Appendix C
Transport Scotland
Annual report on the 2013/14 audit

AUDIT SCOTLAND

Prepared for Transport Scotland and the Auditor General for Scotland
27 August 2014

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.

Contents

Key messages

We have given an unqualified opinion that the financial statements of Transport Scotland for 2013/14 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 2013/14 of £1,949 million was £30 million (1.5%) below budget.

During 2013/14 Transport Scotland wrote-off £1.8 million of irrecoverable debt for claims for damage to the trunk road network. This included £0.7 million of time barred cases where the claims had not been initiated within 5 years of the incident occurring. Arrangements have now been introduced to address this issue going forward.

As in prior years, a number of significant adjustments were required to the trunk road network valuation figures included in the accounts presented for audit. This reflects the complexity of the valuation information. Transport Scotland have agreed to review the methodology used in 2014/15.

Introduction

1. This report is the summary of our findings arising from the 2013/14 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.

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. A number of reports have been issued during the course of the year as detailed at Appendix 1. We do not repeat all of these findings here but instead focus on the financial statements and any significant findings from our wider review of Transport Scotland.

4. Appendix 2 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, management team and members of 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. 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 does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

6. This report is also addressed to the Auditor General for Scotland and 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. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in our Annual Audit Plan presented to the audit committee on 27 January 2014, and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in May 2011.

8. As part of the requirement to provide full and fair disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2013/14 agreed fee for Transport Scotland was disclosed in the Annual Audit Plan and, as we did not carry out any additional work outwith our planned audit activity, the fee remains unchanged.

Audit opinions & accounting issues

9. We have given an unqualified opinion that the financial statements of Transport Scotland for 2013/14 give a true and fair view of the state of the Agency's affairs and of its net operating costs for the year.

10. We received the unaudited financial statements on 13 June 2014, 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 on 11 July 2014.

11. Transport Scotland is required to follow the 2013/14 Government Financial Reporting Manual (the FReM) and we confirmed that the financial statements have been properly prepared in accordance with these accounting requirements. We also confirmed that the expenditure and income in the financial statements were in accordance with applicable legislation and Ministerial guidance, the Budget (Scotland) Act and legislation governing sums paid out of the Scottish Consolidated Fund.

Significant findings and key judgements (ISA260)

12. During the course of the audit we identified the following significant issues that we are required to communicate in accordance with ISA260.

Damage claims debt written-off during 2013/14

13. The costs of damage to the Trunk Road Network due to road accidents are charged to Transport Scotland as part of the road maintenance programme. These costs are recovered from the party responsible through their insurance company, except where they have been fatally injured. The costs are held in a debtor account until the recovery is successful.

14. During 2013/14 Transport Scotland reviewed all existing damage claim cases to confirm whether the outstanding debt was still likely to be recoverable. This review identified 50 cases, with a total value of £1.8 million, where all, or part, of the debt was irrecoverable for the reasons detailed below:
    - £0.7 million for 28 time barred cases that cannot be pursued as the claims were not initiated within 5 years of the incident date
    - £0.9 million for the value of work to repair the Chartershall Bridge that cannot be reclaimed as the value of the claim is limited to £1m (i.e. total value of works is £1.9 million), and
    - £0.2 million for 21 claims that were only partially recovered (the total value of these claims was £0.5 million).
15. The £0.7 million of time barred claims written-off were due to claims not being initiated until all the cost data was available, resulting in these cases exceeding the 5 year limit. This issue has been addressed by Transport Scotland by revising their internal procedures. Claims are now raised as soon as it is established that Transport Scotland will attempt to recover any costs incurred.
16. The £0.9 million written off in respect of the Chartershall Bridge repair was a unique situation both in terms of the total value of the work and the £1m cap on the amount that could be recovered. We have been advised that no other existing cases have a similar cap on the recoverable amount.
17. From review of Transport Scotland’s Framework Document (Annex 1 – Financial and Purchasing Delegations), we identified that Scottish Government approval is required for any claims waived or abandoned with a value of £50,000 or above. A review of the damage claims cases written off during the year, identified a number of these that were above the £50,000 threshold. As Scottish Government approval was not obtained prior to the amounts being written off, management obtained retrospective approval for these write-offs.
18. Transport Scotland discussed this with the Scottish Government to see if any revisions are required to their Framework Document to ensure that the authorisation threshold is set at an appropriate level. We have been advised that the Scottish Government confirmed that the existing threshold remains appropriate.

