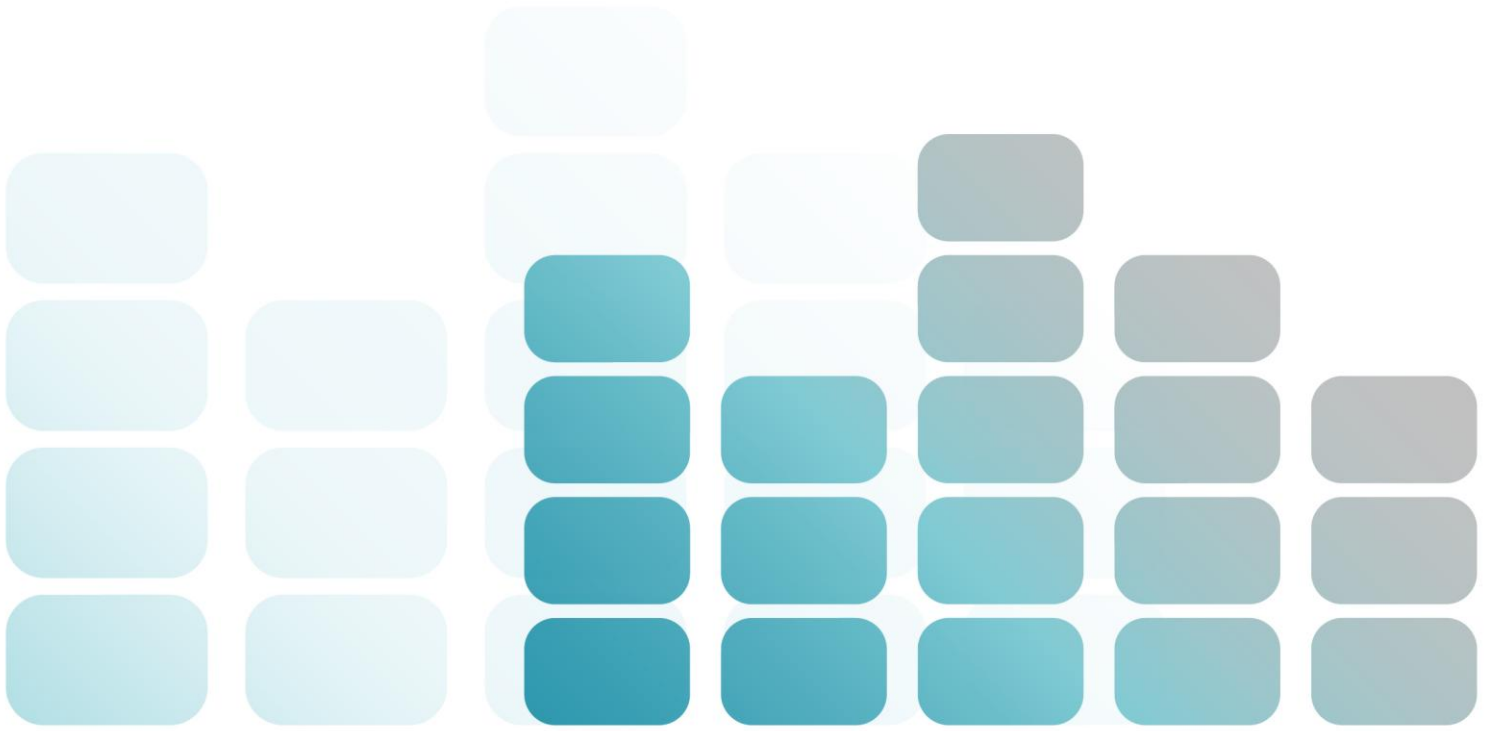


Transport Scotland

Annual Audit Plan 2025/26



 AUDIT SCOTLAND

Prepared for Transport Scotland
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Accessibility

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Introduction

Purpose of the Annual Audit Plan

1. The purpose of this Annual Audit Plan is to provide an overview of the planned scope and timing of the 2025/26 audit of Transport Scotland's annual report and accounts. It outlines the audit work planned to meet the audit requirements set out in [auditing standards](#) and the [Code of Audit Practice](#), including supplementary guidance.

