

# Transport Scotland

2022/23 Annual Audit Report



 AUDIT SCOTLAND

Prepared for Transport Scotland and the Auditor General for Scotland

August 2023

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# Key messages

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## 2022/23 annual report and accounts

- 1 Audit opinions on the annual report and accounts are unmodified.
- 2 As part of our audit, we carried out work on the key risks identified in our Annual Audit Plan. There are no significant matters from that work to draw to the attention of the Audit and Risk Committee.
- 3 Management made adjustments of £729 million to the annual report and accounts of which £636m related to the Quarter 4 Baxter Adjustment.

## Financial management and sustainability

- 4 Transport Scotland has appropriate arrangements to secure sound financial management.
- 5 Transport Scotland operated within its revised fiscal resources, reporting an underspend of £267 million of which £200m related to accounting adjustments.
- 6 There is scope for enhancing some financial systems of internal control.
- 7 Transport Scotland has effective and appropriate arrangements in place to continue to deliver services, however, there will be significant financial pressures over the medium to longer term.

## Vision, leadership and governance

- 8 Transport Scotland has appropriate governance arrangements in place.
- 9 Plans to support the delivery of the National Transport Strategy are in progress.
- 10 There have been significant changes to Transport Scotland's leadership in 2022/23.
- 11 Cyber security arrangements should continue to be reviewed to ensure that robust measures remain in place.

## Use of Resources to Improve Outcomes

- 12 Transport Scotland should consider if further developments are required in its performance management framework that could improve outcomes.

- 13** Transport Scotland should develop its approach to demonstrating Best Value
- 14** Work is ongoing against recommendations made in Audit Scotland's Ferries - procurement of vessels 801 and 802 report.

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# Introduction

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**1.** This report summarises the findings from the 2022/23 annual audit of Transport Scotland. The scope of the audit was set out in our Annual Audit Plan presented to the April 2023 meeting of the Audit & Risk Committee. This Annual Audit Report comprises:

- significant matters arising from an audit of Transport Scotland’s annual report and accounts
- conclusions on the following wider scope areas that frame public audit as set out in the [Code of Audit Practice 2021](#):
  - Financial Management
  - Financial Sustainability
  - Vision, Leadership, and Governance
  - Use of Resources to Improve Outcomes.

**2.** This report is addressed to the Audit and Risk Committee of Transport Scotland and the Auditor General for Scotland and will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk) in due course.

## Audit appointment from 2022/23

**3.** I, Pauline Gillen, have been appointed by the Auditor General as auditor of Transport Scotland for the period from 2022/23 until 2026/27. The 2022/23 financial year was the first of my five-year appointment. My appointment coincides with the new [Code of Audit Practice](#) which was introduced for financial years commencing on or after 1 April 2022.

**4.** My team and I would like to thank Audit and Risk Committee members, executive directors, and other staff, particularly those in finance, for their cooperation and assistance in this year and we look forward to working together constructively over the course of the five-year appointment.

## Responsibilities and reporting

**5.** Transport Scotland has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and accounts that are in accordance with the account's direction from the Scottish Ministers. Transport Scotland is also responsible for establishing appropriate and effective arrangements for governance, propriety, and regularity.

**6.** The responsibilities of the independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice](#)

[2021](#), and supplementary guidance and International Standards on Auditing in the UK.

**7.** 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 of Transport Scotland from its responsibility to address the issues we raise and to maintain adequate systems of control.

**8.** This report contains an agreed action plan at [Appendix 1](#). It sets out specific recommendations, the responsible officers, and dates for implementation.

## **Auditor Independence**

**9.** 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 2022/23 audit fee of £190,640 as set out in our 2022/23 Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

**10.** We add value to Transport Scotland by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, arrangements to ensure the best use of resources and financial sustainability.
- sharing intelligence and good practice identified.

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# 1. Audit of 2022/23 annual report and accounts

Public bodies are required to prepare annual reports and accounts comprising financial statements and other related reports. These are principal means of accounting for the stewardship public funds.

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## Main judgements

Audit opinions on the annual report and accounts are unmodified.

As part of our audit, we carried out work on the key risks identified in our Annual Audit Plan. There are no significant matters from that work to draw to the attention of the Audit and Risk Committee.

Management made adjustments of £729 million to the annual report and accounts of which £636m related to the Quarter 4 Baxter Adjustment.

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## Audit opinions on the annual report and accounts are unmodified

**11.** The Audit & Risk Committee approved the annual report and accounts for Transport Scotland and its group for the year ended 31 March 2023 on 21<sup>st</sup> August 2023. As reported in the independent auditor's report, in my opinion as the appointed auditor:

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

## Overall materiality was assessed as £509.0 million

**12.** The concept of materiality is applied by auditors to determine whether misstatements identified during the audit could reasonably be expected to influence the economic decisions of users of the financial statements, and hence impact their opinion set out in the independent auditor's report. Auditors set a monetary threshold when considering materiality, although some issues may be considered material by their nature. It is ultimately a matter of the auditor's professional judgement.

**13.** Our initial assessment of materiality was carried out during the risk assessment and planning phase of the audit. This was reviewed and revised on receipt of the unaudited annual report and accounts and is summarised in Exhibit 1.

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### Exhibit 1 2022/23 Materiality levels for Transport Scotland

Materiality level	Amount
Overall materiality	£509 million
Performance materiality	£254 million
Reporting threshold	£250,000

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**14.** The overall materiality threshold was set with reference to the net book value of the trunk roads network (including assets under construction), which we judged as the figure most relevant to the users of the financial statements.

**15.** Performance materiality is used by auditors when undertaking work on individual areas of the financial statements. It is a lower materiality threshold, set to reduce the probability of aggregated misstatements exceeding overall materiality. Performance materiality was set at 50% of overall materiality, reflecting material errors found in prior years.

**16.** 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.

**17.** We recognise that transactions relating to Transport Scotland's ongoing operation across all modes of transportation are likely to be of key interest to the users of the financial statements and we therefore set specific materiality levels based on gross expenditure as shown in [Exhibit 2](#).

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### Exhibit 2 2022/23 Lower specific materiality levels for Transport Scotland



Materiality level	Amount
Specific materiality - for the year ended 31 March 2023 we have set a lower materiality threshold at 1.8% of gross expenditure	£57 million
Specific performance materiality threshold – Using our professional judgement, we have calculated specific performance materiality at 75% of the specific materiality.	£43 million

## Significant findings and key audit matters

**18.** Under International Standard on Auditing (UK) 260 we communicate significant findings from the audit to the Audit and Risk Committee, including our view about the qualitative aspects of the body's accounting practices.

**19.** The Code of Audit Practice also requires all audits to communicate key audit matters within the annual audit report under International Standard on Auditing (UK) 701. These are matters that we judged to be of most significance in our audit of the financial statements.

**20.** The significant findings are summarised in [Exhibit 3](#).

### Exhibit 3

#### Significant findings and key audit matters from the audit of the annual report and accounts

Issue	Resolution
<p><b>1. Baxter index – Quarter 4 change</b></p> <p>The trunk road network is valued annually through RAAVS (Roads Authorities Asset Valuation System). This involves applying indexation to Road Surface, Structures, and Communications assets to allow for changes in construction costs. This uses an industry standard form of indexation known as the Baxter index. Information for the last quarter of the financial year becomes available in July each year.</p> <p>Therefore, the impact of the change was assessed to ascertain the movement in value as at 31<sup>st</sup> March 2023. The change in the index resulted in a 2.29% decrease to the Net Book Value of the Road Network of £636 million.</p>	<p>Transport Scotland processed the Baxter Index adjustment which impacted the Balance Sheet and the revaluation reserve. These adjustments have been reflected accurately in the signed accounts.</p>
<p><b>2. Realised element of revaluation reserve</b></p> <p>Each year, a reconciliation is performed between RAAVS and the ledger to identify the required revaluation reserve balance. This reconciliation</p>	<p>Transport Scotland adjusted the revaluation reserve for the £8.8m and this was recorded accurately in the signed accounts.</p>

Issue	Resolution
<p>involves comparing historic cost of road assets with their revalued amount to identify the ‘realised element’ of the revaluation reserve. Review of this reconciliation identified that the realised element was understated by £8.8m.</p> <p>The working paper presented in relation to the Q4 Baxter Index update did not show any impact to the realised element of the revaluation. Following discussions with the finance team we agreed the methodology applied in assessing the impact on the realised element of the revaluation reserve was appropriate and that due to the timing of the Baxter update it is not possible to do a full re-run of the RAAVs model for the annual accounts. It is very unlikely that any impact would have a material impact on the accounts and this will be fully assessed in 2023/24 when the RAAVs Interim Valuation is produced.</p>	<p>We accept that the impact on the revaluation reserve following the Q4 Baxter index would not be material and due to timing issues, any impact will be assessed in 2023/24 when the RAAVs Interim Valuation is produced.</p> <p><b>Recommendation 1</b> (Refer <a href="#">Appendix 1</a>, action plan)</p>
<p><b>3. Revaluation uplifts</b></p> <p>In addition to Baxter indexation, Transport Scotland uplift different elements of the Road Network each year to reflect Planning &amp; Supervision, Compensation, and Legal costs associated with the construction of new road assets.</p> <p>These uplifts have been applied for several years and were determined by Transport Scotland through advice from the Valuation Office Agency (VOA). As part of our audit work, we requested information from management on the reasonableness of the uplift percentages and whether a review has been undertaken. It was highlighted that the last review of these uplifts was in 2017/18.</p> <p>Management provided some assurance over the appropriateness of these uplifts in 2022/23 and we are satisfied this is unlikely to have a material impact on the value of assets reported in the financial statements.</p>	<p>Transport Scotland should carry out a full review of uplifts applied to the Road Network in 2023/24 in line with their 5 year revaluation policy.</p> <p><b>Recommendation 2</b> (Refer <a href="#">Appendix 1</a>, action plan)</p>
<p><b>4. Trunk road network depreciation charge</b></p> <p>Part of the annual depreciation charge for the Trunk Road network is based on the condition variance of the Road Surface asset as generated by RAAVS. As the raw calculation leads to large fluctuations between years, a smoothing approach has been adopted which accounts for the five-year trend in the condition variance.</p>	<p>This was adjusted by management in the 2022/23 annual report and accounts.</p>

Issue	Resolution
<p>The accounts presented to audit included a depreciation charge of £228.9m. During the audit, management reported that a subsequent review of the smoothing calculation identified that the charge for 2022/23 was overstated by £23.9m as a result of the condition variance in the valuation report being uplifted twice in error.</p>	
<h3>5. Network Support Grant (NSG) accrual</h3>	
<p>At the year-end an accrual is processed based on an estimate of amounts owed as part of the NSG based on the information available at the time. This includes estimates for:</p> <ul style="list-style-type: none"> <li>• Late claims – from review of the accrual workings it was identified that the estimate owed to one operator had been incorrectly calculated including services that should have been excluded. This resulted in the accrual being overstated by £705k.</li> <li>• NSG Plus profit share - Operators in receipt of NSG Plus were required to agree to a profit-sharing agreement. After the year-end operators were required to submit a certified claim and a reconciliation was performed to calculate the amount owed to Transport Scotland for 22/23. The accrual per the accounts was based on the assumption that no profits would be made by operators in year. Reconciliations are still ongoing and are not due to be completed until at least the end of August. However, the latest estimate is that Transport Scotland will be entitled to between £12.6million and £13.2million.</li> <li>• Kilometres over or under claimed – NSG payments are based on operators estimate of kilometres they will cover in year. After the year-end operators are required to submit certified claims for actual kilometres travelled. The accrual workings estimated that operators had overclaimed by £801k. Not all claims have been received but the latest estimate is that Transport Scotland will owe between £2 million - £3.5 million.</li> </ul>	<p>This was adjusted by management in the 2022/23 annual report and accounts.</p> <p>We assessed management’s calculation of the accruals based on the information available at year end. These were judged to be reasonable.</p> <p>From consideration of the latest workings provided by management, we are satisfied the final position for both accruals will not be materially different to the initial estimates.</p>
<h3>6. Scottish Rail Holdings (SRH) Prepayment</h3>	
<p>Transport Scotland made advance payments of £57.7million to SRH in March 2023 relating to their period 1 grant in aid drawdown for 2023/24. This</p>	<p>This was adjusted by management in the 2022/23 annual report and accounts resulting in an increase to Trade Payables of £57.7million and a</p>

Issue	Resolution
was incorrectly treated as a reduction to Trade Payables in the draft accounts.	corresponding increase to Prepayments (Trade Receivables).
<p><b>7. Right of use asset - Dilapidations provision</b></p> <p>Transport Scotland entered into a lease for their new headquarters in Bothwell Street in Glasgow in November 2022. Following the introduction of International Financial Reporting Standard (IFRS) 16, this has been accounted for as a right of use asset with a gross book value of £28.4 million in the 22/23. Transport Scotland did not include a dilapidation provision for restoration expenses.</p> <p>IFRS 16 states that the costs at initial measurement recognised at the commencement date should include the costs of restoration. Transport Scotland did not assess the cost of restoring the building at the end of the lease as they did not consider this as being a material issue.</p>	<p>We are satisfied that any restoration costs would not be material. However, for 2023/24 professional advice should be sought to provide an estimation of costs which should be included in the valuation of the right of use asset.</p> <p><b>Recommendation 3</b></p> <p>(Refer <a href="#">Appendix 1</a>, action plan)</p>

## Our audit work responded to the risks of material misstatement we identified in the annual report and accounts

**21.** We have obtained audit assurances over the identified significant risks of material misstatement in the annual report and accounts. [Exhibit 4](#) sets out the significant risks of material misstatement to the financial statements we identified in our 2022/23 Annual Audit Plan. It also summarises the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

### Exhibit 4

#### Significant risks of material misstatement in the annual report and accounts

Audit risk	Assurance procedure	Results and conclusions
<p><b>1. Risk of material misstatement due to fraud caused by management override of controls</b></p> <p>International Standard on Auditing (UK) 240 requires that audits are planned to consider that management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively. This is</p>	<p>Assessed the design and implementation of controls over journal entry processing.</p> <p>Made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.</p> <p>Tested journals at the year-end and post-closing entries and focus on significant risk areas.</p>	<p><b>Results:</b> Work undertaken included detailed testing of journal entries, accruals, prepayments and invoices; as well as review of accounting estimates and transactions for appropriateness. Specific enquiries were made of individual staff as to whether they had knowledge or awareness of manipulation of financial recording or processing of fraudulent journals.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>presumed to be a significant risk in all audits.</p>	<p>Considered the need to test journal entries and other adjustments during the period.</p> <p>Evaluated significant transactions outside the normal course of business.</p> <p>Assessed any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.</p>	<p><b>Conclusion:</b> No incidents of management override of controls were identified.</p>
<p><b>2. Estimation and judgements – Trunk Road Valuation</b></p> <p>There is a significant degree of subjectivity involved in the measurement and valuation of the Trunk Road Network Asset (2021/22: £23,595 million). 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>Evaluated the competence, capabilities, and objectivity of the professional valuers.</p> <p>Reviewed the design and implementation of controls over the Roads Asset Management System and assessed the completeness of information passed to RAAVS.</p> <p>Evaluated the revaluation process including its compliance with FReM asset revaluation requirements.</p> <p>Evaluated the impact from the final Baxter quarter index changes to confirm whether it is material. Reviewed the revaluation accounting entries to ensure the figures provided by the valuer were accurately recorded.</p> <p>Tested Trunk Road Network disclosures in the financial statements, including disclosures in the key estimates and judgements note.</p>	<p><b>Results:</b> The professional valuers involved in the valuation of the Trunk Road network are the Valuation Office Agency (VOA) and Atkins. We carried out ‘reliance on a management expert’ work on the valuers and concluded that we could place reliance on their valuations for the trunk road network.</p> <p>The design and implementation of controls over RAAVS were confirmed as satisfactory, including controls relating to the completeness and accuracy of the source data provided to the valuer.</p> <p>The revaluation methodology was evaluated and we concluded this is compliant with FReM asset revaluation requirements.</p> <p>The Q4 Baxter index resulted in an adjustment in the revised accounts.</p> <p>Atkins’ approach to Road’s valuation was judged to be inconsistent with Transport Scotland’s accounting policies for Roads assets. The accounting policies in the draft accounts were</p>

Audit risk	Assurance procedure	Results and conclusions
		<p>subsequently reviewed by management and updated in the signed accounts. This was not a change in accounting policy under IAS 8 but rather an update to the disclosure to improve transparency and clarity.</p> <p><b>Conclusion:</b></p> <p>Satisfactory – audit procedures identified no material misstatements in the valuation of the trunk road network.</p>
<p><b>3. Risk of material misstatement due to fraud over bus expenditure under ISA 240</b></p> <p>As most public sector bodies are net spending bodies, the risk of fraud is likely to occur in expenditure. Transport Scotland incurs significant expenditure (currently forecast to be £425 million in 2022/23) on the award of grants to bus operators, including the new Network Support Grant and Network Support Grant Plus.</p> <p>The grants awarded are based on claims from operators. There is higher incentive and opportunity for fraud in claims based systems and therefore due to the value of claims processed there is a risk of material misstatement.</p>	<p>Evaluated the IT controls over the bus Fareshare system.</p> <p>Substantively tested a sample of Network Support Grants.</p> <p>Detailed testing of the year-end bus grant accrual.</p>	<p><b>Results:</b></p> <p>This risk was re-assessed following our consideration of the processes and controls in place over bus expenditure streams. It was judged that the risk of fraud solely relates to the Network Support Grant and Network Support Grant plus schemes and therefore our approach was tailored to address the risk in this area.</p> <p>No issues were identified from our review of controls in place over the Fareshare IT systems.</p> <p>From testing of a sample of NSG and NSG Plus grants all grant payments were accurately recalculated.</p> <p>One error was identified from testing of the calculation for the year end bus accrual – see point 5 in <a href="#">Exhibit 3</a>.</p> <p>The assumptions and estimates used in the NSG accruals were judged to be appropriate. We are satisfied that final positions will not be materially different from estimated accruals – see point 5 in <a href="#">Exhibit 3</a>.</p>

Audit risk	Assurance procedure	Results and conclusions
		<p><b>Conclusion:</b> We have gained sufficient assurance that the figures in the accounts are fairly stated.</p>

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## Management made adjustments of £729 million to the annual report and accounts

- 22.** It is our responsibility to request that all misstatements, other than those below our reporting threshold, are corrected, although the final decision on making the correction lies with those charged with governance.
- 23.** Two misstatements above our reporting thresholds were identified. These have been documented in [Exhibit 2](#), Points 1 and 6.
- 24.** Total adjustments to the annual report and accounts totalled £729 million. This includes the adjustments set out in [Exhibit 2](#). Adjustments made in the audited annual report and accounts decreased net expenditure in the Statement of Comprehensive Net Expenditure by £24.9 million and decreased net assets in the Statement of Financial Position by £611 million.
- 25.** We have reviewed the nature and cause of all adjustments and have concluded that they arose from issues that have been isolated and identified in their entirety and do not indicate further systemic error. In addition, a number of the adjustments arose from timing issues relating to provision of information from third parties and are outwith the control of Transport Scotland. While these have resulted in adjustments, we do not consider them to be errors.
- 26.** One misstatement was not corrected by management in the audited accounts. We considered the size, nature and circumstances leading to the uncorrected misstatement and concluded that it was not material. Further details of the uncorrected misstatement is included in [Appendix 2](#).

## The unaudited annual audit report and accounts were received in line with the agreed audit timetable

- 27.** The unaudited annual report and accounts were received in line with our agreed audit timetable on 5 June 2023.
- 28.** We received good support from management and the wider finance team which enabled us to complete the audit in accordance with the agreed timetable.

## Progress was made on prior year recommendations

- 29.** Transport Scotland has made progress in implementing the audit recommendations identified by Transport Scotland's previous external auditor.

For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in [Appendix 1](#).



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## 2. Financial management

Financial management means having sound budgetary processes, and the ability to understand the financial environment and whether internal controls are operating effectively.

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### Conclusion

Transport Scotland has appropriate arrangements to secure sound financial management.

Transport Scotland operated within its revised fiscal resources, reporting an underspend of £267 million.

There is scope for enhancing some financial systems of internal control.

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### Transport Scotland had appropriate financial management in place with regular budget monitoring reports provided to the Audit and Risk Committee

**30.** Senior management and members of the Audit and Risk Committee receive regular and accurate financial information on Transport Scotland's performance against budgets. These reports allow members to scrutinise financial performance effectively throughout the year.

**31.** Based on our observations of the arrangements in place to monitor and report on the financial position throughout the year, reports are sufficiently detailed to allow corrective action to be undertaken. We observed also that the actual outturn for the full year was reflective of the forecast outturn reported to the April Audit and Risk Committee. We have concluded that Transport Scotland has appropriate budget monitoring arrangements in place.

### Transport Scotland operated within its revised budget in 2022/23

**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.** The body has reported an outturn of £4,034 million against its overall budget for 2022/23 with an underspend of £267 million. The financial performance against fiscal resources is shown in [Exhibit 5](#).

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### Exhibit 5

#### Performance against fiscal resource in 2022/23

Performance	Initial budget £m	Final budget £m	Outturn £m	Over/(under) spend £m
Resource	1,452.2	1,369.5	1,370.0	0.5
Capital	1,840.3	2,547.3	2,316.5	(230.9)
Non-Cash	193.0	283.6	324.5	41.0
AME	0	101.3	23.3	(78)
Total	3,485.5	4,301.7	4,034.2	(267.5)
SG budget (Less HMT Adjustments)	3,485.5	3,445.6	3,376.4	(69.3)

Source: Transport Scotland Annual Report and Accounts 2022/23

**34.** Transport Scotland's budget and outturn position includes grant funding to Non-Departmental Public Bodies (NDPBs) under its sponsorship. The consolidated HMT budget was increased by £816 million to £4,301.7 million through the budget review process. This includes an increase of £723 million to their capital budget for the impact of the implementation of IFRS 16 on leases for ScotRail Trains Ltd. This also resulted in a reduction to the revenue budget of £100 million.

### Net assets increased by £4,237 million 2022/23

**35.** Transport Scotland's net assets at the year-end increased by £4,237 million from £22,582 million in 2021/22 to £26,820 million in 2022/23. The most significant movements are:

- an increase of £4,045 million on the net book value of Property, Plant and Equipment. This is largely attributed to an increase in the Road Network Asset net book value of £4,096 million in year.
- a decrease in Trade and Other Payables of £113 million. This is due to an significant decrease in accruals as at 31 March 2023 due to more stringent expenditure processes in place.

### There is scope for enhancing some financial systems of internal control

**36.** We review the design, implementation and operating effectiveness of systems of internal control (including those relating to IT) relevant to our audit approach. We concluded that the systems of control were designed appropriately, however, we noted some areas where there is scope for improvement to the control environment. The issues below were not deemed significant in nature and did not impact our audit approach.

- Authorisation of expenditure – Expenditure is approved in line with the delegated authority limits. However, we found an instance where the officer approving a grant claim did not have the authority to do so.
- Aged debt monitoring – an instance where debt had been outstanding for more than one year was identified. It is recommended debt monitoring processes are reviewed to ensure aged debt is monitored and followed up.

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## Recommendation 4

Management should review the controls and ensure procedures are clearly communicated to all staff and staff are reminded to follow them at all times.

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### Standards of conduct and arrangements for the prevention and detection of fraud and error are appropriate

**37.** In the public sector there are specific fraud risks, including those relating to tax receipts, welfare benefits, grants and other claims made by individuals and organisations. Public sector bodies are responsible for implementing effective systems of internal control, including internal audit, which safeguard public assets and prevent and detect fraud, error and irregularities, bribery and corruption.

**38.** Transport Scotland has adequate arrangements in place to prevent and detect fraud or other irregularities.

### National Fraud Initiative

**39.** The National Fraud Initiative (NFI) is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud.

**40.** Transport Scotland's participation in the NFI exercise is through the Scottish Government, as the Scottish Government review data matches centrally for all agency bodies.

**41.** In 2022/23 Transport Scotland have been instrumental in the creation of a new data matching exercise as part of a NFI pilot around the use of concessionary travel cards under the National Bus Travel Concession Scheme for Older and Disabled Persons. Matches will be made to deceased records and will enable local authorities to cancel passes and identify any instances where passes are still being used inappropriately. Work is ongoing with the matching of the new dataset planned for Autumn 2023.

