

Transport Scotland

Management report 2019/20



 AUDIT SCOTLAND

Prepared for Transport Scotland

April 2020

Audit findings

Introduction

1. This report contains a summary of the key findings identified during our interim audit work carried out as part of the annual audit of Transport Scotland's 2019/20 accounts. The main focus of our interim testing was the verification to primary documents, or other underlying records, of expenditure for material account areas.
2. These checks involved payments to public transport providers in terms of rail, ferries and buses as well as large infrastructure projects in relation to roads and rail covering the first 9 months of 2019/20. Further detail is provided at [Exhibit 1](#). As most of this testing was performed prior to the 2019/20 financial year end, further testing will be performed on transactions from later accounting periods to ensure sufficient audit coverage for the full year is achieved.
3. Our responsibilities under the Code of Audit Practice require us to assess the system of internal control put in place by management. We seek to gain assurance that the audited body:
 - has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements
 - has systems of internal control which provide an adequate means of preventing and detecting error, fraud or corruption
 - complies with established policies, procedures, laws and regulations.
4. Given the payment profile of concessionary travel scheme expenditure (i.e. large volume of relatively small individual payments) it is not practical to verify a significant proportion of total expenditure through substantive testing of payments. Therefore, and as in previous years, the approach taken in this area involved confirming the operation of the high-level key controls over the scheme, supplemented by verification testing of interim payments.
5. We also carried out interim testing of the roads valuation system. This involved checking the controls regarding roads data which is used in the valuation model and assessing the appropriateness of costing rates and indexation/uplifts, building upon the results of our testing last year.
6. The contents of this report have been discussed with relevant officers to confirm factual accuracy. The co-operation and assistance we received during the course of our audit is gratefully acknowledged.

COVID-19

7. The audit work contained in this report largely pre-dates the COVID-19 global pandemic. Our audit approach may require further revision once we are clearer about any resulting changes that may be made to the accounting and auditing frameworks that apply to the audit of the 2019/20 financial year.

Conclusion

8. An outline of the levels of expenditure tested is set out in [Exhibit 1](#). Results of our expenditure testing were satisfactory, with no issues identified. We also followed up a point from last year's annual audit report concerning supporting

records for grant payments used to subsidise an operating deficit. Our testing found no such issues in 2019/20. In addition, no control weaknesses were identified from our review of controls over the concessionary travel scheme.

9. Our testing of the roads valuation system confirmed that appropriate controls were in place to ensure that Transport Scotland provides accurate information on the roads network for the purpose of the valuation calculation. We followed up our recommendation from last year and confirmed that indices and uplifts are reasonable.

Interim testing

10. To identify account areas for interim testing we extracted data from Transport Scotland's ledger and selected those areas which are likely to be of material value to the 2019/20 financial statements. This was based on the level of performance materiality which we identified in our annual audit plan.

11. Our interim expenditure testing focused on material areas of programme (revenue) expenditure. In addition, we also selected a sample of capital expenditure payments. Our interim testing involves transactions from the following directorates:

- Aviation, maritime, freight and canals – including payments to ferry providers and Highlands and Islands Airports Ltd
- Rail – including payments to rail franchise holders and Network Rail
- Bus, accessibility and active travel – including concessionary travel payments, grants to bus operators and payments to regional transport partnerships
- Roads – including payments to roads operating companies and PFI/PPP/NPD unitary charges.
- Major projects – comprising of mainly capital land and works with some payments in respect of the Forth Replacement Crossing.

12. The validity, value and timing of the items were then verified to primary documents (i.e. invoice, requisition form, interim payment certificate, contract, grant award letter, grant claim, or other relevant documents). We also applied our wider knowledge of Transport Scotland when verifying transactions. This knowledge is obtained from various sources such as senior management team papers and media articles. The only expenditure area where this approach was not adopted was concessionary travel scheme expenditure. The approach adopted for this area is explained below.

Concessionary travel scheme

13. Operators participating in the concessionary travel scheme are reimbursed for eligible journeys at 56.5 per cent of the applicable fare (i.e. 56.5p for each £1 of fare). The operators receive reimbursement through payments covering each of the 13 four-weekly payment periods during the year.

