

Transport Scotland

2021/22 Annual Audit Report



 AUDIT SCOTLAND

Prepared for Transport Scotland and the Auditor General for Scotland

October 2022

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Key messages

2021/22 annual report and accounts

- 1 Our audit opinions on the annual accounts are unmodified. The financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework.
- 2 The draft annual report and accounts was provided to auditors on time alongside most of the supporting papers. Audit testing subsequently identified some misstatements and presentational issues which Transport Scotland corrected. The value of adjustments totalled £1,785.0 million.

Financial management

- 3 Transport Scotland operated within its funding allocation, reporting an underspend of £141.9 million, as agreed with the Scottish Government. There was an ongoing significant financial impact due to Covid-19 but to a lesser extent than in 2020/21.
- 4 Transport Scotland maintained effective and robust controls for the distribution of Covid-19 support funds.

Financial sustainability

- 5 Transport Scotland's 2022/23 funding allocation represents a real-terms decrease while ongoing pressures remain. These pressures relate to ongoing support for public transport providers and maintaining transport infrastructure.

Governance and transparency

- 6 The governance arrangements and controls remain appropriate. Increasing pressure on available finances is likely to require Transport Scotland to be increasingly clear how it will prioritise available resources to achieve its strategic aims and intended outcomes.

Value for money

- 7 The performance report was of a good standard but with room for improvements in the presentation of trends and financial information
- 8 The Caledonian Sleeper Franchise arrangement with the current operator will end in June 2023 following an exercise to fundamentally review the financial terms of the underlying agreement.

- 9 Some recommendations regarding the Forth Replacement Crossing have been actioned, and Transport Scotland will reassess any changes to accessibility and the economy in the next evaluation.

Introduction

1. This report summarises the findings from our 2021/22 audit of Transport Scotland.
2. The scope of our audit was set out in our Annual Audit Plan presented to the 26 April 2022 meeting of the Audit and Risk Committee. This report comprises the findings from:
 - an audit of Transport Scotland’s annual report and accounts
 - consideration of the four audit dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#).
3. The main elements of our audit work in 2021/22 have been:
 - an audit of Transport Scotland’s 2021/22 annual report and accounts including the issue of an independent auditor’s report setting out our opinions
 - a review of the body’s key financial systems
 - consideration of the four audit dimensions.

Adding value through the audit

4. We add value to the body through the audit by:
 - identifying and providing insight on significant risks, and making clear and relevant recommendations
 - sharing intelligence and good practice through our national reports ([Appendix 3](#)) and good practice guides
 - providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.
5. More specifically this year this included supporting Transport Scotland to make improvements to the annual report and accounts. Improved information was provided in the reporting of ‘soft’ low interest loans to third parties and the inclusion of temporary staff in fair pay reporting. More details are contained in Part 1 ([Exhibit 2](#), items 6 and 7).

Responsibilities and reporting

6. Transport Scotland has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and accounts that are in accordance with the account's direction from the Scottish Ministers.
7. Also, Transport Scotland is responsible for establishing appropriate and effective arrangements for governance, propriety, and regularity.
8. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice 2016, and supplementary guidance and International Standards on Auditing in the UK. As public sector auditors we give independent opinions on the annual report and accounts. Additionally, we conclude on the appropriateness and effectiveness of the performance management arrangements, the suitability and effectiveness of corporate governance arrangements, the financial position, and arrangements for securing financial sustainability. Further details of the respective responsibilities of management and the auditor can be found in the Code of Audit Practice 2016 and supplementary guidance.
9. This report raises matters from our audit. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.
10. Our annual audit report contains an agreed action plan at Appendix 1. It sets out specific recommendations, the responsible officers, and dates for implementation. It also includes any outstanding actions from last year and progress against these.

Auditor Independence

11. 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 comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies.
12. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and the 2021/22 notional audit fee of £189,960 as set out in our 2021/22 Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.
13. This report is addressed to both Transport Scotland and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.
14. We would like to thank the management and staff who have been involved in our work for their cooperation and assistance during the audit.

Audit appointment from 2022/23

15. The Auditor General for Scotland is responsible for the appointment of external auditors to central government bodies. External auditors are usually appointed for a five-year term either from Audit Scotland's Audit Services Group or a private firm of accountants. The current appointment round was due to end in 2020/21 but this was extended for a year so that 2021/22 is the last year of the current appointment round.
16. The procurement process for the new round of audit appointments was completed in May 2022. From financial year 2022/23 although Audit Scotland will continue to audit Transport Scotland, the appointed auditor and audit team is expected to change in line with our rotation policy. We are working closely with the new audit team to ensure a well-managed transition.
17. A new [Code of Audit Practice](#) applies to public sector audits for financial years starting on or after 1 April 2022. It replaces the Code issued in May 2016.
18. We would like to thank Audit and Risk Committee members, Executive Directors, and other staff, particularly those in finance for their co-operation and assistance over the last six years.

1. Audit of 2021/22 annual report and accounts

The principal means of accounting for the stewardship of resources and performance

Main judgements

Our audit opinions on the annual accounts are unmodified. The financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework.

The draft annual report and accounts was provided to auditors on time alongside most of the supporting papers. Audit testing subsequently identified some misstatements and presentational issues which Transport Scotland corrected.

Material adjustments have been made to the annual accounts because of the audit process. The value of adjustments totalled £1,785.0 million.

Our audit opinions on the annual report and accounts are unmodified

19. The annual report and accounts for the year ended 31 March 2022 were approved by the ARC on 6 October 2022. As reported in the independent auditor's report:
- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
 - expenditure and income were regular and in accordance with applicable enactments and guidance
 - the audited part of the remuneration and staff report, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

The annual report and accounts were submitted in line with our agreed audit timetable

20. Submission dates for the audited annual report and reports and accounts for 2019/20 and 2020/21 were deferred in line with the later dates for producing the annual accounts because of the impact of Covid-19. For 2021/22, the

target date for submission of the audited annual report and accounts is 31 August 2022. These dates were set so support a transition to more regular timescales. Guidance to auditors was clear that the target date can be missed for a particular audit if it cannot be achieved without compromising wellbeing or audit quality.

21. The unaudited annual report and accounts and a largely complete set of supporting papers were received in line with our agreed audit timetable on 1 June 2022. We received some supporting records and working papers relating to the performance report and the revaluation reserve later in our audit, and we rephased our work in these areas accordingly.

Overall materiality is £234.6 million

22. Our initial assessment of materiality was carried out during the planning phase of the audit. This was reviewed and revised on receipt of the unaudited annual report and accounts and is summarised in [Exhibit 1](#).

