

# Transport Scotland

2020/21 Annual Audit Report



 AUDIT SCOTLAND

Prepared for Transport Scotland and the Auditor General for Scotland

September 2021

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# Key messages

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## 2020/21 annual report and accounts

- 1 The audit of Transport Scotland's 2020/21 annual report and accounts has resulted in an unmodified opinion. The financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework.
- 2 The draft annual report and accounts were provided to auditors on time and to a good standard. Audit testing did not subsequently identify any significant issues.

## Financial management and sustainability

- 3 Transport Scotland demonstrated appropriate and effective financial management in operating within its budget in 2020/21. Financial plans were revised to mitigate the impact of Covid-19 on public transport providers.
- 4 Transport Scotland developed appropriate and robust controls for the distribution of additional Covid-19 support funds. To enhance transparency Transport Scotland should consider publishing details of how this extra money was spent.
- 5 Additional funding has been provided to Transport Scotland in 2021/22 to continue to off-set the impact of Covid-19 on the sector. Transport Scotland has a long-term financial plan in place which will be critical as there is likely to be need for ongoing Covid-19 support beyond 2021/22 which could place pressure on future budgets.

## Governance, transparency and value for money

- 6 Transport Scotland's governance and internal controls arrangements have operated effectively during the Covid-19 pandemic. The move to remote working has been well managed.
- 7 The performance report contained in the 2020/21 annual report and accounts was of a good standard. Transport Scotland is developing performance indicators to further improve future reports.
- 8 Transport Scotland has developed strategies to help deliver key commitments on climate change but should identify a process to report on how much it spends in this area.

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# Introduction

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1. This report summarises the findings from our 2020/21 audit of Transport Scotland.
2. The scope of our audit was set out in our [Annual Audit Plan](#) presented by correspondence initially and then formally considered by the 19 April 2021 meeting of the Audit and Risk Committee (ARC). This report comprises the findings from:
  - an audit of Transport Scotland's annual report and accounts
  - consideration of the four audit dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#).
3. The main elements of our audit work in 2020/21 have been:
  - an audit of Transport Scotland's 2020/21 annual report and accounts including the issue of an independent auditor's report setting out our opinions
  - consideration of the four audit dimensions.
4. The global coronavirus pandemic has had a considerable impact on Transport Scotland during 2020/21, for example as a result of it having to adapt to remote working. In addition, it has also significantly impacted on the public transport services it supports. Risks related to the pandemic were included in our [Annual Audit Plan](#), and we have adapted our planned audit work to address any new emerging risks.

## Adding value through the audit

5. We add value to Transport Scotland through the audit by:
  - identifying and providing insight on significant risks, and making clear and relevant recommendations
  - sharing intelligence and good practice through our national reports ([Appendix 4](#)) and good practice guides
  - providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

## Responsibilities and reporting

6. 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 accounts direction from the Scottish Ministers.

**7.** Transport Scotland is also responsible for establishing appropriate and effective arrangements for governance, propriety and regularity.

**8.** Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2016](#), and supplementary guidance and International Standards on Auditing in the UK. As public sector auditors we give independent opinions on the annual report and accounts. Additionally, we conclude on the appropriateness and effectiveness of the performance management arrangements, the suitability and effectiveness of corporate governance arrangements, the financial position and arrangements for securing financial sustainability. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#) and supplementary guidance.

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

**10.** Our annual audit report contains an agreed action plan at [Appendix 1](#). It sets out specific recommendations, the responsible officers and dates for implementation. It also includes any outstanding actions from last year and progress against these.

## Auditor Independence

**11.** 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 comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies.

**12.** 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 2020/21 notional audit fee of £186,170 as set out in our [Annual Audit Plan](#) remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

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

**14.** We would like to thank the management and staff who have been involved in our work for their cooperation and assistance during the audit.

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# 1. Audit of 2020/21 annual report and accounts

The principal means of accounting for the stewardship of resources and performance

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## Main judgements

The audit of Transport Scotland's 2020/21 annual report and accounts has resulted in an unmodified opinion. The financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework.

The draft annual report and accounts were provided to auditors on time and to a good standard. Audit testing did not subsequently identify any significant issues.

Transport Scotland has made good progress following up agreed audit actions from previous years.

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## Our audit opinions on the annual report and accounts are unmodified

**15.** The annual report and accounts for the year ended 31 March 2021 were approved by the ARC on 23 September 2021. As reported in the independent auditor's report:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- expenditure and income were regular and in accordance with applicable enactments and guidance
- the audited part of the remuneration and staff report, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

## The annual report and accounts were signed off later than originally planned due to audit work taking longer than anticipated

**16.** The unaudited annual report and accounts were provided to us on 4 June 2021. This was in line with the date in our [Annual Audit Plan](#) of 7 June. The supporting working papers were also made available at the same time. The

working papers were of a good standard which allowed the audit to proceed at a good pace.

**17.** As a result of the Covid-19 pandemic, 2019/20 audits across the public sector in Scotland took longer to complete. This meant that the 2020/21 audits commenced later than in previous years. Despite the later start, it was originally planned that the audit could be completed on time for the planned ARC on 16 August.

**18.** While good progress was made, considerable time was required to be spent on the audit of Covid-19 payments to transport providers, particularly those made to bus operators. As a result, our clearance meeting with Transport Scotland to agree the draft accounts did not take place until 20<sup>th</sup> August. This was around a month later than originally planned.

**19.** The timescales for the audit were subject to constructive discussion at all stages throughout the audit. This involved discussions with the Director of Finance and Corporate Services and the ARC Chair, and resulted in an additional ARC meeting on 23 September. The efforts of Transport Scotland staff were greatly appreciated during all stages of the process.

## Overall materiality is £210.7 million

**20.** Our initial assessment of materiality was carried out during the planning phase of the audit. On receipt of the unaudited annual report and accounts we reviewed our materiality calculations and concluded that they remained appropriate (see [Exhibit 1](#)).

