Transport for London
Draft Audit results report

Year ended 31 March 2024

13 September 2024 - Appendix 1

Building a better working world

Private and Confidential

13 September 2024

Transport for London
Palestra
197 Blackfriars Road
UK SW1H 0BD

Dear Members of the Audit and Assurance Committee

2023/24 Draft Audit results report

We are pleased to attach our audit results report, summarising the findings of our work on the financial statements for the year ended 31 March 2024.

The audit is designed to express an opinion on the 2024 financial statements and address current statutory and regulatory requirements. This report contains our work to date related to the areas of audit emphasis, our views on TFL Group accounting policies and judgements and material internal control findings. Each year sees further enhancements to the level of audit challenge, the exercise of professional judgement and the quality of evidence required to achieve the robust professional scepticism that society expects. We thank the management team for supporting this process.

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

We are also the auditors of TfL's subsidiaries, Transport Trading Limited Group (TTL Group) and Places for London Properties Group (PfL Group). TfL's subsidiaries are subject to the accounting requirements of the Companies Act 2006. We have undertaken our work in accordance with the requirements of International Standards on Auditing in the UK (ISA's UK)

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

We welcome the opportunity to discuss the contents of this report with you at the Audit and Assurance Committee meeting on 18 September 2024.

Yours faithfully

Janet Dawson

Partner

For and on behalf of Ernst & Young LLP

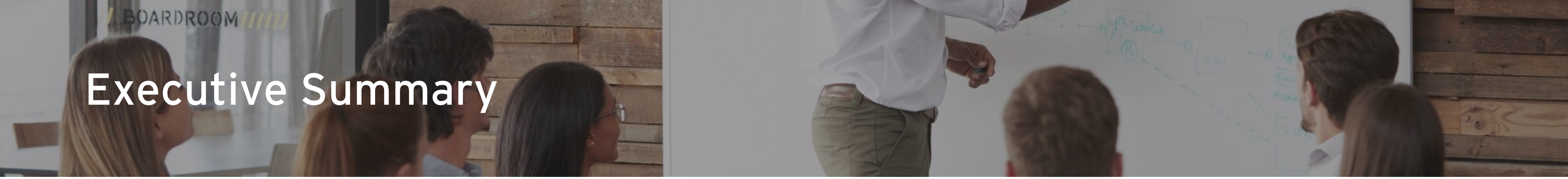
Contents

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

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

This report is made solely to the Audit and Assurance Committee and management of Transport for London in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit and Assurance Committee and management of Transport for London those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit and Assurance Committee and management of Transport for London for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

01 Executive Summary



Executive Summary

Scope update

In our audit planning report presented to the 29 November 2023 Audit Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. As communicated to you in our Audit Status report dated 30 May 2024, we carried out our audit in accordance with this plan, with the following exceptions:

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

► We were notified by management on 2 September that they were dealing with an ongoing cyber security incident. At the time of writing, management are still responding to the incident. We will need to evaluate the effects of the breach on the scope of our work and reporting requirements before we can conclude our audit and provide an opinion on the financial statements.

Status of the audit

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

► Provisions – finalisation of work on updated provisions;

► Joint Ventures - Specialist review of the valuation of Earls Court;

► Objection – assessment of impact on the financial statements and legal position;

► Internal review procedures across this work from manager, partner and engagement quality review partner;

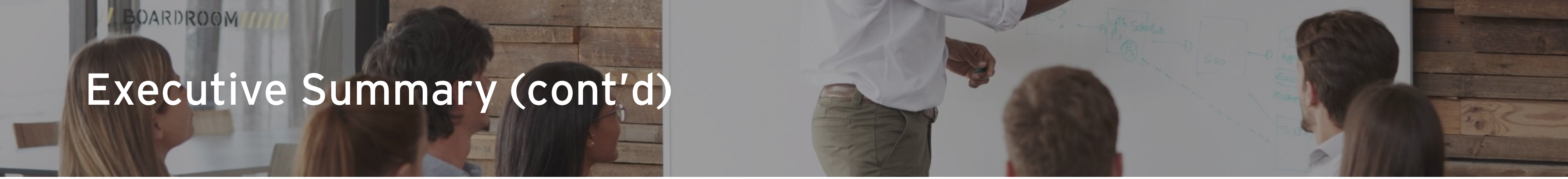
► Internal consultation processes for prior period adjustments;

► Agreement of final set of financial statements;

► Post balance sheet events up to the date of approval of the financial statements; and

► Receipt of signed letter of representation.

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



Executive Summary (cont'd)

Audit differences

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

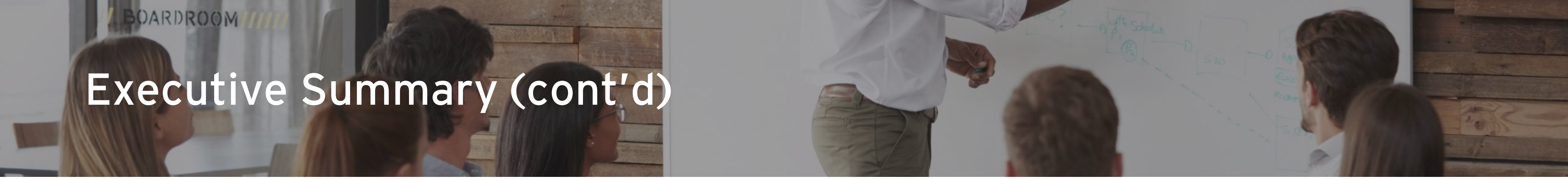
- **Provisions** – Management has recognised a provision for potential non-compliance with statutory legislation. Our assessment based on a review of the assumptions is that this provision is understated by £5.1m.
- **Acton Museum Classification** – we identified that the Acton Museum site had been incorrectly classified as an investment property within the TFL Group financial statements and should have been classified as operational PPE. This leads to an understatement of PPE of £18.3m and an overstatement of £8.1m to investment property.
- Continued unwind of difference in accounting treatment noted in prior years relating to certain contract incentive payments amounting leading to an understatement of £44.5m to non-current assets.
- **Leases** – as in previous years, we disagree with the rate used in the calculation of the lease liability for rolling stock which gives rise to a £87.3m understatement of right of use assets and a £95.4m understatement to lease liability.
- **Pension assets** – the auditor of TfL Pension Fund identified differences in the valuation of pension assets which gives rise to an understatement of £40.9m in the pension surplus recognised in the balance sheet.
- **Assets Held for Sale** - A review was undertaken between Group Finance and the TfL Property Team to review all assets classified as 'held for sale' as at 31 March 2023. As part of this review it was identified that assets classified as investment properties had incorrectly been reported as assets held for sale historically and should have been reported as investment properties. An adjustment of £53.6m was made by management in FY24 to correct the position. We agree with this assessment and the decision to adjust in year on the basis of materiality but report an uncorrected difference in the opening balance when adjustments are made in year.
- **Capital accruals** - In our representative sample we selected one accrual for £3.8m related to a dispute. Our assessment is that this should be classified as a provision and not an accrual since the amount has not been agreed or settled and has been open for a number of years and carries uncertainty. The amount is below our trivial threshold however, since it is a representative sample item we extrapolate the error across the untested population to give a projected error of £13.9m.
- Turnaround impact of prior year revenue period 13 oyster accrual recognised in current year of £8.1m.
- Reclassification of rental income (£82.6m) and operating expenditure (£35.4m) from investment property in the CIES