Provision for impairment of damage claims debtor balance

19. A debtor balance (for Trunk Road damage claims) of £3.1m is included in the 2013/14 accounts but no provision for impairment has been made to reflect the element where there is uncertainty over full recovery. Transport Scotland has reviewed the recoverability of the existing debt to determine what level of bad debt provision would be appropriate. This identified that there are 9 specific cases, with a total value of £0.103 million, where there is a high probability that the amounts will not be recoverable.
20. In addition, based on historic recovery rates for damage claims cases, Transport Scotland determined that on average 87.8% of the value of claims has been recovered. Applying this

recovery rate would result in a further general bad debt provision of £0.366 million for the remaining damage claims cases.

21. We have identified that a total provision for impairment of damage claims of £0.469 million (i.e. £0.103 million plus £0.366 million) is an uncorrected error in the financial statements. Management have identified that this amount is not material to the financial statements and have not adjusted for this in 2013/14, but have agreed to include a provision for impairment of this debt from 2014/15 onwards.

Action point 1

Overstatement of road operating contractors' accrual

22. Transport Scotland estimated the value of work undertaken by road operating contractors during 2013/14 that had not yet been billed for and processed an accrual of £27.218 million for this. Following a review of the work undertaken by the Agency's Performance Audit Group (PAG) it was identified that the actual value of the work undertaken was £0.933 million less than the value of the accrual processed. Management have identified that this amount is not material to the financial statements and have not adjusted for this in 2013/14 so this has been recorded as an unadjusted error.

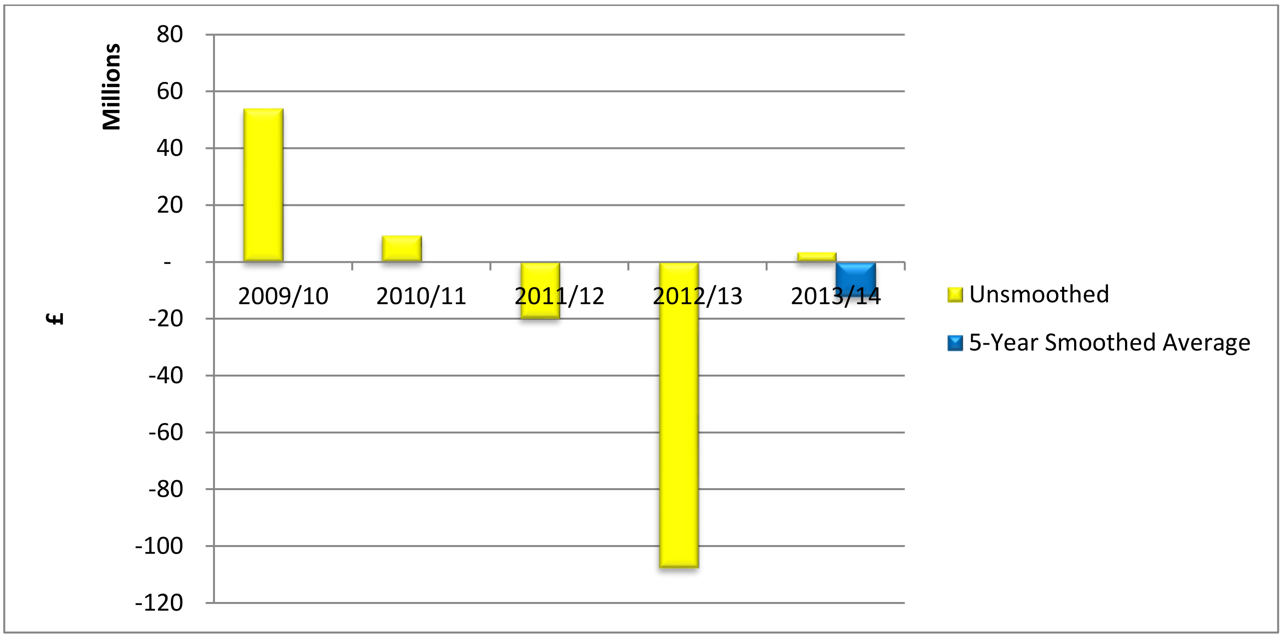
Impact of road pavement condition variance smoothing

