Transport Scotland

Annual report on the 2010/11 audit

Prepared for Transport Scotland and the Auditor General for Scotland

November 2011

AUDIT SCOTLAND

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds

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Key messages

2010/11

Financial statements

We have given an unqualified opinion on the financial statements of Transport Scotland for 2010/11. We have also concluded that, in all material respects, the expenditure and receipts shown in the financial statements were incurred or applied in accordance with applicable enactments and relevant guidance issued by the Scottish Ministers.

Financial position

Transport Scotland's financial statements show a net assets position of £16,207 million as at 31 March 2011. As in previous years, this is largely a reflection of the value attributed to the trunk road network (2010: net assets £15,034 million). Net operating costs were £1,547 million, which is £108 million (6%) less than the equivalent figure for 2009/10. The main factor was a fall of £109 million in programme costs, with expenditure on major public transport projects falling by £91 million from £166 million to £75 million, and movements in other elements such as roads depreciation, roads maintenance and rail expenditure largely netting off.

In 2010/11, Transport Scotland overall outturn was £62 million (3%) within budget. The key elements were: roads depreciation (£48 million below budget); major public transport projects (£55 million below budget); and additional expenditure on routine and winter maintenance of roads following the severe winter weather conditions (£23 million above budget).

Governance and accountability

Corporate Governance is concerned with the structures and process for decision making, accountability, control and behaviour at the upper levels of an organisation. Overall the corporate governance and control arrangements for Transport Scotland operated satisfactorily during the year as identified in the Statement on Internal Control.

On 1 August 2010, the functions of the Scottish Government's Transport Directorate were merged with those of Transport Scotland, resulting in a single body covering all of the Scottish Government's transport responsibilities. We reviewed the consequential accounting and governance changes. In relation to the latter we noted that Transport Scotland has changed the role of its independent non-executives and the board. Non-executives now serve on an audit and risk committee rather than a board, with an executive senior management team being the senior governance body. While we appreciate this reflects the primacy of the Scottish Ministers in decisions on Transport Scotland activity, and the level of scrutiny they apply to Transport Scotland's performance, it is our view that this change reduces the potential for independent advice and challenge to areas such as the monitoring of risk and performance management. We note that, since our review, Transport Scotland has continued to develop their governance structures and processes as planned. In addition, Transport Scotland has confirmed that they will take cognisance of any further guidance issued by the Scottish Government in response to the Audit Scotland report on the Role of Boards; and in line with their normal practice will keep governance arrangements under review.

Best Value, use of resources and performance

Transport Scotland's Annual Report and Accounts for 2010/11 records that it met 44 of 49 key achievement targets, with a further 3 recorded as on-going. Two exceptions were identified as being caused by delays on other parts of the projects concerned.

Transport Scotland has considered and taken action in relation to relevant Audit Scotland performance reports.

Transport Scotland has on-going responsibilities relating to a number of significant and high-profile infrastructure projects. During 2010/11, there was continued delay in the Edinburgh Trams project, arising from contractual disputes, leading to controversy over project funding and delivery arrangements. Those arrangements have been reviewed, and the Scottish Government announced on 14 September 2011 that, going forward, Transport Scotland will provide expertise to assist City of Edinburgh Council (which will retain contractual responsibility for the project) to bring the project to a satisfactory conclusion.

Outlook

The overall Scottish Government budget for the financial year 2011/12 was passed by the Scottish Parliament on 9 February 2011. Sound financial planning will be required by Transport Scotland and colleagues in Scottish Government to ensure that Transport Scotland manages its overall financial position, balancing spending and available resources in a manner that maximises its ability to meet key targets and objectives. The overall budget for 2011/12 has been set at £1,830 million, a £59 million (3%) reduction on resources available for 2010/11.

Since the end of the financial year, the new part of the M74 has been opened to traffic (28 June), while the M80 Stepps to Haggs project is expected to be complete before the end of 2011. Also, going forward, within the context of reducing resources, Transport Scotland must maintain the delivery of major projects such as the Forth Replacement Crossing, Edinburgh to Glasgow (rail) Improvement Project, Borders Railway, and Aberdeen Western Peripheral Route, in line with Scottish Government priorities.

Introduction

1. This report is the summary of our findings arising from the 2010/11 audit of Transport Scotland. The purpose of the annual audit report is to set out concisely the scope, nature and extent of the audit, and to summarise the auditor's opinions (i.e. on the financial statements) and conclusions and any significant issues arising. The report is divided into sections which reflect the extent of our public sector audit model.

2. A number of reports have been issued in the course of the year in which we make recommendations for improvements (Appendix A). We do not repeat all of the findings in this report, but instead we focus on the financial statements and any significant findings from our wider review of Transport Scotland.

3. Appendix B is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "planned management action". We do not expect all risks to be eliminated or even minimised. What we expect is that Transport Scotland understands its risks and has arrangements in place to manage these risks. The Board and Accountable Officer should ensure that they are satisfied with the proposed management action and have a mechanism in place to assess progress.

4. This report is addressed to Transport Scotland and the Auditor General and should form a key part of discussions with the audit and risk committee, either prior to or as soon as possible after the formal completion of the audit of the financial statements. Reports should be made available to stakeholders and the public, where appropriate. Audit is an essential element of accountability and the process of public reporting.

5. This report will be published on our website after consideration by Transport Scotland.

6. The management of Transport Scotland is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. Weaknesses or risks identified by auditors are only those which have come to our attention during their normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Financial statements

7. Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources.

8. Auditors are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on:
   - whether they give a true and fair view of the financial position of the audited body and their expenditure and income
   - whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
   - the regularity of the expenditure and income (except for local government bodies).

9. Auditors review and report on, as appropriate, other information published with the financial statements, including the management commentary, statement on internal control and the remuneration report. Where required, auditors also review and report on the Whole of Government Accounts return. This section summarises the results of our audit on the financial statements.

Audit opinion

10. We have given an unqualified opinion confirming that the financial statements of Transport Scotland for 2010/11 give a true and fair view of its state of affairs and of its net operating cost for the year.

11. Transport Scotland is required to follow the 2010/11 Government Financial Reporting Manual (the FReM) and we confirm that financial statements have been properly prepared in accordance with the FReM.

Regularity

12. In accordance with the requirements of the Public Finance and Accountability (Scotland) Act 2000, we have also provided an opinion, that in all material respects, the expenditure and receipts in the financial statements were incurred or applied in accordance with applicable enactments and guidance.

