Transport Scotland

2024/25 Annual Audit Report

Prepared for Transport Scotland and the Auditor General for Scotland

September 2025

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1 All audit opinions stated that the annual report and accounts were free from material misstatement.

2 The implementation of a new financial ledger part way through 2024/25 caused considerable issues with the reconciliation of the ledger and therefore the preparation of the unaudited financial statements. This combined with the impact of a high turnover of finance staff resulted in delays in the audit.

3 There were a number of significant findings and key audit matters to report as a result of our work. All material audit adjustments required to correct the financial statements were processed by Transport Scotland.

Financial management and sustainability

4 The audit work performed on the financial management arrangements in place identified strong budgetary control with regular monitoring of the budget position through the year.

5 Transport Scotland operated within its revised fiscal resource, reporting an underspend of £248 million for 2024/25. Of this underspend £172 million relates to technical accounting adjustments and non-cash budgets which are ringfenced and cannot be used to cover other expenditure.

6 The arrangements that Transport Scotland has in place for securing financial sustainability are effective and appropriate, however there are significant challenges in both revenue and capital budgets for 2025/26.

7 Scenario planning and longer-term financial planning is undertaken and feeds into Scottish Government plans, but this is not published at Transport Scotland level.

Vision, leadership and governance

8 Transport Scotland has a clear vision supported by strong leadership and robust governance arrangements.

9 There has been significant turnover in both the central finance team and in Finance Business Partners (FBPs) supporting the directorates, resulting in a lack of capacity and continuity.

Use of resources to improve outcomes

10 Transport Scotland's use of resources is focused on achieving the priorities in the National Transport Strategy, with mixed performance across a range of measures.

11 Transport Scotland's Annual Business Plan is an internal document and therefore is not published however performance is summarised in the Performance Report.

Introduction

Purpose of the Annual Audit Report

1. The purpose of this Annual Audit Report is to report the significant matters identified from the 2024/25 audit of Transport Scotland's annual report and accounts and the wider scope areas specified in the Code of Audit Practice (2021).

2. The Annual Audit Report is addressed to Transport Scotland and the Auditor General for Scotland and will be published on Audit Scotland's website in due course.

Scope of the audit

3. The audit is performed in accordance with the Code of Audit Practice, including supplementary guidance, International Standards on Auditing (ISA) (UK), and relevant legislation. These set out the requirements for the scope of the audit which includes:

- An audit of the financial statements and an opinion on whether they give a true and fair view and are free from material misstatement, including the regularity of income and expenditure.
- An opinion on statutory other information published with the financial statements in the annual report and accounts, namely the Performance Report and Governance Statement.
- An opinion on the audited part of the Remuneration and Staff Report.
- Conclusions on arrangements in relation to the wider scope areas: Financial Management; Financial Sustainability; Vision, Leadership and Governance; and Use of Resources to Improve Outcomes.
- Reporting on arrangements for securing Best Value.
- Provision of this Annual Audit Report.

Appointed auditor and independence

4. Pauline Gillen, of Audit Scotland, has been appointed as the external auditor of Transport Scotland for the period from 2022/23 until 2026/27. As reported in the Annual Audit Plan, Pauline Gillen and the audit team are independent of Transport Scotland in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical

Standard. There have been no developments since the issue of the Annual Audit Plan that impact on the continued independence of the engagement lead or the rest of the audit team from Transport Scotland, including no provision of non-audit services.

Responsibilities and reporting

5. The Code of Audit Practice sets out the respective responsibilities of Transport Scotland and the auditor, with a summary outlined below.

Auditor's responsibilities

6. The responsibilities of auditors in the public sector are established in the Public Finance and Accountability (Scotland) Act 2000. These include providing an independent opinion on the financial statements and other information reported within the annual report and accounts and concluding on Transport Scotland's arrangements in place for the wider scope areas and Best Value.

7. The Annual Audit Report includes an agreed action plan at Appendix 1. The matters reported are those that have been identified by the audit team during normal audit work and may not be all that exist. Communicating these does not absolve Transport Scotland from its responsibilities outlined below.

Transport Scotland's responsibilities

8. Transport Scotland has primary responsibility for ensuring proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety, and regularity that enables it to successfully deliver its objectives. The features of proper financial stewardship include:

- Establishing arrangements to ensure the proper conduct of its affairs.
- Preparation of an annual report and accounts, comprising financial statements for Transport Scotland that gives a true and fair view and other specified information.
- Establishing arrangements for the prevention and detection of fraud, error and irregularities, and bribery and corruption.
- Implementing arrangements to ensure its financial position is soundly based.
- Making arrangements to secure Best Value.
- Establishing an internal audit function.

National and performance audit reporting

9. The Auditor General for Scotland and the Accounts Commission regularly publish national and performance audit reports. These cover a range of matters, many of which may be of interest to Transport Scotland and the Audit and Risk Committee. Details of national and performance audit reports published over the last year can be seen in Appendix 3.

Acknowledgements

10. We would like to thank Transport Scotland and its staff, particularly those involved in preparation of the annual report and accounts, for their cooperation and assistance during the audit. We look forward to working together constructively over the remainder of the five-year audit appointment.

Audit of the annual report and accounts

Main judgements

All audit opinions stated that the annual report and accounts were free from material misstatement.

The implementation of a new financial ledger part way through 2024/25 caused considerable issues with the reconciliation of the ledger and therefore the preparation of the unaudited financial statements. This combined with the impact of a high turnover of finance staff resulted in delays in the audit.

There were a number of significant findings and key audit matters to report. All material audit adjustments required to correct the financial statements were processed by Transport Scotland.

Audit opinions on the annual report and accounts are unmodified

11. Transport Scotland's annual report and accounts were reviewed by the Audit and Risk Committee who provided advice to the Accountable Officer. They were signed by the appointed auditor on 19 September 2025. The Independent Auditor's Report is included in Transport Scotland's annual report and accounts, and this reports that, in the appointed auditor's opinion, these were free from material misstatement.

The audit has not been delivered in accordance with the agreed timetable

12. The audit has not been delivered in accordance with the agreed timetable. We did not receive the complete annual report and accounts or working papers on 2 June as detailed in the timetable set out in our 2024/25 Annual Audit Plan. We received:

- The substantially complete unaudited Performance Report, Accountability Report, Remuneration and Staff Report, and Parliamentary Accountability Report on 2 June 2025.

- An incomplete package of working papers on 12 June 2025

- The substantially complete unaudited Annual Report and Accounts on 25 June 2025.

13. The significant delays in receiving all working papers and the unaudited annual report and accounts impacted on the audit timetable and delayed the agreed date for certification of the annual report and accounts.

14. The quality of the unaudited accounts and working papers was not of the expected and usual standard. The main reason for this was the implementation of the Oracle system during 2024/25 causing significant additional work to map transactions and balances from account codes in the old ledger to the new system. A significant turnover in staff within the Finance department and across Finance Business Partners in the directorates also contributed to the difficulty in producing the unaudited accounts and extended trial balance for audit. We include a recommendation on staff capacity at paragraph 78 of our report.

Recommendation 1

Transport Scotland did not deliver the unaudited accounts and working papers to the agreed timetable.

A lessons learned exercise should be carried out to address the root cause of the issues that caused delays to the production of the unaudited accounts and supporting working papers.

This should include engagement with Scottish Government to understand the role that Oracle played in this and how these issues can be addressed to prevent them recurring in for future years.

The audit fee has increased from the level reported at planning

15. As a result of the delays in receiving the unaudited accounts and working papers and the significant additional audit work required, as a result of the Oracle transition, an additional audit fee will be charged. This will be confirmed with management in due course.

Materiality was reviewed on receipt of the unaudited annual report and accounts

16. Materiality is applied by auditors in planning and performing an audit. The concept of materiality is to determine whether misstatements identified during the audit could reasonably be expected to influence the decisions of users of the annual report and accounts. Auditors set a monetary threshold when determining materiality, although some issues may be considered material by their nature. Therefore, materiality is ultimately a matter of the auditor's professional judgement.

17. Materiality levels for the audit were determined at the risk assessment phase of the audit and were reported in the Annual Audit Plan, which also reported the judgements made in determining materiality levels. These were reassessed on receipt of the unaudited annual report and accounts and are detailed in Exhibit 1.

Exhibit 1
2024/25 Materiality levels

Materiality	
Materiality – set at 1.8% of NBV of trunk road network (including assets under construction)	£499 million
Performance materiality – set at 50% of materiality. As outlined in the Annual Audit Plan, this acts as a trigger point. If the aggregate of misstatements exceeds performance materiality, this could indicate further audit procedures are required.	£250 million
Reporting threshold	£540,000

Source: Audit Scotland

18. The overall materiality threshold was set with reference to the net book value of the trunk roads network (including assets under construction) due to the significant value of this asset.

19. In addition to overall materiality, we can set lower, specific materiality levels for certain classes of transaction, account balances or disclosures where lesser amounts could influence the decisions of the users of the financial statements.

20. We recognise that transactions relating to Transport Scotland's ongoing operation across all modes of transportation are likely to be of key interest to the users of the financial statements and we therefore set specific materiality levels based on gross expenditure as shown in Exhibit 2.

Exhibit 2
2024/25 Lower specific materiality levels

Materiality	
Specific materiality - for the year ended 31 March 2025 we have set a lower materiality threshold at 1.8% of gross expenditure	£54 million
Specific performance materiality threshold – Using our professional judgement, we have calculated specific performance materiality at 65% of the specific materiality	£35 million

Source: Audit Scotland

Significant findings and key audit matters

21. ISA (UK) 260 requires auditors to communicate significant findings from the audit to those charged as governance, which for Transport Scotland is the Audit and Risk Committee.

22. The Code of Audit Practice also requires public sector auditors to communicate key audit matters. These are the matters that, in the auditor's professional judgement, are of most significance to the audit of the financial statements and include:

- Areas of higher or significant risk of material misstatement.
- Areas where significant judgement is required, including accounting estimates that are subject to a high degree of estimation uncertainty.
- Significant events or transactions that occurred during the year.

23. The significant findings and key audit matters to report are outlined in Exhibit 3.

Exhibit 3
Significant findings and key audit matters

Significant findings and key audit matters	Outcome
1. Outturn position – total expenditure On commencement of the audit Transport Scotland advised they had identified a difference of £23.361 million between the expenditure outturn position per the financial ledger and that recorded through Transport Scotland internal budget monitoring. A prepayment of £23.361 million was recognised in the unaudited accounts with the corresponding entry reducing programme expenditure by the same amount to bring the reported expenditure in year in line with budget monitoring reports. Throughout the audit process, the following errors were identified that accounted for £22.031 million of this difference: • £21.1 million related to over-accruals. • £0.931 million related to an error in Air services expenditure. Transport Scotland have been unable to identify the remaining £1.330 million difference. This is below our materiality level.	These adjustments have been made to the 2024/25 annual report and accounts. Additional testing was carried out with further errors identified below. **Recommendation 1** has been raised to consider what action should be taken by Transport Scotland to ensure that the same difficulties are not experienced in future years.

Significant findings and key audit matters	Outcome
2. Outturn position – programme expenditure reallocations On commencement of the audit Transport Scotland advised of various differences between individual programme expenditure outturns in the ledger and the expenditure that is recorded through Transport Scotland's internal budget monitoring returns by individual directorates as a result of data migration errors following the transition to Oracle. To bring the budget outturn expenditure in line with internal budget monitoring reports, several reallocations between individual lines in *Note 4 Programme Expenditure* were processed as follows: • Low carbon and active travel - £13.503 million increase • Air services in Scotland - £1.325 million increase • Smart card applications - £1.510 million increase • Concessionary travel - £0.429 million Increase • Ferry Services in Scotland - £26.673 million decrease • Grants to Local Authorities - £9.905 million increase There was no impact on the total programme expenditure as a result of the above reallocations, however the individual lines in Note 4 were adjusted.	Significant additional audit work was required to agree these reallocations. These adjustments have been made to the 2024/25 annual report and accounts. **Recommendation 1** has been raised to consider what action should be taken by Transport Scotland to ensure that the same difficulties are not experienced in future years.

Significant findings and key audit matters	Outcome
3. Capital maintenance expenditure Capital expenditure of £192.880 million was incorrectly included as Property, Plant and Equipment assets on the Statement of Financial Position. Transport Scotland notified audit that, due to complications following the implementation of Oracle, further work was required with the Scottish Government to correct the Chart of Accounts on Oracle and that this balance should have been treated as revenue expenditure and included as Programme Expenditure on the Statement of Comprehensive Net Expenditure. This was corrected following confirmation on the Chart of Accounts with SG and as a result, Net Expenditure increased by £192.88 million while Non-Current Assets decreased by the same amount.	This adjustment has been made to the 2024/25 annual report and accounts. **Recommendation 1** has been raised to consider what action should be taken by Transport Scotland to ensure that the same difficulties are not experienced in future years.
4. Voted loans interest £7.012 million of voted loan effective interest was initially misclassified as accrued income, due to the incorrect mapping of data to Oracle, and was reallocated to Financial Assets in the Statement of Financial Position following agreement of the correct Oracle coding.	This has been adjusted for in the 2024/25 annual report and accounts.
5. Sub-lease arrangement In 2024/25 Transport Scotland entered into a sublease arrangement for part of the Bothwell Street office with another Public Sector Body. Transport Scotland identified that the lease has not been recognised in the annual report and accounts during the audit process. Under IFRS 16, this should be recognised as a sub lease Right of Use Asset calculated over the next 23 years and should reduce Transport Scotland's lease liability. The reduction in the value of the Right of Use Asset and corresponding lease receivable have not been recognised. On review of the lease agreement, we are satisfied that this is not material to the financial statements.	Management have not adjusted for this in the 2024/25 annual report and accounts. The impact is not material to the overall accounts. A footnote has been added under Note 3 to identify the sublease income. **Recommendation 2** (Refer Appendix 1, action plan)

Significant findings and key audit matters	Outcome
6. Lease liability expenditure The movement in the lease liability relating to a Right of Use Asset was not included in the unaudited accounts. This resulted in an understatement of expenditure in year of £1.272 million and a corresponding overstatement of Trade and Other Payables.	The capital amount of £0.982million has been adjusted for in the 2024/25 annual report and accounts. Interest of £0.290million has not been adjusted but is below our reporting threshold.
7. Expenditure accruals Our cut-off testing of expenditure items charged to period 1 of 2025/26 identified one transaction of £0.845 million relating to 2024/25 that had not been accrued for. Our trade payables testing also identified one accrual relating to ferries expenditure for £8.060 million that management could not provide backup to substantiate.	This has been adjusted for in the 2024/25 annual report and accounts. This was not adjusted for in the 2024/25 annual report and accounts and has been recorded as an unadjusted error.
8. Provisions Transport Scotland identified £11.491 million of Long-term Provisions were incorrectly disclosed as Short term Provisions on the Statement of Financial Position in the unaudited accounts during the audit process. This was due to Oracle data migration errors and required further work with Scottish Government to clarify the correct Chart of Accounts coding before a correction could be made. This was a misclassification error and had nil impact on the Statement of Financial Position.	This has been adjusted for in the 2024/25 annual report and accounts.
9. Roads expenditure Transport Scotland identified that the Roads value was overstated by £1.3 million in the Statement of Financial Position. This required an adjustment to reduce the asset and write back to the revaluation reserve as a loss on revaluation in the Statement of Changes in Taxpayers Equity.	This has been adjusted for in the 2024/25 annual report and accounts.

Significant findings and key audit matters	Outcome
10. Voted loans Our testing identified that a voted loan paid in year was held on the Statement of Financial Position at cost, rather than amortised cost in line with accounting standards. The value of this was £5.9 million. The Effective Interest Rate applied to this is missing from the value recognised on the SOFP.	The error could not be quantified but we are satisfied that this could not be material as the loan is not material at cost.
11. Assets under construction transfer Our testing identified an error of £0.670 million in the transfer of assets under construction to the roads network. The impact of this was to increase the roads asset by this amount on the Statement of Financial Position.	This has been adjusted for in the 2024/25 annual report and accounts.

Significant findings and key audit matters	Outcome
12. Baxter index – Quarter 4 impact The trunk road network is valued annually through RAAVS (Roads Authorities Asset Valuation System). This involves applying indexation to Road Surface, Structures, and Communications assets to allow for changes in construction costs. This uses an industry standard form of indexation known as the Baxter index. Information for the last quarter of the financial year usually becomes available in July each year, after the preparation of the draft annual report and accounts. Therefore, the impact of the change is normally assessed to ascertain the movement in value as at 31 March. The change in the index can result in a material change to the Net Book Value of the Road Network in the Statement of Financial Position. Earlier this year, the Office for National Statistics (ONS) announced they had identified a problem with calculation of the Producer Price Indices (PPI) and ONS Services Producer Price Indices (SPPI) indices. This problem affects the years from 2008 onwards, with the greatest impact on annual rates seen from 2020 to the present. There is a risk that this may potentially have an impact on the published Baxter Indices, used in the RAAVS model, as they use PPI and SPPI indices. As the timing of this notification means that the March indices used are not firm, and already published indices may be subject to change then there is a risk that the numbers from RAAVS will be impacted. Due to this issue, no firm figures have been provided for quarter 4 and the provisional figures provided in March have been used for the valuation.	Management have included a disclosure in the accounts explaining this issue and confirming that the indices used for quarter 4 are not firm. A sensitivity analysis showing the percentage movement which would be required to cause a material impact has been included in the audited annual report and accounts. We are content that there was no prior period error arising from the issue as Transport Scotland had used the best available information at 31 March 2024.

Source: Audit Scotland

Qualitative aspects of accounting practices

24. ISA (UK) 260 also requires auditors to communicate their view about qualitative aspects of Transport Scotland's accounting practices, including accounting policies, accounting estimates, and disclosures in the financial statements.

Accounting policies

25. The appropriateness of accounting policies adopted by Transport Scotland was assessed as part of the audit. We requested some further detail to be added to the accounting policies in relation to the roads network valuation as this is a significant and complex area of the accounts and more clarity was required to aid the reader of the account's understanding of the relevant accounting policies. All other policies were considered to be appropriate to the circumstances of Transport Scotland, and there were no significant departures from the accounting policies set out in the Government Financial Reporting Manual (FReM).

Accounting estimates

26. Accounting estimates are used in Transport Scotland's financial statements. Audit work considered the processes Transport Scotland has in place, including the assumptions and data used in making any accounting estimates, and the use of any management experts. Our audit work concluded:

- There were no issues with the selection or application of methods, assumptions, and data used to make the accounting estimates, and these were considered to be reasonable.
- There was no evidence of management bias in making the accounting estimates.

Accounting estimates – Trunk Road Network

27. Specific accounting estimates are used in the annual valuation of the trunk road network through RAAVS (Roads Authorities Asset Valuation System). This involves applying indexation to the various components that make up the road network to allow for changes in construction costs. This uses an industry standard form of indexation known as the Baxter index. The valuation comprises an estimate of the depreciated replacement cost of these components to reflect fair value in the absence of market-based data. Land is revalued using updated rates provided by the Valuation Office Agency (VOA). Audit work considered the process Transport Scotland has in place, including the assumptions and data used in making the estimates, and the use of any management experts.

28. Details of the audit work performed and the outcome of the work on accounting estimates that gave rise to significant risks of material misstatement are outlined in Exhibit 5, (page 21).

Disclosures in the financial statements

29. The adequacy of disclosures in the financial statements was assessed as part of the audit. The quality of disclosures was adequate, with additional levels of detail provided for disclosures around areas of greater sensitivity, such as financial instruments and valuation of the trunk road network. Enhancements to the trunk road network disclosure are outlined in Exhibit 4.

We have other matters to report relating to difficulties encountered during the audit

30. Auditing standards require auditors to report a number of other matters if they are identified or encountered during an audit. The matters identified on the audit of Transport Scotland are outlined in Exhibit 4.

Exhibit 4
Other matters to report

Auditing standard requirement	Matter to report	Outcome
Other ISA (UK) 260 matters In addition to the matters already reported under ISA (UK) 260 in the Annual Audit Report, this standard also requires auditors to report: • Any significant difficulties encountered during the audit. • Circumstances that affect the form and content of the auditor's report. • Any other matters that are relevant to those charged with governance.	In October 2024 the Scottish Government implemented a new HR and Finance platform (Oracle Fusion) as a shared service to Scottish Government core and 32 public bodies. Due to the complexities of Transport Scotland's Chart of Accounts, the migration from SEAS to Oracle and mapping of account codes was challenging. The additional work required by finance to reconcile the ledger resulted in delays to the audit of the financial statements.	Significant additional work was undertaken by the audit team to understand and agree the adjustments required to the ledger. A large number of adjustments were required to the unaudited financial statements as a result. These are detailed in Exhibit 3. See Recommendation 1

Source: Audit Scotland

Significant matters discussed with management

31. All significant matters identified during the audit and discussed with management have been reported in the Annual Audit Report.

Audit adjustments

32. Audit adjustments were required to the financial statements to correct misstatements that were identified from the audit. We identified total adjustments of £238.8 million. Details of all audit adjustments greater than the reporting threshold of £0.540 million are outlined in Appendix 2.

33. In addition to the corrected misstatements outlined in Appendix 2, there were other misstatements identified greater than the reporting threshold. It is the auditor's responsibility to request that all misstatements greater than the reporting threshold are corrected, even if they are not material.

34. Management of Transport Scotland have not processed audit adjustments to correct these misstatements. The final decision on whether an audit adjustment is processed to correct a misstatement rests with the Chief Executive.

35. The value, nature, and circumstances of the uncorrected misstatements were considered, individually and in aggregate, by the audit team, and it was concluded these were not material to the financial statements. As a result, these did not have any impact on the audit opinions given in the Independent Auditor's Report.

Significant risks of material misstatement identified in the Annual Audit Plan

36. Audit work has been performed in response to the significant risks of material misstatement identified in the Annual Audit Plan. The outcome of audit work performed is summarised in Exhibit 5.

Exhibit 5
Significant risks of material misstatement to the financial statements

Risk of material misstatement	Planned audit response	Outcome of audit work
Fraud caused by management override of controls Management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.	The audit team will: • Evaluate the design and implementation of controls over journal entry processing. • Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries. • Test journals entries, focusing on those that are assessed as higher risk, such as those affecting revenue and expenditure recognition around the year-end. • Evaluate significant transactions outside the normal course of business. • Assess the adequacy of controls in place for identifying and disclosing related party relationships and transactions in the financial statements. • Assess changes to the methods and underlying assumptions used to prepare accounting estimates and assess these for evidence of management bias.	Audit work performed found: • The design and implementation of controls over journal processing were appropriate. • No inappropriate or unusual activity relating to the processing of journal entries was identified from discussions with individuals involved in financial reporting. • As a result of the Oracle issues detailed above, significant additional audit work was required to obtain sufficient audit evidence to support the large number of journal entries required to correct the Trial Balance at the year end. • No significant issues were identified from testing of journal entries. **Conclusion:** no evidence of fraud caused by management override of controls.

Estimation and judgements – Trunk Road Valuation

There is a significant degree of subjectivity involved in the measurement and valuation of the Trunk Road Network Asset (23/24: £27,424 million).

Valuations are based on specialist knowledge and management assumptions. Any changes to these can result in material changes in valuations and therefore represents an inherent risk of material misstatement in the financial statements.

- Evaluate the competence, capabilities, and objectivity of the external experts involved in the valuation process.
- Review the information provided to external valuers to assess for completeness.
- Obtain an understanding of management's involvement in the valuation process to assess if appropriate oversight has occurred.
- Review the revaluation accounting entries to ensure the figures provided by the external valuer are accurately recorded.
- Critically assess the adequacy of Transport Scotland's disclosures regarding the assumptions in relation to the valuation of Trunk Roads.

- The professional valuers involved in the valuation of the Trunk Road network are the Valuation Office Agency (VOA) and Atkins. We carried out work as required by ISA 500 to enable us to rely on the work of management's experts. We concluded that we could place reliance on their valuations for the trunk road network.
- We reviewed the information provided to external valuers to assess for completeness. Updates to the source data for valuation are subject to several checks by the Asset Management team and exception reporting is performed annually for any changes to the data.
- We reviewed the process for revaluations and are satisfied that appropriate oversight is exercised from management and the Asset Management team over the asset datasets and that they are sufficiently knowledgeable of changes year on year to challenge valuer assumptions.
- The revaluation methodology was evaluated, and we concluded it compliant with FReM asset revaluation requirements, albeit with the observations made in Exhibit 3 about the use of indexation.
- We assessed the disclosures in relation to asset valuations and recommended additional narrative to the valuation accounting policies. Management updated the

Risk of material misstatement	Planned audit response	Outcome of audit work
		accounting policies to more accurately reflect existing practice. • We assessed the accounting policy that details the Critical Accounting Estimates and Judgements applied by management. We concluded that this disclosure could be enhanced to comply more clearly with International Accounting Standards (IAS 1) by highlighting the sensitivity of the Road Network valuation to a small change in the Baxter index, management have added a sensitivity analysis to the disclosure. **Conclusion**: The network is valued in line with requirements, but from our engagement with other UK national audit agencies we understand that the Welsh Government are valuing their whole road network in 2024/25. This work is ongoing. There may be opportunities to further strengthen management's estimate based on the experience in Wales. See prior year recommendation 2.

Source: Audit Scotland

Prior year recommendations are being progressed

37. Transport Scotland has made good progress in implementing the agreed prior year audit recommendations. For actions not yet implemented, revised responses and timescales have been agreed with Transport Scotland and are outlined in Appendix 1.

Financial management and sustainability

Financial Management

Conclusion

The audit work performed on the financial management arrangements in place identified strong budgetary control with regular monitoring of the budget position through the year.

Transport Scotland operated within its revised fiscal resource, reporting an underspend of £248 million for 2024/25. Of this underspend £172 million relates to technical accounting adjustments and non-cash budgets which are ringfenced and cannot be used to cover other expenditure.

Transport Scotland operated within its 2024/25 budget and has a strong financial management culture

38. The main financial objective for Transport Scotland is to ensure that the financial outturn for the year is within the budget allocated by Scottish Ministers.

39. The initial 2024/25 budget was set at £3,925 million. An outturn of £3,709 million was reported against a total revised budget of £3,957 million. The financial performance against fiscal resource is shown in Exhibit 5.

Exhibit 5
Performance against resource limits in 2024/25

	Initial Budget £m	Final Budget £m	Outturn £m	Over / (under) spend £m
Resource	1,510	1,525	1,520	(5)
Capital	2,058	2,090	2,019	(71)

Non-cash	356	359	228	(131)
Financial transactions		(47)	(47)	-
Annually Managed Expenditure (AME)	0.5	30	(11)	(41)
Total	**3,925**	**3,957**	**3,709**	**(248)**

Source: Transport Scotland Draft Annual Report and Accounts 2024/25

40. Transport Scotland's budget and outturn position includes grant funding to Non-Departmental Public Bodies (NDPBs) in line with its sponsorship role.

41. The consolidated HMT budget increased by £32 million to £3,957 million through the budget review process. The main adjustments related to:

- An inter portfolio transfer received from Ferguson Marine of £55 million for voted loans to CMAL for the purchase of the Glen Sannox vessel
- £30 million increase to the bus services budget to fund higher than anticipated use of and fares related to concessionary travel schemes,
- £58 million increase to the rail infrastructure budget for acceleration of schemes and to meet increased costs.

42. This was offset by a £65 million reduction in the active travel budget and a £19 million reduction to the vessels and piers budget as a result of Scottish Government financial pressures and spend controls, as well as smaller reductions in budgets to fund HIAL, support for ferry services and road improvement.

Resource expenditure was underspent by £5 million

43. This underspend comprises a £7 million underspend in bus services linked to lower than anticipated Concessionary Travel expenditure due to winter bad weather as well as lower than forecast claims by bus operators regarding the bus support grant; and additional underspends of £3 million mainly due to underspending in Ferries following the reprofile of vessel procurement timetables. This is offset by a £5 million overspend in Rail due to lower than forecast revenue related to a downturn in leisure usage.

Capital expenditure was underspent by £71 million

44. This underspend comprises a £19 million underspend in Rail due mainly to rephasing of national Network Rail programmes and corporate efficiencies and lower than anticipated compensation payments; and further underspends of £6 million from slippage in works by Scottish Rail Holdings subsidiaries, offset by around £10 million additional spend in infrastructure improvement and rolling stock renewal programmes.

45. A further £26 million underspend in Roads related to weather and construction related delays across several projects, and a £21 million underspend on Ferries due to reprofiling of vessel payments and ports and harbour works falling into 2025/26.

Regular budget monitoring reports are provided to the Audit and Risk Committee

46. Senior management and members of the Audit and Risk Committee receive regular and timely financial information on Transport Scotland's performance against budgets. These reports allow members to scrutinise financial performance effectively throughout the year.

47. Based on our observations of the arrangements in place to monitor and report on the financial position throughout the year, reports are sufficiently detailed to allow corrective action to be undertaken. We observed also that the actual outturn for the full year was reflective of the forecast outturn reported to the May Audit and Risk Committee. We have concluded that Transport Scotland has appropriate budget monitoring arrangements in place.

Appropriate internal control arrangements operated throughout 2024/25, including appropriate arrangements for the prevention and detection of fraud and standards of conduct

48. In the public sector there are specific fraud risks, including those relating to tax receipts, welfare benefits, grants and other claims made by individuals and organisations. Public sector bodies are responsible for implementing effective systems of internal control, including internal audit, which safeguard public assets and prevent and detect fraud, error and irregularities, bribery and corruption.

49. From our review of the design and implementation of systems of internal control, including those relating to IT, relevant to our audit approach, we did not identify any significant internal control weaknesses which could affect Transport Scotland's ability to record, process and report financial and other relevant data to result in a material misstatement in the financial statements.

50. Transport Scotland's participation in the NFI exercise is through the Scottish Government, as the Scottish Government review data matches centrally for all agency bodies.

51. We concluded that Transport Scotland has adequate arrangements in place to prevent and detect fraud or other irregularities.

Significant challenges were experienced in implementing the new Oracle Fusion Cloud system

52. In October 2024 the Scottish Government implemented a new HR and Finance platform (Oracle Fusion) as a shared service to Scottish Government core and 32 public bodies. The systems are now being embedded to support a stronger overall control environment, but this is taking time to be fully established, with specific weaknesses remaining in payroll and in the process for ensuring appropriate access rights. Oracle Fusion has in built controls in the system which prevents users from approving journals that they have created. This removes the previously identified control weakness.

53. While aspects of the system are working well, as reported in Transport Scotland's governance statement the new system has created significant challenges for finance and HR teams as well as system users.

54. Issues have included the purchase-to-pay module not working as expected; roles and responsibilities being incorrect for a significant number of users; not having access to a test environment prior to the system going live; and issues with obtaining accurate budgeting and financial monitoring information. In response, Transport Scotland implemented manual processes which have been time consuming and resource intensive for the organisation.

55. The Scottish Government audit team also identified a number of control weaknesses. These issues were communicated in a controls letter to appointed auditors in June 2025.

56. We would encourage Transport Scotland to continue to share knowledge and work alongside the Scottish Government and other bodies to ensure full and proper use of the system going forward.

57. The Scottish Government's external audit team will also be undertaking a review of the Scottish Government's implementation of the new system. The review will consider the implementation process and provide insight on the post 'go live' position. It will also assess future plans, including how the assurance landscape will be strengthened. We will monitor progress with this review and update management and the Audit and Risk Committee on its findings in due course.

Financial Sustainability

Conclusion

The arrangements that Transport Scotland has in place for securing financial sustainability are effective and appropriate, however there are significant challenges in both revenue and capital budgets for 2025/26.

Scenario planning and longer-term financial planning is undertaken and feeds into Scottish Government plans, but this is not published at Transport Scotland level.

The budget has been set for 2025/26 in the context of significant financial pressures

58. Transport Scotland's 2025/26 budget shows an initial allocation of £4,009 million. This represents a £52 million (1.3%) increase from the prior year final budget. However, this is set in the context of rising costs, weather events and economic volatility, highlighting the need to make recurring savings.

59. Transport Scotland faces a difficult period in operating within a budget which will deliver its corporate objectives and also meet its financial target to operate within financial resource limits set by the Scottish Government.

60. The Cabinet Secretary for Finance and Local Government confirmed that central spending controls will remain in place for 2025/26 meaning only essential and unavoidable spend is to be approved. This creates a delivery risk for the Transport portfolio's Programme for Government (PfG), budget commitments, and the wider capital programme. As a result, there is an increased risk of underspends emerging in 2025/26 if approvals are delayed and delivery potentially put at risk.

61. A savings target has not been set for Resource but a target of £60 million was set for Capital. This involved confirming the first stage payment for the Small Vessels Replacement Programme in 2024/25, reducing its potential budget requirement for 2025/26 by £32 million. The remaining savings target of £28 million has been identified from the Ferries portfolio as a result of a reduction to the CMAL pension liability and reprofiling of vessels and ports work (per paragraph 64) as well as from a reprofiling of capital works in Highlands and Islands Airways Limited (HIAL).

Transport Scotland are currently forecasting a net underspend of £6 million for 2025/26

62. Transport Scotland were forecasting a net underspend of £6 million as at 30 June 2025. This is made up of a resource overspend of £34 million and a capital underspend of £40 million (included in capital savings of £60 million). It is anticipated that the resource overspend will reduce to zero following anticipated budget transfers from Scottish Government. Of this

£26 million relates to Peak Fares pressure and a further £7 million is the increase in National Insurance Contributions (NIC) which is split across Air (£5 million) and FCS (£2 million). Scottish Government have confirmed these budgets will be transferred to Transport Scotland at Autumn Budget Review (ABR) at the end of August.

63. The capital underspend comprises the following elements:

- Ferries - £53 million underspend from: Small Vessels Replacement Programme phase 1 vessels and ports works (£41 million) and a decrease to the CMAL pension liability (£12 million).
- Air - £5 million underspend from revised Highland and Islands Airports Limited capital programme work
- Roads and Major Projects - £18 million overspend pressure across a number of schemes, including the A9.

64. As at 31 July 2025, the forecast net underspend had increased to £13.6 million with a decrease in the resource overspend to £26.4 million and the forecast capital underspend remaining at £40million.

Transport Scotland's medium to long term position looks increasingly challenging

65. In June 2025 the Scottish Government published a new Public Service Reform Strategy (PSRS), its seventh Medium-Term Financial Strategy (MTFS) and the first Fiscal Sustainability Delivery Plan (FSDP). These documents provide a framework for the future of Scottish public sector finance and public service reform.

66. The 2025 MTFS presents a stark picture with gaps in resource projected to grow from a balanced budget in 2025-26, to a gap of £2.6 billion in 2029-30. Similarly capital spending is forecast to exceed the available budget by £1.1 billion in 2026-27, rising to a gap of £2.1 billion in 2029-30. Significant further action is required, for both resource and capital, to deliver a sustainable future for the Scottish public sector.

67. The vast majority of Transport Scotland's spend is allocated to contractual commitments, grant arrangements or committed capital projects. It is therefore possible to forecast much of its future expenditure with a level of certainty. However, with responsibility for maintaining the transport network, in particular trunk roads, rail and ferry services, Transport Scotland must have the flexibility to react to unplanned events and manage the adverse effects of associated costs on budgets.

Scenario planning and longer-term financial planning is undertaken and feeds into Scottish Government plans, but this is not published at Transport Scotland level

68. Transport Scotland undertake detailed financial planning under the Strategic Approach to Budgeting (SAB) which includes five-year forecasts and scenario planning based on various assumptions. This feeds into the Scottish Government's MTFS. In relation to capital, a ten-year horizon plan is produced alongside a firmer five-year plan. This is underpinned by the Strategic Transport Projects Review (STPR2) which helps inform transport investment.

69. In our 2023/24 Annual Audit Report, we recommended that the new corporate plan reflects the work undertaken in relation to medium to long term financial planning. The corporate plan 2024-27 was published in June 2025 and reflects high level budgetary information which reflects the spending commitments.

Vision, Leadership and Governance

Conclusion

Transport Scotland has a clear vision supported by strong leadership and robust governance arrangements.

There has been significant turnover in both the central finance team and FBPs supporting directorates.

Transport Scotland has a clear vision and strategy

70. Transport Scotland's vision is set out in the National Transport Strategy (NTS). Transport Scotland activities are focussed on delivering, through the NTS, the transport National Outcomes within the National Performance Framework (NPF) and the Programme for Government (PfG).

71. The Fourth NTS Delivery Plan was published in December 2024 and sets out the four priorities underpinning the vision:

- Reduces inequalities
- Takes climate action
- Helps deliver inclusive economic growth
- Improves our health and wellbeing.

Publication of the Corporate Plan 2024-27 to support the National Transport Strategy was delayed

72. Transport Scotland has a 3-year Corporate Plan 2024-27 and Annual Business Plan to support the vision and strategy. The Corporate Plan was due to be published in May 2024. However, due to significant changes in government which impacted Transport Scotland's priorities, publication was delayed until June 2025.

73. The plan sets out the outcomes Transport Scotland wishes to achieve in support of the PfG and NPF and highlights the priorities for the duration of the plan. This covers the Transformation Programme; Equality, Diversity and Inclusion; Climate and Environmental Responsibilities; Finance and Governance; Value for Money; Partnership and Collaborative Working; Procurement; Estates Strategy; and Information Management.

74. The Transformation Programme began in 2023/24 and is divided into six workstreams, which aim to secure Best Value through vision and leadership. These are Organisation Purpose; Prioritisation Exercise; Organisation Design; Leadership and Managing Change; Learning and Development; and Wellbeing. Each of these workstreams has a Senior Management Team Lead to provide visibility and leadership through the process and updates are reported to SMT.

75. Transport Scotland have a Framework Document in place with Scottish Ministers setting out the parameters within which it operates and how it will work to deliver the National Transport Strategy. This was published in February 2025 reflecting updates to governance arrangements, budget management and delegated authorities.

The Chief Executive position is now permanent, but several Director posts remain interim

76. The Chief Executive was appointed on a permanent basis in September 2024. The Chief Executive is supported in their role by the Senior Management Team (SMT). Of the nine Directors in SMT, three were interim posts during 2024/25.

77. An Organisational Design programme is currently being considered which will see a revision of the current structure. This is expected to be concluded by October 2025. This forms part of the wider Scottish Government's Transformation programme.

78. The Director of Finance and Corporate Services is also leaving their post in September 2025. Succession planning in this area should be prioritised as there is a significant risk associated with a potential knowledge gap in a key senior management role.

Finance staff turnover has been high, impacting on capacity and capability

79. In recent years, staff turnover in the core finance team and in the Finance Business Partner role, has been high, impacting on overall finance capacity and continuity. The significant issues encountered with the implementation of Oracle have been exacerbated by this level of turnover. The Finance Business Partner role in the directorates is key to the overall functionality of finance and during the year three out of four posts were vacant. Currently there are two vacancies with recruitment underway.

Recommendation 3

Transport Scotland should fill the vacancies in the finance function as soon as possible and implement a training plan for staff who are new in their roles to ensure they have a detailed understanding of the key aspects of their roles.

Recommendation 4

Arrangements for succession planning should be strengthened to ensure that there is continuity of knowledge and skills to ensure sufficient capacity and continuity in key finance roles.

Governance arrangements continue to operate effectively

80. Transport Scotland has well established governance arrangements in place. Since 2010/11, Transport Scotland has operated without a board, which differs from some other executive agencies of the Scottish Government. Responsibility for key decisions lies with the SMT, the Investment Decision Making Board and various Project Boards.

81. During 2024/25 the Audit and Risk Committee comprised of three non-executive members who provide scrutiny and constructive challenge of the governance of Transport Scotland. The Chair of the Audit and Risk Committee's appointment term ended in March 2025, and a new Chair was appointed from 1 April. Three new members were also appointed to the ARC from 1 May 2025 meaning that there are now five non-executive members of the committee from 2025/26.

82. Transport Scotland's governance arrangements for 2024/25 have been set out in the Governance Statement in the annual accounts. We have reviewed these arrangements and concluded that they are effective and appropriate.

Use of Resources to Improve Outcomes

Conclusion

Transport Scotland's use of resources is focused on achieving the priorities in the National Transport Strategy, with mixed performance across a range of measures.

Transport Scotland's Annual Business Plan is an internal document and therefore is not published however performance is summarised in the Performance Report.

Performance against the National Transport Strategy Delivery Plans is reported through the Monitoring and Evaluation Reports

83. The National Transport Strategy's Fourth Delivery Plan and Monitoring and Evaluation Report were published in December 2024. The Monitoring and Evaluation Report provides performance information measured against commitments for delivering the priorities and strategic policies in the Third Delivery Plan (covering 2023/24).

Performance trends, to 2023/24, in relation to delivering priorities, show mixed results

84. The report notes that as the NTS is a 20-year strategy, it is still relatively early to make a firm assessment of progress. However, some key statistics show overall, people are still travelling less on public transport than in 2019 (baseline). The number of local bus journeys in Scotland was 18% lower in 2022/23 than in 2019/20, and the number of Scotrail passengers was 16% lower in 2023/24 than in 2019/20.

85. There has been a slight increase in journeys made using sustainable modes of transport with 35% in 2023 against 33% in 2019.

86. There has been a reduction in the proportion of commuting trips between 2023 (21%) and the baseline in 2019 (23%), which is likely due to increased hybrid working.

87. For ferry services, there are measures of both contractual reliability and actual reliability. Contractual reliability makes allowances for circumstances out with operators' control, including extreme weather conditions. For CalMac, the level of contractual reliability (the number of timetabled sailings actually operated) was 99% in 2022/23 and the level of punctuality (against the published timetable) was 100%. This is similar to the baseline of 2019/20. For the measures of actual reliability for 2022/23, corresponding figures published in CalMac's strategic report were 95% and 97% respectively.

88. For Northlink, the level of contractual reliability of lifeline ferry services that were both punctual and reliable was 100% for both Aberdeen routes and the Pentland Firth in 2022-23. This is the same as the baseline position of 2019-20. Figures quoted by Northlink Ferries performance monitoring report on actual reliability and punctuality for 2022-23 are 97% and 90% respectively.

89. In 2023, there were 5,788 overall road casualties. This is 25% lower than in 2019 (7,328).

90. This data shows progress against the priorities set out in the NTS. Transport Scotland's Corporate Plan supports these priorities.

Transport Scotland's Annual Business Plan is an internal document and therefore is not published, however performance is summarised in the Performance Report

91. An annual Business Plan is developed to support the Corporate Plan, including key targets to measure performance. However, this is not published. A summary of actions taken against commitments in the business plan is provided in the Performance Report in the Annual Report and Accounts.

92. Regular detailed performance reporting against plans is provided at Senior Management Team level however there is no regular reporting of performance against the Corporate Plan or Annual Business Plan to the Audit and Risk Committee.

Duty of Best Value

93. The Scottish Public Finance Manual (SPFM) explains that Accountable Officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. Best Value in public services: guidance for Accountable Officers is issued by Scottish Ministers and sets out their duty to ensure that arrangements are in place to secure Best Value in public services.

94. Consideration of the arrangements Transport Scotland has in place to secure Best Value has been carried out alongside the wider scope audit. We have concluded that these arrangements are effective.

95. Transport Scotland has included a comprehensive overview of their Best Value framework within the 2024/25 Annual Governance Statement. This outlines how they demonstrate achievement of best value against each of the key characteristics and their commitment to continuous improvement.

The Clyde and Hebrides ferry service contract will be directly awarded to CalMac Ferries Limited from 1 October 2025

96. Transport Scotland, on behalf of Scottish Ministers, currently subsidises routes to the Clyde and Hebrides and the Northern Isles through separate contracts with two ferry operators as follows:

- Clyde and Hebrides (CHFS contract) - CalMac Ferries Limited
- Northern Isles (NIFS contract) - Serco NorthLink.

97. The CHFS 2 contract was due to end in September 2024 but to ensure the continuity of service until the outcome of the options appraisal process, it was agreed that the CHFS 2 contract would be extended for 9-12 months.

98. During 2024/25, a due diligence process was undertaken on the direct award of the CHFS 3 contract and the Cabinet Secretary for Transport announced on 8 May 2025 that Scottish Ministers agreed a direct award to CalMac Ferries Limited. This will be effective from 1 October 2025.

99. Public consultation on the next iteration of the NIFS contract (NIFS 4) opened in July 2025, with the current contract due to expire in June 2028.

An audit reviewing the delivery of MV Glen Sannox and MV Glen Rosa is currently in progress

100. As previously reported, construction of the two ferries has been fraught with delays and cost increases. The first ferry to be completed, MV Glen Sannox was handed over to CMAL in November 2024, six and a half years later than planned. It began sailing from Troon to Brodick on Arran in January 2025. The second ferry, MV Glen Rosa is not yet in operation.

101. The MV Glen Sannox is currently sailing from Troon because Ardrossan Harbour, the usual mainland port for the Arran ferry, requires significant upgrades to accommodate the new vessel. These upgrades are necessary because the Glen Sannox and its sister ship, the Glen Rosa, are too large to dock safely at Ardrossan in its current state. While the upgrades are underway, Troon is being used as a temporary mainland port for the Arran ferry service. This is expected to continue until early 2027.

102. The audit is important for understanding the factors that have affected delivery of the two ferries. It will identify lessons for future contracts, delivery arrangements and oversight. Publication of the report is currently planned for February 2026.

A delivery plan for the remaining projects to dual the A9 is being progressed

103. In December 2023 the Cabinet Secretary for Transport, Net Zero and Just Transition announced the delivery plan for dualling works for the remaining single carriageway sections of the A9 between Perth and Inverness. It is expected that nearly 50% of the A9 between Perth and Inverness will be open as dual carriageway by the end of 2030, which will subsequently rise to 85% by the end of 2033 and 100% by the end of 2035. The project was originally envisaged to be completed in 2025.

104. The construction contract for the A9 Dualling: Tomatin to Moy project was awarded in July 2024 and major construction works commenced in Spring 2025. This initiated a rolling programme of construction to dual the A9 between Perth and Inverness. Procurement of the Tay Crossing to Ballinluig section commenced in May 2024 and the preferred bidder was announced in July 2025 with the £153 million contract to be awarded after the mandatory standstill period. Procurement of the fifth section between Pitlochry and Killiecrankie also commenced in July 2025 with the contract expected to be awarded in Autumn 2026.

105. The Scottish Government estimate for the overall project cost was £3 billion in 2008. In April 2023, the revised estimate is £3.7 billion, due to a number of political, financial and environmental factors, including the Covid pandemic, causing delays.

Appendix 1 – Action plan 2024/25

2024/25 recommendations

Matter giving rise to recommendation	Recommendation	Agreed action, officer and timing
1. Preparation of the annual report and accounts Transport Scotland did not deliver the unaudited accounts and working papers to the agreed timetable. This led to significant delays in completion of the audit. **Risk** – there is a risk this could cause further delays to the audit in future years if issues are not resolved.	A lessons learned exercise should be carried out to address the root cause of the issues that caused delays to the production of the unaudited accounts and supporting working papers. This should include engagement with Scottish Government to understand the role that Oracle played in this and how these issues can be addressed to prevent them recurring in for future years.	**Accepted** Transport Scotland acknowledges that working papers were not delivered to the pre-existing Audit timeline. However, it is important to note that a significant factor in the delay was the transition to the new Oracle financial ledger system part way through the financial year. This created substantial reconciliation challenges, requiring a large volume of correcting journals and extensive manual work to validate financial data to ensure accuracy. These issues also impacted Audit Scotland's ability to progress the audit within the original timetable. We will work with the Scottish Government and Audit Scotland to ensure that the specific issues from the Oracle transition are fully understood and that any continued issues with the system and corresponding impact are communicated and reflected in the 2025-26 Audit timeline. *Head of Finance* *31 March 2026*

Matter giving rise to recommendation	Recommendation	Agreed action, officer and timing
2. Recognition of sub-lease In 2024/25 Transport Scotland entered into a sublease arrangement for part of the Bothwell Street office. The lease has not been recognised in the annual report and accounts. Under IFRS 16, this should be recognised as a sub lease right of use asset calculated over the next 23 years and reducing Transport Scotland's lease liability. **Risk** – there is a risk that the accounts are misstated due to exclusion of a right of use asset and lease liability.	Management should ensure that the necessary recognition and disclosures of leases and subleases are included within the annual report and accounts in line with IFRS 16.	**Accepted** Transport Scotland entered into a sublease arrangement for Bothwell Streed during 2024-25. TS finance flagged this to Audit Scotland and noted the lease was not recognised as a right of use asset in line with IFRS16 however a note to the accounts was added. Due to the delay with the accounts and as this impact in 2024-25 was not material, the adjustment was not reflected in the 2024-25 accounts to prevent any further delays to the audit. The necessary recognition will be made in 2025-26 to ensure full compliance with IFRS16. *Head of Finance* *31 March 2026*

Matter giving rise to recommendation	Recommendation	Agreed action, officer and timing
3. Capacity in the finance function Significant issues were identified with the capacity and continuity of the finance function, with several vacancies and a number of new staff. This issue, alongside the implementation of a new finance system, contributed to a number of errors in the annual report and accounts, and supporting working papers, which impacted on the time and resources required to perform the audit. Risk - there is a risk this could continue and occur on future year audits if the issues are not resolved.	Transport Scotland should fill the vacancies in the finance function as soon as possible and implement a training plan for staff who are new in their roles to ensure they have a detailed understanding of the key aspects of their roles.	Accepted TS acknowledge the capacity and continuity challenges within the finance function during 2024-25. A combination of vacancies, new staff in post and the transition to a new finance system contributed to the delays and additional work required to ensure the accuracy of the annual report and accounts and supporting working papers. We are working at pace to fill vacancies and ensure robust succession planning is in place. Recruitment has been successful in filing: x3 B1 Finance Assistant; x 2 B3 Finance Managers; x1 C1 FBP. Permanent recruitment is underway for additional C1 FBP, C2 Senior FBP and Head of Finance roles. *Head of Finance* *31 March 2026*

Matter giving rise to recommendation	Recommendation	Agreed action, officer and timing
4. Succession planning There has been significant turnover, and a number of vacancies held in key finance roles, including the imminent departure of the Director of Finance and Corporate Services. **Risk** – a lack of continuity and significant knowledge gaps could result in lack of capacity.	Arrangements for succession planning should be strengthened to ensure that there is continuity of knowledge and skills to ensure sufficient capacity and capability in key finance roles.	**Accepted** TS recognise the risk associated with the turnover of key finance roles, including the imminent departure of the FCS Director. An interim FCS director has been appointed and will receive a handover from the departing director to help ensure a smooth transition. In parallel TS have reviewed the structure of the finance team and have appointed x3 B1s to develop internal talent, alongside recruitment activity to help with succession planning. *Head of Finance* *31 March 2026*

Follow-up of prior year recommendations

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
b/f 1. Grant expenditure In 2023-24, we identified instances of grants being paid based on amounts claimed, and not on supporting evidence of amounts paid, which was not in line with grant conditions. **Risk** – There is a risk that grant payments are incorrect or are paid in advance of need.	**Recommendation** - Transport Scotland should ensure appropriate arrangements are in place to review grant claims and check to supporting evidence in line with grant conditions, prior to payments being made. **Management response** - We are taking steps to ensure that all grant payments are subject to review of associated expenditure before payment is made. The finance team are engaging with the wider business to ensure that lessons have been learned from this issue, and that grant managers have adequate training and support. This will ensure that grant management and administration follows agreed processes and complies with the requirements of the SPFM. We will work with the business to ensure that all grant offer letters are reviewed and tailored as appropriate to the nature of the funding. *Director of Finance & Corporate Services* *Autumn 2025*	***Implemented*** Our audit work on grant expenditure did not identify any significant instances of grants being paid without the necessary supporting evidence or out with specified grant conditions.

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
b/f 2. Valuation of the trunk road network The valuation of the trunk road network comprises an estimate of the depreciated replacement cost of these elements to reflect fair value in the absence of market-based data. The estimate is derived from actual construction costs of historic assets which are updated annually using indexation to arrive at a unit cost based on asset type, volume, and condition. These costing rates have not been updated since 2011 on the basis that there is lack of new construction in Scotland on assets which represent the cost of building the asset new in line with DRC principles. The FReM and IAS 16 require a revaluation in sufficient regularity to ensure the carrying value of the asset is not materially different to the current value. Road Authorities across the UK undertake quinquennial reviews (QQRs) to ensure compliance with accounting standards. Transport Scotland carry out an annual rates review but this could be improved to utilise modern equivalent cost data. **Risk** – the Road Network valuation on the Statement of Financial Position is materially misstated due to costing rates being based on historic information rather than recent construction costs.	**Recommendation** - The unit costs used for Roads, Structures and Communications should be subject to a more detailed review through consultation with a management expert. Engagement with other UK Roads Authorities is also recommended. The valuation approach adopted should involve identifying modern equivalent assets from recent construction schemes to derive cost data and compare this to existing unit costs used for the valuation. **Management response** - We do not accept this recommendation. We will continue to engage regularly with external experts and all other UK roads authorities as part of our annual revaluation exercise. We remain content that our existing approach complies with the requirements of the FReM and IAS 16, and that our asset base is not materially misstated.	**In progress** Our audit work included engagement with other national UK audit agencies to understand the differing approaches. We understand that the Welsh Government plan to carry out a full revaluation of the road network using a hybrid approach in Wales in 2024/25. This work has not concluded yet. While we are content that existing Transport Scotland approach is FReM and IAS 16 compliant there would be benefit in establishing whether the valuation exercise in Wales highlights potential areas for improvement or where the use of a similar hybrid model may be beneficial in strengthening management's estimate.

b/f 3. Source data for valuation of communications assets The valuation of the Road Network is produced by the Road Authority Asset Valuation System (RAAVS) which is overseen each year by Atkins Realis Limited. The output of the RAAVS model is based on inventory data provided each year by Transport Scotland which is subject to validation checks by Atkins and Transport Scotland's Asset Management Team. We reviewed the reliability of the source data used to inform the annual valuations. Roads, Structures, and Land data which is generated from Transport Scotland's internal Asset Management system (AMPS) and found no issues. Communications data is provided in spreadsheet format and is manually updated annually for any changes. There have been no changes to this data in the last two years. While we are satisfied that the Communications valuation is not materially misstated, we identified improvements that could be made to the quality of the source data. Management advised that a data validation exercise was being undertaken in 2023/24 to verify the accuracy of the Comms inventory data. Following validation, the data will be uploaded to AMPS to facilitate effective maintenance going forward and a more reliable valuation.	**Recommendation** - Management should ensure reconciliations are performed between the original dataset and the data in AMPS once it has been uploaded. The Communications data is now more granular with Communications assets being further componentised following the validation exercise. Management should therefore ensure appropriate unit costs are attributed to the Communications assets for the 24/25 valuation. **Management response** - Management will respond as per the recommendation. *Director of Finance & Corporate Services* *March 2025*	***Partially implemented*** Data has now been migrated to AMPS, but the spreadsheet format is being retained to support reporting purposes. Refinement is needed to the data structure in AMPS which is intended to be completed in the future. At this point a reconciliation between the datasets will be performed. Our audit work concluded that appropriate unit costs were attributed to the Communications assets for the 2024/25 valuation.

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
As at July 2024, the data validation exercise was substantially complete with only minimal discrepancies identified. **Risk** – the data held in AMPS is outdated or inaccurate and unit costs attributed to Communications assets are inappropriate.		
b/f 4. Recognition of surplus land Land purchased as part of some construction projects is held as part of assets under construction until completion, when all of the costs are capitalised. Surplus land may be sold during or after completion of the project. It is therefore not recognised on the asset register. There have been instances where the full proceeds of land sales have been recognised as income without a corresponding disposal of the assets. This results in overstated income. **Risk** – income continues to be overstated, and land is not appropriately recorded in the asset register.	**Recommendation** - Management should ensure that this practice is addressed and that surplus land is appropriately recorded on the asset register to ensure the accounts accurately reflect assets held and/or subsequently disposed of. **Management response** - During 2024-25 management will review processes in place for identifying surplus land and will ensure any land held is correctly accounted for on the fixed asset register. This will ensure that when land is disposed, the proceeds are correctly recognised against the asset. *Director of Finance & Corporate Services* *March 2025*	***Implemented*** Our review of income did not identify any instances of proceeds from sales of surplus land being recognised in 2024/25. However, we will consider any instances arising in the future.

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
b/f 5. Financial plans In our 2022/23 Annual Audit Report, we recommended that financial projections, aligned to Scottish Government's financial strategy, should be considered for incorporation where possible into Transport Scotland's 2025-2028 Corporate Plan to allow foresight of future financial challenges. This would enhance transparency and allow more detailed scrutiny at committee level. **Risk** – Published plans do not take into account financial plans meaning they are not subject to appropriate external scrutiny.	**Recommendation** - Management should ensure that the new corporate plan reflects the work undertaken in relation to medium to long term financial planning. This should be supported by medium to long-term financial plans that reflect the uncertain operating environment. **Management response** - The corporate plan will reflect work on medium to long range planning where appropriate, noting the existence of other relevant documents such as STPR2 and the MTFS which TS feeds into and subject to constraints around political sensitivity of planning information and reliance on single-year budgeting and funding allocations due to factors outside of our control. *Director of Finance & Corporate Services/Head of Corporate Services* *March 2025*	***Implemented*** The Corporate Plan includes reference to the STPR2 and MTFS includes high level budgetary information reflecting the current operating environment.

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
b/f 6. Publication of Corporate Plan and Framework Document The draft corporate plan and updated framework document have not been published due to delays caused by significant changes in government which may impact strategic priorities. **Risk** – Priorities are unclear to stakeholders and appropriate performance management and scrutiny cannot be undertaken against key objectives.	**Recommendation** - The Corporate Plan and Framework Document should be updated and published once strategic priorities are finalised. **Management response** - Corporate Plan and Framework Document to be published in Autumn 2024, however, priorities are set out in the National Transport Strategy, which will be reflected in the Corporate Plan, remain current. *Director of Finance & Corporate Services* *Autumn 2024*	***Implemented*** Framework with Ministers published in February 2025. Corporate Plan published in June 2025.

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
b/f 7. IT Strategy and cyber security Transport Scotland do not have an overarching IT strategy. A Business Continuity Plan is in place but does not include arrangements for scheduled testing. Cyber security arrangements could be further enhanced with a formal staff training programme and scheduled testing of the Cyber Resilience Response Plan. **Risk** – Transport Scotland's business continuity arrangements prove to be ineffective in the event of a cyber-attack.	**Recommendation** - Management should consider the need to develop an IT Strategy and should develop scheduled testing of business continuity arrangements and cyber security arrangements, including formal staff training. **Management response** - We will keep under review the need to develop an IT strategy but given our current IT requirements and current IT systems providers we feel there is no immediate need to do so. We will add arrangements for scheduled testing to our Business Continuity Plan We offer cyber training opportunities as provided by the Scottish Government's Cyber Defence and Engagement Unit. Opportunities are provided and communicated to the organisation regularly. We will take forward the recommendation to consider how this could be further enhanced by formalising a cyber training programme for staff. We will add scheduled testing detail to our Cyber Resilience Response Plan. The plan has been tested twice since December 2023. *Director of Finance & Corporate Services/Head of Corporate Services* *March 2025*	***Work in progress*** **IT Strategy** TS continue to review the need for an IT/Digital strategy and have started work to assess the current digital landscape (ICT Projects, Digital Capability) but remain of the view this is not a current requirement. ***Implemented*** **Cyber security and training** The BCP was tested as part of the resilience exercise in June 2024. TS are currently finalising arrangements for a Cyber Security Exercise to take place in 2025-26. Cyber training opportunities are offered as provided by the Scottish Government's Cyber Defence and Engagement Unit. Opportunities are provided and communicated to the organisation regularly. Management will take forward the recommendation to consider how this could be further enhanced by formalising a cyber training programme for staff.

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
b/f 8. Performance reporting arrangements In 2022/23 we reported that while key corporate plans are still in development, there was an opportunity for Transport Scotland to consider how they monitor and report on key performance indicators set out in the planning documents across the financial year. Given the Corporate Plan has not yet been finalised performance reporting has not progressed. **Risk** – Stakeholders are unclear what is being delivered/achieved against key corporate objectives.	**Recommendation** - Management should develop performance reporting arrangements and regularly report against the objectives set out in the Corporate Plan once the document has been finalised. **Management response** - The 2021-24 Corporate Plan included business plan objectives for 2023-24. While the 2024-27 Corporate Plan remains in draft, priorities and outcomes for transport are set out in the National Transport Strategy (NTS), which includes the polices to realise these. Public commitments are linked to the NTS priorities and progress is reported to Ministers and Transport Scotland Senior Management monthly. We will publish the Framework with Ministers and Corporate Plan in Autumn 2024 and have now enhanced the reporting to, and scrutiny by, Transport Scotland Senior Management Team during 2024-25. *Director of Finance & Corporate Services* *Autumn 2024*	***Implemented*** The Framework with Ministers was published in February 2025 and the Corporate Plan was published in June 2025. The Cabinet Secretary for Transport and the Minister for Agriculture and Connectivity receive monthly performance monitoring reports outlining progress against published transport commitments. An annual Business Plan is developed to support the Corporate Plan, including key targets to measure performance. However, this is not published. A summary of actions taken against commitments in the business plan is provided in the Performance Report in the Annual Report and Accounts. Regular detailed performance reporting against plans is provided at Senior Management Team level.

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
b/f 9. Climate change spend 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.	**Recommendation** - 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. Action (from 2020/21 Annual Audit Report) - We will agree processes to capture more detail of this spend to incorporate within the performance report and financial highlights. *TS Finance Business Partners/ Business Area colleagues.* *Original date – Dec 2021-March 2022* **Management response** - We will keep in view with the implementation of Oracle to see what is within scope re the new system. *Director of Finance & Corporate Services* *Autumn 2025*	***Implemented*** TS engages with the wider Scottish Government to ensure spend aligns with Climate priorities throughout the year and is continuing to seek opportunities to better reflect the links between spend and achievements. The next Climate Change Plan for the period 2026-2040 is due to be published following the agreement of carbon budgets in 2025 and will include costed policies and a revised Monitoring and Evaluation Framework. Transport Scotland's spend on climate priorities is also captured in the Climate Change Taxonomy published alongside the annual Scottish Budget. As the adoption of Oracle progresses TS will also continue to consider where opportunities to improve reporting of climate change spend.

Appendix 2 – Misstatements

Details	Financial statements lines impacted	Statement of Comprehensive Net Expenditure (SoCNE)		Statement of Financial Position (SoFP)	
Adjusted misstatements		**Dr**	**Cr**	**Dr**	**Cr**
		£000	**£000**	**£000**	**£000**
Outturn adjustments					
	General Fund	1,330			
	Expenditure	931			
	Accruals			21,100	
	Prepayments				23,361
Voted loans interest					
	Financial assets			7,012	
	Trade receivables				7,012
Missing accrual					
	Expenditure	845			
	Accruals				845
Capital maintenance					
	Expenditure	192,880			
	Property, Plant and Equipment				192,880
IFRS 16 lease					
	Lease liability			1,254	
	Rent		1,254		

Details	Financial statements lines impacted	Statement of Comprehensive Net Expenditure (SoCNE)		Statement of Financial Position (SoFP)	
Provisions split					
	Current provisions			11,491	
	Non-current provisions				11,491
RAAVS additions					
	Roads			1,320	
	Revaluation reserves		1,320		
AUC transfer					
	Roads			670	
	Realised element of RR		670		
Net impact on financial statements		**195,986**	**3,244**	**42,847**	**235,589**
Unadjusted misstatements		**Dr**	**Cr**	**Dr**	**Cr**
		£000	**£000**	**£000**	**£000**
Ferries accrual					
	Expenditure		8,060		
	Accruals			8,060	

Uncorrected misstatements in disclosures

1. Transport Scotland identified that the lease has not been recognised in the annual report and accounts during the audit process. Under IFRS 16, this should be recognised as a sub lease Right of Use Asset calculated over the next 23 years and should reduce Transport Scotland's lease liability.

The reduction in the value of the Right of Use Asset and corresponding lease receivable have not been recognised. On review of the lease agreement, we are satisfied that this is not material to the financial statements. See Exhibit 2, issue 5 and recommendation 2.

2. Our testing identified that a voted loan paid in year was held on the Statement of Financial Position at cost, rather than amortised cost in line with accounting standards. The error could not be quantified but the we are satisfied that this could not be material as the loan is not material at cost (£5.9 million).

The Effective Interest Rate applied to this is missing from the value recognised on the SOFP. See Exhibit 2, issue 10.

Appendix 3 – National reports

Report name	Date published
Local government budgets 2024/25	15 May 2024
Scotland's colleges 2024	19 September 2024
Integration Joint Boards: Finance and performance 2024	25 July 2024
The National Fraud Initiative in Scotland 2024	15 August 2024
Transformation in councils	1 October 2024
Alcohol and drug services	31 October 2024
Fiscal sustainability and reform in Scotland	21 November 2024
Public service reform in Scotland: how do we turn rhetoric into reality?	26 November 2024
NHS in Scotland 2024: Finance and performance	3 December 2024
Auditing climate change	7 January 2025
Local government in Scotland: Financial bulletin 2023/24	28 January 2025
Transparency, transformation and the sustainability of council services	28 January 2025
Sustainable transport	30 January 2025
A review of Housing Benefit overpayments 2018/19 to 2021/22: A thematic study	20 February 2025
Additional support for learning	27 February 2025
Integration Joint Boards: Finance bulletin 2023/24	6 March 2025
Integration Joint Boards finances continue to be precarious	6 March 2025
General practise: Progress since the 2018 General Medical Services contract	27 March 2025
Council Tax rises in Scotland	28 March 2025

Transport Scotland

2024/25 Annual Audit Report

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