14. For each payment period, Transport Scotland makes an interim payment to most operators (generally 90 per cent of the estimated reimbursement value for that period) in advance on the first day of the period. The balance is paid up to three months after the period end, once all validation checks have been completed on the actual claim data for that period.

15. Expenditure under the concessionary fares scheme is capped at £213.7 million for 2019/20. Transport Scotland anticipates it will need to apply the cap in 2019/20. As a result, operators will receive a reduced period 13 payment this year.

16. Given the payment profile of concessionary travel scheme expenditure (i.e. a large volume of low value individual payments) it was not practical for us to verify a significant proportion of total expenditure through substantive testing of payments. The testing approach employed in this area combined verification testing of interim payments, with testing of high-level key controls operating over the scheme in 2019/20 as detailed below:

- confirmation that all new operators admitted to the scheme during 2019/20, and a sample of existing operators, held a valid license or equivalent, as issued by the Traffic Commissioner for Scotland;
- review of the validity checks performed on a sample of interim operator payments during 2019/20;
- verification of a sample of payments made to operators during 2019/20 to confirm that they were valid and correct.

Audit coverage

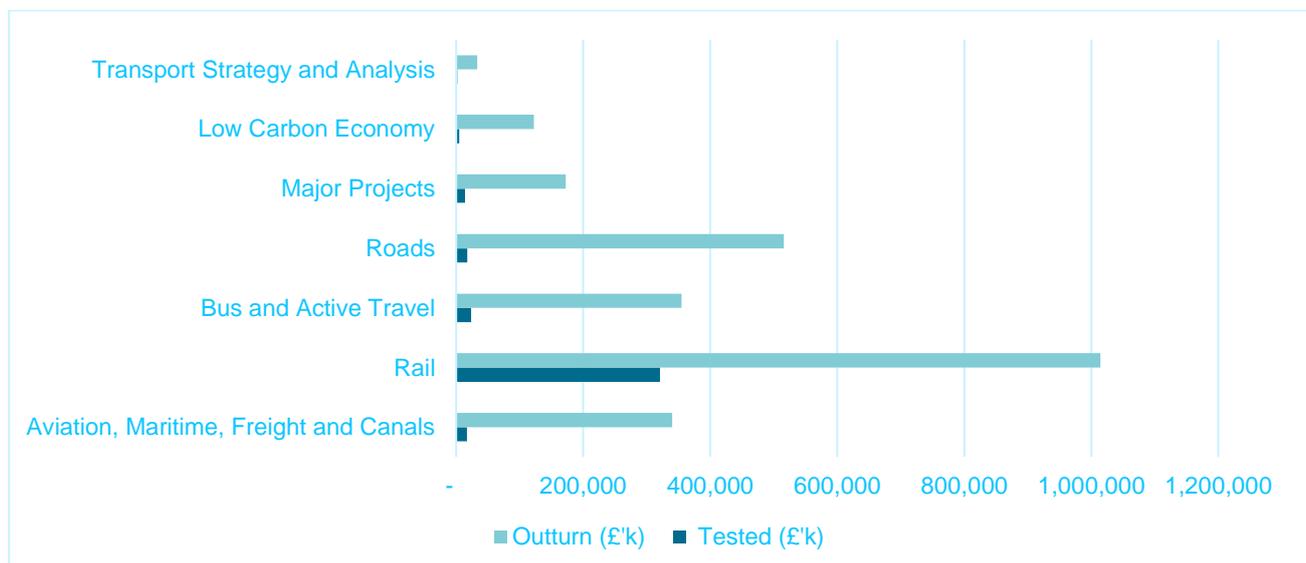
17. In January 2020, Transport Scotland's total expenditure for 2019/20 was forecast to be £2.5 billion. When we have completed our pre year-end testing we will have verified a total of 109 expenditure payments totalling £887 million (33 per cent of forecast expenditure for the year).

18. At the time of writing, 59 payments comprising £399 million of expenditure have been verified, representing 16 per cent of forecast expenditure for the year. This is a lower proportion of spend than reported in prior year management reports. This is due to the difficulties caused by the current Covid-19 health emergency. We again thank Transport Scotland staff in assisting us during this time.

