

# Transport Scotland

Annual Audit Plan 2020/21



 AUDIT SCOTLAND

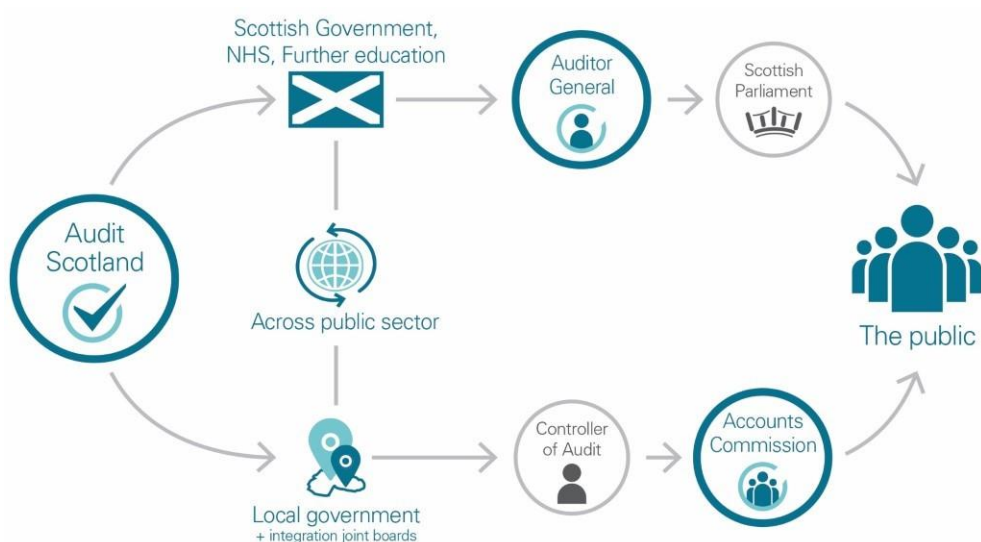
Prepared for by Transport Scotland

March 2021

## 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

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**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 report and 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.

**3.** The public health crisis caused by the coronavirus disease 2019 (Covid-19) pandemic has had a profound effect on every aspect of Scottish society. Public services have been drastically affected, requiring immediate changes to the way they are provided. The impact on public finances has been unprecedented, which has necessitated both the Scottish and UK governments providing substantial additional funding for public services as well as support for individuals, businesses and the economy. It is likely that further financial measures will be needed and that the effects will be felt well into the future.

**4.** Public audit has an important contribution to the recovery and renewal of public services. The Auditor General, the Accounts Commission and Audit Scotland are responding to the risks to public services and finances from Covid-19 across the full range of audit work including annual audits and the programme of performance audits. The well-being of audit teams and the delivery of high-quality audits remain paramount. Maintaining a pragmatic and flexible approach will enable change at short notice as new issues emerge, or current risks change in significance. Where this impacts on annual audits, an addendum to this annual audit plan may be necessary.

## Adding value


**5.** 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 the Transport Scotland promote improved standards of governance, better management and decision making and more effective use of resources.


## Audit risks

**6.** Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following significant risk 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