### Exhibit 1 Materiality values

Materiality level	Planning	Year-End
<b>Overall materiality</b> - This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at one per cent of the net book value of the trunk road network as at 31 March 2021 based on the draft accounts for 2020/21 (year-end).	£213.3 million	£210.7 million
<b>Performance materiality</b> - This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement, we have calculated performance materiality at 50 per cent of planning materiality.	£106.7 million	£105.3 million
As Transport Scotland's total assets balance is around seven times more than net operating expenditure, we also set a separate performance materiality level for other assets/liabilities and expenditure. This has been	£26.1 million	£23.2 million

Materiality level	Planning	Year-End
set at 0.75 per cent of gross expenditure based on the audited accounts for 2020/21 and will be applied to all account areas other than the trunk road network.		
<b>Reporting threshold</b> – We are required to report to those shared with governance on all unadjusted misstatements more than the ‘reporting threshold’ amount. This has been calculated at one per cent of planning materiality but capped at £250,000.	£250,000	£250,000

Source: Audit Scotland

## **Appendix 2 identifies the main risks of material misstatement and our audit work to address these**

**21.** [Appendix 2](#) provides our assessment of risks of material misstatement in the annual report and accounts and any wider audit dimension risks. These risks influence our overall audit strategy, the allocation of staff resources to the audit and indicate how the efforts of the audit team were directed. [Appendix 2](#) also identifies the work we undertook to address these risks and our conclusions from this work.

## **We have no significant findings to report on the annual report and accounts**

**22.** International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of Transport Scotland’s accounting practices. We have no issues to report from the audit.

## **There were a low number of identified misstatements**

**23.** We identified one material misstatement that required adjusting. This related to the realised element of the revaluation reserve and was a consequence of an adjustment which Transport Scotland had identified. This involved an adjustment to take account of a quarter 4 change in the Baxter index to the value of the trunk road network. This takes account of inflation in the cost of road building and resulted in an increase in the carrying value of £237.3 million. However Transport Scotland did not follow this through to the revaluation reserve.

**24.** Overall, the adjustments made in the audited accounts increased net expenditure in the Statement of Comprehensive Net Expenditure by £0.3 million and increased net assets in the Statement of Financial Position by £237.0 million.

**25.** Misstatements, totalling £22 million, were identified that have not been adjusted by management in the accounts, as they consider these not to be material. These would have decreased net expenditure by £7 million and decreased net assets by £3 million ([Appendix 3](#)).



**26.** Our responsibility is to request that all misstatements, other than those below the reporting threshold, are corrected. The final decision on making the correction lies with those charged with governance considering advice from senior officers and materiality. The gross sum of the unadjusted errors is below our materiality and has not affected our opinion.

### **Good progress was made on prior year recommendations**

**27.** Transport Scotland has made good progress in implementing our prior year audit recommendations. Details are set out in [Appendix 1](#).

## 2. Financial management

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

### Main judgements

Transport Scotland demonstrated appropriate and effective financial management in operating within its budget in 2020/21. Financial plans were subject to amendments to mitigate the impact of Covid-19 on public transport providers.

Transport Scotland developed appropriate and robust controls for the distribution of Covid-19 support funds to public transport providers. To enhance transparency Transport Scotland should consider publishing details of how this extra money was spent.

### Transport Scotland operated within its revised budget in 2020/21

**28.** 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.

**29.** Transport Scotland has reported an outturn of £3.246.1 million against its overall budget for 2020/21 with an underspend of £343.6 million. The financial performance against Departmental Expenditure Limits (DEL) is shown in [Exhibit 2](#).

### Exhibit 2

#### Performance against DEL in 2020/21

Performance	Initial budget £m	Final budget £m	Outturn £m	Over/(under) spend £m
Resource DEL	2,558.3	3,171.0	2,950.1	(220.9)
Capital DEL	287.2	287.7	177.3	(110.4)
<b>Total DEL</b>	<b>2,845.5</b>	<b>3,458.7</b>	<b>3,127.3</b>	<b>(331.3)</b>

Source: Transport Scotland Annual Report and Accounts 2020/21 and supporting papers

30. [Exhibit 3](#) presents the same information but by service area. This identifies that all areas underspent in 2020/21. This was due to a variety of reasons such as £68 million lower than anticipated Covid-19 Support for bus operators and £55 million reduction in major roads projects. The latter included the cessation of shovel ready schemes and delays in progressing the Edinburgh City deal.

### Exhibit 3

#### Performance against DEL in 2020/21 by service area

Service area	Initial budget £m	Final budget £m	Outturn £m	Over/(under) spend £m
Rail services	1,264.1	1,597.6	1,586.0	(11.6)
Concessionary Travel	303.8	481.9	402.8	(79.1)
Motorways and Trunk Roads	599.2	618.7	480.0	(138.7)
Ferries	255.1	291.9	250.2	(41.6)
Air	76.7	101.3	72.9	(28.4)
Other Sustainable Transport	295.8	316.6	286.3	(30.3)
Local Authority Grants (RTP and Cycling) / Support for Active Travel / Inter Island Ferries	50.7	50.7	49.1	(1.6)
<b>TOTAL DEL</b>	<b>2,845.5</b>	<b>3,458.7</b>	<b>3,127.1</b>	<b>(331.3)</b>

Source: Transport Scotland Annual Report and Accounts 2020/21

### Transport Scotland was provided with significant additional funding to support public transport during the Covid-10 pandemic

31. Transport Scotland's budget was increased as part of the Summer, Autumn and Spring Budget revisions. Additional funding from the Scottish Government for Covid-19 totalled £696.0 million. This was to provide support to public

transport providers as a result of the reduction in patronage caused by the pandemic. The major areas of additional funding are listed in [Exhibit 4](#).

