Appendix 1

Transport for London
Draft audit planning report

Year ended 31 March 2024

13 November 2023

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13 November 2023

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

Dear Audit and Assurance Committee Members

Draft audit planning report

We are pleased to attach our draft audit planning report for the forthcoming meeting of the Audit and Assurance Committee. The purpose of this report is provide the Audit and Assurance Committee with a basis to review our proposed audit approach and scope for the 2023/24 audit, in accordance with the requirements of the auditing standards and other professional requirements, but also to ensure that our audit is aligned with the Committee's service expectations. We would like to highlight that this is a draft audit plan and could be subject to change as we progress through our audit.

This report summarises our assessment of the key issues which drive the development of an effective audit for Transport for London. We have aligned our audit approach and scope with these.

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

We welcome the opportunity to discuss this report with you on 29 November 2023 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Janet Dawson

For and on behalf of Ernst & Young LLP

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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/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/).The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.
The "Terms of Appointment and further guidance (updated July 2021)" issued by the PSAA (https://www.psaa.co.uk/managing-audit-quality/terms-of-appointment/terms-of-appointment-and-further-guidance-1-july-2021/) sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.
This report is made solely to the Audit Committee, Board of Directors and management of Transport for London in accordance with our engagement letter. Our work has been undertaken so that we might state to the Audit Committee, Board of Directors 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 Committee, Board of Directors and management of Transport for London for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

01 Overview of our 2023/24 audit strategy

Overview of our 2023/24 audit strategy

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

Audit risks and areas of focus

Risk/area of focus	Risk identified	Change from PY	Details
Misstatement due to fraud or error	Fraud risk	No change in risk or focus	There is a risk that the financial statements as a whole are not free from material misstatement whether caused by fraud or error. We perform mandatory procedures regardless of specifically identified fraud risks.
Inappropriate capitalisation of capital projects including capital accruals	Fraud risk	No change in risk or focus	The potential for inappropriate capitalisation is a particular area where we assess there is an increased risk of management override at TfL. Under the current funding agreement with the DfT, TfL has a capital funding envelope and an agreed level of expected capital expenditure. There is a risk of misstating the capital expenditure in order to maximise capital funding receipts.
Inappropriate Revenue recognition, required by ISA (UK & Ireland) 240 (including expenditure as required by Practice Note 10)	Fraud risk	No change in risk or focus	TfL needs to have robust controls in place to forecast and accurately recognise and report revenue in its financial statements. We have concluded that there is significant risk of material misstatement in the recognition of fare income which comprises £2,196m (P06 Actuals YTD 2023/24) generated through various sources including cash and contactless payments, fares which are apportioned with the Train Operating Companies "TOC" and those fares that are recognised over the period of the travel card. The process of revenue recognition is complex and involves significant judgement with regards to the apportionment of revenue between TfL and TOCs. In addition, the current funding settlement from the DfT provides a revenue true-up mechanism that compensates TfL for fluctuations in passenger demand. If passenger demand varies, the DfT will cover the shortfall against the budgeted revenue. The true-up mechanism provides incentive for management to manipulate the revenue amount in order to receive additional compensation from the DfT.

Overview of our 2023/24 audit strategy

Audit risks and areas of focus

Risk/area of focus	Risk identified	Change from PY	Details
Complexity of accounting for TfL and TTL property portfolios	Significant risk	No change in risk or focus	TfL has an extensive property portfolio, with a net book value of investment property and assets held for sale amounting to £1.6bn and £53.7m respectively as at 31 March 2023. Included within the portfolio are office buildings and investment properties. The unique and material nature of TfL and TTL group's property portfolios means that small changes in assumptions when valuing these assets can have a material impact on the financial statements. There is an on-going uncertainty with regards to the valuation and rapid changes in market values in the current market conditions as a result of the uncertain economic environment.
Going concern	Significant risk	No change in risk or focus	In FY23 we concluded that there was not a material uncertainty over the Group's ability to continue as a going concern however serious consideration was given in reaching this conclusion. For FY24 a number of uncertainties exist from a going concern perspective, namely: ‣ the 'dispute mechanism' within the funding settlement agreement dated 30 August 2022, with the Department for Transport runs until 31 March 2024 and there is a risk that if there are any conditions not met at the end of the funding agreement then funding could be 'clawed back' ‣ The current funding agreement mentioned above only covers the period to the 31 March 2024 and it is currently unknown as to whether any funding will be provided after this date. ‣ TfL's business plan assumes £475m of capital funding for FY24/25. At the date of this report no such funding has been agreed. Our audit work in FY24 will cover the going concern period to at least July 2025 and therefore we will need to assess whether or not the areas listed above give rise a material uncertainty in respect of going concern in this period.

Overview of our 2023/24 audit strategy

Audit risks and areas of focus

Risk/area of focus	Risk identified	Change from PY	Details
Significant accounting estimates – including complexity of provisions	Inherent risk	No change in risk or focus	TfL, TTL and subsidiaries recognise a number of provisions related to different liabilities including commercial disputes, compensation and contractual arrangements and property claims. These provisions are subject to significant estimation and include uncertainty around negotiations.
IFRS 16 Leases - Lease accounting, including the complexity of the estimating the Incremental borrowing rate (IBR)	Inherent risk	No change in risk or focus	IFRS 16 was adopted for the first time in the 31 March 2020 financial statements. It requires entities to recognise a right of use asset and corresponding lease liability in its Statement of Financial Position. There are a number of judgements applied including the Incremental Borrowing Rate (IBR) applied. Historically we have reported an unadjusted audit difference in this area hence it remains an area of risk in FY24.
Climate Risk	Inherent risk	**New area of 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. FY24 is the first year in which it is mandatory for TTL to meet the Task Force on Climate-related Financial Disclosures ("TCFD") disclosure requirements spelled out by the FRC. 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.

Overview of our 2023/24 audit strategy

Audit risks and areas of focus

Risk/area of focus	Risk identified	Change from PY	Details
Complexity of accounting and disclosures for TfL's borrowing and treasury management	Inherent risk	No change in risk or focus	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 an inherent risk.
Judgemental assumptions impacting TfL's pension position	Inherent risk	No change in risk or focus	The assumptions used to arrive at the value of the actuarial valuation of defined benefit obligations is complex and involves significant judgment and estimation. At 31 March 2023, TfL's reported a pension surplus in the balance sheet amounting to £1,543 million. The Group's balance sheet reflects the pension position from the Public Sector Section of the TfL Pension Fund Scheme, Local Government Pension Fund Scheme, Crossrail section of the Railways Pension Scheme and the unfunded scheme provisions. TfL uses the services of Barnett Waddingham and XPS Group (actuarial experts) to support them with the actuarial assumptions and disclosures supporting the IAS19 figures.

Other areas of focus

Risk/area of focus	Risk identified	Change from PY	Details
Minimum Revenue Provision (MRP)	Area of focus	Change in risk or focus	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. As part of the FY23 audit we carried out a detailed review and challenge of the MRP position and as a result we raised a number of recommendations. There is a risk that these have not been appropriately considered and addressed during FY24 which could impact on the organisation's arrangements to secure financial sustainability from a value for money perspective.

Overview of our 2023/24 audit strategy

Other areas of focus

Risk/area of focus	Risk identified	Change from PY	Details
Red route bay enforcement income on the Group's road network	Area of focus	**New area of focus**	In the 2022/23 financial statements TfL disclosed a contingent liability in respect of Red route bay enforcement income on the Group's road network. Currently the Group are in the process of seeking a judicial review at the High Court and on the 17 July 2023 the Chief Adjudicator of the London Tribunals refused TfL's application to review a decision by a panel of Parking Adjudicators (the Determination) that red route bay contraventions cannot be enforced remotely using CCTV as currently done on the TfL Road Network. As an audit team we will need to monitor and understand this position as it evolves over the FY24 year and assess the implication, if any, on the financial statements.