### 2020/21 Significant audit risks

 Audit Risk	Source of assurance	Planned audit work
<b>Financial statements risks</b>		
<p><b>1 Risk of material misstatement due to fraud caused by the management override of controls</b></p> <p>International Auditing Standards require that audits are planned to consider the risk of material misstatement in the financial statements caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of fraud due to the management override of controls.</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"> <li>• Detailed testing of journal entries.</li> <li>• Review of accounting estimates.</li> <li>• Focused testing of accruals and prepayments.</li> <li>• Evaluation of significant transactions that are outside the normal course of business.</li> </ul>
<p><b>2 Risk of material misstatement caused by fraud in expenditure</b></p> <p>As most public-sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in 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 and contractual payments to third party organisations to operate Scotland's public transport services and to enhance and maintain its infrastructure. Furthermore, during 2020/21 Transport Scotland made additional payments to providers to off-set the significant reduction in passenger income as a result of Covid-19 using amended or new payment processes.</p> <p>There are significant risks due to the changing payment processes introduced this year and the potential for fraudulent claims from providers seeking to return a profit. Also, the scale of payments involved, some of which occur near the year-end, presents a risk that an incorrect payment could impact significantly on the overall resource position.</p>	<p>Finance Business Partners analyse expenditure patterns and forecasts, aligning to the Long-Term Financial Plan. Payments are adequately supported and checked to Purchase Orders and authorised and approved by independent Directorate Team Members.</p> <p>The arrangements for the additional support for public transport include an inspection of actual costs and revenues and comparison against funding provided in order to recover any excess.</p>	<ul style="list-style-type: none"> <li>• Detailed review of expenditure items across all material account areas and covering the financial year.</li> <li>• Specific testing of payments made to off-set the impact of Covid-19.</li> <li>• Sample testing of year-end accrued expenditure balances.</li> </ul>
<p><b>3 Estimation and judgements</b></p> <p>There is a significant degree of subjectivity in the measurement and valuation of the following material account areas:</p> <ul style="list-style-type: none"> <li>• Non-current assets – relating primarily to the trunk road network</li> </ul>	<p>Robust processes and internal control procedures in place across these areas including:</p> <ul style="list-style-type: none"> <li>• Contractor valuations of work in progress.</li> </ul>	<ul style="list-style-type: none"> <li>• Interim audit work will review controls regarding the roads asset valuation system (RAAVS).</li> <li>• Review of management experts associated with the trunk roads network. These being Atkins and the</li> </ul>

	Audit Risk	Source of assurance	Planned audit work
	<p>and associated assets under construction and consequential adjustments in the revaluation reserve. In addition, this also includes adjustments to financial assets in light of accounting requirements concerning credit losses, i.e. impairments.</p> <ul style="list-style-type: none"> <li>• Current and non-current liabilities - relating to significant accruals, PFI/NPD liabilities, and provisions.</li> </ul> <p>This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<ul style="list-style-type: none"> <li>• review of the basket of scheme values.</li> <li>• review of Atkins procedures for running RAAVS for data validation and checking.</li> <li>• engineers' impairment reviews and</li> <li>• the VOA land valuations that contribute to the value of the trunk road network.</li> </ul>	<p>Valuation Office Agency (VOA).</p> <ul style="list-style-type: none"> <li>• Focused testing of postings made between the revaluation reserve and the general fund.</li> <li>• Robust testing of financial assets experiencing credit losses, including any underlying valuations.</li> <li>• Substantive testing/verifications of year-end accruals (capital and revenue).</li> <li>• Comparing PFI/NPD liabilities to supporting financial models.</li> <li>• Reviewing the land and property acquisition provision in context of the estimate prepared by the VOA.</li> </ul>

#### Wider dimension risks

4	<p><b>Impact from Covid-19 - Financial management and sustainability</b></p> <p>The restrictions introduced to manage the Covid-19 pandemic have had a significant impact on public transport, with passenger usage reducing by as much as 75% on some modes. Transport Scotland has historically supported transport providers while assuming a certain level of passenger income. Due to the pandemic, passenger income has reduced below assumed levels in 2020/21.</p> <p>Transport Scotland has obtained additional funding from the Scottish Government to support increased payments to providers. This has resulted in a significant increase in Transport Scotland's budget for 2020/21 by around £670 million compared to the previous year. There are risks around the management of these additional funds (including the potential for fraudulent claims from third-parties) and forecasting future funding requirements beyond 2020/21.</p>	<p>The arrangements for the additional support for public transport include additional specifically contracted resources for the largest areas of bus and rail. This supports the management of the additional funding.</p> <p>Transport Scotland also maintains details of the projected additional resource required in addition to a record of support approved during the year.</p> <p>The Accountable Officer Approval process includes forecast of additional support and is scrutinised by the Cabinet Secretary for Finance in relation to the level of funding identified by UK Government.</p>	<p>We will consider:</p> <ul style="list-style-type: none"> <li>• the extent and nature of Covid-19 funding provided to Transport Scotland and by Transport Scotland to third-party providers.</li> <li>• key financial controls over Covid-19-related funding and expenditure and steps taken to minimise fraud and error.</li> <li>• The assumptions underpinning Transport Scotland's future financial plans.</li> <li>• internal audit's work on Covid-19 response and Covid-19 grants.</li> </ul>
5	<p><b>Impact from Covid-19 – Governance and value for money</b></p> <p>Transport Scotland has seen its budget increase significantly by around £670 million to off-set the</p>	<p>The Accountable Officer Approval process is the main additional strand of governance for the additional support</p>	<p>We will consider:</p> <ul style="list-style-type: none"> <li>• governance and accountability arrangements for distributing Covid-19</li> </ul>