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

Adjustments

At the date of this report, we have identified the following misstatements which management have chosen to adjust:

- **Long leases** – final adjustments to the statement of accounts have been provided to the audit team. At the time of writing, we are finalising our audit procedures before we confirm the adjustment values.
- **Cash in transit classification** – We identified £7.1m of payments that had not left the bank as at the balance sheet date that had been incorrectly classified as cash in transit and should be classified as cash and cash equivalents.
- **Provision classification** – We identified one provision for £7.3m that had been incorrectly recognised as long term and should be classified as short term.



Executive Summary (cont'd)

Places for London audit

In Places for London the following adjustments are required:

- Cash flow restatement – at the time of writing, we are finalising our work in this area but anticipate that both prior year restatements and current year adjustments are required in both the Group and company statements.
- **Equity loan** – in the company balance sheet non-interest-bearing loans to subsidiaries had been classified as equity loans in prior year and measured and investments at cost. However, a portion of the loan should be recognised as debt based on the terms and interest imputed. This resulted in equity loans of £288m in 2023 being split out as £144m investments and £186m loan receivables respectively – with the difference impacting retained earnings and intercompany interest. This has been restated in the prior period.
- At the time of writing, we are working with management to conclude on a number of areas of the accounts to support values and disclosures, including the legality of £15m reported as dividends paid, impairment analysis of investments that bridge a £100m difference between Company and Group net assets and justification for dealing with a £50m transaction balance as equity, as well as a number of more detailed points with potentially lower impact on both results and disclosures.
- We also await updated accounts reflecting required changes and clarifications including prior year adjustments (cashflow statement, employee numbers, equity loans) that we have agreed with management in the course of the audit

Control observations

- At the date of this report, we have identified 4 significant deficiencies in internal controls details can be seen in section 03 of this report.

Whole of government accounts

- We have not yet initiated our audit for Whole of Government (WGA) requirements for 2023/24. Our audit work on WGA for 2022/23 has been completed.

Audit Certificate

- The Audit Certificate is issued to demonstrate that the full requirements of the National Audit Office's 2020 Code of Audit Practice have been discharged for the relevant audit year. We expect to issue the audit certificate once the work on Whole of Government Accounts is complete. We issued our audit certificate for 2022/23 on the 25th March 2024.

Value for Money arrangements

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

Financial Sustainability - Longer term funding impacts
We have identified a risk of significant weakness as defined by AGN03 with regards to the financial sustainability of TfL, given there is no long term funding arrangement currently in place. Without a longer-term funding agreement in place, TfL is making short term decisions based on the current capital funding arrangements. Having completed our planned procedures in respect of financial sustainability we found that arrangements were in place throughout 2023/24 to address financial sustainability including a revised budget and business plan and effective capital programme management. Having completed our procedures, we did not identify a significant weakness and our opinion is not modified in respect of this matter.

Independence

Please refer to the separate independence and objectivity letter provided to the Audit and Assurance Committee dated 22 May 2024. We continue to remain independent.

02 Areas of Audit Focus

Areas of Audit Focus

Misstatements due to fraud or error

Significant Risk

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.

What are our conclusions?

We have performed enquiries with management and gained an understanding of the oversight and processes in place to address the risk of fraud to determine our audit strategy and risk assessment which is discussed in further detail on the following slides.

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

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

Our response to the key areas of challenge and professional judgement

We undertook our standard procedures to address fraud risks, which include:

- Inquiry of management about risks of fraud and the controls put in place to address those risk;
- Understanding the oversight given by those charged with governance of management's processes over fraud;
- Evaluation of the effectiveness of management's controls designed to address the risk of fraud and the oversight given by those charged with governance of management's processes over fraud ;
- Determining an appropriate strategy to address those identified risks of fraud as detailed on the following pages in this report; and
- 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.

Areas of Audit Focus

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

Key Audit Matter

Significant Risk

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

TfL needs to have robust controls in place to forecast and accurately recognise and report revenue in its financial statements. As at 31 March 2024 fares revenue amounted to £4,838.5m.

In our audit plan we assessed that the risk of fraud in revenue recognition manifests itself through fares revenue only due to the complexity and judgement involved in the process of apportioning the fares revenue recognised as well as funding incentives. However, since the date of our audit planning report we have expanded this risk to also cover manual adjustments to non-fares revenue streams where there could be an opportunity for manipulation including rental revenue, congestion charging and commercial advertising revenue.

What are our conclusions?

We have completed our controls testing and our transaction testing over invoices and JFT reports and have not identified any misstatements. We have completed our substantive testing of fares and agree that the amount recorded in the financial statements is consistent with underlying supporting documents.

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

We did not identify any misstatements from our review of manual revenue journal entries.

