

# Transport Scotland

Annual Audit Plan 2021/22



Prepared for Transport Scotland

March 2022

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# Contents

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Introduction	3
Financial statements audit planning	5
Audit dimensions and Best Value	11
Reporting arrangements, timetable, and audit fee	18
Other matters	21

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# Introduction

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## Summary of planned audit work

1. This document summarises the work plan for our 2021/22 external audit of Transport Scotland. The main elements of our work include:

- evaluation of the key controls within the main accounting systems
- an audit of, and provision of an Independent Auditor's Report
- an audit opinion on regularity and other statutory information published within the annual report and accounts including the Performance Report, the Governance Statement and the Remuneration and Staff Report
- consideration of arrangements in relation to the audit dimensions: financial management, financial sustainability, governance and transparency and value for money that frame the wider scope of public sector audit
- consideration of Best Value arrangements
- review Transport Scotland's arrangements for preparing and publishing statutory performance information.

## Impact of Covid-19

2. The coronavirus disease (Covid-19) pandemic has had a significant impact on public services and public finances, and the effects will be felt well into the future.

3. The Auditor General for Scotland, the Accounts Commission and Audit Scotland continue to assess the risks to public services and finances from Covid-19 across the full range of our 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. Changes in our approach may be necessary and where this impacts on annual audits, revisions to this Annual Audit Plan may be required.

## Adding value

4. 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 will help Transport Scotland promote improved standards of governance, better management and decision making and more effective use of resources. Additionally, we attend meetings of the Transport Scotland Audit and Risk Committee (TSARC) and actively participate in discussions.

## Respective responsibilities of the auditor and Transport Scotland

5. The [Code of Audit Practice \(2016\)](#) sets out in detail the respective responsibilities of the auditor and Transport Scotland. Key responsibilities are summarised below.

### Auditor responsibilities

6. 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.

7. 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.

### Transport Scotland responsibilities

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

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

### Managing the transition to 2022/23 audits

10. Audit appointments are usually for five years but were extended to six years due to Covid-19. 2021/22 is the final year of the current appointment and we will work closely with our successors to ensure a well-managed transition.

# Financial statements audit planning

## Materiality

**11.** Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. We are required to plan our audit to determine with reasonable confidence whether the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

### Materiality levels for the 2021/22 audit

**12.** We assess materiality at different levels as described in [Exhibit 1](#).

## Exhibit 1 2021/22 Materiality levels for Transport Scotland

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 2022 based on the latest audited financial statements for 2020/21.	£213.2million
<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 assessed performance materiality at 50% of planning materiality.	£106.6million
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.	£23 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.	£250,000
This has been calculated at 1% of planning materiality but capped at £250,000	

Source: Audit Scotland

## Significant risks of material misstatement to the financial statements

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

**14.** Based on our risk assessment process, we identified the following significant risks of material misstatement to the financial statements. These are risks which have the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risk, the sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurance over the risk.

### Exhibit 2

#### 2021/22 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p><b>1.</b> Risk of material misstatement due to fraud caused by the management override of controls</p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</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>• Assess the design and implementation of controls over journal entry processing.</li> <li>• Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.</li> <li>• Test journals at the year-end and post-closing entries and focus on significant risk areas.</li> <li>• Consider the need to test journal entries and other adjustments during the period.</li> <li>• Evaluate significant transactions outside the normal course of business.</li> <li>• Assess the adequacy of controls in place for identifying and disclosing related party relationship and transactions in the financial statements.</li> <li>• We will assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.</li> </ul>