	Audit Risk	Source of assurance	Planned audit work
	<p>impact of Covid-19 on transport providers. It has also had to adapt to homeworking over the course of 2020/21 while administering many new payment types.</p> <p>There are risks around how Transport Scotland maintains good governance through a period of significant challenge (including remote working) and how it assures itself that monies spent represent value for money.</p>	<p>required. This includes a requirement for value for money to be demonstrated that is scrutinised for approval by the Accountable Officer, TIC Cabinet Secretary and Finance Secretary.</p>	<p>funding, including scrutiny by the SMT.</p> <ul style="list-style-type: none"> <li>internal audit's work on business continuity</li> <li>how Transport Scotland assures itself that the additional monies provided to transport providers represents value for money.</li> </ul>

Source: Audit Scotland

7. As set out in ISA(UK) 240, there is a presumed risk of fraud in revenue recognition. There is a risk that income may be misstated resulting in a material misstatement in the financial statements. We have rebutted this presumed risk in 2020/21 because the vast majority of Transport Scotland funding comes from the Scottish Government.

## Reporting arrangements

8. Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs as detailed in [Exhibit 2](#), with indicative target dates for completion (see references to timetable at [paragraph 24](#)). These and any other outputs on matters of public interest will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

9. 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.

10. 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.

11. 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 2020/21 Audit outputs

Audit Output	Target date	Committee Date
Annual Audit Plan	12 March 2021	Provided by correspondence
Management Report	9 April 2021	19 April 2021
Independent Auditor's Report	10 August 2021	16 August 2021
Annual Audit Report	10 August 2021	16 August 2021

Source: Audit Scotland

Note that the target date for delivery of the Annual Audit Plan was originally 26<sup>th</sup> February but this was not achievable due to working arrangements in light of Covid-19 restrictions.

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## Notional audit fee

**12.** The proposed notional audit fee for the 2020/21 audit of Transport Scotland is £186,170 [2019/20: £181,630]. In determining the notional 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 7 June 2021.

**13.** 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

**14.** 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.

**15.** 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

**16.** 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.

**17.** 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

**18.** 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
- assessing the key systems of internal control, and establishing how weaknesses in these systems 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.

**19.** 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 Transport Scotland's affairs as at 31 March 2021 and of its net operating costs for the year then ended;
- have been properly prepared in accordance with IFRSs, as interpreted and adapted by the 2020/21 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

**20.** We also review and report on statutory other information published within the annual report and accounts including the performance report, governance statement 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.

**21.** 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

**22.** 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.

23. 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
<b>Planning materiality</b> – 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 net book value of the trunk roads network for the year ended 31 March 2020 based on the latest audited accounts.	£213.3 million
<b>Performance materiality</b> – 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.	£106.7 million
As Transport Scotland's total assets balance is significantly more than net operating expenditure, we also set a separate performance materiality level for other assets / liabilities and expenditure. Given the additional funding provided to Transport Scotland in 2020/21 in light of the Covid-19 pandemic, this has been set at 0.75% of total forecast expenditure based on a finance report presented to the Audit and Risk Committee in January 2021. This will be applied to all account areas other than the trunk road network.	£26.1 million
<b>Reporting threshold (i.e., clearly trivial)</b> – 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

24. To support the efficient use of resources it is critical that the annual accounts timetable is agreed with us to produce the unaudited accounts. We have included an agreed timetable at [Exhibit 4](#). As per [paragraph 4](#), we will adopt a pragmatic and flexible approach. While our intention is to work to the target dates set out below, these are subject to potential change due to ongoing developments associated with Covid-19.