Remuneration Report and Statement on Internal Control

13. In our opinion, the audited part of the Remuneration Report has been properly prepared and the remaining elements of the Remuneration Report and Management Commentary are consistent with the financial statements.

14. We also confirm that we have no issues to report to you on the Statement on Internal Control and its compliance with Scottish Government guidance.

Accounting issues

Accounts submission

15. The financial statements were submitted for audit on 23 May, in accordance with a pre-agreed timetable. Further submissions were received on 16 June and 27 June, providing us with a complete annual report and accounts from that latter date. The issues arising from the audit were discussed with key officers in Finance at various stages throughout the audit, with the final meeting on the draft accounts on 21 July. Less significant issues were also discussed and agreed with Finance and other staff throughout the audit.

Presentational and monetary adjustments to the unaudited accounts

16. A number of presentational changes were required to the annual report and accounts as a result of our review of the disclosures required by the FReM. There were also some monetary changes identified over the time of the audit process: a post year-end review of the provisional index used to derive the roads valuation identified an increase in the final index value and the consequential need to increase to the roads valuation by £380 million (see paragraph 23); also additional information on the status of provisions led to a reduction of £9.5 million in recorded values (see paragraph 24).

17. The financial statements also include known, unadjusted errors that would have the effect of reducing net operating costs by £2.2 million, with consequential changes in the statement of financial position of reducing payables by £2.6 million and increasing provisions by £0.4m, were they to be corrected. The two largest elements of this are a £1.2 million over-accrual in relation to the Concessionary Travel Smartcard operation and a £0.6 million net over-accrual of roads maintenance costs. These errors, while more than trivial, are not material to the accounts as a whole; and we concurred with management's view that the financial statements did not need adjusted for these items.

Prior year adjustments/ Changes in accounting policies

18. All central government bodies have been affected by the removal of the cost of capital in the 2010/11 FReM in line with HM Treasury's 'Clear Line of Sight' alignment project. The cost of capital change is identified within Note 2 and appropriate amendments have been made to the prior year statements.

19. Transport Scotland has made additional prior year adjustments, also identified within Note 2, to reflect its merger with the former Scottish Government Transport Directorate on 1 August 2010; and to reflect material variances identified by Transport Scotland as part of a 'root and branch' review and re-measurement of the trunk roads network (see paragraph 21). We can confirm that these have been correctly accounted for.

Post balance sheet events

20. The management commentary identifies the awarding of contracts for the Forth Replacement Crossing as a significant event since the end of the financial year. It also provided an up-to-

date position on Transport Scotland's role in, and the funding of, the Edinburgh Trams project, reflecting the announcement by the Cabinet Secretary for Infrastructure and Capital Investment on 14 September.

Clarification of dimensions of certain roads

21. The Roads Asset Valuation System (RAVS), which is used to determine the value of the road network, relies on a series of engineering measurements to be applied in a model that assigns agreed rates to these measurements according to the length and type of road identified. As much of the data used for these measurements had not been reviewed since it was first used in 1998, Transport Scotland undertook a 'root and branch' physical verification exercise during 2010/11.

22. The verification exercise identified variances with the measurements applied in RAVS, reflecting changes in the width of sections of road from that previously recorded, resulting in an overall reduction of around £700 million in the net book value of the network as recorded in the accounts, which, following consideration, was reflected as a prior year adjustment to the opening General Fund and Revaluation Reserve at 1 April 2009. There is no impact on the Statement of Comprehensive Net Expenditure for 2009/10 or 2010/11.

Review of indexation of the road network

23. The value of the road network is updated annually, based on the provisional Baxter (RICS) index for 31 December of the relevant year. The use of a provisional index is essential to allow the valuation exercise to proceed in a timely fashion. The index should be reviewed later in the accounts preparation process to confirm that it remains a valid basis for accounts preparation. Following the 5 July meeting of the Audit and Risk Committee, it was agreed that the increase in indexation, which equated to £380 million, should be amended in the financial statements, with the increase in the value of the road network matched by an increase in the revaluation reserve.

Gourock - Dunoon ferry service

24. A provision was established, on the basis of best advice available at the time of preparation of the draft accounts, for a potential fine and costs arising from a Decision by the European Commission in respect of the Gourock - Dunoon ferry service.

25. Subsequent to the preparation of the accounts there was a successful tendering exercise and the best advice is now that it is unlikely that a fine will be levied. It was therefore agreed that the provision should be reduced by £9.5 million and that amendment was made.

26. We also drew attention to the residual risk that a future liability might remain. The Accountable Officer has confirmed that he considers that it is not appropriate to disclose a contingent liability in relation to the European Commission's consideration of this ferry service.

Whole of government accounts

27. The whole of government accounts (WGA) are the consolidated financial statements for all branches of government in the UK. Transport Scotland is required to submit a consolidation pack, as its gross expenditure and assets are above £50 million. Most central government bodies (and local authorities) are required to provide information to their auditors by 29 July. Transport Scotland submitted the pack for audit on 30 August, following consultation with and review by the Scottish Government, and we have no significant issues to report.

Outlook

28. The main change in the financial reporting framework (FReM) next year (2011/12) is that grants and donated assets should be recognised immediately, unless there is a condition that the recipient had not satisfied, that would lead to repayment. Most grants and donated assets should be recognised as income, but grants from a sponsoring department to an NDPB should be credited to general reserves. As a consequence, the government grant reserve and donated asset reserve will no longer exist.

29. Looking further ahead, from 1 January 2013 changes to international financial reporting standards (IFRSs) will become effective. This includes the introduction of:

- IFRS 9 - financial instruments (replacing IAS39)
- IFRS 10 - consolidated financial statements (replacing IAS27)
- IFRS11 - joint arrangements (replacing IAS31)
- IFRS12 - disclosure of interest in other entities (replacing IFRS12)
- IFRS 13 - fair value.

30. Revisions to the FReM for 2013/14 are included in the Financial Reporting Advisory Board (FRAB) forward work programme for 1 December 2011.

31. Specific to Transport Scotland, we note that the contract for EC Harris to provide the Roads Asset Valuation System (RAVS) ended on 31 March 2011. A new contract for provision of this system has been awarded to WS Atkins. Given the importance of RAVS to both Transport Scotland's operations and its accounts, it is important that Transport Scotland ensures that relevant data from the old system is fully and properly transferred to the new system, and that the new system provides operational and valuation reports that are accurate and meet Transport Scotland's needs. We understand that arrangements are in hand; and as at October 2011, the new system is undergoing user acceptance testing.

