

Transport Scotland

2017/18 Annual Audit Report



 AUDIT SCOTLAND

Prepared for Transport Scotland and the Auditor General for Scotland

20 August 2018

Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

Contents

Key messages	4
Introduction	5
Part 1 Audit of 2017/18 annual report and accounts	7
Part 2 Financial management	11
Part 3 Financial sustainability	13
Part 4 Governance and transparency	16
Part 5 Value for money	19
Appendix 1 Action plan 2017/18	24
Appendix 2 Significant audit risks identified during planning	26
Appendix 3 Summary of uncorrected misstatements	29
Appendix 4 Summary of national performance reports 2017/18	30

Key messages

2017/18 annual report and accounts

- 1 In our opinion the financial statements of Transport Scotland give a true and fair view of the financial position and their expenditure and income; the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance; and the other information in the annual report and accounts was consistent with the financial statements and prepared in accordance with legal requirements.

Financial management

- 2 We concluded that Transport Scotland has effective arrangements in place for financial management.

Financial sustainability

- 3 Transport Scotland has effective financial planning arrangements in place based on its budgetary processes. There are no significant concerns about the overall financial position of Transport Scotland.

Governance and transparency

- 4 Transport Scotland's governance arrangements operated effectively to support scrutiny of decisions made by the SMT through the ARC, but these should be kept under periodic review.

Value for money

- 5 Transport Scotland has a well-developed performance management framework in place, but this could be further developed through reporting performance against stated aims and objectives, through greater use of performance indicators.
- 6 Transport Scotland's management of the Forth Replacement Crossing delivered value for money but a clearer plan is needed to measure its wider benefits.

Introduction

1. This report summarises the findings from our 2017/18 audit of Transport Scotland.

2. The scope of our audit was set out in our Annual Audit Plan presented to the 14th February meeting of the Audit and Risk Committee (ARC). This report comprises the findings from:

- an audit of Transport Scotland's annual report and accounts
- consideration of the four audit dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#) as illustrated in [Exhibit 1](#).

Exhibit 1

Audit dimensions



Source: *Code of Audit Practice 2016*

3. The main elements of our audit work in 2017/18 have been:

- a review Transport Scotland's main financial systems
- an audit of Transport Scotland's 2017/18 annual report and accounts including the issue of an independent auditor's report setting out our opinions
- consideration of the four audit dimensions.

4. Transport Scotland has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual report and accounts

that are in accordance with the accounts direction from the Scottish Ministers. The Transport Scotland annual report and accounts includes the following:

- Performance Report
- Accountability Report (which includes the Corporate Governance Report, Remuneration and Staff Report and, Parliamentary and Accountability Report)
- Financial statements and supporting notes.

5. Transport Scotland is also responsible for establishing effective arrangements for governance, propriety and regularity that enable the board to successfully deliver its objectives.

6. Our responsibilities as independent auditor are outlined in the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2016](#) and supplementary guidance, and International Standards on Auditing in the UK.

7. As public sector auditors we give independent opinions on the annual report and accounts. We also review and provide conclusions on the effectiveness of the performance management arrangements, suitability and effectiveness of corporate governance arrangements, and financial position and arrangements for securing financial sustainability. In doing this we aim to support improvement and accountability. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#) and supplementary guidance.

8. This report raises matters from the audit of the annual report and accounts and consideration of the audit dimensions. Weaknesses or risks identified are only those which have come to their attention during our normal audit work, and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

9. Our annual audit report contains an agreed action plan at [Appendix 1](#). It sets out specific recommendations, responsible officers and dates for implementation. It also includes outstanding actions from last year and the steps being taken to implement them.

10. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2017/18 audit fee of £173,100 as set out in our Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

Adding value through the audit

11. Our aim is to add value to the Transport Scotland by increasing insight into, and offering foresight on, financial sustainability, risk and performance, by identifying areas of improvement and by recommending and encouraging good practice. In so doing, we aim to help the board promote improved standards of governance, better management and decision making and more effective use of resources.

12. This report is addressed to both the board and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

13. We would like to thank all management and staff who have been involved in our work for their cooperation and assistance during the audit.

Part 1

Audit of 2017/18 annual report and accounts



Main judgements

The financial statements of Transport Scotland for 2017/18 give a true and fair view of the state of the body's affairs and of its net expenditure for the year. Expenditure and income were in accordance with applicable enactments and guidance.

The audited part of the remuneration and staff report and governance statement were all consistent with the financial statements and properly prepared in accordance with the accounts direction.

The performance report has been improved but there remains an opportunity for further development to provide a clearer assessment of performance against overall aims and objectives through greater use of performance indicators.

Audit opinions on the annual report and accounts

14. The annual report and accounts for the year ended 31 March 2018 were approved by the Audit and Risk Committee on 20 August 2018. We reported within our independent auditor's report that in our opinion:

- the financial statements give a true and fair view and were properly prepared
- expenditure and income were regular and in accordance with applicable enactments and guidance
- the audited part of the remuneration and staff report, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the accounts direction.

15. Additionally, we have nothing to report in respect of misstatements in information other than the financial statements, the adequacy of accounting records and the information and explanations we received.

Submission of annual report and accounts for audit

16. We received the unaudited financial statements on 11 June 2018 in line with our agreed audit timetable.

17. The working papers provided with the unaudited financial statements were of a good standard and finance staff provided support to the audit team which helped ensure the final accounts audit process ran smoothly.

The annual report and accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources.

Risk of material misstatement

18. [Appendix 2](#) provides a description of those assessed risks of material misstatement that were identified during the planning process. These risks had the greatest effect on the overall audit strategy, the allocation of staff resources to the audit and directing the efforts of the audit team. Also included within the appendix are wider audit dimension risks, how we addressed these and conclusions.

Materiality

19. Misstatements are material if they could reasonably be expected to influence the economic decisions of users taken based on the financial statements. The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement. It is affected by our perception of the financial information needs of users of the financial statements.

20. Our initial assessment of materiality for the annual report and accounts was carried out during the planning phase of the audit and is summarised in [Exhibit 2](#). Specifically, regarding the annual report and accounts we assess the materiality of uncorrected misstatements, both individually and collectively.

21. On receipt of the annual report and accounts we reviewed our materiality calculations and concluded that they remained appropriate.

