Transport Scotland

Annual report on the 2012/13 audit

Audit Scotland

Prepared for Transport Scotland and the Auditor General for Scotland
October 2013

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

2012/13

We have given an unqualified opinion that the financial statements of Transport Scotland for 2012/13 give a true and fair view of the state of the Agency's affairs and its net operating cost for the year.

The Agency's total outturn for 2012/13 of £2,046 million was £14 million (0.7%) below budget with the overall underspend mainly attributable to a £13.8 million underspend on expenditure on PFI schemes due to recently identified VAT recoveries. Within this total, Departmental Expenditure Limit (DEL) outturn for the year was £1,918 million which represented an overspend of £1.4 million (0.07%). This was absorbed by underspends elsewhere within the Scottish Government Infrastructure and Capital Investment portfolio in 2012/13.

During 2012/13, Audit Scotland completed a review of the five key transport infrastructure projects. The findings from the study were published in June 2013 and included two actions to be undertaken by Transport Scotland to improve control and decision-making.

Outlook

The current rail franchise agreement expires on 31 March 2015. The procurement programme for the next franchise agreement is underway and involves separate procurement exercises for the Caledonian Sleeper Franchise and the Scotrail Franchise. Both procurement exercises are due to conclude during 2014/15 with the new franchise agreements commencing on 1 April 2015. Given the value and nature of the respective contracts there will be significant media coverage and public interest in the procurement process.

Introduction

1. This report is the summary of our findings arising from the 2012/13 audit of Transport Scotland ("the Agency"). 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.

2. The report also reflects our overall responsibility to carry out an audit in accordance with the public sector audit model which is based on the Code of Audit Practice prepared by Audit Scotland (May 2011). This sets out the wider dimensions of public sector audit which involves not only the audit of the financial statements but also consideration of areas such as financial performance and corporate governance.

3. Weaknesses or risks identified by auditors are only those which have come to our attention during our 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 identified, does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

4. Appendix A is an action plan setting out the high level risks we have identified from the audit. Management 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 Accountable Officer (Chief Executive), senior management team and the Audit and Risk Committee should ensure that they are satisfied with the proposed management action and have a mechanism in place to assess progress.

5. 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. 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.

6. This report will be published on our website after consideration by the Audit and Risk Committee and after the accounts have been laid before Parliament.

Financial statements

Conduct and scope of the audit

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. We 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 audited bodies 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.

9. We review and report on, as appropriate, other information published with the financial statements. We also review and report on the Scottish Government Consolidation Pack incorporating the Whole of Government Accounts return. This section summarises the results of our audit on the financial statements.

Audit opinions and accounting issues

10. We have given an unqualified opinion that the financial statements of Transport Scotland for 2012/13 give a true and fair view of the state of the Agency's affairs and its net operating cost for the year.

11. We received the unaudited financial statements on 17 June 2013, in accordance with the agreed timetable. The working papers provided were of a high standard and management and staff provided good support to the audit team which enabled us to complete our on-site fieldwork within the planned timescales.

12. Transport Scotland is required to follow the Government Financial Reporting Manual (the FReM) and we confirmed that the financial statements have been properly prepared in accordance with the FReM. We also confirmed that relevant parts of the remuneration report had been properly prepared and that information given in the management commentary was consistent with the financial statements.

13. We also reviewed the Governance Statement and concluded that it complied with Scottish Government guidance.

14. We confirmed that the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers, the Budget (Scotland) Act covering the financial year and sections 4 to 7 of the Public Finance and Accountability (Scotland) Act 2000, and the sums paid out of the Scottish

Consolidated Fund for the purpose of meeting the expenditure shown in the financial statements were applied in accordance with section 65 of the Scotland Act 1998.

Significant findings from the financial statements audit

15. Detailed below are the significant findings from our financial statements audit as outlined in our report to those charged with governance on the 2012/13 audit (ISA 260) presented to the Audit and Risk Committee on 6 August 2013.

16. **Indexation rate for trunk road network** - In order to ensure that the depreciated replacement cost valuation of the trunk road network reflects current prices, Transport Scotland uplift the unit price rates applied to each element of the network using the Baxter construction price index.

