

Transport Scotland

2018/19 Annual Audit Report



 AUDIT SCOTLAND

Prepared for Transport Scotland and the Auditor General for Scotland

26 August 2019

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Key messages

2018/19 Annual Report and Accounts

- 1 The financial statements of Transport Scotland give a true and fair view of the state of the affairs of Transport Scotland as at 31 March 2019 and of the net expenditure for the year then ended.
- 2 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.
- 3 The audited part of the remuneration and staff report, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

Financial management

- 4 Transport Scotland has appropriate and effective arrangements in place for financial management.
- 5 Transport Scotland has robust processes for checking the financial health of suppliers at contract procurement stage and intends to extend this to ongoing contractors.

Financial sustainability

- 6 We have no significant concerns about the overall financial position of Transport Scotland.
- 7 Transport Scotland has taken reasonable action in preparation for EU withdrawal and is currently reviewing options ahead of the October 31 timescale.
- 8 Transport Scotland is currently evaluating expressions of interest from potential purchasers of Glasgow Prestwick Airport and anticipates that a sale may be achievable by the end of 2019/20.

Governance and transparency

- 9 Transport Scotland has effective governance arrangements in place that support the scrutiny of decisions.
- 10 The 2018/19 Transport Scotland Annual Report and Accounts presents information in a reader-friendly manner including the use of document links (to improve navigation), graphics and tables.

Value for money

- 11 Transport Scotland is developing a revised National Transport Strategy which incorporates headline performance indicators. The use of such indicators could further enhance monthly and year-end reporting to provide a more complete picture of organisational performance.

- 12** Transport Scotland has made initial progress in implementing the recommendations in our 2017 'Transport Scotland's ferry services' performance audit report. It is committed to developing a Scotland-wide, long term strategy for its subsidised ferries by 2022.
- 13** There is evidence that Transport Scotland managed Network Rail well regarding network enhancements during control period 5, but some other objectives (such as reduced journey times) were not met as planned. Transport Scotland has put in place revised appropriate arrangements for control period 6 which commenced in April 2019.
- 14** Transport Scotland continues to use its powers available through the franchise agreement to hold Abellio ScotRail to account for improved performance. Transport Scotland has also put in place contingency plans should Scottish Ministers opt to terminate the current agreement.

Introduction

1. This report summarises the findings from our 2018/19 audit of Transport Scotland.

2. The scope of our audit was set out in our Annual Audit Plan presented to the 21st January 2019 meeting of the Audit and Risk Committee (ARC). This report comprises the findings from:

- an audit of the Transport Scotland's Annual Report and Accounts
- consideration of the four audit dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#) as illustrated in [Exhibit 1](#).

Exhibit 1 Audit dimensions



Source: *Code of Audit Practice 2016*

3. The main elements of our audit work in 2018/19 have been:

- an audit of Transport Scotland's 2018/19 Annual Report and Accounts including the issue of an independent auditor's report setting out my opinions
- consideration of the four audit dimensions of public audit

Adding value through the audit

4. We add value to Transport Scotland through the audit by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations for improvements that have been accepted by management
- reporting our findings and conclusions in public
- sharing intelligence and good practice through our national reports ([Appendix 4](#)) and good practice guides
- Providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability

5. In so doing, we aim to help Transport Scotland promote improved standards of governance, better management and decision making and more effective use of resources.

Responsibilities and reporting

6. Transport Scotland has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing Annual Report and Accounts that are in accordance with the accounts direction from the Scottish Ministers. The Transport Scotland Annual Report and Accounts includes the following:

- Performance Report
- Accountability Report (which includes the Governance Statement, Remuneration and Staff Report and Parliamentary Accountability Report)
- Financial statements and supporting notes.

7. Transport Scotland is also responsible for establishing appropriate and effective arrangements for governance, propriety and regularity that enable the organisation to successfully deliver its objectives.

8. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2016](#), and supplementary guidance and International Standards on Auditing in the UK.

9. As public sector auditors we give independent opinions on the Annual Report and Accounts. Additionally, we conclude on:

- the appropriateness and effectiveness of the performance management arrangements,
- the suitability and effectiveness of corporate governance arrangements,
- the financial position and arrangements for securing financial sustainability.

10. In doing this we aim to support improvement and accountability. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#) and supplementary guidance.

11. This report raises matters from the audit of the Annual Report and Accounts and consideration of the audit dimensions. Any weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

12. Our Annual Audit Report contains an agreed action plan at [Appendix 1](#). It sets out specific recommendations, responsible officers and dates for implementation. It also includes any outstanding actions from last year and progress against these.

13. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2018/19 audit fee of £178,110 as set out in our Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

14. This report is addressed to both Transport Scotland and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

15. We would like to thank all management and staff for their cooperation and assistance during the audit.

Part 1

Audit of 2018/19 Annual Report and Accounts



Main judgements

The financial statements of Transport Scotland give a true and fair view of the state of the affairs of Transport Scotland as at 31 March 2019 and of the net expenditure for the year then ended.

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 audited part of the remuneration and staff report, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

The Annual Report and Accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources.

Audit opinions on the Annual Report and Accounts

16. The Annual Report and Accounts for the year ended 31 March 2019 were approved by the ARC on 26 August 2019. We reported within the independent auditor's report that:

- the financial statements give a true and fair view and were properly prepared
- expenditure and income were regular and in accordance with applicable enactments and guidance issued by Scottish Ministers
- the audited part of the Remuneration and Staff Report, Performance Report and Governance Statement were all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

17. Additionally, we have nothing to report in respect of misstatements in information other than the financial statements, the adequacy of accounting records and the information and explanations we received.

Submission of Annual Report and Accounts for audit

18. We received the unaudited Annual Report and Accounts on 10 June 2019 in line with our agreed audit timetable.

19. The working papers provided with the unaudited financial statements were of an appropriate standard and finance staff provided support to the audit team which helped ensure the final accounts audit process ran smoothly.

Risk of material misstatement

20. [Appendix 2](#) provides a description of those assessed risks of material misstatement in the Annual Report and Accounts and any wider audit dimension risks that were identified during the audit planning process. It also summarises the work we have done to gain assurance over the outcome of these risks. We have no issues to report from our work on the risks of material misstatement highlighted in our 2018/19 Annual Audit Plan.

Materiality

21. Misstatements are material if they could reasonably be expected to influence the economic decisions of users taken based on the financial statements. The assessment of what is material is a matter of professional judgement and involves considering both the amount and nature of the misstatement.

22. Our initial assessment of materiality for the Annual Report and Accounts was carried out during the planning phase of the audit and is summarised in [Exhibit 2](#). With regards to the annual accounts, we assess the materiality of uncorrected misstatements both individually and collectively.