Exhibit 2

Materiality values

Materiality level	Amount
Overall materiality - This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It was set at one per cent of the net book value of the trunk road network as at 31 March 2017 based on the unaudited 2016/17 accounts.	£192.801 million
Performance materiality - This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at 50 per cent of overall materiality, specifically in relation to the trunk road network.	£96.401 million
As Transport Scotland's total assets balance is more than ten times net operating expenditure, we also set a separate performance materiality level for other assets / liabilities and expenditure. This was set at 0.75 per cent of gross expenditure and was applied to all account areas other than the trunk road network.	£18.872 million
Reporting threshold - We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This was calculated at one per cent of overall materiality but capped at £100,000.	£100 thousand

Source: Annual Audit Plan 2017/18

How we evaluate misstatements

22. During our audit, Transport Scotland officers identified updates to the presentation of the roads network assets in the first draft of the accounts which resulted in an adjustment of £114.3 million to the relevant note and to the primary statements. We reviewed these adjustments and were satisfied that they were correct. This was largely due to the impact from the quarter 4 Baxter index (£105.5 million) which is not available to Transport Scotland until the period during which

the audit is scheduled. As such, it does not represent an error in Transport Scotland's processes. There were also further ledger posting misstatements of £8.8 million corrected at the same time. Subsequently, we found a material misstatement in the revaluation reserve which resulted in an adjustment of £593.2 million and an equal and matching adjustment to the general fund. Transport Scotland made the appropriate adjustments to the accounts.

23. We also found a further three misstatements which have not been adjusted for. This included an accrual which was based on an earlier estimate, a payment containing elements which should have been treated as pre-payments and a difference between the ledger and accounts in respect of the general fund and revaluation reserve. If these misstatements had been adjusted for then it would have decreased the in-year net comprehensive expenditure by £3.7 million and would have increased assets less liabilities in the Statement of Financial Position by the same amount. Details of these unadjusted misstatements are outlined in Appendix 3.

24. It is our responsibility to request that all misstatements other than those below the reporting threshold are re-stated. The final decision on this lies with those charged with governance considering advice from senior officers and materiality. Transport Scotland management do not propose to adjust for the misstatements outlined in paragraph 23 as the amounts are not material in the context of the financial statements. The misstatements outlined in paragraph 23 were below the level of performance materiality set out for other account areas in Exhibit 2. The cumulative value of misstatements (£8.8 million and £593.2 million), outlined in paragraph 22 however breaches performance materiality for the roads network. The error in the revaluation reserve (£593.2 million) was concluded to be an isolated incident which did not indicate wider implications, as testing elsewhere on the roads network found that adjustments were in line with guidance and prior years.

Significant findings from the audit in accordance with ISA 260

25. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance. These are summarised in [Exhibit 3](#). Where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in [Appendix 1](#) has been included.

26. These findings include our views about significant qualitative aspects of the Transport Scotland's accounting practices including:

- | | |
|---|---|
| • Accounting policies | • Accounting estimates and judgements |
| • Significant financial statements disclosures | • Timing of transactions and the period in which they are recorded |
| • The impact on the financial statements of any uncertainties | • The effect of any unusual transactions on the financial statements |
| • Misstatements in the annual report and accounts | • Disagreement over any accounting treatment or financial statements disclosure |

Exhibit 3

Significant findings from the audit of financial statements

Issue	Resolution
<p>1. Re-profiling of expenditure items</p> <p>Testing of expenditure items found two payments which were brought forward from 2018/19 to the current year. These payments were to two bodies (Caledonian Maritime Assets Limited and Strathclyde Passenger Transport) administering large capital contracts involving third party organisations. Transport Scotland was able to accommodate these payments in 2017/18 due to slippage and savings on other budget items.</p>	<p>Evidence was provided in both cases of discussions with the relevant bodies which supported the decision to alter the timing of the payments. We consider that the records in relation to the Strathclyde Passenger Transport payment could have better documented the decisions/agreement on the timing of payments.</p> <p> Recommendation 1 (refer appendix 1, action plan)</p>
<p>2. Revaluation reserve workings</p> <p>The revaluation reserve involves adjustments made in respect of differences between the cost of building new road sections and the valuation attached to them in the asset register. Testing found that necessary adjustments had not been made to the revaluation reserve.</p>	<p>Further discussion with senior finance officials confirmed the adjustments necessary to ensure that the correct entries are posted to the accounts in respect of the revaluation reserve. This also resulted in changes to the value of the balance in the general fund.</p> <p> Recommendation 2 (refer appendix 1, action plan)</p>

Source: Audit Scotland

Other findings from the audit of the financial statements

27. Details of Transport Scotland's Senior Management Team (SMT) members outside interests are recorded on the Scottish Government's register of interests. Currently this is not available to members of the public which is consistent with Scottish Government practice as the SMT are civil servants. However, this is contrary to 'On Board' guidance developed by the Scottish Government in March 2017. A recommendation has been raised and accepted during the 2016/17 audit of the Scottish Government which should mean that the register will be publicly available in the future. Transport Scotland will follow the approach taken by the Scottish Government when implemented. We are content that appropriate disclosures have been made in the accounts.

Follow up of prior year recommendations

28. We have followed-up actions agreed as part of the 2016/17 audit to assess progress with their implementation. We have reported progress of these prior year actions in [Appendix 1](#). They are identified by the prefix b/f (brought forward). Two agreed actions were raised in 2016/17, one of which, relating to the uplifting of the trunk road network land value, has been fully implemented.

29. The other, relating to the content of the annual report, has been partly actioned. Transport Scotland has made improvements to the 2017/18 performance report through use of graphics and better sign-posting of business areas. There is room for further development to provide a clearer assessment of progress against the body's aims and objectives. We consider this further in paragraphs 69-74 of this report.

Part 2

Financial management



Main judgements

Transport Scotland has effective arrangements in place for financial management. It managed its 2017/18 budget well and recorded a DEL underspend of £61 million, three per cent of its 2017/18 DEL budget of £2.27 billion.

Transport Scotland has budget monitoring and control arrangements that allow non-executives and officers to carry out effective scrutiny of its finances.