Exhibit 1 Materiality values

Materiality level	Amount
Overall materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 1% of net book value of the trunk roads network for the year ended 31 March 2022 based on the unaudited financial statements for 2021/22.	£234.6 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this would indicate that further audit procedures should be considered. Using our professional judgement, we have assessed performance materiality at 50% of planning materiality.	£117.3 million
As Transport Scotland's total assets balance is more than seven 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 unaudited accounts for 2021/22 and is applied to all account areas other than the trunk road network.	£24.0 million
Reporting threshold (i.e., clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 1% of planning materiality but capped at £250,000	£250,000

Source: Audit Scotland

We have significant findings to report on the annual report and accounts

23. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices. We have reported several issues from the work done on the identified risks of material misstatement.
24. The significant findings are summarised in [Exhibit 2](#).

Exhibit 2

Significant findings from the audit of financial statements

Issue	Resolution
<p>1. Abellio ScotRail franchise closing balance</p> <p>Since March 2020, the Abellio ScotRail franchise received payments via an Emergency Measures Agreement (EMA), a variation to the franchise agreement. It was put in place in light of the impact Covid-19 on passenger income and involved cost information being provided by the franchise holder.</p> <p>Transport Scotland used an accountancy firm to check the information provided on a monthly basis. Transport Scotland also arranged for a full audit to be completed by an accountancy firm at the end of the EMA. This will determine any remaining balance either to or from Transport Scotland to Abellio ScotRail.</p> <p>The EMA concluded in late February 2022. The audit is expected to conclude by October 2022 and may result in either a balance of funds due to or from Transport Scotland. The draft accounts presented to audit do not reflect any potential settlement payments and contained no disclosures regarding this issue.</p>	<p>Upon considering the need for any further accounting entries or disclosures Transport Scotland concluded that it was appropriate to disclose a contingent liability. This judgement was taken as there was a lack of certainty over the potential outcome from the audit exercise.</p> <p>A contingent liability was included within the signed accounts. We were content that the accounting treatment and disclosure made was satisfactory.</p>
<p>2. Baxter quarter 4 indexation change</p> <p>The trunk road network is valued using RAAVS (roads authorities asset valuation system). This involves applying indexation to allow for changes in the prices of materials and labour. It uses an industry standard form of indexation known as the Baxter index.</p>	<p>Transport Scotland opted to make this adjustment which also impacted on the revaluation reserve. These adjustments have been confirmed as posted in the revised accounts passed to audit.</p>

Issue	Resolution
<p>Information for the last quarter of the financial year only becomes available in July each year. Therefore, as a standard part of the audit, the impact of the change is assessed. In 2021/22 the change in the index resulted in an increase to the net book value of £111.4 million.</p>	
<p>3. Trunk roads depreciation charge</p> <p>The RAAVS system calculates a depreciation charge. As the raw calculation leads to large fluctuations between years, a smoothing approach has been adopted which takes account of a five-year trend. The accounts presented to audit included a charge of £201.2 million.</p> <p>We found errors in the calculation and the revised figure was confirmed as £175.1 million. Relevant expenditure was therefore overstated in the unaudited accounts by £26.1 million.</p>	<p>Transport Scotland agreed to adjust the depreciation charge, and an appropriate adjustment was made to the signed accounts.</p>
<p>4. Trunk roads additions</p> <p>Major additions to the trunk roads network asset (such as the current A9 project) are added to assets under construction (AUC) in the first instance. When the road becomes operational these balances transfer to trunk roads. During 2021/22 there was a transfer of £114.8 million, largely made up of the A9 works (£101.2 million).</p> <p>Our audit testing found that balances relating to the A9 in AUC amounted to £106.0 million, meaning that transfers in the unaudited accounts were understated by £5.9 million.</p>	<p>Transport Scotland agreed to adjust the AUC transfer by £5.9 million, and an appropriate adjustment was made to the signed accounts.</p>
<p>5. Revaluation reserve reconciliation</p> <p>Each year a depreciation charge, is included in the statement of comprehensive net expenditure (SoCNE) and consequently the general fund. As a result of the revaluation of non-current assets, part of this charge relates to the difference between the historic cost and the current cost, i.e., the revalued cost.</p> <p>This element should be posted to the revaluation reserve rather than the general fund. This is referred to as the realised element and is a normal part of accountancy. In previous years Transport Scotland has prepared a revaluation reserve reconciliation to calculate this adjustment.</p>	<p>We supported Transport Scotland to calculate the revaluation reserve position appropriately, and consistently with previous years.</p> <p>Transport Scotland agreed to adjust the split of depreciation charged to the general fund and revaluation reserve, and appropriate adjustments were made to the signed accounts.</p>

Issue	Resolution
<p>In the accounts presented for audit, the realised element involved a transfer from the general fund to the revaluation reserve of £1,343.9 million. The basis of this figure was unclear, and the entry should have been a transfer from the revaluation reserve to the general fund.</p> <p>Transport Scotland were unable to provide a revaluation reserve reconciliation to support this adjustment.</p> <p>A revaluation reserve reconciliation was latterly performed which calculated that the appropriate adjustment was a £272 million transfer to the general fund. Making this entry and correcting the original £1,343.9 million entry to the draft accounts, resulted in a total adjustment of £1,615.9 million.</p>	
<p>6. Application of IFRS 9 to ‘soft’ loans provided to a third-party organisation</p> <p>Transport Scotland provides interest-free loans to a third-party organisation. Under IFRS 9 (which Transport Scotland adopted in 2018/19) these loans should be discounted at inception as they incorporate interest below the market rate. In subsequent years, an effective interest rate should then be applied. This ensures that the carrying value of the loan is written back to its full value by the time of repayment.</p> <p>Transport Scotland issues new loans under this scheme each year as part of its commitment to climate change. In previous years, given the amounts involved Transport Scotland has opted not to make an adjustment in line with IFRS 9. These have featured in previous audit reports as unadjusted misstatements.</p> <p>Transport Scotland posted an adjustment in the draft accounts for 2021/22 presented for audit. The adjustment of £15 million was an estimate reflecting all loans currently held. This resulted in a decrease to the carrying value of the loan and a charge to net operating costs.</p> <p>Transport Scotland subsequently performed detailed calculations which resulted in a proposed increase from £15.0 million to £22.6 million. Transport Scotland made two errors of principle in its calculation:</p>	<p>Following discussion, a revised calculation was prepared. This applied the correct discount rate to new loans issued in each reporting year since 2018/19. It resulted in a reduction of £21.6 million to the carrying value of the loans and matching charge to net operating costs.</p> <p>An effective interest rate for the period was calculated, totalling £6.5 million. This results in an addition to the carrying value of the loan and is shown as income in net operating costs.</p> <p>The net impact of both of these adjustments is £15.1 million. Given this is very close to the estimate included in the unaudited accounts, Transport Scotland opted not to make an adjustment.</p> <p>As neither of these misstatements are material, we are content that the reported position is in line with accounting standards.</p> <p>While accepting this on materiality grounds in 2021/22, in future years Transport Scotland should disclose the discounting charge and effective interest receivable separately in the Statement of Comprehensive Expenditure.</p>