Appointed auditor and independence

2. There is a change in the appointed auditor for the Transport Scotland audit for 2025/26. Michael Oliphant, of Audit Scotland, has been appointed by the Auditor General for Scotland as the external auditor of Transport Scotland until 2026/27.

3. The appointed auditor and the audit team are independent of Transport Scotland in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. This standard imposes stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has robust arrangements in place to ensure compliance with ethical standards. The arrangements are overseen by the Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

4. The Ethical Standard requires auditors to communicate any relationships that may affect the independence and objectivity of the audit team. There are no such relationships pertaining to the audit of Transport Scotland to communicate.

Audit scope and responsibilities

Scope of the audit

5. The audit is performed in accordance with the Code of Audit Practice, including supplementary guidance, International Standards on Auditing (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
- an opinion on 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, the Governance Statement, and the audited part of the Remuneration and Staff Report
- conclusions on Transport Scotland's 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 Transport Scotland's arrangements for securing Best Value
- an Annual Audit Report setting out significant matters identified from the audit of the annual report and accounts and the wider scope areas specified in the Code of Audit Practice.

Responsibilities

6. The Code of Audit Practice sets out the respective responsibilities of the auditor and Transport Scotland. A summary of the key responsibilities is outlined below.

Auditor's responsibilities

7. 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.

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 that give a true and fair view and other 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.

Audit of the annual report and accounts

Introduction

9. The audit of the annual report and accounts is driven by materiality and the risks of material misstatement in the financial statements, with greater attention being given to the significant risks of material misstatement. This chapter outlines materiality, the significant risks of material misstatement that have been identified, and the impact these have on the planned audit procedures.

Materiality

10. The concept of materiality is applied by auditors in planning and performing an audit, and in evaluating the effect of any uncorrected misstatements on the financial statements or other information reported in the annual report and accounts.

11. Broadly, the concept of materiality is to determine whether matters identified during the audit could reasonably be expected to influence the decisions of users of the financial statements. 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.

12. The materiality levels determined for the audit of Transport Scotland are outlined in [Exhibit 1](#).

Exhibit 1

2025/26 Materiality levels for Transport Scotland

Materiality	
<p>Materiality – based on an assessment of the needs of users of the financial statements and the nature of Transport Scotland's operations, the benchmark used to determine materiality is the net book value of the trunk road network asset (including assets under construction) based on the audited 2024/25 financial statements. Materiality has been set at 1.8% of the benchmark.</p>	£499 million
<p>Performance materiality – this acts as a trigger point. If the aggregate of misstatements identified during the audit exceeds performance materiality, this could indicate that further audit procedures are</p>	£250 million

Materiality

required. Using professional judgement, performance materiality has been set at 50% of planning materiality.

Reporting threshold – all misstatements greater than the reporting threshold will be reported.	£570,000
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Source: Audit Scotland

13. In certain situations, it may be appropriate to set separate lower materiality levels for specific classes of transactions, account balances, or disclosures in the annual report and accounts.

14. We recognise that transactions relating to Transport Scotland's ongoing activities across all modes of transportation are likely to be of interest to the various users of the financial statements. We therefore set lower, specific materiality levels as shown in [Exhibit 2](#).

Exhibit 2

2025/26 Lower, specific, materiality levels for Transport Scotland

Materiality

Specific materiality – for the year ended 31 March 2026, a lower materiality threshold has been set at 1.8% of gross expenditure, based on the audited 2024/25 financial statements.	£57 million
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Specific performance materiality – using professional judgement, specific performance materiality has been calculated at 60% of the specific materiality.	£34 million
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Source: Audit Scotland

Significant risks of material misstatement to the financial statements

15. The risk assessment process draws on the audit team's cumulative knowledge of Transport Scotland, including the nature of its operations and its significant transaction streams, the system of internal control, governance arrangements and processes, and developments that could impact on its financial reporting.

16. Based on the risk assessment process, significant risks of material misstatement to the financial statements have been identified and these are summarised in [Exhibit 3, page 8](#). These are the risks which have the greatest impact on the planned audit approach, and the planned audit procedures in response to the risks are outlined in [Exhibit 3](#).

17. Risk assessment is an iterative process. The assessment of risks set out in this Annual Audit Plan and [Exhibit 3](#) may change as more information and evidence is obtained over the course of the audit. Where such changes occur, these will be reported to Transport Scotland and those charged with governance.

