



Scott-Moncrieff  
business advisers and accountants

With **Campbell Dallas**  
a Cogent company



# Scottish Road Works Commissioner

External Audit Annual Plan 2019/20

February 2020





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# 1. Introduction

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## Introduction

1. This document summarises the work plan for our 2019/20 external audit of the Scottish Road Works Commissioner (“SRWC”).
2. The core elements of our work include:
  - an audit of, and provision of a specified audit opinion, on the 2019/20 annual report and accounts;
  - consideration and reporting on, where applicable, SRWC’s arrangements on the four audit dimensions: financial sustainability, financial management, governance and transparency, and value for money; and
  - any other work requested by Audit Scotland, including the contribution to performance audits (including overview reports, performance audit reports, and impact reports).

## Audit appointment

3. The Auditor General for Scotland is an independent Crown appointment, made on the recommendation of the Scottish Parliament. The Auditor General is independent and not subject to control of any member of the Scottish Government or the Parliament. The Auditor General is responsible for securing the audit of the Scottish Government and most public bodies, including central government bodies in Scotland, and reporting to Parliament on their financial health and performance.
4. Audit Scotland is an independent statutory body that provides the Auditor General with the services required to carry out her statutory functions, including monitoring the performance of auditors through a quality control process.
5. The Auditor General has appointed Scott-Moncrieff as external auditor of SRWC for the five year period 2016/17 to 2020/21. This document comprises the audit plan for 2019/20 and summarises:
  - the responsibilities of Scott-Moncrieff as the external auditor;
  - our audit strategy;
  - our planned audit work and how we will approach it;
  - our proposed audit outputs and timetable; and
  - background to Scott-Moncrieff and the audit management team.

## Confirmation of independence

6. International Standards on Auditing in the UK (ISAs (UK)) require us to communicate on a timely basis all facts and matters that may have a bearing on our independence.
7. We confirm that we comply with the Financial Reporting Council’s (FRC) Ethical Standards. In our professional judgement, the audit process is independent and our objectivity has not been compromised in any way.
8. We set out in Appendix 2 our assessment and confirmation of independence.

## Adding value through the audit

9. All of our clients quite rightly demand of us a positive contribution to meeting their ever-changing business needs. Our aim is to add value to SRWC through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way we aim to help SRWC promote improved standards of governance, better management and decision making and more effective use of resources.

## Feedback

10. Any comments you may have on the service we provide, the quality of our work and our reports would be greatly appreciated at any time. Comments can be reported directly to any member of your audit team.

## Openness and transparency

11. This plan will be published on Audit Scotland’s website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).



# 2. Respective responsibilities of the auditor and SRWC

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## Respective responsibilities of the auditor and SRWC

### Auditor responsibilities

#### Code of Audit Practice

12. The Code of Audit Practice (the Code) outlines the responsibilities of external auditors appointed by the Auditor General for Scotland and it is a condition of our appointment that we follow it.

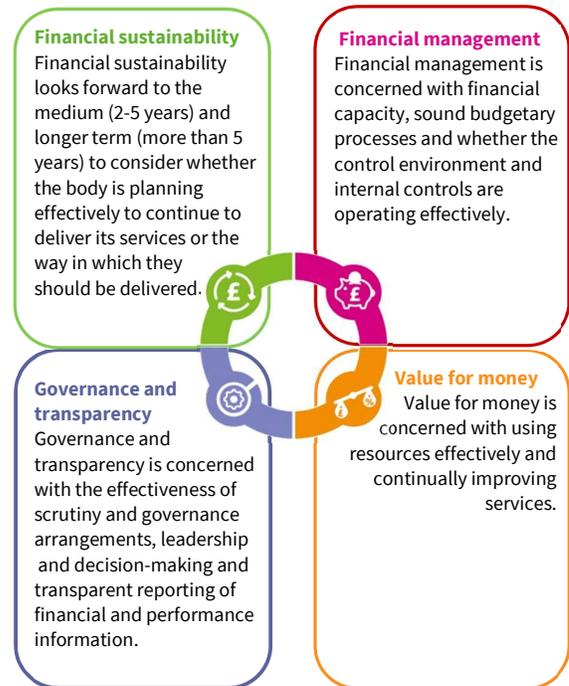
#### Our responsibilities

13. Auditor responsibilities are derived from statute, the Code, International Standards on Auditing (UK) (ISAs (UK)), professional requirements and best practice and cover their responsibilities when auditing financial statements and when discharging their wider scope responsibilities (paragraph 15). These are to:

- undertake statutory duties, and comply with professional engagement and ethical standards
- provide an opinion on audited bodies' financial statements and, where appropriate, the regularity of transactions
- review and report on, as appropriate, other information such as annual governance statements, management commentaries and remuneration reports
- notify the Auditor General when circumstances indicate that a statutory report may be required
- demonstrate compliance with the wider public audit scope by reviewing and providing judgements and conclusions on the audited bodies':
  - effectiveness of performance management arrangements in driving economy, efficiency and effectiveness in the use of public money and assets
  - suitability and effectiveness of corporate governance arrangements
  - financial position and arrangements for securing financial sustainability.

14. Weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work in accordance with the Code, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

#### Exhibit 1: Audit dimensions of wider scope public audit



#### Wider scope audit work

15. The special accountabilities that attach to the conduct of public business, and the use of public money, mean that public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance, not only on the financial statements, but providing audit judgements and conclusions on the appropriateness, effectiveness and impact of corporate governance and performance management arrangements and financial sustainability.
16. The Code sets out four audit dimensions that frame the wider scope audit work into identifiable audit areas. These are summarised in Exhibit 1.
17. Where the application of the full wider scope is judged by us not to be appropriate then our annual audit work on the wider scope is restricted to:
- Audit work to allow conclusions to be made on the appropriateness of the disclosures in the governance statement; and



- Consideration of the financial sustainability of the organisation and the services that it delivers over the medium and longer term.
18. Our assessment takes into account the size, nature and risks of the organisation. Taking these factors into consideration, we have concluded that application of the restricted wider scope is appropriate at SRWC.

## SRWC responsibilities

19. SRWC has primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives. SRWC's responsibilities are summarised in Exhibit 2.

## Exhibit 2 – SRWC's responsibilities

Area	SRWC's responsibilities
<p><b>Financial statements:</b> Annual accounts containing financial statements and other related reports should be prepared.</p>	<p>SRWC has responsibility for:</p> <ul style="list-style-type: none"> <li>• preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation;</li> <li>• maintaining accounting records and working papers that have been prepared to an acceptable professional standard and that support their financial statements and related reports disclosures;</li> <li>• ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority;</li> <li>• maintaining proper accounting records; and</li> <li>• preparing and publishing, along with their financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that are consistent with the disclosures made in the financial statements.</li> </ul>
<p><b>Financial sustainability:</b> Financial sustainability looks forward to the medium and longer term to consider whether the organisation is planning effectively to continue to fulfil its functions in an affordable and sustainable manner.</p>	<p>SRWC is responsible for putting in place proper arrangements to ensure the financial position is soundly based having regard to:</p> <ul style="list-style-type: none"> <li>• Such financial monitoring and reporting arrangements as may be specified;</li> <li>• Compliance with any statutory financial requirements and achievement of financial targets;</li> <li>• Balances and reserves, including strategies about levels and their future use;</li> <li>• How the organisation plans to deal with uncertainty in the medium and long term; and</li> <li>• The impact of planned future policies and foreseeable developments on the financial position.</li> </ul>



Area	SRWC's responsibilities
<p><b>Financial management:</b> Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.</p>	<p>It is SRWC's responsibility to ensure that financial affairs are conducted in a proper manner. SRWC is responsible for communicating relevant information to users about the entity and its financial performance.</p> <p>SRWC is responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of their objectives and safeguard and secure value for money from the public funds at its disposal.</p> <p>It is SRWC's responsibility to establish arrangements to prevent and detect fraud, error and irregularities, bribery and corruption and also to ensure that its affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.</p>
<p><b>Governance and transparency:</b> Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.</p>	<p>SRWC, through the Commissioner (as Accountable Officer) is responsible for establishing arrangements to ensure the proper conduct of their affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements.</p> <p>SRWC is also responsible for establishing effective and appropriate internal audit and risk management functions.</p>
<p><b>Value for money:</b> Value for money is concerned with the appropriate use of resources and ensuring continual improvement of services delivered.</p>	<p>Accountable officers have a specific responsibility to ensure that arrangements have been made to secure best value. Audited bodies are responsible for ensuring that these matters are given due priority and resources, and that proper procedures are established and operate satisfactorily.</p>



# 3. Audit strategy

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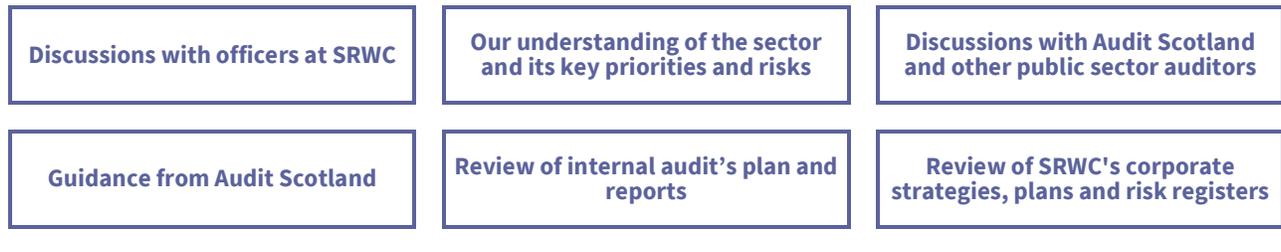
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# Audit strategy

## Risk-based audit approach

20. We follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to SRWC. This ensures that our audit focuses on the areas of highest risk. Our audit planning is based on:



21. Planning is a continuous process and our audit plans are therefore updated during the course of our audit to take account of developments as they arise.