Issue	Resolution
<ul style="list-style-type: none"> applying the current year discount rate to all loans issued over the last four years, despite the rate varying over that period. failing to apply an effective interest rate. 	
<p>7. Fair pay disclosures</p> <p>The government financial reporting manual (FReM) requires that bodies include a fair pay disclosure incorporating the median salary, as well as 25th and 75th quartile salaries. This calculation should involve both permanent and temporary staff employed by the body at the reporting date.</p> <p>The FReM also requires that salaries be set out from other benefits and that explanations are provided for movements from previous years in the ratio.</p> <p>Transport Scotland presented figures in the draft accounts presented to audit, that did not incorporate temporary staff. Furthermore, the disclosures did not set out salary figures or provide adequate explanation as required.</p>	<p>Following discussion, Transport Scotland prepared an analysis which also included temporary staff. This was based on source invoices, making appropriate adjustments to allow for agency rates and uplifts for national insurance and pensions.</p> <p>The calculation provided to audit was found to be satisfactory and supported by source invoices.</p> <p>Transport Scotland also opted to make changes to clearly state that employees (including temporary staff) earned no other benefits and provide explanations for changes. Appropriate adjustments were made to the signed accounts.</p>

Source: Audit Scotland

We have obtained audit assurances over the identified significant risks of material misstatement to the financial statements

25. [Exhibit 3](#) sets out the significant risks of material misstatement to the financial statements we identified in our 2021/22 Annual Audit Plan (tailor if additional significant ROMMs identified during the audit) audit. It summarises the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 3

Significant risks of material misstatement in the financial statements

Audit risk	Assurance procedure	Results and conclusions
<p>1. Risk of material misstatement due to fraud caused by the management override of controls</p>	<p>Assessed the design and implementation of controls over journal entry processing.</p> <p>Made inquiries of individuals involved in the financial</p>	<p>Results & Significant Judgements: The controls over journal processing are satisfactory. We used data analytics to select higher risk</p>

Audit risk	Assurance procedure	Results and conclusions
<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>reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.</p> <p>Tested journals at the year-end and post-closing entries and focus on significant risk areas.</p> <p>Considered the need to test journal entries and other adjustments during the period.</p> <p>Evaluated significant transactions outside the normal course of business.</p> <p>Assessed the adequacy of controls in place for identifying and disclosing related party relationship and transactions in the financial statements.</p> <p>Assessed any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.</p>	<p>journals. Our sample testing found no issues.</p> <p>We conducted a detailed sample of all material expenditure areas and found appropriate supporting records for all sampled items. This included identifying large and/or unusual payments.</p> <p>Significant changes to underlying assumptions used to prepare accounting estimates were found to be reasonable. This included movement in indexation for the trunk road network.</p> <p>The controls regarding identification and disclosure of related parties' transactions were found to be appropriate.</p> <p>Conclusion: Satisfactory – testing found no material misstatements.</p>
<p>2. Estimation in the valuation of Trunk Roads</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>	<p>Evaluated the competence, capabilities, and objectivity of the professional valuers. These being Atkins and the Valuation Office Agency (VOA).</p> <p>Controls regarding the roads asset valuation system (RAAVS) were reviewed as part of the interim audit.</p> <p>Evaluated the impact from the final Baxter quarter index changes to confirm whether it is material.</p>	<p>Results & Significant Judgements: The competence and objectivity of the valuers was confirmed. The controls regarding RAAVS were also confirmed as satisfactory. This involved the controls relating the transfer of data to Atkins.</p> <p>The final Baxter quarter index resulted in an adjustment to the accounts as per item 2 in Exhibit 2.</p> <p>Conclusion: Satisfactory overall following adjustments identified through the course of the audit.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>3. Presumed risks of fraud over expenditure recognition under ISA 240 and PN 10</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>During 2021/22 Transport Scotland continues to make additional payments to public transport providers to 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>	<p>All bus operators completed a financial return using a standard template forming the base position for each 12-weekly reconciliation. We reviewed the reconciliation process.</p> <p>We substantively tested a sample of Covid-19 restart payments.</p> <p>We reviewed the internal audit report on fraud arrangements in this area.</p>	<p>Results & Significant Judgements: Our walkthrough test found that the controls in place regarding the reconciliation process are appropriate and robust. As per 2020/21 we recommended that Transport Scotland also carry out a review of audit reports for significant operators. Transport Scotland satisfactorily carried out this review and found no issues.</p> <p>Internal audit also carried out a review of these processes and concluded a reasonable level of assurance.</p> <p>Our substantive sampling of restart grant payments to bus operators found supporting evidence for all with no issues.</p> <p>Conclusion: Satisfactory – the arrangements in place remain appropriate and robust.</p>

Other areas of audit focus

26. We identified in our 2021/22 Annual Audit Plan areas where we considered there to be other risks of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of the risk, we did not consider these to represent significant risks. The areas of specific audit focus were:

- Emergency Measures Agreements (EMAs) and Temporary Measures Agreement (TMA)– Abellio ScotRail (ASR) and Serco Caledonian Sleeper Limited (SCSL). The EMAs and TMA's 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), Transport Scotland commissioned an exercise to audit the FR accounts of ASR. The audit of SCSL FR accounts is expected to take place later in 2022/23 aligned with the rebasing exercise. [At the time of writing the audit of ASR has yet to conclude. Due to uncertainty regarding the outcome of this exercise, a contingent liability has been disclosed in the accounts. External audit will require to assess the potential for an adjusting post balance sheet event if the final position is confirmed prior to certification of the accounts.] See [Exhibit 2](#), item 1 for more details.
- 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 compared PFI/NPD liabilities to supporting financial models and found these to be consistent. We also confirmed that it remained appropriate for Transport Scotland to continue to account for these contracts as service concession arrangements.
 - We reviewed the land and property acquisition provision in context of the estimate prepared by the VOA and found no issues.
 - Substantive testing/ verification of year-end accruals (capital and revenue) found no issues.

Transport Scotland has adjusted identified misstatements of £1,785.0 million in the accounts

- 27.** Total misstatements identified were £1,802.4 million. We have reviewed the nature and causes of these misstatements and have concluded that they arose from issues that have been isolated and identified in their entirety and do not indicate further systemic error.
- 28.** Agreed adjustments made in the audited accounts decreased net expenditure in the Statement of Comprehensive Net Expenditure by £26.1 million and increased net assets in the Statement of Financial Position by £131.6 million. Misstatements totalling £1,615.9 million related to a transfer between two reserves ([Exhibit 2](#), item 5), consequently the correction did not impact on net expenditure or net assets. All adjustments have been confirmed in the revised accounts.
- 29.** Misstatements, totalling £17.4 million were identified that management has decided not to adjust in the accounts, as they consider that the accounts will not be materially impacted by them not being adjusted. These would have

decreased net expenditure by £9.9 million and increased net assets by £6.6 million ([Appendix 2](#)).

