision, having consideration of the current guidance, to ensure that management is prudent in its provisioning and is therefore managing risks to financial sustainability.

### What did we do?

We:

- Evaluated TfL's MRP accounting treatment for appropriateness and compliance with the CIPFA accounting standards and the Local Authorities Regulations 2003;
- Engaged team members with specialist knowledge in MRP and the underlying regulations and CIPFA guidance to review the appropriateness of the accounting treatment;
- Reviewed and challenged management's current MRP policy and considered whether the arrangements in place to ensure a prudent yearly provision are robust;
- Reviewed management's current MRP calculation and challenged the underlying assumptions made;
- Challenged management to evidence how they have had regard to the guidance in their assessment of the prudence of the charge.

### What are our conclusions and recommendations?

- Our review of management's MRP model identified that the provision made in respect of PFI had not been calculated from the date at which the PFI asset was bought into operational use. The impact of this is a £47m increase to the MRP charge (and subsequent decrease to the General Fund reserves). This represents an error in previous financial statements and has been adjusted as a prior period correction.
- TfL started charging MRP on prudential borrowing from 2016/17. We challenged whether management had considered the prudence of the provision and how it has regard to the guidance. In particular we noted that there were increases to the CFR from 2008/09 to 2015/16 with no MRP charges being made.
- Although our conclusions are that the nil charge in these historic years does not constitute non-compliance with regulations we do recommend that management consider how its MRP policy aligns with current guidance particularly as the records held by management (upon which historic MRP charges have been made) are not supported by movements in the Capital Financing Requirement (CFR) and considering that the overall aim of MRP is to cover the CFR.

(continued on the next page)

# Areas of Audit Focus (cont'd)

## Minimum Revenue Provision (MRP) continued

### What  are our conclusions and recommendations?

- In addition, we identified a error in the prior year disclosure for the Capital Financing Requirement (CFR). The CFR should be calculated directly from the local authority's balance sheet. This reconciliation had not been completed  by management and when we performed this as an audit team we identified an overstatement of £220m in the prior year CFR. This disclosure has been restated in the financial statements. Going forward we recommend that management perform a reconciliation of the CFR to the balance sheet as part of close down procedures.

- Our review of the management's MRP policy identified improvements that should be  made to ensure that it enables  the Board to make an appropriate assessment of whether the provision is prudent. Going forwards we recommend that the policy:

- Explains what average useful economic life is used in the calculation and how this is calculated;
- Specifically explains how MRP is calculated for Right of Use assets and PFI assets as the current policy has been silent on both of these elements of the charge;
- Explains how management intends to cover the Capital Financing Requirement (CFR) created by lending to subsidiaries;
- Explains how management have considered current guidance and provides a rationale for why guidance is not applied where appliable;
- Explains how management intends to cover the remaining balance on the  CFR after accounting for the above items;
- Explains how equity investment in subsidiaries is considered for MRP purposes.

# Areas of Audit Focus (cont’d)

## Climate risk

### What is the risk?

In the context of the changing stakeholder expectations, and the increased regulatory focus, we have embedded a response to the risks presented by climate change into our audit procedures.

Whilst it is not mandatory for TFL, nor TTL, to meet the Task Force on Climate-related Financial Disclosures (“TCFD”) disclosure requirements spelled out by the FRC for the year ended 31 March 2023, management has stated their desire to be well placed for mandatory transition in FY24.

We note various physical and transition climate change risks set out in the Task Force on Climate-related Financial Disclosures (“TCFD”) disclosures along with the impact on the financial statements. These include the impact of extreme weather events, as well as shifts in policy, technology, markets and public expectations.

We focused on completeness of these risks and whether our review of this “other information” identified inconsistencies with the financial statements and any information we have obtained during the course of our audit.

### What did we do?

Our audit work included input from our Climate Change and Sustainability Specialists (CCaSS). The specific procedures undertaken included:

- Updating our assessment as to how the characteristics and undertakings of the Group may give rise to climate risks
- Understanding and assessing the Group’s external climate-related commitments
- Understanding and evaluating the process and output relating to management’s assessment of the impact of climate change risk
- Assessing changes to transitional and physical risks which may have an impact on the narrative reporting and audited financial information
- Evaluating the impact of climate change on the narrative reporting in the front half, including review of the non-mandatory Task Force on Climate-related Financial Disclosures (“TCFD”) disclosures in light of the requirements
- Assessing the impact of climate change on audited financial information and determining the reasonableness of disclosures
- Including key observations in our audit opinion.

