Appendix 1

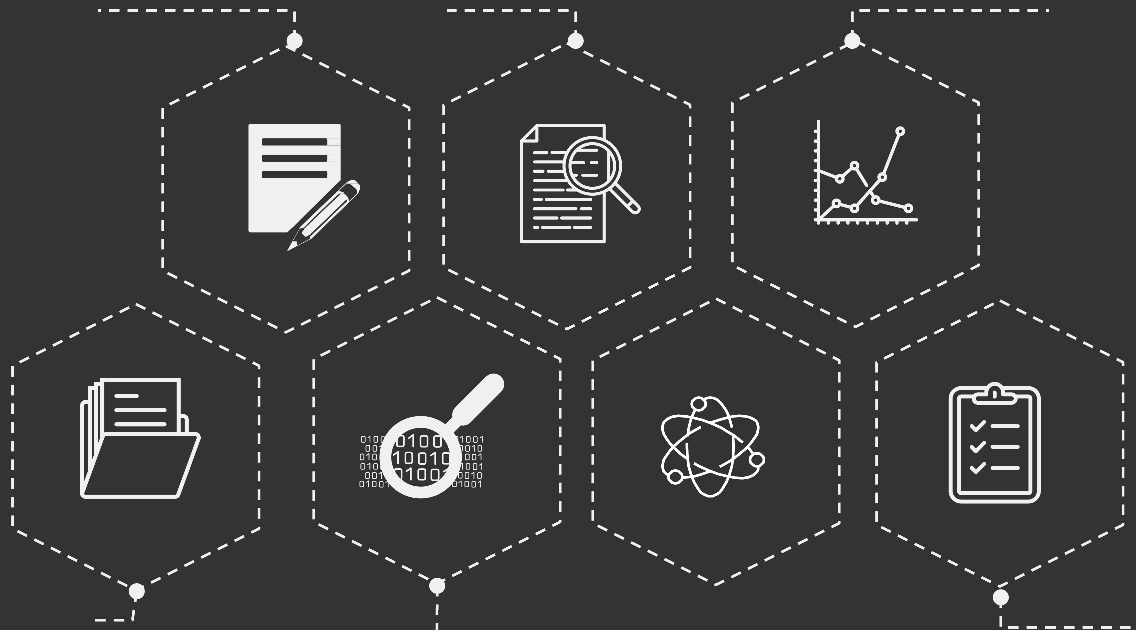
Transport for London

Auditor's Annual Report

13th November 2023

Year ended 31 March 2023

Contents



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

The "Terms of Appointment and further guidance (updated July 2021)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit & Assurance Committee and management of Transport for London and its subsidiaries in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to Audit & Assurance Committee and management of Transport for London and its subsidiaries 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 Audit & Assurance Committee and management of Transport for London and its subsidiaries for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

Introduction

Purpose

The purpose of the auditor's annual report is to bring together all of the auditor's work over the year. A core element of the report is the commentary on value for money (VFM) arrangements, which aims to draw to the attention of the Transport for London and its subsidiaries (the 'Authority'), or the wider public, relevant issues, recommendations arising from the audit and follow-up of recommendations issued previously, along with the auditor's view as to whether they have been implemented satisfactorily.

Responsibilities of the appointed auditor

We have undertaken our 2022/23 audit work in accordance with the Audit Plan that we issued on 30 November 2022. We have complied with the National Audit Office's (NAO) 2020 Code of Audit Practice, other guidance issued by the NAO and International Standards on Auditing (UK).

As auditors we are responsible for:

Expressing an opinion on:

- The 2022/23 financial statements;
- Conclusions relating to going concern; and
- The consistency of other information published with the financial statements, including the narrative statement.

Reporting by exception:

- If the annual governance statement does not comply with relevant guidance or is not consistent with our understanding of the Authority;
- If we identify a significant weakness in the Group's arrangements in place to secure economy, efficiency and effectiveness in its use of resources; and
- Any significant matters that are in the public interest.

Responsibilities of the Authority

The Authority is responsible for preparing and publishing its financial statements, narrative statement and annual governance statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Introduction (continued)

2022/23 Conclusions	
Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Transport for London and its subsidiaries as at 31 March 2023 and of its expenditure and income for the year then ended. We issued our auditor's report on 27 September 2023.
Going concern	We have concluded that the Statutory Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
Consistency of the other information published with the financial statement	Financial information in the narrative statement and published with the financial statements was consistent with the audited accounts.
Value for money (VFM)	We had no matters to report by exception on the Authority's VFM arrangements. We have included our VFM commentary in Section 03.
Consistency of the annual governance statement	We were satisfied that the annual governance statement was consistent with our understanding of the Group.
Public interest report and other auditor powers	We had no reason to use our auditor powers.
Whole of government accounts	We have not performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission for 2022/23 as the Whole of Government Accounts 2022/23 Group Audit Instructions was issued on 04 October 2023 after the sign off the Authority's financial statements.
Certificate	We will issue our audit certificate when our procedures on the Whole of Government Accounts submission for 2022/23 is complete.

Audit of the financial statements

Key findings

The Narrative Statement and Accounts is an important tool for the Group to show how it has used public money and how it can demonstrate its financial management and financial health.

On 27 September 2023, we issued an unqualified opinion on the financial statements. We reported our detailed findings to the 20 September 2023 Audit & Assurance Committee meeting. We outline below the key issues identified as part of our audit, reported against the significant risks and other areas of audit focus we included in our Audit Plan.

Significant risk	Conclusion
Management override of controls, required by ISA (UK and Ireland) 240	We obtained sufficient audit evidence regarding any business rationale for unusual transactions, any assumptions for the capitalisation of expenditure, and for judgements and assumptions related to significant accounting estimates. Our procedures in addressing this risk also consider any material weakness in the design and operation of controls. Through our work on journal entry testing we noted that management's current journal recording process does not specifically require a formal authorisation. Management explained that all journals are posted by a separate team which provide assurance that appropriate segregation of duties exists, and there is also a robust year end review of accounts and reconciliations to mitigate the risk of inappropriate journal postings. We agree with the mitigations provided, however we recommend that a robust authorisation and approval process for journals is implemented considering the value and volume of manual journals that are processed.
Inappropriate revenue recognition, required by ISA (UK & Ireland) 240	We concluded that the basis on which fares revenue is recognised is in accordance with the requirements of IFRS15 – Revenue from contracts with customers as applied by the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23. Our work identified an understatement of £8.1m related to Oyster revenue which was not included in the period 13 accruals for financial year 2022/23. Management opted not to adjust this amount in the financial statements. Our work did not identify any material weaknesses in the design and operations of controls or evidence of material misstatements, whether due to fraud or error, related to the inappropriate revenue recognition.
Inappropriate capitalisation of capital projects including capital accruals	We were satisfied that the capitalised costs in the year met the criteria for capitalisation of IAS16: Property, Plant and Equipment as applied by the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 and are appropriate. Our work did not identify any instances of inappropriate judgements being applied and no material issues identified. Our work did not identify any material weaknesses in the design and operation of controls or evidence of material misstatements, whether due to fraud or error, related to the inappropriate capitalisation of revenue expenditure.