Audit appointment for 2011/12

32. Audit appointments are made by the Auditor General, either to Audit Scotland staff or to private firms of accountants for a five year term. 2010/11 is the last year of the current audit appointment. The procurement process for the next five years was completed in May 2011. For 2011/12 and the subsequent four years the auditor for Transport Scotland will continue to be Audit Scotland; we look forward to maintaining the good working relationship that exists and thank officers and members of the audit and risk committee for their assistance during the year.

Financial position

33. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.

34. Auditors consider whether audited bodies have established adequate arrangements and examine:

- financial performance in the period under audit
- compliance with any statutory financial requirements and financial targets
- ability to meet known or contingent, statutory and other financial obligations
- responses to developments which may have an impact on the financial position
- financial plans for future periods.

35. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

Financial results 2010/11

36. The statement of comprehensive net expenditure for financial year 2010/11 shows net operating costs of £1,547 million, which is £108 million (6%) less than the equivalent figure for 2009/10. The main factors in this were reduced expenditure on major public transport projects of £91 million, which fell to £75 million from £166 million; and lower depreciation of roads, which fell £49 million to £44 million from £93million; off-set by an increase in maintenance of roads of £18 million from £189 million to £207 million and expenditure on rail infrastructure and the rail franchise which increased by approximately £30 million on £600 million in 2009/10.

Budgetary control

37. Scottish Ministers allocated £1,889 million of resources to Transport Scotland in 2010/11, part of the budget for the Finance and Sustainable Growth portfolio approved by the Scottish Parliament. Of that total, £1,823 million was funded from the Departmental Expenditure Limit (DEL), £27 million represented funding for Annually Managed Expenditure (AME) in respect of new provisions arising from land compensation and damage claims in respect of the trunk roads network, and the remaining £38 million was funding outwith DEL (ODEL) in respect of PFI/PPP projects. Outturn against DEL was £1,763 million, which was £60m (3%) within budget. Overall outturn of £1,826 million was £62m (3%) within budget.

38. The main components of the £62 million underspend were roads depreciation, which was £48 million less than anticipated by the Spring Budget Revision, and a similar £55 million underspend in respect of major public transport projects. These underspends were offset by extra expenditure of £23 million above budget in respect of routine and winter maintenance of

roads, a consequence of unexpectedly severe winter weather conditions; and a net spend of £8 million (3%) above Transport Scotland's capital allocation.

Financial position at 31 March 2011

39. The Statement of Financial Position at 31 March 2011 shows net assets of £16,207 million (31 March 2010: £15,034 million). As in previous years, this position is largely attributable to the trunk road network, which had a net book value of £15,693 million at 31 March 2011 (31 March 2010: £14,790 million). The movement on reserves also largely reflect the net effect of changes in the value of the roads, with an increase in the Assets under Construction of £223 million being reflected in the General Fund; and the net movement of £941 million in the valuation of the network being Revaluation Reserve.

Exhibit 1

Reserves

Description	31 March 2010 £ million	31 March 2011 £ million
General Fund	8,001	8,263
Revaluation Reserve	7,033	7,943
Donated Asset Reserve	1	1
Total Reserves	15,034	16,207

Transport Scotland 2010/11 financial statements

Financial planning to support priority setting and cost reductions

40. The financial challenges facing the Scottish public sector are well documented, with public bodies facing deep and prolonged cuts in funding. In June 2010 the new UK Government set out an Emergency Budget, planning for a period of significant fiscal consolidation and then in October 2010 it published its comprehensive spending review. This will mean an 8.6% real terms reduction in Scottish resource DEL and a 36.5% real terms reduction in capital DEL in the next four years. The Scottish Government published its proposed budget for the next financial year in November 2010.

41. The Auditor General for Scotland is building on his previous work in this area and published an interim report in August 2011, Scotland's Public Finances - Addressing the Challenges. This report looked at the response by public bodies to reduced budgets, including how they are planning for potential budget reductions and the impact of their financial plans. We liaised with Transport Scotland on the completion of a data return to help inform the report. The main features are outlined below. We concluded that Transport Scotland has approached the budget reduction exercise in a systematic manner in line with Scottish Government

requirements; and has arrangements in place to monitor progress outturn against budget plans.

42. As an Agency of the Scottish Government, Transport Scotland was part of the central government process for setting the Draft Budget for 2011-12. Decisions on net investment / capital (which projects are to be supported) followed a different route from budget setting for revenue expenditure.

Budget reductions

43. Transport Scotland's 2010-11 budget for net revenue expenditure was £1,000m (cash basis). The projected budget for 2011-12 for net revenue expenditure is £968m, a reduction of £32m (3.2%). The overall budget reduction for capital and revenue is 2.8% net, broadly similar to the 3.2% net for revenue only.

44. Some of the options approved in the budget setting process for 2011-12 included additional funding as well as savings (e.g. ferries services). Therefore the budget reduction is a net of increased funding in some areas less savings in others, which means that a direct comparison between the 2010-11 budget and Draft Budget for 2011-12 does not reflect the level of savings required.

45. Total revenue expenditure savings were calculated at £77m gross, which combined with increased revenue expenditure of £45m gives rise to the £32m net reductions. Budgeted savings on payroll are £1m or 7.8%, the biggest percentage reduction from 2010/11 to 2011/12. Reductions in budgets in other operating costs are bigger in absolute terms. Within that Transport Scotland indicate that "Rail Services" (as currently defined) is the biggest area of budget reduction: £22m net revenue and £63m net total (capital and revenue).

Scotland's public finances: addressing the challenges

46. The main messages outlined by the Auditor General in his report were that Scotland's public sector is in the first year of major spending cuts and public bodies must focus on their long-term financial sustainability to ensure effective public services in the future. Scotland's public sector budget in 2011/12 for running costs and day-to-day spending is £27.5 billion, a drop of 6 per cent or £1.7 billion in real terms from £29.2 billion in 2010/11. It will continue to drop until at least 2014/15. Public bodies have budgeted for this in 2011/12, but they need to make significant savings during the year and there is a risk they won't achieve this due to cost pressures being greater than expected or unforeseen events. At the same time, they are facing increasing pressures and demands, such as Scotland's ageing population, the effects of the recent recession, and the public sector's maintenance backlog. Therefore, public bodies need to have clear priorities, and plan their budgets and workforces to deliver these. Pay restraint and reducing workforces are the most common approaches being taken by public bodies to reduce costs over the next few years. Many bodies have already reduced staff numbers through recruitment freezes and voluntary redundancy schemes, and further reductions are planned.