23. On receipt of the unaudited Annual Report and Accounts we reviewed our materiality calculations and concluded that they remained appropriate and updated the figures. [Exhibit 2](#)

Exhibit 2 Materiality values




Materiality level	Planning	Year-end
Overall materiality - This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1 per cent of the net book value of the trunk road network as at 31 March 2019 based on the audited accounts for 2017/18 (planning) and draft accounts for 2018/19 (year-end).	£193.9 million	£205.4 million
Performance materiality - This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement, we have calculated performance materiality at 50 per cent of planning materiality.	£97 million	£102.7 million
As Transport Scotland's total assets balance is more than ten times net operating expenditure, we also set a separate performance materiality level for other assets / liabilities and expenditure. This has been set at 0.75 per cent of gross expenditure and will be applied to all account areas other than the trunk road network.	£13.9 million	£14.6 million
Reporting threshold (i.e. clearly trivial) - We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 1 per cent of planning materiality but capped at £100,000.	£100,000	£100,000


Significant findings from the audit in accordance with ISA 260

24. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices covering accounting policies, accounting estimates and financial statements disclosures.

25. The significant findings are summarised in [Exhibit 3](#). Where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in [Appendix 1](#) has been included.

Exhibit 3 Significant findings from the audit of financial statements

Issue	Resolution
<p>1. IFRS 9 preparation</p> <p>2018/19 was the first year that organisations, including Transport Scotland, were required to implement the new accounting standard IFRS 9. The standard mainly affects financial assets such as investments in companies and loans to third parties. The draft accounts presented to audit on 10 June 2019 did not incorporate changes resulting from the new standard.</p>	<p>Although Transport Scotland had carried out work to assess the impact of IFRS 9, clarification from the Scottish Government and information from external parties was not available in time for inclusion in the draft accounts. This resulted in material changes to the accounts, and significant disclosure revisions. The most significant adjustment was an impairment of a loan issued to TS Glasgow Prestwick Airport HoldCo Limited by £33 million as a result of a review of its financial position undertaken by Transport Scotland towards the end of the financial year in the context of the new standard. More detail is provided in paragraph 52.</p> <p> Recommendation 1 (refer appendix 1, action plan)Appendix 1</p>
<p>2. Property sale omission</p> <p>Audit testing of a property sale which was concluded on 29 March 2019 found that it had erroneously been omitted from Transport Scotland's 2018/19 financial statements. This should have been recorded as income received and an asset disposal within the year.</p>	<p>As the value in question was below materiality (£1 million) Transport Scotland opted not to adjust for this.</p> <p> Recommendation 2 (refer appendix 1, action plan)Appendix 1</p>
<p>3. Grants to third parties</p> <p>Audit testing of a sample of grant payments to third parties found that supporting documents provided by one such body did not fully comply with the conditions of grant. The grant award letter had stipulated that all grant payments (used to subsidise an operating deficit) should be supported by a cash flow analysis. Our review found two such payments (totalling £3 million) which had not been appropriately supported by a cash flow analysis.</p>	<p>Transport Scotland stated that this was a timing issue as the signed grant letters were not accessible as it was the start of the year. The overall amount of grant paid to the third-party organisation was in line with the grant award letter.</p> <p> Recommendation 3 (refer appendix 1, action plan)Appendix 1</p>
<p>4. Fair pay disclosure</p> <p>Transport Scotland prepares its accounts in line with the Government Financial Reporting Manual (the FReM) which is issued by HM Treasury. This requires the disclosure of the median remuneration</p>	<p>Transport Scotland confirmed that the Scottish Government performs this calculation on its behalf, and that a collective decision was made not to include such staff due to the onerous effort involved. Given the small number of agency staff in</p>

Issue	Resolution
<p>of the reporting entity's staff, based on annualised, full-time equivalent remuneration of all staff (including temporary and agency staff) as at the reporting date. Our review found that Transport Scotland's figure does not incorporate agency staff and is therefore not consistent with the FReM.</p>	<p>Transport Scotland, this is unlikely to impact significantly on the median figure.</p> <p> Recommendation 4 (refer appendix 1, action plan)Appendix 1</p>

Source: Audit Scotland

How we evaluate misstatements

26. There was one material adjustment to the unaudited Annual Report and Accounts arising from our audit. This concerned a payment of £62 million to Network Rail relating to 2019/20 which was made after 31 March 2019 but for which an invoice had been received prior to the end of the financial year. Transport Scotland had incorrectly accounted for this as a trade payable and matching prepayment. This was corrected in the revised version of the Annual Report and Accounts and action taken to avoid any recurrence.

27. In addition, Transport Scotland identified a series of adjustments after the draft accounts had been prepared. This was made up of the £33 million impairment of the loan to Glasgow Prestwick Airport HoldCo Limited (referred to in [Exhibit 3](#), item 1), an £8 million adjustment to property, plant and equipment and three accruals journals which totalled £6 million. The supporting papers for these documents were reviewed and found to be satisfactory. These adjustments resulted in an increase in net operating costs for the year of £31 million to £1,963 million and a reduction in assets less liabilities of £31 million to £20,220 million.

28. We also found a series of misstatements which Transport Scotland opted not to adjust for ([Appendix 3](#)). It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected although the final decision on making the correction lies with those charged with governance considering advice from senior officers and materiality. Management do not propose to adjust for the items above as the amounts are not considered material in the context of the financial statements. If adjusted, net operating costs would decrease by £1 million and assets less liabilities would increase by £1 million.

Follow up of previous recommendations

29. Transport Scotland has made good progress in implementing our prior year audit recommendations ([Appendix 1](#)). In particular, the 2018/19 performance report has continued to develop positively. We discuss this further in [Part 4](#).

30. The 2018/19 management report raised an issue regarding elements of the roads authorities asset valuation system (RAAVS). This concerned the weightings applied by Transport Scotland to the Baxter index (to reflect inflation and market trends) and a series of uplifts to account for items such as professional fees that would be incurred in the provision of a replacement asset. Many of these had not been adjusted since RAAVS was developed in 1998.

31. During our audit of the financial statements we took the opportunity to compare the rates applied by Transport Scotland to the other UK agencies and found a degree of variation between the different bodies. This reiterates the point made previously regarding the need to review these weightings and uplifts regularly. Transport Scotland has previously committed to completing a review by September 2019.

Part 2

Financial management



Main judgements

Transport Scotland has appropriate and effective arrangements in place for financial management. It managed its 2018/19 budget well and recorded a DEL underspend of £184 million, eight per cent of its 2018/19 DEL budget of £2.22 billion.

Transport Scotland has robust processes for checking financial health of suppliers at contract procurement stage and intends to extend this to ongoing contractors.

Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

Financial performance in 2018/19

32. The main financial objective for Transport Scotland is to ensure that the financial outturn for the year is within the budget allocated by Scottish Ministers.

33. Transport Scotland has reported an overall outturn of £2,177 million, remaining within its overall budget for 2018/19 with an underspend of £244 million. The financial performance against Departmental Expenditure Limits (DEL) is shown in [Exhibit 4](#). This shows a total underspend of £184 million, most of which relates to capital DEL.