30. It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected, although the final decision on making the correction lies with those charged with governance considering advice from senior officers and materiality. The gross sum of the unadjusted errors is below our materiality level and has not affected our opinion.

There was a significant increase in the value of direct additions to the trunk road network in 2021/22

31. The property plant and equipment note includes a line for additions. In relation to trunk roads, entries in this line are comparatively small because most roads projects are transferred from Assets Under Construction on completion. These additions represent works carried out by the roads operating companies which are deemed to enhance the network. The value of additions in the draft accounts for trunk roads in 2021/22 is £62.3 million. This compares to a high over the previous three years of £13.1 million.
32. The nature of these amounts was initially unclear. Following further discussions, Transport Scotland provided additional supporting papers from the Performance Audit Group (PAG). This enabled us to confirm that exceptional works such as the Woodside viaduct on the M8 and the rest and be thankful on the A83 contributed to this increase. As such no audit adjustment was required. Transport Scotland should develop its procedures so that it can provide the documentation to properly support similar transactions more systematically and straightforwardly in the future.

Recommendation 1

Transport Scotland should introduce relevant procedures to ensure that it has appropriate evidence supporting future capital additions to the trunk road network from work completed by the operating companies.

There has been a loss of experience in relation to roads valuation

33. During 2021/22 a key officer with significant experience in the operation of RAAVS left Transport Scotland. This presents risks moving forward in terms of the ongoing operation of RAAVS and resolving queries with both Atkins and auditors. This is a technically challenging area of the accounts, prone to misstatement, as illustrated by several of the significant findings from our audit this year set out in [Exhibit 2](#).

Recommendation 2

Transport Scotland should develop a plan to ensure that it manages the loss of experience relating to the roads authorities asset valuation system (RAAVS).

Reasonable progress was made on prior year recommendations

- 34.** The body has made reasonable progress in implementing our prior year audit recommendations. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in [Appendix 1](#).

2. Financial management

Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

Main judgements

Transport Scotland operated within its funding allocation, reporting an underspend of £141.9 million. This was agreed with the Scottish Government.

Budget processes were appropriate. There was an ongoing significant financial impact due to Covid-19 but to a lesser extent than in 2020/21.

Transport Scotland maintained effective and robust controls for the distribution of Covid-19 support funds.

We concluded that Transport Scotland has managed significant risks relating to financial management and sustainability well, but challenges remain going forward

35. In our annual audit plan we identified financial management and sustainability as areas of significant risk. [Exhibit 4](#) summarises our audit work in these areas and the judgements we have drawn.

Exhibit 4

Risks identified from the auditor's wider responsibility under the Code of Audit Practice

Audit risk	Assurance procedure	Results and conclusions
<p>1. Financial management and financial sustainability</p> <p>Covid-19 spend analysis</p> <p>Transport Scotland's budget was increased in 2020/21 through in-year revisions by £696.0 million.</p> <p>This was to provide support to public transport providers because of the reduction in patronage caused by the</p>	<p>We reviewed:</p> <ul style="list-style-type: none"> • Transport Scotland analysis of additional Covid-19 related spend for 2021/22 compared to 2020/21. • key financial controls over Covid-19-related funding and expenditure and steps taken to minimise fraud and error. 	<p>Results & Significant Judgements: Transport Scotland published details of its Covid spend for both 2020/21 and 2021/22 in the annual report and accounts in 2021/22. We also confirmed that controls over additional support in light of Covid-19 remained appropriate and robust.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>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.</p> <p>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"> • Budget implications and reported savings to Scottish Government. • Future financial forecasts and plans. • Internal audit review of Budget Affordability 	<p>Transport Scotland reported an underspend of £141.9 million on its fiscal resource allocation. This was agreed with the Scottish Government and contributed to savings across the wider public sector.</p> <p>Transport Scotland's budget for 2022/23 represents an increase of £29.5 million in cash terms from 2021/22. The internal audit report on budget affordability concluded a reasonable assurance rating.</p> <p>The Scottish Government's resource spending review outlined future commitments to the transport sector. However risks exist particularly around public transport passenger numbers impacting on fare income and the ability for Transport Scotland to provide ongoing financial support.</p> <p>Conclusion: Satisfactory - Transport Scotland has taken reasonable steps to manage its financial plans thus far. However, more work will be required in future years to prioritise available resources to achieve its strategic aims and intended outcomes.</p>

Transport Scotland operated within its revised budget in 2021/22

36. The main financial objective for the body is to ensure that the financial outturn for the year is within the budget allocated by Scottish Ministers.
37. Transport Scotland has reported an outturn of £3,283.7 million against its overall budget for 2021/22 with an underspend of £141.9 million. This level of underspend was agreed with the Scottish Government and contributed to savings across the wider public sector. The financial performance against fiscal resources is shown in [Exhibit 5](#).

Exhibit 5**Performance against fiscal resource in 2021/22**

Performance	Initial budget £m	Final budget £m	Outturn £m	Over/(under) spend £m
Resource	3,075.1	3,129.4	3,045.4	(84.0)
Capital	263.9	296.2	238.8	(57.9)
Total	3,339.0	3,425.6	3,283.7	(141.9)

Source: Transport Scotland Annual Report and Accounts 2020/21 and 2021/22

38. [Exhibit 6](#) presents the same information but by service area. This identifies that all areas underspent in 2021/22 with the exception of motorways and roads. This was due to reasons such as:

- £33.0 million lower than anticipated Covid-19 Support for public transport operators
- delays in Highland and Islands Airports Limited capital programme (£22 million)
- deferrals of support for the Glasgow Subway modernisation, Edinburgh City Deal and the A801 totalling £67 million
- lower than anticipated drawdown on the Bus Rapid Development Priority Fund (£32 million).

Exhibit 6**Performance against fiscal resource in 2021/22 by service area**

Service area	Initial budget £m	Final budget £m	Outturn £m	Over/(under) spend £m
Rail services	1,460.6	1,543.0	1,520.5	(22.5)
Concessionary travel	405.7	395.4	384.7	(10.7)

Motorways and trunk roads	673.8	680.1	688.8	8.7
Ferries	297.3	297.7	258.2	(39.5)
Air	107.8	116.7	89.3	(27.4)
Other transport	335.3	334.2	287.0	(47.2)
Local authority grants	58.5	58.5	55.2	(3.3)
Total DEL	3,339.0	3,425.6	3,283.7	(141.9)

Source: Transport Scotland Annual Report and Accounts 2020/21 and 2021/22

Budget processes were appropriate. The significant financial impact of Covid-19 continued during 2021/22 but to a lesser extent than 2020/21

39. Additional funding from the Scottish Government for Covid-19 totalled £321.0 million. Direct Covid-19 related expenditure was tracked using specific account codes in the general ledger and disclosed in the accounts. The value of Covid-19 related spend in 2021/22 was £312.0 million compared to £617.0 million in 2020/21.
40. This spend was provided to public transport providers to off-set the reduction in passenger income. This was as a result of the restrictions put in place because of the pandemic. Rail and bus operators accounted for the vast majority of this spend in 2021/22 (£188.0 million and £93.0 million respectively) with smaller amounts for ferry and light rail operators.
41. We observed that senior management and the ARC continued to receive regular financial information on Transport Scotland's financial position.

