

# The Office of the Scottish Road Works Commissioner

Report on the 2009/10 Audit to the Commissioner and the Auditor General for Scotland

November 2010

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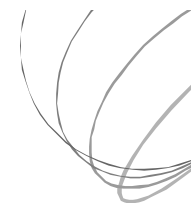
AUDIT SCOTLAND

# The Office of the Scottish Road Works Commissioner

Report on the 2009/10 Audit to the Commissioner and the Auditor  
General for Scotland

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# Key messages

In 2009/10 we looked at the key strategic and financial risks being faced by The Office of the Scottish Road Works Commissioner (the Commissioner). We audited the financial statements and we also reviewed the use of resources and aspects of performance management and governance. This report sets out our key findings.

## **Financial statements**

We have given an unqualified opinion on the financial statements of the Commissioner for 2009/10. We have also concluded that in all material respects, the expenditure and receipts shown in the financial statements were incurred or applied in accordance with applicable enactments and relevant guidance, issued by Scottish Ministers.

## **Financial position and use of resources**

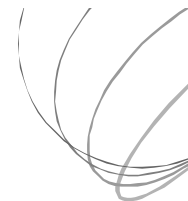
Scotland's economy is in recession and the public sector is under the greatest financial pressure since devolution ten years ago. It will be very challenging to maintain current levels of public services and meet new demands when resources are tight. It remains unclear what impact the current recession will have beyond 2010/11. The Scottish budget is likely to reduce in real terms but the full extent of this is not yet known. Two per cent efficiency savings will not be sufficient beyond 2011 to bridge the gap between public spending and the smaller budget available. In the current economic climate difficult decisions will have to be made across the public sector about priority spending programmes.

The Consolidated Operating Cost Statement for SRWC records expenditure of £1,084 thousand (2008/09: £1,134 thousand), income of £818 thousand (2008/09: £860 thousand), resulting in net expenditure before tax of £266 thousand (2008/09: £274 thousand), primarily funded by grant from the Scottish Government of £262 thousand (2008/09: £290 thousand).

Scottish Ministers have agreed a budget for the SRWC of £283 thousand for 2010/11, with prescribed fees for the Scottish Road Works Register set at £877 thousand, an approximate 10% increase in the overall budget, to cover additional tendering and development costs.

## **Governance and accountability**

Corporate Governance is concerned with the structures and process for decision making, accountability, control and behaviour at the upper levels of an organisation. We conducted a review of the corporate governance arrangements of the Commissioner's office as at May 2010. We considered the overall framework within which the Commissioner operates the Commissioner's own governance arrangements. We noted that the governance framework within which the Commissioner operates is relatively complex; and that the Commissioner has continued to build on the development of the corporate governance arrangements. We concluded that, overall, the corporate governance and control arrangements for the



Commissioner operated satisfactorily during the year, and this position and the related developments are appropriately reflected in the Statement on Internal Control.

## **Performance**

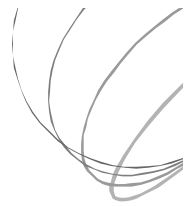
The Commissioner's Business Plan for 2009/10 set out 5 strategic aims, each supported by a number of specific objectives and targets or milestones. The Commissioner has made satisfactory progress towards achievement of those objectives.

## **Looking forward**

The final part of our report notes some key areas for SRWC going forward, including developments in business processes and the control environment - against a background of national issues which affect all public sector bodies.

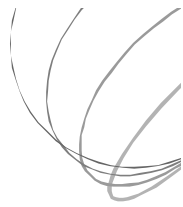
The assistance and co-operation given to us during our audit is gratefully acknowledged.

**Audit Scotland**  
**November 2010**



# Introduction

1. This report summarises the findings from our 2009/10 audit of The Office of the Scottish Road Works Commissioner (the Commissioner or SRWC). The scope of the audit was set out in our Annual Audit Plan in accordance with the Code of Audit Practice, which was presented to the Commissioner in March 2010. The plan described the work we planned to carry out, the primary focus being an audit of the financial statements and a review of the Commissioners' corporate governance arrangements.
2. Appendix A of this report sets out the key risks highlighted in this report and the action planned by management to address them.
3. The contents of this report have been agreed with relevant officers to confirm factual accuracy. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by the Commissioner and his staff during the course of our audit. This report will be submitted to the Auditor General for Scotland and will be published on our website, [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).