Audit of the financial statements (continued)

Key findings (continued)

Significant risk	Conclusion
Going concern	In auditing the financial statements, we concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Management concluded that there is no material uncertainty relating to events or conditions that, individually or collectively, may cast significant doubt on TfL's ability to continue as a going concern and they have disclosed the key risks, uncertainties and mitigations available over the going concern period to the 31 March 2025 within their basis of preparation disclosure in the financial statements. Based on the work we performed we agreed with management's assessment and did not identify any material uncertainties that may cast significant doubt on TfL's ability to continue as a going concern and the financial statement disclosures are appropriate. Our audit opinion was not modified in respect of this matter.
Complexity of accounting for Transport for London and Transport Trading Limited Property portfolios	We concluded that property valuations were within an acceptable range and in compliance with IAS16: Property, Plant and Equipment and with IAS 40: Investment Property as applied by the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23. We also concluded that the balances and disclosures in the financial statements and notes appropriately reflect the risk factors identified and are in compliance with the requirements of IAS40. The execution of our procedures in response to this risks revealed that management's accounting policy relating to valuation had not been followed consistently on all the investment properties. Our procedures also identified that there was no risk of material misstatement as the amount of the properties impacted was below our materiality threshold.
Significant accounting estimates – including complexity of provisions	We completed our audit procedures and we were satisfied that the assumptions used in calculating the provisions was supportable and the provisions were made within an acceptable range, based on the latest available information with the exception of the compensation and contractual provision. Our assessment relating to the compensation and contractual provision identified an understatement of £24m. Management opted not to make an adjustment relating to this provision.

Audit of the financial statements (continued)

Key findings (continued)

In addition to the significant risks above, we also concluded on the following other areas of audit focus as reported in the Audit Planning report and Audit Results report.

Other areas of audit focus	Conclusion
Complexity of accounting for infrastructure assets	Following the increased focus on the accounting treatment of infrastructure assets within the public sector, management performed a detailed review and assessment of the infrastructure balance for pooled assets and non-pooled assets. Management identified that the asset disposals of pooled assets which had reached the end of their UELs had not been properly derecognised. In total it was identified that £4.4bn of gross acquisition pooled assets had not been disposed of in line with the Authority's policy. We performed an assessment and review of the results and we agreed with management assessment that an adjustment was required to the gross acquisition value of pooled assets of £4,408m, £552m relating to 2022/23 and £3,856m relating to prior years. This resulted in a prior period restatement of property, plant and equipment disclosure within the financial statements. There was no impact to the net book value of the assets, hence no impact is noted on the balance sheet and other primary statements. Management identified a misstatement of £28.8m to the net book value of the lifts and escalators balance within non-pooled assets. We performed an assessment and review of the results and we agreed with management assessment that a total net book value adjustment of £28.8m is required to be disposed from lifts and escalators as at 1 April 2022 as result of the renewals of expenditure incurred. Management agreed to make the full adjustments in the financial statement in FY 2022/23. We recommended that going forward a review of pooled asset remaining useful lives is incorporated into closedown processes to ensure that any pools that have reached the end of their useful life are written off in line with Authority’s accounting policy. We also recommended that management revisit its processes to ensure that the capital team are clearly highlighting when expenditure is a replacement to their Finance Business Partners. This will help the finance team to identify assets to be written out of the fixed asset register at the date of replacement rather than having to work through the complexities during closedown which could lead to this check being missed again in the future.

Audit of the financial statements (continued)

Key findings (continued)

Other areas of audit focus	Conclusion
Complexity of accounting and disclosures for Transport for London's borrowing and treasury management	Our work in relation to the derivative balances for the financial year 2022/23 did not identify any matters of concerns or variance from the testing performed. Further, our work did not identify any material weaknesses in the design and operation of controls with the borrowing and treasury management process.
Judgemental assumptions impacting TfL's pension position	Our review and assessment of the assumptions used in the calculation did not result to any exceptions or adjustments relating to the pension surplus recognised as a non-current asset in the balance sheet. However our review of the fair value of scheme assets, specifically of the TfL Pension Fund Scheme identified an understatement amounting to £48m which in turn results in an understatement of the reported surplus. Management opted not to adjust the financial statements for this item. Though adjustment were noted, our work did not identify any material weaknesses in the design and operation of controls with the pension process.
IFRS 16 Leases - Lease accounting, including the complexity of the estimating the Incremental borrowing rate (IBR)	Our work on IFRS 16 Leases identified that, consistent with previous years, management had utilised the incremental borrowing rate (IBR) from the date of IFRS 16 adoption for all deliveries of rolling stock in the financial year 2022/23 instead of the interest rate at each delivery date of each batch of units of rolling stock. This difference in judgement leads to an overstatement of the non-current asset balance of £29m with a corresponding overstatement of £20m to retained earning, £2m understatement on operating lease liability and an understatement of £7m to expenditure. Management opted not to adjust the financial statements for this item.
Climate risk	Our work assessed that the Authority's climate-related disclosures within the narrative report and financial statements are appropriate given the non-mandatory requirements for financial year 2022/23. We have however communicated improvements needed for the narrative reporting to meet the requirements of the four pillars of the Task Force on Climate-related Financial Disclosures ("TCFD") framework in financial year 2023/24, when mandatory disclosure is necessary.

Audit of the financial statements (continued)

Key findings (continued)

Other areas of audit focus	Conclusion

Minimum Revenue Provision (MRP)	Our work relating to the review and assessment of the minimum revenue provision identified the following matters.
	• Management's MRP model identified that the provision made in respect of PFI had not been calculated from the date at which the PFI asset was bought into operational use. The impact of this is a £47m increase to the MRP charge (and subsequent decrease to the General Fund Reserves). This represents an error in previous financial statements and has been adjusted as a prior period correction.
	• We identified a error in the prior year disclosure for the CFR. The CFR should be calculated directly from the Authority's balance sheet. This reconciliation had not been completed by management and our work identified an overstatement of £220m in the prior year CFR. This disclosure has been restated in the financial statements. Going forward we recommend that management perform a reconciliation of the CFR to the balance sheet as part of close down procedures.
	• The Authority started charging MRP on prudential borrowing from 2016/17. We challenged whether management had considered the prudence of the provision and how it has had regard to the guidance. We noted that there were increases to the Capital Financing Requirement (CFR) from 2008/09 to 2015/16 with no MRP charges being made.
	• Although our conclusions are that the nil charge in these historic years does not constitute non-compliance with regulations we do recommend that management consider how its MRP policy aligns with current guidance particularly as the records held by management (upon which historic MRP charges have been made) are not supported by movements in the Capital Financing Requirement (CFR) and considering that the overall aim of MRP is to cover the CFR.
	• Our review of the management's MRP policy also identified improvements that should be made to ensure that it enables the Board to make an appropriate assessment of whether the provision is prudent. We recommend that management's MRP policy incorporates the following matters:
	  • Explains what average useful economic life is used in the calculation and how this is calculated;
	  • Specifically explains how MRP is calculated for Right of Use assets and PFI assets as the current policy has been silent on both of these elements of the charge;
	  • Explains how management intends to cover the Capital Financing Requirement (CFR) created by lending to subsidiaries;
	  • Explains how management have considered current guidance and provides a rationale for why guidance is not applied where appliable;
	  • Explains how management intends to cover the remaining balance on the CFR after accounting for the above items;
	  • Explains how equity investment in subsidiaries is considered for MRP purposes.