Transport Scotland maintained effective and robust controls for the distribution of Covid-19 support funds

42. In our annual audit report last year, we concluded that Transport Scotland implemented adequate systems for recording and processing additional payments in light of Covid-19. As part of this year's audit, we again looked at the controls and processes underpinning the payment of additional monies to public transport providers to off-set the impact of Covid-19. This confirmed that the main processes remained in place.
43. We again performed a walkthrough of the reconciliation of the Covid-19 Support Grant –Restart(CSG-R) provided to bus operators. This confirmed that the controls operated as expected. We also performed a sample test of payments at both our interim and finals audits and found no issues.

44. We also performed walkthrough testing of payments to rail operators through emergency measures agreements (EMAs). This confirmed that the controls operated as expected. Part of this review also confirmed the financial monitoring of the franchises undertaken by a firm of accountants. Sample testing of payments also found no issues.

The final audits of emergency measures agreements (EMAs) with rail operators have yet to conclude. These could result in future commitments.

45. The EMAs expired at the end of February 2022, thereafter new temporary measures agreements (TMAs) were introduced. These were required because passenger numbers were still not at pre-pandemic levels and further additional support was therefore required.
46. As part of the EMA arrangements, Transport Scotland commissioned an audit (by an external accountancy firm) of the Abellio ScotRail (ASR) franchise in 2022. An audit of the Scottish Caledonian Sleeper Limited (SCSL) franchise was not performed at this time as it was considered more appropriate to align this with a rebasing exercise to be undertaken in 2022/23. This exercise aims to fundamentally review the financial terms of the franchise agreement.
47. At the conclusion of these audits, a balance will likely arise between Transport Scotland and the respective franchises. As per paragraph 26, the audit of ASR has yet to conclude [at the time of writing]. Transport Scotland has therefore disclosed a contingent liability in the 2021/22 accounts.

Capital expenditure increased in 2021/22 but was still below the budget allocation

48. Transport Scotland had a Capital DEL budget in 2021/22 of £296.2 million, with final outturn of £238.3 million. While this resulted in an underspend of £57.9 million spending had increased by £61.0 million from the previous year.

Standards of conduct and arrangements for the prevention and detection of fraud and error are appropriate

49. There are appropriate arrangements for the prevention and detection of fraud, error, and irregularities. Transport Scotland is responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery, and corruption. Furthermore, the senior management team (SMT) is responsible for ensuring that its affairs are managed in accordance with proper standards of conduct by putting effective arrangements in place.
50. We have reviewed the arrangements in place to maintain standards of conduct including the Fraud Policy and Response Plan and Civil Service Code of Conduct. Transport Scotland also provides regular updates on any fraudulent activity to the ARC.
51. We confirmed that there are established procedures for preventing and detecting any breaches of these standards including any instances of corruption.

3. Financial sustainability

Financial Sustainability looks forward to the medium and long term to consider whether a body is planning effectively to continue to deliver its services

Main judgements

Transport Scotland's 2022/23 funding allocation represents a real-terms decrease while ongoing pressures remain. These pressures relate to ongoing support for public transport providers and maintaining transport infrastructure.

Internal audit concluded reasonable assurance regarding budget affordability.

52. [Exhibit 4](#) in Part 2 sets out the significant audit dimension risk we identified in our 2021/22 audit concerning financial sustainability. This sets out our assurance procedures and the results and conclusions from our work. Note that this risk also covered financial management and has therefore been covered in that part of the report.

Transport Scotland's 2022/23 funding allocation represents a real-terms decrease while ongoing pressures remain

53. Transport Scotland's total fiscal resource allocation for 2022/23 is £3,345.9 million (including £10.0 million worth of financial transactions). This represents an increase of £6.9 million (0.2 per cent) compared to the prior-year budget however this is set against rising inflation of around 10.0 per cent. This means that the allocation represents a real-terms decrease after adjusting for inflation.
54. The majority of Transport Scotland's spend is governed by contracts or grant agreements which ensures that much of its future financial plans are fixed. It has an ongoing responsibility to maintain the transport network, in particular trunk roads. Transport Scotland must therefore be able to react to unplanned remedial works such as the Woodside viaduct on the M8 in Glasgow.
55. Transport Scotland also has a responsibility concerning public transport providers. As covered in Part 2, it continued to provide support to operators in 2021/22 to off-set the impact from Covid-19. Moving into 2022/23 and beyond, there is ongoing uncertainty about public transport passenger demand. Further additional support is likely to be needed but Transport Scotland will require to be agile to meet this demand.

Internal audit concluded reasonable assurance regarding budget affordability

- 56.** Internal audit carried out a review of budgetary affordability in 2021/22. This evaluated the controls in place including governance over the budgetary process, financial management and stakeholder management arrangements. The report concluded an overall reasonable level of assurance, including one medium priority risk concerning resourcing. There are further risks around resourcing covered in Part 4.

4. Governance and transparency

The effectiveness of scrutiny and oversight, and transparent reporting of information

Main judgements

The governance arrangements and controls remain appropriate.

Increasing pressure on available finances is likely to require Transport Scotland to be increasingly clear how it will prioritise available resources to achieve its strategic aims and intended outcomes.

Governance arrangements and controls remain appropriate

57. Since 2010/11, Transport Scotland has operated without a board. Responsibility for key decisions lies with the Senior Management Team (SMT). Non-executive directors serve on the Audit and Risk Committee (ARC) and provide challenge and support as members of a number of project boards and other governance groups. During 2021/22 the SMT has experienced some changes. This has involved the secondment of the Chief Executive to the Scottish Government with the post being filled on an interim basis. There have been further changes involving the directors of the following directorates:

- Roads
- Transport Strategy and Analysis
- Bus, Accessibility and Active Travel
- Major Projects
- Financial and Corporate Services.

The SMT and ARC continued to meet virtually in 2021/22

58. The SMT continued to meet virtually during 2021/22 but more recently has begun to meet in person. These weekly meetings have a rotating agenda. Corporate governance meetings occur every month and minutes are made available on the external website. At the time of writing the website requires to be updated. The SMT register of interests has also still to be published on the

website. Transport Scotland plans to publish this at the same time as the 2021/22 annual report and accounts.

59. Transport Scotland's ARC is made up of three non-executive members. Its role is to support the Chief Executive (accountable officer) over issues of risk, control and governance. It also provides associated assurance through constructive challenge.
60. The ARC meets at least four times per year and is attended by the Chief Executive and Director of Finance and Corporate Services. It is also attended by representatives from internal and external audit. All ARC meetings in 2021/22 have continued to be conducted remotely in light of the Covid-19 pandemic.

Increasing pressure on available finances is likely to require Transport Scotland to be increasingly clear how it will prioritise available resources to achieve its strategic aims and intended outcomes

61. The Transport Scotland corporate risk register includes a risk regarding resourcing and wellbeing. In addition to this internal audit noted a resourcing issue in its report on budgetary affordability. Furthermore, the governance statement includes a reference to particular issues within the Aviation, Maritime, Freight and Canals (AMFC) Directorate. The directorate faces a number of challenges including the tendering for the new Clyde and Hebrides ferry services contract.
62. At an organisation level, Transport Scotland's workload has increased in recent years due to responding to the Covid-19 pandemic. There are ongoing issues relating to EU withdrawal, climate change, the new ScotRail operator and maintenance of the transport network amongst others. Increasing pressure on available finances is likely to require Transport Scotland to be increasingly clear how it will prioritise available resources to achieve its strategic aims and intended outcomes.

5. Value for money

Using resources effectively and continually improving services

Main judgements

The performance report was of a good standard but with room for improvements in the presentation of trends and financial information

Transport Scotland's Best Value reviews are currently paused and the approach is subject to ongoing review.

The Caledonian Sleeper Franchise arrangement with the current operator will end in June 2023 following an exercise to fundamentally review the financial terms of the underlying agreement.

Some recommendations regarding the Forth Replacement Crossing have been actioned, and Transport Scotland will reassess any changes to accessibility and the economy in the next evaluation.

Roles and structures for the new ScotRail arrangements have been set out but will take time to be fully established

63. In our annual audit plan we identified the new ScotRail arrangements as a value for money area of significant risk. [Exhibit 5 summarises our audit work in this and the judgements we have drawn.](#)

Exhibit 5

Risks identified from the auditor's wider responsibility under the Code of Audit Practice

Audit risk	Assurance procedure	Results and conclusions
<p>2. New rail operator in Scotland</p> <p>From 1 April 2022, ScotRail services were provided by a new publicly owned operator, following the conclusion of the current franchise agreement.</p> <p>Scottish Railway Holdings (SRH) has been set up with</p>	<p>We reviewed:</p> <ul style="list-style-type: none"> governance arrangements such as contracts /service level agreements, financial and performance monitoring arrangements. payments paid to SRH in the period before 31 March 2022 	<p>Results & Significant Judgements: The Framework Agreement and Grant Agreement were confirmed as in place and publicly available. Review of minutes found risks in relation to funding. However, SRH has still to publish a 5-year</p>

Audit risk	Assurance procedure	Results and conclusions
<p>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 ScotRail 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. 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"> the transfer of rail operations to SRT. 	<p>strategic plan and 1-year business plan</p> <p>Audit testing confirmed payments made to SRH during 2021/22 to fund start-up costs as well as an advance on 2022/23 grant payments.</p> <p>Conclusion: This remains an area of ongoing risk while roles and processes are established.</p>

The performance report was of a good standard but with room for improvements in the presentation of trends and financial information

64. In addition to the opinion on the performance report covered in Part 1 of our Annual Audit Report, we also consider the qualitative aspects of Transport Scotland's performance report. The performance report should provide information on a body, its main objectives and the principal risks it faces. Additionally, it should provide a fair, balanced and understandable analysis of performance as well as helping stakeholders understand the financial statements.
65. Last year we commented on Transport Scotland's plans to produce an annual monitoring report as regards the National Transport Strategy (NTS). Transport Scotland intends to use these monitoring report to provide trend analysis in future years within the performance report in the annual report and accounts. The first such report was produced in June 2022. While this provides a series of key indicators as previously described, these have not been taken forward to the performance report in 2021/22.
66. We also raised a point last year about financial figures within the performance report (and financial highlights section). We found that many related to the level of funding allocated rather than actual spending. This continues to be the case in 2021/22 and in some cases, we found that the figure quoted included multi-year allocations which were not suitably described. More detail is provided at Appendix A.

Transport Scotland's Best Value reviews are currently paused and the approach is subject to ongoing review

67. [Ministerial guidance to Accountable Officers](#) for public bodies and the [Scottish Public Finance Manual](#) (SPFM) sets out the accountable officer's duty to ensure that arrangements are in place to secure best value. The guidance sets out the key characteristics of best value and states that compliance with the duty of best value requires public bodies to take a systematic approach to self-evaluation and continuous improvement.
68. In last year's report we commented that Transport had paused its annual best value reviews due to the impact of Covid-19. These remain paused in 2021/22 and Transport Scotland is currently considering a new approach to take forward.

New arrangements for ScotRail were developed in 2021/22

69. New arrangements for the operation of ScotRail came into being on 1 April 2022. These new arrangements see the move from a franchise involving a private sector operator to a publicly owned arrangement. ScotRail Trains Ltd (SRT) is a wholly owned subsidiary of Scottish Rail Holdings Ltd (SRH), which is wholly owned by the Scottish Government. Transport Scotland is the sponsor body for SRH and provides funding in the form of grant-in-aid.
70. During our audit this year we looked at some of the steps which have been taken in preparation for the new operations. We confirmed that a Framework Agreement and Grant Agreement are in place and are publicly available (via the SRH website). These documents set out the roles and responsibilities of various parties including the Strategic Rail Board, which supports the sponsor in its role, and the SRH Board.
71. These new roles and processes will take time to be fully established over the coming years. As sponsor, Transport Scotland will play key role in ensuring that they are successfully implemented.
72. Both the Strategic Rail Board and SRH Board have started to meet and have included representation from Transport Scotland. Minutes for the Strategic Rail Board refer to risks in funding from issues such as ongoing industrial actions impacting on passenger revenue and inflationary pressures. There are also uncertainties regarding future passenger numbers as per paragraph 55.
73. It will therefore be important that plans are put in place to manage these issues going forward. The Framework Agreement requires that SRH has a 5-year strategic plan and 1-year business plan in place. At the time of writing, these have not yet been made publicly available.

Recommendation 3

In its role as sponsor, Transport Scotland should ensure that Scottish Rail Holdings Limited develops a 5-year strategic plan and a 1-year business plan as per the Framework Agreement. These documents should then be published.

The Caledonian Sleeper Franchise arrangement with the current operator will end in June 2023 following an exercise to fundamentally review the financial terms of the underlying agreement.

74. 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 Ltd (SCSL) in May 2014, with the 15-year contract coming into effect on 31 March 2015
75. 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 expired in February 2022 and was replaced with a temporary measures agreement (TMA).
76. From a review of the franchise company's published accounts, in every year but one it has reported a deficit. Only 2020/21 resulted in a surplus which was partly due to a legal settlement relating to the delay in the new rolling stock. In addition, 2020/21 saw a full year of payments under the EMA. 2021/22 accounts are not yet available.
77. The 2020/21 accounts were prepared on a going concern basis based on support from the wider Serco Group plc. The accounts however contained a material uncertainty relating to the rebase of the financial terms of the franchise agreement. This fundamental review of existing financial terms enables the Scottish Ministers to consider other options to provide this service within the terms of the Franchising Policy Statement. This includes the potential use of a publicly owned provider as has been the case with ScotRail. On 5 October 2022, the Transport Minister announced that the franchise agreement with Serco would end in June 2023.
78. The franchise agreement sets a target that 80 per cent of trains should arrive within 59 seconds of the timetabled arrival time. It also sets a default level of 68 per cent. Performance below this level represents a contravention of the agreement and can result in remedial intervention. Figures produced by the office of rail and road (ORR) for 2021/22 period 12 reported moving average performance for the 12-month period was 68 per cent.

Some recommendations regarding the Forth Replacement Crossing have been actioned, and Transport Scotland will

reassess any changes to accessibility and the economy in the next evaluation

- 79.** The Auditor General for Scotland published her performance audit on the Forth Replacement Crossing (FRC) 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.
- 80.** As part of this year's audit, we have followed up on the recommendations made in that report. We found that Transport Scotland has published a lessons learned document in 2020. Through our work we were able to see some evidence that actions developed for the FRC have been brought into other projects. For example, communications regarding milestones achieved in the A9 dualling project.
- 81.** The report contained some recommendations regarding benefits realisation. In response, Transport Scotland published a one-year after evaluation in 2020. The subsequent evaluation, which would have normally have taken place three years after, was deferred due to the impact of Covid-19. Our review found that the one-year after evaluation had considered the early impacts on accessibility and the economy. Transport Scotland plans to reassess both of these areas as part of its subsequent evaluation. However, given the confounding impact of Covid-19, Transport Scotland will need to consider whether further work to measure the impact on the labour market will yield any meaningful results.
- 82.** The report also made a recommendation that public transport providers should be supported to meet increasing demand for travel across the Forth. It is acknowledged that such demand has been impacted by Covid-19 restrictions and future demand levels are unclear. It is further though noted that Transport Scotland has provided additional support to all public transport providers in light of Covid-19 since 2020.

Glasgow Prestwick Airport update

- 83.** Following an announcement in December 2021 Transport Scotland is no longer actively trying to sell Glasgow Prestwick Airport (GPA). The Scottish Government however still intends to return the airport to the private sector.
- 84.** During 2021/22 no further loans were provided to the holding company (TS Prestwick HoldCo) so total borrowing remains at £43.4 million. A further £1.1 million worth of interest charges accrued during the year however. This takes total accrued interest to £7.4 million.

Ferries - procurement of vessels 801 and 802

- 85.** In March 2022, the Auditor General for Scotland issued a report titled '[New vessels for the Clyde and Hebrides Arrangements to deliver vessels 801 and 802](#)'. This found numerous issues including:

- insufficient evidence to explain why Scottish ministers accepted the risks and approved the contract award in October 2015
- some milestones in the contract were not clearly defined and had no link to quality standards
- weaknesses in project governance: the Programme Steering Group (PSG) had no clear role, and there were no formal escalation processes in place.

86. The report raised several recommendations, some of which related to Transport Scotland. These were:

- Transport Scotland and CMAL (Clyde Maritime Assets Limited) should:
 - undertake, on completion of vessels 801 and 802, and involving the Scottish Government and FMPG where appropriate, a formal review of what went wrong with the project with a view to learning lessons to help prevent future recurrence with other vessel procurements
 - finalise the long-term plan and investment programme for ferries by the end of 2022. As part of this process, and considering the results of the Project Neptune governance review, Transport Scotland and CMAL should consider how best to implement the future new vessels programme and the most effective arrangements for managing new vessel projects.
- Transport Scotland should:
 - implement the planned improvements to its governance arrangements for new-build vessel projects. This includes establishing clear roles and responsibilities, setting out a clear escalation process, and ensuring that risks are routinely recorded and monitored.

87. Transport Scotland has confirmed that it accepts all of the recommendations. In response it plans to:

- complete a review of the project processes, procedures, and outcomes, including considering lessons learned, when the vessels are complete and have entered service
- publish a draft Investment Plan by the end of 2022 for public consultation in early 2023. This will set out an approach to the governance and project management of new vessel and port projects.
- consult with key stakeholders on the findings from The Project Neptune, including island and remote communities. This will take account of any implications for vessel and port projects.

- consider options for potential structural changes in roles and responsibilities across Transport Scotland, CMAL and Caledonian MacBrayne as outlined in The Project Neptune report.

National performance audit reports

- 88.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. In 2021/22 several reports were published which may be of direct interest to the body. These are outlined in [Appendix 3](#).

Appendix 1. Action plan 2021/22

2021/22 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Roads' capital additions</p> <p>The 2021/22 annual report and accounts included £62 million of capital additions which was a significant increase from the previous year. These additions relate to works completed by the operating companies rather than large construction projects.</p> <p>During our audit, there were difficulties and delays in Transport Scotland providing audit with appropriate evidence.</p> <p>Risk: Transport Scotland is unable to fully support a potentially material balance in the accounts.</p>	<p>Transport Scotland should introduce relevant procedures to ensure that it has appropriate evidence supporting future capital additions to the trunk road network from work completed by the operating companies.</p> <p>Paragraph 32</p>	<p>Procedures are in place and evidence is collated to support this , via Roads Directorate colleagues and Performance Audit Group (PAG).</p> <p>Responsible officer - Roads Finance Business Partner</p> <p>Agreed date - from now</p>
<p>2. Roads' valuation system</p> <p>During 2021/22 a key member of staff involved in the roads authorities asset valuation system (RAAVS) left the organisation. The individual had vast knowledge and experience of RAAVS and was a contact point with both Atkins (system administrators) and auditors.</p> <p>RAAVS provides the supporting records for the</p>	<p>Transport Scotland should develop a plan to ensure that it manages the loss of experience relating to the roads authorities asset valuation system (RAAVS).</p> <p>Paragraph 33</p>	<p>The new Senior Financial Accountant and the Roads Finance Business Partner will manage the RAAVS reporting and link with Atkins. They will also ensure resilience planning is in place by liaising with and mentoring members of their own team in the processes and tasks. This work has already commenced.</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>trunk roads network asset which is material and prone to misstatement.</p> <p>Risk: There are material misstatements within the trunk roads network asset in the statement of financial position.</p>		<p>Responsible officer Senior Financial Accountant / Roads Finance Business Partner</p> <p>Agreed date - by 31 March 2023.</p>
<p>3. ScotRail strategic plan</p> <p>A new publicly owned model for ScotRail was introduced from 1 April 2022. Transport Scotland sponsors the holding company (Scottish Rail Holdings Limited (SRH)).</p> <p>A framework agreement is in place between Transport Scotland and SRH. This requires the preparation and publication of a 5-year strategic plan and a 1-year business plan. Neither of these are currently publicly available.</p> <p>Risk: SRH does not properly plan for future events which impacts on the delivery of rail services in Scotland.</p>	<p>In its role as sponsor, Transport Scotland should ensure that SRH develops a 5-year strategic plan and a 1-year business plan as per the Framework Agreement. These documents should then be published.</p> <p>Paragraph 73</p>	<p>A draft plan was considered at the SRH Board on 15 September 2022 and subject to suggested amendments will be submitted to Transport Scotland for consideration by the end of September 2022.</p> <p>Responsible officer - Rail Finance Business Partner / Head of Rail Finance – Rail.</p> <p>Agreed date - October 2022</p>

