

Transport Scotland

Annual Audit Plan 2017/18



 AUDIT SCOTLAND

Prepared for Transport Scotland
January 2018

Who we are

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

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non – executive board chair, and two non – executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

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

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

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit and is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and any other relevant guidance. This plan identifies our audit work to provide an opinion on the financial statements and related matters and meet the wider scope requirements of public sector audit
2. The wider scope of public audit contributes to conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

Audit risks

3. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following main risk areas for Transport Scotland. We have categorised these risks into financial risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

Exhibit 1

2017/18 Key audit risks

Audit Risk	Source of assurance	Planned audit work
Financial statement issues and risks		
<p>1 Risk of management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>
<p>2 Estimation and judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of material account areas of non current assets including the trunk road network and assets under construction. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<p>Year-end capital accruals for assets under construction will be supported by schedules showing the basis of calculation, noting that in relation to the AWPR project, we rely on the contractors to provide us with this information and</p>	<p>Interim audit work will review draft road valuation reports.</p> <p>Substantive testing of year-end capital accruals.</p> <p>Verification of year end provisions.</p> <p>Substantive testing of year-end expenditure accruals.</p>

Audit Risk	Source of assurance	Planned audit work
	<p>any underlying evidence.</p> <p>Provisions will be supported by appropriate estimates and external evidence where relevant.</p> <p>Expenditure accruals will be supported by schedules showing basis of calculation</p>	
<p>3 Roads network valuation</p> <p>In prior years the audit has identified material adjustments to the valuation of the trunk road network valuation. In 2016/17 the impact of the movement was a £144.7 million increase in the net book value of the trunk road network. Furthermore, the process used to produce the valuation is complex, involving the application of indexation rates and adjustments to the figures produced by the road asset valuation system (RAVS).</p> <p>There is a risk of material misstatement linked to the integrity and completeness of the asset records.</p>	<p>Transport Scotland will engage with the audit team to provide an overview of the RAVS system/process including the use of the RAVS portal and Datacube for further analysis. This will include engagement with Atkins where this is deemed appropriate.</p> <p>Interim valuation report to be provided in February as basis for the draft accounts. This will enable early identification of any required adjustments.</p> <p>Material adjustment will continue to be a likely feature due to the final valuation being based on quarter 3 Baxter index and quarter 4 not being available until after the draft accounts are due to be produced.</p>	<p>Verify the application of indexation rates and investigate other significant movements in the trunk road network valuation.</p> <p>Interim audit work to review draft road valuation reports.</p> <p>Review the processes and controls in place to manage the roads valuation data.</p> <p>To challenge the accounting estimates over the RAVS system we will liaise with the National Audit Office and look to place assurance on their work where possible.</p>
<p>4 Uplift of Trunk Road Network Land Value</p> <p>The land on which the trunk road network is constructed is held at gross replacement cost, calculated by the Valuation Office and uplifted to account for compensation payments for the acquisition of land, professional fees and for legal and agents' fees.</p> <p>These uplifts are based on a basket of schemes going back to the early 1990s and add approximately £500 million to the value of the land asset disclosed in the statement of financial position. As the uplifts are based on aged data, there is a risk that the rates used to uplift to gross replacement cost are no longer appropriate.</p>	<p>Further investigation has identified potential changes to the uplifts applied to land values. This will be used to inform a planned approach to considering appropriate changes and reflecting these in future years' valuations. The information and proposed approach will be shared as part of the Audit to inform a view on the changes proposed.</p>	<p>We will review the action taken by Transport Scotland (in response to a point raised in the 2016/17 annual audit report) to assess whether a revised basket of schemes should be applied.</p>