17. The Baxter index is published monthly by the Department for Business, Innovation and Skills. This information is then used to produce a quarterly indexation. However, due to the timing of this information being provided, the figure for quarter 3 (weighted average of Baxter index for October to December) is routinely used to produce the year-end road network data for the annual financial statements. An assessment is made each year when the quarter 4 figure is received to assess whether this would have materially affected the amounts in the financial statements.

18. In 2012/13 the Baxter index at the end of quarter 4 was 2,133.46 whereas the figure at the end of quarter 3 was only 2,110.61. This represented a 1.08% uplift, increasing the net book value by £186 million (on a total road asset of £17.247 billion). An adjustment was made in the final version of the accounts to reflect this.

19. **Historic valuation adjustments to trunk road network** - An historic valuation adjustment of £182 million (net book value: £132 million) has been made to the value of the trunk road network for 'Dimensional variance'. The value of this adjustment represents 0.76% of the total net book value of the trunk road network and is due to changes in the measurement of the physical dimensions of the network. We will continue to monitor the level of this adjustment in future years to assess whether there are any underlying issues with the material accuracy of the quantum data used in the valuation of the network.

20. **Accounting treatment of historic valuation adjustment** - A review of the entries posted to the revaluation reserve and general fund during 2012/13 identified that the entry made for the £132 million historic valuation adjustment described at paragraph 19 above had been incorrectly debited to the general fund rather than the revaluation reserve. The financial statements have been amended to correct this.

21. **Revaluation reserve adjustment** - In last year's Annual Audit Report we highlighted that no amount had been released from the revaluation reserve in 2011/12 or 2010/11 for the re-valued element of the in-year depreciation charge or de-trunkings. To address this it was agreed that a methodology would be developed to determine the required transfer between the revaluation reserve and the general fund.

22. During 2012/13 an exercise was undertaken by management to establish the required revaluation reserve balance. This involved deflating the value of all items on the RAAVs system back to 31 March 1998 (or the date they were first brought on to the system if after that date), as an approximation of historic cost. This information was then used to calculate the depreciated historic cost of the trunk road network at 31 March 2013. The difference between the historic and current values represents the required revaluation reserve balance. We reviewed the model used to calculate the revaluation reserve balance and concluded that this represented a reasonable and robust methodology. This process identified that the revaluation reserve was understated by £83 million and a transfer from the general fund to the revaluation reserve was made to adjust this.

23. However, due to the adjustments detailed at paragraphs 18 and 20 above, this adjustment had to be recalculated. This identified an additional £63 million adjustment which was reflected in the audited financial statements.

24. **Special structures depreciation adjustment** - An adjustment of £8 million has been made to the opening depreciation balance for Special Structures depreciation. This was due to depreciation not being charged for Special Structures in prior years and was identified by Atkins LLP during their annual valuation. We accepted that as the amount is not material to the financial statements it does not require to be accounted for as a prior period error under *International Accounting Standard 8 - Accounting Policies, Changes in Accounting Estimates and Errors* and the adjustment in the current year's financial statements is appropriate.

Whole of Government Accounts

25. The whole of government accounts (WGA) are the consolidated financial statements for all branches of government in the UK. Transport Scotland provided us with their unaudited Scottish Government consolidation pack on 12 July 2013. We were able to submit the audited consolidation pack, including the consolidation certificate signed by the accountable officer, to the Scottish Government on 24 July 2013. We found no significant errors in the consolidation pack.

Outlook

26. A post-audit meeting was held between finance officers and the audit team in September 2013 to discuss how the accounts preparation/ audit process could be further streamlined in future years. The issues identified at this meeting will be taken forward to ensure these are addressed during the 2013/14 audit cycle.

Financial position

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

28. We consider whether they 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.

29. This section summarises the financial position and outlook for the Agency.

Financial results

2012/13 outturn

30. Scottish Ministers allocated £2,060 million of resources to Transport Scotland for 2012/13. This comprised their Scottish Government Departmental Expenditure Limit (DEL) for the year of £1,916 million, a budget for Annually Managed Expenditure (AME) of £73 million and a budget for Expenditure on PFI schemes of £71 million as set out at Exhibit 1.

31. The Agency's total outturn for 2012/13 of £2,046 million was £14 million (0.7%) below budget with the overall underspend attributable to:
    - an underspend of £1.7 million on Annually Managed Expenditure in respect of provisions created for land compensation and damage claims in respect of the road network, and
    - an underspend of £13.8 million on expenditure on PFI schemes due to VAT savings identified that are now being recovered from payments.

