

Transport Scotland

Annual Audit Plan 2023/24



 AUDIT SCOTLAND

Prepared for Transport Scotland

March 2024

Contents

Introduction	3
Annual report and accounts	5
Wider Scope and Best Value	10
Reporting arrangements, timetable, and audit fee	12
Other matters	15
Appendix 1: Your audit team	17

Introduction

Summary of planned audit work

1. This document summarises the work plan for the 2023/24 audit of Transport Scotland. The main elements of the audit include:

- an audit of the financial statements and an opinion on whether they give a true and fair view and are free from material misstatement
- an audit opinion on regularity and other information published with the financial statements in the annual report and accounts, including the Performance Report, Governance Statement, and the Remuneration and Staff Report
- consideration of arrangements in relation to wider scope areas: financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes
- provision of an Independent Auditor's Report expressing my opinions on the different elements of the annual report and accounts and an Annual Audit Report setting out my conclusions on the wider scope areas.

2. A brief biography of the audit team for 2023/24 is provided at [Appendix 1](#). Pauline Gillen will continue as the external auditor appointed by the Auditor General for Scotland.

Respective responsibilities of the auditor and Transport Scotland

3. The [Code of Audit Practice](#) sets out in detail the respective responsibilities of the auditor and Transport Scotland. Key responsibilities are summarised below.

Auditor responsibilities

4. My responsibilities as appointed auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice (including [supplementary guidance](#)) and guided by the Financial Reporting Council's Ethical Standard.

5. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual report and accounts. We also review and report on the wider scope arrangements in place at Transport Scotland. In doing this, we aim to support improvement and accountability.

Transport Scotland's responsibilities

6. Transport Scotland is responsible for maintaining adequate accounting records and internal controls, and preparing financial statements for audit that give a true and fair view. They are also required to produce other reports in the annual report and accounts in accordance with applicable requirements.

7. Transport Scotland has the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation, and establishing effective arrangements for governance, propriety, and regularity that enable them to deliver their objectives.

Adding Value

8. My team and I aim to add value by tailoring audit work to the circumstances of Transport Scotland and the audit risks identified; being constructive and forward looking; providing independent conclusions; attending meetings of the Audit and Risk Committee; and by recommending and encouraging good practice. In so doing, we will help Transport Scotland promote improved standards of governance, better management and decision making, and more effective use of resources.

Annual report and accounts

Introduction

9. The annual report and accounts are an essential part of demonstrating Transport Scotland's stewardship of resources and its performance in the use of those resources.

10. As appointed auditor, I am required to perform an audit of the financial statements, consider other information within the annual report and accounts, and express a number of audit opinions in an Independent Auditor's Report in accordance with International Standards on Auditing (ISAs) in the UK, Practice Note 10 from the Public Audit Forum which interprets the ISAs for the public sector, and guidance from Audit Scotland.

11. My team and I focus our work on the areas of highest risk. As part of our planning process, we perform a risk assessment highlighting the audit risks relating to each of the main financial systems relevant to the production of the financial statements.

Materiality

12. The concept of materiality is applied by auditors in planning and performing the audit, and in evaluating the effect of any uncorrected misstatements on the financial statements. I am required to plan my audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

Materiality levels for the 2023/24 audit

13. We have assessed the different materiality levels for Transport Scotland as described in [Exhibit 1](#).

Exhibit 1

2023/24 Materiality levels for Transport Scotland

Materiality	Amount
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. Materiality has been set based on our assessment of the needs of the users of the financial statements and the nature of Transport Scotland's operations. For the year ended 31 March 2024, we have set our materiality at 1.8% of the net book value of the trunk roads network (including assets under construction) based on the audited financial statements for 2022/23.	£498 million

Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this could indicate that further audit procedures are required. Using our professional judgement, we have assessed performance materiality at 50% of planning materiality.	£249 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.	£500,000

Source: Audit Scotland

Lower specific materiality levels for 2023/24 audit

14. In addition to overall materiality, we can set lower, specific materiality levels for certain classes of transaction, account balances or disclosures where lesser amounts could influence the decisions of the users of the financial statements.

15. We recognise that transactions relating to Transport Scotland's ongoing activities across all modes of transportation are likely to be of interest to the various users of the financial statements and we therefore set specific materiality levels as shown in [Exhibit 2](#).