47. Transport Scotland has noted the issues identified in respect of reforming public services.

48. In relation to the issues identified on workforce reductions, Transport Scotland directors regularly review headcount, exit package requests and vacancies on a corporate basis to ensure that essential skills are maintained in key service areas. They also consider the annual employment engagement survey results and develop action plans at corporate and directorate levels to deliver improvements. In staffing matters Transport Scotland operates within the framework established by the Scottish Government.

49. On financial sustainability, clear budgets have been set across Transport Scotland to fund specific projects and services. Clear savings plans have been identified and shared with Scottish Ministers as part of the spending review process. Close monitoring is undertaken on a monthly basis. Transport Scotland borrowing commitments are handled as part of the wider Scottish Government process.

Refer Action Plan 1

Outlook

2011/12 budget

50. As confirmed above, Transport Scotland approached the 2011/12 budget exercise in a systematic manner in line with Scottish Government requirements, and has arrangements in place to monitor outturn against budget plans. The overall budget for 2011/12, including capital and net investment, has been set at £1,830 million, a £59 million (3%) net reduction on the resources available for 2010/11.

Significant financial risks

51. Transport Scotland has stated that the principal risks and uncertainties that it faces relate to the major contracts that it has entered into in relation to the provision of rail, ferry, bus and air services, the maintenance of the road, rail and highland and island air networks, and the procurement of major infrastructure such as the Forth Replacement Crossing. The inherent risks relate to performance by contractors, which can also be affected by outside factors such as adverse weather. Transport Scotland has focussed its efforts in particular on improving winter resilience on the trunk road network. Transport Scotland manages the related financial risks on these contracts by providing financial support, including monthly reporting to budget holders, directors and the Scottish Government.

Governance and accountability

52. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.

53. Through its chief executive or accountable officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance (including audit committees or similar groups) in monitoring these arrangements.

54. Consistent with the wider scope of public audit, auditors have a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:

- corporate governance and systems of internal control
- the prevention and detection of fraud and irregularity
- standards of conduct and arrangements for the prevention and detection of corruption

55. In this part of the report we comment on key areas of governance.

Corporate governance

Background

56. The Chief Executive announced the findings of the Transport Shaping Up Review on 27 April 2010. The Review sought to examine the way in which current Scottish Government transport policy and delivery is carried out against the context of the Government's Purpose and the outcomes it wishes to deliver; and to recommend changes which would help to clarify any areas of overlap or duplication in the roles of the Scottish Government Transport Directorate and Transport Scotland and increase their overall effectiveness.

57. Following consideration of the recommendations contained in the Review, it was concluded that the Scottish Government's Transport Directorate and Transport Scotland should be combined into a new, single transport unit covering all of the Scottish Government's transport responsibilities. The organisations merged on 1 August 2010 creating a single transport authority for Scotland.

Merger of Transport Scotland and Transport Directorate

58. The Agency / Directorate arrangement was formally established on 1 January 2006. The aim of the new agency was to deliver a significant programme of road and rail projects with the then newly devolved rail powers providing a significant impetus. The focus of the Agency was on delivery, with the SG Transport Directorate dealing with policy.

59. The Transport Shaping Up Review considered various factors including whether in general terms a single unit covering all aspects of transport policy and delivery is desirable and practical and how overlaps or areas of common ground might be better arranged. The review recommended that:

- the existing Transport Directorate and Transport Scotland should be brought into a new, combined, transport unit
- the new transport unit should follow the basic agency model, retaining the Transport Scotland brand, with the Chief Executive as accountable officer
- the formal constitutional arrangements should be worked up in detail taking account of the emerging findings of the separate examination of the agency model, and should be set out in a revised Framework Document
- the two site locations of Agency and Directorate should remain for the foreseeable future.

Changes to organisational structure

60. There have been significant changes to the organisational structure of Transport Scotland as a result of the merger and subsequently to achieve the required synergies. The main changes are:

- the realignment of a significant proportion of the former Strategy & Investment directorate with Transport Policy (formerly SG Transport Directorate)
- the creation of a specific Rail Commercial Unit, headed by a director, to operate within the overall remit of the Rail Directorate.

For the Rail directorate, the restructure has gone beyond the original scope of the Transport Shaping Up Review; and the changes were implemented from 1 December 2010.

Revised Board and Audit Committee arrangements

61. In common with other Agencies, the role of the Transport Scotland Board is to provide support, advice and constructive challenge to the Chief Executive, rather than, for example, the Board having a formal role in which members are collectively accountable to Ministers. Until December 2010, the Board comprised Transport Scotland's executive directors and two non-executive directors. In addition, the governance arrangements to support the Chief Executive included an audit committee, which comprised the two non-executive directors and a third, independent member who served only on the audit committee and not on the board; and a risk committee that was chaired by one of the non-executive directors.

62. The terms of office of the two non-executive directors expired in December 2010. This broadly coincided with the merger of Transport Scotland and SG Transport Directorate. At that point Transport Scotland reviewed its requirements for a Board in its current form, a review that included discussions with the Cabinet Secretary. As a result of this review it was decided that there was no operational necessity to retain the current Board structure.. Non-executive members will continue to provide senior input through participation in a revised Audit and Risk Committee, senior managers will continue to meet as a management team, and continue with

Board meetings on a four weekly basis, the minutes of which are published. Transport Scotland has continued to develop their arrangements, for example, by undertaking a comprehensive review of their approach to risk management to ensure it is in line with the Scottish Government's best practice. The former Risk Committee, to be renamed the Risk Management Group, now chaired by an executive director, will continue to consider Directorate risk registers and the corporate risk register and report regularly to the Chief Executive and senior management. In addition, the role of the Audit and Risk Committee in relation to risk management has been enhanced.

63. We note that these changed arrangements for the Board now differ from those which exist at other Executive Agencies of the Scottish Government, which operate with a Board which includes non-executive members. We are aware of Transport Scotland's views that these changes in governance arrangements reflect the primacy of the Scottish Ministers in decisions on Transport Scotland activity. We also note the role non-executives continue to play in the boards, or equivalent structures, of certain major projects undertaken or funded by Transport Scotland (for example, six non-executive members sit on the project board overseeing the Forth Replacement Crossing).