Our response to the key areas of challenge and professional judgement

For Fares Revenue we have:

- Gained an understanding of the revenue process for fares revenue;
- Performed controls testing over the effectiveness of the cash collection process and sales made at various sales outlets;
- Substantively tested revenue relating to Oyster Pay as You Go, Contactless Pay, Travel card and Tickets by selecting a sample of sales included in the sales database and agreeing the information to sales returns received. For each return we have then re-performed the calculation of the amount to be recognised as revenue based on the product type and agreed it to the revenue recorded for that period. This calculation also includes the apportionment of revenue between TfL and the Train Operating Companies, which was tested for this sample;
- Agreed the values reported as revenue in advance to the revenue system reports identifying the proportion of revenue relating to future periods for annual or periodic tickets and travel cards purchased in the 2023/24 year. We tested the parameters used in the report to confirm the appropriate calculation of this amount as payments received in advance;
- Compared the assessment of fares apportioned to the Train Operating Companies for reasonableness against latest agreements, settlements in year and correspondence with the Train Operating Companies;
- Reviewed the minutes of meetings held between TfL and TOCs during FY23/24 to understand whether there were any issues regarding information communicated by TOCs and settlements between the parties; and
- Assessed any changes to underlying assumptions used for the recognition of revenue such as TOC apportionment and Oyster Card releases.

For Non-Fares Revenue, we have:

- Reviewed manual journal entries for unusual postings related to adjustments to revenue.

Areas of Audit Focus

Inappropriate capitalisation of capital projects including capital accruals

Key Audit Matter | Significant Risk

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

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 in 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 that capital expenditure is misstated in order to maximise capital funding receipts.

What are our conclusions?

We selected 45 capital projects in our sample for detailed testing including 2 Crossrail projects. Of these 45 projects, 19 have been subject to full scope procedures as we have determined that they are quantitively material and 7 have been subject to specific scope procedures as we have assessed them to be qualitatively material. The remaining 19 projects have been selected randomly to incorporate unpredictability into our testing and have been subject to limited scope procedures.
Having completed our procedures, no misstatements have been identified.

Our response to the key areas of challenge and professional judgement

For TfL, TTL groups and subsidiaries, we have:

► Gained an understanding of key controls and governance surrounding capital project accounting and management;

► Tested controls focused on the effectiveness of the approval process for expenditure and for capitalisation;

► We selected a sample of major projects and tested expenditure capitalised during the financial period to supporting project documentation, including third party reports and valuations and assessed whether the expenditure met the criteria for capitalisation;

► We visited a sample of project sites, and met with project managers to further understand the scope and the progress on projects for a sample of projects, to enable us to consider whether the accounting amounts recorded were consistent with the understanding gained of any delivery challenges encountered, or disputes with contractors and to consider whether this indicated any expenditure did not meet the criteria for capitalisation;

► Compared the latest positions of the projects recorded in respect of "pain or gain" arrangements to contract terms and conditions and to the latest project outturn forecasts to assess the related value recorded in accruals;

► Performed detailed testing on a sample of capital accruals to source documentation to test completeness of costs recognised at 31 March 2024;

► Evaluated whether, at any stage, assets need to be impaired or written off to reflect any aborted or higher risk projects and assessed whether management has reasonably estimated the cost to complete the capital projects; and

► Reviewed claims and contracts for existence of additional obligations or expenditure that is inappropriate to capitalise.

Areas of Audit Focus

Going Concern

Key Audit Matter

Significant Risk

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

The going concern period to be considered is of at least 12 months from the approval of the financial statements however the current funding agreement in place only covers the period up to the 31 March 2024. There is a risk that, for the going concern period where funding is not in place, TfL will have to make difficult decisions over the current level of services or capital spending if it is unable to achieve financial sustainability.

What are our conclusions?

Management has concluded that the Group has access to sufficient mitigations including accelerating planned borrowing within their Authorised Prudential Borrowing Limit and descoping and deferring planned capital investment in its 2024 Business Plan to mitigate the risks of insufficient funding being received as outlined in their going concern assessment. The Authority's management has determined, having set a balanced budget for 2024/25 and 2025/26, that they have sufficient income to continue to provide services within the going concern period without having to make unplanned service reductions.

Having completed our procedures, we agree with management's assessment. Our opinion is not modified in respect of going concern.

Our response to the key areas of challenge and professional judgement

For TfL, TTL group and subsidiaries, we have:

- Understood management's assessment of funding requirements and commitments for the going concern period to 31 March 2026;
- Considered the historical accuracy of management's budgets and forecasting by comparing the last two years variances in actual outturn, as well as the post year end period;
- Validated performance to date on efficiency savings programmes, to determine the potential risk of non-delivery of the savings assumed within the budget;
- Validated performance against conditions in the agreement with the DfT dated 30 August 2022 to assess the likelihood of a clawback of funding or a dispute being raised;
- Corroborated management's base case model for 2024/25 and 2025/26 through to the approved budget and challenged the key assumptions within the model including fare increases, passenger increases and RPI increase;
- Challenged each material element of downside risk identified by management, including those related to inflation and cost savings and tested to supporting evidence to assess the underlying assumptions and the appropriateness of TfL calculations;
- Stress tested the downside risk, using plausible downside parameters and calculated a "worst case" downside risk- this included no increase to passenger demand, further non-delivery of savings and reduced funding;
- Considered the mitigations available to TfL, challenged the assumptions over access to further borrowing and other potential mitigations to support the going concern position and we assessed the headroom available against TfL's Authorised Prudential Borrowing Limit over the going concern period and considered the accessibility of borrowing from the Public Works Loans Board; and
- Assessed the adequacy of the going concern disclosure within the financial statements.

Areas of Audit Focus

Complexity of accounting for TfL and TTL property portfolios

Key Audit Matter | Significant Risk

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

TfL has an extensive property portfolio, with a net book value of investment property amounting to £1.7bn as at 31 March 2024.

To determine fair value, management utilises the net income method and discounting of future cash flows to their present value through engaging an external valuer. The valuations are determined by several 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. These assumptions can be subjective and a small change in these assumptions can have a material impact on the overall valuation of investment property recognised in the financial statements.

What are our conclusions?

