

Dear [REDACTED]  
Sorry to hear you were ill.  
Thanks for your reply, and the useful link to the Parliament web site. I see [REDACTED] raised my point with [REDACTED] -though she doesn't seem to have got an answer:

*"[REDACTED]: You said that Audit Scotland did not review the assumptions in the business case. Did anyone do that? Would such assumptions normally be reviewed or would they simply be accepted? Was it simply up to the council to be satisfied?"*

I see that Audit Scotland don't feel they are responsible for reviewing the business case. Can you suggest who ought to be responsible for doing this, on behalf of Parliament and the taxpayer. Would Audit Scotland do this if they were asked?

Please reply to my home e-mail:

[REDACTED]

Thanks  
David Craig

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**From:** [REDACTED] [audit-scotland.gov.uk]  
**Sent:** 10 March 2011 13:00  
**To:** Craig, Dave (SELEX GALILEO, UK)  
**Subject:** RE: Edinburgh Trams Interim Report

Dear Mr Craig

Please accept my apologies for not getting back to you sooner on this matter. I have discussed the matters raised in your e-mail of 17<sup>th</sup> February with colleagues but unfortunately my response to you has been delayed because I have been sick and out of the office.

I am sorry that you feel that the description of Audit Scotland's role on Page 2 of our report does not match my description of our statutory duties. I have passed this to our communications team who are responsible for our corporate publications and they will review how the wording we use can be improved to better reflect some of the limitations that are attached to the role of audit.

As I intimated in my previous e-mail, Audit Scotland produces reports on economy, efficiency and effectiveness on behalf of the Auditor General and the Accounts Commission. Decisions as to the timing and scope of the work rests with their independent judgement. The Auditor General has recently presented the report on the Trams to the Parliament's Audit Committee. In doing so he set out the reasons why he had decided on the scope for the work we have done to date and he and colleagues provided answers to committee members to clarify the information available to us on matters such as the contract and the business case and how far we examined these. The minutes of the Committee session are available on the Scottish Parliament's website at <http://www.scottish.parliament.uk/s3/committees/publicAudit/or-11/pau11-0402.htm#Co12528>. I hope that these provide you with a fuller picture of the scale of the exercise the Auditor General and the Commission set for Audit Scotland and how they expect to continue to monitor the trams project.

[REDACTED]  
Portfolio Manager - correspondence

CZS00000025\_0001

**From:** Craig, Dave (SELEX GALILEO, UK) [mailto: [REDACTED]@selexgalileo.com]  
**Sent:** 10 March 2011 12:14  
**To:** [REDACTED]  
**Cc:** [REDACTED]  
**Subject:** RE: Edinburgh Trams Interim Report

Dear [REDACTED]  
Could you please tell me if [REDACTED] is still working on my complaint? I haven't heard from him since the 17 February.  
Thanks  
David Craig

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**From:** Craig, Dave (SELEX GALILEO, UK)  
**Sent:** 02 March 2011 17:34  
**To:** Craig, Dave (SELEX GALILEO, UK); [REDACTED]  
**Subject:** RE: Edinburgh Trams Interim Report

Dear [REDACTED]  
Can you please give me an update on what is happening about my complaint?  
Are we still trying to resolve this informally?  
Thanks  
David Craig

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**From:** Craig, Dave (SELEX GALILEO, UK)  
**Sent:** 17 February 2011 18:13  
**To:** [REDACTED]  
**Subject:** RE: Edinburgh Trams Interim Report

Dear [REDACTED]

Thank you for responding to my concerns.  
I am confused by your assertion (para 2) that your primary role is not to ensure value for money.  
Page 2 of your report says this:

*"The Auditor General for Scotland is the Parliament's watchdog for ensuring propriety and value for money in the spending of public funds."*

*"Audit Scotland .. provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds."*

Please explain .

I did not say that you should be involved with the day-to-day management of the project, so I take no issue with points you make about this. However, I do not accept the logic in your last sentence:

" because of ongoing contractual disputes, the audit did not extend to detailed commentary on details such as contracts or project management and as such does not consider the composition of the detailed business case .."

The business case has nothing to do with contractual disputes, contracts or project management.

I am complaining because the business case has not been audited. Naturally, the proposers of the project say the BCR>1. Your job is to check this, on behalf of the Government, the Parliament & the taxpayer. And as well as verifying value for money (BCR) you are charged with checking the propriety (public investment possibly used to favour Lothian buses over its competitors ).

David Craig

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**From:** [REDACTED] [mailto:[REDACTED]@audit-scotland.gov.uk]  
**Sent:** 15 February 2011 11:15  
**To:** Craig, Dave (SELEX GALILEO, UK)  
**Subject:** FW: Edinburgh Trams Interim Report

**From:** [REDACTED]  
**Sent:** 10 February 2011 14:30  
**To:** [REDACTED]  
**Cc:** [REDACTED]  
**Subject:** FW: Edinburgh Trams Interim Report

Dear Mr Craig

Thank you for your message. The first step in our complaints process is to try to resolve matters informally. I am therefore writing to provide a further explanation of the role of Audit Scotland and about the scope of our trams report. If you are still dissatisfied we will pass your complaint in to the first stage of our formal complaints procedure although I should point out from the outset that we consider complaints about the way we have handled our business and not about any judgements that we make.