32. As shown in Exhibit 1, outturn against Transport Scotland's DEL for the year showed total expenditure of £1,918 million which represented an overspend of £1.4 million (0.07%). This overspend was attributable to operating expenditure which exceeded the operating resource DEL level by £31 million and investment expenditure which exceeded the indirect capital DEL level by £5 million, partially off-set by underspends of £22 million on non-cash DEL expenditure for depreciation and £13 million on direct capital expenditure on road additions. The overspend against the Agency's DEL total for the year was absorbed by underspends elsewhere within the Scottish Government Infrastructure and Capital Investment portfolio in 2012/13.

Exhibit 1: 2012/13 Outturn against budget

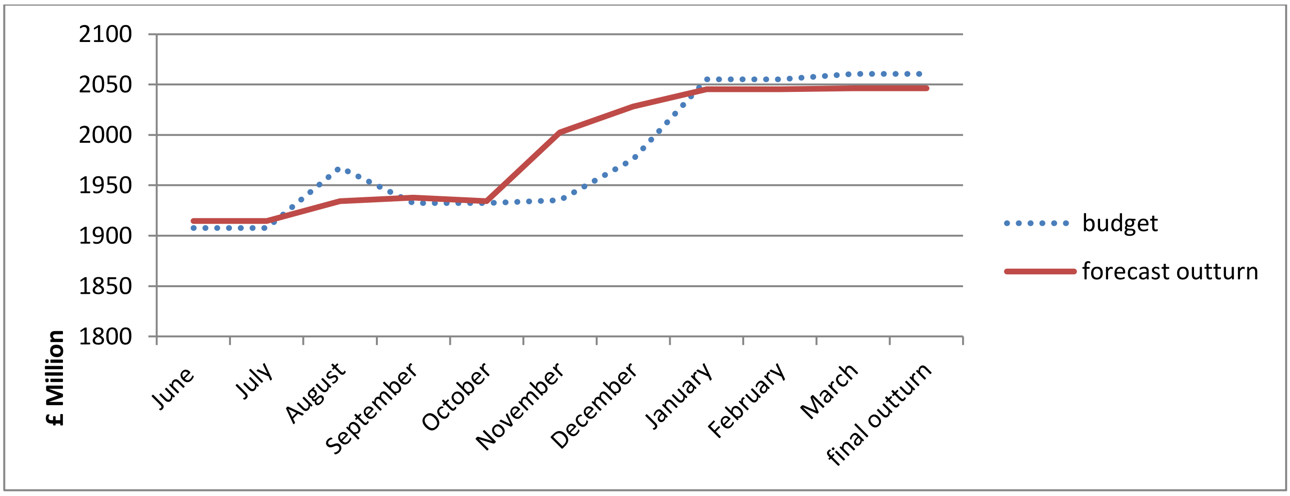
	Initial Budget (£m)	Final Budget (£m)	Actual Outturn (£m)	Under / (Over) utilised (£m)
Resource - Operating Costs	948	951	983	(31)
Resource - Investment	442	474	479	(5)
Capital	336	319	305	13
Non-Cash	89	172	150	22
DEL total	**1,816**	**1,916**	**1,917**	**(1)**
Expenditure on PFI schemes (ODEL)	66	71	57	14
AME	26	73	72	1
Total	**1,908**	**2,060**	**2,046**	**14**

Source: Transport Scotland outturn monitoring reports

Budgetary control

33. The Director of Finance produces regular budget monitoring reports which are scrutinised monthly by the senior management team and quarterly by the Audit and Risk Committee. The development of the final outturn position from June 2012 as set out in these reports is shown in Exhibit 2 (no budget monitoring information is produced for April or May).

Exhibit 2: Forecast outturn and budget during 2012/13



Source: Transport Scotland budget monitoring reports

34. The increase in forecast outturn between October and November was mainly attributable to a revised roads condition forecast (depreciation) based on condition surveys and updated traffic data which resulted in an additional £60 million in-year charge.