Exhibit 2

2023/24 Lower specific materiality levels for Transport Scotland

Materiality	Amount
Specific materiality - for the year ended 31 March 2024 we have set a lower materiality threshold at 1.8% of gross expenditure, based on the 2022/23 audited financial statements	£57 million
Specific materiality threshold – Using our professional judgement, we have calculated specific performance materiality at 75% of the specific materiality.	£43 million

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

16. Our risk assessment draws on our cumulative knowledge of Transport Scotland, its major transaction streams, key systems of internal control, and risk management processes. It is informed by our discussions with management, meetings with internal audit, attendance at committees, and a review of supporting information.

17. Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will

advise management, and where relevant, report them to those charged with governance.

18. Based on our risk assessment process, we identified the following significant risks of material misstatement to the financial statements. These are risks which have the greatest impact on our planned audit procedures. [Exhibit 3](#) summarises the nature of the risks, management's sources of assurance over these risks, and the further audit procedures we plan to perform to gain assurance over the risks.

Exhibit 3

2023/24 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Management's sources of assurance	Planned audit response
<p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in ISA (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance</p>	<ul style="list-style-type: none"> • Assess the design and implementation of controls over journal entry processing. • Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. • Test journals at the year-end and post-closing entries and focus on significant risk areas. • Consider the need to test journal entries and other adjustments throughout the year. • Evaluate significant transactions outside the normal course of business. • Assess the adequacy of controls in place for identifying and disclosing related party relationship and transactions in the financial statements. • We will assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. • Substantive testing of expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. • Focussed testing of accounting accruals and prepayments.

Significant risk of material misstatement	Management's sources of assurance	Planned audit response
<p>2. Estimation and judgements – Trunk Road Valuation</p> <p>There is a significant degree of subjectivity involved in the measurement and valuation of the Trunk Road Network Asset (2022/23: £27,146 million).</p> <p>Valuations are based on specialist knowledge and management assumptions. Any changes to these can result in material changes in valuations and therefore represents an inherent risk of material misstatement in the financial statements.</p>	<p>Valuations undertaken by external valuers in line with the agreed revaluation model.</p>	<ul style="list-style-type: none"> • Evaluate the competence, capabilities, and objectivity of the external valuers. • Review the information provided to external valuers to assess for completeness. • Obtain an understanding of management's involvement in the valuation process to assess if appropriate oversight has occurred. • Review the revaluation accounting entries to ensure the figures provided by the external valuer are accurately recorded. • Critically assess the adequacy of Transport Scotland's disclosures regarding the assumptions in relation to the valuation of Trunk Roads.

Source: Audit Scotland

19. As set out in ISA (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statement*, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements.

20. We have rebutted this risk for Transport Scotland as the only material income streams consist of funding from the Scottish Government and are easily verifiable to external sources.

21. In line with Practice Note 10: *Audit of financial statements and regularity of public sector bodies in the United Kingdom*, as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to revenue recognition.

22. We have also rebutted this risk as most of Transport Scotland's expenditure streams are based on claims made against agreed contractual arrangements or grant awards. An exception to this is the payments made to bus operators. However, this expenditure is made up of a high volume of low value transactions and therefore the risk of a material fraud taking place was judged to be low. We also consider there to be limited incentive and opportunity for the manipulation of

expenditure recognition in the financial statements. We have not, therefore, incorporated specific work into our audit plan in these areas over and above our standard audit procedures.

Other areas of audit focus

23. As part of our assessment of audit risks, we have not identified any other areas where we consider there are also risks of material misstatement to the financial statements.

Regularity

24. Auditors are required by the Public Finance and Accountability (Scotland) Act 2000 to report on whether expenditure and income were incurred or applied, in all material respects, in accordance with applicable enactments and guidance issued by the Scottish Ministers (generally referred to as the regularity opinion).

Wider Scope and Best Value

Introduction

25. Reflecting the fact that public money is involved, public audit is planned and undertaken from a wider perspective than in the private sector. The Code of Audit Practice sets out the four areas that frame the wider scope of public sector audit and requires auditors to consider and conclude on the effectiveness and appropriateness of the arrangements in place for each wider scope area in audited bodies.