Financial performance in 2017/18

30. The main financial objective for Transport Scotland is to ensure that the financial outturn for the year is within the budget allocated by Scottish Ministers.

31. Transport Scotland has reported a Departmental Expenditure Limit (DEL) outturn of £2,209 million, remaining within its overall budget for 2017/18 with an underspend of £61 million (3 per cent of the final budget). The financial performance against DEL is shown in [Exhibit 4](#).

Exhibit 4

Performance against DEL in 2017/18

Performance	Initial budget £m	Final budget £m	Actual outturn £m	Overspend/ (underspend) £m
Resource DEL	1,674	1,711	1,730	19
Capital DEL	560	559	479	(80)
Total DEL	2,234	2,270	2,209	(61)

Source: Transport Scotland

32. [Exhibit 5](#) shows how the £61 million DEL underspend is split across the main areas of expenditure. The most significant variation between outturn spend and final budget relates to motorways and trunk roads (outturn of £692 million against a final budget of £835 million). This is largely due to slippage across a number of capital projects. The saving contributes to the overall balancing of expenditure within the Scottish budget as a whole.

33. An overspend of £57 million in ferry services partially off-sets underspends elsewhere, representing 31 per cent of the final allocation. This has mainly resulted from the purchase of three Northern Isles ferries for £36.8 million and advanced funding of £14.5 million provided for the construction of two new vessels. Rail services are overspent by £14 million, which represents two per cent of the final allocation, while other services are overspent by £13 million (eight per cent of final allocation). The latter is largely due to a reprofiling into financial year 2017/18 (from 2018/19) of a payment to Strathclyde Passenger Transport (SPT) for subway modernisation of £53 million as part of a long term agreed funding package. This was partially offset by £40 million additional budget allocated through the Scottish Government's spring budget revision.

Exhibit 5

Performance against DEL in 2017/18 by expenditure area

Performance	Initial budget £m	Final budget £m	Actual outturn £m	Overspend/ (underspend) £m
Rail Services	748	748	762	14
Concessionary Travel	255	255	253	(2)
Motorways and Trunk Roads	835	835	692	(143)
Ferries	181	181	238	57
Air	50	50	52	2
Other Transport	113	154	167	13
Scottish Futures Trust	25	20	18	(2)
Local Authority Grants	27	27	27	0
Total DEL	2,234	2,270	2,209	(61)

Source: Transport Scotland

Budgetary processes

34. We reviewed Transport Scotland's budgetary processes and budget monitoring arrangements. From our review of budget monitoring reports, review of SMT papers and attendance at ARCs we confirmed that senior management and members receive regular, timely and up to date financial information on the financial position.

35. We concluded that Transport Scotland has sound budget monitoring and control arrangements that allow non-executives and officers to carry out effective scrutiny of its finances.

Financial capacity

36. As part of our audit we considered the level of financial expertise and knowledge within Transport Scotland. We concluded that Transport Scotland has an established finance team with good experience of the organisation and its environment. Staff are suitably qualified to fulfil their respective roles.

Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

Part 3

Financial sustainability



Main judgements

Transport Scotland has effective financial planning arrangements in place based on its budgetary processes. There are no significant concerns about its overall financial position.

There remains significant uncertainty about the detailed implications of EU withdrawal. Transport Scotland has, so far, taken reasonable steps in preparing for Brexit.

Financial planning

37. Transport Scotland has an allocated DEL budget of £2.22 billion for 2018/19, comprising resource DEL of £1.85 billion and capital DEL of £0.37 billion. This is a decrease from the final 2017/18 budget of £2.27 billion. While the resource DEL budget has increased (£1.71 billion in 2017/18), the capital DEL budget has decreased significantly (£0.56 billion in 2017/18). This largely reflects the completion of major capital projects such as the Queensferry Crossing. The 2018/19 allocation also includes £0.15 billion for ODEL. Transport Scotland is not currently forecasting any AME in 2018/19.

2017/18 financial position

38. The Statement of Financial Position summarises what is owned and owed by Transport Scotland. This shows taxpayers' equity – an accounting measurement of the amount invested that has continuing public benefit. It shows how much of this has arisen from the application of revenues and that which has resulted through changes over time in the value of physical assets.

39. The financial statements show that Transport Scotland:

- has assets less liabilities of £19.21 billion, an increase of £0.38 million mainly due to a £0.42 million increase in property plant and equipment resulting from the completion of a new section of the M8 and the Queensferry Crossing
- a shortfall in current assets against current liabilities of £0.18 billion. This is attributable to Transport Scotland not carrying any cash reserves, as the Scottish Government provides funding on a cash basis as required.

Medium to long term financial planning

40. Transport Scotland is almost entirely funded from the Scottish Government budget allocation which is determined on an annual basis. However, due to the nature of its business (with the majority of spend based on longer-term contractual commitments), Transport Scotland has incorporated a ten-year financial forecast analysis in its monthly budget monitoring processes. This allows the longer-term consequences of financial decisions taken to be identified.

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

Ending of public sector pay cap

41. Only a small proportion (two per cent) of Transport Scotland's spend is utilised on ongoing agency running costs. The impact of ending the public sector pay cap is therefore unlikely to have a significant impact on Transport Scotland's overall resource position.

EU withdrawal

42. Transport Scotland's medium to longer term financial position is difficult to predict given the uncertainty around EU withdrawal. Significant further clarity about outcomes will be required before the detailed implications of EU withdrawal can be determined. Nevertheless, it is critical that public sector bodies are working to understand, assess and prepare for the impact on their business in three broad areas:

- Workforce – the extent to which changes to migration and trade policies are likely to affect the availability of skilled and unskilled labour.
- Funding – the extent to which potential changes to funding flows are likely to affect the finances of the organisation and the activity that such funding supports.
- Regulation – the extent to which potential changes to regulation across a broad range of areas overseen at an EU level are likely to affect the activities of the organisation.