35. The in-year budget revisions shown in Exhibits 1 and 2 included an increase of £47 million (Annually Managed Expenditure (AME)) in provisions for land compensation and damage claims for the trunk road networks. This was due to the approval of the Aberdeen Western Peripheral Route and the Balmedie to Tipperty Route, and the next stage of the M8, M73 and M74 motorway improvements programme. The other significant budget increase was a £83 million increase in Transport Scotland's non-cash DEL which was mainly linked to the increase in the forecast depreciation charge for the trunk road network detailed at paragraph 34 above.

36. The budget monitoring reports produced during 2012/13 provided clear and concise high-level information which was sufficiently detailed to highlight any significant projected underspends or overspends.

Financial position

37. Transport Scotland, as an executive agency of the Scottish Government, receives almost all of its funding directly from the Scottish Government. We therefore consider that, subject to significant changes in Scottish Government funding and the successful management of risks and cost pressures associated with future expenditure, the financial position of Transport Scotland is stable and its activities are financially sustainable.

38. The Statement of Financial Position at 31 March 2013 shows net assets of £17.5 billion. As in previous years, this position is largely attributable to the value of the trunk road network which is subject to an annual valuation process.

Investments

39. Financial assets included within the Statement of Financial Position include investments in limited companies valued at £21 million. These are shareholdings held by Scottish Ministers, but represented by Transport Scotland, in Caledonian Maritime Assets Limited, David MacBrayne Limited and Highlands and Islands Airports Limited. In addition Transport Scotland have also provided voted loans to Caledonian Maritime Assets Limited to be used for the construction of new shipping. The outstanding value of these loans was £66 million.

Capital investment and performance 2012/13

Scotland's key transport infrastructure projects

40. Transport Scotland has been tasked with delivering, or helping to deliver, a range of key infrastructure projects outlined in the Scottish Government's Spending Review and Infrastructure Investment Plan. During 2012/13 Audit Scotland completed a study to examine how well the Scottish Government and Transport Scotland are controlling, monitoring and publicly reporting five key transport infrastructure projects (the Forth Replacement Crossing (Queensferry Crossing), the Aberdeen Western Peripheral Route / Balmedie-Tipperty, the M8 enhancement programme, the Edinburgh-Glasgow rail improvement programme and the Borders Railway).

41. The findings from the study were published in June 2013 and set out six key recommendations. These included the following actions to be undertaken by Transport Scotland to improve its control and decision-making:

- review and update, by December 2013, its current business case development and assurance processes to ensure these align with wider processes for planning and decision-making for all projects, including rail investment, and
- establish, by December 2013, a standard approach to presenting cost estimates and financial monitoring reports for high-value projects, costing more than £20 million.

Refer action points 1 and 2

42. Following publication of the report Transport Scotland's Chief Executive and Director of Major Transport Infrastructure Projects attended the Parliamentary Audit Committee meeting of 4 September 2013 to provide evidence. As part of this, the following update was provided on action taken to address the two recommendations set out above:

- "Transport Scotland have documented generic processes that we apply to all projects and that we review at regular intervals. Our current processes are in line with the Scottish Public Finance Manual and HM Treasury guidance. We will undertake a further review of our documentation in light of Audit Scotland's recommendations. We will continue to ensure that Ministers are kept fully appraised throughout a project's lifetime and able to base decisions on the best available information."
- "Transport Scotland work with our colleagues in Scottish Government Finance to ensure a standard approach to presenting cost estimates, recognising the needs of our different audiences and the commercial sensitivities involved. We will also work to standardise our internal financial monitoring reports in line with the best practice we have implemented on projects such as the FRC and M8."

43. We will review progress made in these areas during our audit appointment to assess whether the recommendations in the report have been adequately addressed.

Financial planning to support priority setting and cost reductions

Scotland's public finances: addressing the challenges - A follow-up report

44. In August 2011 Audit Scotland published a report "Scotland's public finances: Addressing the challenges'. The report provided an overview of the scale of budget cuts expected to be faced by the Scottish public sector in the period from 2010/11 to 2014/15, and how public bodies were beginning to respond to the challenges of reducing expenditure. In 2012/13 we followed up this report to assess how Transport Scotland is responding to the challenges of public sector budget constraints and its efforts to achieve financial sustainability.

45. Transport Scotland's Corporate Plan 2012-15 detailed the level of funding that will be available over the three year period 2012/13 to 2014/15 and also set out the cost reductions required to deliver a balanced budget.