Significant risk of material misstatement	Sources of assurance	Planned audit response
		<ul style="list-style-type: none"> <li>• Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year.</li> <li>• Focussed testing of accounting accruals and prepayments.</li> </ul>
<p><b>2. Estimation in the valuation of Trunk Roads.</b></p> <p>Transport Scotland non-current assets (relating to the trunk road network, assets under construction and consequential adjustments in the revaluation reserve) are material account areas.</p> <p>There is a significant degree of subjectivity in the valuation of the trunk road network. Valuations are based on specialist knowledge and management assumptions. Any changes to these can result in material changes in valuations.</p>	<ul style="list-style-type: none"> <li>• VOA land valuations that contribute to the value of the trunk road network</li> <li>• Review of Atkins processing of RAAVS, data validation and checking.</li> <li>• Contractor valuations of work in progress, and review of the basket of scheme values.</li> <li>• Review of changes to databases of road pavement, structures and communications and related RAAVS entries.</li> <li>• Review of RAAVS reconciliation and associated accounting entries.</li> </ul>	<ul style="list-style-type: none"> <li>• Evaluate the competence, capabilities, and objectivity of the professional valuers. These being Atkins and the Valuation Office Agency (VOA).</li> <li>• Interim audit work will review controls regarding the roads asset valuation system (RAAVS)</li> <li>• Evaluate the impact from the final Baxter quarter index changes to confirm whether it is material.</li> </ul>
<p><b>3. Presumed risks of fraud over expenditure recognition under ISA 240 and PN 10.</b></p> <ul style="list-style-type: none"> <li>• 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.</li> </ul> <p>During 2021/22 Transport Scotland continues to make additional payments to public transport providers to</p>	<ul style="list-style-type: none"> <li>• Internal Audit Report on Fraud and potential for fraud within CSG-R Bus Scheme.</li> <li>• Finance Business Partners scrutiny and reporting of expenditure and forecasts.</li> <li>• Payment approval process and supporting documentation.</li> <li>• Independent contractor review of payments and subsequent reconciliation.</li> </ul>	<ul style="list-style-type: none"> <li>• All bus operators complete a financial return using a standard template and this forms the base position for each 12-weekly reconciliation. We will review the process.</li> <li>• We will substantively test a sample of Covid-19 restart payments.</li> </ul>

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p>off-set the significant reduction in passenger income because of Covid-19.</p> <p>Transport Scotland has set up the Covid-19 restart grant scheme for bus operators. This scheme aims to cover the bus operators' costs, however there is an inherent risk that some companies may over-claim by submitting fraudulent returns. Due to the significant number of bus operators and value of transactions, this is a material risk.</p>		<ul style="list-style-type: none"> <li>• We will review the internal audit report on fraud arrangements in this area.</li> </ul>

Source: Audit Scotland

**15.** As set out in International Standard on Auditing (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statement*, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements.

**16.** We have rebutted this risk for Transport Scotland because as an agency of Scottish Government (SG), revenue funding provided is reported within the SG budget. Income from external sources consists mainly of interest from loans issued by Transport Scotland which are not material.

**17.** In [Exhibit 2](#) we highlight a significant risk concerning restart grant payments to bus operators. Through our planning work we have also identified payments to rail franchise holders and the national concessionary travel scheme as areas of interest (see [paragraph 20](#)). We have reviewed all other expenditure lines and are assured that there are no further risks as payments are either immaterial or based on established contracts or grant agreements and therefore low risk.

**18.** We have not, therefore, incorporated specific work into our audit plan in these areas over and above our standard audit procedures for revenue.

### Other areas of audit focus

**19.** As part of our assessment of audit risks, we have identified other areas where we consider there are also risks of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of the risk,

we do not consider these to represent significant risks. We will keep these areas under review as our audit progresses. If our assessment of risk changes and we consider these risks to be significant, we will communicate this to management and those charged with governance and revise our planned audit approach accordingly.

**20.** The areas of specific audit focus are:

- **Emergency Measures Agreements (EMA) – Abellio ScotRail and Serco Caledonian Sleeper**

- The EMA agreements explain how the final adjustment is calculated and states that the figures for the calculation are based on final reviewed (FR) accounts
- Following the expiry of the term of the EMA (at the end of February 2022), the franchisee will commission an exercise to review audit of the FR Accounts, to a standard equivalent to a statutory audit to the extent that statutory audit procedures would reasonably be applied to a profit and loss account, balance sheet and cash flow statement
- We will review the outcome of this report and ensure that any over/under payment emerging from this is correctly accounted for by Transport Scotland.