## Exhibit 4

### Additional funding provided for Covid-19

Transport mode	Additional funding £m
Rail	421
Bus	191
Light Rail	22
Ferry Services	38
HIAL	22
Canals	2
<b>Total</b>	<b>696</b>

Source: Transport Scotland Annual Report and Accounts 2020/21

**32.** Although the Transport Scotland Annual Report and Accounts provided details regarding the level of Covid-19 additional funding, it did not clarify the level of spend specifically as a result of the pandemic. Through audit review and discussion, we have confirmed that £420.9 million additional funding was provided to the rail franchise operators while interrogation of the ledger found £123.4 million paid to bus operators as part of the Covid-19 restart scheme. The public reporting of this would demonstrate how this additional funding has been spent and would support transparency and accountability.

## Recommendation 1

Transport Scotland should identify the actual spend of additional monies made available for Covid-19 and should make this publicly available.

### Transport Scotland developed effective and robust controls for the distribution of Covid-19 support funds

**33.** Rail and bus operators were the two main beneficiaries of additional funding made in the year. In the case of rail operators these payments have been made through emergency measures agreements (EMAs). These are temporary variations to the existing franchise agreements in response to the Covid-19 outbreak.

**34.** The EMA arrangements are based on regular review of available management information provided by the operators. This is underpinned by a

final reconciliation to a full set of audited revenue accounts at the end of the EMA period which is expected to run until February 2022.

**35.** Our audit reviewed the process and concluded that the arrangements that allow payments to be made on the basis of the regular review process is reasonable. The final reconciliation has still to be performed and could result in adjustments, which are more likely to impact on the 2021/22 accounts.

**36.** Payments to bus operators required significant changes to allow for the pandemic. Previously, operators applied for two forms of payment which were based on levels of performance. These were the bus service operators' grant scheme (BSOG) and the national concessionary travel scheme (NCTS). During 2020/21 these schemes were continued through the COVID-19 Support Grant (CSG). Payments were based on the estimated level of NCTS lost due to Covid and the pre-Covid expected level of BSOG. These arrangements were reviewed as part of the audit and found to be satisfactory.

**37.** The additional funding for bus operators was put towards a new scheme called the Covid-19 Support Grant – Restart (CSG-R). This covered the gap between costs and the anticipated loss of fare-paying passenger revenue that bus operators experienced due to physical distancing and reduced capacity. Transport Scotland developed a detailed financial reconciliation process which took place every twelve weeks. This was carried out by two accountancy firms and reconciled payments received by operators to actual expenditure incurred and income received.

**38.** We carried out detailed walkthrough testing of the main controls regarding the CSG – R with a particular focus on the reconciliation process. Our testing found that the arrangements provided a reasonable basis on which to make payments subject to one aspect being addressed. We were also assured that the process had identified a significant number of refunds from operators.

**39.** During our review we identified that the reconciliation control could be strengthened through the consideration of recent audit reports for the largest operators. The largest operators account for the vast majority of spend (around 90 per cent). This additional step provides extra assurance regarding the accuracy of internally generated reports provided by the operators as part of the reconciliation. Transport Scotland carried out a review of recent audit reports and found no issues. We reviewed the results from this review and were satisfied that it addressed the underlying issue.

**40.** Our audit also reviewed additional payments to the ferry, aviation and light rail sectors. These involved changes to pre-existing contractual arrangements or grant conditions. We found no issues from this testing.

**41.** Overall, in our view Transport Scotland implemented adequate systems for recording and processing additional payments in light of Covid-19. It put appropriate measures in place to reduce the risk of fraudulent or erroneous payments.

## Capital expenditure reduced in 2020/21 as Transport Scotland paused its capital investment projects

**42.** Transport Scotland had a Capital DEL budget in 2020/21 of £287.7 million. The capital outturn of £177.2 million was £110.5 million less than budget. This was largely as a result of a £55 million underspend in major roads projects and £32 million re-profiling of loan funding for three ferry vessels. The roads underspends were mainly caused by delays in the preparatory processes such as grounds investigation as well as some shovel ready projects which had not been provided with approval.

## The standard of internal audit continues to improve

**43.** Transport Scotland's internal audit function is carried out by the Scottish Government's internal audit directorate (SGIAD). As such, it is reviewed annually by the Scottish Government's external audit team, in accordance with International Standard on Auditing (UK) 610 (Using the Work of Internal Auditors). This review found that the improvements in the standard of internal audit work noted in the past two years continued during 2020/21. No areas of significant non-compliance with the PSIAS were found.

**44.** During the year we have considered the findings from the four internal audit reports produced on Transport Scotland in 2020/21. We have also maintained a regular dialogue with internal audit to ensure there appropriate sharing of information and no duplication of work.

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

**45.** Transport Scotland is responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption. Furthermore, the senior management team (SMT) is responsible for ensuring that its affairs are managed in accordance with proper standards of conduct by putting effective arrangements in place.

**46.** We have reviewed the arrangements in place to maintain standards of conduct including the Fraud Policy and Response Plan and Civil Service Code of Conduct. Our review found that the former has been updated to take account of Covid-19. For example, it states that the risk of fraud and error has increased as organisations become stretched, staff work remotely, and controls and governance are subject to change. It also identifies mitigating actions such as new risk assessments to identify areas of vulnerability and to increase controls in those areas alongside further training.

**47.** There are established procedures for preventing and detecting breaches of these standards including any instances of corruption. In addition, a register of interests is maintained for all SMT members. Transport Scotland also provides regular updates on any fraudulent activity to the ARC.

**48.** Appropriate arrangements are in place for the prevention and detection of fraud, error, and irregularities. We are not aware of any specific issues that we need to bring to your attention.

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## 3. Financial sustainability

Financial Sustainability looks forward to the medium and long term to consider whether a body is planning effectively to continue to deliver its services

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### Main judgements

Additional funding has been provided to Transport Scotland in 2021/22 to continue to off-set the impact of Covid-19 on the sector.

Transport Scotland has a long-term financial plan in place which is subject to ongoing revision. This will be critical as there is likely to be an ongoing need for Covid-19 support to public transport providers beyond 2021/22.