Value for Money

We identified two risks of significant weaknesses in the Authority's VFM arrangements for 2022/23.

Our VFM commentary highlights relevant issues for the Authority and the wider public.

We have no matters to report by exception in the audit report.

Scope

We are required to report on whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in it use of resources. We have complied with the guidance issued to auditors in respect of their work on value for money arrangements (VFM) in the 2020 Code of Audit Practice (2020 Code) and Auditor Guidance Note 3 (AGN 03). We presented our VFM risk assessment to the 20 September 2023 Audit & Assurance Committee meeting which was based on a combination of our cumulative audit knowledge and experience, our review of Audit & Assurance Committee and Board minutes and Internal Audit reports, meetings with the Statutory Chief Finance Officer and various Business Partners and evaluation of associated documentation through our regular engagement with Authority management and the finance team.

Reporting

We completed our risk assessment procedures and did not identify any significant weaknesses in the Authority's VFM arrangements. As a result, we had no matters to report by exception in the audit report on the financial statements.

Our commentary for 2022/23 is set out over pages 16 to 22. The commentary on these pages summarises our conclusions over the arrangements at the Authority in relation to our reporting criteria (see below) throughout 2022/23. Appendix A includes the detailed arrangements and processes underpinning the reporting criteria.

In accordance with the NAO's 2020 Code, we are required to report a commentary against three specified reporting criteria:

Reporting criteria	Risks of significant weaknesses in arrangements identified?	Actual significant weaknesses in arrangements identified?
Financial sustainability: How the Authority plans and manages its resources to ensure it can continue to deliver its services	Longer term funding impacts	No significant weaknesses identified
Governance: How the Authority ensures that it makes informed decisions and properly manages its risks	Resource capacity across the organisation	No significant weaknesses identified
Improving economy, efficiency and effectiveness: How the Authority uses information about its costs and performance to improve the way it manages and delivers its services	No significant risks identified	No significant weaknesses identified

Financial Sustainability: How the Authority plans and manages its resources to ensure it can continue to deliver its services

The Authority has the responsibility for ensuring that resources are used economically, efficiently, and effectively to achieve priorities and to deliver its services to the public. This responsibility is mainly covered by the Authority's Finance Committee which focuses on general financial oversights, revenue generation. The Committee and Board consider the business plan, budget, borrowing, treasury management and prudential indicators. The Finance Committee prepares and presents to the Board a Finance Report on a periodic basis which sets out the Authority's financial results for the period and year-to-date and assesses this against the approved budget for the year. The Finance Report highlighted forward looking matters which includes several external economic trends and risks to achieving short and medium-term plans and how the Authority works towards mitigating them.

The Covid-19 pandemic significantly impacted the organisation's ability to execute its activities. The Authority's significant exposure to changes in demand due to its high fixed costs and dependence on fares revenue has meant that it is particularly susceptible to economic and other demand shocks. In order to support the sustainable delivery of services, emergency funding was provided by DfT since October 2020. Funding was provided primarily to make up the shortfall of fares revenues and ensure the delivery of key capital renewals and investment for particular period.

The latest funding agreement, dated 30 August 2022, covers shortfall in fares revenue against the passenger income scenarios and provides support in the delivery of capital renewals and investments amounting to £3.6bn till 31 March 2024. The Government has applied a number of conditions in this agreement to progress objectives such as efficiency improvements and the pensions reform agenda. Although the August 2022 funding settlement provided by the DfT set out sufficient funding to take the Authority to the point of financial sustainability, a number of uncertainties remained including the impact of inflation, the dispute mechanism with the funding agreement and the availability of capital funding.

As a result, we identified a risk of significant weakness with regards to how the Authority plans and manages its resources to ensure it can continue service delivery in its current form.

We performed the procedures below in assessing our risk:

1. Review and challenge management's budgets and consider the impact of uncertain funding on the future financial position.
2. Consider and assess the mitigations identified by management should longer term funding not be agreed.
3. Understand and assess management's scenario planning depending on future uncertainties over funding levels and sources.

We discuss each of these in turn:

1.Review and challenge management's budgets and consider the impact of uncertain funding on the future financial position

We obtained management's budget model for 2023/24 and 2024/25 and confirmed its consistency with the 2023/24 budget to that which was reported and approved by the Board. We then reviewed and challenged the underlying assumptions used in preparing the budget for 2024/25. This included assumptions over RPI, interest rates, fares increases and passenger demand.
Overall we consider the assumptions applied in the budget model to be supportable based on the audit work performed to evidence and challenge the assumptions applied, which demonstrates that the approach to budget modelling is appropriate. Further support of this is that in 2022/23 TfL reported an operating surplus of £620m which was £159m in excess of their revised budget demonstrating a prudent approach to forecasting.

Value for Money (continued)

Financial Sustainability: How the Authority plans and manages its resources to ensure it can continue to deliver its services

At the time of completing this work there were two elements of uncertain funding:

- Inflation funding and;
- Longer term funding after 31 March 2024. TfL currently has no agreement for any funding (either capex or opex) after the August 2022 settlement expires on 31 March 2024.

Management had considered the impact of these uncertainties on their future funding position and we saw evidence of positive engagement with the DfT in respect of both uncertainties.

The lack of longer-term funding is a significant issue for the organisation. From an operational perspective, passenger demands and fares revenue have increased significantly over the past year (£4,046.6m vs £2,880.2m in 2022) which compares positively to pre-pandemic revenue from fares of £4,800m in 2019/20. For 2023/24 management is forecasting passenger income of £4,241m and this increases to £4,982m for 2024/25.

However, the impact of the uncertain funding on capital is less positive. In management's original business plan they assumed £475m of DFT funding for capital in 2024/25. At this point in time no funding has been agreed for capital in 2024/25 and beyond. Management's budget modelling shows that this lack of funding could have a significant impact on TfL's cash flow in 2024/25. Without receiving any funding from DfT, but proceeding to carry out the capital renewals programme as planned, cash balances would fall in quite significantly and lower cash balances could mean TfL is exposed in 2025/26 in that it may not have cash reserves available to deal with unplanned shocks and it also gives the organisation less control to manage its borrowings which is unfavourable during a time of current high interest rates.

2. **Consider and assess the mitigations identified by management should longer term funding not be agreed**

We have assessed and evidenced the mitigations available to the organisation through 2023/24 and 2024/25 as part of our response to our identified risk of significant weakness. Below we discuss the impact of some of these key mitigations from a VFM perspective:

- **Cash reserves** - TfL could utilise some of its cash reserves to fund capital in 2024/25. This would result in them not meeting their policy of maintaining cash reserves of at least 60 days' worth of forecast annual operating expenditure. The risk here is that, in 2025/26 (and beyond) TfL is exposed to financial shocks. The pandemic was a good example of where TfL had to utilise its cash reserves to continue to deliver services. There is therefore a risk that if cash reserves are depleted that TfL would not be able to maintain services at the same level should another financial shock occur in the future.
- **Increased borrowing** – TfL could look to increase borrowing to fund its capital renewals programme. This is a plausible option although TfL already carries £12.9bn of debt and interest paid in 22/23 was already £510m. At a time of increased interest rates it is likely that, from a value for money perspective, organisations would be looking to reduce debt rather than increase it.
- **Lowering Capital Renewals/ descoping London Borough implementation plans/ Deferring Bakerloo line rolling stock** – By implementing these options TfL drives an increased backlog on renewals (which has already been increased substantially through the pandemic) and results in increased, unplanned maintenance costs to ensure the services are safe. London Borough implementation plans include plans such as cycle highways and walking routes which would be a benefit to the tax payer and a VFM challenge if these plans were to be descoped as a result of lack of funding.