64. Audit Scotland's study "The Role of Boards" (September 2010), made a number of observations and recommendations, which, taken together with our experience of the application of governance arrangements across a range of clients, lead us to draw attention to the following features that we consider are relevant to Transport Scotland's emerging, revised governance arrangements:

- It is the role of the board to challenge management on organisational performance, with the more recognised role of an audit and risk committee being to review assurances that performance management arrangements are in place and operating effectively, rather than providing a challenge on performance itself.
- Guidance on audit committees, including that issued by the Scottish Government, envisages that the majority of members will also be members of the main board and therefore have a reasonably complete, albeit high level, knowledge of the business and emerging issues. Transport Scotland has recognised this issue and, as part of on-going developments is putting in place arrangements to ensure that Committee members will have sufficient knowledge to constructively challenge the completeness of identified risks, audit plans and management responses, for example regular update meetings between the Directors and the non-executive members have been established. Also, in line with best practice, the Audit and Risk Committee will undertake an annual self assessment of its effectiveness.
- "The Role of Boards" study recommended that the Scottish Government clarify the role of non-executives in Agencies such as Transport Scotland.

65. We acknowledge that the changes to Transport Scotland's governance arrangements have been carefully considered. Never-the-less it is our view that the now-restricted role for non-executives reduces the potential for independent advice and challenge in areas such as risk management and the review of performance management.

66. We recommend that Transport Scotland consider further whether their revised arrangements are consistent with the development of the role of non-executives in Agencies more broadly; and are striking the correct balance between the benefits and disadvantages of the involvement of independent non-executives, including in relation to the broader aspects of corporate governance Also, we recommend that Transport Scotland liaise with the Scottish Government to confirm that the developments in the role of the board and non-executives are in line with their overall approach for agencies.

Refer Action Plan no. 2

Internal control

67. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial systems and controls of audited bodies as a whole. However, the extent of this work should also be informed by their assessment of risk and the activities of internal audit.

68. As part of our risk assessment and planning process we assessed the Scottish Government Internal Audit Division, Transport Scotland's internal auditors, and concluded that they operate in accordance with the Government Internal Audit Manual. We were therefore able to place reliance on their work in a number of areas as detailed within our annual audit plan.

69. Our audit approach includes a review of the high level controls operating within Transport Scotland's key financial systems. Our work on these local systems and controls covered budgetary control, the local aspects of payroll systems and accounts payable, and the main areas of Transport Scotland's expenditure. In the interests of an efficient audit approach we also rely on assurances received from the auditor of the Scottish Government on work performed on shared systems, hosted by the Scottish Government, that operate in respect of Transport Scotland. This approach ensures we are delivering an efficient co-ordinated audit that avoids unnecessary duplication and expense. We comment on local and central systems below.

Local Transport Scotland systems

70. Sound budgetary control arrangements are a fundamental element of any organisation's systems of internal control, especially so in these times of tight and reducing budgets. As part of the annual audit we reviewed these arrangements. Overall we found Transport Scotland's budgetary control arrangements and accounting systems to be operating effectively. However, following the period of significant change within Transport Scotland, we identified a number of potential issues to be considered, which we reported as part of our interim audit. Overall, our audit of transaction steams, including the testing at the final audit stage, was completed with satisfactory results.

71. The focus of ICT at Transport Scotland has been to ensure the ICT arrangements were in place to accommodate the changes in the organisational structure. The issue outstanding from previous audit work was the development of an Information Asset Register. Transport

Scotland confirmed they will now develop their arrangements in this area in line with the development of central Scottish Government arrangements.

72. In their annual report for 2010/11, Scottish Government Internal Audit Division provided their opinion that, based on the internal audit work undertaken during the year, there was reasonable assurance on the adequacy and effectiveness on the systems of internal control. Reasonable assurance means that the management or operation of risk and control systems is mainly satisfactory, but requires some improvement. This assessment for Transport Scotland reflects internal audit's underlying 'reasonable' assessments of Forth Estuary Transport Authority and Tay Road Bridge Joint Board grants, and Transport Scotland's land valuation process, for which improvements to arrangements were identified.

Central Scottish Government systems

73. Transport Scotland makes use of a number of central systems hosted by the Scottish Government, including: main accounting system; accounts payable; accounts receivable; cash and banking; non-current asset register (non-roads); payroll; and travel and subsistence. The central systems assurance letter provided by the auditor of the Scottish Government concluded that there was adequate assurance for all systems except travel and subsistence payments. Adequate assurance is where key controls and procedures are operating to enable reliance to be placed on the system. Limited assurance on travel and subsistence was largely due to limitations in the controls surrounding expense authorisation and a lack of management reporting during the year. Our colleagues auditing the Scottish Government systems carried out additional testing of travel and subsistence as part of their final audit procedures and confirmed there was no impact on our opinion on the financial statements.

74. The Statement on Internal Control (SIC) provided by Transport Scotland's Accountable Officer reflected the main findings from both external and internal audit work. The SIC records management's responsibility for maintaining a sound system of internal control and summarises the process by which the Accountable Officer obtains assurances on the contents of the SIC.

Concessionary Travel Scheme

75. In line with our risk assessment, we reviewed and tested the controls in operation in the Concessionary Travel Scheme arrangements. In particular we focussed on the SMART environment, as the roll out of electronic ticketing was complete by August 2010. We confirmed that key controls were operating as expected. As anticipated, the introduction of the SMART environment has contributed to further improvements in the arrangements for the prevention and detection of fraud and error. However, there had been little progress in developing performance reporting because of the absence of a key member of staff. On governance, we noted that, following the completion of the SMART programme, the previous arrangements involving the governance board stopped in October 2010, with regular reporting now part of the Directorate arrangements; and there is also regular information reported at a corporate level to the Board.

Prevention and detection of fraud and irregularities

76. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. Auditors review and report on these arrangements.

77. Transport Scotland has appropriate arrangements in place to prevent and detect instances of fraud and corruption including detailed policies which have recently been reviewed and updated. Given the circumstances of the operation of the Concessionary Travel Schemes, separate arrangements have been put in place for this aspect of Transport Scotland's activity.

78. There were no instances of fraud or corruption reported by Transport Scotland in 2010/11. The Concessionary Travel Scheme team have reported to the Audit and Risk Committee and the Board on their arrangements, cases of suspected fraud and progress on prosecutions

Standards of conduct and arrangements for the prevention/ detection of bribery and corruption

79. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. Auditors consider whether bodies have adequate arrangements in place. We have concluded that the arrangements in Transport Scotland, which are consistent with the requirements of the Scottish Government, are satisfactory and we are not aware of any specific issues that we need to identify in this report.