43. Our review has found that consideration of the impact of Brexit has been incorporated into Transport Scotland's business through several mechanisms:

- In 2016, Transport Scotland established the Post-EU Referendum Team to consider the impact of EU withdrawal on the organisation. The team provides bi-monthly updates to the Chief Executive and Scottish Government focusing on areas including funding, legislation and workforce.
- Work has been undertaken to identify the EU funding streams which Transport Scotland utilise. This is available for consideration by the Scottish Government in its budgeting processes.
- The risk register includes reference to Brexit across a range of risks and the SMT scrutinise the potential impact of Brexit on a regular basis. This has been evidenced through review of SMT minutes and papers.
- In 2018/19 Transport Scotland will issue a questionnaire for related bodies focusing on their response to Brexit. Audit Scotland will consider the response to the questionnaire as part of our 2018/19 financial statements audit.

44. Given the level of uncertainty around Brexit at this time, Transport Scotland's approach appears reasonable. We will continue to monitor this as progress towards EU withdrawal continues.

Glasgow Prestwick Airport update

45. In 2016/17 we reported that TS Prestwick Holdco Limited, who are responsible for the ownership and operation of Glasgow Prestwick Airport (GPA), finalised a new executive team and approved a revised 2017-2022 strategic plan. We also reported that TS Prestwick Holdco Limited had experienced cumulative losses of £26.5 million in the period to March 2017, while the level of Transport Scotland loan support had increased to £30.4million.

46. In 2017/18, the draft TS Prestwick Holdco Limited accounts report a further loss of £7.9 million. The level of loan support has increased by £8 million to £38.4

million and there is additional accrued interest on this cumulative balance totalling £2.5 million at March 2018. Transport Scotland advised us that the performance of all aspects of the business is kept under review, and GPA will be revising the strategic plan as part of its work on potential options for developing the business. Consequently, Transport Scotland believes this, in conjunction with the strategic value of the assets, to be sufficient security for the loan.

47. While we are satisfied that the fair value of the loan assets is appropriately recognised in the accounts, Transport Scotland should continue to review the potential to recover the full value of support provided. We will monitor the situation during 2018/19.

Part 4

Governance and transparency



Main judgements

Transport Scotland's governance arrangements operated effectively to support scrutiny of decisions made by the SMT through the ARC. The arrangements should be kept under review to ensure they remain appropriate.

Internal audit failed to comply fully with relevant standards, principally in relation to audit planning, documentation and reporting and management review. It is progressing improvements to address this.

Transport Scotland has appropriate cyber security arrangements in place and is aiming to gain Essential PLUS accreditation later in 2018.

Governance arrangements

48. Transport Scotland continues to operate without a board, including non-executive director membership, as the main decision-making forum. This sets it apart from other executive agencies of the Scottish Government, and has been the case since 2010/11. During 2017/18, the SMT, comprising of the Chief Executive and six Directors, continued to hold overall responsibility over the organisation's corporate governance arrangements.

49. Going forward into 2018/19, Transport Scotland is undergoing an organisational restructure to better align itself with the Scottish Government's current programme for government. This will also see some changes in personnel in the SMT, resulting in gender equality across the new director posts.

50. The Audit and Risk Committee (ARC) is made up of three non-executive members. It was established to support the chief executive (as accountable officer) over issues of risk, control and governance and associated assurance through a process of constructive challenge. The chief executive, the director of finance and at least one representative from both internal and external audit routinely attend ARC meetings.

51. While these arrangements operated effectively, this area should be subject to ongoing review to ensure that governance arrangements remain appropriate.

Transparency

52. Transparency means that the public have access to understandable, relevant and timely information about how an organisation takes decisions and how it is using resources such as money, people and assets. Transport Scotland makes available minutes of the SMT through its website. No further papers from SMT meetings or indeed minutes and papers from ARC meetings are made available. Meetings are also not open to the public.

53. Last year we advised that with increasing public expectations for more openness in the conduct of public business, there was scope for Transport

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information.

Scotland to review the public availability of relevant SMT and ARC papers and minutes. Transport Scotland informed us that the SMT has discussed this issue and concluded that the current arrangements remain appropriate, but that this would be kept under review. We would emphasise the importance of regular review.

Risk management

54. Transport Scotland has a risk management strategy in place which provides a structured process for activities in this area. It also sets out the roles and responsibilities of key officers and groups. This is supported by the Risk Management Group (RMG) which meets quarterly, is chaired by the Director of Finance and is made up of officers from across the directorates.

55. The RMG is responsible for developing and maintaining the Corporate Risk Register. This is informed by directorate risk registers and additional strategic risks identified by the SMT. The SMT consider the corporate risk register on a quarterly basis as does the ARC. These arrangements are appropriate and effective.

Internal audit

56. Transport Scotland's internal audit function is carried out by the Scottish Government Internal Audit Directorate (SGIAD). Each year we consider whether we can rely on internal audit work to avoid duplication of effort.

57. Audit Scotland's Scottish Government audit team undertook a review of the effectiveness of the internal audit function to ensure it operates in accordance with the Public Sector Internal Audit Standards (PSIAS). Their report which was issued in July 2018 noted that the SGIAD meets some of the PSIAS, but also does not comply with significant aspects of the standards. Our review of a sample of internal audit reports and supporting documentation found that significant improvements are required to comply with PSIAS and the Internal Audit Manual (IAM) in audit planning, audit documentation, audit reporting and management review. No internal audit reports were identified where the underlying evidence would suggest an incorrect audit opinion or conclusion. Agreed actions have been put in place to address the issues raised.

58. As reported in our annual audit plan for 2017/18 we intended to place formal reliance on the internal audit review of ICT Security of TS Hosted Systems. At the time of writing, this report had not been submitted to the ARC meaning we have not yet been able to carry out this review. As we applied a substantive audit approach, this did not impact on our opinion of the financial statements. We considered the findings from internal audit's other reports (Contract Management of ScotRail Franchise; Management of the Clyde and Hebrides Ferry Services 2 (CHFS2) Contract and Management of the A9 Dualling Programme) to help scope our wider code work (covered in part 5) and to ensure our work did not replicate that of internal audit.

Governance Statement

59. HM Treasury's Financial Reporting Manual (the FReM) states that Transport Scotland must prepare an annual governance statement within the annual report and accounts. Guidance is set out within the Scottish Public Finance Manual (SPFM) for the content of the governance statement and provides assurances around the achievement of the organisation's strategic objectives.

60. The SPFM does not prescribe a format for the annual governance statement but sets out minimum requirements for central government bodies. The process undertaken by management included conducting an assurance mapping exercise and working to an assurance plan that assessed the evidence underpinning the preparation of the governance statement.