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### Financial plans for 2021/22 continue to be impacted by Covid-19

**49.** Transport Scotland has an allocated total DEL budget of £3,306.7 million for 2021/22. This comprises resource DEL of £3,042.8 million resource and capital DEL of £263.9 million. It represents a decrease of £152 million in resource funding from the final 2020/21 budget allocation. Transport Scotland anticipates an additional £503 million of specific funding to address the effects of the Covid-19 pandemic.

**50.** Transport Scotland also has £32.3 million of funding from financial transactions and £131.3 million of ODEL. When these are included, total funding available is £3,470.2 million which is £119.5 million than the budget for 2020/21.

### There is likely to be a need for ongoing Covid-19 support to public transport providers beyond 2021/22

**51.** The vast majority of Transport Scotland's spend is based on contracts, grant arrangements or capital projects. Therefore, it is possible to forecast future spend with reasonable certainty. Transport Scotland has a 10-year financial plan which is subject to ongoing revision.

**52.** Transport Scotland considers that some form of ongoing support to public transport providers to address the impact of Covid-19 beyond 2021/22 is likely to be required. This is based on predictions for passenger numbers and will be subject to change. Consequently, the value and timespan of any future Covid-19 support beyond 2021/22 has still to be confirmed.

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# 4. Governance and transparency

The effectiveness of scrutiny and oversight, and transparent reporting of information

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## Main judgements

Transport Scotland's governance and internal control arrangements have operated effectively during the Covid-19 pandemic. The move to remote working has been well managed with additional improvements recommended by internal audit.

The performance report in the 2020/21 annual report accounts was of a good standard. Transport Scotland is developing new performance indicators to further improve future reports.

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## The governance arrangements and controls operating throughout the Covid19 pandemic have been appropriate

**53.** Since 2010/11, Transport Scotland has operated without a board, which differs from other executive agencies of the Scottish Government. Responsibility for key decisions instead falls to the SMT. During 2021/22 the SMT has been relatively stable with only one movement involving the return of the Director of Major Projects from secondment. More recently a new Director of Finance and Corporate Services was appointed. Previously this had been filled on an interim basis.

**54.** Last year we commented that the SMT had met on a more frequent basis involving daily catch-ups and twice weekly meetings. These meetings were conducted remotely. Since then, the frequency of meetings has decreased as the immediate issues with pandemic eased. The SMT now meets weekly with a rotating schedule. This schedule involves separate meetings covering corporate governance, strategic matters (sometimes including investment decisions), Covid-19 transport programme and people/human resources issues.

**55.** Transport Scotland's ARC is made up of three non-executive members to support the Chief Executive (as accountable officer) over issues of risk, control and governance and associated assurance through a process of constructive challenge. The ARC meets four times over the course of a year and is routinely attended by the Chief Executive and Director of Finance and Corporate Services, as well by representatives from internal and external audit. All ARC meetings in 2020/21 have also been conducted remotely in light of the Covid-19 pandemic.



**56.** During 2020, ARC members also provided support to the Chief Executive during discussions regarding funding adjustments as a consequence of the Covid-19 pandemic.

### **Transport Scotland's remote working arrangements remain appropriate with improvements recommended by internal audit**

**57.** Last year we identified how Transport Scotland had taken various steps to ensure that the organisation was able to work remotely. This ensured that it could function appropriately and support the transport sector during the pandemic. During the course of the audit, we have been able to observe the organisation working in a remote environment.

**58.** Internal audit carried out a review of business continuity arrangements in 2020/21, concluding that arrangements are reasonable. It identified two high priority actions regarding scenario testing and staff awareness. It also identified one medium priority action regarding contact details for named individuals. An update provided to the ARC in August 2021, confirmed that the implementation date for corrective actions had been put back to September 2021.

**59.** The arrangements in place remain appropriate with further improvements being progressed through responding to the internal audit review of business continuity.

### **Transport Scotland has improved its openness and transparency in 2020/21**

**60.** Openness and transparency in how a body operates and makes decisions is key to supporting understanding and scrutiny. Transparency means that the public have access to understandable, relevant and timely information about how the board is taking decisions and how it is using resources such as money, people and assets.

**61.** Last year we highlighted that SMT minutes and the directors' register of interests had not been made publicly available. Transport Scotland agreed to publish the minutes of the regular monthly SMT meetings which were established again in June 2020. From review of the external website, it was confirmed that minutes are again available, extending into 2021.

**62.** Transport Scotland also had plans to publish relevant details regarding the SMT's register of interests together with its Public Services Reform (Scotland) Act disclosures. Due to the timing of the publication this has yet to take place, but we understand that this will be put in place.

### **The performance report was of a good standard with some areas for improvement**

**63.** In addition to the opinion on the annual accounts covered in Part 1 of our Annual Audit Report, we also consider the qualitative aspects of Transport Scotland's performance report. The performance report should provide information on a body, its main objectives and the principal risks faced. It should provide a fair, balanced and understandable analysis of a body's performance as well as helping stakeholders understand the financial statements.

**64.** The performance summary in the performance report lists objectives and key metrics in relation to these. These measure the level of input provided by Transport Scotland over the year but do not provide an indication of performance delivered. Transport Scotland is aiming to improve this in two approaches.

**65.** Firstly, Transport Scotland recognises the need to develop and collate performance measures based on objectives within its corporate plan. The corporate plan includes an objective to support businesses through Covid-19 and recovery from it. Work is ongoing to progress this.

**66.** Secondly, Transport Scotland had previously indicated its intention to develop new indicators following the finalisation of the National Transport Strategy (NTS) which was published in February 2020. Transport Scotland has confirmed that a Monitoring Evaluation Framework has been developed. This will set out what Transport Scotland will do to deliver the NTS, and how it plans to do it.

**67.** Following on from this, Transport Scotland proposes to produce an annual monitoring report (showing the headline indicators and secondary measures) as well as a three-yearly evaluation report. These will be used to report trend analysis in future years within the performance report in the annual report and accounts.

**68.** A review of financial figures within the performance report (and financial highlights section) found that many related to the level of funding allocated. It is recommended that in future years Transport Scotland identifies and incorporates more actual spend data within the performance report/financial highlights to provide the reader with a greater sense of where resources have been applied and what has been achieved.