# Financial Statements

4. In this section we summarise key outcomes from our audit of SRWC's financial statements for 2009/10 and the accounting issues faced. The financial statements are an essential means by which the organisation accounts for its stewardship of the resources available to it and its financial performance in the use of those resources.

## Our responsibilities

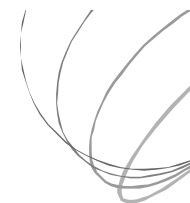
5. We audit the financial statements and give an opinion on:
  - whether they give a true and fair view of the financial position of SRWC and its expenditure and income for the period in question
  - whether they and the Remuneration Report were prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements
  - the consistency of the information which comprises the Foreword and Management Commentary within the financial statements
  - the regularity of the expenditure and receipts.
6. We also review the statement on internal control by:
  - considering the adequacy of the process put in place by the Commissioner, in his role as Accountable Officer, to obtain assurances on systems of internal control
  - assessing whether disclosures in the statement are consistent with our knowledge of SRWC.

## Overall conclusion

7. We have given an unqualified opinion on the financial statements of SRWC for 2009/10.
8. The unaudited accounts were provided to us on 6 October 2010, supported by a working paper package. We provided our opinion to the Commissioner on 2 November 2010.

## Issues arising from the audit

9. International Standard on Auditing (ISA) 260 requires auditors to report certain matters arising from the audit of the financial statements to 'those charged with governance' prior to the accounts being signed. We reported in the terms of the ISA 260 to the Commissioner in November 2010. We are pleased to confirm that there were no significant issues or concerns that affected the opinion on the



financial statements, but we drew to attention one area of judgement relating to the financial statements as outlined below.

10. **Accounts preparation arrangements** – In 2008/09 careful consideration was given to the format of the Commissioner’s account, including confirming the need for consolidated financial statements. Also, the arrangements for preparing the accounts were assessed, in particular the need for some external assistance in compiling the statutory accounts from the underlying records. We are pleased to note that the arrangements put in place in 2008/09 provided a secure basis for the preparation of the 2009/10 accounts. However, the SEAS ledger was not kept up-to-date and reconciled with the records used for monitoring expenditure against budget. This made the year-end accounts and audit process more complicated than it need be. We recommend therefore that this aspect is kept under review in 2010/11; if assessed as appropriate, the external accountants could perform a pre-year end check to ensure that the ledger is up-to-date and that all arrangements are in-hand to facilitate preparation of the 2010/11 statutory accounts.

**Action plan point 1**

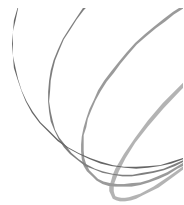
## Regularity

11. The Public Finance and Accountability (Scotland) Act 2000 imposes a responsibility on auditors that requires us to certify that, in all material respects, the expenditure and receipts shown in the accounts were incurred or applied in accordance with applicable enactments and guidance issued by the Scottish Ministers. We have been able to address the requirements of the regularity assertion through a range of procedures, including written assurances from the Accountable Officer as to his view on adherence to enactments and guidance. No significant issues were identified for disclosure.

## International financial reporting standards (IFRS)

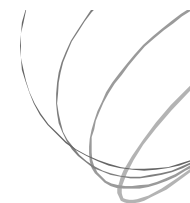
12. UK Government departments and other public sector bodies prepared their accounts in accordance with International Financial Reporting Standards (IFRS) for the first time in financial year 2009/10. The transition arrangements to IFRS required bodies to prepare IFRS shadow accounts for 2008/09, including revised opening balances as at 1 April 2008.
13. During 2009/10 we were required to review the shadow accounts and report on them to the Commissioner by 28 February 2010. The purpose of this exercise was to consider whether the shadow accounts had been properly prepared and report any matters that might prevent them forming a reliable basis for the first set of IFRS based accounts in 2009/10.
14. The shadow accounts and supporting documentation for the 2008/09 financial year were submitted by the Commissioner for audit by the deadline date of 30 November 2009. The shadow accounts and





supporting working papers were comprehensive, allowing us to conclude our audit within the agreed timetable.

15. We made one recommendation for the production of the 2009/10 accounts, and considered progress on this when we audited the 2009/10 accounts. The issue was:
  - flexi balance accrual – as SRWC operate a flexi time policy consideration needs to be given as to whether an accrual is required to reflect flexi balances carried forward as at 31 March.