### Exhibit 4 Annual accounts timetable

 Key stage	 Date
Latest submission date of unaudited annual report and accounts with complete working papers package	7 June 2021
Latest date for final clearance meeting with Director of Finance	By 17 <sup>th</sup> July 2021
Issue of Letter of Representation and proposed independent auditor's report	10 <sup>th</sup> August 2021
Issue of Annual Audit Report to those charged with governance	10 <sup>th</sup> August 2021
Agreement of audited unsigned annual report and accounts	16 <sup>th</sup> August 2021

 Key stage

 Date

Independent auditor's report signed

16<sup>th</sup> August 2021

## Internal audit

**25.** 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).

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

### Using the work of internal audit

**27.** International 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.

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

- Business Continuity
- ScotRail – Contract Management

## Audit dimensions

**29.** 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

**30.** 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

**31.** 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 systems 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.

### Governance and transparency

**32.** 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

**33.** 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.

**34.** 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](#). Note that the current audit appointment was extended by a year until the end of 2021/22 in light of the difficulties caused by the Covid-19 pandemic. Further detail on 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
2020/21	Impact from Covid-19	✓		
	Transport Scotland response to the climate change emergency		✓	
2021/22	Forth Replacement Crossing impact report	✓		
	Caledonian Sleeper follow-up			✓

Source: Audit Scotland

## Governance

### Glasgow Prestwick Airport

**35.** 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. As per our 2019/20 annual audit report, Transport Scotland had provided total borrowing of £43.4 million (with additional accrued interest of £5.1 million) to the holding company (TS Prestwick HoldCo) by 31 March 2020.

**36.** 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 2019/20 Transport Scotland annual report and accounts identified that a company previously selected as preferred bidder, did not wish to complete the purchase of the business at that time.

**37.** While the sales process remains ongoing, there remains a risk in the Transport Scotland corporate risk register concerning the ability to deliver continued ownership, investment and operation of the airport on a suitably commercial basis, in advance of transfer to private ownership. Recently a preferred bidder has been announced by the Cabinet Secretary for Transport, Infrastructure and Connectivity. During 2020/21 we will monitor progress in this area. Should any sale occur prior to the conclusion of our audit, we will consider the accounting implications alongside the wider value for money aspects in context of the loans provided to the holding company.

### Forth Replacement Crossing

**38.** 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.

**39.** 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 consider the value of looking at how Transport Scotland has implemented our recommendations as part of planning for our 2021/22 audit.

## **Ferry Services**

**40.** 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.

**41.** We assessed progress against these recommendations and published an impact report 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.

**42.** In addition, there is an ongoing issue in relation to delays to the construction of two vessels by Ferguson Marine Port Glasgow Ltd (formerly Ferguson Marine Engineering Limited). Transport Scotland provides loans to Caledonian Maritime Assets Limited (CMAL) to procure new vessels. CMAL is currently contracted to the shipyard regarding the two vessels in question, for a combined cost of £97 million.

**43.** Following the shipyard experiencing financial difficulties, it was purchased by Scottish Ministers in 2019. A report to the Scottish Government in December 2019 estimated further costs of £95 million to complete the construction of the two vessels. The report also identified costs associated with remedial work, the purchase of new equipment and a performance penalty which results in total projected costs of £110 million.

**44.** In December 2020, the Scottish Parliament's Rural Economy and Connectivity Committee published a report following its inquiry into the construction and procurement of ferry vessels in Scotland. This raised a series of recommendations for Transport Scotland and the Scottish Government. It also recommends that Audit Scotland should undertake an audit of the financial management of the ferries contract by CMAL and to investigate the role played by Transport Scotland. The report is currently being considered by the Auditor General for Scotland.