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## Recommendation 2

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.

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# 5. Value for money

Using resources effectively and continually improving services

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## Main judgements

Transport Scotland has developed strategies to help deliver key climate change commitments but should identify a process to report how much it spends in this area.

Transport Scotland has paused its annual programme of best value reviews in 2020/21 due to the Covid-19 pandemic.

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### Transport Scotland has paused its annual programme of best value reviews in 2020/21 due to the Covid-19 pandemic

**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.** In previous years we outlined how Transport Scotland carries out annual reviews of best value. These focus on a specific area and are reported to the ARC along with an update from the previous year's review. Due to the impact of Covid-19 these reviews were paused in 2020/21 with an intention to reconvene when appropriate.

### Transport Scotland has developed strategies to help deliver key climate change commitments but should identify ways to report how much it spends in this area

**71.** As part of this year's audit, we reviewed Transport Scotland's activities in tackling climate change. This is part of a pilot project to understand how Audit Scotland can integrate climate change into annual auditing more widely.

**72.** Domestic transport emissions are the largest source of emissions in Scotland. Transport Scotland has strategic responsibility for delivering the key transport commitments in the Scottish Government's Climate Change Plan Update. It has developed strategies to deliver key Scottish Government commitments to reduce sectoral-wide transport emissions.

**73.** Internal audit reported in 2019 that Transport Scotland has good governance arrangements to manage activity on climate change. The SMT has overall responsibility for internal and sectoral-wide climate change action. In addition, a Climate Change Unit was established in 2019 to provide policy

direction, corporate oversight and coordination of climate change actions. The role of this group is expanding following recommendations from internal audit.

**74.** Transport Scotland has worked with partner bodies to deliver programmes. For example, the Team Scotland group that was established to take forward plans on rail decarbonisation. This involves working with bodies such as Network Rail and Abellio ScotRail.

**75.** Transport Scotland has plans to reduce its own emissions. This has helped it to surpass on original corporate emission targets. Transport Scotland is assessing future working patterns following the pandemic to help inform its new Carbon Management Plan.

**76.** Transport Scotland spends significantly on reducing carbon emissions and managing the impact from climate change. Examples include support provided to the bus sector to purchase electric vehicles and improvement works to the A83 ('Rest and Be Thankful'). However, there is currently no single budget for this. This makes it difficult to assess how much Transport Scotland is committing to tackle climate change as spending occurs across a variety of programmes.

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## Recommendation 3

**Transport Scotland should consider how to report on spend to reduce carbon emissions and to manage the impact from climate change.**

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### Glasgow Prestwick Airport

**77.** Transport Scotland is still looking actively to sell Glasgow Prestwick Airport (GPA). We understand that a new notice was placed in the Official Journal of the European Union in November 2020 and that discussions with potential buyers remain on-going. During 2020/21 no further loans were provided to the holding company (TS Prestwick HoldCo) so total borrowing remains at £43.4 million. A further £1.2 million worth of interest charges accrued during the year however. This takes total accrued interest to £6.3 million.

**78.** In keeping with Transport Scotland's approach in previous years, the interest on these loans has been impaired. However, following a new valuation during 2020/21 from an accountancy firm, the carrying value on the Statement of Financial Position has increased by £1.6 million. This was mainly due to updated valuations of surplus assets held by the airport. We are satisfied that this approach is in line with the relevant accounting standard (IFRS 9).

### New ferries for the Clyde & Hebrides

**79.** In December 2020, the Scottish Parliament's Rural Economy and Connectivity (REC) Committee published its report into the cost overruns and delays associated with the delivery of vessels 801 and 802. It concluded there had been serious failures in vessel procurement, project planning, project management and communication. It went on to recommended that Audit Scotland review Caledonian Maritime Asset Ltd's (CMAL) financial management of the vessel contracts and Transport Scotland's role in this. It also

recommended that we investigate the Scottish Government's loan support to FMEL.

**80.** Our performance audit is currently underway with a view to publishing a report in March 2022. The audit is considering:

- Whether CMAL, Transport Scotland and the Scottish Government put in place appropriate arrangements to ensure the project was delivered to time, cost and quality?
- To what extent did CMAL, Transport Scotland and the Scottish Government respond appropriately to resolve issues and concerns with the project?
- What are the updated costs and timescales for the project and has the Scottish Government put appropriate arrangements in place to ensure its successful completion?

## HIAL air traffic control

**81.** Highland and Island Airports Ltd (HIAL) is fully owned by Scottish Ministers and is disclosed as an investment on Transport Scotland's Statement of Financial Position. HIAL's proposals for the development of a centralised air traffic control system in Inverness continue to attract significant public interest. This has included a session of the Scottish Parliament's Public Petitions Committee in February 2021 during which senior management from HIAL provided evidence on its overall strategy for air traffic control and progress with the project, and two separate pieces of correspondence from elected representatives sent to Audit Scotland.

**82.** Key points of contention include the additional costs associated with HIAL's proposals and the impact on island economies as a result of relatively well-paid jobs being transferred to Inverness. HIAL recognises that its costs will increase as a result of its chosen option. But it considers that a centralised system provides greater resilience over other options and is the best way to ensure the continuation of air services in the medium to long term to Scotland's remotest communities.

**83.** The project is still at an early stage and the award of contracts to develop the new air traffic control system is some way off. Recent developments have included HIAL publishing in May 2021 a retrospective island communities impact assessment as required under the Island (Scotland) Act 2008. HIAL is also continuing to work with its staff, trade union representatives and other stakeholders to mitigate the impact the project will have on staff as much as possible. HIAL is responsible for determining its strategy for air traffic control and Audit Scotland has no powers to intervene over this or stop the award of contracts. We shall continue to monitor progress with the project with a view to determining what audit work may be appropriate in the future.

## National performance audit reports

**84.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. In

2020/21 a number of reports were published which may be of direct interest to Transport Scotland. These are outlined in [Appendix 4](#).

# Appendix 1. Action plan 2020/21

## 2020/21 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p><b>1. Covid-19 spend analysis</b></p> <p>Transport Scotland's budget was increased in 2020/21 through in-year revisions by £696.0 million. This was to provide support to public transport providers as a result of the reduction in patronage caused by the Covid-19 pandemic.</p> <p>Although the Transport Scotland Annual Report and Accounts provided details regarding the level of Covid-19 additional funding, it did not clarify the level of spend.</p> <p>Risk – There is a lack of transparency on additional funding provided to public transport operators.</p>	<p>Transport Scotland should identify the actual spend of additional monies made available for Covid-19 and should make this publicly available.</p> <p><a href="#">Paragraph 32</a></p>	<p>Agreed. We will collate the actual spend levels and publish them within the Public Sector Reform Act Report, which will be published alongside the 2020/21 Annual Report and Accounts in October/November 2021.</p> <p>Responsible officer – Elaine McAtamney</p> <p>Agreed date – October/November 2021.</p>
<p><b>2. 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 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><a href="#">Paragraph 67</a></p>	<p>Agreed. This will form part of the ongoing exercise within TS Corporate Services to streamline the collation of performance information throughout each financial year. The team will report on progress in this area after the end of calendar year 2021. It is anticipated that this enhanced information will be able to be included within the Annual Performance Report for 2021/22.</p>

Issue/risk	Recommendation	Agreed management action/timing
		<p>Responsible officer – TS Corporate Services / TS Business Areas to complete. Elaine McAtamney to inform on progress.</p> <p>Agreed date – Dec 2021-March 2022</p>
<p><b>3. 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><a href="#">Paragraph 76</a></p>	<p>Agreed. We will agree processes to capture more detail of this spend to incorporate within the performance report and financial highlights.</p> <p>Responsible officer – Elaine McAtamney / TS Finance Business Partners/ Business Area colleagues.</p> <p>Agreed date – Dec 2021-March 2022.</p>

## Follow-up of prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p><b>4. Assets under construction</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 roads network category.</p> <p>Transport Scotland confirmed that the AWPR had been signed off as completed in</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>In Progress</p> <p>Transport Scotland has undertaken an exercise to clear out residual balances within the ledger, but further work is required. Audit investigation found £5 million of balances which appear to relate to completed schemes and therefore should not be included within assets under construction. This has been reported as a misstatement which Transport Scotland</p>



Issue/risk	Recommendation	Agreed management action/timing
<p>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.</p> <p>Transport Scotland identified a total balance of £392 million within the assets under construction category which related to the AWPR.</p> <p>Risk – The assets under construction balance could be materially misstated.</p>		<p>opted not to adjust for (see Appendix 3, item 1.</p> <p>TS Finance and Roads Finance Teams confirm that much work has already been done in this area in 2021. This work continues and is anticipated to be largely complete within 2021/22.</p>
<p><b>5. Land and property acquisition provision</b></p> <p>Transport Scotland includes a provision within its accounts relating to the likely compensation payable in respect of road or rail schemes. Estimates are provided by the Valuation Office Agency (VOA) to support this provision.</p> <p>From our testing we found a significant difference of £24 million in the value of the provision as at 31 March 2020 to an estimate prepared as at June 2020. Upon further review Transport Scotland concluded that the provision was overstated and opted to adjust the balance by £20 million.</p> <p>Risk – The provisions balance is materially misstated.</p>	<p>Transport Scotland should carry out a thorough review of likely compensation payments at year-end (using the most recent estimates from the VOA) to ensure that the provision is reasonably reflective of this.</p>	<p>Complete</p> <p>An exercise was carried out to ensure that the provision posted to the accounts is consistent with the most up to date information available to Transport Scotland.</p>
<p><b>6. Network Rail April payments</b></p> <p>Transport Scotland makes advance payments to Network Rail to allow it to carry out work to maintain and enhance the rail network.</p>	<p>Transport Scotland develops a procedure to ensure that payments to Network Rail for April of each year are correctly recorded in the underlying financial ledger.</p>	<p>Complete</p> <p>No year-end payable balance and matching prepayment included in the 2020/21 accounts.</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>These payments are made to ensure that Network Rail have the funds available on the first day of each calendar month.</p> <p>To achieve this, Transport Scotland commences the payment a few days prior to the end of a month to allow for clearing. This creates a problem at year-end as the amount is shown as a creditor balance within Transport Scotland's payables system at 31 March, with an off-setting prepayment. The applicable accounting standard (IFRS 9) does not allow the creation of a liability until one of the parties has performed under the agreement.</p> <p>Risk – there is a material misstatement in the payables and receivables balances.</p>		
<p><b>7. Inflation in provision discounting</b></p> <p>The FReM requires public bodies to discount provisions by applying discount rates set by HM Treasury. Recently Treasury changed from providing real rates to nominal rates to avoid specifying the inflation rate to be used but provide suggested rates as bodies are still required to incorporate inflation.</p> <p>Testing of provisions found that Transport Scotland correctly applied the discount factors provided by HM Treasury, as required by the FReM, but did not incorporate either the suggested inflation rates or any others.</p>	<p>Transport Scotland should ensure that inflation is taken into consideration when discounting provision balances in future.</p>	<p>Complete</p> <p>Testing if provisions balances confirmed that inflation was correctly factored into discount rate calculations.</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>Risk – the provisions balance does not meet with FReM requirements.</p>		
<p><b>8. Impact of Covid-19 on financial plans</b></p> <p>Transport Scotland has proactively sought to amend its financial plans to ensure that transport operators are supported through the Covid-19 pandemic from the reduction in fare income. As the pandemic changes, plans are likely to have to change as well.</p> <p>Risk – transport operators are not properly supported during the pandemic.</p>	<p>Transport Scotland should ensure its financial plans are flexible to meet the changing requirements brought about by the pandemic.</p>	<p>In progress</p> <p>During the course of 2020/21 Transport Scotland developed new controls and processes to support public transport providers. This ensured that the sector was adequately supported throughout the period. Given the ongoing nature of the pandemic, there will still be further need for Transport Scotland to manage its financial plans in the short and medium periods.</p>
<p><b>9. Transparency</b></p> <p>Transport Scotland formerly published minutes of monthly senior management team (SMT) meetings, however as meetings have increased in light of Covid-19, minutes have not been made available.</p> <p>Transport Scotland has also been considering options how to publish details of the SMT's register of interests in line with the Scottish Government's 'On:Board' guidance.</p> <p>Risk – Transport Scotland is not transparent in its decision-making process</p>	<p>To enhance transparency Transport Scotland should agree an approach to publishing information which demonstrates its key decision-making processes during the Covid-19 pandemic and take forward its plans to publish the senior management team's register of interests within the Public Services Reform (Scotland) Act 2010 disclosures.</p>	<p>Complete</p> <p>SMT minutes are now available on the Transport Scotland website. The SMT register of interests will be published in the Public Services Reform (Scotland) Act 2010 disclosures.</p>
<p><b>10. Fair pay disclosure</b></p> <p>The Government Financial Reporting Manual (the FReM) requires the disclosure of the median remuneration of the reporting entity's staff, based on annualised, full-time equivalent remuneration of all</p>	<p>Transport Scotland should, along with the Scottish Government, consider developing an approach which incorporates agency staff into the fair pay (median) calculation.</p>	<p>In progress</p> <p>Transport Scotland is committed to review whether it could perform its own calculation going forward with the Scottish Government. However, due to other pressures this has not yet</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>staff (including temporary and agency staff) as at the reporting date. Our review found that Transport Scotland's calculation does not incorporate agency staff.</p> <p>Risk – The fair pay disclosures in the remuneration and staff report are inconsistent with the FReM.</p>		<p>taken place. Transport Scotland will investigate for 2021/22.</p>