61. We concluded that the 2017/18 governance statement complies with the guidance issued by the Scottish Ministers and, based on our knowledge and work performed, presents a comprehensive picture of governance arrangements and matters.

Prevention and detection of fraud and irregularity

62. We reviewed Transport Scotland's fraud policy statement and concluded that it sets out appropriate response arrangements. No instances of fraud have been detected in 2017/18.

Standards of conduct for prevention and detection of fraud and error

63. Transport Scotland does not have its own separate staff code of conduct as all Transport Scotland employees are bound by the Scottish Government's code of staff conduct. We have reviewed the arrangements in place to maintain standards of conduct, including the Civil Service Code and Whistleblowing Policy. We concluded that Transport Scotland has appropriate arrangements in place for the prevention and detection of bribery and corruption including a regularly reviewed Fraud Response Plan. We are not aware of any specific issues that we need to bring to attention.

Cyber security

64. The Scottish Government issued a Public-Sector Action Plan on Cyber Resilience in November 2017. This requires all public-sector bodies to carry out a review to ensure their cyber security arrangements are appropriate.

65. In our Management Report, presented at the May 2018 ARC meeting, we identified that Transport Scotland was committed to gaining Cyber Essentials Plus accreditation. In June 2018, a pre-assessment review of cyber security was carried out on behalf of Transport Scotland. The purpose of this was to define an acceptable scope for accreditation and to identify the activities required to support Transport Scotland in achieving the Cyber Essentials Plus accreditation.

66. In most areas, sufficient controls were found to be place and the approach to cyber security was found to be in line with the Cyber Essentials PLUS requirements. It was identified that once remedial action is taken over two systems, Transport Scotland will be well placed to achieve the Cyber Essentials Plus accreditation.

67. We concluded that Transport Scotland is actively strengthening its cyber resilience arrangements and is on track to Essentials Plus accreditation by the end of October 2018.

General Data Protection Regulation

68. The new General Data Protection Regulation (GDPR) came into force on 25 May 2018. This replaced the UK Data Protection Act 1998. As a Regulation, all EU member states must implement it in the same way. GDPR sets out more requirements than the DPA and has introduced new and significantly changed data protection concepts.

69. GDPR introduces a wide range of new rights for individuals in respect of their personal data. These include the right to be forgotten, the right to object to certain processing activities and to decisions taken by automated processes. Failure to comply with new GDPR data handling arrangements could result in Transport Scotland incurring significant fines. We will review Transport Scotland's GDPR data handling arrangements as part of the 2018/19 audit.

Part 5

Value for money



Main judgements

Transport Scotland has a well-developed performance management framework in place. This could be further developed through reporting of performance against stated aims and objectives through greater use of performance indicators.

Transport Scotland's management of the Forth Replacement Crossing delivered value for money but a clearer plan is needed to measure its wider benefits.

Performance management

70. Accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. The Auditor General may require that we consider whether accountable officers have put in place appropriate arrangements to satisfy their corresponding duty of Best Value. Where such requirements are not specified we may, in conjunction with Transport Scotland, agree to undertake local work in this area.

71. In November 2017, Transport Scotland published its Corporate Plan for 2017-20. This sets out how Transport Scotland will help deliver the Scottish Government's wider purpose for a more successful country and a greener, wealthier, fairer, smarter and healthier society. The plan lists nine aims and objectives, set out in [Exhibit 6](#).

Value for money is concerned with using resources effectively and continually improving services.

Exhibit 6

Transport Scotland: aims and objectives

Strategic transport planning and governance	Moving freight	Environmental sustainability
Maintain and develop Scotland's transport networks	Procurement, asset management and contract management	New infrastructure
Improving communication, travel choices, resilience and safety	Moving people	Who we are and how we operate

Source: Transport Scotland, Corporate Plan 2017-20

72. These objectives sit within the context of the National Transport Strategy which was refreshed in 2016. This lists the following five high-level objectives:

- Promote economic growth by building, enhancing managing and maintaining transport services, infrastructure and networks to maximise their efficiency;
- Promote social inclusion by connecting remote and disadvantaged communities and increasing the accessibility of the transport network;
- Protect our environment and improve health by building and investing in public transport and other types of efficient and sustainable transport which minimise emissions and consumption of resources and energy;
- Improve safety of journeys by reducing accidents and enhancing the personal safety of pedestrians, drivers, passengers and staff; and
- Improve integration by making journey planning and ticketing easier and working to ensure smooth connection between different forms of transport.

73. The performance of Transport Scotland is monitored by the SMT at monthly meetings through review of regular reports which provide updates on major projects, such as the Forth Replacement Crossing, Edinburgh Glasgow Improvement Programme (EGIP), rail enhancements, M8 M73 M74 Motorway Improvements and the Aberdeen Western Peripheral Route. The reports also provide various operational performance reviews as well as updates relating to finance, payment performance, efficiencies, resourcing and sickness levels. A balanced scorecard report has also been introduced to SMT meetings in 2017/18. This provides a position statement on the organisation under the following headings:

- People and capability
- Financial stewardship
- Organisational Efficiency
- Correspondence
- Results
- Travel

74. Through this process, the SMT is kept well informed of activity throughout the organisation and aspects of performance. Based on our review, we consider that this could be enhanced by reporting performance against the aims and objectives set out in the Corporate Plan or the National Transport Strategy. This could be achieved through use of appropriate performance indicators. This could also inform the performance report in the financial statements, in line with the recommendation carried forward from 2016/17 to consider how the annual report could be enhanced to demonstrate better Transport Scotland's performance against objectives (see [Appendix 1](#)).

75. Overall, we concluded that Transport Scotland has a reasonable performance management framework in place which supports the achievement of value for money and continuous improvement in the way services are delivered.

Long-term audit plan

76. As identified in our annual audit plan, we developed an indicative long-term audit plan for value for money. This plan sets out intended audit work over the period up until 2020/21. In the section below, we highlight some of the main developments in these areas over the past year.

Transport Scotland's ferry services

77. The Auditor General for Scotland published her performance audit on [Transport Scotland's ferry services](#) in October 2017. The report found that Transport

Scotland's spending on ferries increased by 115 per cent in real terms over the last 10 years to £209.7 million in 2016/07. This is mainly due to an increase in services, new vessels and the introduction of the Road Equivalent Tariff.

