

Transport Scotland

Annual Audit Plan 2022/23



 AUDIT SCOTLAND

Prepared for Transport Scotland

March 2023

Contents

Introduction	3
Financial statements audit planning	5
Wider Scope and Best Value	10
Reporting arrangements, timetable, and audit fee	12
Other matters	15
Appendix 1. Your audit team	17

Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2022/23 external audit of Transport Scotland. The main elements of our work include:

- evaluation of the key controls within the main accounting systems
- an audit of the financial statements, and provision of an Independent Auditor's Report
- an audit opinion on regularity and other statutory information published within the annual report and accounts, including the Performance Report, the Governance Statement and the Remuneration and Staff Report
- consideration of arrangements in relation to wider scope areas: financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes
- consideration of Best Value arrangements.

Audit Appointment

2. We are pleased to be appointed as the external auditor of Transport Scotland for the period 2022/23 to 2026/27 inclusive. You can find a brief biography of your audit team at [Appendix 1](#).

3. In the first year of the audit appointment, we invest significant time gaining an understanding of your business and identifying and assessing the risks of material misstatement to the financial statements. While we use our initial assessment of risk to inform our planned audit approach, we keep our assessment of risks under review as the audit progresses. We will inform you of any significant changes in assessed risks and any resulting changes in our planned audit work.

4. The audit team will actively engage with you over the course of the audit to ensure our audit work continues to be focused on risk.

Adding value

5. We aim to add value to Transport Scotland through our external audit work by being constructive and forward looking, by attending meetings of the Audit and Risk Committee and by recommending and encouraging good practice. In so doing, we will help Transport Scotland promote improved standards of governance, better management and decision making and more effective use of resources.

Respective responsibilities of the auditor and Transport Scotland

6. The [Code of Audit Practice 2021](#) sets out in detail the respective responsibilities of the auditor and Transport Scotland. Key responsibilities are summarised below.

Auditor responsibilities

7. Our responsibilities as independent auditors are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice](#) (including [supplementary guidance](#)) and guided by the Financial Reporting Council's Ethical Standard.

8. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual report and financial statements. We also review and report on the wider scope arrangements in place at Transport Scotland. In doing this, we aim to support improvement and accountability.

Transport Scotland responsibilities

9. Transport Scotland is responsible for maintaining accounting records and preparing financial statements that give a true and fair view.

10. Transport Scotland has the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable Transport Scotland to deliver their objectives.

Financial statements audit planning

Introduction

11. The annual report and accounts are an essential part of demonstrating Transport Scotland's stewardship of resources and its performance in the use of those resources.

12. As part of our planning process, we prepare a risk assessment highlighting the audit risks relating to each of the main financial systems relevant to the production of the financial statements. We focus our work on areas of highest risk.

Materiality

13. The concept of materiality is applied by auditors in planning and performing the audit, and in evaluating the effect of any uncorrected misstatements on the financial statements. We are required to plan our audit to determine with reasonable confidence whether the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

Materiality levels for the 2022/23 audit

14. We assess materiality at different levels and the materiality values for Transport Scotland are set out in [Exhibit 1](#).

Exhibit 1

2022/23 Materiality levels for Transport Scotland

Materiality	Amount
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. Materiality has been set based on 1.8% of the net book value of the trunk roads network (including assets under construction) for the year ended 31 March 2023 based on the audited financial statements for 2021/22.	£424 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this could indicate that further audit procedures should be considered. Using our professional judgement, we have assessed performance materiality at 50% of planning materiality for the trunk roads network.	£212 million

Reporting threshold (i.e., clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. £250,000

Source: Audit Scotland

Lower specific materiality levels for 2022/23 audit

15. In addition to overall materiality, we can set lower, specific materiality levels for certain classes of transaction, account balances or disclosures where lesser amounts could influence the decisions of the users of the financial statements.

16. We recognise that transactions relating to Transport Scotland's ongoing operation across all modes of transportation are likely to be of key interest to the users of the financial statements and we therefore set specific materiality levels as shown in [Exhibit 2](#).