# Use of Resources

16. Sound management and use of resources (people, money and assets) to deliver strategic objectives is a key feature of best value. This section sets out our main findings from a review of Commissioners' financial position for the financial year to 31 March 2010.

## Financial Position

### Outturn 2009/10

17. The Consolidated Operating Cost Statement for SRWC records expenditure of £1,084 thousand (2008/09: £1,134 thousand), income of £818 thousand (2008/09: £860 thousand), resulting in net expenditure before tax of £266 thousand (2008/09: £274 thousand), primarily funded by grant from the Scottish Government of £262 thousand (2008/09: £290 thousand).
18. **Year end bank balance** – The Commissioner's statements of financial position at 31 March 2010 shows bank balances of £136 thousand (2008/09: £131 thousand), which is unusually high for a public sector body with the expenditure of SRWC. We note that the reasons for this have been considered by the Commissioner and he will continue to monitor this balance.

**Action plan point 2**

## Scotland's public finances

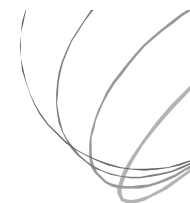
19. The Auditor General's report on *Scotland's public finances, published in November 2009*, contained an overview of the financial environment in Scotland and the pressures and challenges facing the public sector. The aim of this report was to help to inform the debate on the future of public finances in Scotland. The key messages from this report were:

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### Extract from Auditor General's report *Scotland's public finances*

*The public sector is coming under the greatest financial pressure since devolution.*

- Scotland's economy is in recession and the public sector is under the greatest financial pressure since devolution ten years ago. It will be very challenging to maintain current levels of public services and meet new demands when resources are tight.
- The Scottish Government and the wider public sector need to work together to develop better activity, cost and performance information. This information is needed to enable informed choices to be made between competing priorities, and to encourage greater efficiency and productivity.



*The Scottish Government faces significant challenges in balancing the budget while also delivering on its commitments and meeting increasing demands for public services.*

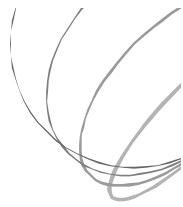
- It remains unclear what impact the current recession will have beyond 2010/11. The Scottish budget is likely to reduce in real terms but the full extent of this is not yet known.
- In many cases, the public sector uses income from various sources to pay for services. Income levels anticipated before the recession are unlikely to be realised, reducing the amount available to spend.
- The Scottish public sector faces significant challenges in balancing its budget while also delivering on its commitments. Changes in Scotland's population and rising unemployment rates will increase demand for public services.
- Two per cent efficiency savings will not be sufficient beyond 2011 to bridge the gap between public spending and the smaller budget available.

*In the current economic climate difficult decisions will have to be made about priority spending programmes.*

- The Scottish Government's annual budget is largely developed on an incremental basis which involves making adjustments at the margin to existing budgets. This approach is not suitable for budgeting in a financial downturn because it does not easily allow informed choices to be made about priorities, based on robust information about activity, costs and performance.
- The Scottish Parliament has an important role in scrutinising the government's spending plans. Better information linking spending to costs, activities and service performance, and a rolling programme of performance reviews, would support the Scottish Parliament in fulfilling this role.

## **Financial sustainability and the 2010/11 budget**

20. Scottish Ministers have agreed a budget for the Commissioner of £283 thousand for 2010/11, a 3.6% increase in budget when compared to 2009/10. The funding for the operation of the Scottish Road Works Register through prescribed fees has been set at £877 thousand, an increase of 12.6%, to cover additional tendering and development costs.



# Governance and Accountability

21. High standards of governance and accountability, with effective structures and processes to govern decision-making and balanced reporting of performance to the public, are fundamental features of best value. This section sets out our findings arising from a review of the Commissioners' arrangements.
22. Increasingly services are being delivered across the public sector through partnership working, sometimes involving complex governance and accountability arrangements. Best value characteristics also include effective partnership working to deliver sustained improvements in outcomes.