Exhibit 4 Performance against DEL in 2018/19

Performance	Initial budget £m	Final budget £m	Outturn £m	Over (under) spend £m
Resource DEL	1,851	1,845	1,812	(33)
Capital DEL	371	371	220	(151)
Total DEL	2,222	2,216	2,032	(184)

Source: Transport Scotland

34. [Exhibit 5](#) presents the same information analysed by service area. The most significant areas of underspend are rail (£21 million), motorways and trunk roads (£141 million) and ferries (£29 million). This is due to the following:

- Major projects on capital land and works relating to projects such as A9 dualling, the Aberdeen Western Peripheral Route (AWPR), A77 Maybole, A96 Dualling and A90 Haudagain (£102 million);
- Lower unitary charges for revenue financed roads as a result of slippage relating to AWPR (£33 million);
- Accelerated spend in previous years on vessel procurement to support Northern Isles ferry services (£33 million);
- Slippage on implementing Revolution in Rail, including the delayed introduction of new electric rolling stock (£12 million).

Exhibit 5

Performance against DEL in 2018/19 by service area

Performance	Initial budget £m	Final budget £m	Outturn £m	Over (under) spend £m
Rail Services	781	781	760	(21)
Concessionary Travel	269	269	263	(6)
Motorways and Trunk Roads	659	659	518	(141)
Ferries	241	241	212	(29)
Air	50	50	49	(1)
Other Transport	185	179	176	(3)
Local Authority Grants / Support for Active Travel / Inter Island Ferries	37	37	54	17
Total DEL	2,222	2,216	2,032	(184)

Source: Transport Scotland

2018/19 financial position

35. The Statement of Financial Position summarises what is owned and owed by Transport Scotland. This shows taxpayers' equity – an accounting measurement of the amount invested that has continuing public benefit. It shows how much of this has arisen from the application of revenues and that which has resulted through changes over time in the value of physical assets.

36. The financial statements show that Transport Scotland has assets less liabilities of £20,220 million, an increase of £1,008 million. This is largely attributable to increased valuations in property, plant and equipment, specifically relating to the trunk roads network mainly as a result of changes in the indexation rate applied, i.e. the Baxter index.

Budgetary processes

37. We reviewed Transport Scotland's budget setting and monitoring arrangements. From our review of budget monitoring reports, review of committee papers and attendance at committees we confirmed that senior management (and ARC members) receive regular, timely and up to date financial information on the financial position. We concluded that Transport Scotland has effective budgetary processes that allow senior officers to carry out effective scrutiny of its finances. This also feeds into broader Scottish Government financial control processes to support overall management of the Scottish Government financial position.

Internal audit

38. Transport Scotland's internal audit function is carried out by the Scottish Government Internal Audit Directorate (SGIAD). As such, it is reviewed annually by the Scottish Government's external audit team in accordance International Standard on Auditing (UK) 610 (Using the Work of Internal Auditors). This year's review did not identify any significant areas of non-compliance with PSIAS, with areas of good practice as well as areas for improvement identified.

39. During the year we have considered the findings from the four internal audit reports produced in 2018/19. We have also maintained a regular dialogue with internal audit to ensure there is no duplication of work.

Standards of conduct for prevention and detection of fraud and error

40. Audited bodies are responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.

41. We have reviewed Transport Scotland's arrangements in place to maintain standards of conduct including the Fraud Policy and Response Plan and Civil Service Code of Conduct. There are established procedures for preventing and detecting any breaches of these standards including any instances of corruption.

42. We have concluded that Transport Scotland has appropriate arrangements in place for the prevention and detection of fraud, error and irregularities, bribery and corruption. We are not aware of any specific issues that we need to bring to your attention.

Dependency on key suppliers

43. The impact of a failure or collapse of a key supplier can be significant to an organisation and can result in either delays or non-completion of major contracts or, disruptions in the continued provision of vital services. This has brought into focus the risk of key supplier failure and the risk of underperformance in suppliers that are experiencing difficult trading conditions.

44. Through discussion with Transport Scotland we found that TS Finance has historically carried out financial health checks on suppliers during the contract procurement stage but generally only thereafter where requested to do so. This process has recently been amended to include checks at appropriate points throughout the duration of a contract. The revised process had still to be fully implemented at the time of audit, due to the relative timing of appropriate points in existing contracts.

45. We reviewed a sample of checks carried out during contract procurement and found that they each followed an established process. This involves drawing accounting ratios from each bidding firm's financial statements and applying scoring based on these to arrive at an overall result. This approach is satisfactory

and we understand that this will form the same approach when applied to reviews of current contracts. We will review progress in this area in 2019/20.

Part 3

Financial sustainability



Main judgements

We have no significant concerns about the overall financial position of Transport Scotland.

Transport Scotland has taken reasonable action in preparation for EU withdrawal and is currently reviewing options ahead of the October 31 timescale.

Transport Scotland is currently evaluating expressions of interest from potential purchasers of Glasgow Prestwick Airport and anticipates that a sale may be achievable by the end of 2019/20.

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

Financial planning

46. Transport Scotland has an allocated DEL budget of £2,465 million for 2019/20, comprising resource DEL of £2,178 million and capital DEL of £287 million. This is an increase of £249 million from the final budget allocation for 2018/19, mainly due to a change in funding classification for Network Rail in control period 6 which started on 1 April 2019. Previously, Transport Scotland only covered the debt financing costs relating to renewals and enhancements, whereas in the new control period it will fully cover the full cost of these works via a grant. Capital DEL has decreased by £84 million from 2018/19 while ODEL (used to fund PFI costs) has decreased by £9 million.

EU Withdrawal

47. There remains significant uncertainty surrounding the terms of the UK's withdrawal from the European Union (EU). EU withdrawal will inevitably have implications for devolved government in Scotland and for audited bodies. It is critical that public sector bodies are working to understand, assess and prepare for the impact on their business in three broad areas:

- Workforce – the extent to which potential changes to migration are likely to affect the availability of the people and skills needed to deliver services.
- Funding – the extent to which potential changes to existing EU funding programmes are likely to affect the finances of public bodies and the activity that such funding supports.
- Regulation – the extent to which potential changes to EU regulations are likely to affect the activities of some public bodies.

48. Through discussion with Transport Scotland we established that it had taken a range of actions to prepare for EU withdrawal. This includes staff updates from the Chief Executive and information sessions facilitated by the Director of Transport

Strategy and Analysis; an analysis of EU funding over the next five years which confirmed that all are covered by HM Treasury Guarantee; and a legislation mapping exercise undertaken to identify areas requiring review as a result of EU withdrawal.

49. Transport Scotland also set out a series of actions it had taken in case of a 'no-deal' exit in March 2019. This included weekly sessions with the Scottish Government Response Room (SGoRR), ongoing discussions with the Department for Transport and the establishment of a staff rota around the March 29 deadline to co-ordinate a response. These arrangements are currently being reviewed in preparation for the revised deadline for leaving the EU on 31 October 2019.