Audit Risk	Source of assurance	Planned audit work
<p>5 EU State aid regulations</p> <p>In prior years we highlighted a potential issue regarding compliance with the EU Services of General Economic Interest (SGEI) regulation in relation to the funding arrangements for Highlands and Islands Airports Limited (HIAL). In 2016/17, we identified that progress is still required in relation to the monthly reporting provided by HIAL.</p> <p>We consider that non-compliance with EU state aid regulations represents an inherent risk to our regularity opinion on the 2017/18 financial statements.</p>	<p>We will continue to consult with the Scottish Government State Aid Unit to ensure arrangements comply with regulations, both in terms of the changes applied to HIAL and in relation to any other changes proposed to the services that Transport Scotland propose to procure. We will also provide the details of the revised arrangements for HIAL and associated reporting as part of the audit process.</p>	<p>Assess the steps taken to ensure compliance with the EU regulation.</p>
<p>Wider dimension risks</p>		
<p>6 Financial sustainability</p> <p>Like all public sector bodies, Transport Scotland is facing a period of uncertainty in terms of future funding levels. The new financial powers under the 2012 and 2016 Scotland Acts and the UK's withdrawal from the EU could lead to changes in funding flows. A reduction in the Scottish budget allocation may result in Transport Scotland's budget being reduced going forward. Approximately 90% of Transport Scotland's annual expenditure is contractually committed, and therefore any budget reduction would place pressure on non-committed budget areas.</p>	<p>Transport Scotland's financial planning is conducted within the context of Scottish Government financial planning, with Transport Scotland funded to support the services, contracts and projects approved by Scottish Ministers.</p> <p>Work is on-going, with a separate team within Transport Scotland to assess the potential risks of various forms of Brexit. Transport Scotland Finance are represented on this group and will contribute to discussions and provide feedback on developments.</p>	<p>Monitor the Transport Scotland's financial position via budget reports presented to the Audit & Risk Committee.</p> <p>Monitor development of Transport Scotland's EU Withdrawal Plan</p> <p>Ongoing monitoring of Transport Scotland's approach to medium and long term financial planning.</p>

Audit Risk	Source of assurance	Planned audit work
<p>7 Governance and transparency - ICT</p> <p>Transport Scotland's ICT Strategy was published in 2014. However in recent years the needs and requirements have changed and a new strategy had been under review. Transport Scotland has commissioned the Scottish Government Digital Transformation Service to support them putting together a Digital Strategy which will last at least to the end of the 2017/18 financial year. With no long term plan in place, there is a risk that Transport Scotland cannot develop their ICT needs moving forward.</p>	<p>Audit Scotland will be provided with a copy of the plan, and the audit team will also be able to engage with officers working on, and responsible for delivering the Digital Strategy /ICT Strategy to discuss and monitor progress.</p>	<p>On completion we will review Transport Scotland's Digital Strategy to ensure that an ICT strategy is in place which makes reference to Scottish Government cyber resilience arrangements and the Public Sector Cyber Catalyst Scheme.</p>

Reporting arrangements

4. Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs as detailed in [Exhibit 2](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.
5. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officer(s) to confirm factual accuracy.
6. We will provide an independent auditor's report to Transport Scotland, Scottish Parliament and the Auditor General for Scotland setting out our opinions on the annual accounts. We will provide the Accountable Officer and Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen in the course of the audit.
7. Under the Public Finance and Accountability (Scotland) Act 2000 there is a requirement for the resource account of the Scottish Government to be presented to Parliament within nine months of the financial year – end, i.e. 31 December. Management are required to submit their audited financial statements by 30 June to meet the consolidation timetable.

Exhibit 2

2017/18 Audit outputs

Audit Output	Target date	Audit Committee (or equivalent) Date
Annual Audit Plan	January 2018	14 February 2018
Interim Report	31 March 2018	April 2018
Annual Audit Report	August 2018	August 2018
Independent Auditor's Report	August 2018	August 2018

Audit fee

8. The proposed audit fee for the 2017/18 audit of Transport Scotland is £173,100 (£171,030 in 2016/17). In determining the audit fee we have taken account of the risk exposure of Transport Scotland the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited financial statements, with a complete working papers package on 11 June.
9. Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises outside our planned audit activity.

Responsibilities

Audit Committee and Accountable Officer

10. Audited bodies have 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 successfully deliver their objectives.
11. The audit of the financial statements does not relieve management or the Audit and Risk Committee as those charged with governance, of their responsibilities.

Appointed auditor

12. Our responsibilities as independent 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 auditing profession's ethical guidance.
13. Auditors in the public sector give an independent opinion on the financial statements and other specified information accompanying the financial statements. We also review and report on the arrangements within the audited body to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

Audit scope and timing

Financial statements

- 14.** The statutory financial statements audit will be the foundation and source for the majority of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:
- understanding the business of Transport Scotland and the associated risks which could impact on the financial statements
 - assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
 - identifying major transaction streams, balances and areas of estimation and understanding how Transport Scotland will include these in the financial statements
 - assessing the risks of material misstatement in the financial statements
 - determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.
- 15.** We will give an opinion on the financial statements as to:
- whether they give a true and fair view of the financial position of the audited bodies and their expenditure and income
 - whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
 - the regularity of the expenditure and income.