## Overview of arrangements

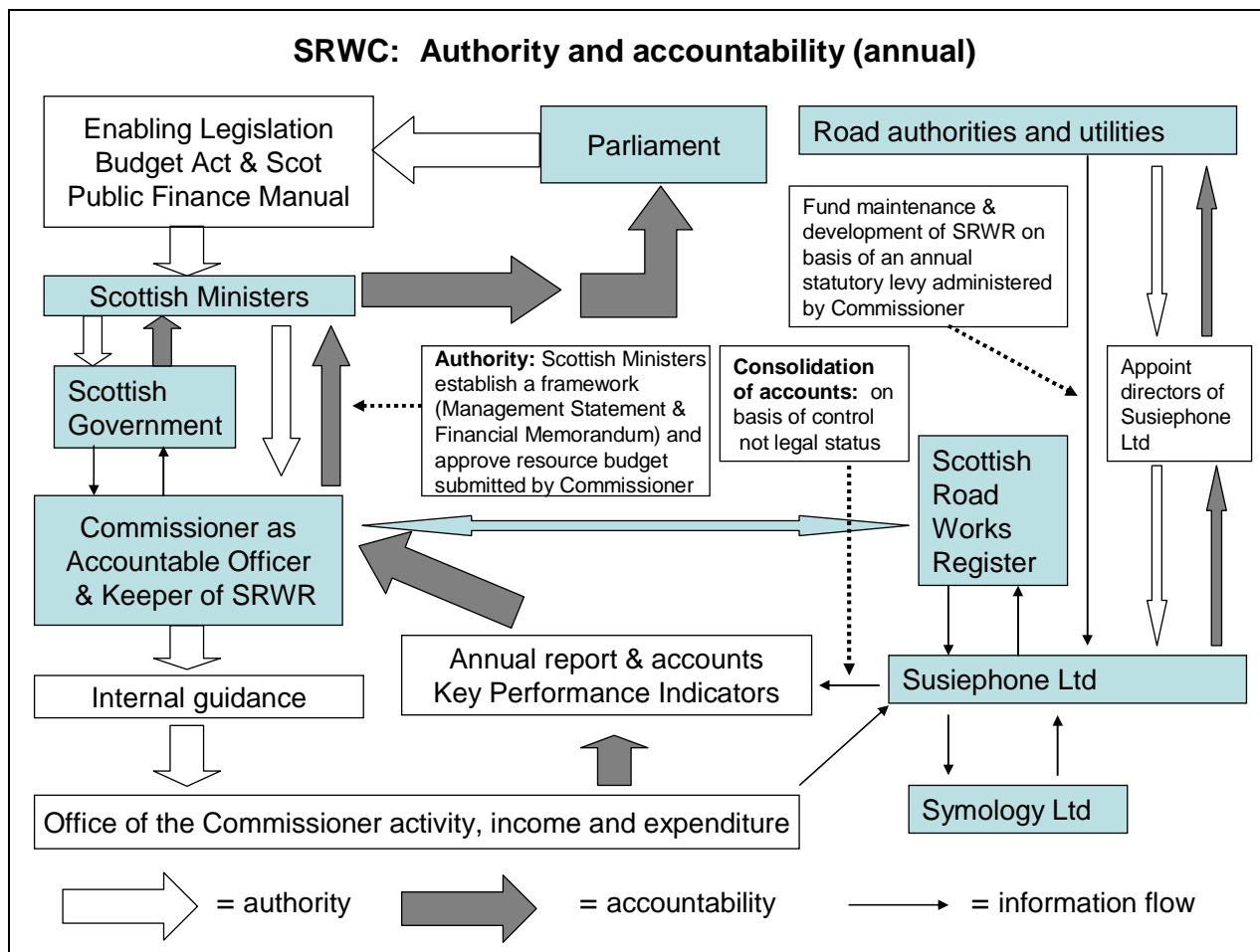
23. This year we reviewed:
  - the Commissioner's corporate governance arrangements
  - key systems of internal control
  - arrangements for the prevention and detection of fraud and irregularity, including standards of conduct.
24. Our overall conclusion is that arrangements within SRWC are sound and have operated through 2009/10.

## Review of corporate governance arrangements

25. Corporate governance is the system by which organisations direct and control their functions and relate to their stakeholders. This incorporates the way in which an organisation manages its business, determines strategy and objectives and goes about achieving those objectives. It is concerned with structures and processes for decision making, accountability, control and behaviour at the upper levels of the organisation. Three fundamental principles of corporate governance apply equally to all public sector bodies: openness, integrity and accountability.
26. Audit Scotland conducted a review of the corporate governance arrangements of the Commissioner's office as at May 2010. We considered the overall framework within which the Commissioner operates and the Commissioner's own governance arrangements.