Exhibit 2

2022/23 Lower specific materiality levels for Transport Scotland

Materiality	Amount
Specific materiality - for the year ended 31 March 2023 we have set a lower materiality threshold at 1.8% of gross expenditure, based on the 2021/22 audited financial statements.	£58 million
Specific materiality threshold – Using our professional judgement, we have calculated specific performance materiality at 75% of the specific materiality.	£44 million

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

17. Our risk assessment draws on our cumulative knowledge of Transport Scotland, its major transaction streams, key systems of internal control and risk management processes. It is informed by our discussions with management, meetings with internal audit, attendance at committees and a review of supporting information.

18. Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management and where relevant, report them to those charged with governance.

19. Based on our risk assessment process, we identified the following significant risks of material misstatement to the financial statements. These are risks which have the greatest impact on our planned audit procedures. [Exhibit 3](#) summarises the nature of the risk, the sources of assurance from management arrangements

and the further audit procedures we plan to perform to gain assurance over the risk.

Exhibit 3

2022/23 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>International Standard on Auditing (UK) 240 requires that audits are planned to consider that management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively. This is presumed to be a significant risk in all audits.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<ul style="list-style-type: none"> • Review the design and implementation of controls over journal processing. • Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity. • Test journals at the year-end and post-closing entries, with a focus on significant risk areas. • Evaluate significant transactions outside the normal course of business. • Assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.
<p>2. Estimation and judgements – Trunk Road Valuation</p> <p>There is a significant degree of subjectivity involved in the measurement and valuation of the Trunk Road Network Asset (2021/22: £23,595 million). Valuations are based on specialist knowledge and management assumptions. Any changes to these can result in material changes in valuations and therefore represents an inherent risk of material misstatement in the financial statements.</p>	<p>Valuations undertaken by professional valuers in line with the agreed revaluation model.</p>	<ul style="list-style-type: none"> • Evaluate the competence, capabilities, and objectivity of the professional valuers. • Review the design and implementation of controls over the roads Asset Management System and assess the completeness of information passed to RAAVS. • Evaluate the revaluation process including its compliance with FReM asset revaluation requirements. • Evaluate the impact from the final Baxter quarter index changes to confirm whether it is material. Review the revaluation accounting entries to ensure the figures provided by the valuer are accurately recorded. • Testing of Trunk Road Network disclosures in the financial statements, including disclosures in

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p>3. Risk of material misstatement due to fraud over bus expenditure under ISA 240</p> <p>As most public sector bodies are net spending bodies, the risk of fraud is likely to occur in expenditure. Transport Scotland incurs significant expenditure (currently forecast to be £425 million in 2022/23) on the award of grants to bus operators, including the new Network Support Grant and Network Support Grant.</p> <p>The grants awarded are based on claims from operators. There is higher incentive and opportunity for fraud in claims based systems and therefore due to the value of claims processed there is a risk of material misstatement.</p>	<p>Independent contractor review of payments and subsequent reconciliations.</p>	<p>the key estimates and judgements note.</p> <ul style="list-style-type: none"> • Evaluate the controls over bus expenditure including the IT controls over the Fareshare system. • Substantively test a sample of the grant expenditure from each of the grant schemes. • Detailed testing of the year-end bus grant accrual.

Source: Audit Scotland

20. As set out in International Standard on Auditing (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statements*, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements. We have rebutted this risk for Transport Scotland as its only material income streams consist of funding from the Scottish Government and is easily verifiable to external sources.

21. In line with Practice Note 10: *Audit of financial statements and regularity of public sector bodies in the United Kingdom*, as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to revenue recognition. We have considered all material expenditure streams and concluded that the opportunity for fraudulent manipulation is limited as the

expenditure is based on contracted amounts or grant payments. The expenditure tends to be incurred on a predictable pattern and is made up of a low volume of high value payments. The exception to this is expenditure incurred for bus services where we have identified a significant risk in [Exhibit 2](#).

22. We have not incorporated specific work into our audit plan in these areas over and above our standard audit procedures.

Other areas of audit focus

23. As part of our assessment of audit risks, we have not identified any other areas where we consider there are also risks of material misstatement to the financial statements.