Materiality

- 16.** We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any uncorrected misstatements, on the financial statements and in forming our opinion in the auditor's report.
- 17.** We calculate materiality at different levels as described below. The calculated materiality values for Transport Scotland are set out in [Exhibit 3](#).

Exhibit 3

Materiality values

Materiality level	Amount
<p>Planning materiality – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1% of the net book value of the trunk road network as at 31 March 2017 based on the audited 2016/17 accounts.</p>	£176.615 million
<p>Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at 50% of planning materiality.</p>	£88.307 million
<p>As Transport Scotland's total assets balance is more than ten times net operating expenditure, we also set a separate performance materiality level for other assets / liabilities and expenditure. This has been set at 0.75% of gross expenditure and will be applied to all account areas other than the trunk road network.</p>	£12.756 million
<p>Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 1% of performance materiality but capped at £100,000.</p>	£100 thousand

Source: Transport Scotland Annual Report and Accounts for the year ended 31 March 2017



18. We review and report on other information published with the financial statements including the management commentary, annual governance report and the remuneration and staff report. Any issue identified will be reported to the Audit and Risk Committee.

Timetable

19. To support the efficient use of resources it is critical that a financial statements timetable is agreed with us for the production of the unaudited accounts. An agreed timetable is included at [Exhibit 4](#) which takes account of submission requirements and planned Audit and Risk Committee dates.

Exhibit 4

Financial statements timetable

 Key stage	 Date
Latest submission date of unaudited annual accounts with complete working papers package	11 June 2018
Latest date for signing of consolidation certificate	13 July 2018
Latest date for final clearance meeting with Director of Finance	20 July 2018
Issue of letter of representation and proposed independent auditor's report	3 August 2018
Agreement of audited unsigned annual accounts	3 August 2018
Issue of Annual Audit Report including ISA 260 report to those charged with governance	3 August 2018
Independent auditor's report signed	August 2018

Internal audit

20. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carry out an assessment of the internal audit function. Internal audit is provided by the Scottish Government Internal Audit service overseen by a Chief Internal Auditor.

Adequacy of Internal Audit

21. As part of the planning work of the Scottish Government external audit team, an annual assessment of the adequacy of the internal audit function has been carried out. We will liaise with our Scottish Government external audit team to confirm that the Internal Audit Service operates in accordance with Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.

Areas of Internal Audit reliance

22. To support our audit opinion on the financial statements we plan to place formal reliance on the following planned internal audit reviews:

- ICT Security of TS Hosted Systems

23. In respect of our wider dimension audit responsibilities we also plan to consider other areas of internal audit work including:

- Contract Management of ScotRail Franchise
- Management of the Clyde and Hebrides Ferry Services 2 (CHFS2) Contract
- Management of the A9 Dualling Programme.

Audit dimensions

24. Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 5](#).

Exhibit 5

Audit dimensions



Source: Code of Audit Practice

25. As part of our risk assessment process, we consider each of the four audit dimensions to determine whether a need exists to perform specific work. [Exhibit 6](#) highlights the areas considered in relation to Transport Scotland.

Exhibit 6

Risk assessment considerations for the audit dimensions

Financial sustainability

- the use of the going concern basis of accounting
- financial sustainability in medium-long term
- the effectiveness of financial planning in identifying and addressing financial sustainability risks

Financial management

- effectiveness of budgetary control system
- whether there are effective arrangements in place to detect fraud and corruption
- financial capacity and skills

Governance and transparency

- that governance arrangements are appropriate and operating effectively
- there is effective scrutiny, challenge and transparency in decision-making
- the quality and timeliness of financial and performance reporting

Value for money

- value for money in the use of resources
- clear link between money spent, output and outcomes delivered
- improving outcomes and sufficient focus on improvement

Financial sustainability

26. As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on Transport Scotland's financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years) sustainability. We will carry out work and conclude on:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps.

Financial management

27. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. We will review, conclude and report on:

- the effectiveness of budgetary control system in communicating accurate and timely financial performance
- the effectiveness of arrangements for the prevention and detection of fraud and corruption.

Governance and transparency

28. Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information. We will review, conclude and report on:

- the effectiveness of arrangements in place to support good governance, accountability and scrutiny.