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# 3. Financial sustainability

Financial Sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs.

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## Conclusion

Transport Scotland has effective and appropriate arrangements in place to continue to deliver services, however, there will be significant financial pressures over the medium to longer term.

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### Transport Scotland continues to face significant financial pressures, both immediately and over the medium to longer term

**42.** Transport Scotland's total fiscal resource allocation for 2023/24 is £3,433.9m. This represents an increase of £88m (2 per cent) compared to prior year budget. However, this is in the context of inflationary pressures and pressure to secure saving options. The economic outlook is uncertain with extraordinary pressures on costs from high inflation, supply chain shortages and high demand for commodities (including goods, services and labour).

**43.** Transport Scotland faces a difficult period in operating within a budget which will deliver its corporate objectives and also meet its financial target to operate within financial resource limits set by the Scottish Government.

**44.** The vast majority of Transport Scotland's spend is based on contracts, grant arrangements or capital projects. It is possible to forecast future spend with reasonable certainty. However, with responsibility for maintaining the transport network, in particular trunk roads and ferry services, Transport Scotland must be able to react to unplanned remedial works and the associated costs.

**45.** Transport Scotland's financial decisions are driven by the Scottish Government budgetary allocations and ministerial policy decisions. The budgets are therefore set on an annual basis in line with the Scottish Government budget announcements. The Scottish Government published its Medium Term Financial Strategy in May 2023 which sets out the overarching financial objectives.

**46.** The Scottish Government recognises that adopting a multi-year outlook is key to achieving financial sustainability and has committed to publish details on multi-year spending for both resource and capital alongside the 2024/25 budget.

**47.** Transport Scotland is in the process of drafting its Corporate Plan for the three-year period from 2024/25. It is recommended that Transport Scotland

considers the outcome of the detailed multi-year review outlined by the Scottish Government to inform its approach to medium term financial planning. This will allow foresight of financial challenges to Transport Scotland achieving its objectives.

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## **Recommendation 5**

Transport Scotland should ensure there is a link between the Corporate Plan and the work conducted on medium term financial planning to ensure transparency to stakeholders.

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# 4. Vision, leadership and governance

Public sector bodies must have a clear vision and strategy and set priorities for improvement within this vision and strategy. They work together with partners and communities to improve outcomes and foster a culture of innovation.

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## Conclusion

Transport Scotland has appropriate governance arrangements in place.

Plans to support the delivery of the National Transport Strategy are in progress.

There have been significant changes to Transport Scotland's Leadership in 2022/23.

Cyber security arrangements should continue to be reviewed to ensure that robust measures remain in place.

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## Transport Scotland's plans to support the delivery of the National Transport Strategy are in progress

**48.** Transport Scotland's vision is set out in the National Transport Strategy (NTS). Transport Scotland activities are focussed on delivering, through the NTS, the transport National Outcomes within the National Performance Framework (NPF) and the Programme for Government (PfG).

**49.** The three-year Corporate Plan 2021-24 and the supporting annual business plan to support the delivery of this vision referred to in the Performance Report, are still in development.

**50.** Transport Scotland is working with Scottish Ministers to finalise the content of the Corporate Plan and this will be published on its website in due course. We will consider progress in the creation of the key planning documents as part of our 2023/24 audit work.

## Governance arrangements remain appropriate

**51.** Transport Scotland's governance arrangements have been set out in the Governance Statement in the annual accounts. Since 2010/11, Transport Scotland has operated without a board, which differs from some other executive agencies of the Scottish Government. Responsibility for key decisions lies with the Senior Management Team (SMT), the Investment Decision Making Board and various Project Boards.

**52.** The Audit and Risk Committee comprises of three non-executive members who provide scrutiny and constructive challenge to the governance of Transport Scotland.

**53.** We consider the arrangements in place at Transport Scotland to be appropriate, however, there may be potential to achieve further benefits from the use of non-executive directors in supporting the Senior Management Team.

### **There have been significant changes to Transport Scotland's Leadership in 2022/23**

**54.** There have been significant changes in leadership in 2022/23, with three Interim Chief Executives being in post over the period from November 2021 and the current Chief Executive appointed in March 2023. The Chief Executive is supported by the Senior Management Team comprising nine Directors. In 2022/23 there have been changes in three of the Director posts as follows:

- Ferries – Appointment of new Director in December 2022
- Aviation, Maritime, Freight and Canals – Previous director left in March 2023; director responsibilities lay with the Chief Executive until appointment of new Interim Director on 1 May 2023
- Low Carbon Economy - Previous director left March 2023; director responsibilities lay with the Chief Executive until appointment of new Interim Director on 1 May 2023

**55.** Of the nine Director roles four are currently filled on an interim basis. As the positions are on an interim basis it limits the ability for the Transport Scotland to backfill roles and it also limits the ability of the new directors to create change and drive improvement. Transport Scotland recognise this risk and are working towards permanent solutions.

**56.** We acknowledge that attracting suitable candidates for leadership roles is particularly challenging and we are satisfied that Transport Scotland are taking appropriate action.

### **Climate change arrangements**

**57.** The Scottish Parliament has set a legally binding target of becoming net zero by 2045 and has interim targets including a 75% reduction in greenhouse gas emissions by 2030. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impacts of climate change.

**58.** Transport Scotland's Carbon Management Plan 2022-27 sets out several interim targets on its pathway to reduce its corporate emissions (those that fall directly within their operational control) to net zero by 2045. As the national transport agency for Scotland, Transport Scotland is also responsible for tackling and delivering a number of policy outcomes within the Scottish Government's latest Climate Change Plan.

**59.** The National Transport Strategy (NTS2) sets out direction for Scotland's transport over the next two decades and embeds climate action as a core

priority. Transport is currently the largest single contributor to Scottish greenhouse gas emissions and therefore Transport Scotland has both a challenging and crucial role in helping Scotland to achieve its emission reduction targets.

**60.** Climate change is integrated into Transport Scotland's governance structure with day to day decision making sitting with the Environment & Sustainability team and strategic oversight provided by the Senior Management Team. Governance arrangements were recently subjected to an Internal Audit review, and there is evidence of both internal and external performance monitoring and reporting of policy objectives at Transport Scotland.

**61.** The 2022/23 annual report and accounts makes disclosures on the actions taken in year to support the climate change agenda. However, there is limited information on spend in the accounts – see [Appendix 1](#), point 5.

**62.** The Auditor General and Accounts Commission are developing a programme of work on climate change. This involves a blend of climate change-specific outputs that focus on key issues and challenges as well as moving towards integrating climate change considerations into all aspects of audit work.

### **Cyber security arrangements should be further reviewed**

**63.** There continues to be a significant risk of cyber-attacks to public bodies, and it is important that they have appropriate cyber security arrangements in place. A number of recent incidents have demonstrated the significant impact that a cyber-attack can have on both the finances and operation of an organisation. In 2022/23, we considered Transport Scotland's arrangements for managing and mitigating cyber security risks.

**64.** Internal Audit prepared a report on Cyber Resilience in July 2022. Overall, they reported Limited Assurance over Cyber Resilience arrangements and identified several high priority recommendations.

**65.** Limited progress has been made against these recommendations while management consider the appropriateness and value of the recommendations.

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## **Recommendation 6**

**Transport Scotland should continue to review their Cyber Resilience arrangements to ensure appropriate measures are in place to mitigate the risk of cyber-attacks.**

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# 5. Use of resources to improve outcomes

Public sector bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities.

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## Conclusions

Transport Scotland should further develop its performance management framework

Transport Scotland should develop its approach to demonstrating Best Value

Work is ongoing against recommendations made in Audit Scotland's Ferries - procurement of vessels 801 and 802 report.

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## Performance management should be considered alongside the updated corporate plan and annual business plan

**66.** Financial performance is reported regularly to the Senior Management Team and Audit and Risk Committee. The Performance Report that accompanies the annual accounts also explains Transport Scotland's financial performance in the year. It includes a description of the financial performance against budget, including the key reasons for variances.

**67.** Transport Scotland should have effective arrangements for scrutinising performance, monitoring progress towards their strategic objectives and holding partners to account.

**68.** In 2022/23 Transport Scotland provided performance management information to those charged with governance through the Annual Report and Accounts but there is no regular reporting of performance against the Corporate Plan or Annual Business Plan. We recognise that these documents are still in development and consider that there is an opportunity for Transport Scotland to consider how they monitor and report on key performance indicators set out in the planning documents across the financial year.

## Transport Scotland should develop its approach to demonstrating Best Value

**69.** [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. The guidance

sets out the key characteristics of best value and states that compliance with the duty of best value requires public bodies to take a systematic approach to self-evaluation and continuous improvement.

**70.** We consider whether Accountable Officers have put in place appropriate arrangements to satisfy their corresponding duty of Best Value. We may also, in conjunction with Transport Scotland, agree to undertake local work in this area. We did not undertake any specific work in 2022/23 but concluded that appropriate arrangements were in place for securing Best Value based on the outcome of our other audit work. As noted, Transport Scotland's Corporate Plan and supporting Annual Business Plan are still in draft. It is recommended that these include details of the arrangements in place to support the Best Value characteristics.

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## Recommendation 7

Transport Scotland should consider its arrangements for demonstrating how it meets the Best Value characteristics as set out in the SPFM.

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### Ferries - procurement of vessels 801 and 802

**71.** In March 2022, the Auditor General for Scotland issued a report titled 'New vessels for the Clyde and Hebrides Arrangements to deliver vessels 801 and 802'. This identified numerous issues including:

- insufficient evidence to explain why Scottish ministers accepted the risks and approved the contract award in October 2015
- some milestones in the contract were not clearly defined and had no link to quality standards
- weaknesses in project governance: the Programme Steering Group (PSG) had no clear role, and there were no formal escalation processes in place.

**72.** The report raised several recommendations, some of which related to Transport Scotland. An update on the progress of these recommendations was obtained as follows:

- Transport Scotland and CMAL (Clyde Maritime Assets Limited) should:
  - undertake, on completion of vessels 801 and 802, and involving the Scottish Government and FMPG where appropriate, a formal review of what went wrong with the project with a view to learning lessons to help prevent future recurrence with other vessel procurements
  - finalise the long-term plan and investment programme for ferries by the end of 2022. As part of this process, and considering the results of the Project Neptune governance review, Transport Scotland and CMAL should consider how best to implement the future new vessels programme and the

most effective arrangements for managing new vessel projects.

- Transport Scotland should:
  - implement the planned improvements to its governance arrangements for new-build vessel projects. This includes establishing clear roles and responsibilities, setting out a clear escalation process, and ensuring that risks are routinely recorded and monitored.

**73.** In 2022/23 Audit Scotland published a report on the ongoing issues at Ferguson Marine Ltd which highlighted ongoing issues with the construction of vessels 801 and 802. The post-construction reviews have not therefore been completed. However, Transport Scotland have conducted some preliminary work to establish lessons learned.

**74.** Transport Scotland are developing an Islands Connectivity Plan which will replace the Ferries Plan which covered the period from 2013-2022. This plan will be broader in scope and will take account of aviation, ferries and fixed links.

**75.** The first element of this plan focused on the long term plan for vessels and ports on the Clyde and Hebrides and Northern Isles networks and a draft for Consultation was published in December 2022. The plan will be finalised in 2023 and will set out a strategic business case for a sustained forward investment programme which will support decision makers when evaluating individual projects for both vessels and ports.

**76.** We will continue monitor progress of these recommendations following completion of the vessels.

# Appendix 1. Action plan 2022/23

## 2022/23 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p><b>1. Realised element of revaluation reserve</b></p> <p>Each year, a reconciliation is performed between RAAVS and the ledger to identify the required revaluation reserve balance. This reconciliation involves comparing historic cost of road assets with their revalued amount to identify the 'realised element' of the revaluation reserve.</p> <p>Transport Scotland advised that the Q4 Baxter index does not impact the realised element of the revaluation reserve. We concluded that if there was an impact it is not material, and this will be considered further in 2023/24 when the RAAVs Interim Valuation is produced.</p> <p><b>Risk –</b> there is a risk that the methodology in processing the Q4 Baxter index results in non – material misstatements in the Revaluation Reserve and General Fund due to timing issues between RAAVS model updates and SEAS updates.</p>	<p>Management should undertake a full review of the revaluation reserve reconciliation in 2023/24 to ensure the methodology in assessing the impact of the Q4 Baxter index in SEAS is robust and any changes needed are undertaken.</p> <p><a href="#">Exhibit 3, point 2</a></p>	<p>Management agree that this follow up work in 2023/24 is an important part of reconciliation process and ensuring accuracy of balances in this important and material part of the TS accounts. It will be completed as part of our normal RAAVS processes and as part of a wider review.</p> <p>Director of Finance and Corporate Services &amp; Director of Roads</p> <p>31st March 2024</p>
<p><b>2. Revaluation Uplifts</b></p> <p>Transport Scotland apply uplifts to different elements of the Road Network each year</p>	<p>Management should ensure that the revaluation uplifts applied are subject to a full review in 23/24 through</p>	<p>We discussed this area with appropriate professionals during the preparation of the annual report and accounts</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>to reflect Planning &amp; Supervision, Compensation, and Legal costs associated with the construction of new road assets.</p> <p>These uplifts have been applied for several years and were determined by Transport Scotland through advice from the Valuation Office Agency (VOA). As part of our audit work, we requested information from management on the reasonableness of the uplift percentages and whether a review has been undertaken. It was highlighted that the last review of these uplifts was in 2017/18.</p> <p>Management provided some assurance over the appropriateness of these uplifts in 2022/23 and we are satisfied this is unlikely to have a material impact on the value of assets reported in the financial statements.</p> <p><b>Risk –</b> there is a risk that the carrying value of the trunk road network is misstated as a result of outdated uplift percentages being applied.</p>	<p>consultation with a professional valuer.</p> <p>Periodic reviews should be introduced to ensure the uplifts remain accurate, appropriate, and reflective of trends within the construction industry.</p> <p><a href="#">Exhibit 3, point 3</a></p>	<p>and are satisfied that all balances in the financial statements are accurate. We agree that it is appropriate to engage with the VOA and others during 2023/24 to review whether the basis on which balances are calculated remain appropriate and make changes as necessary.</p> <p>Director of Finance and Corporate Services &amp; Director of Roads</p> <p>31st March 2024</p>
<p><b>3. Dilapidations provision</b></p> <p>Dilapidation costs for Transport Scotland’s new lease have not been provided for in line with IFRS 16.</p> <p><b>Risk –</b> there is a risk future costs are not appropriately provided for.</p>	<p>Management should seek professional advice on the value of future restoration expenses and provide for these costs.</p> <p><a href="#">Exhibit 3, point 7</a></p>	<p>We remain of the opinion that the newness of the lease in question with the terms of the lease itself means that the value of dilapidations, had we commissioned a valuation, would be trivial to the accounts. We agree that a valuation is necessary and one will be completed for inclusion in 2023/24 statements.</p>

Issue/risk	Recommendation	Agreed management action/timing
		<p>Director of Finance and Corporate Services</p> <p>31st March 2024</p>
<p><b>4. Internal controls</b></p> <p>We noted two minor areas where there is scope for improvement to the operation of certain internal controls.</p> <p><b>Risk</b> – there is a risk that internal controls do not operate effectively.</p>	<p>Management should review the controls ensure procedures are clearly communicated to all staff and staff are reminded to follow them at all times.</p> <p><a href="#">Paragraph 36</a></p>	<p>We reviewed the instance of control failure, found it to be an isolated incident and are satisfied that the controls themselves are working. In the one other area brought to our attention we agree that further awareness across the team is required. With the appointment of the new Head of Finance Accounts and Reporting there is new opportunity to test established procedures.</p> <p>Director of Finance and Corporate Services</p> <p>31st December 2023</p>
<p><b>5. Financial Planning</b></p> <p>Transport Scotland continues to face significant financial challenges over the medium and long term. Financial planning is key to identifying risks to financial sustainability and support delivery of strategic objectives.</p> <p><b>Risk</b> – There is a risk that Transport Scotland does not have sufficient foresight to identify financial barriers to achieving its objectives.</p>	<p>Financial projections, aligned to Scottish Governments financial strategy, should be considered for incorporation where possible into Transport Scotland 2025-2028 Corporate Plan to allow foresight of financial challenges.</p> <p><a href="#">Paragraph 47</a></p>	<p>Financial projections are regularly reviewed and updated as well as being aligned to outcomes through the annual budget processes, including Budget Bill work, Programme for Government and prospectus policy work. Additionally, prioritisation exercises are delivered in consideration of our statutory obligations. We will undertake to consider if any benefit could be gained from incorporating these projections into the corporate planning process.</p> <p>Director of Finance and Corporate Services</p> <p>31st March 2024</p>
<p><b>6. Cyber Security</b></p> <p>Progress has been made on risks identified by Internal Audit over Transport</p>	<p>Transport Scotland should continue to review their Cyber Resilience arrangements to ensure appropriate measures</p>	<p>We continue to engage with DIAA on the progress of implementing recommendations made in the internal audit report; part of this work includes</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>Scotland's cyber security arrangements</p> <p><b>Risk</b> – There is a risk that a cyber-attack could disrupt Transport Scotland's key financial systems.</p>	<p>are in place to mitigate the risk of cyber-attacks.</p> <p><a href="#">Paragraph 64</a></p>	<p>alternatives to recommendations in order to best respond to this evolving space.</p> <p>Director of Finance and Corporate Services</p> <p>31st December 2023</p>
<p><b>7. Best Value framework</b></p> <p>Transport Scotland does not currently report the details of its arrangements in place to support the Best Value characteristics action/timing.</p> <p><b>Risk</b> –Transport Scotland is unable to demonstrate compliance with the duty of Best Value per the characteristics set out in the SPFM.</p>	<p>Transport Scotland should consider its arrangements for demonstrating how it meets the Best Value characteristics as set out in the SPFM.</p> <p><a href="#">Paragraph 69</a></p>	<p>Similarly to recommendations 5 &amp; 6 we are satisfied that our demonstration of achieving best value can be evidenced through internal financial governance and procurement processes; however how this is brought together in a collated view will be considered in 2023/24.</p> <p>Director of Finance and Corporate Services and Director of Major Projects</p> <p>31st March 2024</p>