19. [Exhibit 1](#) sets out the value of items tested to date compared to the current year forecast outturn. It should be noted that this only represents transactions where testing is complete. There are several areas where testing is ongoing and nearing completion. These areas include rail infrastructure expenditure and payments to ferry operators which are high value items. Progress on these areas can be provided by a verbal update to the forthcoming Audit and Risk Committee, as required.

Exhibit 1

Expenditure verification against forecast outturn by material expenditure area



Follow-up of prior-year issue

20. In last year's annual audit report, we identified an issue with a sample of grant payments to third parties. We found that one such body had not fully complied with the conditions of grant. The grant award letter had stipulated that all grant payments (used to subsidise an operating deficit) should be supported by a cash flow analysis. Our review found two such payments which had not been supported by a cash flow analysis, both dating from early periods in the financial year. We have revisited this area in 2019/20 and found no similar issues recurring. We therefore consider this audit recommendation to be completed.

Roads asset valuation

21. The Road Authorities Asset Valuation System (RAAVS) is used to support the annual valuation of the trunk road network. RAAVS was developed in 1998 and is used across the UK. An independent firm, Atkins, operates RAAVS with Transport Scotland providing source data about the network which is used to derive a valuation.

22. We met with officers to discuss the controls and processes regarding the roads asset valuation system (RAAVS) and assumptions underpinning the calculations. This included reviewing the level of indexation applied through application of the Baxter Model and a series of uplifts covering: land compensation fees; legal and agent fees; planning and supervision; and VAT.

23. We found that there were adequate controls in place regarding records held for the roads network. Transport Scotland holds databases with details of roads, structures and communications equipment. These databases are primarily used to maintain the network and by necessity are sufficiently up to date. We reviewed the processes for updating the roads and structures databases and concluded that these were appropriate.

24. Valuation of the trunk road network is a complicated exercise, involving the application of the Baxter model to account for inflation and four uplifts as set out in paragraph 22. We completed a detailed walkthrough of one road asset, tracking it from the original databases provided to Atkins to the final report provided by Atkins for the final accounts.

25. We manually re-performed changes to the unit price using the Baxter model and re-performed the depreciation calculation applied to the asset. We can confirm the manual exercise calculations were in line with the reported figures provided by Atkins. As the final valuation for 2019/20 is not yet available, we based our work on 2018/19 reports. We will update this work when the final reports are available.

26. Last year we identified that the weightings applied by Transport Scotland to the Baxter index were derived when RAAVS was introduced in 1998. Similarly, some uplifts also dated from its inception, specifically professional costs relating to planning and supervision. We raised a resultant risk that the value of the roads network as calculated by RAAVS may differ from its fair value, given the lack of a review for some time. The appropriate accounting standard (IAS 16) requires that the carrying value of an asset should not be materially different from its fair value, which relates to the price that would be paid at the current date.

27. In response, Transport Scotland requested a review of the weightings applied to the Baxter Model. Atkins commissioned an independent firm (Faithful Gould) to conduct the review, with a report issued in February 2020. This found that the weightings applied in Scotland are consistent with Northern Ireland. As that is the only equivalent agency which uses the Baxter Index, the report found that there is no commercial data available to update or challenge the weightings used. Consequently, the report concluded that the weightings currently applied are appropriate.

28. Regarding the planning and supervision uplift, Transport Scotland reported that there is a lack of data available to update these. Transport Scotland's view is also supported by Atkins. As the roads are valued on a replacement cost basis, all data must be taken from green-field projects, i.e. completely new roads. As the trunk network in Scotland is relatively mature, there have been very few of these projects in recent years. Those that have occurred recently tend to be funded by private finance meaning cost data is not available.

29. We recognise the views presented by Transport Scotland regarding the Baxter index and planning and supervision uplift and conclude that these adjustments remain reasonable. However, we recommend that arrangements are put in place to capture cost data for any upcoming green-field road projects to allow for a future review of the current rates. Elements of the planned upgrades to the A9 and A96 may fall into the category of a green-field road.

30. All our outputs and any matters of public interest will be published on our website: www.audit-scotland.gov.uk.

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