50. The actions taken by Transport Scotland are appropriate and should help ensure that it is in a reasonable position to respond to whatever scenario develops over the coming months.

Glasgow Prestwick Airport update

51. In 2017/18 we reported that the draft accounts of TS Prestwick Holdco Limited, who are responsible for the ownership and operation of Glasgow Prestwick Airport (GPA), reported a loss for the year of £7.9 million. The level of Transport Scotland loan support increased by £8 million during the year to £38.4 million. We also recorded that Transport Scotland considered there was sufficient security for the loan. This was based on GPA's proposed development of its strategic plan, including potential options for developing the business, in conjunction with the strategic value of the assets.

52. In 2018/19, the draft TS Prestwick Holdco Limited accounts reported a further loss of £3.6 million. The level of loan support has increased by £1.5 million to £39.9 million and there is additional accrued interest on this cumulative balance totalling £3.7 million at 31 March 2019. As noted in [Exhibit 3](#), Transport Scotland has impaired £33 million of the loan in its 2018/19 accounts under the new arrangements required under IFRS 9. IFRS 9 is a new accounting standard which has different requirements from the previous standard (IAS 39) regarding when impairments should be recognised. This includes taking account of expected losses as well as those which have been incurred, IAS 39 only recognised the latter.

53. In June 2019, the Scottish Government announced that the sale of GPA was being progressed to test market interest in the undertaking, in keeping with its long-term objective that the airport should be returned to the private sector. TS Prestwick Holdco Limited is currently assessing expressions of interest in purchasing the airport, with a view to asking up to three bidders to submit financial offers. No firm date has been set to complete the sale, although Transport Scotland considers sale conclusion by the end of the 2019/20 financial year may be achievable. We will monitor the situation going forward.

Part 4

Governance and transparency



Main judgements

Transport Scotland has effective governance arrangements in place that support the scrutiny of decisions.

The 2018/19 Transport Scotland Annual Report and Accounts presents information in a reader-friendly manner including the use of document links (to improve navigation), graphics and tables.

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information.

Governance arrangements

54. Since 2010/11, Transport Scotland has operated without a board, which differs from other executive agencies of the Scottish Government. Responsibility for key decisions instead falls to the Senior Management Team which underwent a re-structure in 2018/19 to better position the organisation to deal with future challenges. As part of this process, one director retired and three new directors were appointed, resulting in gender equality across the new structure. The new structure consists of the Chief Executive and eight directors, and meets on a monthly basis. External audit is routinely provided with papers for these meetings.

55. Transport Scotland's ARC is made up of three non-executive members to support the Chief Executive (as accountable officer) over issues of risk, control and governance and associated assurance through a process of constructive challenge. The ARC meets four times over the course of a year and is routinely attended by the Chief Executive and Director of Finance and Corporate Services, as well by representatives from internal and external audit.

56. These arrangements continue to be effective in ensuring that the organisation delivers major infrastructure projects and oversees public transport in Scotland but should be kept under review.

Performance report

57. In addition to the opinion on the performance report covered in [Part 1](#) of this report, we also consider the qualitative aspects of the performance report included in the Annual Report and Accounts. The purpose of a performance report is to provide an account of a body's performance in delivering against its main objectives and strategies, and the principal risks that it faces. Performance should be reported in a fair, balanced and understandable way to provide stakeholders with a picture of the body's achievements in the round.

58. Transport Scotland revised its performance report considerably in 2018/19 to ensure that it properly reflected the nine strategic objectives outlined in the current corporate plan. This new format clearly articulates major achievements against each of these objectives. There is also more content setting out risks faced during the year. Links to the National Performance Framework (NPF) and the Programme

for Government help provide a picture of Transport Scotland's contribution to the Scottish Government's wider strategic aims and objectives. This represents a significant improvement from previous years.

59. The report could be further enhanced by the development of key performance indicators to demonstrate the impact from Transport Scotland's actions. The use of established indicators also ensures a balanced and comparable picture of performance is presented. The development of organisational performance indicators is covered in more detail in [Part 5](#).

60. The performance report provides a good summary of the resource outturn position in two tables providing analysis by service area and by expenditure type. It also provides detail on the original and revised resource allocations, allowing the reader to compare against actual spending levels. The resource outturn is clearly reconciled to the Statement of Comprehensive Net Expenditure to ensure consistency with the primary statements. Supporting narrative is provided which offers the reader a summary of the key matters which have had an impact on financial performance during the year. The report also provides a forward outlook by detailing the allocation for 2019/20 with explanation for any significant resource changes.

Good practice

61. The revised performance report in 2018/19 builds upon significant work by Transport Scotland in 2017/18 to improve the readability of its Annual Report and Accounts. In particular, the emphasis has been to create a document which reads well in an on-line environment. The new format presents the report in landscape format and makes use of links at the right-hand side of the page to improve navigation. The provision of graphics and tables also enhances the document and illustrates the wide range of Transport Scotland's responsibilities. The revised format is a substantial improvement on earlier years' annual reports.

Part 5

Value for money



Main judgements

Transport Scotland is developing a revised National Transport Strategy which incorporates headline performance indicators. The use of such indicators could further enhance monthly and year-end reporting to provide a more complete picture of organisational performance.

Transport Scotland has made initial progress in implementing the recommendations in our 2017 'Transport Scotland's ferry services' performance audit report. It is committed to developing a Scotland-wide, long term strategy for its subsidised ferries by 2022.

There is evidence that Transport Scotland managed Network Rail well regarding network enhancements during control period 5, but some other objectives (such as reduced journey times) were not met as planned. Transport Scotland has put in place revised appropriate arrangements for control period 6 which commenced in April 2019.

Transport Scotland continues to use its powers available through the franchise agreement to hold Abellio ScotRail to account for improved performance. Transport Scotland has also put in place contingency plans should Scottish Ministers choose to terminate the current agreement.

Value for money is concerned with using resources effectively and continually improving services.

Best value

62. *Ministerial guidance to Accountable Officers* for public bodies and the *Scottish Public Finance Manual* (SPFM) sets out the accountable officer's duty to ensure that arrangements are in place to secure best value. As referred to in the Governance Statement, Transport Scotland has in place an established process to carry out annual best value reviews. These are based upon Audit Scotland's best value toolkits and adapted as necessary. The process also involves following up on progress made regarding the prior year's review. Reports are submitted to the ARC for consideration.

63. Transport Scotland presented the results from its best value review of challenge and improvement to the ARC in January 2019. This review examined the organisation's ability to adjust its services to meet internal and external challenges. It concluded that Transport Scotland has developed a robust approach to this area while recommending that monthly reports are continually reviewed to ensure they remain fit for purpose and further action is taken to imbed the new management structure. The follow up on the previous year review on information management provided evidence of progress made and an overall assessment of at least meeting the better criteria.

64. The process in place is well established and provides the Chief Executive and ARC with assurances regarding best value arrangements within the organisation.

Looking ahead, the organisation plans to perform a review on performance management in 2019/20.

Performance management

65. The performance of Transport Scotland is monitored by the Senior Management Team on a monthly basis using a balanced scorecard report. These reports provide good high-level information on major projects, key risks, staff issues and correspondence. They do not though clearly link current performance to objectives from either the corporate plan or the National Transport Strategy (NTS) or the Scottish Government's NPF.

66. In [Part 4](#) we highlighted the significant improvements made to the Performance Report contained within the Annual Report and Accounts. We also recommended that this could be further enhanced through the introduction of key performance indicators. Such indicators could be incorporated within the monthly reporting cycle to better understand how well Transport Scotland is meeting its various objectives.

67. Through discussion with Transport Scotland, we are aware of progress made in revising the NTS. We have been informed that this will involve the introduction of a series of headline indicators, linked to outcomes and priorities. While the revised NTS has still to be approved, the use of these indicators (in monthly and annual reports) would provide a more complete picture of performance. As referred to in [paragraph 64](#), we are also aware of an upcoming best value review in this area next year. We will monitor progress in this area in 2019/20.

Long term audit plan

68. As identified in our annual audit plan for 2018/19, we developed an indicative long-term audit plan for value for money. This plan sets out intended audit work over the period up until 2020/21. In the section below, we highlight some of the main developments in the main areas covered this year.

Ferry services impact report

69. The Auditor General for Scotland published her performance audit on [Transport Scotland's ferry services](#) in October 2017. The report included recommendations for Transport Scotland concerning the development of a long-term strategy for its network of subsidised ferries and improvements in its approach to procuring ferry services.

70. Transport Scotland has made initial progress against these recommendations. It is committed to developing a Scotland-wide, long-term strategy for its network of subsidised ferry services by 2022. The timetable for developing the long-term strategy has been influenced by the need to take forward a number of inter-connected issues and projects, including:

- The need to update existing strategies and plans, such as the NTS and Strategic Transport Projects Review, and to produce the first National Islands Plan.
- The development of outcomes and indicators for ferries which align with those in the Scottish Government's revised NPF.
- Ongoing work to restructure the Ferries Unit and wider Directorate to ensure roles are fit for purpose and functions are better resourced.

71. While we welcome that progress is being made in developing the long-term strategy, its finalisation is still some way off. Establishing the strategy is vital in order to support the assessment of proposed developments, future spending requirements and long-term affordability of ferry services and assets. Transport Scotland needs to prioritise its efforts in this area and continue to monitor the progress being made.

72. Transport Scotland has made good progress in implementing our recommendations in other areas relating to ferries. These include:

- The development of a new procurement approach for the current Northern Isles Ferries Service tendering exercise which increases the emphasis given to the quality of proposed services in the assessment of tenders.
- The addition of three new posts to increase capacity for managing ferries contracts.
- Joint work with CMAL and ferry operators to raise awareness of their respective roles with ferry users and local communities.

73. Many of the actions being taken in response to our recommendations are ongoing or long-term in nature and will take time to demonstrate impact. It is important that Transport Scotland keeps the impact of the actions they are taking under review. The Transport Scotland's ferry services impact report will be published on 29 August 2019.

Rail services in Scotland

74. We carried out a review of rail services by looking at progress made during control period 5 (CP5) which concluded on 31 March 2019, and preparations for control period 6 (CP6) which commenced on 1 April 2019. We also followed up on our 2017/18 review of Transport Scotland's management of the Abellio ScotRail franchise.

CP5 Review

75. Transport Scotland plans to prepare a report outlining progress made during CP5 following the final opinion by the Office of Rail and Road (ORR) which is expected in summer 2019. There is evidence that Transport Scotland managed Network Rail (NR) well during CP5 as enhancement projects have largely been completed on time. These include Borders completion, elements of the Edinburgh Glasgow Improvement Project (EGIP), electrification of the Stirling, Dunblane and Alloa line and the Shotts line.

76. Transport Scotland implemented a new governance structure for rail in February 2017 following Ernst and Young's review of reasons why some rail projects were over budget and behind schedule. There is evidence that the establishment of the Major Rail Projects Portfolio Board (MRPPB), although mainly advisory in nature (referred to as a decision-making board by exception), has had a positive impact. For example, the MRPPB approved a week-long closure of the Stirling, Dunblane, Alloa line during the October 2018 half-term schools' holiday (when usage was expected to be low). This ensured that work was carried out to schedule and helped to deliver the overall project on time.

77. While full cost analysis is awaited from the ORR opinion, an overspend of £130 million is anticipated in respect of EGIP. This is mainly due to a year-long delay in introducing electric services on the line and additional costs associated with works at Waverley station arising from the collapse of Carillion. Off-setting this, cost savings of £60 million are anticipated in the Highland Main line project.

78. Many CP5 enhancements have been delivered but there are other aspects of rail services which have not, impacting on other CP5 objectives such as reduced journey times. For example, delays in the delivery of rolling stock have meant that the benefits from some infrastructure projects have not yet been realised. An example of this is the electrification of the Shotts line which still operated with diesel powered trains for a period of around two months. The ORR did not recognise reduced journey times as a regulated indicator during CP5.

CP6 preparations

79. A new funding model has been introduced in CP6. Previously Transport Scotland provided funding to NR to cover its debt financing costs in relation to work

on enhancements and renewals to the rail network in Scotland. The new approach in CP6 will see Transport Scotland provide capital grant funding for this work.

80. Transport Scotland has developed separate grant letters for operations, maintenance and renewals (OMR) and enhancements for CP6. These require NR to make monthly submissions to TS for award of grant funding. Transport Scotland has also set up a strategic financial monitoring group which will, on a periodic basis, monitor finances based on the conditions set out in the grant letters. The group will also update Team Scotland, which is a new initiative in CP6 bringing together all relevant parties in the rail industry.

81. The MRPPB has been retained from CP5, now called the Rail Portfolio Board. It forms a key element of the Team Scotland governance structure and its role has been widened to provide assurance that timetable, rolling stock and infrastructure are fully integrated to meet national policy and the customer's needs. This structure is set out in a new execution plan which also provides terms of reference for the various groups and forums.

82. Transport Scotland has developed a range of processes and mechanisms to manage CP6. These appear reasonable and proportionate in terms of managing the relationship with NR as well as the rail operators and the ORR, but these can only be properly assessed after a period of operation. The development of Team Scotland should ensure that all parts of the rail industry work better together with the joint aim of improving the service to the passenger and freight customer. We shall monitor developments during 2019/20.

Abellio ScotRail franchise performance

83. All passenger rail services operating wholly in Scotland, i.e. not involving cross-border activity, are incorporated within the ScotRail franchise. Transport Scotland awarded the ScotRail franchise to Abellio in October 2014, as supported by the franchise agreement. A key indicator of Abellio's performance is the Public Performance Measure (PPM) which measures the percentage of booked services arriving within five minutes of their scheduled arrival time, having called at all booked stations on the route. The franchise agreement sets out various levels of PPM and the implications for performance at each, [Exhibit 6](#).