## Overall corporate governance framework



27. In relation to the overall framework we noted that:

- the role of Commissioner built on the previous arrangements for the operation of the Scottish Roads Works Register, including the role of Susiephone Ltd and the contract with Symology Ltd
- the current arrangements have the advantage of retaining key stakeholder involvement through the board of Susiephone Ltd. However, this is at the expense of a potential lack of clarity in lines of authority and accountability and relatively complex contracting and accounting arrangements
- the current arrangements appear to be working well at present, but the Commissioner recognises that this is an area that will need to be kept under review
- in comparison with Parliamentary Commissioners, the framework for SRWC seems more supportive, with more scope for input from a “sponsor” role than that which applies to the



Parliamentary Commissioners, but in comparison with NDPBs the framework for SRWC lacks the provision for an independent board.

28. In relation to its own corporate governance arrangements, we noted that, although SRWC is a small and recently formed organisation, progress has been made in developing and implementing corporate governance arrangements. We concluded there is scope to further develop and embed corporate governance arrangements in line with good practice, in particular that the Commissioner should consider:

- establishing an audit committee and/ or an advisory board to provide independent advice and help scrutinise decisions made by the SRWC
- making provision for an internal audit function to provide management with assistance in evaluating and improving the internal control environment.

We have discussed these findings with the Commissioner and acknowledge that appropriate consideration is being given to these issues.

## Systems of internal control

### Scottish Government central systems

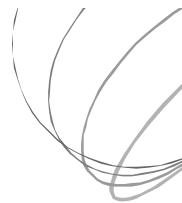
29. In addition to our own testing of systems and transactions during the year, we also relied on the work of the Scottish Government external audit team to assess the effectiveness of key internal controls in the following areas:

- the main accounting system (SEAS)
- accounts payable systems (including the operation of Easebuy)
- the central aspects of the accounts receivable system, and cash and banking systems
- the central aspects of the operation of the payroll and subsistence systems.

30. The Scottish Government auditors concluded that adequate assurance could be taken from the key controls in all main financial systems with the exception of payroll and travel and subsistence, where only limited assurance could be taken. Limited assurance on travel and subsistence was due to staff shortages in the section dealing with these responsibilities, which led to the same people authorising and inputting claims. As a result the Scottish Government external audit team carried out additional substantive testing.

### Statement on Internal Control

31. The Statement on Internal Control provided by the Commissioner, as Accountable Officer, recorded his responsibility for maintaining a sound system of internal control and set out the Commissioner's



approach and the operating procedures established over the initial periods of operation. The Statement on Internal Control also outlines the arrangements for reviewing effectiveness and the areas to be further developed in the following year. We concluded the disclosures in the statement were appropriate.

32. No material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the accounts. We will monitor progress in implementing the proposed development of arrangements as part of our 2010/11 audit.

### **Prevention and detection of fraud and irregularities**

33. The Commissioner has appropriate arrangements in place to prevent and detect fraud, inappropriate conduct and corruption, including policies and codes of conduct for staff. Overall, we have concluded that arrangements within the Commissioners' are satisfactory.



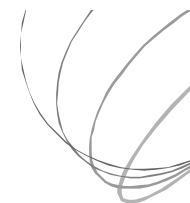
# Performance

34. Public audit is more wide-ranging than in the private sector and covers the examination of, and reporting on, performance and value for money issues. Key features of best value include:
- setting a clear vision of what the organisation wants to achieve, backed up by plans and strategies to secure improvement, with resources aligned to support their delivery
  - a performance management culture which is embedded throughout the organisation and a performance management framework which is comprehensive and supports the delivery of improved outcomes.
35. In this section we comment on:
- the Commissioner's business plan
  - performance against targets.

## Business plans

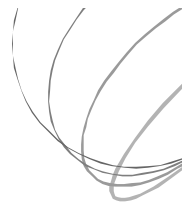
36. The Commissioner's Business Plan for the period 2009/10 set out the Commissioner's mission/ purpose:
- Through our monitoring and promotional role, seek improvements to the planning, co-ordination and quality of works in roads in Scotland.*
37. The Business Plans also set out the following strategic aims for the Commissioner:
- to monitor the carrying out of works in roads in Scotland
  - to promote compliance with the New Roads and Street Works Act 1991 and obligations imposed under it
  - to promote the pursuit of good practice
  - to undertake dispute resolution as required
  - to ensure the effective operation of the Commissioner's office.
38. The Business Plans set out how each of the Commissioner's strategic aims will be performed successfully in terms of key deliveries or actions along with timescales; given the nature of the Commissioner's activity in some cases the timescales are "on-going".





