Transport Scotland

Management Report 2017/18
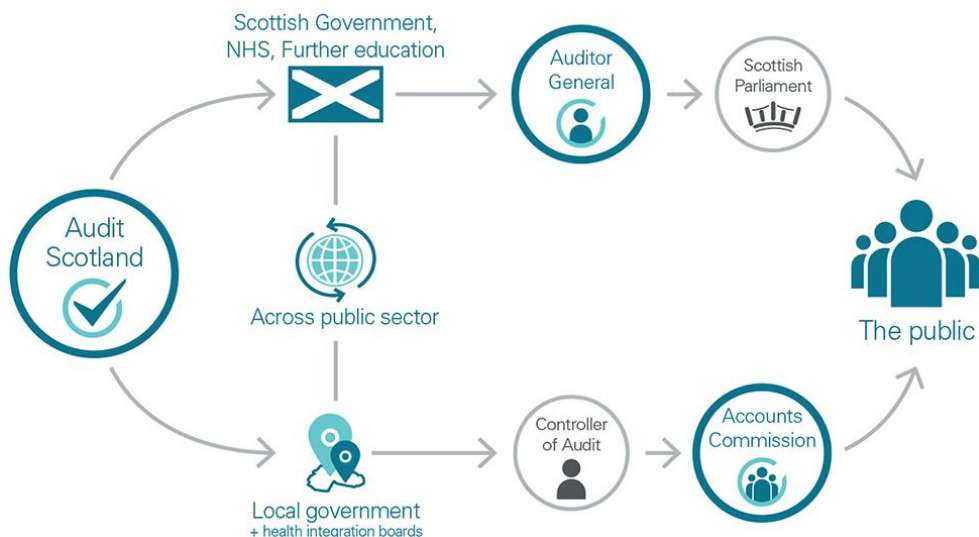
AUDIT SCOTLAND

Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.

- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.

- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non – executive board chair, and two non – executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.

About us

Our vision is to be a world – class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money

- reporting our findings and conclusions in public

- identifying risks, making clear and relevant recommendations.

Audit findings

Introduction

1. This report contains a summary of the key issues identified during the interim audit work carried out at Transport Scotland. The main focus of our interim testing was the verification to source documentation, or other underlying records, of expenditure for material account areas. As the majority of this testing was performed prior to the 2017/18 financial year end, the need for additional testing will be considered once the draft accounts are received as part of the financial statements audit to ensure sufficient audit coverage for the full year is achieved.

2. Given the payment profile of concessionary travel scheme expenditure (i.e. large volume of individual payments) it is not practical to verify a significant proportion of total expenditure through substantive testing of payments. Therefore, and as in previous years, the testing approach employed in this area involved confirming the operation of the high-level key controls over the scheme, supplemented by verification testing of interim payments.

3. Our responsibilities under the *Code of Audit Practice* require us to assess the system of internal control put in place by management. We seek to gain assurance that the audited body:

- has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements

- has systems of internal control which provide an adequate means of preventing and detecting error, fraud or corruption

- complies with established policies, procedures, laws and regulations.

4. We have also under the Code of Audit Practice, carried out work on the wider dimension audit. This focussed on arrangements regarding cyber security.

Conclusion

5. An outline of the levels of expenditure tested has been set out in **Exhibit 1Error! Reference source not found.**. Results of our expenditure testing were generally satisfactory, with one issue identified in paragraph 17.

6. No control weaknesses were identified from our review of controls over the concessionary travel scheme.

7. In terms our wider dimension audit work we concluded that Transport Scotland has put in place some important elements of cyber governance. Further work is required in certain areas, such as establishing a cyber security policy/strategy, if it is to achieve cyber essentials plus accreditation.

Interim testing

8. Our interim expenditure testing focused on material areas of programme expenditure. As part of our financial statements audit, we will consider other material areas of expenditure (e.g. staff costs).

9. To identify account areas for interim testing we reviewed Transport Scotland's master budget monitoring spreadsheet and selected those areas which are likely to be of material value to the 2017/18 financial statements. This identified the following material expenditure areas for testing:

- Air services – Highlands and Islands Airports Ltd

- Ferry services – Clyde and Hebrides ferry services; Northern Islands ferry services; Caledonian Maritime Assets Ltd voted loans

- Major Transport Infrastructure Projects (MTRIPS) – land for development additions; engineering, management and design; miscellaneous preparation costs; contract works; Queensferry crossing

- Policy – national cycle network and links; transport strategy and innovation; regional transport partnerships

- Rail – Abellio ScotRail and Serco Caledonian Sleeper franchise payments; infrastructure payments to Network Rail; major public transport projects

- Trunk Roads and Bus Operators (Bus Services) – concessionary travel; bus service operator grants

- Trunk Road and Bus Operator (Motorway and Trunk Roads) - network strengthening; maintenance including lighting; PFI unitary charges; Forth and Tay road bridge authorities.