23. In 2013/14 we agreed that Transport Scotland would apply a smoothing of the road pavement condition variance through the use of a 5-year rolling average. This is intended to remove some of the significant swings in depreciation or condition valuation adjustments. These resulted from the calculations to assess the remaining life expectancy of the road pavement which are based on measured resistance of the sections of road surveyed in year and the assessed traffic usage. The smoothing process is intended to provide greater year-on-year certainty in the budgeting for this by dampening fluctuations caused predominantly by the effect of changes in traffic measurements in the calculation of remaining life.

24. As this represents a revision to the estimation technique rather than a change in accounting policy no prior year restatement adjustment was required.

25. During 2013/14 the assessed road pavement condition variance for the year was a condition improvement of £3.4 million. However, this has been adjusted in the financial statements to reflect the 5-year rolling average condition deterioration of £12.1 million. The in-year impact of applying smoothing was a downward adjustment of £15.5 million to the in-year improvement, as shown in Exhibit 1. We will continue to report the effect of this smoothing methodology during our audit appointment to demonstrate the impact.

Exhibit 1: Graph showing impact of applying road pavement condition smoothing in 2013/14



Source: Trunk road network valuation data for 2009/10 to 2013/14

Road pavement condition variance smoothing adjustment

26. As the in-year adjustment required to apply smoothing was incorrectly calculated as £18.9 million, rather than £15.5 million, Transport Scotland made an adjustment of £3.4 million to correct the figure. However, when this was processed the amount was erroneously credited against the general fund rather than net operating costs for the year. Management have identified that this amount is not material to the financial statements and have decided not to process a further adjustment for this in 2013/14 so this has been recorded as an unadjusted error.

Revaluation reserve adjustment

27. In 2011/12 we highlighted that, for a number of years, no amount had been released from the revaluation reserve to represent the element of in-year depreciation charge on the Roads Asset Valuation System (RAVS) that is attributable to revaluation. To address this, a methodology was developed during 2012/13 to ensure that the revaluation reserve balance reflected the difference between the depreciated historic and replacement cost of the trunk road valuation. As part of the prior year's financial statements audit this was reviewed in detail and we concluded that this represented a reasonable and robust methodology.

28. During 2013/14 a similar calculation was performed to identify the adjustment required for this year. This showed that a transfer of £130 million from the Revaluation Reserve to the General Fund was required. However, management identified errors in the initial calculation and so the calculation was re-performed. The revised calculation showed that a £276 million transfer from the General Fund to the Revaluation Reserve was required. Our high level review of the underlying data used in the calculation to compare this with the data produced for the corresponding calculation in 2012/13 identified a number of inconsistencies and potential

anomalies in the data used. Transport Scotland believes that the level of any adjustment between reserves would not be material to the financial statements as it would only relate to the difference between the replacement and historic cost depreciation and detrunking figures for the year, which are both considerably lower than the values calculated. Therefore we agreed with management that no transfer would be made during 2013/14 and the £130 million transfer from the Revaluation Reserve to the General Fund included in the unaudited accounts was reversed. Transport Scotland has agreed to carry out a detailed review of the calculation and underlying data during 2014/15.

Action point 2

Indexation rate for trunk road network

29. In order to ensure that the depreciated replacement cost of the trunk road network reflects inflation Transport Scotland uplifts the unit rates of each element of the network using a rate known as the Baxter index.