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# Appendix 2. Significant audit risks

The table below sets out the audit risks we identified on the 2020/21 audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the financial statements and those relating to our wider responsibility under the [Code of Audit Practice 2016](#).

## Risks of material misstatement in the financial statements

Audit risk	Assurance procedure	Results and conclusions
<p><b>1. Risk of material misstatement due to fraud caused by the management override of controls</b></p> <p>International Auditing Standards require that audits are planned to consider the risk of material misstatement in the financial statements caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of fraud due to the management override of controls.</p>	<p>Reviewed the appropriateness of journal entries and other adjustments recorded in the general ledger and financial statements.</p> <p>Reviewed accounting estimates for biases.</p> <p>Evaluated significant transactions that are outside the normal course of business.</p> <p>Focused testing of the regularity and cut-off assertions during the financial statements audit.</p>	<p><b>Results:</b> We tested a sample of significant journals and found that all were appropriate and were adequately supported. We also reviewed all significant estimates and unusual transactions and found these were reasonable.</p> <p><b>Conclusion:</b> We found no material misstatement as a result of management override of controls.</p>
<p><b>2. Risk of material misstatement caused by fraud in expenditure</b></p> <p>As most public-sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. There is a risk that expenditure may be misstated resulting in a material misstatement in the financial statements.</p>	<p>Finance Business Partners analyse expenditure patterns and forecasts, aligning to the Long-Term Financial Plan.</p> <p>Payments are adequately supported and checked to Purchase Orders and authorised and approved by independent Directorate Team Members.</p> <p>The arrangements for the additional support for public</p>	<p><b>Results:</b> Through further investigation and discussion we concluded that the risk of fraud was in Covid-19 restart grant payments to bus operators. This is due to the lack of a pre-existing formal agreement in place, such as exists for rail operators.</p> <p>We performed walkthrough testing of the main controls, focusing on the reconciliation process, which is carried out</p>

Audit risk	Assurance procedure	Results and conclusions
<p>Transport Scotland makes large value grant and contractual payments to third party organisations to operate Scotland's public transport services and to enhance and maintain its infrastructure. Furthermore, during 2020/21 Transport Scotland made additional payments to providers to off-set the significant reduction in passenger income as a result of Covid-19 using amended or new payment processes.</p> <p>There are significant risks due to the changing payment processes introduced this year and the potential for fraudulent claims from providers seeking to return a profit. Also, the scale of payments involved, some of which occur near the year-end, presents a risk that an incorrect payment could impact significantly on the overall resource position.</p>	<p>transport include an inspection of actual costs and revenues and comparison against funding provided in order to recover any excess.</p>	<p>by accountancy firms, involving the verification of cost information provided by bus operators.</p> <p>Through providing a real-time recommendation to review bus operators' audit reports (which Transport Scotland duly implemented) we were assured that the processes were robust and reasonable</p> <p>We also carried out substantive testing of a sample of payments and found no errors.</p> <p><b>Conclusion:</b> Our substantive testing found no issues, therefore in light of these findings we concluded that this is no material misstatement.</p>
<p><b>3. Estimation and Judgements</b></p> <p>There is a significant degree of subjectivity in the measurement and valuation of the following material account areas:</p> <ul style="list-style-type: none"> <li>• Non-current assets – relating primarily to the trunk road network and associated assets under construction and consequential adjustments in the revaluation reserve. In addition, this also includes adjustments to financial assets in light of accounting requirements concerning credit losses, i.e. impairments.</li> </ul>	<p>Robust processes and internal control procedures in place across these areas including:</p> <ul style="list-style-type: none"> <li>• Contractor valuations of work in progress.</li> <li>• review of the basket of scheme values.</li> <li>• review of Atkins procedures for running RAAVS for data validation and checking.</li> <li>• engineers' impairment reviews and</li> <li>• the VOA land valuations that contribute to the value of the trunk road network.</li> </ul>	<p><b>Results:</b> Through testing of the key input controls within RAAVS and substantive testing of the output at year-end we found no issues. We also carried out a review of the firm which operates RAAVS and the land valuer.</p> <p>We also confirmed that the VOA had provided a valuation of the land element of the road network and had not identified a material uncertainty.</p> <p>We confirmed the outstanding liability on the statement of financial position for PFI/NPD schemes to the capital element of underlying financial models.</p>

Audit risk	Assurance procedure	Results and conclusions
<ul style="list-style-type: none"> <li>Current and non-current liabilities-relating to significant accruals, PFI/NPD liabilities, and provisions.</li> </ul> <p>This subjectivity represents an increased risk of misstatement in the financial statements.</p>		<p>We also confirmed significant accruals and prepayments to supporting evidence and ensured that the provision balance was consistent with legal advice.</p> <p><b>Conclusion:</b> Through our testing we did not identify a material misstatement, estimates are reasonable.</p>

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

Audit risk	Assurance procedure	Results and conclusions
<p><b>4. Impact from Covid-19 Financial Management and sustainability</b></p> <p>The restrictions introduced to manage the Covid-19 pandemic have had a significant impact on public transport, with passenger usage reducing by as much as 75% on some modes. Transport Scotland has historically supported transport providers while assuming a certain level of passenger income. Due to the pandemic, passenger income has reduced below assumed levels in 2020/21.</p> <p>Transport Scotland has obtained additional funding from the Scottish Government to support increased payments to providers. This has resulted in a significant increase in Transport Scotland's budget for 2020/21 by around £670 million compared to the previous year. There are risks around the management of these additional funds (including the potential for</p>	<p>The arrangements for the additional support for public transport include additional specifically contracted resources for the largest areas of bus and rail. This supports the management of the additional funding.</p> <p>Transport Scotland also maintains details of the projected additional resource required in addition to a record of support approved during the year.</p> <p>The Accountable Officer Approval process includes forecast of additional support and is scrutinised by the Cabinet Secretary for Finance in relation to the level of funding identified by UK Government.</p>	<p><b>Results:</b> Over the course of 2020/21, Transport Scotland received an additional £696 million of funding to support public transport providers through the Covid-19 pandemic. However, Transport Scotland has yet to report publicly how much it has spent in comparison to the allocated funding.</p> <p>Our audit found that Transport Scotland developed effective and robust controls to manage the spend of these funds.</p> <p>Additional funding is available to Transport Scotland to support the sector in 2021/22 and there is a possibility that further support will be required in future years.</p> <p><b>Conclusion:</b> Transport Scotland has managed its finances well during the Covid-19 pandemic and has supported key partners in the sector. Further work will be required in future years to identify how much ongoing additional support is required.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>fraudulent claims from third parties) and forecasting future funding requirements beyond 2020/21.</p>		
<p><b>5. Impact from Covid-19 – Governance and value for money</b></p> <p>Transport Scotland has seen its budget increase significantly by around £670 million to off-set the impact of Covid-19 on transport providers. It has also had to adapt to homeworking over the course of 2020/21 while administering many new payment types.</p> <p>There are risks around how Transport Scotland maintains good governance through a period of significant challenge (including remote working) and how it assures itself that monies spent represent value for money.</p>	<p>The Accountable Officer Approval process is the main additional strand of governance for the additional support required. This includes a requirement for value for money to be demonstrated that is scrutinised for approval by the Accountable Officer, TIC Cabinet Secretary and Finance Secretary.</p>	<p><b>Results:</b> In the early stages of the pandemic the SMT met frequently while working remotely. In the period since it has reverted to a more business-as-usual frequency.</p> <p>Through observation during the audit, Transport Scotland continues to work appropriately in a remote environment.</p> <p>Internal audit assessed business continuity arrangements as reasonable, and Transport Scotland are currently progressing recommendation from this review.</p> <p>Transport Scotland is currently developing performance indicators for its corporate plan. The plan currently includes an objective to support businesses through Covid-19 and recovery from it.</p> <p><b>Conclusion:</b> Transport Scotland has been able to continue working effectively to support the sector. It has still to develop performance indicators to measure value for money in this area.</p>



# Appendix 3. Summary of uncorrected misstatements

We report all uncorrected misstatements in the annual report and accounts that are individually greater than our reporting threshold of £250,000.

The table below summarises amendments that would be required to misstatements that were identified during our audit testing and have not been corrected by management. Cumulatively these errors are below our performance materiality level as explained in [Exhibit 1](#). We are satisfied that these errors do not have a material impact on the financial statements.

Account areas	Comprehensive income and expenditure statement		Balance sheet	
	Dr £m	Cr £m	Dr £m	Cr £m
1. Property, plant and equipment				(5)
Revaluation reserve			5	
2. Financial assets				(5)
(Revaluation reserve)			5	
3. Non-current receivables				(5)
Current receivables			5	
4. Current receivables			7	
Income		(7)		
Net impact		(7)	7	(10)

## Notes:

1. relates to balances found within assets under construction relating to completed roads projects. Note that only the credit posting to Property, plant and equipment would impact on the net position as the other entry impacts on reserves.

2. relates to an adjustment to the carrying value of loans to a third party which attracts no interest, required under IFRS 9 to represent discounted future cash receipts. Note that only the

credit posting to Financial assets would impact on net position as the other entry impacts on reserves.

3. relates to the correction of a classification misstatement between current and non-current assets (receivables). Note that as this is a movement between two balances it does not affect the net asset position.

4. relates to an accrual for income received from a transport operator shortly after the year-end which related to the end of a contract year which occurred during 2020/21. This impacts on net expenditure and net assets.

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# Appendix 4. Summary of 2020/21 national performance reports

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## April

[Affordable housing](#)

## June

[Highlands and Islands Enterprise: Management of Cairngorm mountain and funicular railway](#)

[Local government in Scotland Overview 2020](#)

## July

[The National Fraud Initiative in Scotland 2018/19](#)

## January

[Digital progress in local government](#)

[Local government in Scotland: Financial overview 2019/20](#)

## February

[NHS in Scotland 2020](#)

## March

[Improving outcomes for young people through school education](#)

# Transport Scotland

## 2020/21 Annual Audit Report

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[www.audit-scotland.gov.uk/accessibility](http://www.audit-scotland.gov.uk/accessibility)



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