During the audit we have challenged management's classification of properties that are the subject of long leases as investment properties. Further evidence was provided by management to support a number of those assessments, however management also determined in a number of cases that the classification should be corrected to lease receivables. We concur with the revised assessments. We have received management's proposed adjustments to the accounts and, at the time of writing, are concluding our audit procedures on those adjustments.

We selected 37 investment properties for detailed valuation testing and 27 of these were reviewed by our specialist valuation team. The remaining samples were tested by the audit team.

We have raised several challenges in our work over investment property particularly focussing on asset classification with emphasis on operational car parks and assets held on long leases.

Through these challenges we identified one asset, Acton Museum, which, at a group level was incorrectly classified within investment property at £8.125m. The asset was revalued using an existing use valuation methodology required for operational assets at £18.3m.

Our response to the key areas of challenge and professional judgement

For TfL, TTL groups and subsidiaries, to date we have:

- Obtained an understanding of management's process and controls around the valuation of properties;
- Reviewed the valuations report prepared by TfL's external valuers, agreeing the entries in the report back to the financial statements to confirm the accuracy of the entries;
- Evaluated the competence of the Group's external valuers which included consideration of their qualifications, expertise and independence;
- Met with TfL's external valuers and discussed the methodology applied and key judgements used in the valuation. Such judgements included the estimated rental value, yield profile and other assumptions that impact the value;
- Challenged whether certain assets were correctly classified as Investment property or whether they should be classified as operational assets or lease receivables;
- Selected a sample of investment properties based on a number of factors including size, and risk. For this sample of properties, we tested source documentation provided by the management to the external valuer. This included agreeing a sample back to underlying lease evidence; and
- For certain assets within this sample we engaged our internal valuation experts to assist in our testing of valuations. Our valuation experts reviewed and challenged the valuation approach and assumptions for a sample of properties. This work includes comparing the yields applied to each property to an expected range of yields taking into account available market data and asset specific considerations. They also assessed whether the other assumptions applied by the external valuers, such as the estimated rental values, voids and tenant incentives are supported by available data.

Areas of Audit Focus (cont'd)

Other areas of audit focus and response to significant risks

Significant accounting estimates – including complexity of provisions

What is the risk ?	What did we do?	What are our conclusions?
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 have critically assessed management's assessment of judgements and estimates. Specifically, we: ‣ Reviewed the methods and/or models used to make the accounting estimates; ‣ Reviewed the assumptions used to make the accounting estimates; ‣ Reviewed risk of management override of control in relation to estimation process; ‣ Evaluated the accuracy and completeness of the estimation amount made by third parties relating to insurances claims, and ‣ Performed unrecorded liabilities testing to identify any omitted provisions.	We identified one provision for £7.3m that had been incorrectly recognised as long term and should be classified as short term. Management has chosen to adjust the financial statements for this item. We engaged a specialist from our People Advisory Services team to perform a review of management's calculations for one statutory provision included in the accounts. Having completed this work we identified an uncorrected misstatement for £5.1m. No other misstatements were identified from our work on provisions.

Areas of Audit Focus (cont'd)

Other areas of audit focus and response to significant risks

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

What is the risk ?	What did we do?	What are our conclusions?
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 FY24.	We have: ▸ Determined the interest rate to be used in the calculation of lease liabilities including engaging our EY specialists to evaluate the accuracy of the rate used. Management has continued utilising the same rate from the date of IFRS16 adoption for all deliveries of rolling stock in the 2023/24 financial year end accounts; ▸ Assessed the length of leases, in particular with respect to station and track access; ▸ Assessed the value of 'peppercorn' leases – the CIPFA Code requires the recognition of values related to peppercorn leases (this is not required under adopted IFRS); and ▸ Re-assessed the differences identified in the prior year.	The TfL rolling stock model shows the calculation of future cashflows, discount rate and lease liabilities. The inputs in this model are based on information provided by the lessor. The rolling stock is delivered in batches. For Class 345 – the last train delivery completed during the year ending 31 March 2022. During FY24 the last 3 trains were delivered for the 710 Class. In TfL's model. Management use one rate for all the deliveries, i.e. a goal seek rate (6.693%) for all Class 710 deliveries without considering the IBRs at the date of acceptance of the deliveries. Our view is that the rate should be determined at each delivery date for each batch of units. The IFRS 16 balances are calculated by management using the Horizon leasing software for the class 710 rolling stock. We have compared this to our own EY recalculation using the IBRs recalculated by our EY financial accounting and advisory service specialist and our difference is reported as an unadjusted misstatement. The value of this difference is an understatement of £87.3m to right of use assets, an understatement of £95.4m to non-current lease liabilities and an overstatement of £8.6m to retained earnings/reserves. The in-year impact on the income statement is £0.4m.

Areas of Audit Focus (cont'd)

Other areas of audit focus and response to significant risks

Climate Risk

What is the risk ?	What did we do?	What are our conclusions?
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 includes input from our Climate Change and Sustainability Specialists (CCaSS). The specific procedures undertaken included: ‣ Updating our assessment as to how the characteristics and undertakings of the Group may give rise to climate risks; ‣ Understanding and assessing the Group's external climate-related commitments; ‣ Understanding and evaluating the process and output relating to management's assessment of the impact of climate change risk; ‣ Assessing changes to transitional and physical risks which may have an impact on the narrative reporting and audited financial information; ‣ Evaluating the impact of climate change on the narrative reporting in the front half, including review of the 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; and ‣ Including key observations in our audit opinion.	Having completed our work we have concluded that the climate disclosures included in the front half of the financial statements meet the TCFD reporting requirements. Management's assessment that there is no material impact from climate change on the financial statements is supportable and an appropriate disclosure has been included within the financial statements. Having completed the work we do recommend that front half disclosures could be improved through better articulation of the linkages between climate risks and organisational targets. In addition, we note that the SECR disclosures currently cover only scope 1 and 2 emissions, but we recommend, as an improvement, that TfL disclose their scope 3 emissions.