Value for Money (continued)

Financial Sustainability: How the Authority plans and manages its resources to ensure it can continue to deliver its services

3. Understand and assess management's scenario planning depending on future uncertainties over funding levels and sources.

Management prepared a mitigated budget model which considered the following mitigations:
- lowering capital renewals
- lowering enhancements
- increased borrowing

We found the modelling prepared by management to be robust however the results of these mitigations would be to enable TfL to continue operating at current service levels at the risk of higher interest costs and the deferral of capital spend.

Findings and Observations

The lack of clarity over TfL's longer-term funding means management is unable to plan ahead and focus on key priorities. Key issues are:

- TfL cannot plan ahead to efficiently and effectively procure necessary services and investment, such as investment in Healthy Streets and active travel infrastructure, and cannot invest in new projects to promote active transport in boroughs. One of TfL's mitigations for the lack of funding would be to descope this work.
- TfL may need to limit investment in new rolling stock (deferring Bakerloo line)
- TfL may be unable to make significant future capital commitments.

The above concerns prohibit TfL to deliver the services the authority ought to be able to deliver to the UK taxpayers over the longer term. Without a clear picture of future resources, TfL cannot plan for the future of its network and optimise the benefits it can bring nationally. This lack of certainty undermines the ability of the supply chain to invest and command more efficient prices for work.

A reduction in capital investment will mean missing significant opportunities to progress outcomes, increase the renewals asset backlog and impact on performance and reliability of services. This will increase costs in future years, and overall whole life costs of assets. In addition a reduction in remaining available financing facility and cash reserves could also leave TfL more exposed to further downside risks beyond TfL's control such as a severe economic shock.

Based on the above assessment we considered whether the above gave rise to a weakness with regards TfL's financial sustainability and concluded the following:
- TfL has managed to balance its budget for 2023/24 and 2024/25 despite challenging circumstances in respect of inflation where management have been able to make efficiencies and increase income sources to offset the impact. This suggests that the lack of operational funding support going forward is manageable and TfL has demonstrated good progress in its plan to become financially sustainable during 2023/24. There is a risk on the capital side which particularly impacts the cash balances however the current modelling does show that TfL could deliver its capital programme as planned but with a reduced cash balance. Although this cash balance is below TfL's current operating policy, our judgement is that a this is still a significant level of cash that would not expose TfL over the medium term.
- Budget modelling during the year for the periods 2023/24 and 2024/25 demonstrates that TfL should be able to maintain service delivery without additional funding on the operational side. One of the mitigations for the lack of capital funding is to defer some capital expenditure, specifically on non-critical capital projects. Although this is a risk to the organisation in that it increases maintenance costs, we do not believe that such a mitigation would be significant enough to negatively impact TfL's reputation.

Value for Money (continued)

Financial Sustainability: How the Authority plans and manages its resources to ensure it can continue to deliver its services

Conclusion: After considering the assessment above, our judgement is that the lack of future capital funding exposes TfL to risks around being able to plan longer term capital spend however on balance, we do not consider this risk to present significant weaknesses in arrangements to secure financial sustainability during 2022/23.

Minimum Revenue Provision – VFM assessment

As documented on page 9 of this report, we identified the Authority's Minimum Revenue Provision (MRP) as an area of audit focus as part of the 2022/23 financial statements audit and we also considered this from a VFM perspective. In considering the issue, we sought EY Law advice as legal specialists to determine that there was not an issue of non compliance with laws and regulations that would affect our audit opinion, and confirmed that this was the case. We also confirmed, as a result, that the prudence or otherwise of the provision was a matter for management assessment. Therefore, under our responsibilities for VFM arrangements, our consideration of the MRP charge in the accounts is to determine whether or not there are robust arrangements in place to determine an appropriate charge to the accounts, rather than the appropriateness of the charge and provision itself.

Management set out in detail their regard to the guidance, the basis of their calculations for the provision and their rationale for their approach. In doing this they were able to demonstrate that they have a mechanism for assessing the provision as a percentage against borrowings, and against the weighted average maturity of debt. We challenged management's approach to provisions for loans to subsidiaries, and they were able to demonstrate that their assessment of the risk of repayment took into account debt repayment profiles, use of the loans for operational rather than commercial purposes, and support mechanisms that would be enacted were there to be a repayment issue from the subsidiaries.

We did find that management were not able to demonstrate that their discussion with the Board and the written policy in place were sufficiently transparent to allow for challenge and debate and we made a number of recommendations within our ISA 260 report on improvements that they can make to those processes. They included:

- Explaining how the Capital Financing Requirement (CFR) created by lending to subsidiaries is covered
- How the Corporation treats its equity investments in subsidiaries
- How PFI arrangements are treated
- How right of use assets are treated

Management has agreed with the recommendations and will consider them for the FY24 policy.

Based on procedures performed above, we have assessed that, whilst improvements can be made in the arrangements to ensure effective challenge from those charged with governance, they do not point to a significant weakness in arrangements.

Conclusion: Based on the work performed, the Authority had proper arrangements in place in 2022/23 to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

Value for Money (continued)

Governance: How the Authority ensures that it makes informed decisions and properly manages its risks

It is the responsibility of the Authority to ensure that proper arrangements are put in place to ensure that it makes informed decisions and properly manages its risks. The Authority monitors and assesses business risk through its operational Risk Management Policy which includes managing risk and assuring controls consistently as set out in their Enterprise Risk Management Framework. The Enterprise Risk Management Framework supports a broad, integrated approach to managing risks across the organisation, enabling a co-ordinated process including the provision of governance and assurance activities. The Audit and Assurance Committee is updated on key risk management activities every quarter and reviews the effectiveness of the risk process at least annually. The Audit and Assurance Committee also reviews the effectiveness of the system of internal controls, including the integrated assurance framework and considers fraud and risk management issues.

Meanwhile, the Commissioner and Executive Committee are responsible for the delivery of day-to-day operations of the Authority. The statutory Chief Finance Officer is responsible for safeguarding the Authority's financial position. The postholder reports directly to the Authority's managing Chief Finance Officer and, while not on the Executive Committee, plays an active part in the Authority strategic decision-making through involvement in all key decisions with a significant financial implication and has management responsibility to produce the Business Plan and statutory accounts. The General Counsel, along with the Commissioner, is responsible for ensuring compliance with the law and promoting good corporate governance and high standards of public conduct.