- **Estimation and judgements**

- There is a significant degree of subjectivity in the measurement and valuation of the following material account areas. Current and non-current liabilities - relating to significant accruals, private finance initiatives (PFI) / non-profit distributing (NPD) liabilities, and provisions.
- We will compare PFI/NPD liabilities to supporting financial models. We will review the land and property acquisition provision in context of the estimate prepared by the VOA.
- Substantive testing/ verification of year-end accruals (capital and revenue).

- **National Concessionary Travel Scheme (NCTS); Scotland Wide Free Bus Concessionary Travel Scheme (FB)**

- Last year Bus operators were provided funding for concessionary fares which was capped in line with budgeted plan for 2020/21, to ensure payments off-set the significant reduction in passenger income because of Covid-19. From February 2022, the scheme was extended to include people under the age of 22.
- We will review Concessionary Travel Scheme methodology of payments for this financial year. Review the need for validation check or confirm the budget cap. Confirm the rates for 2021-22 (agreement

between CPT (Confederation of Passengers Transport), Scottish Government and confirm Interim payments are set at 90% of the final claim amount.

## **Audit risk assessment process**

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

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# Audit dimensions and Best Value

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## Introduction

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

## Audit dimensions

23. The four dimensions that frame our audit work are shown in [Exhibit 3](#).

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### Exhibit 3

#### Audit dimensions



Source: Code of Audit Practice

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24. In summary, the four dimensions cover the following:

- **Financial management** – financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.
- **Financial sustainability** – as auditors, we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We 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).

- **Governance and transparency** – 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.
- **Value for money** – value for money refers to using resources effectively and continually improving services. As per previous years, we 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.

## Duty of Best Value

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

**26.** Additionally, as part our Best Value work, we will be carrying out a high-level review of the Best Value characteristic “fairness and equality” within Transport Scotland. This will focus on compliance with the specific duties set out in the 2010 Equalities Act.

## Audit dimension risks

**27.** We have identified audit risks in the areas set out in [Exhibit 4](#). This exhibit sets out the risks, sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurances over the risks.

## Exhibit 4

### 2021/22 Audit dimension risks

Description of risk	Sources of assurance	Planned audit response
<p><b>1. Financial management and financial sustainability</b></p> <p><b>Covid-19 spend analysis</b></p> <p>Transport Scotland's budget was increased in 2020/21 through in-year revisions by £696.0 million. This was to provide support to public transport providers because of the reduction in patronage caused by the Covid-19 pandemic. This support has continued into 2021/22 and has been incorporated with the budget.</p> <p>Beyond 2021/22 it is likely that public transport providers will continue to need financial support. However, there is uncertainty over the level of support required as this will be largely dependent upon passenger numbers which have not returned to pre-pandemic levels.</p> <p>There is a risk around transparency of financial reporting of the continued support to public transport operators. There are further risks around Transport Scotland identifying and providing an appropriate level of financial support to transport providers in future years.</p>	<ul style="list-style-type: none"> <li>• Transport Scotland reporting of projected additional resource and records of support approved.</li> <li>• Finance Business Partners scrutiny of expenditure and update of forecasts and overall scrutiny applied by the Scottish Government.</li> <li>• The Accountable Officer (AO) Approval process and related scrutiny and approval by senior Finance Officials, the AO and appropriate Ministers.</li> <li>• Budget for 2022-23 and allocation of funding.</li> </ul>	<p>We will review:</p> <ul style="list-style-type: none"> <li>• Transport Scotland analysis of additional Covid-19 related spend for 2021/22 compared to 2020/21.</li> <li>• key financial controls over Covid-19-related funding and expenditure and steps taken to minimise fraud and error.</li> <li>• Budget implications and reported savings to Scottish Government.</li> <li>• Future financial forecasts and plans.</li> <li>• Internal audit review of Budget Affordability</li> </ul>
<p><b>2 New rail operator in Scotland</b></p> <p>From 1 April 2022, ScotRail services will be provided by a new publicly owned model, following the</p>	<ul style="list-style-type: none"> <li>• Governance and approval by OLR Board and supporting information.</li> <li>• Internal Audit Management Report on Governance arrangements.</li> </ul>	<p>We will review:</p> <ul style="list-style-type: none"> <li>• governance arrangements such as contracts /service level agreements, financial and performance monitoring arrangements.</li> </ul>