Areas of Audit Focus (cont'd)

Other areas of audit focus and response to significant risks

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

What is the risk ?	What did we do?	What are our conclusions?
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 considered highly complex investment vehicles. In addition to this, TfL holds material levels of borrowing and determining the fair value of this borrowing contains some assumptions would can be open to judgement.	TfL is required to disclose the fair value of derivatives held and this is calculated using the Quantum system. In order to evaluate the accuracy of the fair value amount we randomly selected a sample of 6 derivatives (2 FX Swaps , 2 FX forwards and 2 cashflow hedge relationships) and requested our EY Financial Accounting Advisory Services (FAAS) team assist us in recomputing an independent fair value. The closing balance of borrowings held as at 31 March 2024 is £12.95bn. We have obtained third party confirmations for borrowings and trade confirmations for commercial papers as well as confirming bonds to the Bloomberg trading platform. The engagement team has performed an independent assessment of the fair value of borrowing using credit spread basis points. Additionally in terms of new agreements entered in the current period, the engagement team has obtained and inspected the agreements and corroborated these to management's Quantum system to ensure the accuracy of the recorded information inputted into the system as well as assessing the existence and rights and obligations of each agreement. The engagement team has also obtained 3rd party confirmations confirming the nominal amounts of borrowings provided.	From a derivatives perspective, our specialist team independently recalculated the fair value of derivatives held with no material differences. From a borrowings perspective, we have obtained confirmations for all balances and our testing of fair value calculations has not identified any material differences. For cash we have been able to obtain independent third-party confirmations for the full balance. For cash equivalents there were two instances where we were unable to obtain direct confirmation of balances and so we performed alternative procedures (HSBC and Barclays). This involved obtaining the bank statements and observing the download of the statement from the online portal as at the 31 March 2024 by the finance team. For two short term investments (ANZ and HSBC) and commercial papers, defined as long term borrowing (Natwest, Barclays, UBS and Bank of America), we could not obtain independent third-party confirmations. As a result, we undertook alternative procedures including confirming the trades took place to email communications from the lenders as well as agreeing to Bloomberg confirmations provided to the finance team via the Bloomberg portal. Having completed our procedures, we did not identify any misstatements.

Areas of Audit Focus (cont'd)

Other areas of audit focus and response to significant risks

Judgemental assumptions impacting TfL's pension position

What is the risk ?	What did we do?	What are our conclusions?
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 schemes. TfL's pension fund position is a material estimated balance and the Code requires that this be disclosed on the TfL's balance sheet. The Group's balance sheet reflects the position from the Public Sector Section of the TfL Pension Fund Scheme, Local Government Pension Fund Scheme, the Crossrail section of the Railways Pension Scheme and the unfunded scheme provisions. At 31 March 2024, the TfL Pension Fund reported a net surplus £2,342m (2023: net surplus of £1,630m), the Local Government Pension Fund reported a net surplus of £7.3m (2023: net deficit of £0.5m) and the Crossrail Section of Railway Pension Scheme reported a net surplus position of £3.4m *(2023:* net surplus of £1.4m). Accounting for these schemes involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.	We have : ‣ Liaised with the auditors of TfL Pension Fund to obtain assurances over the information supplied to the actuary in relation to Transport for London. We met with the auditor to discuss audit risks and findings and also obtained a copy of the audit findings reports to assess the impact to the schemes of TfL; ‣ For the LGPS and Crossrail schemes we have performed 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; ‣ Assessed the work of the Pension Fund's actuary (Barnett Waddingham and XPS Group) including the assumptions they have used by engaging our EY Pension Consulting team to review and assess the assumptions used; ‣ Reviewed and tested the accounting entries and disclosures made within the TfL's financial statements in relation to IAS19; and ‣ Engaged our 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 scheme's assets and actuarial valuation of deficit benefit obligation figures with those from the previous year disclosures. We have also engaged our EY Pensions Consulting team to perform a review of assumptions for all schemes.	We have completed all our procedures in respect of pensions for the TfL group. Our EY Pensions consulting team performed a review of assumptions and performed roll forward liability checks for all schemes. No material variances were noted from this work. We performed substantive analytical procedures over the fair value of plan assets for LGPS and Crossrail schemes with no material differences noted. We engaged in regular communications with the auditors of the TfL Pension Fund (RSM) and also reviewed their audit findings report for the year ended 31 March 2024. From this review we noted that RSM had reported several differences in their testing of asset values held by TFL pension fund. The impact of these differences on the TFL financial statements is an understatement of the pension surplus of £40.9m. Management has chosen not to adjust the financial statements for this difference. We also considered the impact of the recent Virgin Media Limited v NTL Pension Trustees II Limited case on the three schemes. This case ruled that certain historical amendments for contracted-out defined benefit schemes were invalid if they were not accompanied by the correct actuarial confirmation. Evidence was provided to support appropriate actuarial confirmation for TfL Pension Fund and Crossrail schemes. The work to review scheme amendments for the Local Government Pension Scheme is being carried out centrally by the Government Actuaries Department (GAD). This work remains in progress and appropriate disclosure has been included in the financial statements.

Areas of Audit Focus (cont'd)

Other areas of audit focus and response to significant risks

Minimum Revenue Provision (MRP)

What is the risk ?	What did we do?	What are our conclusions?
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 several 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 have : ‣ Obtained and reviewed management's updated MRP policy and assessed whether this addresses the recommendations raised in the previous year; ‣ Obtained and reviewed management's reconciliation of the Capital Financing Requirement to the balance sheet; and ‣ Considered the impact of management's MRP policy on arrangements to secure financial sustainability as part of our work on value for money work.	We have completed our review and assessment of the MRP model for FY 2023/24 (corrected with the finding noted in FY 2022/23), and we have not noted any differences above our reporting threshold. We also concluded that the management is able to support its position that the MRP charge is prudent and that the MRP model and calculation is appropriate and supportable. In relation to the recommended changes in the MRP policy raised in FY 2022/23, we have noted that these have been remediated and updated in the TfL Policy Statement on Minimum Revenue Provision section of the TfL Prudential Indicators 2024-25 to 2026-27. We also obtained Capital Financing Requirement (CFR) and performed a review and reconciliation of the balances against the respective Sections in the accounts. We have raised some queries with the management, and we are waiting for the responses to be received. We will provide an update to committee members at the meeting on 18 September. In relation to the recommendation raised in FY 2022/23 relating to CFR, we have not noted any sections in the TfL Prudential Indicators 2024-24 to 2026-27 that specifically addresses the following recommendation, to include further detail as follows: • Explains how management intends to cover the Capital Financing Requirement (CFR) created by lending to subsidiaries. • 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. **We recommend that the management specifically include sections addressing the above matter in their policy moving forward.** Based on our cumulative review and assessment of the MRP model in FY 2023/24 and addressing of the MRP recommendations through the MRP policy provides evidence that arrangements are in place to secure financial sustainability as part of our work on value for money and would not result in risk of significant weakness in arrangements.