## Performance overview

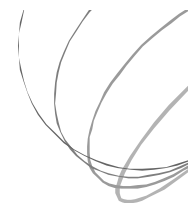
39. The Commissioner's Annual Report for 2009/10 records the outturn against the objectives set out in the Business Plan. There were 27 specific objectives set and the Annual Report records comments and outcomes against each. The Commissioner substantially met the key targets relevant to 2009/10. The Annual Report classifies all objectives as met, partially met or not met. For 2009/10, the annual report indicates that 24 were achieved (met) 1 partially achieved (partially met) and 2 were not achieved (not met).
  
40. The 2008/09 annual report highlighted the development of a suite of indicators to allow benchmarking of organisations, with formal monitoring commencing from quarter 1 of 2009/10. During 2009/10, performance review forms were issued to all roads authorities and to the major utility companies. From this review, any poorly performing organisations were directed to develop action plans for improvement. The use of these indicators is at an early stage and in some cases the Commissioner is still trying to determine what differentiates between good and bad performance when interrogating the figures.



# Looking Forward

41. The Commissioner faces a number of challenges in 2010/11, which include:

- **Further development of performance management arrangements** - During 2009/10, performance review forms were issued to all roads authorities and to the major utility companies. From this review, any poorly performing organisations were directed to develop action plans for improvement. The use of these indicators is at an early stage and in some cases the Commissioner is still trying to determine what differentiates between good and bad performance when interrogating the figures. The Commissioner should continue to develop and embed these arrangements during 2010/11.
- **Efficiencies and future funding** - Scottish public bodies reported more efficiency savings than the Government's two per cent target in 2008/09, but there are serious financial challenges ahead – the biggest since devolution – and making the required savings through efficiency will become increasingly difficult. To deal with reduced future funding and increase savings fresh approaches to improving efficiency and productivity must be considered, taking a more fundamental approach to identifying priorities, improving the productivity of public services, and improving collaboration and joint working.
- **Best Value** - The concept of best value is seen as a key driver of modernisation and improvement in public services. Audit Scotland has continued its commitment to extending the best value audit regime across the whole public sector and significant development work has taken place over the last year including the finalisation of its best value toolkits. This has been matched by the Scottish Government's commitment to refreshing its Best Value Guidance for Public Bodies. The Commissioner should continue to respond to this important initiative as it develops.



# Appendix A: Action Plan

## Key Risk Areas and Planned Management Action

Action Point	Risk / issue Identified	Planned Action	Responsible Officer	Target Date
1	<p><b>Accounts preparation arrangements.</b></p> <p>We are pleased to note that the arrangements put in place in 2008/09 provided a secure basis for the preparation of the 2009/10 accounts. However, although transactions and outturn were monitored during the year, the SEAS ledger was not completely up-to-date and reconciled with the records used for monitoring outturn against budget. The year-end accounts and audit process would have been more straightforward if this had been the case. We recommend therefore that this aspect is kept under review in 2010/11; if assessed as appropriate, the external accountants could perform a pre-year end check to ensure that the ledger is up-to-date and that all arrangements are in-hand to facilitate preparation of the 2010/11 statutory accounts.</p>	<p>The SEAS ledger will be kept up-to-date and reconciled with the records used for monitoring outturn against budget.</p> <p>The Commissioner will review this with the Office Manager each month up to the end of the financial year.</p> <p>The Commissioner will get the external accountants to undertake a pre-year end check to ensure that the ledger is up-to-date and to provide advice as required.</p>	<p>Office Manager</p> <p>Commissioner</p> <p>Commissioner</p>	<p>Ongoing</p> <p>1 April 2011</p> <p>Early March 2011</p>
2	<p><b>Year end bank balance</b></p> <p>The Commissioner's statement of financial position as at 31 March 2010 shows a balance of £136 thousand (2008/09: £131 thousand), which is unusually high for a public sector body with the expenditure of the Commissioner. We note that the reasons for this have been considered and discussed; and recommend that they continue to be monitored and reviewed during 2010/11.</p>	<p>The Office Manager will continue to develop her relationships with Scottish Government Finance staff to ensure that the quarterly invoices covering payroll, T&amp;S and other administrative costs are submitted timeously each quarter.</p>	<p>Office Manager</p>	<p>Ongoing</p>