46. A report summarising the key findings arising from our work was issued in September 2013. This concluded that Transport Scotland has taken appropriate steps to address the challenging financial climate and the reductions in funding that it faces over the next few years. It also highlighted that the Agency has a history of managing their annual activity within the budget allocated by Scottish Ministers and the focus on medium and long term financial planning means they are well placed to respond to emerging resource and cost pressures.

Workforce reduction

47. Workforce planning at Transport Scotland is the responsibility of the senior management team. Workforce planning discussions are informed by on-going monitoring of the organisational staffing profile and staffing trends carried out by Human Resources. Workforce planning decisions are taken within the overall framework of the Scottish Government's organisational reform and transformation programme (Workforce 2015) and overall staffing strategy.

48. During 2012/13, 7 staff in Transport Scotland accepted voluntary exit under the Civil Service Compensation Scheme rules. Details of the cost of these exit packages are shown in the 2012/13 annual report and accounts.

49. As part of our financial statements audit the supporting business cases for the two highest value compensation payments were obtained and reviewed to ensure these had been appropriately authorised and were supported by an appropriate and robust business case.

Financial pressures

Asset management

50. Transport Scotland's main asset is the trunk road network. A general indication of the condition of the network is provided by the in-year depreciation charge, which is calculated from a measurement of deterioration during the year.

51. The year-on-year variation in the depreciation charge in context of the average gross book value (gross book value - GBV) of the network and annual expenditure on roads maintenance is shown in Exhibit 3.

52. The table indicates an increasing trend in the amount of depreciation charged each year and a reducing annual investment in maintenance. As the depreciation charge is based on an annual assessment of the network condition, this may indicate that the rate of deterioration is increasing.

Exhibit 3: Network depreciation as a proportion of roads value (gross book value)

Year	Average network gross book value (£m)	Network depreciation (£m)	Depreciation / average GBV	Roads maintenance expenditure at 2012/13 prices* (£m)
2012/13	20,397	150	0.74%	185
2011/12	19,304	63	0.33%	162
2010/11	17,858	43	0.24%	232
2009/10	17,052	92	0.54%	222
2008/09	16,571	30	0.18%	293
2007/08	15,750	12	0.08%	331

* - Rebased figures based on resource cost of roads construction index figures published by the Department for Business Innovation and Skills

Source: Transport Scotland annual accounts 2007/08 to 2012/13

53. It is difficult for Transport Scotland to accurately forecast and budget for the potential impact of depreciation each year which can create in-year budget pressures as detailed at paragraph 34. In order to address this Transport Scotland are currently considering whether an approach could be adopted which would enable them to smooth the in-year impact by averaging the depreciation charge over a 3-4 year period.

National concessionary travel scheme

54. Scotland's National Concessionary Travel scheme for older and disabled people was introduced in 2006 and provides unlimited free bus travel across Scotland on eligible services for older and disabled people. In order to control the costs of the scheme, the Scottish Government places an overall limit (a cap) on the amount of money which will be reimbursed to bus companies each year.

55. During 2012/13 expenditure under the concessionary fares scheme was capped at £187 million and operators participating in the scheme were reimbursed for eligible journeys at 67% of the applicable fare (i.e. 67p for each £1).

56. For 2013/14 the cap on the scheme has been maintained at £187 million, but through negotiation with the Confederation of Passenger Transport (CPT), it has been agreed that the reimbursement rate for eligible journeys will be reduced to 60%. It has also been agreed that the reimbursement rate will reduce further to 58.1% in 2014/15 while the cap on scheme expenditure will increase by £5 million to £192 million. These reductions in the reimbursement rate are intended to spread the impact on net payments across the whole year rather than have significant adjustments (to stay within the cap) for the final period in each year.

Outlook

2013/14 budget

57. Transport Scotland has an allocated budget of £2,048 million for 2013/14. This comprises a Scottish Government Departmental Expenditure Limit (DEL) for the year of £1,980 million and a budget for non-DEL expenditure of £69 million.

58. As at the end of July 2013 Transport Scotland forecast an overall underspend for the year of £43 million. This is made up of a projected DEL underspend of £9 million, VAT savings within PFI projects of £8 million and £26 million released from unused provisions.

Budget allocations beyond 2013/14

59. The Draft Budget 2014/15 was published on 11 September 2013 and set out the Scottish Government's draft spending plans for 2014/15, as well as projected plans for 2015/16. Transport Scotland are currently assessing the implications of the draft budget on their medium-term spending plans.