Areas of Audit Focus (cont'd)

Other areas of audit focus and response to significant risks

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

What is the risk ?	What did we do?	Status of work
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. This was because, at the time of signing of the 2022/23 financial statements, TfL were 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 have : ‣ Obtained an understanding and evidence of the outcome of the judicial review and obtained management's assessment of how they will respond to the outcome including any implication on the financial statements; ‣ Considered the implications on our responsibilities towards objectors and also arrangements for value for money.	The judicial review found in favour of TfL and concluded that the method of raising PCNs, and the fact of the parking bays being within a red route, was sufficient to raise PCNs within the law. The outcome was formally provided in November 2023. We have obtained and reviewed legal advice taken by management and also engaged our own specialists from EY Law in review of this information. At the date of this report we are working to close our responsibilities in relation to the objection received and have concluded that there is no material impact on the financial statements following the judicial review outcome.

Areas of Audit Focus (cont'd)

Other areas of audit focus

Non-compliance with Laws and Regulations

Non-compliance matter	What did we do?	Impact on the financial statements
Non-permanent labour fraud Through our review of current fraud cases, we identified one case of non-permanent labour fraud that we initially assessed as having the potential for a more than inconsequential impact on the financial statements.	‣We obtained and reviewed management's assessment of the wider control environment and actions that have taken place to reduce non-permanent labour. ‣We also obtained and reviewed evidence to support management's actions including investigation reports. ‣ We assessed whether there are any accounting and disclosure consequences for the financial statements.	We concluded that this case does not lead to a material impact on the financial statements.
Compliance with statutory legislation	‣We obtained and reviewed management's assessment of the estimated liability to be included in the accounts including completeness considerations. ‣We engaged a specialist from our People Advisory Services department to perform a review of the calculation of the provision and consistency with the underlying legislation. ‣ Ensured appropriate disclosure in the financial statements, ensuring compliance with IAS 37 despite the confidential nature of the matter.	A provision has been recognised in the account for this potential non-compliance with legislation. Having performed our procedures to test the estimate and management's model, we are satisfied that this estimate is materially correct.
PCNs not posted on date of issue We have become aware of an issue in relation to the validity of Penalty Charge Notices (PCN) and Notices to Owner (NTO) not posted on the date of issue as required by the Civil Enforcement of Road Traffic Contraventions (Approved Devices, Charging Guidelines and General Provision) (England) Regulations 2022 ("the 2022 regulations").	‣We obtained management's assessment of the issue and quantification of the impacted PCNs; ‣We obtained an understanding of how this assessment had been performed and challenged the basis of assessment; ‣We reviewed legal advice taken by management; ‣We used our EY Law specialists to perform a review of management's legal advice; and ‣We considered the impact on the financial statements.	At the time of writing, our work in this area is ongoing to gain assurance that this would not have a material impact on the financial statements.

03 Audit Differences

Audit Differences

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

Summary of adjusted differences

At the date of this report, we have identified the following misstatements which management have chosen to adjust:

- **Long leases** – at the time of writing the adjustments are not yet finalised and audited
- **Cash in transit classification** – We identified £7.1m of payments that had not left the bank as at the balance sheet date that had been incorrectly classified as cash in transit and should be classified as cash and cash equivalents.
- **Provision classification** – We identified one provision for £7.3m that had been incorrectly recognised as long term and should be classified as short term.

In Places for London the following adjustments were also made that do not impact the group:

- **Cash flow restatement** – at the time of writing the adjustments are not yet finalised and audited
- **Equity loan** – non-interest-bearing loans to subsidiaries had been incorrectly classified as equity loans however, a portion of the loan should be recognised as debt based on the terms. This resulted in an overstatement of equity loans of £3.4m (PY £174.8m) and an overstatement of trade receivables of £12m (PY £185.5m) with the difference impacting retained earnings and intercompany interest. This has been restated in the prior period.

From a disclosure perspective the following significant adjustments have been made:

- **Employee numbers** – we noted that employee numbers within Places for London included individuals whose contracts of employment are with TfL and therefore these individuals should be disclosed as employees within the Corporation and not Places for London. The prior year disclosures within the Corporation and Places have been restated to reflect this change.
- **Pensions** - Disclosure has been added to highlight the uncertainty over the impact of the 2023 Virgin Media Limited v NTL Pension Trustees II Limited ruling on the local government pension scheme liability. We also noted that the related inconsistencies in the comparative FY 2022/23 disclosure of the total assets in the schemes. The amount reported as equities and alternatives (£13,914.3m) and bonds (£254.6m) should be reported as £11,746.6m and £2,402.2m, respectively. This has been restated in the prior period.
- **Investment property** – Enhanced disclosures have been added to show the value of assets per type, the valuation approach to asset types and key unobservable inputs into the valuations. These disclosures have been included in the TFL Group accounts, TTL Group accounts and Places for London accounts.

