

Transport Scotland

Annual Audit Plan 2019/20



 AUDIT SCOTLAND

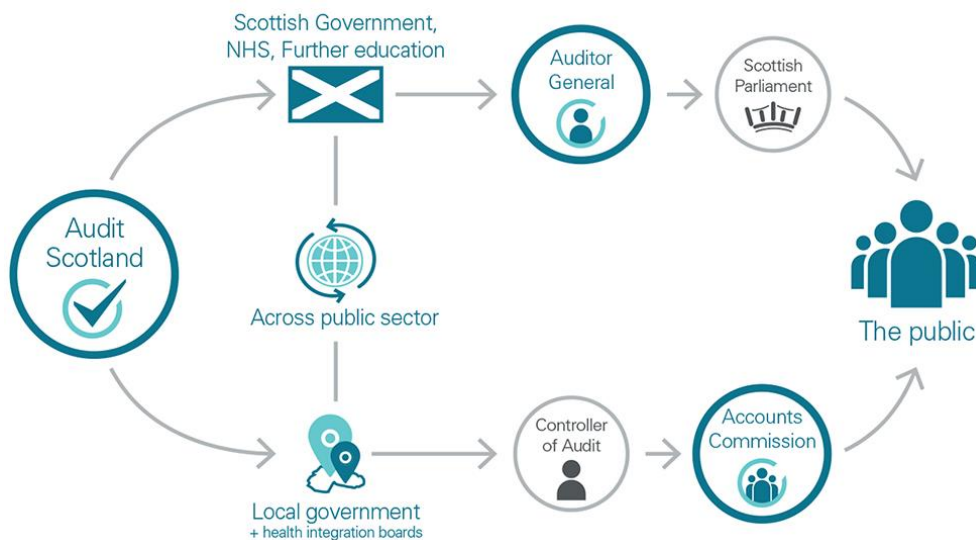
Prepared for Transport Scotland
January 2020



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.

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Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit which is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and [guidance on planning the audit](#). This plan sets out the work necessary to allow us to provide an independent auditor's report on the annual accounts and meet the wider scope requirements of public sector audit.

2. The wider scope of public audit contributes to assessments and conclusions on financial management, financial sustainability, governance and transparency and value for money.


Adding value


3. We aim to add value to Transport Scotland through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we intend to help Transport Scotland promote improved standards of governance, better management and decision making and more effective use of resources.

Audit risks

4. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following significant risks for Transport Scotland. We have categorised these risks into financial statements risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

Exhibit 1 2019/20 Significant audit risks


 Audit Risk	Source of assurance	Planned audit work
Financial statements risks		
<p>1 Risk of material misstatement caused by management override of controls</p> <p>Auditing Standards require that audits are planned to consider the risk of material misstatement caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of management override of controls that results in fraudulent financial statements.</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"> Detailed testing of journal entries. Review of accounting estimates. Focused testing of accruals and prepayments. Evaluation of significant transactions that are outside the normal course of business.
<p>2 Risk of material misstatement caused by fraud in expenditure</p> <p>As most public-sector organisations are net expenditure bodies, the risk of fraud is more likely to occur in</p>	<p>Finance Business Partners work closely throughout the year with colleagues, analysing expenditure patterns and forecasts and aligning to</p>	<ul style="list-style-type: none"> Detailed review of expenditure items across all material account areas and covering the financial year.

	Audit Risk	Source of assurance	Planned audit work
	<p>expenditure. There is a risk that expenditure may be misstated resulting in a material misstatement in the financial statements.</p> <p>Transport Scotland makes large value grant payments to third party organisations, including Network Rail under new funding arrangements which commenced in April 2019. Due to the scale of these payments (some of which occur near the year-end) there is a risk that an incorrect payment could impact significantly on the overall resource position.</p>	<p>the Long Term Financial Plan. The payments are supported by external documents that are checked against Purchase Orders and authorised and approved by independent Directorate Team Members. The Rail Finance Teamwork closely with Finance colleagues and there have been significant discussions via meetings and on-going liaison in preparation for new funding arrangements.</p>	<ul style="list-style-type: none"> • Specific testing of grant payments made to Network Rail. • Sample testing of year-end accrued expenditure balances.