Wider Scope and Best Value

Introduction

24. The [Code of Audit Practice](#) sets out the four areas that frame the wider scope of public sector audit. The Code of Audit Practice requires auditors to consider the adequacy of the arrangements in place for the wider scope areas in audited bodies.

25. In summary, the four wider scope areas cover the following:

- **Financial management** means having sound budgetary processes. We will consider the arrangements to secure sound financial management including the strength of the financial management culture, accountability and arrangements to prevent and detect fraud, error and other irregularities.
- **Financial sustainability** – as auditors, we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We also consider how Transport Scotland ensure they can meet present needs without compromising their ability to deliver services in the future. We will consider the extent to which Transport Scotland has shown regard to delivering services over the medium and long term through effective financial planning.
- **Vision, leadership and governance** – we conclude on the arrangements in place at Transport Scotland to support national strategies set by Scottish Ministers. We consider the arrangements in place to link national strategic plans to Delivery Plans at Transport Scotland. We also consider the effectiveness of the governance arrangements to support delivery.
- **Use of resources to improve outcomes** – we will consider how Transport Scotland demonstrates economy, efficiency and effectiveness through the use of financial and other resources. We will consider the adequacy of performance management arrangements used by Transport Scotland to support its decision making processes and demonstrate impact over time.

26. Our planned work on our wider scope responsibilities is risk based and proportionate and in addition to local risks we consider challenges which are impacting the public sector as a whole. In 2022/23 we will also consider Transport Scotland' arrangements for tackling climate change and responding to cyber security threats.

Climate Change

27. Tackling climate change is one of the greatest global challenges. The Scottish Parliament has set a legally binding target of achieving net zero emissions by 2045 and has interim targets including a 75% reduction in greenhouse gas emissions by 2030. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impacts of climate change.

28. The Auditor General and Accounts Commission are developing a programme of work on climate change. In 2022/23, we will gather information on Transport Scotland' arrangements for responding to climate change, covering areas such as the development of climate change strategies and the monitoring and reporting of progress against targets for reducing emissions.

Cyber Security

29. There continues to be a significant risk of cyber-attacks to public bodies, and it is important that appropriate cyber security arrangements are in place to address those risks. A number of recent incidents have demonstrated the significant impact that a cyber-attack can have on both the finances and operation of an organisation. In 2022/23, we will consider Transport Scotland' arrangements for managing and mitigating cyber security risks.

Duty of Best Value

30. [Ministerial Guidance to Accountable Officers](#) for public bodies and the [Scottish Public Finance Manual](#) (SPFM) explain that accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. We will be carrying out a high-level review to confirm that such arrangements are in place within Transport Scotland.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

31. Audit reporting is the visible output for the annual audit. Our Annual Audit Plan and the outputs, as detailed in [Exhibit 4](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

32. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officers to confirm factual accuracy.

33. We will provide an independent auditor's report to Transport Scotland, the Scottish Parliament and the Auditor General for Scotland setting out our opinions on the annual report and financial statements. We will provide Transport Scotland and the Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

34. [Exhibit 4](#) outlines the target dates for our audit outputs, and we aim to issue the independent auditor's report by the statutory deadline of 31 October 2023.

Exhibit 4 2022/23 Audit outputs

Audit Output	Target date	Audit and Risk Committee Date
Annual Audit Plan	31 March 2023	20 April 2023
Independent Auditor's Report	31 August 2023	21 August 2023
Annual Audit Report	31 August 2023	21 August 2023

Source: Audit Scotland



Timetable

35. To support an efficient audit, it is critical that the timetable for producing the annual report and financial statements for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 5](#) that has been discussed with management.

36. We intend to take a hybrid approach to the 2022/23 audit with a blend of onsite and remote working. We will continue to work closely with management to identify the most efficient approach as appropriate and will keep timeframes and logistics for the completion of the audit under review. Progress will be discussed with management and finance officers over the course of the audit.