Our value for money risk assessment includes review of the latest Risk and Assurance Annual Report and Assurance Statement. In its 2022/23 Annual Assurance Report, Internal Audit provided an opinion that the Authority's overall framework of governance, risk management and internal control in the year ended 31 March 2023 remains generally adequate for the Authority's business needs and operates in an effective manner. However, concerns over the impact of a lack of employee resource availability has been a consistent theme across a number of internal audit reports published in FY23. These resourcing issues resulted in a lack of adequate supporting documentation, inconsistent approach to record keeping and document management which could expose the Authority to possible gaps in its corporate memory and potential for a lack of transparency and exposure to reputational risk. As a result, we identified a risk of significant weakness in relation to the resourcing capacity across the Authority.

In response to this risk we performed a review of internal audit reports and assessed the impact of the findings identified and performed inquiries of key personnel across the organisation. Our work has not identified any instances where the lack of adequate supporting documentation, inconsistent approach to record keeping and document management has impacted the quality or effectiveness of services for the year ended 31 March 2023. As a result, the external audit team have not identified a significant weakness on how the Authority ensures it makes informed decisions and properly manages its risks.

Red route bay enforcement income on the Group's road network

During the audit, we became aware of allegation that income from penalty charge notices (PCNs) for violations of parking bay restrictions on red routes could be considered unlawful, due to the nature in which the PCNs were raised. We considered this in the context of our VFM arrangements specifically in terms of how the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards.

We considered whether or not the issue of potential non compliance on the ability to raise income from PCNs in this manner was indicative of a wider issue with the arrangements in place to consider the legislative requirements of the organisation and, in particular, in development of income raising penalties.

We note that the Authority has an in-house legal team who are provide support and advice on compliance matters. The Authority also has the committees in place to discuss any pending issues regarding laws and regulations and the relevant action plans in response to these identified issues.

In this case, we are aware that management had taken, and continues to take appropriate internal and external legal advice on whether or not they had sufficient grounds to continue to charge PCNs whilst also submitting a request to the courts for judicial review.

Value for Money (continued)

Governance: How the Authority ensures that it makes informed decisions and properly manages its risks

Based on procedures performed above, we have assessed that the arrangements in place to monitor and ensure appropriate standards are met are sufficient and that they do not point to a significant weakness in arrangements.

Conclusion: Based on the work performed, the Authority had proper arrangements in place in 2022/23 to enable it to make informed decisions and properly manage its risks.

Value for Money (continued)

Improving economy, efficiency and effectiveness: How the Authority uses information about its costs and performance to improve the way it manages and delivers its services

Ensuring that proper arrangements are in place regarding how information about costs and performance is used to improve the way the Authority manages and delivers its services is the responsibility of the Authority. Yearly budgets and Business Plan are the key reports that sets out how the Authority plans to carry out its statutory duties and obligations and deliver services to the public. This has been monitored through quarterly performance reports which show both financial and operational performance and compare year-to-date divisional performance against budget and prior year and explain key variances. Periodic Finance Reports are also produced and presented to the Finance Committee and are subject to challenge and scrutiny. These reports present the Authority's financial outturn against the budget and provide a forward look at the financial and operational impacts of identified external headwinds and risks. These reports also provide an update on the details of major revenue sources, operating costs, staffing, capital renewals and investments and cash balances. The Authority uses this reporting mechanism to assess performance and identify areas for improvement.

In addition to the above, the Authority has established the Advisory Panels (i.e., Customer Service and Operational Performance Panel and Safety, Sustainability and Human Resources Panel) on a standing basis. The Customer Service and Operational Performance Panel advises on all matters relating to the Authority's customer service and operational performance while the Sustainability and Human Resources Panel advises on all matters relating to compliance and assurance, resilience, human resources, and responsible procurement.

Specific to commissioning and procuring services, the Authority has a professional Procurement and Commercial Team (P&C) that is accountable for procurement and contract management activities on behalf of the organisation, taking into consideration business needs, affordability and supplier market capability. The Procurement and Commercial team have continuously implemented the improvement plan in FY2022/23 which includes the introduction of the new P&C Management Framework that covers the source to pay lifecycle which combines the industry best practice tools and templates, building on the existing commercial toolkit.

In addition, the Audit and Assurance Committee reviews the effectiveness of the system of internal controls and considers fraud and risk management issues and ensures that the Authority prepares its Annual Statement of Accounts and other published financial reports in accordance with relevant legislation and accounting standards.

The Authority also ensures that it delivers its role within significant. It engages with stakeholders and partners through consultation and works closely with London Councils and individual boroughs. It cooperates with appropriate organisations to ensure there is independent scrutiny of its financial and operational reporting processes

Conclusion: Based on the work performed, the Authority had proper arrangements in place in 2022/23 to enable it to use information about its costs and performance to improve the way it manages and delivers services.

Appendices

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Appendix A – Summary of arrangements

Financial Sustainability

Reporting Sub-Criteria	Findings
How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them	The Authority's Finance Committee focuses on general financial oversight, the Authority's revenue generation (fares, ticketing, commercial development and other income generation) as well as advising the Board as appropriate on matters relating to the business plan, budget, borrowing, treasury management and prudential indicators. The Finance Committee prepares and presents to the Board a Finance Report on a periodic basis which sets out the Authority's financial results for the period and year-to-date and assesses this against the approved budget for the year. The Finance Report highlighted forward looking matters which included several external headwinds and risks to achieving to achieving short and medium-term plans and how the Authority works towards mitigating them. The Authority is also committed to managing risks through its Risk Management Policy that may impact the achievement of the objectives outlined in the Business Plan and the Mayor's Transport Strategy. This policy refers to regularly identifying, assessing, monitoring, mitigating and reporting threats and opportunities impacting the achievement of objectives to inform decision-making at all levels of the organization. This includes identifying any significant financial pressures that the Authority is facing which would affecting the short and medium-term plans of the Authority. In addition to the above, the Authority receives a Risk and Assurance Annual Report which was issued by the Risk and Assurance Directorate which provides an overview of the work carried out by the Directorate, and other activities during the year. The report provided and opinion on the overall framework of the Authority's governance, risk management and internal control for the year. The reports highlight key Enterprise Risks that may affect the short and medium-term plans of the Authority.
How the body plans to bridge its funding gaps and identifies achievable savings	The Authority has in place procedures and processes in order to bridge its funding gaps and identifies achievable savings. The Authority currently maintains a periodic (monthly) and quarterly reporting on financial performance and planning to a Finance Committee which enables the Authority to identify gaps in funding and monitor progress against the revised budgets and agreed saving targets. The quarterly reporting highlighted performances of all income sources and includes savings in costs achieved by the operating divisions of the Authority. As part of the funding settlement agreed with DfT and in order to monitor this significant financial pressure, the Authority has established an Oversight Group, chaired by the DfT, which has equal representation from DfT and the Authority. The objective of this Group is to oversee progress of the measures agreed in the extraordinary funding and financing package, to work collaboratively to determine how conditions are being met and to consider proposals for resolution where necessary. The Oversight Group is a working level group which monitors conditions directly impacting this deal and progress towards longer term commitments. Moreover, Management have considered various measures to address any funding gaps subsequent to the 31 March 2024. Management's mitigated budget model for 2023/24 and 2024/25 appropriately considers the risks and possible mitigations as discussed in more detail on pages 10-13 of this report.