Best Value, use of resources and performance

80. Accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value.

81. The Auditor General may require that auditors consider whether accountable officers have put in place appropriate arrangements to satisfy their corresponding duty of Best Value. Where no requirements are specified for auditors in a period they may, in conjunction with their audited bodies, agree to undertake local work in this area.

82. As part of their statutory responsibilities, the Auditor General and the Accounts Commission may procure, through Audit Scotland, examinations of the use of resources by audited bodies and publish reports or guidance. Auditors may be requested from time to time to participate in:

- a performance audit which may result in the publication of a national report
- an examination of the implications of a particular topic or performance audit for an audited body at local level
- a review of a body's response to national recommendations.

83. Auditors may also consider the use of resources in services or functions, where the need for this is identified through local audit risk assessments. Audit Scotland has prepared a series of Best Value toolkits to facilitate its reviews in these areas.

84. During the course of their audit appointment auditors should also consider and report on progress made by audited bodies in implementing the recommendations arising from reviews in earlier years.

85. This section includes a commentary on the Best Value/ performance management arrangements within Transport Scotland. We also note any headline performance outcomes/ measures used by Transport Scotland and comment on any relevant national reports and Transport Scotland's response to these.

Management arrangements

Best Value

86. In March 2011, the Scottish Government issued new guidance for accountable officers on Best Value in Public Services. The new guidance, in essence, required public bodies to take a systematic approach to self-evaluation and continuous improvement.

87. The guidance identifies the themes which an organisation needs to focus on in order to deliver the duty of Best Value, but notes that implementation should be appropriate and proportionate to the priorities, operating environment, scale and nature of the body's business.

88. The five themes and two cross-cutting themes (some of which we have commented on earlier in this report) are:

- vision and leadership
- effective partnership
- governance and accountability
- use of resources
- performance management
- equality (cross-cutting)
- sustainability (cross-cutting)

89. We comment on aspects of Transport Scotland’s arrangements to monitor their achievement of Best Value at various points in this report. Our comments are made on the basis of information made available in the course of the annual audit. We do not therefore make an overall Best Value judgement, but our intention is to build up the corporate assessment over time.

90. Another building block for our assessment of Best Value is the national study programme carried out by Audit Scotland on behalf of both the Auditor General for Scotland and the Accounts Commission. Where these have a bearing on the activities, risks or performance of Transport Scotland, we make reference to these reports in the relevant section below. Full copies of the study reports can be obtained from Audit Scotland’s website, www.audit-scotland.gov.uk.

Performance management

91. Transport Scotland has various arrangements in place at a directorate and corporate level to review and manage performance against the business plans. During 2010/11, Internal Audit followed up their review of internal and external performance reporting. The review had made recommendations on the development and use of Key Performance Indicators (KPI's) to supplement the outcome based reporting that has been adopted. Transport Scotland accepted the recommendations of the original review and as part of the follow up has recognised that the development of KPI's will now be considered as part of their current monitoring of their governance and performance management arrangements.

Overview of performance in 2010/11

Transport Scotland's performance measurement outcomes

92. Transport Scotland’s strategic priorities (the Scottish Government's Transport Priorities) for 2010/11 were set out in its Corporate Plan 2008-11, and the Business Plan for 2010/11 committed Transport Scotland to delivering a number of achievements in support of those priorities.

93. In its Annual Report and Accounts for 2010/11 Transport Scotland lists 49 key achievement targets in support of its 5 strategic priorities. It has assessed 44 of those as having been achieved, with a further 3 as on-going. The two exceptions are:

- delivery of a new interchange between the rail and tram networks providing connections to Edinburgh Airport and the West Edinburgh Development Area. This is explained as being due to delays in the Edinburgh Trams project.
- work on the A90 including commencing work on the Aberdeen western Peripheral Route (AWPR) and completing the dual carriageway from Balmedie to Tipperty. Transport Scotland notes that construction of both schemes has been delayed due to the legal challenges submitted against the AWPR.

Efficiency savings

94. Over the three year period of Transport Scotland's corporate plan (2008-11), Scottish Ministers had set a target of delivering efficiency savings in excess of £150 million. In Transport Scotland's business plan for 2010/11 the Agency's stated target was to achieve savings of at least £70 million. The Annual Report discloses that Transport Scotland achieved the target set by Scottish Ministers.

95. For 2011/12, the Scottish Government expects every public body to deliver efficiency savings of at least 3% and to report publicly on the actions undertaken and the results achieved. In the current economic situation, the 3% efficiency expectation is intended to help public bodies to offset cost pressures and live within the budget allocations they have been given, helping to protect services from the full impact of the fall in budget allocations in 2011-12 compared with the previous year.

96. The Scottish Government has stated that it is adopting a light touch approach. It will not require each portfolio or each public body to submit separate efficiency plans and will not undertake quarterly assessments or publish an Outturn Report for 2011-12. Nevertheless, for audit and accountability purposes, the Scottish Government recognises a need for consistency in the recording and reporting of efficiencies across the public sector. It has therefore developed a simplified definition of efficiency and has produced high-level guidance and a standard template to enable public bodies to record delivered efficiencies at the year-end.

97. We will continue to monitor the financial position and the actions taken by Transport Scotland to achieve efficiency targets.

Audit Scotland national performance reports

98. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Reports of direct interest are:

Exhibit 2

A selection of National performance reports

Follow up of prior year reports

- Improving public sector purchasing (July 2009)
- How government works: central government's use of consultancy services (January 2009)

2010/11 reports

- National concessionary travel
- Improving energy efficiency: a follow-up report
- Edinburgh trams interim report
- Scotland's public finances: addressing the challenges
- The role of boards
- Maintaining Scotland's roads: a follow-up report
- Management of the Scottish Government's capital investment programme

www.audit-scotland.gov.uk

Follow up of prior year reports

Improving public sector purchasing

99. Transport Scotland was, for the second year in succession, subject to a full Procurement Capability Assessment in October 2010. As in 2009, Transport Scotland was assessed as achieving 'Superior' performance in this area, with each component area being assessed as either 'Superior' or 'Improved'.

Use of consultants

100. Transport Scotland is satisfied that it has clear processes for approving, recording and monitoring the use of consultants and has confirmed that it follows the Scottish Government guidance developed in response to Audit Scotland's report Central Government's Use of Consultancy Services. That guidance, together with clarification, was communicated by the Financial Controller to Transport Scotland directors in August 2010.

2010/11 reports

101. We comment on The Role of Boards report, as relevant to Transport Scotland, in the Governance and Accountability section of this report.

Edinburgh trams interim report

102. This interim report on Edinburgh trams, published in February 2011, looked at the project's progress and costs to date and its governance arrangements. It did not include a detailed review of the various works contracts or express any opinion on the project's management or the performance of any of the contractors involved. That would have been inappropriate due to the on-going (at the time) contractual dispute between tie Ltd and the Bilfinger Berger Siemens consortium. The main messages from the report were:

- that the City of Edinburgh Council and Transport Initiatives Edinburgh (tie Ltd), urgently needed to establish a clear way ahead for the project
- the Scottish Government should consider whether its agency Transport Scotland should become more actively involved.

Update on Edinburgh trams project

103. Following on from a mediation process over the summer of 2011 and decisions by City of Edinburgh Council a revised project and budget was determined that allows the tram route to continue to St Andrew's Square for an overall budget for the project of £776 million, comprising of a base budget of £742 million and a risk allowance of £34 million. This is an increase of £231 million above the original project budget of £545 million and it will be funded through the Council's prudential funding facility.

104. On 14 September 2011, following these developments, the Scottish Government announced that:

- senior management from Transport Scotland would help complete the trams project, with a team of experienced project managers filling key senior roles in the project's new governance structure.
- that the remaining £72 million of the £500 million grant originally offered by the Government to fund the project would be reinstated
- Ministers will receive regular updates on the progress of the project, and will also retain a veto over strategic decisions in respect of remaining Government funding.

105. We will continue to monitor the progress of this project, including its funding.

Refer Action Plan no.3

National concessionary travel

106. Our report looked at the national scheme of free bus travel for older and disabled people, which was introduced in 2006 to replace 16 local council-run programmes, and which cost around £185 million in 2010/11 (£199 million in 2009/10). National concessionary travel (NCT) is widely-used and popular among users, with 80 per cent of over-60s in Scotland holding a bus pass. However there were weaknesses in how it was planned and implemented. There was only limited information about the cost of the scheme when the Scottish Parliament considered its introduction. While NCT started on time, robust systems were not in place to

effectively manage it or monitor its success, and the overall impact of the scheme is still not clear. There has been a four-and-a-half-year delay in rolling out the technology to support the scheme, and this is costing £42 million, against an original budget of £9 million. Annual costs are expected to rise, although it is not possible to predict exact future costs. The potential costs of the scheme are illustrated in the report: for example, allowing for the estimated growth in the number of people aged 60 and over, by 2025 annual costs could rise to £216 million (at 2010 prices). Future increases in the price of adult single fares – which have increased on average at 6.25% a year since NCT was introduced - would make the costs higher.

107. The report recommends, specific to NCT, that the Scottish Government and Transport Scotland should:

- clarify the objectives of NCT and what contribution the scheme is expected to make towards the strategic objectives set out in the National Performance Framework
- consider whether the money spent on NCT and the impact it has is the best use of public resources at a time of budget restraints
- develop performance measures which allow it to assess the impact of NCT against clear objectives and the strategic objectives set out in the National Performance Framework
- work with councils to understand the reasons for variations in the take-up of disabled passes.

108. Transport Scotland provided an update to Audit Scotland in July 2011, confirming that the report and the subsequent consideration by the Public Audit Committee constitutes one of the standing items on the agenda of Transport Scotland's Bus Operations and Policy Steering Group.

109. The Group has already considered and commented on a detailed table outlining the actions and progress to date against the various recommendations contained in our report. One of the key purposes of the Group will be to ensure momentum is maintained on addressing the various recommendations; and also to ensure that Transport Scotland remains focussed on some of the more fundamental points that have been raised, particularly following the recent Scottish Spending Review, which announced Scottish Government budget plans to 2014/15.

110. Transport Scotland has confirmed that further work continues to be undertaken on all of the report's recommendations that are specific to the scheme and has undertaken to provide more details once the Steering Group has considered the best way forward.

Improving energy efficiency: a follow-up report

111. Our report highlights that, in the two years since Audit Scotland had last reported on this subject, action has been taken at both national and local levels. The Scottish Government has recently published an action plan to improve energy efficiency, and 85 per cent of public bodies now have energy efficiency strategies. However, our report identifies that greater urgency is now needed for public bodies to cut their energy use, in order to minimise the impact of predicted price rises and to reduce carbon emissions. In the three years to March 2009, public bodies' energy use increased by one per cent overall but spending on electricity, gas and oil rose by 21 per cent. In 2008/09 the public sector spent more than £322 million on energy. While energy prices had dropped, they have since start rising again. Additionally, Scotland's public bodies are also expected to contribute towards ambitious national targets to reduce greenhouse gas emissions.

112. In September 2010, Transport Scotland's voluntary Green Committee group started on the production of a Carbon Management Plan (CMP), with respect to energy emissions within Transport Scotland's buildings, under the auspice of the Carbon Trust's public sector Carbon Management Programme. The CMP was completed in July 2011 with Transport Scotland 'graduating' from this Programme. The CMP, which is currently unpublished, is the principle route through which the report's recommendations are being taken forward.

113. Transport Scotland has also provided a detailed return to explain how it has responded to each of the recommendations raised in our report, with the exception of building the CRC Energy Efficiency Scheme into their internal audit arrangements.

Maintaining Scotland's roads: a follow-up report

114. Despite high levels of overall spending on public services, the condition of Scotland's roads worsened over the past six years. In 2010, only 63% of roads were in an acceptable condition and the cost of the maintenance backlog increased to £2.25 billion, £1 billion more than in 2004. During the financial year 2009/10, £654 million was spent on maintaining roads (£162million went on trunk roads and £492 million on local roads), with Transport Scotland estimating it would need to spend an additional £275 million to get trunk roads into a 'steady state', whereby a fixed amount of roads need structural maintenance each year. Our report calls on the Scottish Government to consider a national review of how Scotland's road network is managed and maintained. The report also recommends that Transport Scotland and the local authorities should:

- review their road maintenance strategies and plans to confirm that adequate prioritisation is given to those routes which are likely to contribute greatest to economic growth and improved quality of life
- work together to consider all opportunities for achieving more with the resources currently available, by exploring new ways of working, such as service reconfiguration, pooling and flexible use of resources (including staff and machinery) and partnerships between councils and with the private sector
- ensure that information on maintenance backlog and road condition is reported regularly to elected members and the public.