## Follow-up of prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p><b>b/f 1. Roads' capital additions</b></p> <p>The 2021/22 annual report and accounts included £62 million of capital additions which was a significant increase from the previous year. These additions relate to works completed by the operating companies rather than large construction projects.</p> <p>During our audit, there were difficulties and delays in Transport Scotland providing audit with appropriate evidence.</p>	<p>Transport Scotland should introduce relevant procedures to ensure that it has appropriate evidence supporting future capital additions to the trunk road network from work completed by the operating companies.</p>	<p>Complete – a sample of capital additions were tested during the financial statements audit and appropriate evidence was obtained. No difficulties or delays were experience in Transport Scotland providing appropriate evidence.</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>Risk - Transport Scotland is unable to fully support a potentially material balance in the accounts.</p>		
<p><b>b/f 2. Roads' valuation system</b></p> <p>During 2021/22 a key member of staff involved in the roads authorities asset valuation system (RAAVS) left the organisation. The individual had vast knowledge and experience of RAAVS and was a contact point with both Atkins (system administrators) and auditors.</p> <p>RAAVS provides the supporting records for the trunk roads network asset which is material and prone to misstatement.</p> <p>Risk – there are material misstatements within the trunk road network asset in the statement of financial position.</p>	<p>Transport Scotland should develop a plan to ensure that it manages the loss of experience relating to the roads authorities asset valuation system (RAAVS).</p>	<p>Complete – the Roads Finance Business Partner and other Finance staff involved in accounts preparation were engaged with Atkins throughout the audit and knowledgeable of the valuation processes and tasks. No issues were identified in 22/23 relating to lack of knowledge or experience.</p>
<p><b>b/f 3. ScotRail strategic plan</b></p> <p>A new publicly owned model for ScotRail was introduced from 1 April 2022. Transport Scotland sponsors the holding company (Scottish Rail Holdings Limited (SRH)).</p> <p>A framework agreement is in place between Transport Scotland and SRH. This requires the preparation and publication of a 5-year strategic plan and a 1-year business plan. Neither of these are currently publicly available.</p> <p>Risk: SRH does not properly plan for future events which</p>	<p>In its role as sponsor, Transport Scotland should ensure that SRH develops a 5-year strategic plan and a 1-year business plan as per the Framework Agreement. These documents should then be published.</p>	<p>No longer applicable – moving forward it was agreed with the SRH external audit team that they would report on issues relating to SRH's governance arrangements unless there is a specific impact for Transport Scotland.</p>



Issue/risk	Recommendation	Agreed management action/timing
<p>impacts on the delivery of rail services in Scotland.</p>		
<p><b>b/f 4. Reporting of actual spend in the performance report</b></p> <p>A review of financial figures within the performance report (and financial highlights section) found that many related to the level of funding allocated.</p> <p>Risk –The reader is not provided with a full sense of what was delivered/achieved during the reporting year.</p>	<p>Transport Scotland should identify and incorporates more actual spend data within the performance report and financial highlights to provide the reader with a greater sense of what has been delivered/achieved within the reporting year.</p>	<p>In progress – the performance report again included funding allocations rather than actual spend.</p>
<p><b>b/f 5. Climate change spend</b></p> <p>Transport Scotland spend significant sums on carbon emissions (such as supporting the purchase of electric vehicles) and managing the impact of climate change on the transport network. However, spend on these types of projects is not collated centrally.</p> <p>Risk –Transport Scotland cannot fully demonstrate its commitment to tackling climate change.</p>	<p>Transport Scotland should identify and incorporate more actual spend data within the performance report and financial highlights to provide the reader with a greater sense of what has been delivered/achieved within the reporting year.</p>	<p>In progress – some details of spending plans but more could be included relating to actual spend.</p> <p>Transport Scotland has noted that further action will be progressed with the implementation of the new finance system and chart of accounts.</p> <p>We will monitor progress with this action following the implementation of the new ledger.</p>
<p><b>b/f 6. Assets under construction (AUC)</b></p> <p>Upon review of the closing net book value and transfer amounts in the assets under construction category, we concluded that the remaining balance in respect of AWPR (confirmed previously at around £400 million) had not been transferred to the trunk</p>	<p>Transport Scotland should reconcile the assets under construction closing balance to ongoing projects at the end of the year and ensure that it remains accurate.</p>	<p>Complete - the finance team performed an exercise in 22/23 to identify assets under construction that related to completed schemes already on the road network. This involved a review of the £544m opening balance of AUC on a scheme-by-scheme basis to identify</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>roads network category. Transport Scotland confirmed that the AWPR had been signed off as completed in November 2019 and agreed that as all sections of the new road are now incorporated within RAAVS there should be no residual balance within assets under construction. Transport Scotland identified a total balance of £392 million within the assets under construction category which related to the AWPR. Risk – The assets under construction balance could be materially misstated.</p> <p>Transport Scotland should reconcile the assets under construction closing balance to ongoing projects at the end of the year and ensure that it remains accurate.</p>		<p>assets under construction classified in error.</p> <p>The review highlighted £31.4m of assets classified in error. These have been removed from the AUC balance in 22/23. We accepted that this amount is not material to the financial statements therefore does not require to be accounted for as a prior period error under IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors.</p> <p>No issues were identified from audit procedures on AUC additions or transfers in 22/23.</p>

# Appendix 2. Summary of uncorrected misstatements

We report all uncorrected misstatements in the annual report and accounts that are individually greater than our reporting threshold of £250k.

The table below summarises uncorrected misstatements that were noted during our audit testing and were not corrected in the financial statements. Cumulatively these errors are below our performance materiality level as explained in [Exhibit 1](#). We are satisfied that these errors do not have a material impact on the financial statements.

Narrative	Account areas	Statement of Comprehensive Net Expenditure		Statement of Financial Position	
		Dr	Cr	Dr	Cr
<b>Accounting Misstatements</b>		<b>£0</b>	<b>£0</b>	<b>£0</b>	<b>£0</b>
Missing HIAL loan	Financial Assets			2,379,207	
	Programme Expenditure		2,379,207		

# Transport Scotland

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Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN  
T: 0131 625 1500 E: [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)  
[www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)