Follow-up of prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>4. Covid-19 spend analysis</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 as a result of the reduction in patronage caused by the Covid-19 pandemic.</p>	<p>Transport Scotland should identify the actual spend of additional monies made available for Covid-19 and should make this publicly available.</p>	<p>Complete – Covid-19 spend was reported in the Public Services Reform (Scotland) Act 2010 - Disclosures for the financial years 2019-20 and 2020-21. In addition, the 2021/22 annual report and accounts includes spend data for both 2020/21 and 2021/22.</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>Although the Transport Scotland Annual Report and Accounts provided details regarding the level of Covid-19 additional funding, it did not clarify the level of spend.</p> <p>Risk –There is a lack of transparency on additional funding provided to public transport operators.</p>		
<p>5. Reporting of actual spend in the performance report</p> <p>A review of financial figures within the performance report (and financial highlights section) found that many related to the level of funding allocated.</p> <p>Risk –The reader is not provided with a full sense of what was delivered/achieved during the reporting year.</p>	<p>Transport Scotland should identify and incorporates more actual spend data within the performance report and financial highlights to provide the reader with a greater sense of what has been delivered/achieved within the reporting year.</p>	<p>Outstanding – the performance report again included funding allocations rather than actual spend.</p> <p>Responsible officer : Senior Financial Accountant</p> <p>Date: 31 March 2023</p>
<p>6. Climate change spend</p> <p>Transport Scotland spend significant sums on carbon emissions (such as supporting the purchase of electric vehicles) and managing the impact of climate change on the transport network. However, spend on these types of projects is not collated centrally. Risk –Transport Scotland cannot fully demonstrate its commitment to tackling climate change.</p>	<p>Transport Scotland should identify and incorporate more actual spend data within the performance report and financial highlights to provide the reader with a greater sense of what has been delivered/achieved within the reporting year.</p>	<p>In progress – some details of spending plans but more could be included relating to actual spend.</p> <p>Responsible Officer : Finance Business Partners</p> <p>Date : 31 March 2023</p>
<p>7. Assets under construction</p> <p>Upon review of the closing net book value and transfer amounts in the assets under construction category, we</p>	<p>Transport Scotland should reconcile the assets under construction closing balance to ongoing projects at the end of the year and ensure that it remains accurate.</p>	<p>In progress – only immaterial balances found in 2021/22 of around £1 million.</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>concluded that the remaining balance in respect of AWPR (confirmed previously at around £400 million) had not been transferred to the trunk roads network category.</p> <p>Transport Scotland confirmed that the AWPR had been signed off as completed in November 2019 and agreed that as all sections of the new road are now incorporated within RAAVS there should be no residual balance within assets under construction.</p> <p>Transport Scotland identified a total balance of £392 million within the assets under construction category which related to the AWPR.</p> <p>Risk –The assets under construction balance could be materially misstated.</p>		<p>Responsible Officer : Roads Finance Business Partner</p> <p>Date :31 March 2023</p>
<p>8. Impact of Covid-19 on financial plans</p> <p>Transport Scotland has proactively sought to amend its financial plans to ensure that transport operators are supported through the Covid-19 pandemic from the reduction in fare income. As the pandemic changes, plans are likely to have to change as well.</p> <p>Risk –transport operators are not properly supported during the pandemic.</p>	<p>Transport Scotland should ensure its financial plans are flexible to meet the changing requirements brought about by the pandemic.</p>	<p>Complete – Transport Scotland has been able to continue to fund public transport operators in 2021/22. Ongoing financial sustainability risk reported in Part 3.</p>
<p>9. Fair pay disclosure</p> <p>The Government Financial Reporting Manual (the FReM) requires the disclosure of the median remuneration of the reporting entity’s staff, based</p>	<p>Transport Scotland should, along with the Scottish Government, consider developing an approach which incorporates agency</p>	<p>Complete – Transport Scotland now incorporates temporary agency staff within the fair pay calculation.</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>on annualised, full-time equivalent remuneration of all staff (including temporary and agency staff) as at the reporting date. Our review found that Transport Scotland's calculation does not incorporate agency staff.</p> <p>Risk –The fair pay disclosures in the remuneration and staff report are inconsistent with the FReM.</p>	<p>staff into the fair pay (median) calculation.</p>	

Appendix 2. Summary of uncorrected misstatements

We report all uncorrected misstatements in the annual report and accounts that are individually greater than our reporting threshold of £250,000.

The table below summarises amendments that would be required to misstatements that were noted during our audit testing and were not corrected in the financial statements. Cumulatively these errors are below our performance materiality level as explained in [Exhibit 2](#). We are satisfied that these errors do not have a material impact on the financial statements.

Account areas	Statement of Comprehensive Net Expenditure		Statement of Financial Position	
	Dr £m	Cr £m	Dr £m	Cr £m
1. Trade payables			4.3	
Programme costs		(4.3)		
Trade receivables			5.6	
Programme costs		(5.6)		
2. PPE			0.8	
General fund				(0.8)
PPE			0.2	
Revaluation reserve				(0.2)
3. PPE			1.1	
Revaluation reserve				(1.1)
4. General fund			5.4	
Trade receivables				(5.4)
Net Impact		(9.9)	17.4	(7.5)

Notes:

1. An accrual was posted based on the predicted outcome from the late year restart grant reconciliation. During the audit the reconciliation was completed, and the results differed by £9.9 million.
 2. The non-roads asset register was not updated at year-end and therefore omitted adjustments relating to an addition and revaluation (via indexation).
 3. Erroneous balances within the assets under construction balance within the statement of financial position.
 4. A receivables balance relating to income which was received prior to the year-end.
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Appendix 3. Summary of 2021/22 national reports

May

[Local government in Scotland Overview 2021](#)

June

[Covid 19: Personal protective equipment](#)

July

[Community justice: Sustainable alternatives to custody](#)

September

[Covid 19: Vaccination programme](#)

January

[Planning for skills](#)

[Social care briefing](#)

February

[NHS in Scotland 2021](#)

March

[Local government in Scotland: Financial Overview 20/21](#)

[Drug and alcohol: An update](#)

[Scotland's economy: Supporting businesses through the Covid 19 pandemic](#)

Transport Scotland

2021/22 Annual Audit Report

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