Value for Money

29. Value for money refers to using resources effectively and continually improving services. To ensure that Transport Scotland's operations are subject to appropriate audit coverage, in 2016/17 we developed an indicative long-term audit plan for this audit dimension. The long-term plan focuses on reviews addressing three areas:

- Governance - whether Transport Scotland's governance and management arrangements are appropriate and contribute to the achievement of value for money.
- Operational programmes - whether Transport Scotland is developing programmes which are focused on delivering the strategies agreed by Scottish Ministers and aim to make the best use of available resources.
- Contract performance - whether Transport Scotland is managing and monitoring contracts effectively to ensure that programme objectives are met and value for money achieved.

30. Each review may be linked to more than one of these areas. An updated plan of the wider dimension work scheduled over the remaining four years of the audit appointment is shown in [Exhibit 7](#). Further detail of each of the planned reviews is set out below. The plan is reviewed on an annual basis with the

potential for planned work to be rescheduled and new reviews added as audit risks emerge.

Exhibit 7

Indicative long-term plan

Audit Year	Planned Work	Value for money	Operational Programmes	Contract Performance
2017/18	Delivery of the Forth Replacement Crossing	✓		
	Roads maintenance impact report		✓	
	Review of Abellio ScotRail franchise			✓
2018/19	A9 Dualling Programme			✓
	Ferry Services impact report			✓
2019/20	Delivery of rail projects			✓
2020/21	Caledonian Sleeper follow up			✓

Value for Money

Delivery of the Forth Replacement Crossing

31. The Forth Replacement Crossing, a £1.3 billion project was opened to traffic in August 2017. We will undertake a performance audit in 2017/18, the overall aim of which will be to assess whether the Scottish Government's management of the project delivered value for money. We will consider:

- Whether there was a clear justification and a competitive procurement approach for the project
- Whether there were effective arrangements in place to ensure the project met time, cost and quality targets
- What progress is Transport Scotland making in achieving the intended benefits and outcomes of the project

The report will also seek to highlight particular good practice and draw on key messages we have made in previous reports on major capital and infrastructure projects.

Operational Programmes

Roads maintenance impact report

32. In August 2016 Audit Scotland published the [Maintaining Scotland's Roads: A follow-up report](#). The key findings highlighted in the report included:

- The percentage of trunk roads in acceptable condition declined from 90% in 2011/12 to 87% in 2014/15.
- Transport Scotland expenditure on trunk roads maintenance fell from £168 million in 2011/12 to £162 million in 2014/15 (4% decline). The

£162 million spent in 2014/15 was £24 million less (38%) than Transport Scotland considered was necessary to maintain trunk road condition.

33. A key recommendation of the report was that the Strategic Action Group (jointly chaired by the Minister for Transport and the Islands and COSLA, and tasked with overseeing the progress of the National Roads Maintenance Review) should report publicly by the end of 2017 on how our recommendations were being implemented. The SAG's report was published on 30 January 2018. We will review the progress of implementing recommendations which are relevant to Transport Scotland as part of the 2017/18 audit.

Contract Performance

Abellio ScotRail Franchise

34. Approximately 16% of Transport Scotland's net operating costs is incurred on the ScotRail passenger franchise, currently operated by Abellio. Throughout the past year there has been extensive media coverage on the performance of the ScotRail franchise, with particular emphasis on cancellations, delays and cancellations. This culminated with the Scottish Government giving preliminary consideration to returning the franchise to public ownership.
35. In November 2016, a 249 point Performance Improvement Plan (PIP) was published by the ScotRail Alliance with the aim of improving train performance and providing a foundation to improve on punctuality. The targeted completion dates assigned to the 249 action plan points ranged from September 2016 to December 2018.
36. Transport Scotland monitors ScotRail's delivery of the PIP initiatives and receive assurances through a number of methods, including:
- The provision of a weekly PIP Scorecard which specifies the total number of actions open/ completed and overdue
 - Fortnightly meetings with ScotRail to review the actions contained on the scorecards, challenge overdue actions and discuss any potential risks to delivery
 - Four weekly meetings with ScotRail at which ScotRail present the progress against the PIP
 - Regular communications with ScotRail on specific PIP actions related to Fleet, Infrastructure or Operations
 - Ad-hoc site visits by Transport Scotland to review new infrastructure installed as part of the PIP.
37. Following the publication of the PIP, the reliability of ScotRail trains improved with 90% of trains arriving within five minutes of schedule. However, annual performance remained below the 91.3% target set in Abellio ScotRail's contract for the franchise.
38. As part of our 2017/18 audit work, we intend to perform a review of Transport Scotland's contract performance monitoring arrangements as part of the 2017/18 audit focusing specifically on the Abellio ScotRail franchise. We will liaise with the Scottish Government internal audit team and take account of their review when scoping this work.