Overview of our 2023/24 audit strategy

Engagement Risk Assessment

Due to the increased public scrutiny of TfL's funding needs, we have assessed the overall engagement risk for TfL as a close monitoring risk assurance engagement. A close monitoring risk assurance engagement is one in which the engagement:

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

As such, we have performed a risk assessment to identify matters that contributed to the assessment. The main risk identified relates to uncertainty with regards to funding required by TfL and any consequential impact on capital funding and services. We have not found there to be any additional risks to those identified above.

In response to the risk assessment, the audit will be subject to an enhanced Audit Quality review. The team will be supported throughout by our Professional Practice Group and our Financial Reporting Group.

Group Materiality

Planning materiality

£100m
PY:£87m

Materiality for the TfL Group has been set at £100m, which represents 1% of the 2024 budgeted total gross expenditure (being the total of current year operational and capital expenditure) , which is determined based on the budget for FY23/24 approved on 29 March 2023. We consider this be the appropriate basis of materiality for the TfL Group due to the scale and nature of the capital expenditure undertaken. This is the same basis as that used in the prior year and will be reassessed throughout the audit.

Performance materiality

£50m
PY:£43m

Performance materiality has been set at £50m, which represents 50% of materiality. This is consistent with the prior year.

Audit differences

£5m
PY:£4.3m

We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement and cash flow statement) greater than £5 million. Other misstatements identified will be communicated to the extent that they merit the attention of the Audit and Assurance Committee.

Overview of our 2023/24 audit strategy

Audit Plan

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

- Our audit opinion on whether the financial statements of Transport for London give a true and fair view of the financial position as at 31 March 2024 and of the income and expenditure for the year then ended; and
- Our commentary on your arrangements to secure value for money in your use of resources for the relevant period. We include further details on VFM in Section 03.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on TfL’s Whole of Government Accounts return. Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

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

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

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

Taking the above into account, and as articulated in this audit plan, our professional responsibilities require us to independently assess the risks associated with providing an audit opinion and undertake appropriate procedures in response to that. Our Terms of Appointment with PSAA allow them to vary the fee dependent on “the auditors assessment of risk and the work needed to meet their professional responsibilities”.

Effects of climate-related matters on financial statements
Public interest in climate change is increasing. We are mindful that climate-related risks may have a long timeframe and therefore while risks exist, the impact on the current period financial statements may not be immediately material to an entity. It is nevertheless important to understand the relevant risks to make this evaluation. In addition, understanding climate-related risks may be relevant in the context of qualitative disclosures in the notes to the financial statements and value for money arrangements.
We make inquiries regarding climate-related risks on every audit as part of understanding the entity and its environment. As we re-evaluate our risk assessments throughout the audit, we continually consider the information that we have obtained to help us assess the level of inherent risk.

Overview of our 2023/24 audit strategy

Value for money conclusion

We include details in Section 03 but in summary:

- We are required to consider whether TfL has made ‘proper arrangements’ to secure economy, efficiency and effectiveness on its use of resources.

- Planning for our work on value for money arrangements and our associated risk assessment is focused on gathering sufficient evidence to enable us to document our evaluation of TfL’s arrangements, to enable us to draft a commentary under three reporting criteria (see below). This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations.

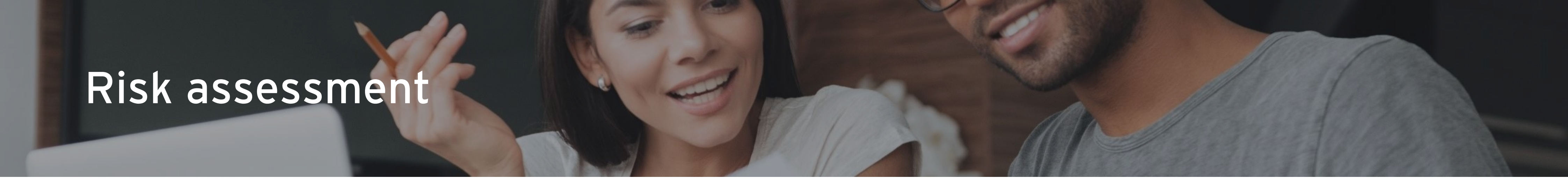
- We will provide a commentary on TfL’s arrangements against the following criteria:
    - Financial sustainability - How TfL plans and manages its resources to ensure it can continue to deliver its services;
    - Governance - How TfL ensures that it makes informed decisions and properly manages its risks; and
    - Improving economy, efficiency and effectiveness - How TfL uses information about its costs and performance to improve the way it manages and delivers its services.

- The commentary on VFM arrangements will be included in the Auditor’s Annual Report.

Timeline

See Section 07 – we have set out the phasing of our audit in order to meet the planned reporting timetable for a sign off at the end of July 2024

02 Audit risks



Risk assessment

Key audit matters

ISA (UK) 701 is effective for periods commencing on or after 17 June 2016 and requires that we communicate key audit matters in our auditor's report. Key audit matters are selected from the matters we communicate to you that in our opinion are of most significance to the current period audit and required significant attention in performing the audit.

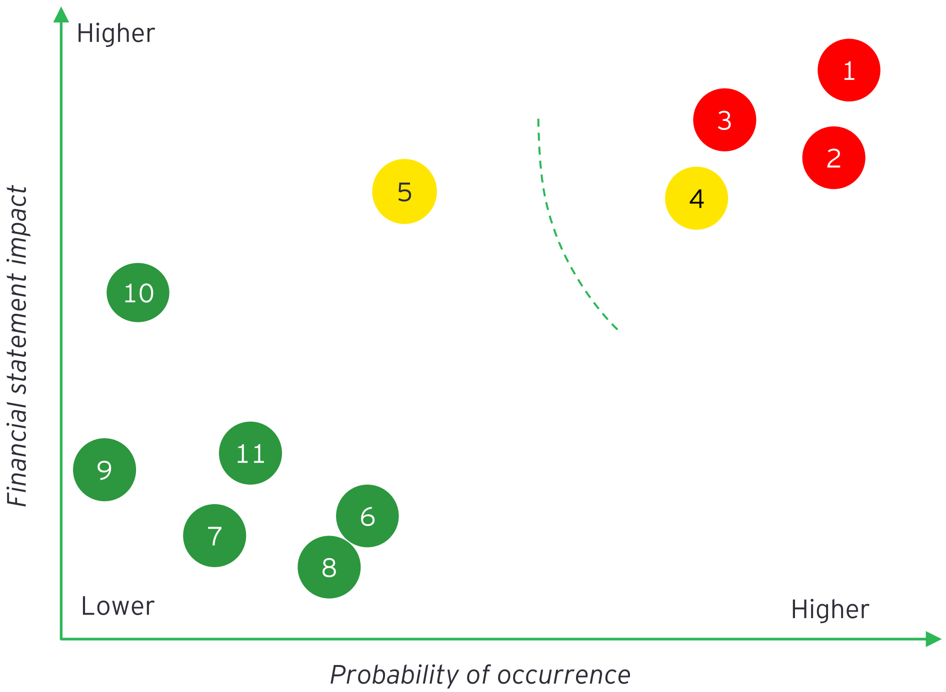
When determining key audit matters we will consider:

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

At this stage of the audit we do not know what key audit matters we will include in our auditor's report. However, we have included within this section the most significant assessed risks of material misstatement (whether or not due to fraud), including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the audit team. We will confirm the key audit matters to you in our audit results report.