Your message suggests that our primary role is to ensure value for money. This is not the case. Responsibility for delivering value for money from the use of public resources rests with the management of the public bodies concerned. They are required to take the day-to-day decisions that drive their business and in doing so they must have due regard to economy, efficiency and effectiveness. These duties are imposed on management through statute such as the duty to secure best value placed on local authorities and through administrative mechanisms such as letters appointing the heads of Scottish Government (eg Transport Scotland) as accountable officers.

Auditors play no part in the day-to-day management process. Their role is to provide assurance on the use of resources and to produce reports as they consider necessary which allow the management of those public bodies to be held to account.

There are two primary types of audit work. Firstly we undertake an annual financial audit of each public body. Under statute, the Accounts Commission appoints the external auditor of local authority bodies and the Auditor General appoints external auditors for Scottish Government bodies. External auditors may be members of Audit Scotland staff or may be private firms such as KPMG. The auditors undertake their audits following a code of audit practice (copy attached) to provide an opinion on the financial statements in the annual accounts of the public body and of its arrangements for governance and financial management. The external auditor produces an annual audit report recording the results of the audit. Annual audit reports are public documents and are posted on our website [http://www.audit-scotland.gov.uk/work/local\\_audit.php?year=2009](http://www.audit-scotland.gov.uk/work/local_audit.php?year=2009).

The Commission and the Auditor General also have discretionary power to undertake examinations of economy, efficiency and effectiveness in the way public bodies have used their resources. This work is normally undertaken by Audit Scotland through a programme of performance audits. The programme is developed after a process of consultation to assess topics to be examined and the scope of the examination.

Our Trams report is one of our performance audit products. The scope of the audit is set out in paragraphs 3 and 4 to make it clear that this is an interim report providing a factual commentary on progress with the projects based on information obtained through the annual audits of the City of Edinburgh Council and of Transport Scotland augmented by some additional analysis. However, because of ongoing contractual disputes, the audit did not extend to detailed commentary on details such as contracts or project management and as such does not consider the composition of the detailed business case in detail at this stage.

I hope this information is of use to you.

[REDACTED]  
Portfolio Manager - correspondence

[REDACTED]  
In the Complaints folder

[REDACTED]  
Audit Scotland  
18 George Street  
Edinburgh

Tel : [REDACTED]

Fax: [REDACTED]

[REDACTED]@audit-scotland.gov.uk

**From:** Craig, Dave (SELEX GALILEO, UK) [mailto:[REDACTED]@selexgalileo.com]

**Sent:** 04 February 2011 17:45

**To:** Complaints

**Subject:** Edinburgh Trams Interim Report

See attachment.

Complaint about Edinburgh Trams Interim Report

Audit Scotland did not audit the business case for the Edinburgh Tram Project

At para 22 of the report you make clear that the Government's grant was conditional on the BCR being >1.0. Your primary responsibility is to ensure value for money in the spending of public funds: i.e. to check that the BCR is in fact >1. You haven't done this.

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**What evidence is there that an audit is needed?**

The redacted business case, published 16 December 2010, has at least two weaknesses, which (in my view) any competent auditor would spot.

Firstly, it emphasises time and again that tram passenger numbers will only generate a profit if the service is 'integrated' with Lothian buses. There are two problems with this: a) public investment in trams will be used to favour Lothian buses over its competitors and b) Lothian buses will not be allowed to compete with the trams. One could make a profit from horse-drawn trams if no other forms of transport are allowed to compete, but this is not a sound basis for calculating the BCR.

**Quotations from the business case**

3.3 *The integration of bus and tram in Edinburgh under the umbrella of TEI is a unique opportunity to design the service patterns for Lothian Buses' services and trams...*

4.3 *At the core of the TEI Business Plan lies an assessment of how TEI will integrate the tram into its operations...*

4.4 *The principal bus operator in Edinburgh is Lothian Buses, which is wholly owned by the public sector and 91% owned by the Council. Lothian Buses operations currently hold a share of approximately 35% of Edinburgh bus patronage.*

Secondly, it overlooks the social cost. The cost of delays to buses, cars, and commercial vehicles is massive and quantifiable – typically, I believe, 2-4 times the construction cost of an Infrastructure project like this. As an example I refer to this web site:

[http://ttworld.latech.edu/publications/\(file%208\)%20infra.pdf](http://ttworld.latech.edu/publications/(file%208)%20infra.pdf)

**What public benefit might arise for auditing the business case now?**

1. The omission of social costs is the root cause of the current paralysis; because it apparently costs nothing to leave Shandwick Place blocked, the Gogar roundabout strangled, and so on. TIE fiddle while Edinburgh burns money.
2. Cancellation of the project is an option which has been suggested, and should be considered. Fundamentally, we need to be sure that even if we write off what has already been spent, the BCR of the project is truly >1, including social costs, risks, and the cost of any borrowing.
3. Lack of clarity about the true BCR will preclude the sourcing of additional public or private funding, and the uncertainty about the continuation of the project will make it impossible to recruit the best people for TIE. We may in fact need people with the skills to close down the project, not wizards at building trams.

David Craig