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<p>conclusion of the current franchise agreement.</p> <p>Scottish Railway Holdings (SRH) has been set up with the express purpose of overseeing the governance of train operating companies in Scotland and will manage the transfer of rail services into public ownership. ScotRail Trains Limited (SRT) is a wholly owned subsidiary of SRH, incorporated and established to operate passenger rail services.</p> <p>SRH will provide separation between Transport Scotland as strategic policymakers and the direct management of train service delivery by SRT.</p> <p>There are risks regarding the establishment of appropriate governance arrangements and the successful transfer of services to SRT.</p>	<ul style="list-style-type: none"> <li>• Framework Agreement for SRH and Grant Agreement for SRT and associated reporting arrangements.</li> <li>• Other associated documents governing transfer and obligations of departing and incoming organisations.</li> <li>• Delivery of services after 31 March 2022.</li> </ul>	<ul style="list-style-type: none"> <li>• payments paid to SRH in the period before 31 March 2022</li> <li>• the transfer of rail operations to SRT.</li> </ul>
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Source: Audit Scotland

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**28.** In addition to the points raised in [Exhibit 4](#), we also plan to monitor the following value for money areas:

## **Governance**

### **Glasgow Prestwick Airport**

**29.** The Scottish Government purchased Glasgow Prestwick Airport (GPA) for a nominal price of £1 in November 2013. Its aim was to protect jobs and safeguard what it considered to be a strategic infrastructure asset. As at 31 March 2021 the Scottish Government had provided loans to the holding company which owns GPA of £43.4 million, plus interest of £6.3 million.

**30.** Scottish Ministers formally put the airport up for sale in 2019. Although there have been expressions of interest, this has not materialised in a sale. Scottish Ministers still intend for GPA to return to the private sector at the appropriate time and opportunity.

**31.** During 2021/22 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**

**32.** 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.

**33.** 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. We will review progress in this area in 2021/22.

### **Ferry Services**

**34.** 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 Clyde 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

**35.** Following the shipyard experiencing financial difficulties, it was nationalised 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.

**36.** 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.

**37.** The report also recommended 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**

**38.** Scottish Government has made a climate commitment to achieve net zero greenhouse gas emissions by 2045. Transport Scotland has strategic responsibility for delivering the key transport commitments in the Scottish Government's Climate Change Plan Update.

**39.** Last year we reported that Transport Scotland has developed strategies to deliver key Scottish Government commitments to reduce sectoral-wide transport emissions. Further, we identified that Transport Scotland spends significantly on reducing carbon emissions and managing the impact from climate change. We

also raised a recommendation that Transport Scotland should consider how to report on this spend.

**40.** We will follow up on this recommendation in 2021/22 and assess how Transport Scotland captures this detail within the annual report and accounts.

## Contract performance

### Rail infrastructure in Scotland

**41.** 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.

**42.** In 2020/21 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 2021/22.

### Trunk roads developments

**43.** 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.

**44.** 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.

**45.** 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.

**46.** 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.

### **Caledonian sleeper**

**47.** The Caledonian Sleeper service operates overnight rail passenger services between five separate destination/arrival points in Scotland and London Euston. The current franchise was awarded to Serco Caledonian Sleeper Limited (SCSL) in May 2014, with the 15-year contract coming into effect on 31 March 2015.

**48.** In April 2020 the Scottish Government put in place an emergency measures agreement (EMA) which made a temporary variation to the Caledonian sleeper franchise agreement. This minimised disruption to passengers and rail employees during the Covid-19 outbreak and allowed rail passenger services to continue to operate during this period. The EMA will expire in February 2022.

**49.** We will review funding arrangements for the franchise for the period from March 2022 and overall financial performance. We will also monitor any developments in the light of the nationalisation of the ScotRail franchise.

### **Other, follow-up work**

#### **EU withdrawal**

**50.** 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. We will continue to monitor developments in this area in 2021/22.

#### **HIAL air traffic management system**

**51.** 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 (ATMS) in 2018, the HIAL board confirmed its decision to proceed with a Remote Digital air traffic control centre in July 2019.