Risk assessment

We have obtained an understanding of your strategy, reviewed your principal and emerging risks as identified in your 2022/23 Annual Report and Accounts and combined it with our understanding of the industry and other external factors to identify key risks that impact our audit. The following risk radar summarises the significant matters that are relevant for planning our year-end audit:



Fraud risks

1 Misstatement due to fraud or error

2 Inappropriate Revenue Recognition
3 Inappropriate capitalisation of capital projects including capital accruals

Significant risk
4 Going Concern relating to funding
5 Complexity of accounting for TfL and TTL property portfolios

Inherent risk
6 Significant accounting estimates – including complexity of provisions
7 IFRS 16 Leases - Lease accounting, including the complexity of the estimating the Incremental borrowing rate (IBR)
8 Climate Risk
9 Complexity of accounting and disclosures for TfL's borrowing and treasury management
10 Judgemental assumptions impacting TfL's pension deficit

Our response to significant risks

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Misstatements due to fraud or error*

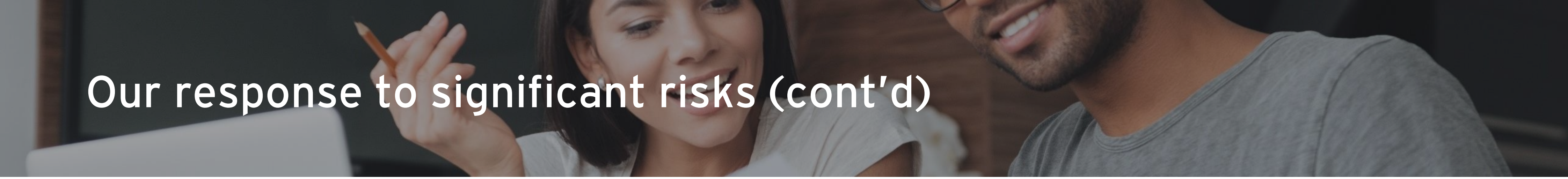
What is the risk, and the key judgements and estimates?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

Our response: Key areas of challenge and professional judgement

- Identifying fraud risks during the planning stages.
- Inquiry of management about risks of fraud and the controls put in place to address those risks.
- Understanding the oversight given by those charged with governance of management's processes over fraud.
- Consideration of the effectiveness of management's controls designed to address the risk of fraud.
- Determining an appropriate strategy to address those identified risks of fraud.
- Performing mandatory procedures regardless of specifically identified fraud risks, including:
    - testing of journal entries and other adjustments in the preparation of the financial statements;
    - assessing accounting estimates for evidence of management bias; and
    - evaluating the business rationale for significant unusual transactions.



Our response to significant risks (cont'd)

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

Financial statement impact

Misstatements that occur in relation to the risk of fraud in revenue recognition could affect the income accounts. As at P6 fares revenue of £2,196m has been recognised.

What is the risk/area of focus, 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.

We have assessed that there is fraud risk in the recognition of fare income which comprises £2,196m (P06 Actuals YTD 2023/24) generated through various sources including cash and contactless payments, fares which are apportioned with the Train Operating Companies "TOC" and those fares that are recognised over the period of the travel card. The process of revenue recognition is complex and involves significant judgement with regards to the apportionment of revenue between TfL and TOCs.

We have assessed that the risk of fraud in revenue recognition manifests itself through fares revenue only. This is due to the complexity and judgement involved in the process of apportioning of the fares revenue recognised as well as funding incentives. The funding settlement from the DfT provides a revenue true-up mechanism that compensates TfL for fluctuations in passenger demand. If passenger demand varies, the DfT will cover the shortfall against the budgeted revenue. The true-up mechanism provides incentive for management to manipulate the revenue amount in order to receive additional compensation from the DfT.

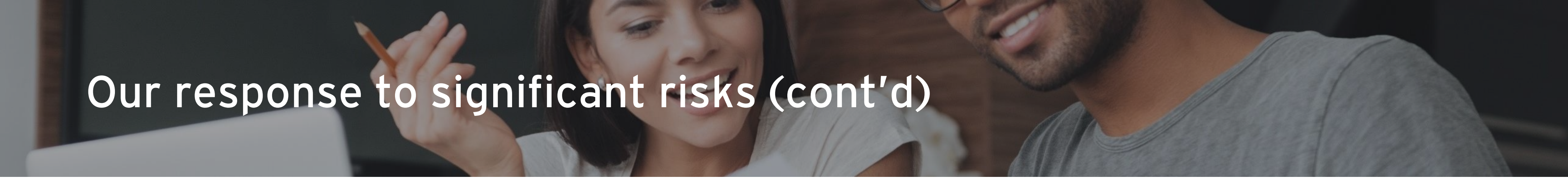
In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. We have not identified any specific risk areas in relation to expenditure.

What else will we do?

For Fares Revenue, we will:

- Gain an understanding of the revenue process for fares revenue;
- Perform controls testing over the effectiveness of the cash collection process and sales made at various sales outlets;
- Substantively test 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 will re-perform the calculation of the amount to be recognised as revenue based on the product type and agree it to the revenue recorded for that period. This calculation also includes the apportionment of revenue between TfL and the Train Operating Companies.
- Agree 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 2023/24 year. We will test the parameters used in the report to confirm the appropriate calculation of this amount as payments received in advance;
- Compare 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;
- Review the minutes of meetings held between TfL and TOCs during FY23/24 to understand whether there were any issues in regards to information communicated by TOCs and settlement between the parties
- Review the ISAE 3402 controls report and the agreed upon procedures report;
- Assess changes to underlying assumptions used for the recognition of revenue such as TOC apportionment and Oyster Card releases; and
- Review journal entries for unusual postings related to adjustments

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



Our response to significant risks (cont'd)

Inappropriate capitalisation of capital projects including capital accruals*

Financial statement impact

Misstatements that occur in relation to inappropriate capitalisation including capital accruals would affect the carrying value of assets under construction and capital accruals accounts. These accounts had the following balances in the 2023 financial statements:

Balance Sheet Account:

- Assets under construction: £2,850m; and
- Capital accruals: £666m

What is the risk/area of focus, and the key judgements and estimates?

Under the current funding agreement with the Department for Transport, TfL has a capital funding envelope and an agreed level of expected capital expenditure. TfL is expected to deliver 10 Major projects by 2023/24 as follows within the budget of £3.5bn:

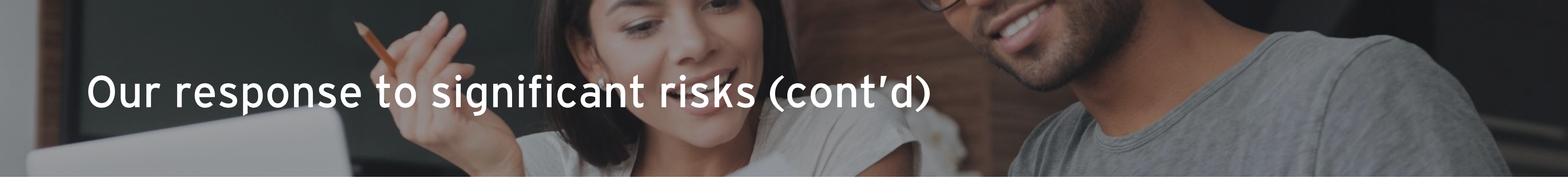
- Piccadilly Line Upgrade Phase 1 – Trains
- Four Lines Modernisation
- Rail System Enhancements for Northern and Jubilee lines
- Northern Line Extension
- Silvertown Tunnel
- Barking Riverside Extension
- DLR Rolling Stock Replacement Programme
- Elephant & Castle Station Stage 1
- Bank Congestion Relief (and necessary associated works)
- The Elizabeth Line

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

What else will we do?

For TfL, TTL groups and subsidiaries we will:

- Review a sample of capital projects, based on quantitative and qualitative thresholds;
- Understand key controls and governance surrounding capital project accounting and management;
- Test controls focused on the effectiveness of the approval process for expenditure and for capitalisation;
- Meet with management and project managers during the year and attend management's P11 and P13 accruals meetings;
- Evaluate management's judgements and assumptions used in determining the future benefits expected from the projects and ensuring they are appropriate and supportable;
- Consider pain/gain arrangements and related accounting treatment;
- Assess whether or not capitalisation of costs is appropriate;
- Consider whether, at any stage, assets need to be impaired or written off to reflect any aborted or higher risk projects;
- Perform detailed testing on a sample of expenditure incurred and capital accruals to source documentation;
- Assess whether management has reasonably estimated the cost to complete the capital projects;
- Review claims and contracts for existence of additional obligations or expenditure that is inappropriate to capitalise.