3	Estimation and judgements		
	<p>There is a significant degree of subjectivity in the measurement and valuation of the following material account areas: non-current assets (relating to the trunk road network, assets under construction and consequential adjustments in the revaluation reserve); and current and non-current liabilities (relating to significant accruals, PFI/NPD liabilities and provisions). This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<p>There are robust processes and internal control procedures in place across these areas including; Contractor valuations of work in progress; review of the basket of scheme values; review of Atkins procedures for running RAVS for data validation and checking; engineers' impairment reviews and the VoA land valuations that contribute to the value of the trunk road network.</p>	<ul style="list-style-type: none"> • Interim audit work will review controls regarding the roads asset valuation system (RAAVS). • Review of management experts associated with the trunk roads network. These being Atkins and the Valuation Office Agency (VOA). • Focused testing of postings made between the revaluation reserve and the general fund. • Substantive testing/verifications of year-end accruals (capital and revenue). • Comparing PFI/NPD liabilities to supporting financial models. • Reviewing the land and property acquisition provision in context of the estimate prepared by the VOA.

Wider dimension risks

4	Climate change emergency		
	<p>The 2019/20 Programme for Government identifies transport as a primary area for concern regarding the climate change emergency and the need to reduce Scotland's emissions. Specific targets set out by the Scottish Government include creating the world's first zero emission aviation zone in the Highlands and Islands, and de-carbonising Scotland's railways by</p>	<p>Transport Scotland is aware of the risks surrounding climate change and the targets and commitments in place in relation to Low Carbon Economy and Low Emissions. The Agency has a specific Directorate – Low Carbon Economy Directorate – with teams dedicated to agendas and</p>	<ul style="list-style-type: none"> • Review high-level strategic plans and arrangements in place at Transport Scotland to respond to the climate change emergency. • We will liaise with internal audit regarding work in this area to ensure there is no duplication.

	Audit Risk	Source of assurance	Planned audit work
	<p>2035. Improving air quality and overall climate change action have also been raised as risks in Transport Scotland's Corporate Risk Register. Transport Scotland's ability to deliver on these targets to schedule and budget presents a reputational risk.</p>	<p>detailed reporting in this area. Risks in this area are also discussed and reported at Directorate forums, are highlighted on Directorate Risk Registers and elevated as required onto the Corporate Risk Register.</p>	
5	<p>EU withdrawal</p> <p>In June 2016, the UK voted in favour of leaving the European Union. The outcome of the December 2019 UK general election will likely lead to the approval of the UK government's withdrawal agreement. This will result in the UK withdrawing from the European Union on 31 January 2020 and will have a significant impact upon services which fall under Transport Scotland's remit, including maritime and air travel.</p>	<p>TS continues to have a designated EU exit team on standby, and there is an on-going programme of work, designed to identify the potential challenges and risks of EU withdrawal and plan strategies to mitigate them. This EU resilience resource has expanded over the last year and its make-up will continue to be reviewed in preparation for the revised deadline for leaving the EU on 31 January 2020. Liaison with Scottish Government colleagues continues.</p> <p>In addition, the financial accounting and reporting process, originally set up in 2018-19, to monitor costs and staff associated with this continues to operate well.</p>	<ul style="list-style-type: none"> Review arrangements in place at Transport Scotland ahead of a confirmed timescale for the UK withdrawing from the EU.

Source: Audit Scotland

Reporting arrangements

5. Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs as detailed in [Exhibit 2](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

6. 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 officer(s) to confirm factual accuracy.

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

8. Under the Public Finance and Accountability (Scotland) Act 2000 there is a requirement for the resource account of the Scottish Government to be presented to Parliament within nine months of the financial year – end, i.e. 31 December.

Exhibit 2

2019/20 Audit outputs

Audit Output	Target date	Committee Date
Annual Audit Plan	10 th January 2020	20 th January 2020
Management Report	10 th April 2020	20 th April 2020
Independent Auditor's Report	14 th August 2020	24 th August 2020
Annual Audit Report	14 th August 2020	24 th August 2020

Source: Audit Scotland

Audit fee

9. The proposed audit fee for the 2019/20 audit of Transport Scotland is £181,630 [2018/19: £178,110]. In determining the audit fee, we have taken account of the risk exposure of Transport Scotland, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited annual report and accounts, with a complete working papers package on 8th June 2020.

10. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual report and accounts, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises out with our planned audit activity.

Responsibilities

Audit Committee and Accountable Officer

11. Audited bodies have 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 them to successfully deliver their objectives.

12. The audit of the annual report and accounts does not relieve management or the Audit and Risk Committee, as those charged with governance, of their responsibilities.

Appointed auditor

13. 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.

14. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual report and accounts. We also review and report on the arrangements within the audited body to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

Audit scope and timing

Annual report and accounts

15. The annual report and accounts, which include the financial statements, will be the foundation and source for most of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of Transport Scotland and the associated risks which could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how Transport Scotland will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

16. We will give an opinion on whether the financial statements:

- give a true and fair view in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers of the state of the body's affairs as at 31 March 2020 and of its net operating costs for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2019/20 FReM; and
- have been prepared in accordance with the requirements of the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers.



characteristics



responsibilities



principal activities



risks



governance arrangements

Statutory other information in the annual report and accounts

17. We also review and report on statutory other information published within the annual accounts including the performance report, corporate governance report and the remuneration and staff report. We give an opinion on whether these have been compiled in accordance with the appropriate regulations and frameworks in our independent auditor's report.

18. We also review the content of the annual report for consistency with the financial statements and with our knowledge. We report any uncorrected material misstatements in statutory other information.

Materiality

19. We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any uncorrected misstatements, on the financial statements and in forming our opinions in the independent auditor's report.

20. We calculate materiality at different levels as described below. The calculated materiality values for Transport Scotland are set out in [Exhibit 3](#).

Exhibit 3

Materiality values

Materiality	Amount
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 1% of the net book value of the trunk road network as at 31 March 2019 based on the latest audited accounts for 2018/19.	£205.4 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% of planning materiality.	£102.7 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 has been set at 0.75% of gross expenditure based on the audited accounts for 2018/19 and will be applied to all account areas other than the trunk road network.	£14.8 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. This has been calculated at 1% of planning materiality but capped at £250,000.	£250,000


Source: Audit Scotland

Timetable

21. To support the efficient use of resources it is critical that the annual report and accounts timetable is agreed with us to produce the unaudited accounts. We have included an agreed timetable at [Exhibit 4](#).

Exhibit 4

Annual report and accounts timetable

 Key stage	 Date
Latest submission date of unaudited annual report and accounts with complete working papers package	8 th June 2020
Latest date for signing consolidation schedule	16 th July 2020
Latest date for final clearance meeting with Director – Finance and Corporate Services	21 st July 2020
Issue of Letter of Representation and proposed independent auditor's report	10 th August 2020
Agreement of audited unsigned annual report and accounts	10 th August 2020
Issue of Annual Audit Report to those charged with governance	10 th August 2020
Independent auditor's report signed	31 st August 2020

Internal audit

22. Internal audit is provided by the Scottish Government Internal Audit Directorate (SGIAD). An annual assessment of SGIAD is carried out by colleagues as part of the audit of the Scottish Government. We will liaise with the Scottish Government external audit team to confirm that SGIAD operates in accordance with Public Sector Internal Audit Standards (PSIAS).

23. We will report any significant findings to management on a timely basis.

Using the work of internal audit

24. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible to avoid duplication. We plan to consider the findings of the work of internal audit as part of our planning process to minimise duplication of effort and to ensure the total resource is used efficiently or effectively.

25. From our initial review of internal audit plans we plan to consider internal audit work in the following areas:

- Grant Funding Arrangements
- Network Rail Governance Arrangements
- Contract Monitoring of 5G Operating Company Contracts
- Response to Climate Change Emergency Declaration

Audit dimensions

26. Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 5](#).

Exhibit 5 Audit dimensions



Source: Code of Audit Practice

Financial sustainability

27. As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years) sustainability. We will consider:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps
- whether there are arrangements in place to demonstrate the affordability and effectiveness of funding and investment decisions.