**52.** Following some concern over island jobs and the threat of industrial action the project was paused to discuss alternatives in consultation with the Prospect union. We will continue to monitor developments going forward.

# Reporting arrangements, timetable, and audit fee

## Reporting arrangements

**53.** Audit reporting is the visible output for the annual audit. All Annual Audit Plans and the outputs, as detailed in Exhibit 5, 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).

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

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

**56.** [Exhibit 5](#) outlines the target dates for our audit outputs, and we aim to issue the independent auditor's report by the statutory deadline of 31 August 2022. We acknowledge this will be challenging due to the ongoing pressures and uncertainties caused by Covid-19.

## Exhibit 5 2020/21 Audit outputs

Audit Output	Target date	Audit and Risk Committee Date
Annual Audit Plan	28 February 2022	26 April 2022
Independent Auditor's Report	15 August 2022	22 August 2022
Annual Audit Report	15 August 2022	22 August 2022

Source: Audit Scotland

## Timetable

**57.** To support an efficient audit, it is critical that the timetable for producing the annual report and accounts for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 6](#) that has been discussed with management.

**58.** Covid-19 has had a considerable impact on the conduct and timeliness of the audit. We recognise that it is in the best interests of public accountability to get the reporting of audited accounts back toward pre-pandemic timelines. To this end, 2021/22 is a transition year with the reporting deadline brought forward by one month relative to the two prior years. We are identifying ways to work more efficiently to expedite the 2021/22 audits whilst at the same time maintaining high standards of quality.

**59.** We will continue to work in close partnership with management with clarity over timescales and the requirement for high quality unaudited accounts and supporting working papers. Progress will be discussed with management and finance officers over the course of the audit.

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### Exhibit 6 Proposed annual report and accounts timetable

 Key stage	 Provisional Date
Consideration of the unaudited annual report and accounts by those charged with governance and senior management	3 June 2022
Latest submission date for the receipt of the unaudited annual report and accounts with complete working papers package.	6 June 2022
Latest date for final clearance meeting with the Director of Finance	22 June 2022
Issue of Letter of Representation and proposed Independent Auditor's Report	15 August 2022
Agreement of audited and unsigned annual report and accounts	15 August 2022
Issue of Annual Audit Report to those charged with governance.	15 August 2022
Signed Independent Auditor's Report	TBC
Latest date for signing of SG Consolidation return	TBC

Source: Audit Scotland

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### Notional audit fee

**60.** The proposed notional audit fee for the 2021/22 audit of Transport Scotland is £189,960 (2020/21: £186,170). In determining the audit fee, we have taken

account of the risk exposure of the Transport Scotland, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit.

**61.** Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual report and accounts, the absence of adequate supporting working papers or being unable to take planned reliance from the work of internal audit, 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.

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# Other matters

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## Internal audit

**62.** International standards on Auditing (UK) 610: *Considering the work of internal audit* requires us to:

- consider the activities of internal audit and their effect on external audit procedures;
- obtain an understanding of internal audit activities to inform our planning and develop an effective audit approach that avoids duplication of effort;
- perform a preliminary assessment of the internal audit function when there is scope for relying on internal audit work which is relevant to our financial statements' responsibilities; and
- evaluate and test the work of internal audit, where use is made of that work for our financial statements responsibilities to confirm its adequacy for our purposes.

**63.** From our initial review of the internal audit plans, we do not plan to place formal reliance on internal audit's work for our financial statements' responsibilities. We do plan to consider the findings of Internal Audit across a range of work including

- Budget Affordability;
- Fraud Prevention and Detection arrangements for support funding to Bus Operators.
- Developed governance arrangements for Scottish Rail Holdings and ScotRail Trains prior to go live date on 1<sup>st</sup> April 2022

## Independence and objectivity

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

**65.** The engagement lead (i.e. appointed auditor) for Transport Scotland is Mark Taylor, Audit Director. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of Transport Scotland.

## Quality control

**66.** International Standard on Quality Control (UK) 1 (ISQC1) requires a system of quality control to be 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.

**67.** 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.

**68.** 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 2021/22

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

[www.audit-scotland.gov.uk/accessibility](http://www.audit-scotland.gov.uk/accessibility)

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