### What are our conclusions and recommendations?

We consider the Group’s climate-related disclosures within the narrative report and financial statements to be appropriate given the non-mandatory requirements for FY23.

We have however communicated improvements needed for the narrative reporting to meet the requirements of the four pillars of the Task Force on Climate-related Financial Disclosures (“TCFD”) framework in FY24, when mandatory disclosure is necessary.

# Areas of Audit Focus (cont'd)

## Non-Compliance with Laws & Regulations

### Required Reporting Matters

We are required to communicate, in writing, to those charged with governance matters involving non-compliance with laws and regulations that come to our attention during the audit.

Below is a list of non-compliance matters that we identified during the course of our audit for which we determined they had the potential for having a 'more than inconsequential" on the financial statements.

| Non-compliance Matter | Details | What did we do? | Impact on the financial statements |
| --- | --- | --- | --- |
| **Sandilands** | On 9 November 2016, a tram derailed near the Sandilands tram stop in Croydon. Tragically, a number of people lost their lives and more were injured. In July 2023 TfL have been fined for breach in health and safety regulations. | We reviewed the court's sentencing result to identify the financial impact.<br><br>We confirmed with legal team from TfL of any other related financial impact.<br><br>We reviewed the appropriateness of the amount recorded in the accounting record and disclosed in the financial statements. | A provision for £10m has been recognised in the financial statements reflecting the fine attributable to TfL. |
| **Cyber** | TfL is impacted by two recent Cyber Breaches – Capita and MoveIt.<br><br>In March 2023 Capita suffered a Cyber attack in which personal data was compromised.<br>In June 2023 one of TfL's Road user charging suppliers was impacted by a Cyber attack through its use of MoveIt software and this included TfL data. | We reviewed communication with both organisations and TfL's report to the ICO along with legal advice received.<br><br>We considered the completeness of management's investigations.<br><br>We considered the financial impact to the financial statements through fines and penalties. | We concluded that for the 31March 2023 financial statements the impact of the cyber attacks was not significant as the breach has occurred within suppliers of TfL and therefore any fines are likely to be issued to those suppliers and, even if they are issued to TfL, the ICO significantly reduces fines to public sector organisations. |

Continued on next page.

# Areas of Audit Focus (cont'd)

## Non-Compliance with Laws & Regulations

| Non-compliance Matter | Details | What did we do? | Impact on the financial statements |
|---|---|---|---|
| **Employee Procurement** | Through our review of current fraud cases we identified two instances of employee related procurement fraud which we initially assessed as having a potential for a more than inconsequential impact on the financial statements. | We obtained and review supporting evidence to support management's actions such as investigation reports.<br><br>We understood the changes to procurement framework and processes and controls that have occurred since these cases and assessed whether the new framework is effective in preventing and detecting the risks of re-occurrence.<br><br>We assessed whether there are any accounting and disclosure consequences for the financial statements | We concluded that these cases do not lead to a material impact on the financial statements. |
| **Penalty Charge Notices (PCN)** | We received a formal objection to the draft financial statements from an elector, that alleges that PCN income derived from CCTV to keepers of vehicles which were in marked bays may be unlawful and, that under Regulations 9 to 11 of the Civil Enforcement of Road Traffic Contraventions Regulations 2022, a PCN can only be served on the basis of a Civil Enforcement Officer, not a CCTV camera. | We have not concluded on the objection, however we have assessed whether there are any accounting and disclosure consequences for the financial statements.<br><br>We reviewed legal advice taken by management along with management's assessment on the impact to the financial statements<br><br>We have also considered whether or not the issue raised could give rise to a risk of significant weakness in TfL's arrangements for governance by ensuring compliance with legislative and regulatory requirements. We are satisfied that there is no indication of a significant weakness in those arrangements. We will set out our assessment of the risk and our findings in our Auditors Annual Report. | An application for judicial review has been made but at the date of the approval of the financial statements this has not been held.<br><br>Management have assessed the impact to the financial statements against the requirements of IAS 37 and concluded that, due to the uncertain outcome of the judicial review, a contingent liability should be recognised in the financial statements.<br><br>We agree with management's assessment. |

# Areas of Audit Focus (cont’d)

## Non-Compliance with Laws & Regulations

| Non-compliance Matter | Details | What did we do? | Impact on the financial statements |
|---|---|---|---|
| **Minimum Revenue Provision (MRP)** | Regulation 27 of The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 provides that local authorities must charge to a revenue account a minimum amount (“minimum revenue provision”). TfL has not made a Minimum Revenue Provision (MRP) charge in its financial statements for the years 2008/09 to 2015/16. | We engaged teams members with specialist skills to review and assess the impact of the MRP undercharge on the 2022-23 financial statements.<br><br>We engaged our EY Law colleagues to perform a review of the underlying regulations and consider whether a nil charge meets the requirements of “prudent”.<br><br>We have also considered whether or not the issue could be indicative of a risk of significant weakness in TfL’s arrangements for financial sustainability. We have made a number of recommendations to improve the arrangements concerning the setting of the MRP policy and consideration of the prudence of the provision, but have not identified a significant weakness in arrangements. We will set out our findings and recommendations in more detail in our Auditors Annual Report. | We concluded that nil provision in historic years was not evidence of non-compliance with the regulations.<br><br>See page 25 and 26 for further details on our work in this area. |

# 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

- **Sandilands Provision** – management have increased the provision recognised in the accounts to £10m following conclusion of the court trial.
- **Compensation provision** – management identified an additional provision for £59.2m for potential Compensation and contractual liabilities.
- **Share capital prior year disclosure** – in the financial statements of TTL management identified an error in the share capital disclosure which has been restated.
- **Infrastructure assets** - 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 had 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 has 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.
- **MRP -** Our review of management's MRP model identified that the provision made in respect of PFI had not been calculated from the date at which the PFI asset was brought into operational use. The impact of this is a £47m increase to the MRP charge (and subsequent decrease to the General Fund reserves). This represents an error in previous financial statements and has been adjusted as a prior period correction.
- **CFR prior year disclosure** - we identified a error in the prior year disclosure for the Capital Financing Requirement (CFR). The CFR should be calculated directly from the local authority's balance sheet. When we completed this reconciliation an overstatement of £220m in the prior year CFR disclosure was identified.

# Audit Differences (cont'd)

## 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 ask that the Audit & Assurance Committee request of management 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 31 March 2023 (£'000) | Effect on the current period: | | Net assets (Decrease)/Increase | | | |
|---|---|---|---|---|---|---|
| | OCI Debit/(Credit) | Income statement Debit/(Credit) | Assets current Debit/ (Credit) | Assets non-current Debit/ (Credit) | Liabilities current Debit/ (Credit) | Liabilities non-current Debit/ (Credit) |
| Errors | | | | | | |
| Known differences: | | | | | | |
| ► Oyster revenue not included in YE accrual | | (8) | 8 | | | |
| ► Late lease recognition for 5 additions to land & buildings | | | | 9 | | (9) |
| ► JTC payments- accounting for contractual payments | (48) | 2 | | 46 | | |
| ► IFRS16 – rolling stock – rate used at each delivery date | 20 | 7 | | (29) | | 2 |
| Judgemental differences: | | | | | | |
| ► Pension asset valuation differences | (48) | | | 48 | | |
| ► Potential liabilities arising from contractual provision | | 24 | | | (24) | |
| Balance sheet totals | (76) | 25 | 8 | 74 | (24) | (7) |
| Income effect of uncorrected misstatements (before tax) | (76) | | | | | |
| Less: tax effect at current year marginal rate | 0 | | | | | |
| Cumulative effect of uncorrected misstatements before turnaround effect | (76) | | | | | |
| Turnaround effect. See Note 1 below. | 5 | | | | | |
| Cumulative effect of uncorrected misstatements, after turnaround effect | (71) | | | | | |

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 performance 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 (cont'd)

## 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 31 March 2023 (£'000) | Effect on the current period: OCI Debit/(Credit) | Effect on the current period: Income statement Debit/(Credit) | Net assets (Decrease)/Increase: Assets current Debit/(Credit) | Net assets (Decrease)/Increase: Assets non-current Debit/(Credit) | Net assets (Decrease)/Increase: Liabilities current Debit/(Credit) | Net assets (Decrease)/Increase: Liabilities non-current Debit/(Credit) |
|---|---|---|---|---|---|---|
| 1. Reclassification of rental income from investment property from cost of services line to financing and investment income | | | | | | |
| Dr: Gross income – other segments | | 77 | | | | |
| Cr: Financing and investment income | | (77) | | | | |
| 2. Reclassification of operating expenditure from investment property from the cost of services line to financing and investment expenses | | | | | | |
| Dr: Financing and investment expenditure | | 6 | | | | |
| Cr: Gross expenditure – other segments | | (6) | | | | |

## Unadjusted disclosure differences

- "Grant income" within the Comprehensive and Income Expenditure Statement should be described as "taxation and non-specific grant income" as it includes retained business rates and council tax precept from the GLA.
- Climate change disclosure should include the factors management considered when coming to the conclusion that climate change does not have a material impact on the financial statements.