78. Other findings included:

- Transport Scotland has made significant progress against the commitments set out in its Ferries Plan, although the plan is focussed on the Clyde and Hebrides network. The lack of a Scotland-wide, long term strategy which takes into account proposed developments to ferry operations, and the infrastructure to support them, means that the full extent of Transport Scotland's future spending requirement is unknown.
- The operators of Transport Scotland's ferry contracts are performing well, with about 99 per cent of sailings on time in 2016. Ferry users are generally happy with services, although some frustrations exist and Transport Scotland's arrangements for consulting and involving ferry users could be improved.
- Transport Scotland does not routinely measure the contribution that ferry services make to social and economic outcomes at a network level, making it difficult to determine whether its spending is value for money. Better information would allow Transport Scotland to demonstrate the contribution that ferries make to the Scottish Government's National Outcomes.
- The new Clyde and Hebrides Ferry Services contract started on time, in October 2016. The single compliant bid received was costed at £868 million over eight years, some £128 million less than Transport Scotland estimated. The chosen procurement method was new and there is scope for Transport Scotland to improve its approach to procuring ferry services. In addition, contract management arrangements are still evolving and could be strengthened.

79. Transport Scotland has now developed an action plan in response to the report. The action plan sets out an owner for each of Audit Scotland's recommendations. It commits to developing a revised Ferries Plan which reflects the development of a long-term Scotland-wide strategy for ferries and is consistent with the current ongoing Strategic Transport Project Review. Work has also started on measuring the contribution that ferry services make to social and economic outcomes at a network level. The Ferries Unit has also taken steps to strengthen its contract management arrangements by increasing the number of staff devoted to this role. We will monitor implementation of the action plan as it proceeds.

Delivery of the Forth Replacement Crossing

80. The Auditor General for Scotland published her performance audit on the [Forth Replacement \(Queensferry\) Crossing](#) in August 2018. The audit found that Transport Scotland's management of the project delivered value for money. Its procurement of the construction contracts was competitive and helped deliver the project 8-16 per cent under budget (£1.34 billion final cost compared to an estimated cost at the start of construction of £1.45-£1.60 billion).

81. Transport Scotland developed a clear scope for the project and the budget included all relevant costs. Sound governance and wide-ranging risk management and quality assurance measures were in place. Other critical success factors included:

- The provision of regular, consistent and up-to-date information to the project board about costs, risks, quality and timescales.
- Relevant and wide-ranging skills and experience within the team and project board.

- Strong and consistent leadership, with an open and transparent approach, and positive working relationships with contractors.
- Extensive engagement and communication with stakeholders.

82. Transport Scotland has a plan for evaluating progress towards achieving the project's objectives, and is due to carry out a full post-project evaluation in late 2018. While the plan details how performance relating to journey times and traffic flow will be measured, more detail is required on other outcome measures. For example, how Transport Scotland will assess the impact of improved network connections and junctions, and the project's contribution to economic growth.

Roads maintenance impact report

83. Audit Scotland published our [Maintaining Scotland's roads impact report](#) in June 2018, which looked at how the recommendations included in the [August 2016 performance audit report](#) had been implemented.

84. In respect of recommendations aimed at Transport Scotland, we welcomed the development of a revised performance management framework for managing the performance of trunk road maintenance contracts and the fact that road condition information is now made publicly available by geographic area. We also noted:

- That, while road condition data for 2016/17 indicates little overall change in trunk road condition, the proportion of motorway in acceptable condition had improved from 74 per cent to 79 per cent. This largely reflects the upgrading of a large section of the central belt motorway.
- The importance of Transport Scotland remaining committed to maximising opportunities for collaboration where appropriate in the development of the next round of trunk road maintenance contracts.
- The need to ensure appropriate consideration is given to balancing the long-term maintenance needs of the existing road network with investment in new infrastructure.

85. While we currently have no plans for a further performance audit on roads maintenance, it is clear that the condition of roads remains an important issue for the general public. We shall continue to monitor the activities of the Strategic Action Group and the Roads Collaboration Programme in taking this area forward.

Abellio ScotRail Franchise

86. Transport Scotland awarded the ScotRail passenger franchise to Abellio in October 2014. In November 2016 the ScotRail Alliance published a 249 point plan to deliver continuous improvement in performance and punctuality. As part of our 2017/18 audit work, we met with representatives from Transport Scotland to discuss how Abellio was performing against the franchise requirements.

87. As part of the Abellio ScotRail franchise, the Public Performance Measure (PPM) was introduced as a new indicator of performance. PPM is the percentage of booked services which arrive within 5 minutes of their scheduled arrival time, having called at all booked stations on the route. It is the standard measure for train service performance throughout Great Britain. ScotRail have a PPM annual target of 91.5 per cent (increasing to 92.5 per cent by 2019). Current figures are assessed against this threshold and are done so on a moving annual basis. As of 23 June 2018, PPM is at 89.1 per cent. While this is short of target levels, it remains above the minimum level set out in the franchise agreement.

88. ScotRail's franchise agreement sets out target PPM levels for each year. Performance beneath these levels triggers a Performance Improvement Plan (PIP). There have been two PIPs to date in the Abellio ScotRail franchise. An initial PIP was published in November 2016, following which ScotRail achieved consistently improved performance levels by March 2017. This negated the

requirement to continue with the PIP. Nonetheless, ScotRail continued to use it as a living document with additional actions to identify further areas for improvement.

89. Following poor performance in Autumn 2017, a twenty-point PIP was commissioned on behalf of Transport Scotland. This identifies a further twenty improvement recommendations.

90. In monitoring performance against the PIPs, Abellio ScotRail provide Transport Scotland with a PIP Scorecard. This internal monitoring document specifies the total number of open, overdue and complete actions. This is assessed through four-weekly meetings with the ScotRail Alliance which formally discusses the performance against scorecard. We reviewed the PIP scorecard to 30 March 2018 and identified that almost 3,000 actions had been completed, with two overdue. We found the PIP scorecard to be a clear mechanism of communicating progress with actions and improvements. Overall, Transport Scotland is robustly monitoring the franchise.