Audit Differences (cont'd)

Summary of unadjusted differences

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

Uncorrected misstatements 31 March 2024 (£'m)	Effect on the current period: OCI Debit/(Credit)	Effect on the current period: Income statement Debit/(Credit)	Net assets (Decrease)/Increase: Assets current Debit/(Credit)	Net assets (Decrease)/Increase: Assets non-current Debit/(Credit)	Net assets (Decrease)/Increase: Liabilities current Debit/(Credit)	Net assets (Decrease)/Increase: Liabilities non-current Debit/(Credit)
Errors						
Known differences:						
▶ JTC payments- accounting for contractual payments	(46)	2		44		
▶ IFRS16 – rolling stock – rate used at each delivery date	9	(1)		87		(95)
▶ Acton museum –incorrect classification as IP	(10)			10		
Judgemental differences:						
▶ Pension asset valuation differences	(41)			41		
▶ Potential liabilities arising from statutory provision		(5)			5	
Projected differences:						
▶ Capital accrual classification					14	(14)
Balance sheet totals	(88)	(4)	0	182	19	(109)
Income effect of uncorrected misstatements (before tax)	(88)	(4)				
Less: tax effect at current year marginal rate	0					
Cumulative effect of uncorrected misstatements before turnaround effect	(88)	(4)				
Turnaround effect. See Note 1 below.		(8)				
Cumulative effect of uncorrected misstatements, after turnaround	(88)	(12)	0	182	19	(109)

There are no amounts that we identified that are individually or in aggregate material to the presentation and disclosures of the consolidated financial statements for the year ended 31st March 2024.

The impact on reserves brought forward is above our performance materiality which is based on in-year expenditure. However, the value is less than 0.5% of reserves and so we have concluded that the impact is not material. Further reclassification and disclosure misstatements which do not impact reported surplus are shown overleaf.

Note 1 - Turnaround effect is the impact of uncorrected misstatements identified and corrected in the current period that actually relate to the prior period. During the prior year audit, we identified £8m of revenue that was not accrued in P13. This difference was left unadjusted in the prior year and the revenue was accounted for in 2023/24. This means revenue in 2023/24 is overstated by this amount and the prior period is understated.

Audit Differences (cont'd)

Summary of unadjusted differences

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

Uncorrected misstatements 31 March 2024 (£'m)	Effect on the current period: OCI Debit/(Credit)	Effect on the current period: Income statement Debit/(Credit)	Net assets (Decrease)/Increase: Assets current Debit/ (Credit)	Net assets (Decrease)/Increase: Assets non-current Debit/ (Credit)	Net assets (Decrease)/Increase: Liabilities current Debit/ (Credit)	Net assets (Decrease)/Increase: Liabilities non-current Debit/ (Credit)
1. Reclassification of rental income from investment property from cost of services line to financing and investment income						
Dr: Gross income – other segments		83				
Cr: Financing and investment income		(83)				
2. Reclassification of operating expenditure from investment property from the cost of services line to financing and investment expenses						
Dr: Financing and investment expenditure		35				
Cr: Gross expenditure – other segments		(35)				
3. Prior Year Assets Held for Sale transferred into IP Assets (Opening Balance)						
Cr: Assets held for sale opening balance				(54)		
Dr: Investment properties opening balance				54		

Unadjusted disclosure differences

Further to the above uncorrected differences, we also identified the following disclosure differences which have not been corrected by management:

- "Grant income" within the Comprehensive and Income Expenditure Statement should be described as "taxation and non-specific grant income" as it includes retained business rates and council tax precept from the GLA.

Assessment of Control Environment

Assessment of Control Environment

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

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control.

We have identified the following significant deficiencies in internal control:

Property classification

During the course of our audit of the Places for London financial statements, we did not see evidence of a robust and adequate process for identifying whether property assets should be classified as investment, owner occupied, inventory or finance lease receivables. This had resulted in audit differences and restatement of prior period balances and therefore we consider it to be evidence of a significant deficiency in internal control.

Cash flow statement

We did not see evidence of an adequate process to prepare and review the cash flow statement when auditing the Places for London financial statements, and this has resulted in restatement of the prior year cash flow statement within those statements. We therefore consider it to be evidence of a significant deficiency internal control.

Property valuation

We saw limited evidence of management challenging CBRE valuations and assumptions when auditing the Places for London financial statements. These property valuations are of high importance to a reader of the Places financial statements, they carry a lot of subjectivity and could lead to material misstatements and so we consider it to be evidence of a significant deficiency in internal control.

Places financial statements review

We did not see evidence of a robust management review or challenge to the Places financial statements – and we have challenged the accounting for equity loans and the disclosure of employee numbers and pensions which have both resulted in prior period adjustments to the financial statements. We consider this to be evidence of a significant deficiency in internal control.

04 Value for Money Arrangements

Value for money

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

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

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

Risk assessment

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

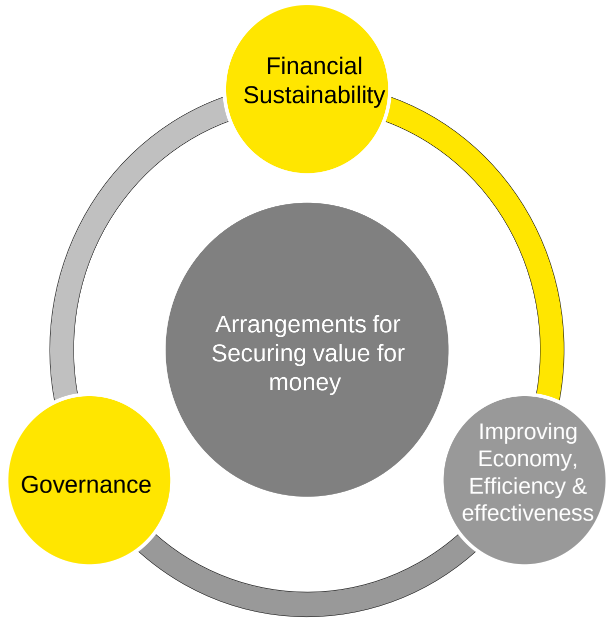
For 2023/24, proper arrangements are defined by 2020 statutory guidance issued by the National Audit Office on 1 April 2020, as:

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

Having completed our VFM planning work we identified one risk of significant weakness:

- Financial sustainability: Longer term funding impact

We have completed our planned VFM procedures and have no matters to report by exception in the auditor's report. We include, on the next page, our findings from our work on the risk of significant weakness we identified. We plan to issue the VFM commentary by the end of October as part of issuing the Auditor's Annual Report.