Governance and accountability

60. 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.

61. Consistent with the wider scope of public audit, we 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.

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

Corporate governance

Overall effectiveness

63. Overall we found that Transport Scotland's corporate governance arrangements operated effectively during 2012/13.

Processes and committees

64. As Transport Scotland does not have a board which operates as a decision making forum, governance of the Agency is provided by the Senior Management Team (SMT), comprised of the executive directors, and the Audit and Risk Committee. This reflects the primacy of Scottish Ministers in decisions on Transport Scotland activity, and the level of scrutiny they apply to Transport Scotland's performance.

Internal audit

65. As part of our risk assessment and planning process our Scottish Government external audit team assessed the Scottish Government Internal Audit Division, Transport Scotland's internal auditors, and concluded that they operate in accordance with government internal audit standards. This enabled us to place reliance on the work of internal audit, in terms of our wider code responsibilities.

Prevention and detection of fraud and irregularities

66. Transport Scotland is responsible for establishing arrangements to prevent and detect fraud and other irregularity. We review and report on these arrangements and we have concluded that the overall arrangements for the prevention and detection of fraud were satisfactory during 2012/13.

67. The operation of the Concessionary Fares Scheme continued to present a risk of external fraud. However, 'hotlisting' technology was introduced in January 2013 to mitigate this risk. This enables cards to be 'hotlisted' where journey transactions highlight unusual patterns of activity which may suggest the fraudulent use of cards. If the validity of the card can not be established, the card can then be blocked to prevent further use. Significant progress has already been made in identifying and preventing the misuse of concessionary travel cards.

NFI in Scotland

68. Audit Scotland coordinates a major counter-fraud exercise working together with a range of Scottish public bodies and external auditors. These exercises, known as the National Fraud Initiative in Scotland (NFI), are undertaken every two years as part of the statutory audits of the participating bodies.

69. The NFI works by using data matching to compare a range of information held on bodies' systems to identify potential inconsistencies or circumstances that could indicate fraud or error which are called 'matches'. Where matches are identified these are made available to bodies to investigate.

70. Transport Scotland, as an executive agency of the Scottish Government, are not involved in the NFI exercise as an individual organisation, but data relating to the Agency (which is held on the Scottish Government financial systems) is sampled as part of the NFI process.

71. The latest NFI exercise commenced during 2012 and is due to report in May 2014. The Scottish Government has received their matches and are currently in the process of investigating these. We note that no Transport Scotland related frauds were identified through the last round of NFI.

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

72. 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. We consider whether bodies have adequate arrangements in place and have concluded that appropriate arrangements exist within Transport Scotland.

Outlook

Scottish passenger rail franchise

73. The Scottish passenger rail franchise is one of the biggest contracts let by Scottish Ministers, worth around £2.5 billion. The current franchise agreement, governing the delivery of inter-city, regional and suburban rail services on the Scottish Rail Network as well as the Caledonian Sleeper services, expires on 31 March 2015.

74. The procurement programme for the next franchise agreement is underway and involves separate procurement exercises being undertaken for the Caledonian Sleeper Franchise and the Scotrail Franchise.

75. Both procurement exercises are due to conclude during 2014/15 with the new franchise agreements commencing on 1 April 2015 (refer to Exhibit 4 for timetable of key milestones in procurement programme). The commencement of the new contracts has been purposefully scheduled to avoid any clash with Glasgow's hosting of the 2014 Commonwealth Games (July and August) or Gleneagles' hosting of the 2014 Ryder Cup (September), both of which will place additional demand on the franchise operator who will be required to provide an enhanced service for these events.

76. Given the value and nature of the respective rail franchise contracts there will be significant media coverage and public interest in the procurement process. During 2013/14 internal audit plan to undertake a review of the preparations for the procurement of the ScotRail franchise. We will improve our awareness of the financial models being used in the tender evaluation process and consider, in consultation with the rail franchise team, what further audit work we require to undertake in this area.