30. The Baxter index is published monthly by the Department for Business, Innovation and Skills. This information is then used to produce a quarterly index based on a weighted average of the three monthly index figures for that period. However, due to the timing of this information being provided, the figure for quarter three (weighted average of Baxter index for October to December) is routinely used in RAVS to produce the year-end road network valuation for the annual financial statements. A further calculation is required each year when the quarter four figure is received, to assess whether applying this figure would have materially affected the figures stated in the financial statements.

31. In 2013/14 the Baxter index at the end of quarter 4 was 2,131.18 compared to an index at quarter 3 of 2,119.84. This represented a 0.54% increase of £91 million. Management elected to make an adjustment in the final version of the accounts to reflect the 2013/14 quarter 4 Baxter index figure.

Detrunkings and historic valuation adjustments

32. Management identified several RAVS transactions in year that required further investigation to determine how they should be accounted for. These were reflected as timing differences in the accounts presented for audit. However, further investigation revealed that these related to detrunkings of £1.493 million in respect of sections of the A77 and A78 and a historic valuation adjustment of £8.415 million in respect of sections of the M74 and A75 which were detrunked in the prior year.

33. Management have processed adjustments to address these issues which reduced the value of the trunk road network by £9.908 million.

Queensferry Crossing receivables balance

34. During the early stages of the Queensferry Crossing project advance payments totalling £100 million were made to the contractors to fund the procurement of steel required for sections being fabricated. The repayments of these advance payments are part of the payment

mechanism covered by the interim payment process included within the contract and state that repayment commences after 50% of the original contract sum has been paid.

35. When the accounts were prepared it was expected that £47 million of the advance payment would be repaid within 12 months of the balance sheet date (i.e. during 2014/15) with the remaining £53 million due to be repaid after more than 12 months of the balance sheet date. However, based on the latest information available, Transport Scotland now anticipate that £35 million will be repaid within 12 months and £65 million will be repaid after 12 months. Management have made an adjustment in the final version of the accounts to reflect this.

Senior staff salary uplifts

36. Senior Civil Service pay is reserved to the UK Government and operates within the UK Cabinet Office pay and performance management framework. In 2013/14 consolidated pay increases were limited to an average award of 1% with flexibility to determine the size of individual awards of between 0 and 9%. From a review of the remuneration report we identified that a number of directors at Transport Scotland appeared to have received increases above the average award of 1% during the year. Therefore, we contacted the Scottish Government Senior HR Team to establish the reasons for these increases to confirm that they complied with the requirements of the current pay framework.

37. We were informed that, on 5 September 2013, the Scottish Government's Top Level Pay Committee met to consider options for Senior Civil Service pay in 2013/14 and agreed that those staff at the lowest end of the Senior Civil Service pay band 1 would receive a higher targeted percentage increase during 2013/14 to establish a new Scottish Government minimum of £67,600 for the pay range. The majority of the directors we identified were below the new minimum at pay band 1 and so qualified to receive a salary uplift of more than 1% during the year.

38. Based on the explanations provided by officers we are satisfied that the salary uplifts comply with the requirements of the current pay framework.

39. We also noted that one member of staff received remuneration that was higher than the chief executive. This included a non consolidated performance payment covering the 3-year period 2011/12 to 2013/14. Our review identified that this was a contractual right agreed at the time the individual joined Transport Scotland and prior to the introduction of the current pay framework and had been approved by the UK Cabinet Office at the time.

Scottish Government consolidation pack

40. 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 7 July 2014. We were able to submit the audited consolidation pack, including the consolidation certificate signed by the accountable officer, to the Scottish Government on 25 July 2014. We found no significant errors in the consolidation pack.