A9 Dualling Programme

39. Within Transport Scotland's corporate risk register, there are four major road projects, all at various stages of progression. For all projects, there is a similar risk description focusing on the risk of not delivering the project on time and to

budget, given the complexity of programme, and environmental, statutory and financial constraints.

40. The A9 dualling programme represents a significant investment in Scotland's trunk road network with a projected total cost of £3 billion. The programme is expected to be completed in 2025. Subject to the Auditor General's final approval, we plan to undertake a performance audit in 2018/19 of progress with the A9 dualling project.

Ferry Services

41. In 2016/17, we carried out an assessment of whether Transport Scotland's expenditure on ferry services is providing value for money. We published our findings in [Transport Scotland's ferry services](#), on behalf of the Auditor General for Scotland, in October 2017. We will continue to monitor developments relating to ferries and will prepare an impact report looking at how Transport Scotland has implemented our recommendations in 2018/19.
42. In December 2017, Transport Scotland published a policy review concerning the future tendering of Scotland's ferry services. We will consider this as part of this work.

Delivery of rail projects

43. A number of major rail projects have experienced, or are projected to experience, increased costs. Network Rail is expected to exceed the current projected cost of £742 million to deliver the Edinburgh Glasgow Improvement Project (EGIP). Transport Scotland has forecast a final cost for EGIP of £802 million.
44. Network Rail has also advised Transport Scotland that other rail projects including the Aberdeen to Inverness improvement project and Stirling/Dunblane/Alloa improvements are under significant cost and programme pressure. Our indicative long term plan identifies that a review of the contractual performance of the delivery of rail projects will be carried out in 2019/20. We will continue to monitor the performance of the rail projects before determining the scope of this work.

Caledonian Sleeper follow-up

45. In March 2016, Audit Scotland published a report on the Caledonian Sleeper franchise. The report highlighted that cumulative losses are anticipated over the first eight years of the franchise. In 2015/16 we reviewed developments with the Caledonian Sleeper franchise, including a review of the bid evaluation process. This was reported in our 2015/16 annual audit report where it was concluded that the assessment of the viability of the bids was reasonable, and reflected the bid evaluation methodology set out in the Invitation to Tender.
46. An updated Caledonian Sleeper Business Plan was produced in 2016/17 which provided revised financial forecasts to reflect key assumptions. The update confirmed there was no current improvement to the financial forecasts. We will continue to monitor the performance of the Caledonian Sleeper contract before determining whether any specific audit work is required.

Other follow-up work

Glasgow Prestwick Airport

47. As part of the 2016/17 audit, we carried out an initial review of the revised Glasgow Prestwick Airport business plan issued in May 2017. Given the Scottish Government's long term objective to return the airport to the private sector, we continue to monitor developments in this area and will decide what further audit work is warranted in due course.

Independence and objectivity

- 48.** Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has in place robust arrangements to ensure compliance with these standards including an annual “fit and proper” declaration for all members of staff. The arrangements are overseen by the Director of Audit Services, who serves as Audit Scotland’s Ethics Partner.
- 49.** The engagement lead for Transport Scotland is Mark Taylor, Assistant Director. Auditing and ethical standards require the appointed auditor Mark Taylor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of Transport Scotland.

Quality Control

- 50.** International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor’s report or opinion is appropriate in the circumstances.
- 51.** The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice (and relevant supporting guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews, internal quality reviews and is currently reviewing the arrangements for external quality reviews.
- 52.** As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time and this may be directed to the engagement lead.

Adding Value

- 53.** Through our audit work we aim to add value to the Audited Body. We will do this by ensuring our Annual Audit Report provides a summary of the audit work done in the year together with clear judgements and conclusions on how well Transport Scotland has discharged its responsibilities and how well it has demonstrated the effectiveness of its arrangements. Where it is appropriate we will recommend actions that support continuous improvement and summarise areas of good practice identified from our audit work.

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