Exhibit 6

Abellio ScotRail PPM Benchmark Table

	Target Performance Level (%)	Improvement Plan Performance Level (%)	Breach Performance Level (%)	Default Performance Level (%)
Passenger Services (as a whole)	92.5%	91.5%	88.5%	85.5%

Source: ScotRail Franchise – Franchise Agreement

84. As reported in our [2017/18 Annual Audit Report](#), Abellio ScotRail implemented two previous performance improvement plans (PIPs) in 2016 and 2018 following periods of poor performance (below improvement plan performance level) as required through the Franchise Agreement. Although the first PIP (2016) did not have a significant impact on the overall performance of the franchise, the second PIP from 2018 (based on the Donovan review) is expected to have a more fundamental impact when it concludes in late 2020.

85. Abellio ScotRail's performance declined sharply in late 2018 to below breach performance level following the introduction of a new timetable. As a result,

Transport Scotland issued Abellio ScotRail with a remedial plan notice in December 2018 (as per schedule 10.1 of the franchise agreement). Abellio ScotRail has subsequently prepared a remedial plan (due for completion in May 2020). The actions in this plan are specific to addressing the issues around the December timetable change and do not conflict with the 2018 PIP which is more strategic in nature.

86. An independent review by consultancy firm ARUP (commissioned by Transport Scotland), concluded that the decline in performance following the new timetable was due to several factors which, taken together, resulted in a lack of training for a sufficient number of rail personnel. Many of these were due to internal failures on the part of Abellio ScotRail such as the lack of a clear operating strategy.

87. Although Transport Scotland may not have had full sight of some of Abellio ScotRail's internal problems, others, such as the delay in new rolling stock and a trade union dispute, were known to it. Transport Scotland has confirmed that, while these issues were discussed at operational readiness meetings, Abellio ScotRail senior management did not communicate significant concerns in relation to the availability of trained staff to commence the new timetable. Abellio ScotRail also failed to inform Transport Scotland of written concerns from the trade union.

88. The ARUP review raised 16 recommendations for Abellio Scotland covering a range of issues, and one for Transport Scotland regarding obtaining rail expertise for future timetable changes. Transport Scotland used ARUP again during the preparations for a further timetable change in May 2019 and will consider options ahead of future timetable changes. The May 2019 timetable change did not result in a further deterioration of performance, but the PPM remains below breach levels in July 2019 at 87.7 per cent.

89. If performance does not improve after the remedial plan has been implemented, Scottish Ministers have the option to terminate the franchise agreement. If a termination is exercised, a public owned operator of last resort can be put in place. Transport Scotland has plans in place which would allow a shelf company to take over the operation of the franchise.

90. There is evidence that Transport Scotland continues to use the levers available to it through the franchise agreement to bring about improved performance. Transport Scotland has also put in place contingency plans should performance fail to improve, and the option to terminate the contract is implemented. Looking ahead, Transport Scotland should continue to review its processes and skills to ensure it is best placed to continue to effectively manage the franchise.

HIAL air traffic management system

91. HIAL (Highlands and Islands Airports Ltd) is a public body which manages and operates 11 airports in the highlands and islands and Dundee, seven of which currently have air traffic control towers. Following the development of its Air Traffic Management 2030 Strategy in 2018, the HIAL board confirmed its decision to proceed with a Remote Digital air traffic control centre in July 2019.

92. A project manager has now been recruited to take forward the development of the Remote Tower project, which Transport Scotland will largely fund. This is likely to be a long-term project of up to 10 years as some of the technology, such as enhanced broadband services to provide communication links between the Remote Tower and participating airports, is not yet in place. We will continue to monitor developments going forward.

National performance audit reports

93. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. In 2018/19 two reports were published which are of direct interest to Transport Scotland. These are outlined in [Appendix 4](#).

94. Transport Scotland has developed arrangements for review of national performance reports which have a direct bearing on the organisation. This can for example involve requesting presentations from Audit Scotland. These arrangements are satisfactory.

Appendix 1

Action plan 2018/19

No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p>IFRS 9 preparations</p> <p>The draft accounts presented to audit did not incorporate changes resulting from implementing the new accounting standard IFRS 9.</p> <p>Risk – Although Transport Scotland identified appropriate adjustments, as this was at an advanced stage of the audit there is a risk that these are not subject to the appropriate level of management checks due to time pressures.</p>	<p>Transport Scotland should plan sufficiently in advance for all future changes in accounting standards to ensure that draft accounts are presented which are free from material misstatement.</p> <p>Exhibit 3, item 1</p>	<p>We agree that this is good practice and we had been doing this and will continue to do so. However, we should also bear in mind that unexpected events arise that can frustrate planning and some degree of flexibility is therefore required.</p>
2	<p>Property sales notification</p> <p>Audit testing of a property sale which was concluded on 29 March 2019 found that it had erroneously been omitted from the Transport Scotland 2018/19 financial statements.</p> <p>Risk – Material sales are incorrectly omitted from the accounts.</p>	<p>Transport Scotland should put in place a process which ensures that any such property sales are appropriately communicated to the finance team.</p> <p>Exhibit 3, item 2</p>	<p>We agree that this should be achieved and have instructed the relevant team of the process to be applied and will issue a further reminder prior to year-end.</p>
3	<p>Grants to third parties</p> <p>Audit testing of a sample of grant payments to third parties found that one such body had not fully complied with the conditions of grant. The grant award letter had stipulated that all grant payments (used to subsidise an operating deficit) should be supported by a cash flow analysis. Our review found two such payments which had not been appropriately supported by a cash flow analysis.</p>	<p>Transport Scotland should ensure that conditions of grant are communicated to third parties in advance of payments and require that these are adhered to fully.</p> <p>Exhibit 3, item 3</p>	<p>We agree with this recommendation and will implement it as part of our response to an Internal Audit in this area that has recently been completed.</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
4	<p>Fair pay disclosure</p> <p>The Government Financial Reporting Manual (the FReM) requires the disclosure of the median remuneration of the reporting entity's staff, based on annualised, full-time equivalent remuneration of all staff (including temporary and agency staff) as at the reporting date. Our review found that Transport Scotland's calculation does not incorporate agency staff.</p> <p>Risk – The fair pay disclosures in the remuneration and staff report are inconsistent with the FReM.</p>	<p>Transport Scotland should, along with the Scottish Government, consider developing an approach which incorporates agency staff into the fair pay (median) calculation.</p> <p>Exhibit 3, item 4</p>	<p>The approach taken is consistent with the Scottish Government and any changes to the method of calculation would need to be made in agreement with it. The small number of agency staff in Transport Scotland means that there is likely to be limited impact on the calculation of the median remuneration but we shall discuss this with the Scottish Government.</p>

Follow up of prior year recommendations

2017/18 (1)	<p>Spending profiles of third-party organisations</p> <p>Audit testing found two expenditure payments made to bodies administering capital contracts involving third party organisations which required to be re-profiled from 2018/19 to the current year. Transport Scotland accommodated these payments in 2017/18 due to slippage and savings on other budget items.</p> <p>Risk - Third party organisations may enter financial difficulty due to inaccurate expenditure forecasts, at a time when there is limited flexibility in the Transport Scotland budget, resulting in delays to capital projects.</p>	<p>Transport Scotland should assure itself that cash flow forecasts agreed by bodies with third party organisations are appropriate to allow for the completion of capital contracts. Transport Scotland should also ensure that decisions on variances to contracts relating to timing of payments are appropriately documented.</p>	<p>Fully implemented: Audit testing of non-pay expenditure found no such instances in 2018/19.</p>
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No.	Issue/risk	Recommendation	Agreed management action/timing
2017/18 (2)	<p>Revaluation Reserve workings</p> <p>Testing of the revaluation reserve working papers found that all necessary adjustments had not been included in calculations.</p> <p>Risk - The value of the revaluation reserve could be incorrectly presented in Transport Scotland's accounts.</p>	<p>Transport Scotland should enhance the relevant Standing Financial Instruction to provide detailed guidance regarding postings to the revaluation reserve.</p>	<p>Fully implemented: The revaluation reserve workings presented to audit were found to be satisfactory</p>
2016/17 (2)	<p>Content of the Annual Report</p> <p>There are opportunities for Transport Scotland to review how the annual report could be made more informative. In particular, the content of the performance report could provide more analysis of performance, including a more detailed assessment of progress against stated objectives.</p> <p>Risk - A more detailed analysis of performance would help Transport Scotland demonstrate greater public accountability and transparency.</p>	<p>2017/18 update:</p> <p>Through review of the 2017/18 financial statements, it was confirmed that the layout of the performance report had improved. This involved introducing graphics and improved sign-posting of different aspects of the body's business. Further improvement could be made through the introduction of performance indicators which measure the achievement of the body's aims and objectives.</p>	<p>Fully implemented: The 2018/19 Performance Report has improved further from 2017/18. It clearly sets out the nine strategic objectives within the Corporate Plan and highlights actions taken. While it does not include performance indicators, this issue will be taken forward as per Part 5 of the report.</p>

Appendix 2

Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the Annual Report and Accounts and those relating our wider responsibility under the [Code of Audit Practice 2016-](#)

Audit Risk	Assurance procedure	Results and conclusions
Risks of material misstatement in the financial statements		
<p>1 Risk of management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls to change the position disclosed in the financial statements.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<p>Testing of year-end journals found that they were all adequately supported with no errors found. This included testing of year-end accruals and prepayments.</p>
<p>2 Risk of fraud/error over expenditure</p> <p>Most public-sector bodies are net expenditure bodies and therefore the risk of fraud/error is more likely to occur in expenditure. Transport Scotland makes large value grant payments to third party organisations. Due to the scale of these payments (some of which occur near the year-end) there is a risk that an incorrect payment could impact significantly on the overall resource position.</p>	<p>Finance Business Partners work closely throughout the year with colleagues, analysing expenditure patterns and forecasts and aligning to the Long Term Financial Plan. The payments are supported by external documents that are checked against Purchase Orders and authorised and approved by independent Directorate Team Members. The payments are also monitored against the forecast cash requirement reported to SG each month to identify and explain any significant variance. The expenditure to date is reviewed in detail against budget and forecasts to identify and explain variances.</p>	<p>Testing of a sample of 124 non-pay expenditure items and a further 21 capital expenditure items did not find any errors, although a point was raised regarding the process involved in making a grant payment to a third party (Exhibit 3, item 3).</p>
<p>3 Estimation and judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of material account areas of non-current assets including the trunk road</p>	<p>Assurance provided by the following:</p> <ul style="list-style-type: none"> • Contractor valuations of work in progress; 	<p>The interim review found that the weightings applied by the Baxter index and uplifts to cover items such as professional costs have not been updated in around 20 years. Further work during the financial statements audit found</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>network, assets under construction and consequential adjustments in the revaluation reserve. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<ul style="list-style-type: none"> • the basket of scheme values; • Atkins procedures in running RAAVS for data validation and checking; • the engineers' impairment reviews; and • the VoA land valuations that contribute to the value of the trunk road network. 	<p>that the other UK agencies continued to apply the uplifts but at differing levels. Transport Scotland has committed to reviewing these by September 2019.</p> <p>The final valuation report for the roads network was received in time for the preparation of the draft accounts in 2018/19.</p> <p>We reviewed the year-end roads valuation reports and adjustments required to post these to the Transport Scotland accounts and were satisfied that these were correct.</p> <p>Transport Scotland opted not to adjust for the quarter 4 Baxter indexation change as it was below materiality (reflected in Appendix 3).</p>

Risks identified from the auditor's wider responsibility under the Code of Audit Practice