26. In summary, the four wider scope areas are:

- **Financial management** – this means having sound budgetary processes. We will consider the arrangements to secure sound financial management, including the strength of the financial management culture, accountability, and arrangements to prevent and detect fraud, error, and other irregularities.
- **Financial sustainability** – we will look ahead to consider whether the body is planning effectively to continue to deliver services and will comment on financial sustainability in the medium (two to five years) to longer term (longer than five years).
- **Vision, leadership, and governance** – we conclude on the clarity of plans in place to deliver the vision, strategy, and priorities adopted by Transport Scotland. We also consider the effectiveness of the governance arrangements to support delivery.
- **Use of resources to improve outcomes** – we will consider how Transport Scotland demonstrates economy, efficiency, and effectiveness through the use of financial and other resources.

Wider scope risks

27. We have identified a significant risk in the wider scope areas set out in [Exhibit 4](#). This exhibit sets out the risks, management's sources of assurance for the risks, and the further audit procedures we plan to perform to gain assurances over the risks.

Exhibit 4

2023/24 wider scope risks

Description of risk	Management's sources of assurance	Planned audit response
<p>1. Financial Sustainability</p> <p>Transport Scotland continues to face significant pressure to identify savings and re-prioritise its capital spend.</p> <p>These pressures mean that difficult decisions need to be made which may impact on the delivery of Transport Scotland's commitments and priorities.</p>	<p>DG assurance and path to balance submissions for 2024-25 budget.</p> <p>SAB and Capital submission work, highlighting areas of pressure and monitoring mitigation.</p>	<ul style="list-style-type: none"> • Review and assessment of budget monitoring arrangements. • Evaluate Transport Scotland's medium to longer-term financial and service delivery planning. • Assess the work carried out by Transport Scotland to identify potential areas of savings in its medium-term capital plans.

Source: Audit Scotland

28. Our planned work on the wider scope areas is risk based and proportionate, and in addition to local risks, we may be asked by the Auditor General for Scotland to consider specific risk areas which are impacting the public sector as a whole. We have not been asked to consider specific risks for 2023/24 audits, but we will remain cognisant of challenges identified in prior years such as climate change and cyber security.

Duty of Best Value

29. [Ministerial Guidance to Accountable Officers](#) for public bodies and the [Scottish Public Finance Manual](#) (SPFM) explain that Accountable Officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. We will be carrying out a high-level review to confirm that such arrangements are in place within Transport Scotland.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

30. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft reports will be shared with the relevant officers to confirm factual accuracy.

31. We will provide:

- an Independent Auditor's Report to Transport Scotland, the Scottish Parliament, and the Auditor General for Scotland setting out our opinions on the annual report and accounts
- Transport Scotland and the Auditor General for Scotland with an Annual Audit Report containing observations and recommendations on significant matters which have arisen during the audit and conclusions on wider scope areas.

32. [Exhibit 5](#) outlines the target dates for our audit outputs set by the Auditor General for Scotland. In determining the target reporting date, due regard is paid to the administrative date set by the Scottish Government for the consolidated accounts of 31 August 2024.

33. We plan to issue our Independent Auditor's Report and Annual Audit Report before the target date.

Exhibit 5 2023/24 Audit outputs

Audit Output	Target date	Audit and Risk Committee Date
Annual Audit Plan	31 March 2024	29 May 2024*
Independent Auditor's Report	31 August 2024	28 August 2024
Annual Audit Report	31 August 2024	28 August 2024

Source: Audit Scotland

*Note that the Annual Audit Plan will be communicated to ARC members out with the formal meeting cycle in order to meet the target date.



34. All Annual Audit Plans and the outputs detailed in [Exhibit 5](#), and any other outputs on matters of public interest, will be published on our website: www.audit-scotland.gov.uk.

Timetable

35. To support an efficient audit, it is critical that the timetable for producing the annual report and accounts for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 6](#) that has been discussed with management.

36. We will continue to work closely with management to identify the most efficient approach as appropriate and will keep timeframes and logistics for the completion of the audit under review. Progress will be discussed with management and finance officers over the course of the audit.

Exhibit 6 Proposed annual report and accounts timetable

 Key stage	 Provisional Date
Consideration of the unaudited annual report and accounts by those charged with governance	29 May 2024
Latest submission date for the receipt of the unaudited annual report and accounts with complete working papers package.	03 June 2024
Latest date for final clearance meeting with the Director of Finance	By 02 August 2024
Issue of draft Letter of Representation and proposed Independent Auditor's Report	By 14 August 2024
Agreement of audited and unsigned, designed copy, annual report and accounts	By 14 August 2024
Issue of Annual Audit Report to those charged with governance.	By 14 August 2024
Signed Independent Auditor's Report	28 August 2024
Latest date for signing of SG consolidation return	TBC

Source: Audit Scotland

Audit fee

37. In determining the audit fee, we have taken account of the risk exposure of Transport Scotland and the planned management assurances in place. Fee

levels are also impacted by inflation which increases the cost of audit delivery. The audit fee for 2023/24 is £201,960 (2022/23: £190,640).