Financial management

28. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. We will consider:

- whether arrangements are in place to ensure systems of internal control are operating effectively
- the effectiveness of budgetary control system in communicating accurate and timely financial performance can be demonstrated
- how Transport Scotland has assured itself that its financial capacity and skills are appropriate
- whether there are appropriate and effective arrangements in place for the prevention and detection of fraud and corruption
- Whether the arrangements for the prevention and detection of fraud and corruption in the procurement function are effective and appropriate. This is in context of the [‘Red Flags in Procurement’](#) document produced by Audit Scotland in October 2019.

Governance and transparency

29. 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. We will consider:

- whether Transport Scotland can demonstrate that the governance arrangements in place are appropriate and operating effectively.
- whether there is effective scrutiny, challenge and transparency on the decision-making and finance and performance reports.
- the quality and timeliness of financial and performance reporting.

Value for money

30. Value for money refers to using resources effectively and continually improving services. As per previous years, we use a long-term audit plan to consider Transport Scotland’s arrangements focusing on three areas:

- Governance – whether Transport Scotland’s governance and management arrangements are appropriate and contribute to the achievement of value for money.
- Operational programmes – whether Transport Scotland is developing programmes which are focused on delivering the strategies agreed by Scottish Ministers and aim to make best use of available resources.
- Contract performance – whether Transport Scotland is managing and monitoring contracts effectively to ensure that programme objectives are met and value for money achieved.

31. Each review may be linked to more than one of these areas. An updated plan of the wider dimension work scheduled over the remaining two years of the audit appointment is shown in [Exhibit 6](#). Further detail of each of the planned reviews is set out below. The plan is reviewed on an annual basis with the potential for planned work to be rescheduled and new reviews added as audit risks emerge.

Exhibit 6 Indicative long-term plan

Audit Year	Planned Work	Governance	Operational Programmes	Contract Performance
2019/20	Glasgow Prestwick Airport	✓		
	Forth Replacement Crossing impact report	✓		
	Transport Scotland response to the climate change emergency		✓	
2020/21	Caledonian Sleeper follow-up			✓

Source: Audit Scotland

Governance

Glasgow Prestwick Airport

32. The Scottish Government purchased Glasgow Prestwick Airport (GPA) for a nominal price of £1 in November 2013 to protect jobs and safeguard what it considered to be a strategic infrastructure asset. The [Audit Scotland report](#) on the purchase from 2015 concluded that the eventual return will depend on future developments, which could affect the airport's sale price, passenger numbers and other assumptions.

33. In June 2019, the Scottish Government announced that the sale of GPA was being progressed to test market interest in the undertaking, in keeping with its long-term objective that the airport should be returned to the private sector. The 2018/19 annual audit report identified that no firm date had been set to complete the sale, but that Transport Scotland considered sale conclusion by the end of the 2019/20 financial year may be achievable.

34. In December 2019 the Cabinet Secretary for Transport, Infrastructure and Connectivity (in a letter to the Convenor of the Rural Economy and Connectivity Committee) confirmed the approval of a Preferred Bidder (based on the recommendation from TS Prestwick HoldCo). Transport Scotland has identified a risk in its corporate risk register regarding the potential failure to deliver continued ownership, investment and operation of the airport on a suitably commercial basis, in advance of transfer to private ownership.

35. During 2019/20 we will obtain and review the detail regarding any sale of GPA and consider this in context of the value of loans extended to the holding company.

Forth Replacement Crossing

36. 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.

37. Transport Scotland has a plan for evaluating progress towards achieving the project's objectives and carried 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. We will perform an impact assessment looking at how Transport Scotland has implemented our recommendations and will report our findings in 2019/20.

Ferry Services

38. The Auditor General for Scotland published her performance audit on Transport Scotland's ferry services in October 2017. The report included recommendations for Transport Scotland concerning the development of a long-term strategy for its network of subsidised ferries and improvements in its approach to procuring ferry services.

39. Progress against these recommendations was assessed and an impact report was published in September 2019. This found that many of the actions being taken in response to our recommendations are ongoing or long-term in nature and will take time to demonstrate impact. It is important that Transport Scotland keeps the impact of the actions they are taking under review.

40. In addition, two further issues impact on ferry services and are discussed below. We will consider progress of both issues during 2019/20.