## **Operational Programmes**

### **Climate change emergency**

**45.** The current National Transport Strategy confirms the Scottish Government's commitment to a statutory target of net-zero greenhouse gas emissions by 2045. This will have direct implications for Transport Scotland and includes goals to improve air quality and protect public health, to restart work to introduce low emissions zones (LEZs) across our largest cities and to make loans available to support households and business to purchase ultra-low emission vehicles.

**46.** Transport Scotland has recognised reputational and legal risks concerning climate change in its corporate risk register, with the impact from Covid-19 potentially exacerbating the issue. Internal audit carried out a review in 2020 which concluded that Transport Scotland's actions to tackle climate change are adequate but require improvement. The report identified that more needs to be done and at a faster rate if the Scottish Government's targets are to be met.

**47.** External audit work in this area will build upon internal audit's findings and will seek to better understand how Transport Scotland has positioned itself to meet the challenge.

## Contract Performance

### Rail services in Scotland

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

**49.** During 2020/21, we will consider the findings from the internal audit report on contract management of ScotRail before determining any future audit work in this area. As part of our audit of the financial statements, we will also monitor additional payments paid to the franchise holder to off-set the impact of Covid-19 on fare income. In addition, we will consider the implications arising from the office for national statistics (ONS) recent reclassification of those rail franchise operations which received emergency Covid-19 funding as being part of the public sector for statistical purposes.

**50.** 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 rail control period). We previously 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.

**51.** In 2019/20 we concluded that grant funding arrangements between Transport Scotland and Network Rail were satisfactory and that conditions of grant were being adhered to. We will continue to monitor the application of these arrangements in 2020/21.

### Caledonian sleeper follow-up

**52.** 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.

**53.** 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 stock has now entered service on both Highland and Lowland routes, but the franchise continues to run at a loss. We will continue to monitor the performance of the Caledonian Sleeper contract before considering whether any specific audit work is required.

**54.** Similar to the ScotRail franchise, the Caledonian Sleeper franchise has also received emergency Covid-19 funding. As such it also falls within the ONS reclassification determination (as referred to in [paragraph 49](#)). We will test emergency payments and consider the impact of the ONS reclassification as part of our audit in 2020/21.

### Trunk roads developments

**55.** The Scottish Government published its latest infrastructure investment plan (IIP) in February 2021 covering the period from 2021/22 to 2025/26. This includes delivering phased dualling of the A9 Perth to Inverness road although meeting the original 2025 timescale for full completion will be a significant challenge. The Scottish Government also recently published its capital spending review 2021/22 to

2025/26. This confirms that the mutual investment model (MIM) should be applied to schemes delivered by the Scottish Government itself, its agencies or related bodies. The Scottish Government has yet to decide how the remaining sections of the A9 will be funded.

**56.** The IIP also refers to a new Scottish Government-wide common hierarchy which emphasises enhancing and maintaining existing assets ahead of new build. The recently published strategic transport projects review (STPR2) applies this hierarchy to future projects by considering how to enhance and repurpose existing assets before building new infrastructure. To support this, the Scottish Government proposes to double investment in maintenance over the next five years to address backlogs. We will monitor developments in this area.

### Other follow-up work

#### EU withdrawal

**57.** The UK formally withdrew from the European Union (EU) on 31 January 2020 with the transition period coming to an end on 31 December 2020. The trade and co-operation treaty between the EU and United Kingdom was signed on 24 December 2020 and came into effect on 1 January 2021. It has had a significant impact upon services which fall under Transport Scotland's remit, including maritime and air travel. Further changes will be introduced during 2021. We will monitor developments in this area in 2020/21.

#### HIAL air traffic management system

**58.** 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.

**59.** 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. There is a high level of interest in this area as witnessed by the Scottish Government's public petitions committee which recently agreed to invite representatives of HIAL and Transport Scotland to give evidence at a future meeting. We will continue to monitor developments going forward.

#### Best Value

**60.** The Accountable Officer of Transport Scotland has a duty to ensure arrangements are in place to secure best value. We will consider these arrangements.

### Independence and objectivity

**61.** 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.

**62.** 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

**63.** International Standard on Quality Control 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.

**64.** 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.

**65.** 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

## Annual Audit Plan 2020/21

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)

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