Our response to significant risks (cont'd)

Going concern

What is the risk/area of focus, and the key judgements and estimates?

In FY23 we concluded that there was not a material uncertainty over the Group's ability to continue as a going concern however serious consideration was given in reaching this conclusion. For FY24 a number of uncertainties exist from a going concern perspective, namely:

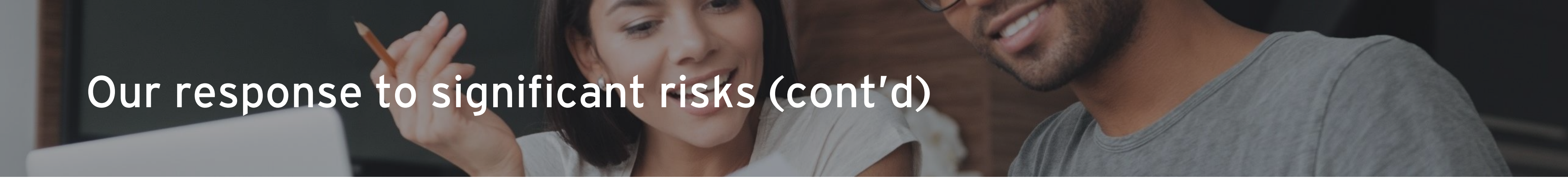
- the 'dispute mechanism' within the funding settlement agreement dated 30 August 2022, with the Department for Transport runs until 31 March 2024 and there is a risk that if there are any conditions not met at the end of the funding agreement then funding could be 'clawed back'
- The current funding agreement mentioned above only covers the period to the 31 March 2024 and it currently unknown as to whether any funding will be provided after this date.
- TfL's business plan assumes £475m of capital funding for FY24/25. At the date of this report no such funding has been agreed.

Our audit work in FY24 will cover the going concern period to at least July 2025 and therefore we will need to assess whether or not the areas listed above give rise a material uncertainty in respect of going concern in this period.

What will we do?

For TfL, TTL group and subsidiaries, will:

- Understand management's assessment of funding requirements and commitments for the going concern period.
- Consider the historical accuracy of management's budgets and forecasting by comparing the last two years variances in actual outturn, to assess the risk of the budgets used in the funding discussions omitting material commitments.
- Validate performance to date on efficiency savings programmes, to determine the potential risk of non delivery of the savings assumed within the budget, as well as the additional amounts required by the funding settlement.
- Understand the nature of the conditions set out in the agreement with the DfT dated 30 August 2022, and validate performance against those conditions and the control mechanisms in place at TfL to monitor performance, to assess the risk of non compliance with conditions which could therefore result in a reduction in funding in the period to 31 March 2024.
- Challenge each material element of downside risk identified by management, including those related to inflation and cost savings and test to supporting evidence to assess the underlying assumptions and the appropriateness of TfL calculations
- Stress test the downside risk, using worst case parameters, considered completeness of downside risks and calculate a "worst case" downside risk– this will include using increased inflation rates, reduced cost savings, changes to passenger fares and other reductions to revenue;
- Confirm the position re any assumed support from GLA in the going concern period, such as the availability and planned application of the Transport Reserve and funding facility to TfL; and
- Consider the mitigations available to TfL, challenge the assumptions over access to further borrowing and other potential mitigations to support the going concern position;
- Ensure appropriate disclosure of the risks and uncertainties in the financial statements.



Our response to significant risks (cont'd)

Complexity of accounting for TfL and TTL property portfolios

Financial statement impact

Misstatements that occur in relation to the complexity of accounting for TfL and TTL groups property portfolios would affect the net asset value. The accounts had the following balances in the 2023 financial statements:

Balance Sheet Account:

- Investment property: £1,574.6m
- Assets Held for Sales: £53.7m

What is the risk/area of focus, and the key judgements and estimates?

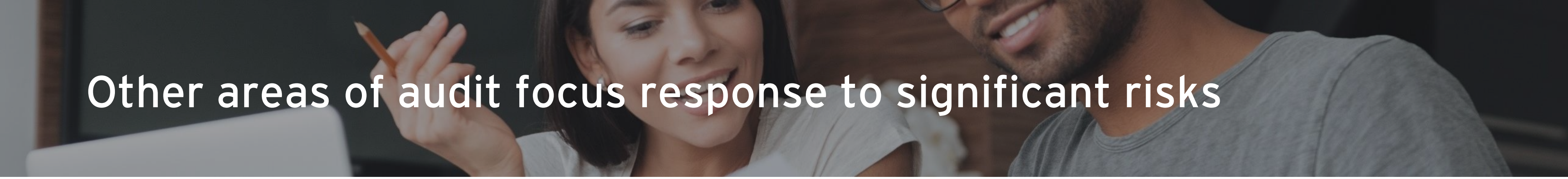
TfL has an extensive property portfolio, with a net book value of investment property and assets held for sale amounting to £1.6bn and £53.7m respectively as at 31 March 2023.

To determine fair value, management utilises the net income method and discounting of future cash flows to their present value. 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 mostly calculated under level 3 of the fair value hierarchy.

What else will we do?

For TfL, TTL groups and subsidiaries, we will:

- Discuss with management and review evidence to gain an understanding of TfL and TTL group's property portfolios;
- Discuss and review valuation assumptions and methodology applied by external valuers along with the TfL property team;
- Perform substantive testing and corroborate explanations for property additions, disposals and accounting for lease contracts;
- Review the valuations report prepared by TfL's external valuers, agreeing the entries in the report back to the financial statements to confirm the accuracy of the entries;
- Assess the classification of TfL and TTL properties and any material increases or impairments that arise during 2023/24;
- Assess the work of TfL's property valuers. We will involve our EY property valuation team as appropriate to-assist in our review of whether TfL's key assumptions are within an acceptable range based on comparative market data for rental yields;
- Review the accounting treatment of valuation movements for non-core assets and ensure it is appropriately disclosed;
- Consider whether the classification of assets between investment properties, property, plant and equipment and assets held for sale is appropriate and in accordance with IFRS;
- Review and challenge judgements made by the external valuers in light of the uncertainties in the current economy; and
- Ensure appropriate disclosure within the financial statements.

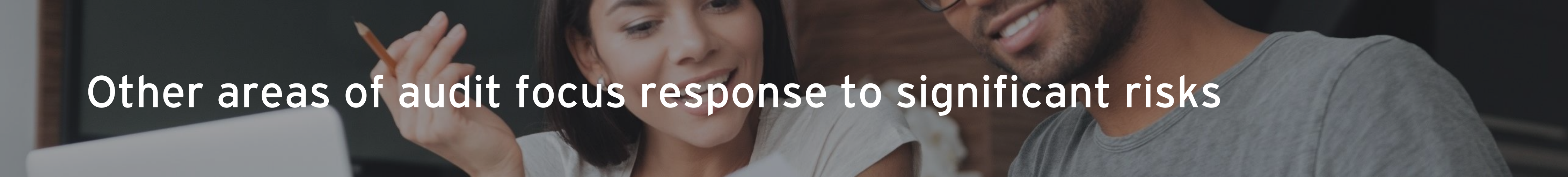


Other areas of audit focus response to significant risks

What is the risk/area of focus?	What will we do?

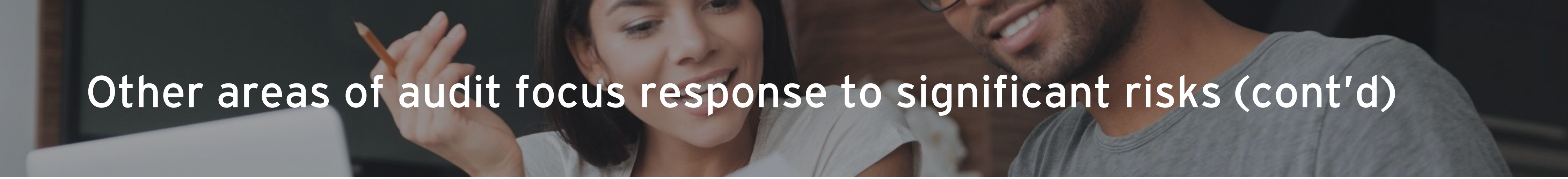
Significant accounting estimates – including complexity of provisions
 	
TfL, TTL and subsidiaries recognise a number of provisions related to different liabilities including commercial disputes, compensation and contractual arrangements and property claims.
 	