Appendix A – Summary of arrangements (continued)

Financial Sustainability (continued)

Reporting Sub-Criteria	Findings
How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities	The Authority has a vision and a long-term strategic plan which articulates how it will deliver the Mayor's Transport Strategy and the needs of its stakeholders. Key priorities in the Mayor's Transport Strategy include creating healthy streets and healthy people, creating a good public transport experience and delivering new homes and jobs. The Authority translates this into a balanced emergency budget which is submitted to the GLA to assist with funding negotiations. The unprecedented Covid-19 pandemic significantly impacted the organisation's ability to execute its activities. The Authority's significant exposure to changes in demand due to its high fixed costs and dependence on fares revenue have meant that it is particularly susceptible to economic and other demand shocks. In order to support the sustainable delivery of services, emergency fundings was provided by DfT since October 2020. This funding was provided primarily to make up the shortfall of fares revenues and ensure the delivery of key capital renewals and investment for particular period. The latest funding agreement dated 30 August 2022, covers shortfall in fares revenue against the passenger income scenarios and provides support in the delivery of capital renewals and investments amounting to £3.6b till 31 March 2024. The Government has applied a number of conditions in this agreements to progress objectives such as efficiency improvements and the pensions reform agenda. Although the August 2022 funding settlement provided by the DfT set out sufficient funding to take the Authority to the point of financial sustainability a number of uncertainties remained including the impact of inflation, the dispute mechanism with the funding agreement and the availability of capital funding. As discussed on pages 11-13 of this report we have carried out procedures to assess whether the arrangements during 2022/23 were appropriate from a VFM perspective. After considering this assessment, our judgement is that the lack of future capital funding exposes TfL to risks around being able to plan longer term capital spend however on balance, we do not consider this risk to present significant weaknesses in arrangements to secure financial sustainability during 2022/23.
How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system	The Authority's financial plans include reporting on a wider areas as part of its mechanisms for monitoring the achievement of targets for each of the key performance areas and against conditions set out in funding arrangements with DfT. The Authority produced a Business Plan which sets out how the Authority will achieve the Mayor's Transport Strategy. The most recent Business Plan for 2022/23 to 2025/26 released in December 2022 details how the financial plan aligns to the continuous effective and efficient delivery of services, attracting and retaining workforce, delivery of committed capital projects and adhering to the safety, sustainability and environment impact of the Authority within the economy. The Business Plan sets to improve the experience of working with the Authority through ensuring an inclusive, safe and secure workplace environment and an approach to savings, including supply chain efficiencies. The Business Plan also ensures that the Authority continue to protect its critical assets and restores a level of expenditure to improve their network, reduce reliance on cares and improve air quality through investing in safe and active travel, supporting environmental projects and delivering the committed investments. The Authority recognises that the Business Plan has been developed at a time of great economic and political uncertainty which highlighted future challenges including volatility on inflation, interest rates, energy prices and the labour market. Hence, the Authority is working closely with the Government to fulfil the strict conditions attached on the funding agreement and to further secure a longer-term capital funding settlement beyond March 2024. Furthermore, the Authority highlighted in its Business Plan the contribution of Greater London Authority for a facility of up to £500m which provides additional certainty and confidence in the balanced budget position that supports the Business Plan.

Appendix A – Summary of arrangements (continued)

Financial Sustainability (continued)

Reporting Sub-Criteria	Findings
How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans	The Authority's Enterprise Risk management system sets out the Authority's main strategic risks and mitigations, with more detailed risk registers held throughout the Authority. The Authority procedures included preparation and monitoring of the quarterly Finance Report, setting out the annual budget and business plan and highlighting external economic pressures and risks that the Authority is expecting to encounter in the coming years. The report also provides updates on an up to date details of major revenue sources, operating costs, staffing, capital renewals and investments and cash balances. The Audit and Assurance Committee maintains overall responsibility for scrutinising Authority's approach to risk and receives reports to each meeting. The Finance Committee scrutinises Authority's financial performance and reports on this to the Board. It monitors the effectiveness of rigorous cost control and scrutiny measures introduced as a result of the impact of the coronavirus pandemic on Authority's funding and Authority's progress in meeting the conditions attached to the Government's funding settlements.

Appendix A – Summary of arrangements (continued)

Governance

Reporting Sub-Criteria	Findings
How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud	The Authority's attitude towards business risk is documented in its operational Risk Management Policy which includes managing risk and assuring controls consistently as set out in their Enterprise Risk Management Framework. The policy highlights the regular identification, assessing, monitoring, controlling, mitigating and reporting inefficiencies impacting the achievement of objectives to inform decision-making at all levels of the organisation. It also includes consideration of risks throughout the business planning process. The Authority has a well implemented Internal Audit function which has responsibility for providing assurance in respect of corporate governance and risk management across all members and constituent parts of the Authority. The Internal Audit team has the appropriate skills and experience and considering the nature, size and complexity of Authority, the scope of the Internal Audit function appears appropriate. The Audit and Assurance Committee, on behalf of the Board, reviews the authority, scope of work and resources of Internal Audit on a regular basis to confirm these remain appropriate. As an independent and objective third line of defence review and support activity, Internal Audit makes recommendations for the improvement of internal control and risk management. There is a process to monitor management's actioning of control recommendations raised by Internal Audit which is closely monitored by the Audit and Assurance Committee at each meeting, where management is challenged if deadlines are missed. The Authority has strong controls surrounding fraud. Fraud risk workshops are conducted to target Internal Audit work, and these have assisted with the development of fraud detection procedures. The work is performed by Internal Audit whereby half-year and full-year fraud reports are produced and provided to the Audit and Assurance Committee to be reviewed as part of the overall Risk Management review process. The Authority has an Anti-fraud and corruption policy which has been approved by the Board and the Audit and Assurance Committee. The Authority has an active counter-fraud department and instances of fraud are published within the Authority to act as a deterrent.
How the body approaches and carries out its annual budget setting process	As with local authorities, the Authority is a relevant authority for the purposes of Part VIII of the Local Government Finance Act 1988 and is obliged to produce a balanced annual budget. The budget is balanced against a series of factors and risks, including passenger demand, lifespan of the Authority's assets and the evolving political landscape. Under Section 85 of the Greater London Authority (GLA) Act, it is the duty of the Mayor of London and the Assembly to prepare and approve the budgets of the GLA and the functional bodies (including the Authority). The Mayor will prepare the draft budgets and submit them to a public meeting of the Assembly for consideration and approval. The Mayor determines Authority's budget, for each financial year, having consulted the London Assembly. The Authority's Business Plan and Investment Programme is approved by the Board and sets out how the Authority intends to implement the Mayor's Transport Strategy over the period covered by its funding settlement with DfT. It sets out the projects and programmes to be delivered, how they will be funded, and outcomes to be achieved. The targets set out in the budget are measured against the three key themes of the Mayor's Transport Strategy, which are healthy streets and healthy people, a good public transport experience, and new homes and jobs.