Exhibit 5

Proposed annual report and financial statements timetable

 Key stage	 Provisional Date
Consideration of the unaudited annual report and financial statements by those charged with governance	2 June 2023
Latest submission date for the receipt of the unaudited annual report and financial statements with complete working papers package.	5 June 2023
Latest date for final clearance meeting with the Director of Finance (or equivalent)	28 July 2023
Issue of draft Letter of Representation and proposed Independent Auditor's Report	11 August 2023
Agreement of audited and unsigned annual report and financial statements	11 August 2023
Issue of Annual Audit Report to those charged with governance.	11 August 2023
Signed Independent Auditor's Report	To be confirmed
Latest date for signing of SG consolidation return	To be confirmed

Source: Audit Scotland

Audit fee

37. In determining the audit fee, we have taken account of the risk exposure of Transport Scotland and the planned management assurances in place. The proposed audit fee for 2022/23 is £190,640 (2021/22: £189,960).

38. Our fees have increased in 2022/23 and this is a reflection of the current audit market and the rising costs in delivering high quality audit work. There are increased regulatory expectations and risks placed on audit and its quality, as well as a widening in the scope of work audit must cover.

39. In setting the fee for 2022/23 we have assumed that Transport Scotland has effective governance arrangements and will prepare comprehensive and accurate accounts for audit in line with the agreed timetable. The audit fee assumes there

will be no major change in respect of the scope of the audit during the year and where our audit cannot proceed as planned, a supplementary fee may be levied.

Other matters

Internal audit

40. It is the responsibility of Transport Scotland to establish adequate internal audit arrangements. We will review the internal audit plan and the results of internal audit's work.

41. From our initial review of the internal audit plans, we do not plan to place formal reliance on internal audit's work for our financial statements' responsibilities.

42. While we are not planning to place formal reliance on the work of internal audit in 2022/23, we will review internal audit reports and assess the impact of the findings on our financial statements and wider scope audit responsibilities.

Independence and objectivity

43. Auditors appointed by the Auditor General for Scotland or Accounts Commission must comply with the [Code of Audit Practice](#) and relevant supporting guidance. When auditing the financial statements, auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors.

44. Audit Scotland has robust arrangements in place to ensure compliance with these standards including an annual '*fit and proper*' declaration for all members of staff. The arrangements are overseen by the Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

45. The appointed auditor for Transport Scotland is Pauline Gillen, Audit Director. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of Transport Scotland.

Audit Quality

46. Quality is at the core of public audit in Scotland and is the foundation for building consistency and confidence across all audit work. High quality audits provide assurance, add value and can support public bodies to achieve their objectives.

47. Until 2021/22, the applicable audit quality standard was International Standard on Quality Control 1 (ISQC (UK) 1). This set out an audit practice's responsibilities for its system of quality control for audits.

48. ISQC (UK) 1 has been replaced by two new audit quality standards: Internal Standards on Quality Management (ISQM (UK) 1) applicable from 15 December 2022 and (ISQM (UK) 2) effective for the 2023/24 audits. Work is underway at Audit Scotland to meet the requirements of these quality standards.

49. Audit Scotland is committed to delivering high quality audits. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and [Code of Audit Practice](#) (and supplementary guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards, Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) have been commissioned to carry out external quality reviews.

50. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time, and this may be directed to the appointed auditor.

Appendix 1. Your audit team

51. The audit team involved in the audit of Transport Scotland has significant experience in public sector audit.

Pauline Gillen
Audit Director
pgillen@audit-scotland.gov.uk

Pauline has over 16 years of public sector auditing experience. Pauline has worked across the breadth of the public sector on both financial and performance audits.

Claire Gardiner
Senior Audit Manager
cgardiner@audit-scotland.gov.uk

Claire has over 18 years of public sector audit experience and has delivered external audit services to a range of bodies including local authorities, health boards and central government bodies.

Kerry Nelson
Senior Auditor
knelson@audit-scotland.gov.uk

Kerry has over 12 years' experience of public sector audit. Kerry will lead the team and work alongside the Senior Audit Manager and Audit Director to deliver the audit.

52. The local audit team is supported by a specialist technical accounting team, all of whom have significant experience of public bodies and work with accounting regulatory bodies.

Transport Scotland

Annual Audit Plan 2022/23

Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

www.audit-scotland.gov.uk/accessibility

For the latest news follow us on social media or [subscribe to our email alerts.](#)



Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
Phone: 0131 625 1500 Email: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk