Transport Scotland

2023/24 Annual Audit Report

Audit Scotland

Prepared for the Transport Scotland and the Auditor General for Scotland

August 2024

Contents

Key messages

2023/24 annual report and accounts

1 Audit opinions on the annual report and accounts are unmodified.

2 As part of our audit, we carried out work on the key risks identified in our Annual Audit Plan.

3 Management made adjustments of £59.6 million to the annual report and accounts of which £52.1 million related to the Quarter 4 Baxter Adjustment.

Financial management

4 Transport Scotland operated within its revised fiscal resources, reporting an underspend of £100 million.

5 Financial management arrangements are appropriate and effective, with regular budget monitoring reports provided to the Audit and Risk Committee.

6 Key controls within the main financial systems were operating effectively, while standards for the prevention and detection of fraud remain appropriate.

Financial sustainability

7 Transport Scotland continues to face significant financial pressures, immediately and over the medium to longer term.

8 Scenario planning and longer-term financial planning is undertaken but this should be formalised and reflected in published plans.

Vision, leadership, and governance

9 Publication of the Corporate Plan 2024-27 to support the National Transport Strategy has been delayed due to changes in the political environment.

10 Effective and appropriate governance arrangements are in place that support scrutiny of decisions made by management, committees and project boards.

11 Transport Scotland rely on the IT systems of Scottish Government for the majority of its digital services, but cyber security arrangements could be improved.

Use of resources to improve outcomes

12 Transport Scotland has developed an appropriate Best Value framework.

13 The current Clyde and Hebrides ferry service contract has been extended while options are explored for a new contract.

14 Progress on the Auditor General's recommendations following procurement of vessels 801 and 802 will be assessed once the ferries are operational.

15 Dualling of the A9 has been delayed further but a delivery plan for the remaining projects is in place.

16 Delays to publication of the Corporate Plan has impacted the development of performance monitoring.

Introduction

1. This report summarises the findings from the 2023/24 audit of Transport Scotland. The scope of the audit was set out in our Annual Audit Plan presented to the May 2024 meeting of the Audit and Risk Committee. This Annual Audit Report comprises:

- significant matters arising from an audit of Transport Scotland’s annual report and accounts
- conclusions on the following wider scope areas that frame public audit as set out in the *Code of Audit Practice 2021:*
    - Financial Management
    - Financial Sustainability
    - Vision, Leadership, and Governance
    - Use of Resources to Improve Outcomes.

2. This report is addressed to the Audit and Risk Committee of 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.

Audit appointment

3. I, Pauline Gillen, have been appointed by the Auditor General for Scotland as auditor of Transport Scotland for the period from 2022/23 until 2026/27.

4. My team and I would like to thank Audit and Risk Committee members, executive directors, and other staff, particularly those in finance, for their cooperation and assistance in this year’s audit, and we look forward to working together constructively over the course of the remainder of the five-year appointment.

Responsibilities and reporting

5. 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. Transport Scotland is also responsible for establishing appropriate and effective arrangements for governance, propriety, and regularity.

6. My responsibilities as the independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000, the Code of Audit Practice 2021, supplementary guidance and International Standards on Auditing in the UK (ISAs).

7. Weaknesses or risks identified are only those which have come to the attention of the audit team during our normal audit work and may not be all that exist. Communicating these does not absolve management of Transport Scotland from its responsibility to address the issues raised and to maintain adequate systems of control.

8. This report contains an agreed action plan at Appendix 1. It sets out specific recommendations, the responsible officers, and dates for implementation.

Auditor Independence

9. We can confirm that the audit team comply with the Financial Reporting Council's Ethical Standard. We can also confirm that I have not undertaken any non-audit related services and therefore the 2023/24 audit fee of £201,960 as set out in our 2023/24 Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

10. The annual audit adds value to Transport Scotland by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, arrangements to ensure the best use of resources and financial sustainability
- sharing intelligence and good practice identified.

1. Audit of 2023/24 annual report and accounts

Public bodies are required to prepare annual reports and accounts comprising financial statements and other related reports. These are principal means of accounting for the stewardship public funds.

Main judgements

Audit opinions on the annual report and accounts are unmodified.

As part of our audit, we carried out work on the key risks identified in our Annual Audit Plan.

Management made adjustments of £59.6 million to the annual report and accounts of which £52.1 million related to the Quarter 4 Baxter Adjustment.

Audit opinions on the annual report and accounts are unmodified

11. The Audit and Risk Committee approved the annual report and accounts for Transport Scotland and its group for the year ended 31 March 2024 on 28 August 2024. As reported in the independent auditor's report, in my opinion as the appointed auditor:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- expenditure and income were in accordance with applicable enactments and guidance
- the audited part of the Remuneration and Staff Report was prepared in accordance with the Government Financial Reporting Manual
- the Performance Report and Governance Statement were consistent with the financial statements and properly prepared in accordance with the Government Financial Reporting Manual.

Overall materiality was assessed as £502 million

12. Broadly, the concept of materiality is applied by auditors to determine whether misstatements identified during the audit could reasonably be expected to influence the economic decisions of users of the financial statements, and hence impact their opinion set out in the independent auditor's report. Auditors set a monetary threshold when considering materiality, although some issues may be considered material by their nature. It is ultimately a matter of the auditor's professional judgement.

13. Our initial assessment of materiality was carried out during the risk assessment 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
2023/24 Materiality levels

Materiality level	Amount
Overall materiality	£502 million
Performance materiality	£251 million
Reporting threshold	£500,000

14. 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.

15. Performance materiality is used by auditors when undertaking work on individual areas of the financial statements. It is a lower materiality threshold, set to reduce the probability of aggregated misstatements exceeding overall materiality. Performance materiality was set at 50% of overall materiality, reflecting material errors found in prior years.

16. 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.

17. 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
2023/24 Lower specific materiality levels for Transport Scotland

Materiality level	Amount
Specific materiality - for the year ended 31 March 2024 we have set a lower materiality threshold at 1.8% of gross expenditure	£55 million
Specific performance materiality threshold – Using our professional judgement, we have calculated specific performance materiality at 75% of the specific materiality.	£41 million

Significant findings and key audit matters

18. Under ISA (UK) 260, we communicate significant findings from the audit to the Audit and Risk Committee, including our view about the qualitative aspects of the body's accounting practices.

19. The Code of Audit Practice also requires us to highlight key audit matters which are defined in ISA (UK) 701 as those matters judged to be of most significance.

20. The significant findings are summarised in Exhibit 3.

Exhibit 3
Significant findings and key audit matters from the audit of the annual report and accounts

Issue	Resolution
1. Grant spend monitoring Sample testing of grant expenditure in year found a lack of evidence of any review of backup in some instances, before the payment of amounts claimed. The conditions contained in grant letters state that payments should be based on "actual reasonable and proper costs and expenses incurred by the Grantee". Evidence of actual expenditure incurred was not always provided with grant claims. Instead, we found instances of grants paid based on forecast spend or spend committed to, with supporting evidence for expenditure provided thereafter.	Transport Scotland have agreed that they will strengthen the governance arrangements in place for paying grant claims, and action has already been taken in 2024-25. This will include performing regular reconciliations to ensure any overpayments are reclaimed or deducted from future grant payments. Consideration will also be given to the wording of grant letter conditions to ensure that these remain appropriate. **Recommendation 1**

Issue	Resolution
Due to similar practice in previous years, a Transport Scotland active travel partner accumulated £72.3 million of unspent funding as at 31 March 23. When this was identified, Transport Scotland stipulated that this money should be spent prior to any further claim being made. However, a further claim was made in period 12 for £10 million and was paid without evidence of the accumulated balance being spent. We are satisfied that there is no material misstatement in the accounts. However, there was no evidence that back up to support the claim for £82.3 million of expenditure incurred was provided before payment.	(Refer Appendix 1, action plan and Paragraph 38).
2. Baxter index – Quarter 4 change 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 becomes available in July each year, after the preparation of the draft annual report and accounts. Therefore, the impact of the change was assessed to ascertain the movement in value as at 31 March 2024. The change in the index resulted in a 0.19% increase to the Net Book Value of the Road Network of £52.1 million in the Statement of Financial Position.	These adjustments have been reflected accurately in the 2023/24 accounts.
3. Valuation of the Trunk Road Network The trunk road network is the largest balance in the accounts (£27.4 billion as at 31 March 2024). The road network valuation is composed of four elements: Road pavement, Structures, Communications, and Land. The valuation 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	We are satisfied that the current value of the road network does not differ materially from the carrying value. However, we believe that 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

Issue	Resolution
indexation to arrive at a unit cost based on asset type, volume, and condition. Through discussion with the Finance team, Asset Management staff, and the external valuer, it was highlighted that the costing rates used have not been updated since 2011 on the basis that there is lack of new construction in Scotland on assets which would indicate what the current new build costs are – a requirement of the Depreciated Replacement Cost valuation methodology. Using this rationale, there is the possibility that the costing rates will never be updated and the Trunk Road Network asset may be indexed indefinitely. The FReM and IAS 16 require a revaluation with 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. .	assets from recent construction schemes to derive cost data and compare this to existing unit costs used for the valuation. **Recommendation 2** (Refer Appendix 1, action plan)
4. 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 is generated from Transport Scotland's internal Asset Management system (AMPS) and no issues were identified with the source data for these elements. However, Communications data is provided in spreadsheet format and is manually updated annually for any changes in Communications inventory. There have been no changes to this data in the last two years. Management advised that a data validation exercise was being undertaken in 2023/24 to verify	We are satisfied that the source data input to the RAAVS model for Communications asset valuation can be relied upon as at 31 March 2024. Management should ensure reconciliations are performed between the original dataset and the data in AMPS once it has been uploaded. The data is now more granular with assets being further componentised following the validation exercise. Management should therefore ensure appropriate unit costs are attributed to the Communications assets for the 2024/25 valuation. **Recommendation 3** (Refer Appendix 1, action plan)

Issue	Resolution
the accuracy of the Communications inventory data. Following validation, the data will be uploaded to AMPS to facilitate effective maintenance going forward and a more reliable valuation. As at July 2024, the data validation exercise was substantially complete with minimal discrepancies identified.	
5. Voted loans Per Transport Scotland's accounting policies, voted loans are held at amortised cost in accordance with IFRS 9. However, from our review of supporting working papers, it was identified that some of Transport Scotland's existing loans and new loans for vessels still under construction were being held on the Statement of Financial Position at historic cost. Transport Scotland produced amortised cost calculations for all affected loans which confirmed that Financial Assets had been understated by £5.6 million. We are satisfied that this was not material in the prior year and therefore no prior year adjustment is required.	These adjustments have been made to the 2023/24 annual report and accounts.
6. Pension Information The remuneration report disclosures do not include the accrued pension benefits for directors as required by the FReM. This is due to an exceptional delay in the calculation of these figures by the administrators of the civil service pension scheme following the application of the public service pension remedy. This is outwith the control of management. The 2023/24 FReM was revised to permit bodies to exclude those figures and instead include a disclosure explaining why the information was not included.	Management have included the required disclosure in the 2023/24 annual report and accounts.
7. Land absent from asset register Our testing found that £1.1 million of operating income was recognised in the draft accounts relating to the sale of land. However, no disposal of the land asset was recognised in the accounts. Further investigation found that land purchased as part of certain construction projects is held as part	Management have not adjusted for this in the 2023/24 annual report and accounts. **Recommendation 4** (Refer Appendix 1, action plan)

Issue	Resolution
of assets under construction until completion of the project, 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. Transport Scotland had recognised the full proceeds as income from sale of this land without a corresponding disposal of the asset. The accounting treatment was therefore incorrect and income has been overstated. As the land had not been given a market value, we cannot quantify the error. However, we are satisfied that this is cannot be in excess of £1.1 million and is therefore not material to the accounts.	

Audit work responded to the risks of material misstatement we identified in the annual report and accounts

21. We have obtained audit assurances over the identified significant risks of material misstatement in the annual report and accounts. Exhibit 4 sets out the significant risks of material misstatement to the financial statements identified in my 2023/24 Annual Audit Plan. It also summarises the further audit procedures performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 4
Identified Significant risks of material misstatement in the annual report and accounts

Audit risk	Assurance procedure	Results and conclusions
1. Risk of material misstatement due to fraud caused by management override of controls As stated in ISA (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.	• Assessed the design and implementation of controls over journal entry processing. • Made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. • Tested journals at the year-end and post-closing	**Results:** Work undertaken included detailed testing of journal entries, accruals, prepayments and invoices; as well as review of accounting estimates and transactions for appropriateness. Specific enquiries were made of individual staff as to whether they had knowledge or awareness of manipulation of financial recording or

Audit risk	Assurance procedure	Results and conclusions
	entries and focused on significant risk areas. • Considered the need to test journal entries and other adjustments throughout the year. • Evaluated significant transactions outside the normal course of business. • Assessed the adequacy of controls in place for identifying and disclosing related party relationships and transactions in the financial statements. • Assessed any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. • Substantively tested expenditure transactions around the year-end to confirm they were accounted for in the correct financial year. • Focussed testing of accounting accruals and prepayments.	processing of fraudulent journals. **Conclusion:** No incidents of management override of controls were identified.
2. 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 (2022/23: £27,146 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	• Evaluated the competence, capabilities, and objectivity of the external valuers. • Reviewed the information provided to external valuers to assess for completeness. • Obtained an understanding of management's involvement in the valuation process to assess if appropriate oversight had occurred. • Reviewed the revaluation accounting entries to ensure the figures provided by the	**Results**: The professional valuers involved in the valuation of the Trunk Road network are the Valuation Office Agency (VOA) and Atkins. We carried out 'reliance on a management expert' work on the valuers and 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

Audit risk	Assurance procedure	Results and conclusions
material misstatement in the financial statements.	external valuer were accurately recorded. • Critically assessed the adequacy of Transport Scotland's disclosures regarding the assumptions in relation to the valuation of Trunk Roads.	for valuation are subject to several checks by the Asset Management team and exception reporting is performed annually for any changes to the data. Improvements are being made to the recording of inventory data for Communications assets (see Recommendation 3). This data will be uploaded into AMPS in 2024/25 following validation and AMPS will be used for Communications maintenance and valuations going forward. 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 this is compliant with FReM asset revaluation requirements albeit with the observations made in Exhibit 2 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 accounting policies to more accurately reflect existing practice. We assessed the accounting policy that details the Critical Accounting Estimates and Judgements applied by

Audit risk	Assurance procedure	Results and conclusions
		management. We concluded that this disclosure could be enhanced to highlight the sensitivity of the Road Network valuation to a small change in the Baxter index. Management decided not to add a sensitivity analysis to the disclosure. **Conclusion**: The network is valued in line with requirements, but improvements could be made to the methodology. **See recommendations 2 and 3.**

Source: Audit Scotland

Officers made adjustments of £59.6 million to the Annual Report and Accounts

22. It is our responsibility to request that all misstatements, other than those below our reporting threshold, are corrected, although the final decision on making corrections lies with those charged with governance.

23. Adjustments to the annual report and accounts totalled £59.6 million. This includes the adjustments set out in Exhibit 3. Adjustments made in the audited annual report and accounts decreased net expenditure in the Statement of Comprehensive Net Expenditure by £0.9 million and increased net assets in the Statement of Financial Position by £52.1 million.

24. We have reviewed the nature and cause of the adjustments and have concluded that they arose from issues that have been isolated and identified in their entirety and do not indicate further systemic error. In addition, the adjustments relating to provision of Baxter Index quarter four information arose from timing issues outwith the control of Transport Scotland. While this has resulted in adjustments, we do not consider it to be an error.

The unaudited annual report and accounts were received in line with the agreed audit timetable

25. The unaudited annual report and accounts were received in line with the agreed audit timetable on 3 June 2024.

26. We received good support from management and the wider finance team which enabled us to complete the audit in accordance with the agreed timetable.

Limited progress was made on prior year recommendations

27. Transport Scotland has made limited progress in implementing the agreed 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 means having sound budgetary processes, and the ability to understand the financial environment and whether internal controls are operating effectively.

Conclusion

Transport Scotland operated within its revised fiscal resources, reporting an underspend of £100 million.

Financial management arrangements are appropriate and effective, with regular budget monitoring reports provided to the Audit and Risk Committee.

Key controls within the main financial systems were operating effectively, while standards for the prevention and detection of fraud remain appropriate**.**

Transport Scotland operated within its revised budget in 2023/24

28. 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.

29. The body has reported an outturn of £3,403 million against its overall budget for 2023/24 resulting in an underspend of £100 million. The financial performance against fiscal resources is shown in Exhibit 5.

Exhibit 5
Performance against fiscal resource in 2023/24

	Initial budget £m	Final budget £m	Outturn £m	Over/(under) spend £m
Resource	1,525	1,436	1,385	(51)
Capital	1,869	1,746	1,729	(17)
Non-cash	185	302	301	(1)
AME	-	19	(12)	(31)

Total	**3,579**	**3,503**	**3,403**	**(100)**

Source: Transport Scotland Annual Report and Accounts 2023/24

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

31. The consolidated HMT budget decreased by £76 million to £3,503 million through the budget review process. This includes a decrease of £123 million in the capital budget to reflect adjustments to forecasts and rescheduling of key capital projects. These amounts were returned to the Scottish Government. There was also a reduction in the revenue budget of £90 million to reflect IFRS 16 adjustments. These budget reductions were offset by an increase in non-cash allocations due to increased depreciation costs relating to Scottish Rail Holdings resulting from the impact of IFRS 16.

Resource expenditure was underspent by £51 million

32. From an opening pressure of £205 million the year end outturn for the resource budget was an underspend of £51 million. The majority of this underspend was due to a one off and non-recurring receipt received upon finalisation of the close down of the private Rail Franchise, increased Rail passenger revenue, and a number of other efficiency savings.

Capital expenditure reduced in 2023/24

33. Transport Scotland had a revised Capital DEL budget in 2023/24 of £1,746 million, representing a decrease of £801 million compared to 2022/23. This was largely down to a one-off budget increase in 2022/23 due to the impact of the adoption of the revised IFRS 16. This accounts for £650 million of the decrease.

34. The £17.2m underspend against the revised capital budget resulted from a number of factors including: late flagging by some delivery partners of grants that could not be fully claimed in year, minor savings in capital investments at HIAL, and the impact of extreme weather events in the final quarter on planned roads' investment.

35. As outlined in paragraph 31, the revised capital budget saw a reduction of £123 million against an initial allocation of £1,869 million. Significant capital projects were paused or reprofiled – some to achieve savings requested by Scottish Government:

- £40 million in relation to the reprofiling of the small vessel replacement programme to allow for additional business case assessment and project specification works.

- £30 million due to Ardrossan Harbour works being reprofiled to allow for business case assessment, UIG Harbour works reprofiling
- £5 million saving on Gourock / Kilcreggan/ Dunoon programme
- £14.6 million relating to the planned reprofiling of the launch of the ScotZEB2 scheme
- £8.6 million savings on ScotZEB1
- £1.6 million savings in relation to expenditure by Dundee/St Andrews University
- £13.8 million reduction in forecast spend against the STPR2 Pipeline Budget
- £8.5 million reduced forecast for Major Projects including A83 and A96 due to changes to profiling of works.

Appropriate financial management is in place with regular budget monitoring reports provided to the Audit and Risk Committee

36. 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.

37. 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.

Improvements are required to Transport Scotland's processes for paying grants

38. Transport Scotland allocate active travel funding to partner organisations who are responsible for delivering walking and cycling infrastructure and behaviour change projects across Scotland.

39. As detailed in our significant findings from the audit at Exhibit 3, at 31 March 2023, one of Transport Scotland's main partners held £72.3 million of accumulated unspent grant allocation in their accounts. This had accumulated since 2017/18 due to the body claiming the full grant award each year and carrying forward any unspent funding. This practice is not in accordance with the conditions set out in the agreed grant letters which state that:

> *"Each claim shall be for an amount equal to the actual reasonable and proper costs and expenses incurred by the Grantee.*
>
> *On receipt of each claim (and any required documentation and information), the Scottish Ministers shall determine the amount of expenditure which they consider the Grantee has reasonably and properly incurred"*

40. After identifying the issue during 2023/24, Transport Scotland, through collaboration with the partner body, put arrangements in place to reduce this accumulated balance. This was reflected in their 2023/24 grant letter which states:

> *"The Grantee shall ensure that the working capital funding of £72.3 million held by it at the end of 2022-23 financial year (the "Working Capital") is fully utilised to fund the Programme before drawing down on this Grant".*

41. In April 2024, the partner body made another grant claim of £10 million, having utilised their existing balance of £72.3 million. This was paid in April 2024. However, no documentary evidence that the £82.3 million had been spent was provided with this claim to support payment.

42. Our testing of three other grants found a similar and consistent lack of evidence provided with claims to support the expenditure incurred.

43. A sample of other grants identified a further instance of a grant being paid based on forecast spend and not in line with grant conditions which required claims to be based on "actual reasonable and proper costs and expenses incurred by the Grantee in connection with the Project since the submission by it of the last claim for an instalment of the Grant".

44. We are satisfied from our review of the subsequent evidence received that the expenditure was appropriate. However, the agreed grant processes had not been followed as evidence was not always reviewed in line with grant conditions prior to payment of grants. As part of our 2024/25 audit work we will follow up on the improved arrangements.

Recommendation 1

Transport Scotland should review their arrangements around the approval of grant funding and ensure appropriate evidence is provided to support grant claims prior to payments being made. The wording of grant letters should be reviewed to ensure it reflects the arrangements in place with grantees.

45. From a review of the design and implementation of key controls within Transport Scotland's 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 the ability to record, process, summarise and report financial and other relevant data and result in a material misstatement in the financial statements.

46. The exception to this conclusion on the systems of control is the deficiencies in the approval process for certain grant payments as outlined above.

47. Transport Scotland use Scottish Government financial systems including the Scottish Executive Accounting System (SEAS). The Scottish Government is responsible for several key controls for these systems. We have obtained assurance from the Scottish Government External Audit team over these key controls and confirmed that there are no significant control weaknesses that would impact on our audit approach in 2023/24.

A lead officer has been appointed to oversee the move to a new ledger system

48. The SEAS general ledger is due to be updated on 1 October 2024, with a move to Oracle Fusion Cloud software planned. This is a significant project and was originally scheduled for completion in October 2023.

49. In preparation for the implementation of the new systems, regular meetings between the Scottish Government implementation team and other bodies, including Transport Scotland, have been held to discuss and prepare for this significant upgrade. In addition, Transport Scotland have appointed a Systems Accountant to lead the change internally.

50. Transport Scotland has taken appropriate measures to ensure they are prepared for the implementation of the new ledger system in October 2024. We will continue to review the financial management arrangements in place including transition to the new system.

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

51. 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.

52. Transport Scotland has adequate arrangements in place to prevent and detect fraud or other irregularities.

National Fraud Initiative

53. The National Fraud Initiative (NFI) is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud.

54. 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.

55. Transport Scotland have been instrumental in the creation of a new data matching exercise around the use of concessionary travel cards under the National Bus Travel Concession Scheme for Older and Disabled Persons. Matches are made to deceased records and enable local authorities to cancel travel cards and identify any instances where they are being used inappropriately.

56. Transport Scotland identified that 1,075 of these travel cards had been used after the death of the holder. Whilst the costs are unrecoverable, the cancellation of travel cards will prevent fraudulent use continuing.

3. Financial sustainability

Financial sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs.

Conclusion

Transport Scotland continues to face significant financial pressures, immediately and over the medium to longer term

Scenario planning and longer-term financial planning is undertaken but this should be formalised and reflected in published plans

Audit work has addressed the wider scope risks identified in the Annual Audit Plan

57. Exhibit 6 sets out the wider scope risks relating to the Financial Sustainability identified in our 2023/24 Annual Audit Plan. It summarises the audit procedures performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 6
Risks identified from our responsibility under the Code of Audit Practice

Audit risk	Audit Response	Conclusion
1. Financial Sustainability Transport Scotland continues to face significant pressure to identify savings and re-prioritise its capital spend. These pressures mean that difficult decisions need to be made which may impact on the delivery of Transport Scotland's commitments and priorities.	• Review and assessment of budget monitoring arrangements. • Evaluate Transport Scotland's medium to longer-term financial and service delivery planning. • Assess the work carried out by Transport Scotland to identify potential areas of savings in its medium-term capital plans.	**Results**: Regular financial performance and budget monitoring updates are provided to management and members. These are appropriate and of sufficient detail to allow effective scrutiny and understanding of key messages by members. Five-year financial plans are produced through the Strategic Approach to Budgeting (SAB) and include scenario planning and

Audit risk	Audit Response	Conclusion
		resource and capital forecasting, based on key assumptions. However, these plans are not published due to political sensitivities. They feed into the Scottish Government's Medium Term Financial Plan. Identifying in-year savings in capital plans is performance based. 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. **Conclusion**: Detailed financial plans are in place for the medium term. **See recommendation 5**

Transport Scotland continues to face significant financial pressures, immediately and over the medium to longer term

58. Transport Scotland's total fiscal resource allocation for 2024/25 is £3,578m. This represents an increase of £144m (4 per cent) compared to the prior year budget. However, this is in the context of inflationary pressures and the need to secure 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 vast majority of Transport Scotland's spend is allocated to contractual commitments, grant arrangements or committed capital projects. It is therefore possible to forecast future expenditure with a level of certainty. However, with responsibility for maintaining the transport network, in particular trunk roads and ferry services, Transport Scotland must have the flexibility to react to unplanned remedial works and the associated costs.

61. At the end of April 2024, Transport Scotland reported resource pressures of £51 million for 2024/25. The most significant related to rail (£19 million), concessionary travel (£18 million) and ferry services (£9 million) and were due to differences from forecast amounts.

62. Transport Scotland's financial decisions are driven by factors including existing contractual commitments and statutory/regulatory safety requirements alongside budget allocations from the Scottish Government and ministerial policy decisions. The Scottish Government published its Medium-Term Financial Strategy (MTFS) in May 2023 which set out the government's overarching financial objectives. This was due to be updated in June 2024, however due to the recent changes in government this has been delayed until September 2024.

63. The Scottish Government recognises that adopting a multi-year outlook is key to achieving financial sustainability and previously committed to publish details on multi-year spending for both resource and capital alongside the 2024/25 budget, and subsequently the updated MTFS. As this has not been delivered, Transport Scotland continue to operate with single year budget information.

Scenario planning and longer-term financial planning is undertaken but this should be formalised and reflected in published plans

64. 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 for more robust foresight of future financial challenges. This would enhance transparency and allow more detailed scrutiny at committee level.

65. 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.

66. However, detailed financial plans are not published alongside the Transport Scotland Business Plan or Corporate Plan.

Recommendation 5

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.

The Islands Connectivity Plan is in development. This should incorporate and be based on longer term financial plans for delivery of objectives

67. The Islands Connectivity Plan (ICP) will set out the Scottish Government's long-term objectives and policies for ensuring necessary and sustainable transport links for Scotland's islands. This takes account of ferry services, aviation and fixed links, as well as onward and connecting travel. It is being developed within the context of the National Transport Strategy and the National Islands Plan and is informed by the outcomes of the Strategic Transport Projects Review.

68. The Strategic Approach and Vessels and Ports Plan (as part of the overall ICP) were released for consultation in January 2024. This should also include financial detail and budget planning over the medium to long term to allow for effective scenario planning to ensure the efficient running of the ferry network in the future (see recommendation 5).

69. The timing of the small vessels replacement programme (SVRP) was reprofiled in 2023-24 to allow time to fully consider the business case work, vessels design criteria, and help ensure alignment of the related shore power and port improvement works. This meant that the £41 million of budget related to this scheme was not required in the financial year, moving into future budgets. In July 2024, Scottish Government announced it will take bids for a seven-boat contract as phase 1 of the programme. This is estimated to cost around £175 million and will include port improvements and shore power upgrades.

4. Vision, leadership and governance

Public sector bodies must have a clear vision and strategy and set priorities for improvement within this vision and strategy. They work together with partners and communities to improve outcomes and foster a culture of innovation.

Conclusion

Publication of the Corporate Plan 2024-27 to support the National Transport Strategy has been delayed due to changes in the political environment

Effective and appropriate governance arrangements are in place that support scrutiny of decisions made by management, committees and project boards

Transport Scotland rely on the IT systems of Scottish Government for the majority of services, but cyber security arrangements could be improved

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

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. Transport Scotland has a draft 3-year Corporate Plan 2024-27 and Annual Business Plan to support this vision. These were reported to the Senior Management Team (SMT) in March 2024. The Corporate Plan was due to be published in May 2024. However, due to significant changes in government which may impact on Transport Scotland's priorities, publication was delayed.

72. 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 document should be updated in line with the new Corporate Plan.

Recommendation 6

The Corporate Plan and Framework Document should be updated and published once strategic priorities are finalised.

Governance arrangements remain appropriate

73. Transport Scotland's governance arrangements are set out in the Governance Statement in the annual accounts. 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.

74. The Audit and Risk Committee comprises 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 is due to end in December 2024.

75. Transport Scotland's governance arrangements 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.

The Chief Executive post and several Director posts remain interim

76. Transport Scotland has seen several changes in the Chief Executive post in recent years with three interim appointments since November 2021. The current Interim Chief Executive was appointed in March 2023 and the recruitment process for the permanent position is in progress.

77. The Chief Executive is supported in their role by the SMT. Of the nine Directors in SMT, four are interim posts. Transport Scotland recognise the risks inherent in the temporary nature of these senior strategic roles and aim to make permanent appointments once the Chief Executive post has been awarded.

Transport Scotland rely on the IT systems of Scottish Government for the majority of services, but cyber security arrangements could be improved

78. Transport Scotland's IT network (SCOTS) and most of its main financial systems, with the exception of the Traffic Scotland system, are provided by the Scottish Government and all other systems externally hosted by third party providers. Therefore, there is no Transport Scotland specific IT strategy in place.

79. A Business Continuity Plan is in place and was revised in January 2024. However, this does not include arrangements for scheduled testing.

80. Traffic Scotland is Transport Scotland's only internally hosted system and work is ongoing to renew Cyber Essentials and Cyber Essentials Plus accreditation. Cyber security arrangements could be further enhanced with a formal staff training programme and scheduled testing of the Cyber Resilience Response Plan.

Recommendation 7

Transport Scotland 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.

Climate change arrangements

81. The Scottish Parliament has set a legally binding target of becoming net zero by 2045. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impacts of climate change.

82. The Auditor General and Accounts Commission are developing a programme of work on climate change. This involves a blend of climate change-specific outputs that focus on key issues and challenges as well as moving towards integrating climate change considerations into all aspects of audit work.

5. Use of resources to improve outcomes

Public sector bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities.

Conclusions

Transport Scotland has developed an appropriate Best Value framework

The current Clyde and Hebrides ferry service contract has been extended while options are explored for a new contract

Progress on the Auditor General's recommendations following procurement of vessels 801 and 802 will be assessed once the ferries are operational

Dualling of the A9 has been delayed further but a delivery plan for the remaining projects is in place

Delays to publication of the Corporate Plan has impacted development of performance monitoring

Transport Scotland has developed an appropriate Best Value framework

83. 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.

84. Transport Scotland has included a comprehensive overview of their Best Value framework within the 2023/24 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 current Clyde and Hebrides ferry service contract has been extended while options are explored for a new contract

85. 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.

86. The current CHFS contract (CHFS 2) is due to end in September 2024. Options for CHFS 3 were as follows:

- A competitive tender on the open market
- Direct award to the current operator in what is known as a “Teckal arrangement” in accordance with the exemption in Regulation 13 (1) of the Public Contract (Scotland) Regulations 2015. A Teckal arrangement allows a public authority to establish a separate company (referred to as a "Teckal company" or "in-house company") to carry out certain activities or services on its behalf, without needing to go through a competitive tendering process.

87. In a statement to Parliament on 16 November 2023, the Minister for Transport set out Scottish Ministers’ preferred procurement route for the next CHFS contract (CHFS3), which is to explore a direct award to the current operator. A due diligence process is now underway to establish the feasibility of that approach from a financial, operational and legal perspective.

88. To ensure the continuity of service until the outcome of the process, it has been agreed that the CHFS 2 contract will be extended for 9-12 months.

Progress on the Auditor General’s recommendations following procurement of vessels 801 and 802 will be assessed once the ferries are operational

89. As reported in our 2022/23 Annual Audit Report, 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 contained several recommendations including some specific to Transport Scotland in their role in the provision of the vessels.

90. In 2022/23 Audit Scotland published a report on the ongoing issues at Ferguson Marine Ltd which highlighted ongoing issues with the construction of vessels 801 and 802. The post-construction reviews have not therefore been completed. Anticipated completion is currently May 2025 for 802, with 801 expected to be handed over in September 2024.

91. We will monitor progress against the recommendations following completion of the vessels.

Dualling of the A9 has been delayed further but a delivery plan for the remaining projects is in place

92. 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.

93. The contract award for the next project (Tomatin to Moy) was announced in August 2024 with completion anticipated by the end of 2027.

94. The Scottish Government estimate for the overall project was a cost of £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.

Delays to publication of the Corporate Plan has impacted development of performance monitoring

95. Financial performance is reported regularly to the Senior Management Team and the Audit and Risk Committee. The Performance Report that accompanies the annual accounts also explains Transport Scotland's financial performance in the year. It includes a description of the financial performance against budget, including the key reasons for variances.

96. Transport Scotland provide performance management information to those charged with governance through the Annual Report and Accounts. Regular detailed performance reporting against plans is provided at Senior Management Team level but there is no regular reporting of performance against the Corporate Plan or Annual Business Plan to those charged with governance.

97. In 2022/23 we reported that while these documents 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.

98. Transport Scotland should have effective arrangements for scrutinising performance, monitoring progress towards their strategic objectives and holding partners to account.

Recommendation 8

Regular performance reporting against the Corporate Plan should be developed once the plan has been finalised

Appendix 1. Action plan 2023/24

2023/24 recommendations

Issue/risk	Recommendation	Agreed management action/timing
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.	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. Paragraph 38	**Accepted** 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*
2. Valuation of the trunk road network	The unit costs used for Roads, Structures and	**Rejected**

Issue/risk	Recommendation	Agreed management action/timing
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.	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. Exhibit 2	We do not accept this recommendation. We already engage regularly with management experts and all other UK roads authorities as part of our annual revaluation exercise. We are content that our existing approach complies with the requirements of the FReM and IAS 16, and that our asset base is not materially misstated.

Issue/risk	Recommendation	Agreed management action/timing
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	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. Exhibit 2	**Accepted** Management will respond as per the recommendation. *Director of Finance & Corporate Services* *March 2025*

Issue/risk	Recommendation	Agreed management action/timing
maintenance going forward and a more reliable valuation. 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.		
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.	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.	**Accepted** 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*
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	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	**Partially accepted** The corporate plan will reflect work on medium to long range planning where appropriate, noting the existence of other relevant

Issue/risk	Recommendation	Agreed management action/timing
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.	uncertain operating environment.	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*
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.	The Corporate Plan and Framework Document should be updated and published once strategic priorities are finalised.	**Partially accepted** 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*
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	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.	**Partially accepted** 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

Issue/risk	Recommendation	Agreed management action/timing
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.		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*
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	Management should develop performance reporting arrangements and regularly report against the objectives set out in the Corporate Plan once the document has been finalised.	**Partially accepted** The 2021-24 Corporate Plan included business plan objectives for 2023-24. While the 2024-27 Corporate Plan remain 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.

Issue/risk	Recommendation	Agreed management action/timing
delivered/achieved against key corporate objectives.		We will publish the Framework with Ministers and Corporate Plan in Autumn 2024 and enhance the reporting to, and scrutiny by, Transport Scotland Se The 2021-24 Corporate Plan included business plan objectives for 2023-24. While the 2024-27 Corporate Plan remain in draft, priorities and outcomes for transport are set out in the National Transport Strategy, which includes the polices to realise these. Public Commitments within the Business Plan 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*

Follow-up of prior year recommendations

Issue/risk	Recommendation and Agreed Action	Progress
b/f 1.. Realised element of revaluation reserve	Management should undertake a full review of the revaluation reserve reconciliation in 2023/24 to	**Implemented**

Issue/risk	Recommendation and Agreed Action	Progress
Each year, a reconciliation is performed between RAAVS and the ledger to identify the required revaluation reserve balance. This reconciliation involves comparing historic cost of road assets with their revalued amount to identify the 'realised element' of the revaluation reserve. Transport Scotland advised that the Q4 Baxter index does not impact the realised element of the revaluation reserve. We concluded that if there was an impact it is not material, and this will be considered further in 2023/24 when the RAAVs Interim Valuation is produced. **Risk –** there is a risk that the methodology in processing the Q4 Baxter index results in non – material misstatements in the Revaluation Reserve and General Fund due to timing issues between RAAVS model updates and SEAS updates.	ensure the methodology in assessing the impact of the Q4 Baxter index in SEAS is robust and any changes needed are undertaken. Action - Management agree that this follow up work in 2023/24 is an important part of reconciliation process and ensuring accuracy of balances in this important and material part of the TS accounts. It will be completed as part of our normal RAAVS processes and as part of a wider review. *Director of Finance and Corporate Services & Director of Roads* *Original date - 31st March 2024*	
b/f 2.. Revaluation Uplifts Transport Scotland apply uplifts to different elements of the Road Network each year to reflect Planning & Supervision, Compensation, and Legal costs associated with the construction of new road assets. These uplifts have been applied for several years and were determined by Transport Scotland through advice from the Valuation Office Agency (VOA). As part of our audit work, we	Management should ensure that the revaluation uplifts applied are subject to a full review in 23/24 through consultation with a professional valuer. Periodic reviews should be introduced to ensure the uplifts remain accurate, appropriate, and reflective of trends within the construction industry. Action - We discussed this area with appropriate professionals during the preparation of the annual	**Work in progress** Management engaged with the valuer in 23/24 to review the reasonableness of the uplifts applied. Similar to prior year, the valuer advised that there is no recent comparable cost data from newly constructed assets that can indicate a change in the uplift percentages applied. Management also referred to the uplifts applied across other UK Road Authorities and noted that those applied by Transport Scotland fall

Issue/risk	Recommendation and Agreed Action	Progress
requested information from management on the reasonableness of the uplift percentages and whether a review has been undertaken. It was highlighted that the last review of these uplifts was in 2017/18. Management provided some assurance over the appropriateness of these uplifts in 2022/23 and we are satisfied this is unlikely to have a material impact on the value of assets reported in the financial statements. **Risk –** there is a risk that the carrying value of the trunk road network is misstated as a result of outdated uplift percentages being applied.	report and accounts and are satisfied that all balances in the financial statements are accurate. We agree that it is appropriate to engage with the VOA and others during 2023/24 to review whether the basis on which balances are calculated remain appropriate and make changes as necessary. *Director of Finance and Corporate Services & Director of Roads* *Original date - 31st March 2024*	within a reasonable range, with differences attributed to locational factors. Through discussion with management and engagement with other UK audit agencies, we are satisfied that the uplifts are reasonable and appropriate for the 23/24 valuation. However, management should review the uplifts alongside the review of unit rates through consultation with a management expert and engagement with other UK Road Authorities. *Director of Finance and Corporate Services & Director of Roads* See above.
b/f 3. Dilapidations provision Dilapidation costs for Transport Scotland's new lease have not been provided for in line with IFRS 16. **Risk** – there is a risk future costs are not appropriately provided for.	Management should seek professional advice on the value of future restoration expenses and provide for these costs. Action - We remain of the opinion that the newness of the lease in question with the terms of the lease itself means that the value of dilapidations, had we commissioned a valuation, would be trivial to the accounts. We agree that a valuation is necessary and one will be completed for inclusion in 2023/24 statements. *Director of Finance and Corporate Services* *Original date - 31st March 2024*	**Implemented**

Issue/risk	Recommendation and Agreed Action	Progress
b/f 4.. Internal controls We noted two minor areas where there is scope for improvement to the operation of certain internal controls. **Risk** – there is a risk that internal controls do not operate effectively.	Management should review the controls ensure procedures are clearly communicated to all staff and staff are reminded to follow them at all times. Action - We reviewed the instance of control failure, found it to be an isolated incident and are satisfied that the controls themselves are working. In the one other area brought to our attention we agree that further awareness across the team is required. With the appointment of the new Head of Finance Accounts and Reporting there is new opportunity to test established procedures. *Director of Finance and Corporate Services* *Original date - 31st December 2023*	**Implemented**
b/f 5.. Financial Planning Transport Scotland continues to face significant financial challenges over the medium and long term. Financial planning is key to identifying risks to financial sustainability and support delivery of strategic objectives. **Risk –** There is a risk that Transport Scotland does not have sufficient foresight to identify financial barriers to achieving its objectives.	Financial projections, aligned to Scottish Governments financial strategy, should be considered for incorporation where possible into Transport Scotland 2025-2028 Corporate Plan to allow foresight of financial challenges. Action - Financial projections are regularly reviewed and updated as well as being aligned to outcomes through the annual budget processes, including Budget Bill work, Programme for Government and prospectus policy work. Additionally, prioritisation exercises are delivered in	**Superseded** See recommendation 5.

Issue/risk	Recommendation and Agreed Action	Progress
	consideration of our statutory obligations. We will undertake to consider if any benefit could be gained from incorporating these projections into the corporate planning process. *Director of Finance and Corporate Services* *Original date - 31st March 2024*	
b/f 6.. Cyber Security Progress has been made on risks identified by Internal Audit over Transport Scotland's cyber security arrangements. **Risk –** There is a risk that a cyber-attack could disrupt Transport Scotland's key financial systems.	Transport Scotland should continue to review their Cyber Resilience arrangements to ensure appropriate measures are in place to mitigate the risk of cyber-attacks. Action - We continue to engage with DIAA on the progress of implementing recommendations made in the internal audit report; part of this work includes alternatives to recommendations in order to best respond to this evolving space. *Director of Finance and Corporate Services* *Original date - 31st December 2023*	**Superseded** See recommendation 7
b/f 7.. Best Value framework Transport Scotland does not currently report the details of its arrangements in place to support the Best Value characteristics action/timing. **Risk** –Transport Scotland is unable to demonstrate compliance with the duty of Best Value per the	Transport Scotland should consider its arrangements for demonstrating how it meets the Best Value characteristics as set out in the SPFM. Action - Similarly to recommendations 5 & 6 we are satisfied that our demonstration of achieving best value can be evidenced through internal financial governance and procurement	**Implemented** An overview of the best value framework and demonstration of achievement of the key characteristics is now included in the Annual Governance Statement.

Issue/risk	Recommendation and Agreed Action	Progress
characteristics set out in the SPFM.	processes; however how this is brought together in a collated view will be considered in 2023/24. *Director of Finance and Corporate Services and Director of Major Projects* *Original date - 31st March 2024*	
b/f 8.. Reporting of actual spend in the performance report A review of financial figures within the performance report (and financial highlights section) found that many related to the level of funding allocated. **Risk** –The reader is not provided with a full sense of what was delivered/achieved during the reporting year.	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. Action (from 2020/21 Annual Audit Report) - This will form part of the ongoing exercise within TS Corporate Services to streamline the collation of performance information throughout each financial year. The team will report on progress in this area after the end of calendar year 2021. It is anticipated that this enhanced information will be able to be included within the Annual Performance Report for 2021/22. *TS Corporate Services / TS Business Areas to complete.* *Original date – Dec 2021-March 2022*	**Superseded** See recommendation 8
b/f 9.. Climate change spend Transport Scotland spend significant sums on carbon emissions (such as supporting the purchase of	Transport Scotland should identify and incorporate more actual spend data within the performance report and financial highlights to provide the reader with a greater	**Work in progress** We will keep in view with the implementation of Oracle to

Issue/risk	Recommendation and Agreed Action	Progress
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.	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*	see what is within scope re the new system. *Director of Finance & Corporate Services* *Autumn 2025*

Transport Scotland

2023/24 Annual Audit Report

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

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

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