- Transport Scotland provides loans to Clyde Maritime Assets Limited (CMAL) to procure new vessels. CMAL is currently contracted to Ferguson Marine Engineering Limited to construct two vessels for a combined cost of £97 million. Following the shipyard experiencing financial difficulties, it has been nationalised. A report to the Scottish Government in December 2019 estimates further costs of £95 million to complete the construction of the two vessels. The report also identifies costs associated with remedial work, the purchase of new equipment and a performance penalty which results in total projected costs of £110 million.
- Transport Scotland currently subsidises ferry routes through separate contracts with two ferry operators – CalMac Ferries Limited (CalMac) and Serco. In 2019, Transport Scotland extended Serco's contract for running the Norther Isles Ferry Service contract for a further six years. However, CalMac (which is fully owned by Scottish Ministers and submitted a rival bid for the contract) has challenged this decision, stating that its bid was cheaper. CalMac currently operates the Clyde and Hebrides Ferry Services contract.

Operational Programmes

Climate change emergency

41. The Government's Programme for Scotland 2019/20 sets out four broad areas for focus over the next year, including 'Ending Scotland's contribution to climate change'. This priority covers Scotland's private, public and third sectors, but highlights a specific focus on transport as Scotland's largest greenhouse gas emitting sector.

42. The programme establishes targets and commitments across all modes of transport, in order to achieve the overall aim of net zero emissions by 2045. These include decarbonising passenger rail services by 2035 and flights within Scotland by 2040 as well as investing £500 million to improve bus services. Low emission zones are being introduced into Scotland's main towns and cities and a further £17 million of zero interest loans will be available to support the purchase of ultra-low emission vehicles.

43. As the national transport agency, Transport Scotland will play a key role in delivering these commitments which presents a reputational risk. Transport

Scotland has recognised risks concerning climate change and Programme for Government Commitments on air quality and low emission zones in its corporate risk register. External audit work in this area will be set in context of the upcoming review by internal audit to avoid duplication. We have identified a risk in relation to the climate change emergency in [Exhibit 1](#).

Contract Performance

Rail services in Scotland

44. All passenger rail services operating wholly in Scotland, i.e. not involving cross-border activity, are incorporated within the ScotRail franchise. This franchise is funded by Transport Scotland. Since April 2015 this has been provided by Abellio but in December 2019 the Cabinet Secretary for Transport, Infrastructure and Connectivity announced that this will come to an end in March 2022 following the rebasing process.

45. Our 2018/19 annual audit report found evidence that Transport Scotland continued to use the levers available to it through the franchise agreement to bring about improved performance. It also advised that Transport Scotland should continue to review its processes and skills to ensure it is best placed to continue to effectively manage the franchise. We will continue to monitor the performance of the franchise and, more specifically, Transport Scotland's role in managing Abellio ScotRail. We will also monitor developments regarding a replacement franchise provider.

46. Network Rail is responsible for track maintenance and investment in Scotland. Funding is also provided by Transport Scotland, although the mechanism has changed since April 2019 (with the new control period). In the 2018/19 annual audit report we identified that many rail enhancements were delivered in the previous control period. However, the failure to deliver some aspects meant that some objectives were not achieved, for instance to reduce journey times.

47. We also reported that Transport Scotland has developed a range of processes and mechanisms to manage Network Rail in the new control period. This included the new Team Scotland governance structure which brings together all relevant parties in the rail industry to ensure integration between timetable, rolling stock and infrastructure. The report concluded that these arrangements appeared reasonable but could only be properly assessed after a period of operation. We will consider these arrangements in 2019/20, in context of the recent internal audit report in this area and the outcome from the UK rail review led by Keith Williams.

Caledonian sleeper follow-up

48. In March 2016, Audit Scotland published a report on the Caledonian Sleeper franchise. The report highlighted that cumulative losses are anticipated over the first eight years of the franchise. In 2015/16 we reviewed developments with the Caledonian Sleeper franchise, including a review of the bid evaluation process. This was reported in our 2015/16 annual audit report where it was concluded that the assessment of the viability of the bids was reasonable and reflected the bid evaluation methodology set out in the Invitation to Tender.