Exhibit 4: Scottish passenger rail franchise procurement programme

Key milestone	Caledonian Sleeper Franchise*	Scotrail franchise*
Issue pre-qualification questionnaire and outline specification	April 2013	July 2013
Receive pre-qualification questionnaire submissions	May 2013	August 2013
Shortlist bidders	July 2013	October 2013
Issue draft invitation to tender for consultation	August 2013	November 2013
Issue final invitation to tender	September 2013	January 2014
Bid submission	December 2013	April 2014
Identification of preferred bidder	May 2014	October 2014
Service commencement	April 2015	April 2015

* - Dates shown represent indicative dates based on current procurement programme so may be subject to change

Source: www.transportscotland.gov.uk

Best value, use of resources and performance

77. Audited bodies have responsibility to ensure that arrangements have been made to secure best value.

78. This section includes a commentary on the best value arrangements within Transport Scotland and highlights any relevant national reports.

Management arrangements

Best value

79. As reported last year Transport Scotland conducted best value self-assessments of Financial Management and Governance and Accountability during 2011/12. This year a best value service review was completed on "sustainability". This identified that overall Transport Scotland already has adequate arrangements in place to demonstrate a robust and forward looking approach to sustainability. To further enhance these arrangements though it was recommended that: *'…continued improvements such as utilising performance indicators and promoting the incorporation of sustainability into all projects and dealings with partners and stakeholders should be driven forward and continuously reviewed'*.

80. In 2013/14, management intend to conduct two further best value reviews focusing on the areas of risk management and asset management.

81. From review of Transport Scotland's programme of best value self-assessments we consider that this demonstrates a systematic approach to self-evaluation and continuous improvement.

National performance reports

82. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Reports in the last year of direct interest to Transport Scotland are detailed in Exhibit 5.

Exhibit 5: Relevant national performance reports issued during 2012/13

- Scotland's Key Infrastructure Projects (refer to para 40-43)
- The National Fraud Initiative in Scotland
- Maintaining Scotland's roads - An audit update on council's progress
- Developing financial Reporting in Scotland
- Managing early departures from the Scottish public sector (refer to para 47-48)
- Renewable energy

Source: www.audit-scotland.gov.uk

Renewable energy (September 2013)

83. In September 2013 Audit Scotland published a report on "Renewable energy". This report looked at public sector action and investment in developing renewable energy and what has been delivered to date.

84. The key message of the report was that the Scottish Government has a clear strategy for renewable energy that is linked with other policy areas, and it has made steady progress so far. However, achieving its overall goals will be challenging and depends on private sector investment.

85. The report also highlighted that:

- Transport accounts for almost 30 per cent of Scotland's total energy use and the Scottish Government aims to cut almost all emissions from road transport by 2050.
- The Scottish Government has adopted the mandatory EU target for the UK, for ten per cent of transport fuels to come from renewable sources by 2020. Transport Scotland is currently working with the UK Government to develop alternative transport fuels, including biofuels.
- Progress against the Scottish targets for transport fuels and overall energy demand is difficult to assess, as performance against the renewable transport fuel target is currently only measured and reported at a UK level. In 2012, biofuels, which are from a renewable source, accounted for 3.2 per cent of road transport fuels used in the UK. The Scottish Government assumes that Scotland's performance against the target reflects the UK's performance.

Appendix A: action plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Issue Identified	Planned Management Action	Responsible Officer	Target Date
1.	41	**Scotland's key transport infrastructure projects** Transport Scotland recommended to review and update, by December 2013, its current business case development and assurance processes to ensure these align with wider processes for planning and decision-making for all projects, including rail investment.	Transport Scotland have documented generic processes that we apply to all projects and that we review at regular intervals. Our current processes are in line with the Scottish Public Finance Manual and HM Treasury guidance. We will undertake a further review of our documentation in light of Audit Scotland's recommendations. We will continue to ensure that Ministers are kept fully appraised throughout a project's lifetime and able to base decisions on the best available information.	Chief Executive	December 2013
2.	41	**Scotland's key transport infrastructure projects** Transport Scotland recommended to establish, by December 2013, a standard approach to presenting cost estimates and financial monitoring reports for high-value projects, costing more than	Transport Scotland work with our colleagues in Scottish Government Finance to ensure a standard approach to presenting cost estimates, recognising the needs of our different audiences and the commercial	Chief Executive	December 2013

Action Point	Refer Para No	Issue Identified	Planned Management Action	Responsible Officer	Target Date
		£20 million.	sensitivities involved. We will also work to standardise our internal financial monitoring reports in line with the best practice we have implemented on projects such as the FRC and M8.		