# 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.

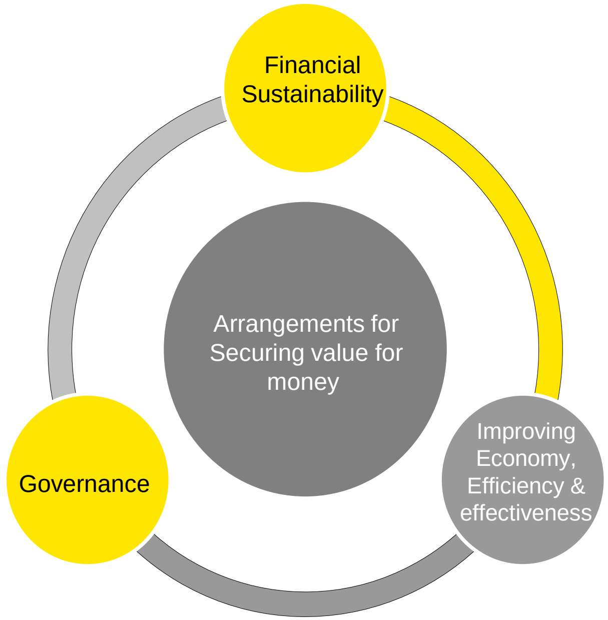
For 2022/23, proper arrangements are defined by 2020 statutory guidance issued by the National Audit Office on 1 April 2020, as:

- **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

We have completed of our planned procedures and have not identified significant weaknesses in arrangements to secure value for money. Our opinion is not modified in respect of this matter.



# 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? |
|---|---|---|
| **Longer term funding impacts**<br>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.<br><br>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.<br><br>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.<br>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:<br>▸ Reviewed and challenged management's budgets and consider the impact of uncertain funding on the future financial position;<br>▸ Considered and assessed the mitigations identified by management should longer term funding not be agreed; and<br>▸ understood and assessed management's scenario planning depending on future uncertainties over funding levels and sources. |

# Value for Money

**Findings**

We reviewed and challenged management's budget modelling and found the assumptions to be supportable and prudent. Management had also appropriately considered downside scenario planning in their budget modelling and we reviewed their mitigated budget model which modelled the impact of a number of downside scenarios and their resulting impact on forecast and cashflows. Downside scenarios included reduced funding, reduced passenger demand, fare freezes, increased interest rates and London-wide ULEZ compliance. This analysis had then been used to drive management's assessment of possible mitigations demonstrating appropriate management of financial risks and unplanned changes. Mitigations identified included delaying capital expenditure and increasing borrowing. We note that these mitigations are available options to management should they be required in a 'worst-case' downside scenario and having these mitigations identified is evidence of positive arrangements for ensuring financial stability. We note that if these mitigations were to be employed, then there could be other implications for the organisation for example increased finance costs or, if capital expenditure is delayed, this could result in longer term impacts to service. It is clear that management do not intend to use these mitigations unless required and there is evidence to support increased savings and funding negotiations to prevent these mitigations from being used.

Our work also demonstrated that management has engaged positively with key partners such as the Department for Transport (DfT) and the Greater London Authority (GLA) throughout 2022-23. This has included agreeing funding and longer term solutions to support the organisation including a longer term funding settlement in August 2022 covering the period to 31 March 2024 and a facility agreement with the GLA also covering the same period as well as other funding negotiations. As part of our work we have obtained evidence of regular communication with DfT regarding the conditions within the long term funding agreement including regular updates on status and positive discussions where challenges have been encountered. We also noted positive performance against a large number of the conditions that had been achieved timely following receipt of the funding agreement.

Having completed this work we have not identified a significant weakness in how the authority plans and manages its resources to ensure it can continue to deliver its services 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 continue to engage positively with key stakeholders as well as continue to assess and model the implications of any downside risks as they emerge to ensure that appropriate plans can be put in place to mitigate against risks to service delivery.