<p>4 Rail services in Scotland</p> <p>There have been several implementation delays and cost increases in relation to major rail projects in Scotland. This has impacted on the delivery of new rolling stock and infrastructure improvements to key routes. There is a risk that these ongoing issues negatively impact on the delivery of rail services in Scotland.</p>	<p>Assurance provided by the following:</p> <ul style="list-style-type: none"> • Progress updates and reporting by Network Rail; • ORR reviews; • Network Rail engagement; • Franchisee reporting and engagement; • Performance penalties; and • Rail Directorate and Corporate Risk Registers. 	<p>Transport Scotland has managed Network Rail well regarding infrastructure projects in control period 5, although it is understood that some measures such as improved journey times have not been met.</p> <p>Transport Scotland has developed appropriate arrangements for the new control period which started in April 2019. These will be followed up during 2019/20.</p> <p>Transport Scotland continues to use its powers available through the franchise agreement to hold Abellio ScotRail to account for improved performance and has made firm contingency plans should Scottish Ministers opt to terminate the current agreement.</p>
<p>5 Performance reporting</p> <p>The Scottish Parliament's new budget approval process places greater emphasis on assessing outcomes and the impact of spending. There is an expectation that the Scottish Government and public bodies will report on their contribution towards the national outcomes in their published plans and performance reports, including their annual reports. The</p>	<p>Plans have been agreed in 2018 to review and further improve the report for 2018-19. These include input from TS communications and the Design Agency to provide a greater emphasis on Performance Reporting and performance against National Outcomes.</p> <p>Performance is discussed regularly within Directorates</p>	<p>Transport Scotland has further improved the performance report within the Annual Report and Accounts. It now details achievements made against each of the nine objectives from the corporate plan and links to the Scottish Government's National Performance Framework and the National Transport Strategy (NTS).</p> <p>It could be further improved through the addition of</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>Scottish Public Finance Manual (SPFM) also explains that accountable officers have a specific responsibility to ensure that arrangements have been made to secure best value.</p> <p>The 2017/18 annual audit report recommended that the performance report within the financial statements should be improved through the introduction of performance indicators which measure the achievement of the body's aims and objectives. This should contribute towards meeting the new aspect of the budget process and with the SPFM.</p>	<p>and reported monthly to SMT. TS also produces at least one Best Value Report each year (based on the series of Audit Scotland Toolkits) and at least one review of the performance against recommendations contained in a previous report. In addition, an overview of TS's approach to, and work on, Best Value is contained within the Governance Report in the Annual Accounts each year.</p>	<p>performance indicators. The NTS is currently being revised. The draft NTS contains a series of headline indicators which are linked to outcomes and priorities.</p>
<p>6 Key supplier failure</p> <p>The collapse of Carillion has had a significant impact across the public sector. This has brought into focus the risk of key supplier failure and the risk of underperformance in suppliers that are experiencing difficult trading conditions. Transport Scotland is responsible for delivering major transport infrastructure projects and public transport services. As such it places reliance on a few key suppliers. For example, Serco provides both the Caledonian Sleeper Rail franchise and Northlink Ferries. Key supplier failure could impact on the delivery of major transport infrastructure projects and public transport operations.</p>	<p>Assurance is provided by the following:</p> <ul style="list-style-type: none"> • The evaluation toolkit used to assess the financial standing of companies bidding to win contracts with TS. • TS Finance new process to review and evaluate companies at contract award and beyond. This system has now been documented, timetables for review developed and staff tasked to undertake reviews. 2019-20 will be the first full year of this new system being in place and there are already plans developed to regularly monitor its progress and effectiveness. • TS will engage with EY to identify further possible improvements. • Standing Financial Instructions (SF110, and SF112), relate to this and are reviewed regularly, with SF110 update agreed by TS ARC in May 2018. • This risk is managed through Directorate and Corporate Risk Registers. 	<p>Transport Scotland has a robust process to evaluate suppliers at the contract procurement stage. This involves applying scores to ratios calculated from the most recent audited accounts to arrive at a pass/fail conclusion.</p> <p>Transport Scotland has identified a need to expand this process to also cover ongoing contracts, but this was not fully in place at the time of the audit.</p>
<p>7 EU withdrawal</p> <p>There are considerable uncertainties about the detailed implications of the UK's withdrawal from the European Union in March 2019. Potential changes to existing EU funding</p>	<p>TS designated EU exit team continue to work to identify the potential challenges and risks of EU withdrawal and plan strategies to mitigate them. TS Senior Management regularly consider reports and updates from the EU Exit Team, which</p>	<p>Transport Scotland has put in place arrangements to prepare for EU withdrawal. This includes staff awareness sessions and ongoing dialogue with the Scottish Government and the Department for Transport. Transport Scotland also set up a staff rota around the</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>programmes and EU regulations could affect the finances and activities of some public bodies. Potential changes to migration and movement of goods are likely to affect the availability of people, skills and materials needed to deliver services. Transport Scotland faces risks regarding transportation of passengers and freight from airports and coastal ports.</p>	<p>has expanded in response to the degree of risk identified, in particular a no deal scenario. A financial accounting and reporting process has been agreed for all costs and staff associated with this. The AS paper on the impact of EU withdrawal has been reviewed by the Finance Team and has been passed to the TS EU Exit Team for review/comment.</p>	<p>March 29 date in case of a no-deal exit and will review these arrangements ahead of the October 31 deadline.</p>

Appendix 3

Summary of uncorrected misstatements

We report all uncorrected misstatements in the Annual Report and Accounts that are individually greater than our reporting threshold of £100,000 and request they be corrected.

The table below summarises amendments that would be required to misstatements that were identified during our audit testing and have not been corrected by management. Cumulatively these errors are below our performance materiality level as shown in [Exhibit 2](#). We are satisfied that these errors do not have a material impact on the financial statements however we request that they be corrected.

#	Account areas	Statement of Comprehensive Net Expenditure		Statement of Financial Position	
		Dr £M	Cr £M	Dr £M	Cr £M
Trunk road network					
1	Property, Plant & Equipment				(28.9)
	Revaluation Reserve			28.9	
Other assets / liabilities and expenditure					
2	Income		(1.0)		
	Trade and other receivables			1.0	
3	Property, Plant & Equipment				(1.0)
	Revaluation Reserve			1.0	
4	Other programme costs	2.5			
	Income		(2.5)		
5	Trade and other receivables			0.4	
	Trade and other payables				(0.4)

#	Account areas	Statement of Comprehensive Net Expenditure		Statement of Financial Position	
6	Financial assets				(1.5)
	General fund			1.5	
7	Trade and other payables			0.4	
	General fund				(0.4)
8	Revaluation Reserve			0.2	
	General Fund				(0.2)
Net impact		2.5	(3.5)	4.5	(3.5)

Notes:

Entry 1 relates to the quarter 4 Baxter indexation change. Transport Scotland does not receive the quarter 4 Baxter indexation data until after the draft accounts are submitted for audit. We are required to treat any difference between the final figures and the figures which are included in the draft accounts (which are based on the quarter 3 indexation data) as a misstatement as part of our overall assessment of the total value of errors compared to our performance materiality level. Transport Scotland opted not to adjust for the final figure as it was below the level of performance materiality for the roads network.

Entries 2 and 3 relate to the sale of a piece of land which was concluded prior to the year-end but not recognised in the accounts (see [Exhibit 3, item 2](#)).

Entry 4 relates to income which has been reported against related expenditure within note 4 (Major public transport projects – rail).

Entry 5 relates to a debit balance included within trade payables related to loans to a third party (CMAL).

Entry 6 relates to an adjustment to the carrying value of loans to a third party (the Energy Savings Trust) required under IFRS 9 to represent discounted future cash receipts.

Entry 7 relates to creditor balances for historic retention payments regarding former roads contracts which should have been cleared.

Entry 8 relates to a difference between the accounts and the ledger. This affects the reserves position only and does not impact on the level of assets less liabilities.

Appendix 4

Summary of national performance reports 2018/19

		 2018/19 Reports	
Local government in Scotland: Challenges and performance 2018		Apr	
Councils' use of arm's-length organisations		May	 Scottish Fire and Rescue Service: an update
Scotland's colleges 2018		Jun	
		Jul	 The National Fraud Initiative in Scotland 2016/17
Forth Replacement Crossing		Aug	 Major project and procurement lessons
Children and young people's mental health		Sept	 Superfast broadband for Scotland: further progress update
NHS in Scotland 2018		Oct	
Health and social care integration: update on progress		Nov	 Local government in Scotland: Financial overview 2017/18
		Dec	
		Jan	
		Feb	
		Mar	 Local government in Scotland: Challenges and performance 2019

Transport Scotland relevant reports

[Forth Replacement Crossing](#) – August 2018

[Major project and procurement lessons](#) – August 2018

Transport Scotland

2018/19 Annual Audit Report

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