These provisions are subject to significant estimation and include uncertainty around negotiations.
	We will:
	▸ Critically assess management's assessment of judgements and estimates. Specifically we:
	    ▸ Review the methods and/or models used to make the accounting estimates
	    ▸ Review the assumption used to make the accounting estimates
	    ▸ Review significant assumptions
	    ▸ Review management's consideration of estimation uncertainty
	    ▸ Review policies related to authorisation and segregation of duties
	    ▸ Review risk of management override of control in relation to estimation process
	▸ Evaluate the accuracy and completeness of the estimation amount made by third party relating to insurances claims.
	▸ Perform unrecorded liabilities testing to identify any omitted provisions.

IFRS 16 Leases - Lease accounting, including the complexity of the estimating the Incremental borrowing rate (IBR) 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 applied including the Incremental Borrowing Rate (IBR) applied. Historically we have reported an unadjusted audit difference in this area hence it remains an area of risk in FY23.	We will: ▸ Assess the appropriateness of the interest rate to be used in the calculation of lease liabilities. ▸ Assess the length of the leases - In particular with respect to station and track access. ▸ Engage EY specialists to evaluate the accuracy of the IBR rate used. ▸ Re-assess differences identified in prior year.



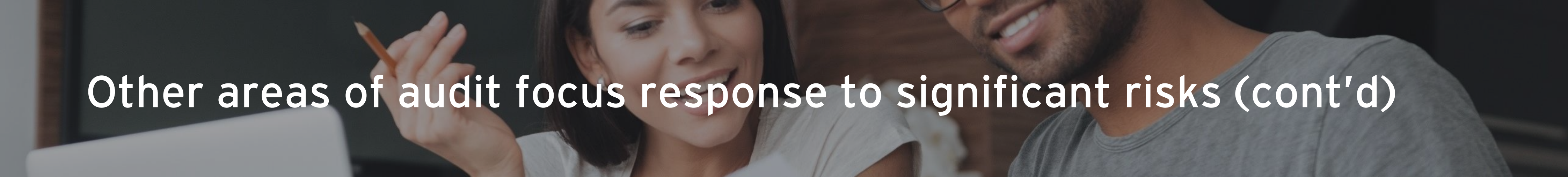
Other areas of audit focus response to significant risks

What is the risk/area of focus?	What will we do?
Climate 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. FY24 is the first year in which it is mandatory for TTL to meet the Task Force on Climate-related Financial Disclosures ("TCFD") disclosure requirements spelled out by the FRC. 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 will focus on the completeness of these risks and whether our review of this "other information" identifies inconsistencies with the financial statements and any information we have obtained during the course of our audit.	Our audit work will include input from our Climate Change and Sustainability Specialists (CCaSS). The specific procedures undertaken will include: ▸ 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 mandatory Task Force on Climate-related Financial Disclosures ("TCFD") disclosures in light of the new requirements ▸ Assessing the impact of climate change on audited financial information and determining the reasonableness of disclosures ▸ Including key observations in our audit opinion.
Complexity of accounting and disclosures for TfL's borrowing and treasury management TfL holds a number of derivative balances including FX forwards and interest rate swaps. Whilst the recalculation of derivative fair values is relatively complex the type of derivatives held by TfL (FX and Interest rate swaps) are not the most complex investment vehicles. The balances held are also not highly material and therefore the risk has been designated as a higher inherent risk.	We will: ▸ Continue an assessment of the borrowings held by TfL, with a particular focus on the conditions/covenants within these financing agreements to assess if TfL has been in compliance with these conditions set out in agreements; ▸ Engage with our EY specialist team to perform an independent valuation of a sample of derivative instruments and reperform the measurement of hedge ineffectiveness.



Other areas of audit focus response to significant risks (cont'd)

What is the risk/area of focus?	What will we do?
Judgemental assumptions impacting TfL's pension position The Local Authority Accounting Code of Practice and IAS19 require TfL to make extensive disclosures within its financial statements regarding its membership to the various scheme. TfL's pension fund position is a material estimated balance and the Code requires that this be disclosed on the TfL's balance sheet. At 31 March 2023, TfL's pension position in the balance sheet amounted to a surplus of £1,543 million. The Group's balance sheet reflects the position from Public Sector Section of the TfL Pension Fund Scheme, Local Government Pension Fund Scheme, Crossrail section of the Railways Pension Scheme and the unfunded scheme provisions. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.	We will : ▸ Liaise with the auditors of TfL Pension Fund to obtain assurances over the information supplied to the actuary in relation to Transport for London. We will meet with the auditor to discuss audit risks and findings and also obtain a copy of the audit findings reports to assess the impact to the schemes of TfL. ▸ For the LGPS and Crossrail schemes we shall perform substantive analytical procedures on the fair value of plan assets movement from the latest audited financial statement of the pension funds to 31 March 2024 using indices to form an expectation over the year-end asset position. ▸ Assess the work of the Pension Fund's actuary (Barnett Waddingham and XPS Group) including the assumptions they have used by engaging EY Pension Consulting team to review and assess the assumptions used. ▸ Review and test the accounting entries and disclosures made within the TfL's financial statements in relation to IAS19; and ▸ Engage EY Pensions Consulting team to carry out roll forward calculations related to the accounting numbers for the fund, to reconcile the year-end fair value of the schemes asset and actuarial valuation of deficit benefit obligation figures with those from the previous year disclosures. We shall also engage our EY Pensions Consulting team to perform a review of assumptions for all schemes.
Minimum Revenue Provision (MRP) 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. As part of the FY23 audit we carried out a detailed review and challenge of the MRP position and as a result we raised a number of recommendations. There is a risk that these have not been appropriately considered and addressed during FY24 which could impact on the organisations arrangements to secure financial sustainability from a value for money perspective.	We will : ▸ Obtain an review management's updated MRP policy and assess whether this addresses the recommendations raised in the previous year; ▸ Obtain and review management's reconciliation of the Capital Financing Requirement to the balance sheet. ▸ Consider the impact of management's MRP policy on arrangements to secure financial sustainability as part of our work on value for money work.



Other areas of audit focus response to significant risks (cont'd)

What is the risk/area of focus?	What will we do?
Red route bay enforcement income on the Group's road network In the 2022/23 financial statements TfL disclosed a contingent liability in respect of Red route bay enforcement income on the Group's road network. Currently the Group are in the process of seeking a judicial review at the High Court and on the 17 July 2023 the Chief Adjudicator of the London Tribunals refused TfL's application to review a decision by a panel of Parking Adjudicators (the Determination) that red route bay contraventions cannot be enforced remotely using CCTV as currently done on the TfL Road Network. As an audit team we will need to monitor and understand this position as it evolves over the FY24 year and assess the implication, if any, on the financial statements.	We will : ▸ Understand and evidence the outcome of the judicial review and obtain management's assessment of how they will respond to the outcome including any implication on the financial statements; ▸ Consider the implications on our responsibilities towards objectors and also arrangements for value for money.