38. In setting the fee for 2023/24, we have assumed that Transport Scotland has effective governance arrangements and will prepare a comprehensive and accurate set of annual report and accounts for audit in line with the agreed timetable for the audit. The audit fee assumes there will be no major change in respect of the scope of the audit during the year. Where our audit cannot proceed as planned, a supplementary fee may be levied.

Other matters

Internal audit

39. It is the responsibility of Transport Scotland to establish adequate internal audit arrangements. We will review the internal audit plan and the results of internal audit's work.

40. While we are not planning to place formal reliance on the work of internal audit in 2023/24, we will review internal audit reports and assess the impact of the findings on our financial statements and wider scope audit responsibilities.

Independence and objectivity

41. I am independent of Transport Scotland in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. This standard imposes stringent rules to ensure the independence and objectivity of auditors.

42. Audit Scotland has robust arrangements in place to ensure compliance with Ethical Standard including an annual *'fit and proper'* declaration for all members of staff. The arrangements are overseen by the Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

43. The Ethical Standard requires auditors to communicate any relationships that may affect the independence and objectivity of the audit team. I am not aware of any such relationships pertaining to the audit of Transport Scotland.

Audit Quality

44. Audit Scotland is committed to the consistent delivery of high-quality public audit. Audit quality requires ongoing attention and improvement to keep pace with external and internal changes. A document explaining the arrangements for providing assurance on the delivery of high-quality audits is available from the [Audit Scotland website](#).

45. The International Standards on Quality Management (ISQM) applicable to Audit Scotland for 2023/24 audits are:

- ISQM (UK) 1 which deals with an audit organisation's responsibilities to design, implement and operate a system of quality management (SoQM) for audits. Our SoQM consists of a variety of components, such as: our governance arrangements and culture to support audit quality, compliance with ethical requirements, ensuring we are dedicated to high-quality audit through our engagement performance and resourcing arrangements, and ensuring we have robust quality monitoring arrangements in place. Audit Scotland carries out an annual evaluation of our SoQM and has concluded that we comply with this standard.

- ISQM (UK) 2 which sets out arrangements for conducting engagement quality reviews, which are performed by senior management not involved in the audit to review significant judgements and conclusions reached by the audit team, and the appropriateness of proposed audit opinions of high-risk audit engagements.

46. To monitor quality at an individual audit level, Audit Scotland also carries out internal quality reviews of a sample of audits. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) carries out independent quality reviews.

47. Actions to address deficiencies identified by internal and external quality reviews are included in a rolling Quality Improvement Action Plan which is used to support continuous improvement. Progress with implementing planned actions is regularly monitored by Audit Scotland's Quality and Ethics Committee.

48. Audit Scotland may periodically seek your views on the quality of our service provision. The team would also welcome feedback more informally at any time.

Appendix 1: Your audit team

49. The audit team involved in the audit of Transport Scotland have significant experience in public sector audit.

Pauline Gillen
Audit Director

Pauline has 17 years of public sector auditing experience. Pauline has worked across the breadth of the public sector on both financial and performance audits.

Mark Laird
Senior Audit Manager

Mark has 14 years of public sector audit experience and has delivered external audit services to a range of bodies including local authorities, health boards and central government bodies.

Kerry Nelson
Senior Auditor

Kerry Nelson 13 years of experience in planning and delivering audits. Kerry will manage the team and work alongside the Senior Audit Manager and Audit Director to deliver the audit.

50. The local audit team is supported by a specialist technical accounting team, all of whom have significant experience of public bodies and work with accounting regulatory bodies.

51. Where possible and appropriate, we use our data analytics team to enable us to capture whole populations of your financial data. This analysis allows us to identify specific exceptions and anomalies within populations to enhance the focus of audit testing and support efficiency.

Transport Scotland

Annual Audit Plan 2023/24

Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

www.audit-scotland.gov.uk/accessibility

For the latest news follow us on social media or [subscribe to our email alerts.](#)



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