49. An updated Caledonian Sleeper Business Plan was produced in 2016/17 which provided revised financial forecasts to reflect key assumptions. The update confirmed there was no current improvement to the financial forecasts. New rolling has now entered service on both Highland and Lowland routes later than planned, but the delay has presented a further challenge to the franchise. We will continue to monitor the performance of the Caledonian Sleeper contract before considering whether any specific audit work is required.

A9 Dualling Programme

50. The A9 dualling programme represents a significant investment in Scotland's trunk road network with a projected total cost of £3 billion. The programme is expected to be completed in 2025. The programme is currently being considered

as part of the (Strategic Transport Projects Review), which is being carried out at the same time as a review of the National Transport Strategy (NTS). The STPR will set out future major investment priorities for Scotland.

51. The previous iteration of our long-term audit plan included reference to a performance audit of the A9 Dualling Programme being conducted in 2019/20. Given that Transport Scotland is now reviewing how the programme might be progressed, we have agreed that the proposed timing of the performance audit should be reconsidered. We will monitor developments during 2019/20 with a view to deciding whether future audit work is warranted in 2020/21.

Other follow-up work

EU withdrawal

52. In June 2016, the UK voted in favour of leaving the European Union. The outcome of the December 2019 UK general election will likely lead to the approval of the UK government's withdrawal agreement. This will result in the UK withdrawing from the European Union on 31 January 2020 and will have a significant impact upon services which fall under Transport Scotland's remit, including maritime and air travel.

53. In our 2018/19 annual audit report we highlighted that Transport Scotland had taken a range of actions to prepare for EU withdrawal. This included weekly sessions with the Scottish Government Response Room (SGoRR), ongoing discussions with the Department for Transport and the establishment of a staff rota around the March 29 deadline to co-ordinate a response. These arrangements are currently being reviewed in preparation for the revised deadline for leaving the EU on 31 January 2020. We have identified a risk in relation to EU withdrawal in [Exhibit 1](#).

Roads maintenance

54. 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. This identified 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.

55. The Scottish Parliament's Rural Economy and Connectivity Committee wrote to the Cabinet Secretary for Transport, Infrastructure and Connectivity in November 2019 stating its concern that there is an estimated £1.2 billion backlog for maintenance of trunk roads. The Committee recommended that the NTS should give an enhanced profile to road maintenance and that the Scottish Government should include an appropriate National Transport Improvement Project focusing on roads maintenance in the revised Strategic Transport Projects Review 2.

56. Transport Scotland has identified a risk in its corporate risk register regards maintaining the availability of roads despite a backlog of repairs and unpredicted asset failures. No detailed performance audit work is currently planned on roads maintenance, but we shall continue to monitor the activities of the Strategic Action Group and the Roads Collaboration Programme in taking this area forward.

HIAL air traffic management system

57. HIAL (Highlands and Islands Airports Ltd) is a public body which manages and operates 11 airports in the highlands and islands and Dundee, seven of which currently have air traffic control towers. Following the development of its Air Traffic Management 2030 Strategy in 2018, the HIAL board confirmed its decision to proceed with a Remote Digital air traffic control centre in July 2019.

58. As we identified in our 2018/19 annual audit report, a project manager has been recruited to take forward the development of the Remote Tower project, which Transport Scotland will largely fund. This is likely to be a long-term project of up to

10 years as some of the technology, such as enhanced broadband services to provide communication links between the Remote Tower and participating airports, is not yet in place. We will continue to monitor developments going forward.

Best Value

59. The Accountable Officer of Transport Scotland has a duty to ensure arrangements are in place to secure best value. We will review and report on these arrangements.

Independence and objectivity

60. Auditors appointed by the Accounts Commission or Auditor General 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. 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 Director of Audit Services, who serves as Audit Scotland’s Ethics Partner.

61. The engagement lead (i.e. appointed auditor) for Transport Scotland is Mark Taylor, Audit Director. Auditing and ethical standards require the appointed auditor (Mark Taylor) 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.

Quality control

62. International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor’s report or opinion is appropriate in the circumstances.

63. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice (and supporting 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 Scotland (ICAS) have been commissioned to carry out external quality reviews.

64. 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 engagement lead.

Transport Scotland

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