03 Value for Money Risks

Value for Money

Transport for London's responsibilities for value for money

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

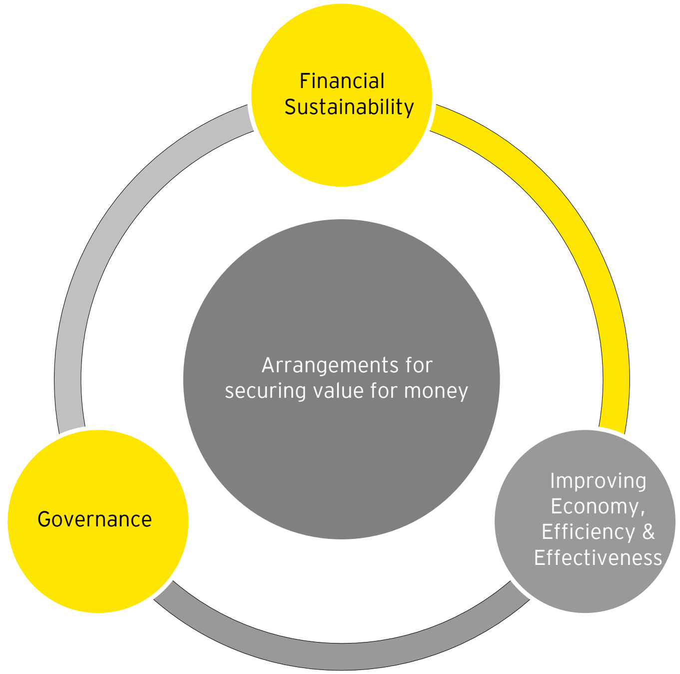
As part of the material published with the financial statements, TfL is required to bring together commentary on the governance framework and how this has operated during the period in a governance statement. In preparing the governance statement, TfL tailors the content to reflect its own individual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

Auditor responsibilities

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

The specified reporting criteria are:

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



Value for Money (cont'd)

Planning and identifying risks of significant weakness in VFM arrangements

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

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

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

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

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

We should also be informed by a consideration of:

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

Value for Money (cont'd)

Responding to identified risks of significant weakness

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

Reporting on VFM

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

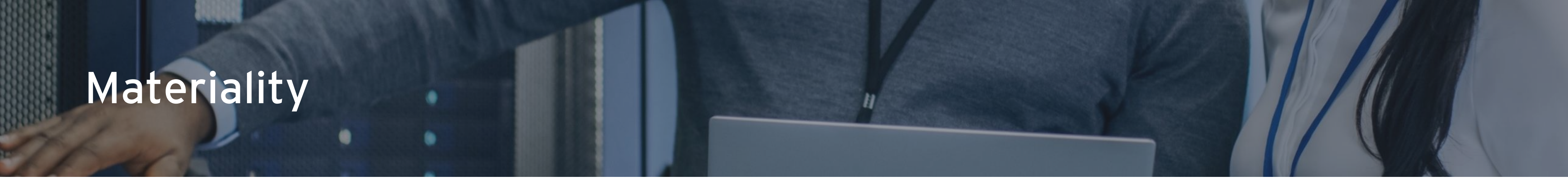
In addition, the Code requires us to include the commentary on arrangements in the Auditor's Annual Report. The Code states that the commentary should be clear, readily understandable and highlight any issues we wish to draw to TfL's attention or the wider public. This should include details of any recommendations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

Status of our 2023/24 VFM planning

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

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

04 Audit materiality



Materiality

Group materiality

For planning purposes, Group materiality for 2024 has been set at £100m. This represents 1% of the TFL's current year gross expenditure including capital expenditure. This basis has been used as these are the key focus of the funding arrangements in place and therefore of most interest to the users of the financial statements. It will be reassessed throughout the audit process.

Gross expenditure (including capital) on provision of services

£9,958m

Planning materiality	Performance materiality	Audit differences
£100m	£50m	£5m
PY: £87m	PY: £43m	PY: £4.3m

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

Key definitions

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

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £50m which represents 50% of group materiality.

Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial. The same threshold for misstatements is used for component reporting. We will report to you all uncorrected misstatements over this amount relating to the income statement and balance sheet that have an effect on income or that relate to other comprehensive income.

Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement or disclosures and corrected misstatements will be communicated to the extent that they merit the attention of the audit and assurance committee, or are important from a qualitative perspective.

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

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

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

05 Scope of our audit

Scope of our audit

Obligations under the Code of Audit Practice

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

We issue an audit report that covers:

1. Financial statement audit

Our opinion on the financial statements:

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

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

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

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

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

Scope of our audit (cont'd)

Obligations under the Code of Audit Practice

Our audit involves:

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

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

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

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

- Contactless Payment Future Ticketing ("CPAY")
- Pay As You Go ('PAYG')
- Rail Delivery Group Limited (RDG)

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

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

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit and Assurance Committee.

Internal audit:
We will regularly meet with the Head of Internal Audit, and review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where they raise issues that could have an impact on the financial statements.

Our obligations under specific provisions of the UK Corporate Governance code (the ‘Code’) [Applicable to TTL]

Our obligations under specific provisions of the UK Corporate Governance code (the ’Code’)

We are required to make certain communications for entities that are required, and those that choose voluntarily, to comply with the UK Corporate Governance Code (which is applicable to TTL). In order to form a view to communicate to the Board and the Audit Committee, we expect our procedures to include:

- Understanding the process undertaken by the directors and/or their delegates through enquiry and review of documentation used by the Board in forming their views
- Understanding how the Board has satisfied itself that it has met the requirements of the Code provisions and how it has considered the FRC Guidance for Directors
- Reading and considering what has been disclosed in the Annual Report and Accounts in light of the knowledge and information we have obtained throughout the audit

We will discuss with you your expectations regarding our communications.

Our audit opinion will report by exception on several of these Code provisions.

As in the prior year, we will continue to communicate our views to you on other Code provisions.

06 Audit team

Audit team

Audit team leadership

The TfL group engagement team is led by Janet Dawson who has overall responsibility for the performance of the audit and for the auditor's report issued on behalf of EY.

The TTL audit report is signed by Philip Young who supports Janet in her responsibilities for the TfL Group opinion.

Audit team changes

To meet regulatory requirements, Caroline Mulley, who was previously the audit partner for TTLP and Crossrail, has rotated off the audit after the 2023 financial year. Matt Williams will now be the partner for Places for London Limited (formerly TTLP). Management have chosen to take an audit exemption for Crossrail Ltd in FY24.

Audit team structure:

Janet Dawson - *Audit Partner*

Philip Young - *Audit Partner*

Matt Williams - *Audit Partner*

Chloe Wilkinson - Senior Manager

Chloe Lim - Manager

Francis Llave - Manager

Specialists structure:

ITRA	EY Property Valuations	FAS - Derivatives, Hedge accounting & IBR	Tax	Pensions	CCaSS (Climate Risk)
Arijit Ray - Senior Manager	Peter Codd - Director	Ian Timmerman - Senior Manager	Stuart Wilkinson - Partner	Chris Brown - Partner	Doug Johnston - Partner
Shalini Supriya - Manager	Bertie Foster-Ward - Director	Glen Balaga - Manager	Vincent Menezes - Senior Manager	Adun Obadeyi - Manager	Lizzie Price - Manager

Use of specialists

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

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

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Group's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable
- Assess the reasonableness of the assumptions and methods used
- Consider the appropriateness of the timing of when the specialist carried out the work
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements

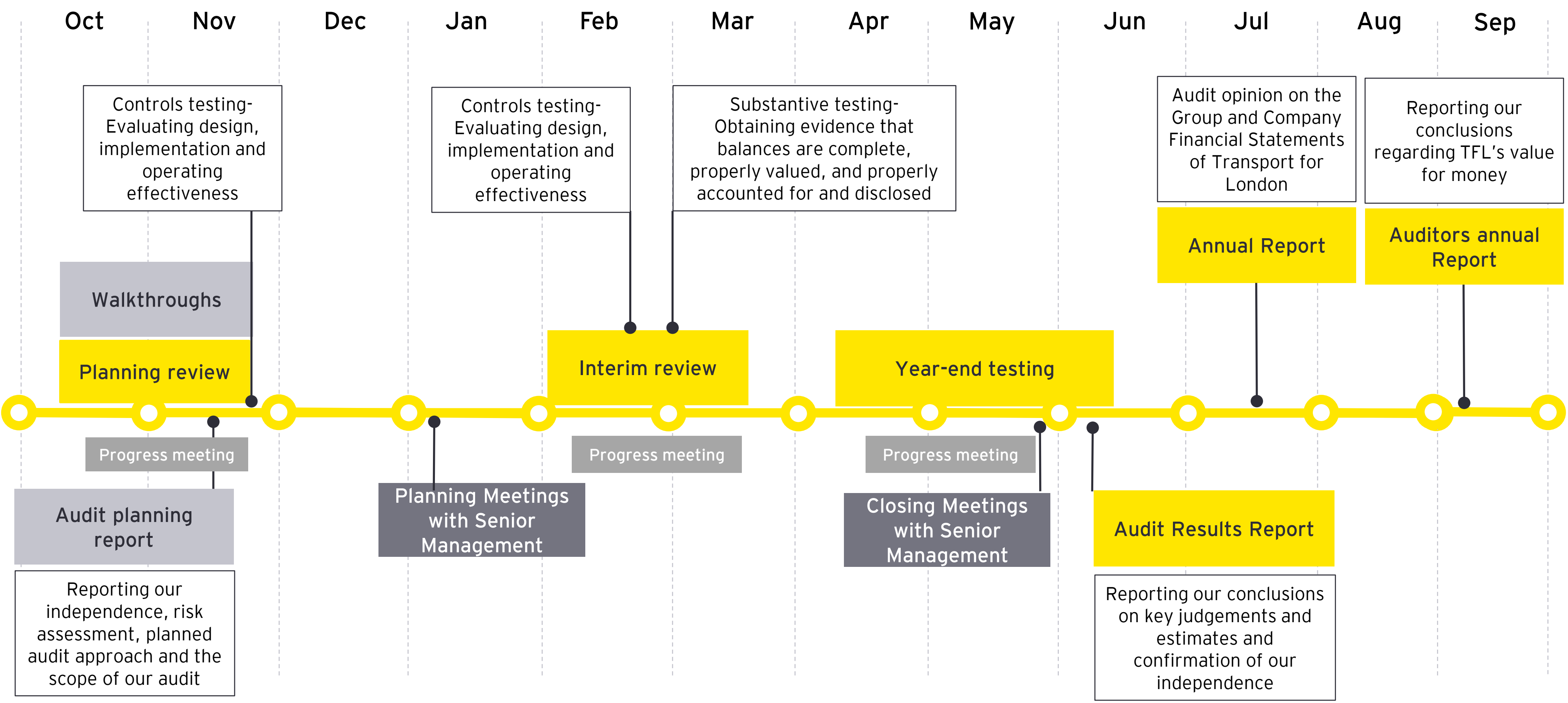
07 Audit timeline

Timetable of communication and deliverables

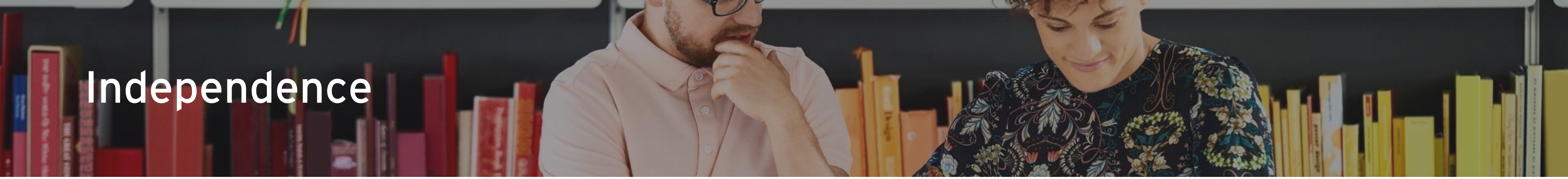
Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2023/24.

From time to time matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Audit Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.



08 Independence



Independence

The FRC Ethical Standard and ISA (UK) 260 "Communication of audit matters with those charged with governance", requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in December 2019, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

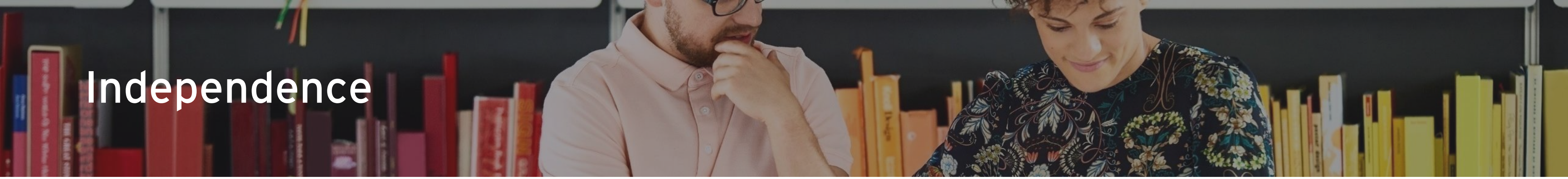
Required communications	
Planning stage	**Final stage**
▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between you, your affiliates and directors and us; ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ▶ The overall assessment of threats and safeguards; ▶ Information about the general policies and process within EY to maintain objectivity and independence.	▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▶ Details of non-audit/additional services provided and the fees charged in relation thereto; ▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us; ▶ Details of any non-audit/additional services to a UK PIE audit client where there are differences of professional opinion concerning the engagement between the Ethics Partner and Engagement Partner and where the final conclusion differs from the professional opinion of the Ethics Partner ▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy; ▶ Details of all breaches of the IESBA Code of Ethics, the FRC Ethical Standard and professional standards, and of any safeguards applied and actions taken by EY to address any threats to independence; and ▶ An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Non audit fees for the year to date amounted to £22,650. Pre approval was obtained for the service and the fees are not material when comparing it to the audit fees.

Independence



Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non –audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Janet Dawson, Matt Williams and Philip Young, your audit engagement partners and the audit engagement team have not been compromised.

Self interest threats

A self interest threat arises when EY has financial or other interests in TfL. Examples include where we have an investment in TfL; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake those permitted non-audit/additional services set out in Section 5.40 of the FRC Ethical Standard 2019 (FRC ES), and we will comply with the policies that you have approved.

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

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

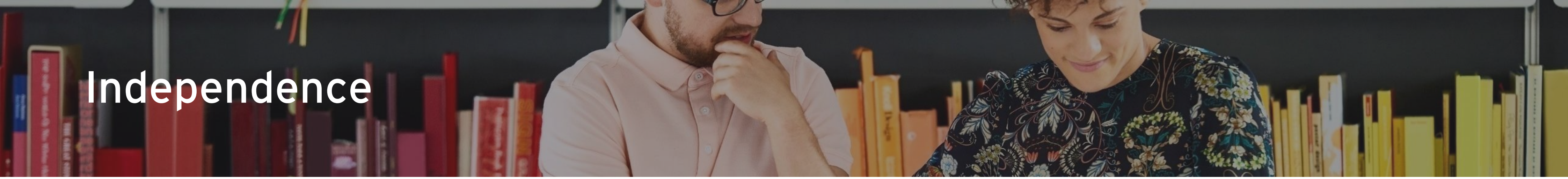
A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

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

Self review threats

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

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



Independence

Relationships, services and related threats and safeguards

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of TfL. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

Other threats

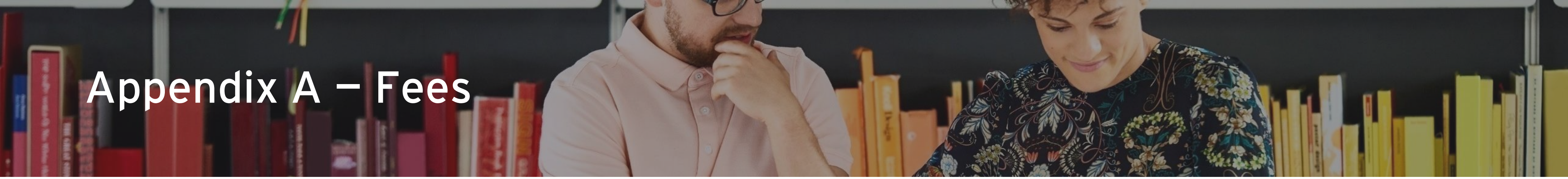
Other threats, such as advocacy, familiarity or intimidation, may arise. We will keep this area under review and update if there are any changes.

EY Transparency Report 2023

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2023:

EY UK 2023 Transparency Report | EY UK

09 Appendices



Appendix A – Fees

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

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

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

Appendix B — Required communications with the Audit Committee

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Terms of engagement	Confirmation by the Audit and Assurance Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team	Audit planning report in November 2023.
Significant findings from the audit	▸ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▸ Significant difficulties, if any, encountered during the audit ▸ Significant matters, if any, arising from the audit that were discussed with management ▸ Written representations that we are seeking ▸ Expected modifications to the audit report ▸ Other matters if any, significant to the oversight of the financial reporting process	Audit results report in July 2024 and Auditor's Annual Report in September 2024.

Appendix B — Required communications with the Audit Committee (cont'd)

		Our Reporting to you
Required communications	What is reported?	When and where

	Unless covered by other communications on planning matters or significant findings, this information shall include our views on:
	► Business risks relevant to financial reporting objectives, the application of materiality and the implications of our judgments in relation to these for the overall audit strategy, the audit plan and the evaluation of misstatements identified
	► The significant accounting policies (both individually and in aggregate)
	► Management's valuations of the entity's material assets and liabilities and the related disclosures provided by management
	► Internal control (without expressing an opinion and based solely on our audit procedures performed in the context of the financial statement audit), specifically on:
	  ► The effectiveness of the entity's system of internal control over financial reporting
	  ► Other risks arising from the entity's business model and the effectiveness of related internal controls
	► The robustness of the directors' assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity and its outcome, including the related disclosures in the annual report and accounts confirming that they have carried out such an assessment and describing those risks and explaining how they are being managed or mitigated (in accordance with Code provision 28)
	► About the directors' explanation in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate (in accordance with Code provision 31), and their statements:
	  I. In the financial statements, as to whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, including any related disclosures identifying any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements (in accordance with Code provision 30)
	  II. In the annual report as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of the assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions (in accordance with Code provision 31);
	Any other matters identified in the course of the audit that we believe will be relevant to the board or the audit committee in the context of fulfilling their responsibilities referred to above.	

Appendix B – Required communications with the Audit Committee (cont'd)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Public Interest Entities	For the audits of financial statements of public interest entities our written communications to the Audit and Assurance Committee include: ▸ A declaration of independence ▸ The identity of each key audit partner ▸ The use of non-member firms or external specialists and confirmation of their independence ▸ The nature and frequency of communications ▸ A description of the scope and timing of the audit ▸ Which categories of the balance sheet have been tested substantively or controls based and explanations for significant changes to the prior year, including first year audits ▸ Materiality ▸ Any going concern issues identified ▸ Any significant deficiencies in internal control identified and whether they have been resolved by management ▸ Actual or suspected non-compliance with laws and regulations identified relevant to the Audit and Assurance Committee ▸ The valuation methods used and any changes to these including first year audits ▸ The scope of consolidation and exclusion criteria if any and whether in accordance with the reporting framework ▸ The identification of any non-EY component teams used in the group audit ▸ The completeness of documentation and explanations received ▸ Any significant difficulties encountered in the course of the audit ▸ Any significant matters discussed with management ▸ Any other matters considered significant	Audit results report in July 2024 and Auditor's Annual Report in September 2024.

Appendix B — Required communications with the Audit 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: ▸ Whether the events or conditions constitute a material uncertainty ▸ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▸ The adequacy of related disclosures in the financial statements	Audit results report in July 2024 and Auditor's Annual Report in September 2024.
Misstatements	▸ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▸ The effect of uncorrected misstatements related to prior periods ▸ A request that any uncorrected misstatement be corrected ▸ Material misstatements corrected by management	Audit results report in July 2024 and Auditor's Annual Report in September 2024.
Subsequent events	▸ Enquiries of the Audit and Assurance Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements	Audit results report in July 2024 and Auditor's Annual Report in September 2024.
Fraud	▸ Enquiries of the Audit and Assurance Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▸ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▸ Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving: a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statement. ▸ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▸ Any other matters related to fraud, relevant to Audit and Assurance Committee responsibility	Audit results report in July 2024 and Auditor's Annual Report in September 2024.

Appendix B — Required communications with the Audit Committee (cont'd)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Related parties	▸ Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ▸ Non-disclosure by management ▸ Inappropriate authorisation and approval of transactions ▸ Disagreement over disclosures ▸ Non-compliance with laws and regulations ▸ Difficulty in identifying the party that ultimately controls the entity	Audit results report in July 2024 and Auditor's Annual Report in September 2024.
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: ▸ The principal threats ▸ Safeguards adopted and their effectiveness ▸ An overall assessment of threats and safeguards ▸ Information about the general policies and process within the firm to maintain objectivity and independence Communication whenever significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place. For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2019: ▸ Relationships between EY, Transport for London and senior management, its affiliates and its connected parties ▸ Services provided by EY that may reasonably bear on the auditors' objectivity and independence ▸ Related safeguards ▸ Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees	Audit results report in July 2024 and Auditor's Annual Report in September 2024.

Appendix B — Required communications with the Audit Committee (cont'd)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
	▸ A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit ▸ Details of any inconsistencies between the Ethical Standard and Group's policy for the provision of non-audit services, and any apparent breach of that policy ▸ Details of any contingent fee arrangements for non-audit services ▸ Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard ▸ The Audit and Assurance Committee should also be provided an opportunity to discuss matters affecting auditor independence	
External confirmations	▸ Management's refusal for us to request confirmations Inability to obtain relevant and reliable audit evidence from other procedures	Audit results report in July 2024.
Consideration of laws and regulations	▸ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▸ Enquiry of the Audit and Assurance Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit and Assurance Committee may be aware of	Audit results report in July 2024.
Internal controls	▸ Significant deficiencies in internal controls identified during the audit	Audit results report in July 2024.

Appendix B — Required communications with the Audit Committee (cont'd)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Group audits	▸ An overview of the type of work to be performed on the financial information of the components ▸ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components ▸ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work ▸ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted ▸ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements	Audit planning report in November 2023 and Audit results report in July 2024.
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report in July 2024.
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report in July 2024.
Auditors report	▸ Any circumstances identified that affect the form and content of our auditor's report	Audit results report in July 2024 and Auditor's Annual Report in September 2024.
Fee Reporting	▸ Breakdown of fee information when the audit plan is agreed ▸ Breakdown of fee information at the completion of the audit ▸ Any non-audit work	Audit planning report in November 2023 and Audit results report in July 2024 and Auditor's Annual Report in September 2024.
Value for Money	▸ Risks of significant weakness identified in planning work ▸ Commentary against specified reporting criteria on the VFM arrangements, including any exception report on significant weaknesses.	Audit planning report in November 2023 and Audit results report in July 2024 and Auditor's Annual Report in September 2024.

Appendix C — Additional audit information

Objective of our audit

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

Our responsibilities in relation to the financial statement audit are set out in the formal terms of engagement between the PSAA's appointed auditors and audited bodies. We are responsible for forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of the Audit and Assurance Committee. The audit does not relieve management or the Audit and Assurance Committee of their responsibilities.

Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

Our responsibilities required by auditing standards

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Transport for London's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluding on the appropriateness of management's use of the going concern basis of accounting.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within Transport for London to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, the Audit and Assurance Committee reporting appropriately addresses matters communicated by us to the Audit and Assurance Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and
- Maintaining auditor independence.

Appendix C — Additional audit information (cont'd)

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

Procedures required by the Audit Code	▶ Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement. ▶ Examining and reporting on the consistency of consolidation schedules or returns with Transport for London's audited financial statements for the relevant reporting period
Other procedures	▶ We are required to discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice

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

Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines the level of work performed on individual account balances and financial statement disclosures.

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

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ED None