Governance (continued)

Reporting Sub-Criteria	Findings
How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed	Periodic finance and performance reports are prepared which show both financial and operational performance and these are presented to the Authority's Finance and Policy Committee and the Board. Authority's annual accounts are prepared in line with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 which is based on International Financial Reporting Standards. At the end of every quarter, each business unit completes a Business Management Review (BMR) outlining the position of the business unit and how it is performing compared to budget. Senior Reporting Accountants prepare a Performance Report which documents variances against budget. Reviews are then held with the Finance Director and associated action plans are compiled and approved. The report and action plan are then communicated to the Managing Director for further discussion and final approval as part of the BMR. Meetings of the Finance Leadership team involve the Finance Directors from across the business units and the Group Managing Director. There is effective, two-way communication between those charged with governance and its internal and external auditors. The Committee assess external audit performance annually and have concluded that EY provides appropriate levels of communication on its auditing responsibilities and around significant matters relating to financial reporting, including communications between management and those charged with governance, and external communications, such as those with regulatory authorities. The Audit and Assurance Committee drives the system of internal control and has overall responsibility for reviewing the Internal Audit function; its audit plan and scope, findings and monitoring management responses.
How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee	Published Board papers and minutes evidence the challenge made by non-executive members and the transparency in decision making. Further, any meeting of the Authority's Board, committees and/or panels are held in public and anyone is welcome to attend, except where private, personal or specific financial information is to be discussed. The Authority's Standing Orders (published on the Authority's website) lay down the decision-making structure and proceedings, together with the Scheme of Delegation. In line with Good Corporate Governance Practice, the Authority reviews the effectiveness of its Board and decision-making structure periodically. The Audit and Assurance Committee meets quarterly and is comprised of appropriately skilled and experienced members, has clear terms of reference which emphasises the Committee's role in the relevant aspects of governance, internal control and financial reporting. The Authority's Board also has a Customer Service and Operational Performance Panel which advises on all matters relating to the Authority's customer service and operational performance as well as a Safety, Sustainability and Human Resources Panel which advises on all matters relating to safety, sustainability and Human Resources, in particular: (a) health, safety and environment (HSE) matters including compliance and assurance; (b) resilience; (c) human resource issues across the Authority, including equality and diversity and apprenticeship and graduate programmes; and (d) responsible procurement. In its 2022/23 Risk and Assurance Annual Report and Assurance Statement, Internal Audit provided an opinion that the Authority's overall framework of governance, risk management and internal control in the year ended 31 March 2023 remains generally adequate for the Authority's business needs and operates in an effective manner. However, concerns over the impact of a lack of employee resource availability has been a consistent theme across all the internal audit reports reviewed for the year. These resourcing issues resulted to a lack of adequate supporting documentation, inconsistent approach to record keeping and document management which may expose the Authority to possible gaps in its corporate memory and potential for a lack of transparency and reputational risks.

Appendix A – Summary of arrangements (continued)

Governance (continued)

Reporting Sub-Criteria	Findings
How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee (continued)	This resulted in the identification of a risk of significant weakness in relation to the resourcing capacity across the Authority. In response to this risk we performed a review of internal audit reports and assessed the impact of the findings identified and performed inquiries of key personnel across the organisation. Our work has not identified any instances where the lack of adequate supporting documentation, inconsistent approach to record keeping and document management has impacted the quality or effectiveness of services for the year ended 31 March 2023. As a result, the external audit team have not identified a significant weakness on how the Authority ensures it makes informed decisions and properly manages its risks.
How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests)	The Authority has an in-house legal team to advise on legal requirements as appropriate. The Authority also has the committees in place to discuss any pending issues regarding laws and regulations and the relevant action plans in response to these identified issues. From a financial perspective, the Audit and Assurance Committee is responsible for ensuring that the Authority prepares its annual accounts and other published financial reports in accordance with all relevant legislation and accounting standards. The Board devolves much responsibility to the Finance Committee and approval for the Business Plan, Group Budget and Annual Accounts of the Authority is delegated. The Authority, in compliance with the GLA Act, keeps a register of interests for its Board Members and in compliance with Company Law, Secretariat keeps a register of interests of the Directors. The central register has been extended to cover all senior staff which is defined as Chief Officers and their direct reports except support staff. The register of interests is updated by the Company Secretariat who emails a form to be completed by the officers on a bi-annual basis. Any new starters of the relevant status will be asked to provide on entry on their appointment and thereafter will be included in the half-yearly update. Declarations of interests of all Board members are available to view on the Authority's website. For all staff, other than senior managers as defined above, modes/directorates are required to maintain local registers of interests and of the receipt of gifts and/or hospitality on a modal/directorate basis. Modes/directorates mirror the centralized arrangement with regards to the Register of Interests i.e. creating entries and every six months the entries will be re-circulated and staff will be asked to confirm that it is still correct or provide amended details. Staff who do not currently have an entry are reminded on a half-yearly basis of the need to register an interest that has recently arisen. A register of gifts, interest and hospitality is maintained for all board members and chief officers and is published on the Authority's website. Moreover, individual declarations of interest at meetings are stated in the Board minutes. During the audit, we became aware of allegation that income from penalty charge notices (PCNs) for violations of parking bay restrictions on red routes could be considered unlawful, due to the nature in which the PCNs were raised. We considered whether or not the issue of potential non compliance on the ability to raise income from PCNs in this manner was indicative of a wider issue with the arrangements in place to consider the legislative requirements of the organisation and, in particular, in development of income raising penalties. We note that the Authority has an in-house legal team who provide advice and support on compliance issues. The Authority also has the committees in place to discuss any pending issues regarding laws and regulations and the relevant action plans in response to these identified issues. In this case, we are aware that management had taken, and continues to take appropriate internal and external legal advice on whether or not they had sufficient grounds to continue to charge PCNs whilst also submitting a request to the courts for judicial review and assessed that the arrangements in place to monitor and ensure appropriate standards are met are sufficient and that they do not point to a significant weakness in arrangements.

Appendix A – Summary of arrangements (continued)

Improving economy, efficiency and effectiveness

Reporting Sub-Criteria	Findings
How financial and performance information has been used to assess performance to identify areas for improvement	The key measure of financial performance that is important to the Authority management is expenditure outturn against budget. Whilst also monitoring performance, the Authority's priority is to deliver the business plan priorities and the Mayor's Transport Strategy within the set budget, as efficiently as possible. Quarterly performance reports are completed that show both financial and operational performance and these are sent to the Greater London Authority (GLA) and presented to the Finance Committee and the Board. These compare year-to-date divisional performance against budget and prior year and explain key variances. Periodic Finance Reports are also produced and presented in the Finance Committee. This report highlighted the Authority's financial outturn against the set up budget and provide a forward look on how the Authority copes up against the identified external headwinds and risks. The report also provides an up to date details of major revenue sources, operating costs, staffing, capital renewals and investments and cash balances. At the end of every quarter, each business unit completes a Business Management Review (BMR) outlining the position of the business unit and how it is performing compared to budget. Senior Reporting Accountants prepare a Performance Report which documents variances against budget. Reviews are then held with the Finance Director and associated action plans are compiled and approved. The report and action plan are then communicated to the Managing Director for further discussion and final approval as part of the BMR. Meetings of the Finance Leadership team involve the Finance Directors from across the business units and the Group Managing Director. The Authority's Code of Governance is organised into six sections to reflect the six core principles of the CIPFA/SOLACE framework. The sections are Leadership, Relationship, Management, Standards of Conduct, Risk Management, Capacity Development and Public Accountability. There is an annual review of performance against the Code of Governance, the results of which are presented to the Audit and Assurance Committee. As part of the review, progress against the Governance Improvement Plan is assessed and the Improvement Plan for the coming year is presented.
How the body evaluates the services it provides to assess performance and identify areas for improvement	The Authority has arrangements to assess performance through its performance management system, ongoing review of project and programme delivery and through a series of performance indicators covering the main activities of the Authority. The Authority produce quarterly progress reports to the Board on the operation and financial performance of the Authority, and on the delivery and budget performance of the Authority Investments Programme. The Authority has established the Advisory Panels (i.e., Customer Service and Operational Performance Panel and Safety, Sustainability and Human Resources Panel) on a standing basis. The Customer Service and Operational Performance Panel advises on all matter relating to the Authority's customer service and operational performance while the Sustainability and Human Resources Panel advises on all matter relating to compliance and assurance, resilience, human resources and responsible procurement. The Authority also have the Audit and Assurance Committee who reviews the effectiveness of the system of internal controls and considered fraud and risk management issues and ensures that the Authority prepares its Annual Statement of Accounts and other published financial reports in accordance with all relevant legislation and accounting standards.