115. Transport Scotland continually reviews its road maintenance strategies and plans in order to confirm that adequate prioritisation is given to those routes which are likely to contribute greatest to economic growth and improved quality of life.

116. In February 2011, the Minister for Housing and Transport announced that he was accepting the central recommendations of the Audit Scotland Report – Maintaining Scotland's Roads, and that a national review would be undertaken looking at how the road network is managed

and maintained. The review is being led by Transport Scotland in partnership with the Society of Chief Officers of Transportation in Scotland (SCOTS), Society of Local Authority Chief Executives (SOLACE), Convention of Scottish Local Authorities (CoSLA) and the Scottish Road Works Commissioner (SRWC).

117. The review has explored how the Scottish Government can work better with local authorities on the management and maintenance of Scotland's roads, and what can be learned from international road management practices. Transport Scotland has confirmed that work has progressed across four key areas: productivity and technology innovation; resourcing; standards and prioritisation; and, wider economic issues. The focus of the review has been about how Transport Scotland can improve budget efficiencies, while identifying opportunities for innovation, collaborative working, and the sharing of services.

118. A stakeholder event was held on 23 June 2011 to share emerging findings, and to help ensure that the review was shaped and informed by the views of stakeholders. Following the incorporation of feedback from the event, a framework was agreed and generated options sifted, and a report has been published outlining the outcome of phase 1 of the review.

119. In phase 2 of the review, the options are currently subject to appraisal. Following assessment, they will be presented to an Autumn Roads Summit in November 2011 for discussion and agreement by elected members of each delivery partner. Transport Scotland has indicated that early recommendations are flowing from the review, but that these remain subject to appraisal at present.

Management of the Scottish Government's capital investment programme

120. Our report looks at how well the government is running its programme of capital projects, such as hospitals, schools, prisons and roads, in the face of increasing budget pressures and uncertainties: this follows-up a 2008 report on major capital projects. The report found that the Scottish Government has improved its scrutiny of its programme in recent years. However, improvements have been slow in the information about the status and performance of individual projects, such as whether those projects were on time and within budget, which would help with management of the programme. Where information is available, it shows that cost estimating has improved in recent years. Many projects still run late, although delays tend to be at the early stages before contracts are signed and are less likely to affect costs. The report's key recommendations for public bodies such as Transport Scotland are that they should ensure that they:

- improve early-stage estimating of the cost and time of projects by ensuring assessments and quantification of risk and uncertainty are carried out
- regularly review projects to ensure they remain relevant to strategic objectives and establish strong links between capital spending and desired outcomes
- consider alternative forms of financing and ways to improve value for money from their capital programmes

- develop objectives and targets for their capital investment programme to help drive initiatives such as design quality and sustainability
- report systematically on their current and future capital investment plans.

121. Transport Scotland has indicated that it

- considers risk assessment and quantification an integral aspect of its business case development and decision making processes
- regularly undertakes post project evaluations
- regularly reviews projects to ensure they remain relevant to strategic objectives as part of the business planning process
- notes the recommendations to improve economies through their capital programme and to consider alternative sources of finance, which are being adopted within the wider Scottish Government
- considers that establishing strong links between capital spending and desired outcomes is a fundamental aspect of the TS business case and appraisal process
- reports systematically on current and future capital investment plans through the Strategic Transport Projects Review, the Scottish Spending Review process, and input to the Infrastructure Investment Plan due to be published in November.

Outlook

122. Going forward, Transport Scotland will be aware that a substantial element of its programmed work and expenditure is likely to be subject to performance scrutiny. While that will place a relatively high scrutiny burden upon Transport Scotland in comparison with other public bodies, this reflects the strategic importance of the projects and programmes that Transport Scotland has been tasked with delivering or helping to deliver. Over the coming years, in addition to its 'normal' programme of work in relation to roads maintenance, the railways, ferry and bus services, and the concessionary travel schemes, Transport Scotland will play a key role in the delivery of the Forth Replacement Crossing, and the Edinburgh Trams, Borders Railway, and Aberdeen West Peripheral Route projects. All of these projects, which involve substantial investment from public funds, have been and will be subject to significant political and public scrutiny.

Appendix A: audit reports

External audit reports issued for 2010/11

Title of report or opinion	Date of issue	Date presented to Audit Committee
Annual Audit Plan	28 February 2011	10 March 2011
Interim Audit Report	17 May 2011	5 July 2011
Report on financial statements to those charged with governance (ISA 260)	28 June 2011 (draft) 13 September 2011 (final)	5 July 2011 (draft) 13 September 2011 (final)
Annual Report on the 2010/11 Audit	11 October 2011 (Draft) 18 November 2011 (Final)	13 October 2011 (draft) January 2012 (final)

Appendix B: action plan

Key Risk Areas and Planned Management Action

Point Para	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1 Para 49	**Budget pressures** Transport Scotland has been tasked with delivering or helping to deliver a range of established programmes and key projects against a backdrop of a reduction in its own baseline funding**.** Risk. Implementing prioritised programmes, and projects do not match with planned savings and reduced funding risking an overspend of resources	Transport Scotland has a detailed assessment of the savings that require to be delivered and how these will be achieved and will continue to closely monitor their performance and projections against their budgets on a monthly basis	Sharon Fairweather, Director of Finance	March 2012
2 Para 66	**Role of Board & Non-executives** As part of a review of their governance structures and processes Transport Scotland has changed the role of non-executives. Risk. The changes reduce the potential for independent advice and challenge to areas such as the monitoring of risk and performance management	Transport Scotland will take cognisance of any further guidance that the Scottish Government may issue in relation to the structure of Boards for Executive Agencies.	David Middleton, Chief Executive	March 2012
3 Para 105	**Edinburgh trams project** Scottish Ministers have agreed an increased involvement for Transport Scotland in the delivery of the project. Risk. This is a complex project, with a history of difficulties, which increase the risks to successful delivery**.**	Whilst Transport Scotland is providing additional expertise to the project the City of Edinburgh Council remain the project sponsors and client to the contract and therefore retain the risk of delivery. Transport Scotland senior management will monitor the situation on a regular basis.	David Middleton, Chief Executive	March 2012