# 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**<br><br>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:<br>▸ Performed enquires of key management personnel across the organisation;<br>▸ 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. |
| 05 June 2023 | Meeting | The draft audit results report was issued to the audit & assurance committee |
| June – Sept 2023 | Meetings | Regular meetings with management to discuss key findings and non-compliance items. |
| Sept 2023 | Meeting | The final audit results report was issued to the audit & assurance committee |

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.<br>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<br>▶ Significant difficulties, if any, encountered during the audit<br>▶ Significant matters, if any, arising from the audit that were discussed with management<br>▶ Written representations that we are seeking<br>▶ Expected modifications to the audit report<br>▶ Other matters if any, significant to the oversight of the financial reporting process | Audit results report in September 2023 and Auditors Annual Report in December 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:<br>▸ A declaration of independence<br>▸ The identity of each key audit partner<br>▸ The use of non-member firms or external specialists and confirmation of their independence<br>▸ The nature and frequency of communications<br>▸ A description of the scope and timing of the audit<br>▸ 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<br>▸ Materiality<br>▸ Any going concern issues identified<br>▸ Any significant deficiencies in internal control identified and whether they have been resolved by management<br>▸ Subject to compliance with regulations, any actual or suspected non-compliance with laws and regulations identified relevant to the audit committee<br>▸ 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<br>▸ The valuation methods used and any changes to these including first year audits<br>▸ The scope of consolidation and exclusion criteria if any and whether in accordance with the reporting framework<br>▸ The identification of any non-EY component teams used in the group audit<br>▸ The completeness of documentation and explanations received<br>▸ Any significant difficulties encountered in the course of the audit<br>▸ Any significant matters discussed with management<br>▸ Any other matters considered significant | Audit results report in September 2023 and Auditors Annual Report in December 2023. |

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

| | | Our Reporting to you |
|---|---|---|
| **Required communications** | **What is reported?** | **When and where** |
| Going concern | Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:<br>▸ Whether the events or conditions constitute a material uncertainty related to going concern<br>▸ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements<br>▸ The appropriateness of related disclosures in the financial statements | Audit results report in September 2023 and Auditors Annual Report in December 2023. |
| Misstatements | ▸ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation<br>▸ The effect of uncorrected misstatements related to prior periods<br>▸ A request that any uncorrected misstatement be corrected<br>▸ Material misstatements corrected by management | Audit results report in September 2023 and Auditors Annual Report in December 2023. |
| Fraud | ▸ Enquiries of the audit & assurance committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity<br>▸ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist<br>▸ Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving:<br>a. Management;<br>b. Employees who have significant roles in internal control; or<br>c. Others where the fraud results in a material misstatement in the financial statements.<br>▸ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected<br>▸ 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<br>▸ Any other matters related to fraud, relevant to audit & assurance committee responsibility. | Audit results report in September 2023 and Auditors Annual Report in December 2023.<br>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:<br>▸ Non-disclosure by management<br>▸ Inappropriate authorisation and approval of transactions<br>▸ Disagreement over disclosures<br>▸ Non-compliance with laws and regulations<br>▸ Difficulty in identifying the party that ultimately controls the entity | Audit results report in September 2023 and Auditors Annual Report in December 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<br>▸ 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 in September 2023 and Auditors Annual Report in December 2023. |
| Significant deficiencies in internal controls identified during the audit | ▸ Significant deficiencies in internal controls identified during the audit. | Audit results report in September 2023 and Auditors Annual Report in December 2023. |
| Fee Reporting | ▸ Breakdown of fee information when the audit plan is agreed<br>▸ Breakdown of fee information at the completion of the audit<br>▸ Any non-audit work | Audit fee letter in May 2023 |
| Value for Money | ▸ Risks of significant weakness identified in planning work<br>▸ Commentary against specified reporting criteria on the VFM arrangements, including any exception report on significant weaknesses. | Audit planning report in November 2022 and<br>Audit results report in September 2023 and Auditors Annual Report in December 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.<br>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:<br>▸ The principal threats<br>▸ Safeguards adopted and their effectiveness<br>▸ An overall assessment of threats and safeguards<br>▸ Information about the general policies and process within the firm to maintain objectivity and independence<br>Communications whenever significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place.<br>For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2019:<br>▸ Relationships between EY, the company and senior management, its affiliates and its connected parties<br>▸ Services provided by EY that may reasonably bear on the auditors' objectivity and independence<br>▸ Related safeguards<br>▸ Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees<br>▸ A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit<br>▸ 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<br>▸ Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard<br>▸ 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<br>▸ Inability to obtain relevant and reliable audit evidence from other procedures. | Audit results report in September 2023 and Auditors Annual Report in December 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<br>▸ 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<br>▸ 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<br>▸ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted<br>▸ 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 September 2023 and Auditors Annual Report in December 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 September 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 September 2023. |
| Auditors report | ▸ Key audit matters that we will include in our auditor's report<br>▸ Any circumstances identified that affect the form and content of our auditor's report | Audit results report in September 2023. |

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