Appendix A – Summary of arrangements (continued)

Improving economy, efficiency and effectiveness (continued)

Reporting Sub-Criteria	Findings
How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve	The Authority conducts, at least annually, a review of the effectiveness of its governance framework including the system of internal control, which is reported to the Audit and Assurance Committee. There is also an annual Board Effectiveness Review. The Authority continually reviews the effectiveness of its governance arrangements, including all aspects of the Authority's operations including its relationships with its group entities. The Authority has a transparency strategy and publishes a substantial amount of information. It engages with stakeholders and partners through consultation and its work with London Councils and individual boroughs. It cooperates with appropriate organisations to ensure there is independent scrutiny of its financial and operational reporting processes In terms of monitoring performance, the Authority's quarterly performance report and other key quarterly reports submitted to Committees and Panels track the Authority's activities in terms of key performance indicators and delivery of the Mayor's Transport Strategy. These reports also highlights remedial actions taken when the Authority do not meet expectations or slippage occurs.
How the body ensures that commissioning and procuring services is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits	The Authority strives to conduct all its procurement and contracting activities efficiently, to the highest ethical standards and in compliance The Authority's Procurement and Contracting Policy supports the organisation's commitments to achieving best value for money for procurement at all goods, works and services throughout the business. This policy applies to all the Authority's staff, including non-permanent, consultancy and contracted staff working on behalf of the Authority. The Authority have published rules and procedures with respect to the conduct expected from everyone who works for the Authority who is involved in purchasing goods, services or works, which are set out in the Authority Management System. These have been developed to support and facilitate compliance with applicable laws and regulation as well as with internal Authority policies and governance as set out in Authority's Standing Orders and supplementary guidance documents. The Standing Orders define the levels and allocation of authority for approvals of financial and procurement or contractual commitments. The Authority have a professional Procurement and Commercial Team (P&C) that is accountable for procurement and contract management activities on behalf of the organisation, taking into consideration business needs, affordability and supplier market capability. Business areas have a responsibility to provide operational contract management. The Authority's standard approach will be to assess affordability on a whole life cost basis. The Procurement and Commercial team have continuously implemented the improvement plan in FY 2022/23 which includes the introduction of the new P&C Management Framework which covers the source to pay lifecycle which will combine the industry best practice tools and templates, building on the existing commercial toolkit. The P&C Management Framework established a P&C policy detailing what "good" procurement looks like at the Authority and principles for effective and efficient procurement with clear role authorities aligned to the Authority and applicable regulations and industry best practices. The Framework provides a consistent approach to procurement across the P&C community based on industry best practice and Authority's commercial principles. The Framework also provides standardised controls across P&C to enable increased practitioner discretion and guidance and challenge on commercial thinking to ensure alignment to the Authority's principles. The Authority assessed the expected benefits from the commissioning and procuring services through the quarterly reports on the Authority's performance provided to the Board, Committees and Panels. Further, the Audit & Assurance Committee review the effectiveness of the system of internal controls which would include the controls associated within the P&C Management Framework above.

Appendix B – Summary of all recommendations

Recommendations

The table below sets out all the recommendations arising from the financial statements and value for money audits in 2022/23. All recommendations have been agreed by management.

Issue	Recommendation	Management Response
Financial statements: Journal Authorisation	We recommend that a robust authorisation and approval process for journals is implemented considering the value and volume of manual journals that are processed.	Agreed
Financial statements: Investment Property	We identified 12 investment properties that had not been valued externally as at the 31 March 2023 in accordance with management's accounting policy. Although this did not lead to a material misstatement we recommend that the policy is followed in future.	Agreed
Financial statements: Infrastructure Assets	We recommend that going forwards a review of pooled asset remaining useful lives is incorporated into closedown processes to ensure that any pools that have reached the end of their useful life are written off in line with TfL's accounting policy. We also recommend that TfL revisits its processes to ensure that the capital team are clearly highlighting when expenditure is a replacement to their Finance Business Partners.	Agreed
Financial statements: MRP	We recommend that management consider how its MRP policy aligns with current guidance and is updated to reflect our detailed recommendations reported in our audit results report.	Agreed
Value for Money	We recommend that management continue to engage positively with key stakeholders as well as continue to assess and model the implications of any downside risks as they emerge to ensure that appropriate plans can be put in place to mitigate against risks to service delivery.	Agreed
Value for Money	We recommend that management assesses the resourcing need across the organisation and ensures that appropriate importance is placed on evidencing the control environment when making this assessment.	Agreed

Appendix C – Fees

Fees

We carried out our audit of the Authority's financial statements in line with PSAA Ltd's "Statement of Responsibilities of auditors and audited bodies" and "Terms of Appointment and further guidance (updated April 2018)". Our fee for all services for 2022/23 is in line with the audit fee agreed and communicated through a letter to the Audit and Assurance Committee dated 22 May 2023.

Description	Final Fee 2022/23 £	Planned Fee 2022/23 £	Final Fee 2021/22 £
Scale fee under PSAA Contract for TfL Group and Corporation (1)	120,062	120,062	120,062
Audit fees outside the PSAA Contract (2)			
Transport Trading Limited 2022/23	TBC	1,490,215	1,581,919
Transport Trading Limited Properties 2022/23	55,000	55,000	50,000
Crossrail Limited 2022/23	143,000	143,000	130,000
Non-audit work (3)			
Agreed upon procedures	27,280	17,280	27,781

(1) For 2022/23, the scale fee has been re-assessed to take into account a number of risk factors which includes procedures performed to address the risk profile of the Authority and additional work to address increase in Regulatory standards.

(2) These are audit fees for the statutory audit of the financial statement of each entities. The audit performed in the related individual entities forms part of the amount reported in the statement of account of TfL Group.

(3) The agreed upon procedures relates to the procedures performed for the Office of Rail and Road Returns.

We have adopted the necessary safeguards in our completion of this work and complied with Auditor Guidance Note 1 issued by the NAO.

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