Value for money

Responding to a risk of significant weakness in VFM arrangements

What is the risk of significant weakness ?	What did we do?	What are our conclusions?
Limitation of the Authority's ability to fully manage, commit and prioritise critical asset renewal schemes and capital enhancement programmes as a result of changes in funding for the capital programme which may lead to significant impact on the effectiveness of service delivery by the Authority to the public. *Reporting Criteria* ***Financial Sustainability: How the body plans to bridge its funding gaps and identifies achievable savings.*** The effectiveness of service delivery and ensuring the rail network remains safe and operable are dependent largely on the continuous investment in enhancement programs and reinvestment on asset renewals. The achievement of this is set out in the Business Plan published by TfL in 2023. The Business Plan detailed a capital renewals investment plan of £850m and the Authority plans to spend an average of £1.35bn per year on the enhancement programme and new capital investment. TfL budgeted for £500m of support from central government in the coming year with business planning assumptions that TfL is not expecting to pay for major signalling or rolling stock. The Government considered TfL's request for capital funding in the context of the current financial and funding environment and agreed to provide £250m to TfL which is £250m short of the planned assumption. As a result of this, TfL has had to consider contingency plans, detailing which elements of capital expenditure (i.e. assets renewals and enhancement programmes) can be re-prioritised or delayed. There is a risk that this could have a significant impact of the achievement of the strategic outcomes and long-term commitments which includes the Mayor's Transport Strategy, asset management objectives as well other corporate plans. This could also result in a significant impact on the effectiveness of service delivery where a key priority is to ensure the rail network remains safe and operable.	To address this risk, we performed the following procedures: • Considered and assessed the mitigations identified by the management as a result of the shortage in capital funding. • Reviewed the revised plan to assess the actions taken by management to address the shortages in capital funding. • Reviewed the latest budget, business plan and other related documents that would demonstrate that management have considered this matter in their forecasts.	Our work and assessment confirmed that management has reflected and considered the shortage of £250m in their Business Plan and Budget for 2024/25. We have noted that management has taken action to reprioritize some of the capital enhancement and renewals spend as a mitigation to cover the shortage in the capital funding. Further, TfL were able to reach an arrangement with a key supplier to provide an opportunity for management to significantly rephase the cash profile. As management were able to mitigate the impact of a shortage in capital funding settlement through the matters discussed, we concluded that the risk identified does not result in a significant weakness in arrangement in relation to reporting criteria of *Financial Sustainability: How the body plans to bridge its funding gaps and identify achievable savings.*

05 Appendices

Appendix A – Audit approach update

Audit approach update

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

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

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

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

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

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

Appendix B – Summary of communications

Summary of communications

Date	Nature	Summary
13 November 2023	Report	The audit planning report, including confirmation of independence, was issued to the audit and assurance committee.
29 November 2023	Meeting	The partner in charge of the engagement, along with other senior members of the audit team, met with the audit and assurance committee to discuss the audit plan.
9 January 2024	Meeting	The partner in charge of the engagement, accompanied by other senior members of the audit team, met with senior members of the management team to discuss forward planning
Oct 2023-Sept 2024	**Meetings**	The partner in charge of the engagement, accompanied by other senior members of the audit team, met with senior members of the management team to discuss key business plans, budgets, risks and perform mandatory audit enquiries.
22 May 2024	Letter	Letter issued to the audit and assurance committee confirming and detailing our Audit Fees for the year ended 31 March 2024.
22 May 2024	Letter	The letter issued to the audit and assurance committee confirming and detailing our independence.
29 May 2024	Report	Audit status report was issued to the audit and assurance committee
05 June 2024	Meeting	The partner in charge of the engagement, accompanied by other senior members of the audit team, attended the meeting of the audit and assurance committee.
05 July 2024	Meeting	The partner in charge of the engagement, accompanied by other senior members of the audit team, met with the audit and assurance committee members to provide an audit status update.

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

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

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

Appendix C - 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 related to going concern ▸ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▸ The appropriateness of related disclosures in the financial statements	Audit results report 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 September 2024.

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

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Fraud	▸ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▸ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▸ Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving: a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. ▸ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▸ Matters, if any, to communicate regarding management's process for identifying and responding to the risks of fraud in the entity and our assessment of the risks of material misstatement due to fraud ▸ Any other matters related to fraud, relevant to Audit Committee responsibility.	Audit results report in September 2024. Audit planning report in November 2023
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 September 2024.

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

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, integrity, objectivity and independence. Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: ▸ The principal threats ▸ Safeguards adopted and their effectiveness ▸ An overall assessment of threats and safeguards ▸ Information about the general policies and process within the firm to maintain objectivity and independence Communications whenever significant judgements are made about threats to integrity, objectivity and independence and the appropriateness of safeguards put in place. ▸ Communication of relevant information to those charged with governance, to enable them to provide concurrence on the non-audit services being provided. For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2019: ▸ Relationships between EY, the company and senior management, its affiliates and its connected parties ▸ Services provided by EY that may reasonably bear on the auditors' integrity, objectivity and independence ▸ Related safeguards ▸ Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees ▸ A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit	Letter shared with the Audit and Assurance Committee date 22 May 2024.

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

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
	▸ Details of any inconsistencies between the Ethical Standard and Group's policy for the provision of non-audit services, and any apparent breach of that policy ▸ Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard ▸ The audit committee should also be provided an opportunity to discuss matters affecting auditor independence	
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 September 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 committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of	Audit results report in September 2024.
Significant deficiencies in internal controls identified during the audit	▸ Significant deficiencies in internal controls identified during the audit.	Audit results report in September 2024.

Appendix C - 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 Independence letter in May 2024.
Written representations we are requesting from management and/or those charged with governance	▸ Written representations we are requesting from management and/or those charged with governance	Audit results in September 2024
System of quality management	▸ How the system of quality management (SQM) supports the consistent performance of a quality audit	Audit results in September 2024
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	▸ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results in September 2024
Auditors report	▸ Key audit matters that we will include in our auditor's report ▸ Any circumstances identified that affect the form and content of our auditor's report	Audit results in September 2024

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

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Fee Reporting	▸ Breakdown of fee information when the audit plan is agreed ▸ Breakdown of fee information at the completion of the audit ▸ Any non-audit work	Audit fee letter in May 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 status report – May 2024 Auditors Annual Report – October 2024

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