Outlook

Road network valuation arrangements

41. The analysis of the trunk road network valuation information, produced from RAVS is performed by one officer within Transport Scotland. No other member of staff currently has sufficient knowledge of the underlying data, and associated IT skills, to review the output from the system. In addition, due to the specialist nature of the information held on RAVS, the ability to review this work is limited to a small number of officers within the Agency, with the requisite knowledge/ experience. Given the importance of the road network valuation to Transport Scotland's annual accounts this presents a significant risk to the future accounts preparation process and consideration should be given to extending the involvement in this process beyond a single officer.

Action point 3

Financial Position

2013/14 Outturn

42. Scottish Ministers allocated £1,979 million of resources to Transport Scotland for 2013/14 as set out at Exhibit 2.

43. The Agency's total outturn for 2013/14 of £1,949 million was £30 million (1.5%) below budget. The overall underspend was mainly attributable to an underspend of £76 million on capital due to reduced expenditure on structural repairs to the road network, savings within major capital projects, and a non-cash underspend of £33 million due to a lower than anticipated in-year depreciation charge for the trunk road network; partly offset by a resource investment overspend of £64 million mainly due to increased expenditure on network strengthening and improvements to the trunk road network during the year.

Exhibit 2: 2013/14 Outturn against budget

	Initial Budget (£m)	Final Budget (£m)	Actual Outturn (£m)	Under / (Over) utilised (£m)
Resource - Operating Costs	1,008	1,010	1,014	(4)
Resource - Investment	456	457	521	(64)
Capital	427	381	305	76
Non-Cash	89	89	56	33
DEL total	**1,980**	**1,937**	**1,896**	**41**
Expenditure on PFI schemes (ODEL)	69	61	59	2
AME	0	(19)	(6)	(13)
Total	**2,048**	**1,979**	**1,949**	**30**

Source: Transport Scotland budget monitoring reports

Budgetary control

44. The Director of Finance produces monthly budget monitoring reports which are scrutinised by the senior management team and the Audit and Risk Committee. The development of the final outturn position is shown in Exhibit 3 (no budget monitoring information is produced in April or May).

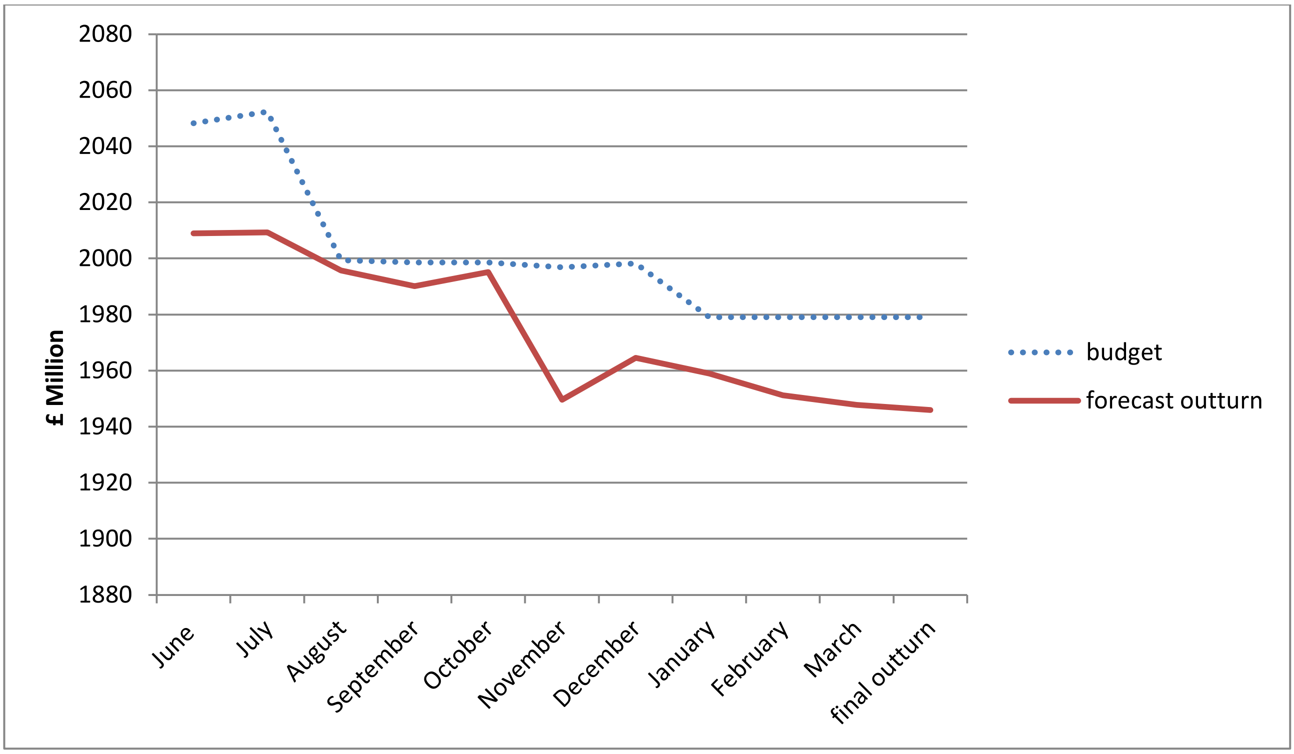
45. The significant reduction in forecast outturn between October and November was attributable to savings on the Forth Replacement Crossing and a revised roads condition forecast

(depreciation) based on condition surveys, updated traffic data and the assessed impact of applying smoothing to the road pavement condition variance.

46. The main in-year budget revision shown in Exhibits 2 and 3 was a reduction in the capital budget in August due to the Scottish Government taking back the £53 million of savings achieved on the Forth Replacement Crossing.

47. The budget monitoring reports produced during 2013/14 provided clear and concise high-level information which was sufficiently detailed to highlight any significant projected underspends or overspends.

Exhibit 3: Forecast outturn and budget during 2013/14



Source: Transport Scotland budget monitoring reports

2013/14 Financial Position

48. 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 there being no significant changes in Scottish Government funding and the management of risks and cost pressures associated with future expenditure, the financial position of Transport Scotland is stable and its activities are financially sustainable.

49. The Statement of Financial Position at 31 March 2014 shows net assets of £17.3 billion. This position is largely attributable to the value of the trunk road network which is subject to an annual valuation process.

Investments

50. Financial assets included within the Statement of Financial Position include investments in limited companies totalling £21 million. These are shareholdings held by Scottish Ministers, but represented by Transport Scotland, in Caledonian Maritime Assets Limited, David MacBrayne Limited, Highlands and Island Airport Limited and also Prestwick Holdco Limited which brought Glasgow Prestwick Airport into public ownership during 2013/14.

51. Transport Scotland has also provided voted loans to Caledonian Maritime Assets Limited to be used for the construction of new shipping and to Glasgow Prestwick Airport for investment in infrastructure and operations, and cash advances to the Energy Savings Trust. The outstanding value of these loans at 31 March 2014 was £76 million.

2014/15 Budget

52. Transport Scotland has an allocated budget of £2,081 million for 2014/15. This comprises a Scottish Government Departmental Expenditure Limit (DEL) for the year of £2,005 million and a budget for non-DEL expenditure of £76 million.

Governance and accountability

53. 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.

54. 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

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

Corporate governance

Overall effectiveness

56. Overall we found that Transport Scotland's corporate governance arrangements operated effectively during 2013/14.

Processes and committees

57. 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. Key decisions are also subject to scrutiny in the Scottish Parliament

Internal audit

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

Correspondence

59. Audit Scotland has experienced a significant increase in the volume of external correspondence during the year. As part of our wider Code responsibilities we are required to consider issues raised and follow these up as part of our risk based approach to the audit if they fall within our remit.

60. In the early part of 2013/14 we received a number of items of correspondence from members of the public and elected representatives relating to Transport Scotland managed contracts and projects. This correspondence covered the following areas:

- Glasgow Airport Rail Link (GARL)
- The Northern Isles Ferry Services contract
- The Clyde and Hebrides Ferry Services contract
- The Aberdeen Western Peripheral Route.

61. As part of our audit activity for the year we gathered information on these areas to establish key facts and assist the Auditor General in determining whether any formal follow-up work, or investigation, is required.

62. An update on the progress with each of these cases was provided in a letter to the Chief Executive on 25 March 2014 and was taken to the April meeting of the Audit and Risk Committee.

63. Following consideration of the information provided, we determined that no further action would be taken at present on the Northern Isles Ferry Services contract, Clyde and Hebrides Ferry Services contract or the Aberdeen Western Peripheral Route correspondence.

64. We continue to review issues raised in the correspondence relating to GARL and aim to conclude this by early autumn. We will report back to management in due course.

65. We have also examined the basis of payments made by Transport Scotland to City of Edinburgh Council (CEC) in connection with the Edinburgh Trams project and are content that these payments are in accordance with the minute of agreement between CEC and Scottish Ministers.

66. As part of the process of improving how we deal with such correspondence, we are communicating more regularly on the process of any investigations and on the judgements and outcomes.

Prevention and detection of fraud and irregularities

67. Transport Scotland is responsible for establishing arrangements to prevent and detect fraud and other irregularity. We review and report on these arrangements and have concluded that the overall arrangements for the prevention and detection of fraud were satisfactory during 2013/14.

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

68. 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.

69. During 2013/14 we recommended that the register of interests maintained by Transport Scotland should be extended beyond the requirements of the FReM to cover all officers involved in significant contract / procurement projects and updated annually. This was discussed at the Audit and Risk Committee, where management stated that the current arrangements set out within their Standards of Propriety comply with the Civil Service Code and felt this was sufficient.

Outlook

Scottish passenger rail franchise

70. 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.

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

72. During 2013/14 we obtained a copy of the financial models being used in the tender evaluation process and discussed these with members of the rail franchise team and a representative from Transport Scotland's technical advisers (Atkins Limited) to improve our understanding of the operation and development of the model, the assumptions applied within it and the process for evaluating the franchise bids.

73. We have agreed that we will review the evaluation process in more detail once the main Scotrail contract has been awarded.

Glasgow Prestwick Airport

74. As noted earlier in this report, Transport Scotland now has an investment in Prestwick Holdco Limited, which owns Glasgow Prestwick Airport. We have been reviewing the business case and process for purchasing the Airport and are in continuing discussion with Transport Scotland about the business case and the underlying business plan and associated assumptions. Our work has involved reviewing the financial assumptions in the business plan using risk analysis software and modelling to assess the reasonableness of the data. We plan to conclude and report on this later in the year.

Best Value, use of resources and performance

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

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

Management arrangements

Best Value

77. In 2013/14 Transport Scotland conducted best value self-assessments of their Risk Management and Asset Management arrangements using Audit Scotland's best value toolkits for these areas. These reviews concluded that Transport Scotland has good arrangements in place for both areas but in order to ensure continuous improvement also highlighted a number of areas where further improvements could be made which will be addressed going forward.

78. During the year the Agency also followed up the progress made in addressing the areas for improvement identified by the Sustainability best value service review undertaken in 2012/13. This confirmed that action had been completed to address all 7 areas highlighted. This included the requirement for Transport Scotland to publish the Sustainability Report as part of their Annual Report and Accounts for each financial year as this was included for both 2012/13 and 2013/14.

79. In 2014/15, management intend to conduct a further best value self-assessment of Efficiencies using the appropriate toolkit.

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

National performance reports

81. 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 that may be of direct interest to Transport Scotland are detailed in Exhibit 4.

Exhibit 4: Relevant national performance reports issued during 2013/14

- Renewable Energy (September 2013)
  http://www.audit-scotland.gov.uk/docs/central/2013/nr_130912_renewable_energy.pdf
- Scotland's public sector workforce (November 2013)
  http://www.audit-scotland.gov.uk/docs/central/2013/nr_131128_public_sector_workforce.pdf
- Procurement in Councils (April 2014)
  http://www.audit-scotland.gov.uk/docs/local/2014/nr_140424_procurement_councils.pdf
- Scotland's public finances - a follow-up audit: Progress in meeting the challenges (June 2014)
  http://www.audit-scotland.gov.uk/docs/central/2014/nr_140605_public_finances.pdf

Source: www.audit-scotland.gov.uk

Scotland's key transport infrastructure projects follow-up

82. 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 Queensferry Crossing, the Aberdeen Western Peripheral Route / Balmedie-Tipperty, the M8 enhancement programme, the Edinburgh-Glasgow rail improvement programme and the Borders Railway). The findings from the study were published in June 2013 and set out six key recommendations. These included actions to be undertaken by Transport Scotland.

83. During 2013/14 we reviewed the progress made to assess whether the recommendations for Transport Scotland in the report had been adequately addressed. The outcome of this work was reported in a letter to the Director of Finance in June 2014 and concluded that the recommendations have been substantially implemented.

Outlook

84. We are currently developing a long-term audit plan, in consultation with Transport Scotland, that will focus on a range of operating contracts and major infrastructure projects managed by Transport Scotland. We will be discussing this further over the autumn with a view to providing more detail in the Annual Audit Plan for 2014/15.

Acknowledgements

85. We would like to express our thanks to the staff of Transport Scotland for their help and assistance during this year's audit which has enabled us to provide an audit report ahead of the agreed timetable.

Appendix 1: Audit reports

External audit reports and audit opinions issued for 2013/14

Title of report or opinion	Date of issue	Date presented to Audit and Risk Committee
Annual Audit Plan	14 January 2014	27 January 2014
Letter to Chief Executive detailing work carried out in response to correspondence received	25 March 2014	28 April 2014
Interim audit report to management	15 April 2014	28 April 2014
Follow-up of Scotland's key transport infrastructure projects report letter to Director of Finance	24 June 2014	26 August 2014
Audit opinion on Scottish Government consolidation pack	25 July 2014	Not applicable
Report to Audit Committee in terms of ISA 260 (Communication of audit matters to those charged with governance)	12 August 2014	26 August 2014
Annual report on the 2013/14 audit	12 August 2014	26 August 2014
Independent auditor's report on the financial statements	26 August 2014	26 August 2014

Appendix 2: Action plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Issue Identified	Planned Management Action	Responsible Officer	Target Date
1.	19-21	**Provision for impairment of damage claims debtor balance** No provision has been made for the impairment of damage claim debt. *There is a risk that debts where there is uncertainty over whether the amount will be fully recovered are not being identified and provided for.*	As this amount is not material to the financial statements management have elected not to adjust for this in 2013/14 but have agreed to include a provision for impairment of this debt from 2014/15 onwards.	Senior Financial Accountant	31 March 2015
2	27-28	**Revaluation reserve adjustment** Due to issues with the underlying calculation no transfer has been made between the revaluation reserve and general fund during 2013/14. *There is a risk that the revaluation reserve balance does not accurately reflect depreciation movements in the trunk road valuation.*	Further review of the calculation of the movement between the depreciated historic valuation at 31 March 2013 and 31 March 2014 will be undertaken to identify the reasons for the movement and verify that the valuations were correctly calculated, or to identify errors or differences, and to propose adjustments to be reflected in next year's accounts.	Head of MIS / Financial Controller	December 2014
3	41	**Road network valuation arrangements** Reliance is currently placed on one member of staff to undertake the majority of	Consideration will be given as to how to further utilise the contractor responsible for providing the	Head of Asset Management / Financial Controller	December 2014

Action Point	Refer Para No	Issue Identified	Planned Management Action	Responsible Officer	Target Date
		the analysis of the trunk road network valuation information produced from RAVs. *There is a risk that this could impact on the ability of the Agency to produce accurate figures for the trunk road valuation for the annual accounts.*	RAVS valuation and what further training and development of Transport Scotland staff is required to increase awareness and the ability to understand and account for movements identified.		