91. We will continue to monitor ScotRail's performance in 2018/19 and consider any further audit work as appropriate.

National performance audit reports

92. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. In 2017/18 several reports were published which are of direct interest to Transport Scotland. These are outlined in [Appendix 4](#).

93. Transport Scotland has developed arrangements for review of national performance reports which have a direct bearing on the organisation. This can for example involve requesting presentations from Audit Scotland.

Appendix 1

Action plan 2017/18

2017/18 recommendations for improvement

No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p>Spending profiles of third party organisations</p> <p>Audit testing found two expenditure payments made to bodies administrating capital contracts involving third party organisations which required to be re-profiled from 2018/19 to the current year. Transport Scotland accommodated these payments in 2017/18 due to slippage and savings on other budget items.</p> <p>Risk</p> <p>Third party organisations enter financial difficulty due to inaccurate expenditure forecasts, at a time when there is limited flexibility in the Transport Scotland budget, resulting in delays to capital projects.</p>	<p>Transport Scotland should assure itself that cash flow forecasts agreed by bodies with third party organisations are appropriate to allow for the completion of capital contracts. Transport Scotland should also ensure that decisions on variances to contracts relating to timing of payments are appropriately documented.</p> <p>Exhibit 3</p>	<p>In both cases, the payments from Transport Scotland were to bodies within the public sector landscape and were made following appropriate dialogue and engagement.</p> <p>Transport Scotland will ensure ongoing communication with partner organisations and delivery bodies to ensure that budget profiles and cash flow projections are set out and documented.</p> <p>Responsible officer – Lee Shedden.</p> <p>Agreed date - On-going.</p>
2	<p>Revaluation Reserve workings</p> <p>Testing of the revaluation reserve working papers found that all necessary adjustments had not been included in calculations.</p> <p>Risk</p> <p>The value of the revaluation reserve could be incorrectly presented in Transport Scotland's accounts.</p>	<p>Transport Scotland should enhance the relevant Standing Financial Instruction to provide detailed guidance regarding postings to the revaluation reserve.</p> <p>Exhibit 3</p>	<p>Standing Financial Instruction No. 4 will be reviewed in 2018-19 and guidance enhanced. This will form part of the bi-annual review of TS SFI's which are signed off by the senior finance team and reported to the Transport Scotland Audit and Risk Committee.</p> <p>Responsible officer – Murray Smith</p> <p>Agreed date – December 2018</p>



No. Issue/risk

Recommendation

Agreed management action/timing

Follow up of prior year recommendations

b/f	<p>1. Uplifting of trunk road network land value</p> <p>The value of land on which the trunk road network is constructed is uplifted by approximately £500 million to account for compensation payments, professional fees and legal/agent fees. The uplift percentages applied are based on a basket of schemes going back to the early 1990s.</p> <p>Risk</p> <p>The uplift percentages applied may no longer reflect the expenditure which could reasonably be expected to be incurred during the acquisition of new land.</p>	<p>Consideration should be given to whether the basket of schemes used to calculate the uplift percentages is still appropriate.</p>	<p>Fully implemented</p> <p>Transport Scotland reviewed and revised the level of compensation applied to potential land sales in 2017/18.</p> <p>This involved the Valuation Office Agency (VOA) looking at historic uplifts applied since 1996. This included a sample of 40 cases relating to the Aberdeen Western Periphery Route (AWPR) which is due to open in late 2018.</p> <p>The sample also included claims for several other relatively recent projects including M80 Moddiesburn, M74 completion, A75 Dunragit, A96 fochabers-Mosstodloch and A82 Crianlarich.</p>
b/f	<p>2. Content of the Annual Report</p> <p>There are opportunities for Transport Scotland to review how the annual report could be made more informative. In particular, the content of the performance report could provide more analysis of performance, including a more detailed assessment of progress against stated objectives.</p> <p>Risk</p> <p>A more detailed analysis of performance would help Transport Scotland demonstrate greater public accountability and transparency.</p>	<p>Consideration should be given to how annual report could be enhanced to be more informative and demonstrate better Transport Scotland's performance against objectives.</p>	<p>Partially implemented</p> <p>Through review of the 2017/18 financial statements, it was confirmed that the layout of the performance report had improved. This involved introducing graphics and improved sign-posting of different aspects of the body's business. Further improvement could be made through the introduction of performance indicators which measure the achievement of the body's aims and objectives.</p>

Appendix 2

Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual report and accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