Audit approach / Level of expenditure verification

10. For the majority of expenditure areas we obtained a listing of transactions to date during 2017/18 and selected items for testing. This was based on the level of performance materiality which we identified in our annual audit plan. The validity, value and timing of the items were then verified to source documentation (i.e. invoice, requisition form, interim payment certificate, contract, grant award letter, grant claim, or other relevant documents).

11. The only expenditure areas where this approach was not adopted were rail infrastructure and concessionary travel scheme expenditure. The approach adopted for these is explained below.

12. Transport Scotland's total expenditure for 2017/18 was forecast as £2.36 billion. Through our testing we have verified a total of 142 expenditure payments totalling £925.7 million (40% of forecast expenditure for the year). The split of this testing across expenditure areas is summarised in **Exhibit 1**.

Exhibit 1

Expenditure verification against forecast by material expenditure area
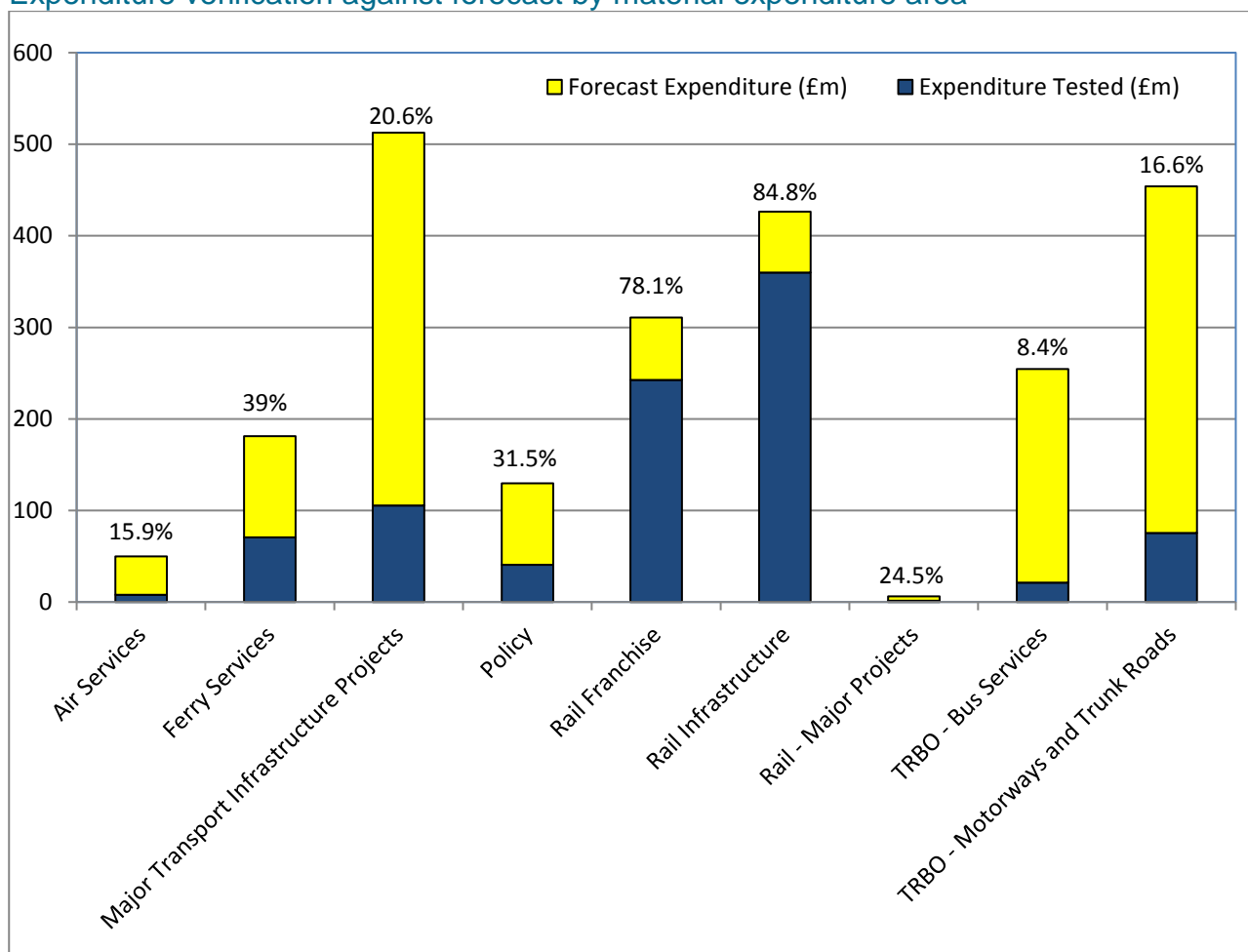
Rail Infrastructure

13. Rail infrastructure expenditure covers the deed of grant payments made to Network Rail under the determination for the current control period advised by The Office of Rail and Road (ORR). In order to verify the expenditure for the year we agreed the payments made to the amounts set out in the Periodic Review 2013 – Determination of Network Rail's outputs and funding for 2014-19 (adjusted for Retail Prices Index). This confirmed that the payments were in accordance with the amounts advised by the ORR. The total amount payable to Network Rail for the year is split across 13 four-weekly payments of equal value. As a result, £359.9 million of expenditure to date has been verified. As part of our financial statements audit, we will confirm the full year-end value against the amounts advised by the ORR.

Concessionary travel scheme

14. Operators participating in the concessionary travel scheme are reimbursed for eligible journeys at 56.9% of the applicable fare (i.e. 56.9p for each £1 of fare). The operators receive reimbursement through payments covering each of the 13 four-weekly payment periods during the year. For each payment period, Transport Scotland makes an interim payment to most operators (generally 90% of the estimated reimbursement value for that period) in advance on the first day of the period. The balance is paid up to 3 months after the period end, once all validation checks have been completed on the actual claim data for that period.

15. Expenditure under the concessionary fares scheme is capped at £196.16 million for 2017/18. It is not anticipated that Transport Scotland will need to

apply the cap. As a result, operators can expect to be reimbursed for all eligible journeys.

16. Given the payment profile of concessionary travel scheme expenditure (i.e. large volume of individual payments) it was not practical for us to verify a significant proportion of total expenditure through substantive testing of payments. Therefore, the testing approach employed in this area combined verification testing of interim and final payments, with testing of high-level key controls operating over the scheme in 2017/18 as detailed below:

   • confirmation that all new operators admitted to the scheme during 2017/18, and a sample of existing operators, held a valid license or equivalent, as issued by the Traffic Commissioner for Scotland;

   • review of the validity checks performed on a sample of interim operator payments during 2017/18;

   • verification of a sample of payments made to operators during 2017/18 to the interim calculation spread sheet, and confirmation that interim payment totals agreed to the Scottish Executive Accounting System (SEAS) payment interface.

Findings

17. Results of our sample testing were generally satisfactory throughout the areas outlined above. Amounts tested included two duplicate payments made in June 2017 relating to Major Transport Infrastructure Projects which totalled over £1 million. Transport Scotland had already identified and recovered the overpayments and subsequently made changes to payment procedures to prevent recurrence. We are satisfied with the action taken by Transport Scotland in this regard.

18. No issues were identified in our testing of expenditure or the controls over the concessionary travel scheme.

19. Any weaknesses identified represent those that have come to our attention during the course of normal audit work and therefore are not necessarily all the weaknesses that may exist. It is the responsibility of management to decide on the extent of the internal control system appropriate to Transport Scotland.

Additional follow-up work

20. As part of our financial statements audit, we will consider the year-end expenditure across material account areas. Where necessary, we will perform top-up testing over payments to gain assurance over Transport Scotland's expenditure.

Wider dimension work

21. Cyber incidents pose an increasing threat to organisations. In light of recent incidents, the Scottish Government has produced new guidance for public bodies. This builds on Scotland's cyber resilience strategy (Safe, Secure and Prosperous) and provides more concrete actions for bodies to take, including developing a monitoring framework for the Scottish Government.

22. As part of our interim audit we assessed how Transport Scotland is considering cyber security risks, and the appropriateness of risk management and governance arrangements for cyber security. These cover the most significant actions which the Scottish Government guidance requires public bodies to put into effect.

23. We found that Transport Scotland has put in place some important elements of cyber governance, namely the establishment of a group involving officials from across the organisation and designating the Director of Finance, Corporate and

Analytical Services as the responsible officer. Further work is needed to establish a cyber security policy/strategy and to assessing the level of risk to pre-existing supply chain partners.

24. Transport Scotland has agreed to be a cyber catalyst, meaning that it has committed to acting as a leader in respect of cyber resilience. The ICT team at Transport Scotland hold suitable ICT qualifications, but none are security specialists. The team has good communication links with other important players in the area such as the Scottish Government's Cyber Resilience Unit and the National Cyber Security Centre's Cyber Security Information Partnership (CiSP). This ensures that it is well briefed on any threats.

25. Transport Scotland is committed to gaining cyber essentials plus accreditation which is important given the body's role as a cyber catalyst. The process to achieve this should ensure that areas for improvement identified here are driven forward. We will review progress in this area and consider what commentary is required for inclusion in our annual audit report.

26. All our outputs and any matters of public interest will be published on our website: www.audit-scotland.gov.uk.

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