Exhibit 3

Significant risks of material misstatement to the financial statements

Risk of material misstatement	Planned audit response
<p>Fraud caused by management override of controls</p> <p>International Standard on Auditing (UK) 240 states that management is in a unique position to perpetrate fraud because of the ability to override controls that otherwise appear to be operating effectively. The risk of fraud caused by management override of controls is therefore a mandatory risk for all audits.</p>	<p>The audit team will:</p> <ul style="list-style-type: none"> • 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.
<p>Estimation and judgements – trunk road network asset valuation</p> <p>There is a significant degree of subjectivity involved in the measurement and valuation of the trunk road network asset (24/25: £27,194 million).</p> <p>Valuations are based on specialist knowledge and management assumptions. Any changes to these can result in material changes in valuations and therefore represent an inherent risk of material misstatement in the financial statements.</p>	<p>The audit team will:</p> <ul style="list-style-type: none"> • evaluate the competence, capabilities, and objectivity of the external experts involved in the valuation process • review the information provided to the 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

Risk of material misstatement	Planned audit response
	<ul style="list-style-type: none"> critically assess the adequacy of Transport Scotland's disclosures regarding the assumptions in relation to the valuation of the trunk road network asset.

Source: Audit Scotland

Key audit matters

18. The Code of Audit Practice requires public sector auditors to communicate key audit matters. These are matters that, in the auditor's professional judgement, are of most significance to the audit of the financial statements and require most attention when performing the audit.

19. In determining key audit matters, auditors consider:

- 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.

20. Key audit matters will be communicated in the Annual Audit Report.

Wider scope and Best Value

Introduction

21. The Code of Audit Practice requires that public audit is planned and undertaken from a wider perspective than in the private sector. The wider scope audit broadens the audit of the annual report and accounts to include consideration of additional aspects or risks in four wider scope areas:

- **Financial Management** – this means having sound budgetary processes. Factors that can impact on Transport Scotland being able to secure sound financial management include the strength of the financial management culture, accountability, and arrangements to prevent and detect fraud, error and other irregularities, bribery and corruption.
- **Financial Sustainability** – this means looking forward over the medium and longer term in planning the services to be delivered and how they will be delivered effectively. This is assessed by considering Transport Scotland’s medium to longer-term planning for service delivery.
- **Vision, Leadership and Governance** – this means having a clear vision and strategy with agreed priorities. This is assessed by considering the clarity of plans in place to deliver strategic priorities and the effectiveness of the governance arrangements to support delivery.
- **Use of Resources to Improve Outcomes** – this means using resources to meet stated outcomes and improvement objectives through effective planning and working with partners and communities. This is assessed by considering Transport Scotland’s arrangements for ensuring resources are deployed to improve strategic outcomes, meet the needs of service users, and deliver continuous improvement.

22. A conclusion on the effectiveness and appropriateness of arrangements Transport Scotland has in place for each of the wider scope areas will be reported in the Annual Audit Report.

Duty of Best Value

23. 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.

24. Consideration of the arrangements Transport Scotland has in place to secure Best Value will be carried out alongside the wider scope audit, and a conclusion on the arrangements Transport Scotland has in place will be reported in the Annual Audit Report.

25. Auditors may also carry out specific audit work covering the seven Best Value themes set out in the SPFM. The risk assessment process did not identify a need to carry out specific audit work on any of the themes. However, auditors are required to carry out a review of the 'fairness and equality' theme at least once during the audit appointment, and this will be carried out later in the audit appointment.

Significant wider scope and Best Value risks

26. No significant risks in the wider scope areas or Best Value were identified from the risk assessment process.

Reporting arrangements, timetable and audit fee

Audit outputs

27. The outputs from the 2025/26 audit include:

- this Annual Audit Plan
- an Independent Auditor's Report to Transport Scotland, the Auditor General for Scotland, and the Scottish Parliament setting out opinions on the annual report and accounts
- an Annual Audit Report to Transport Scotland and the Auditor General for Scotland setting out significant matters identified from the audit of the annual report and accounts, conclusions from the wider scope and Best Value audit, recommendations, where required, and any good practice identified.