Audit Risk	Assurance procedure	Results and conclusions
Risks of material misstatement in the financial statements		
<p>1 Management override of controls (example)</p> <p>As stated in International Standard on Auditing 240, management is in a unique position to perpetrate fraud because of management's ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>	<p>A number of journal entries were tested across several account areas with no material issues found. This included testing of accruals and prepayments.</p> <p>We also tested a number of estimates and found these to be reasonable.</p>
<p>2 Estimation and judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of material account areas of non-current assets including the trunk road network and assets under construction. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<p>Interim audit work will review draft road valuation reports.</p> <p>Substantive testing of year-end capital accruals.</p> <p>Verification of year end provisions.</p> <p>Substantive testing of year-end expenditure accruals.</p>	<p>Year-end capital accruals, expenditure accruals and provisions were tested and found to be satisfactory.</p> <p>Year-end roads valuation reports were reviewed and found to be satisfactory.</p>
<p>3 Roads network valuation</p> <p>In prior years the audit has identified material adjustments to the valuation of the trunk road network valuation. In 2016/17 the impact of the movement was a £144.7 million increase in the net book value of the trunk road network. Furthermore, the process used to produce the valuation is complex, involving the</p>	<p>Verify the application of indexation rates and investigate other significant movements in the trunk road network valuation.</p> <p>Interim audit work to review draft road valuation reports.</p> <p>Review the processes and controls in place to manage the roads valuation data.</p> <p>To challenge the accounting estimates over the RAVS system we will liaise with the National Audit</p>	<p>The final valuation report for the roads network was received in time for the preparation of the draft accounts in 2017/18.</p> <p>We reviewed the year-end roads valuation reports and adjustments required to post these to the Transport Scotland accounts and were satisfied (following adjustment) that these were correct.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>application of indexation rates and adjustments to the figures produced by the road asset valuation system (RAVS).</p> <p>There is a risk of material misstatement linked to the integrity and completeness of the asset records.</p>	<p>Office and look to place assurance on their work where possible.</p>	<p>We contacted the National Audit Office and confirmed that we were not able to take direct assurance from their work but will continue to review our audit procedures in light of these discussions.</p>
<p>4 Uplift of Trunk Road Network Land Value</p> <p>The land on which the trunk road network is constructed is held at gross replacement cost, calculated by the Valuation Office and uplifted to account for compensation payments for the acquisition of land, professional fees and for legal and agents' fees.</p> <p>These uplifts are based on a basket of schemes going back to the early 1990s and add approximately £500 million to the value of the land asset disclosed in the statement of financial position. As the uplifts are based on aged data, there is a risk that the rates used to uplift to gross replacement cost are no longer appropriate.</p>	<p>We will review the action taken by Transport Scotland (in response to a point raised in the 2016/17 annual audit report) to assess whether a revised basket of schemes should be applied.</p>	<p>Transport Scotland reviewed and revised the level of compensation applied to potential land sales in 2017/18.</p> <p>This involved the Valuation Office Agency (VOA) looking at historic uplifts applied since 1996. This included a sample of 40 cases relating to the Aberdeen Western Periphery Route (AWPR) which is due to open in late 2018.</p> <p>The sample also included claims for several other relatively recent projects including M80 Moddiesburn, M74 completion, A75 Dunragit, A96 fochabers-Mosstodloch and A82 Crianlarich.</p>
<p>5 EU State aid regulations</p> <p>In prior years we highlighted a potential issue regarding compliance with the EU Services of General Economic Interest (SGEI) regulation in relation to the funding arrangements for Highlands and Islands Airports Limited (HIAL). In 2016/17, we identified that progress is still required in relation to the monthly reporting provided by HIAL.</p> <p>We consider that non-compliance with EU state aid regulations represents an inherent risk to our regularity opinion on the 2017/18 financial statements.</p>	<p>Assess the steps taken to ensure compliance with the EU regulation.</p>	<p>The European Commission (EC) has completed its review and concluded that although the arrangements were put in place without the EC's approval, it did not raise any objections to these.</p>

Audit Risk	Assurance procedure	Results and conclusions
Risks identified from the auditor's wider responsibility under the Code of Audit Practice		
<p>6 Financial sustainability</p> <p>Like all public sector bodies, Transport Scotland is facing a period of uncertainty in terms of future funding levels. The new financial powers under the 2012 and 2016 Scotland Acts and the UK's withdrawal from the EU could lead to changes in funding flows. A reduction in the Scottish budget allocation may result in Transport Scotland's budget being reduced going forward. Approximately 90% of Transport Scotland's annual expenditure is contractually committed, and therefore any budget reduction would place pressure on non-committed budget areas.</p>	<p>Monitor the Transport Scotland's financial position via budget reports presented to the Audit & Risk Committee.</p> <p>Monitor development of Transport Scotland's EU Withdrawal Plan</p> <p>Ongoing monitoring of Transport Scotland's approach to medium and long term financial planning.</p>	<p>The impact of Brexit has been considered throughout Transport Scotland's operations. Work has been undertaken to identify the impact on budgeting and funding requirements. Regular updates on EU withdrawal are provided to the SMT.</p>
<p>7 Governance and transparency - ICT</p> <p>Transport Scotland's ICT Strategy was published in 2014. However in recent years the needs and requirements have changed and a new strategy had been under review. Transport Scotland has commissioned the Scottish Government Digital Transformation Service to support them putting together a Digital Strategy which will last at least to the end of the 2017/18 financial year. With no long term plan in place, there is a risk that Transport Scotland cannot develop their ICT needs moving forward.</p>	<p>On completion we will review Transport Scotland's Digital Strategy to ensure that an ICT strategy is in place which makes reference to Scottish Government cyber resilience arrangements and the Public Sector Cyber Catalyst Scheme.</p>	<p>Work towards delivery of the Digital and ICT Strategies remains ongoing.</p> <p>The Central Government Digital Transformation Service (CGDTS) has been established within the Scottish Government's Digital Directorate. CGDTS have been engaged to assist the development of the Digital and ICT Strategies.</p> <p>The CGDTS presented findings to the Senior Management Team in June 2018. The SMT are now considering next steps and the digital vision for Transport Scotland going forward. We will review progress in 2018/19.</p>

Appendix 3

Summary of uncorrected misstatements

We report all uncorrected misstatements in the annual report and accounts that are individually greater than our reporting threshold of £100k and request they be corrected.

The table below summarises misstatements that were identified during our audit testing and have not been corrected by management. Cumulatively these errors are below our performance materiality level as explained in [Exhibit 2](#). We are satisfied that these errors do not have a material impact on the financial statements.

No.	Account areas	Comprehensive income and expenditure statement		Balance sheet	
		Dr £000	Cr £000	Dr £000	Cr £000
1	Accruals				1,822
	Expenditure	1,822			
2	Prepayments				1,918
	Expenditure	1,918			
3	General Fund			243	
	Revaluation Reserve				243
Net impact		3,740	0	243	3,983

Notes:

Entry 1 relates to an expenditure accrual which was over stated.

Entry 2 relates to an advance payment which was not treated as a pre-payment.

Entry 3 relates to a difference between the accounts and the ledger. This affects the reserves position only and does not impact on the level of assets less liabilities.

Appendix 4

Summary of national performance reports 2017/18

		 2017/18 Reports	
		Apr	
		May	
Common Agricultural Policy Futures programme: further update		Jun	 Scotland's colleges 2017
		Jul	 NHS workforce planning
Self-directed support: 2017 progress report		Aug	
Equal pay in Scottish councils		Sept	
Transport Scotland's ferry services		Oct	 NHS in Scotland 2017
Local government in Scotland: Financial overview 2016/17		Nov	
		Dec	
		Jan	
Early learning and childcare		Feb	
Managing the implementation of the Scotland Acts		Mar	

Transport Scotland relevant reports

[Transport Scotland's ferry services](#) – October 2017

[Managing the implementation of the Scotland Acts](#) – March 2018

Transport Scotland

2017/18 Annual Audit Report

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