28. The outputs will be discussed with Transport Scotland for factual accuracy before they are issued. All outputs will be published on [Audit Scotland's website](#), apart from the Independent Auditor's Report, which is included in the audited annual report and accounts.

29. Target dates for the audit outputs are set by the Auditor General for Scotland. In setting the dates for the audit outputs, consideration is given to the target date for approving the annual report and accounts, which is 31 August 2026 for central government agencies and non-ministerial departments.

30. The Independent Auditor's Report and Annual Audit Report are planned to be issued by the target date of 31 August 2026.

Audit timetable

31. Achieving the timetable for production of the annual report and accounts, supported by complete and accurate working papers, is critical to delivery of the audit to agreed target dates. [Exhibit 4](#) includes a timetable for the audit, which has been agreed with management. Agreed target dates will be kept under review as the audit progresses, and any changes required, and their potential impact, will be discussed with Transport Scotland and reported to those charged with governance.

Exhibit 4

2025/26 audit timetable

Audit activity	Target date
Issue of Annual Audit Plan	By 31 March 2026
Annual report and accounts:	
• Consideration of unaudited annual report and accounts by those charged with governance	1 June 2026
• Submission of unaudited annual report and accounts and all working papers to audit team	1 June 2026
• Latest date for audit clearance meeting	7 August 2026
• Issue of draft Letter of Representation, proposed Independent Auditor's Report, and proposed Annual Audit Report	12 August 2026
• Agreement of audited and unsigned annual report and accounts	12 August 2026
• Approval by those charged with governance and signing of audited annual report and accounts	26 August 2026
• Signing of Independent Auditor's Report and issue of Annual Audit Report	26 August 2026
• Signing of Scottish Government consolidation return	To be confirmed

Source: Audit Scotland

Audit fee

32. Transport Scotland's audit fee is determined in line with Audit Scotland's fee setting arrangements. The proposed audit fee for the 2025/26 audit is £214,660 (2024/25: £205,750, plus additional audit fee of £25,569).

33. In setting the audit fee, it is assumed that Transport Scotland has effective governance arrangements in place and the complete annual report and accounts will be provided for audit in line with the agreed timetable. The audit fee assumes there will be no significant changes to the planned scope of the audit. Where the audit cannot proceed as planned, for example, due to incomplete or inadequate working papers, the audit fee may need to be increased.

Other matters

Internal audit

34. Transport Scotland is responsible for establishing an internal audit function as part of an effective system of internal control. As part of the audit, the audit team will obtain an understanding of internal audit, including its nature, responsibilities, and activities.

35. While internal audit and external audit have differing roles and responsibilities, external auditors may seek to rely on the work of internal audit where it is considered appropriate. A review of internal audit's 2025/26 audit plan was carried out to identify if there were any areas where the audit team could rely on its work. The audit team concluded it will not rely on internal audit's work. However, the audit team will review internal audit's reports and assess if there is any impact on the audit.

Audit quality

36. Audit Scotland is committed to the consistent delivery of high-quality audit. Audit quality requires ongoing attention and improvement to keep pace with external and internal changes. Details of the arrangements in place for the delivery of high-quality audits is available from the [Audit Scotland website](#).

37. The International Standards on Quality Management (ISQM) applicable to Audit Scotland for 2025/26 audits are:

- ISQM (UK) 1, which deals with an audit organisation's responsibilities to design, implement, and operate a system of quality management (SoQM) for audits. Audit Scotland's SoQM consists of a variety of components, such as governance arrangements and culture to support audit quality, compliance with ethical requirements, ensuring Audit Scotland is dedicated to high-quality audit through engagement performance and resourcing arrangements, and ensuring there are robust quality monitoring arrangements in place. Audit Scotland carries out an annual evaluation of its SoQM and has concluded it complies with this standard.
- ISQM (UK) 2, which sets out arrangements for conducting engagement quality reviews, which are performed by senior management not involved in an audit, to review significant judgements and conclusions reached by the audit team, and the appropriateness of proposed audit opinions on high-risk audits.

38. To monitor quality at an individual audit level, Audit Scotland carries out internal quality reviews on a sample of audits. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) carries out independent quality reviews on a sample of audits.

39. Audit Scotland may periodically seek the views of Transport Scotland on the quality of audit services provided. The audit team would also welcome feedback at any time.

Transport Scotland

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