### Communications with those charged with governance

22. Auditing standards require us to make certain communications throughout the audit to those charged with governance. We have agreed with SRWC that these communications will be through the Scottish Road Works Commissioner (“the Commissioner”).

### Professional standards and guidance

23. We perform our audit of the financial statements in accordance with International Standards on Auditing (UK) (ISAs (UK)), the International Standard on Quality Control 1 (UK), Ethical Standards, and applicable Practice Notes and other guidance issued by the Financial Reporting Council (FRC).

### Partnership working

24. We coordinate our work with Audit Scotland, internal audit and other external auditors, recognising the increasing integration of service delivery and partnership working within the public sector.

### Audit Scotland

25. Although we are independent of Audit Scotland and are responsible for forming our own views and opinions, we do work closely with them throughout

the audit. This helps, for example, to identify common priorities and risks, treat consistently any issues arising that impact on a number of audited bodies, and further develop an efficient and effective approach to public audit. We share information about identified risks, good practices and barriers to improvement so that lessons to be learnt and knowledge of what works can be disseminated to all relevant bodies.

26. Audit Scotland undertakes national performance audits on issues affecting the public sector. We will review SRWC’s arrangements for taking action on any issues reported in the national performance reports which may have a local impact. We will also consider the extent to which SRWC uses the national performance reports as a means to help improve performance at the local level.
27. During the year we may also be required to provide information to Audit Scotland to support the national performance audits or provide information to support the assessment of the impact of specified published performance audit reports.

### Internal audit

28. We are committed to avoiding duplication of audit effort and ensuring an efficient use of SRWC’s total audit resource. We will consider the findings of the work of internal audit within our audit process and look to minimise duplication of effort, to ensure the total audit resource to SRWC is used efficiently and effectively.



## Shared systems and functions

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29. Audit Scotland encourages auditors to seek efficiencies and avoid duplication of effort by liaising closely with other external auditors, agreeing an appropriate division of work and sharing audit findings. SRWC uses the Scottish Government payroll services and accounting systems (SEAS). The appointed auditor to the Scottish Government will share with us their findings on work carried out on those systems.



# 4. Annual report and accounts

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## Annual report and accounts

### Introduction

30. Audited bodies' annual report and accounts are an essential part of accounting for their stewardship of the resources made available to them and their financial performance in the use of those resources. This section of our plan set out our approach to the audit of SRWC's annual report and accounts.
31. The annual report and accounts comprise the financial statements, the performance report and the accountability report.

### Approach to audit of the financial statements

32. Our opinion on the financial statements will be based on:

#### Risk-based audit planning

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33. We focus our work on the areas of highest risk. As part of our planning process we prepare a risk assessment highlighting the audit risk relating to each of the key systems on which the financial statements will be based.

#### An audit of key systems and internal controls

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34. We evaluate the key accounting systems and internal controls and determine whether they are adequate to prevent material misstatements in the financial statements.
35. The systems we review and the nature of the work we perform will be based on the initial risk assessment. We examine and test compliance with best practice and SRWC's own policies and procedures.
36. We take cognisance of any relevant internal audit reviews of systems and controls.
37. We update the risk assessment following our evaluation of systems and controls which ensures that we continue to focus attention on the areas of highest risk.

#### A final audit of the financial statements

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38. During our final audit we will test and review the material amounts and disclosures in the financial statements. The extent of testing will be based on our risk assessment.
39. Our final audit will seek to provide reasonable assurance that the financial statements are free

from material misstatement and comply with the Government Financial Reporting Manual (FReM) and the Accounts Direction issued by Scottish Ministers.

40. In order to provide assurance on the regularity of transactions, we also review whether, in all material respects, expenditure has been incurred and income applied in accordance with guidance issued by Scottish Ministers.

#### Independent auditor's report

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41. Our opinion on whether the financial statements give a true and fair view of the financial position and its net expenditure and of the regularity of transactions will be set out in our independent auditor's report which will be included in the annual report and accounts.
42. We also provide an opinion on the audited part of the remuneration report, annual governance statement and performance report.

#### Materiality

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43. Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor's report. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement. We review our assessment of materiality throughout our audit.
44. Performance materiality is the working level of materiality used throughout the audit. We use performance materiality to determine the nature, timing and extent of audit procedures carried out. We perform audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we perform a greater level of testing on the areas deemed to be at significant risk of material misstatement.
45. Performance materiality is set at a value less than overall materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of the uncorrected and undetected misstatements exceed overall materiality.



46. Our initial assessment of materiality and performance materiality is set out in the table below.

	<b>Materiality</b> £
<b>Overall materiality:</b> Our initial assessment is based on approximately 1.5% of SRWC's gross expenditure in 2018/19. We consider gross expenditure to be the principle consideration for the users of the accounts when assessing financial performance.	18,225
<b>Performance materiality:</b> Using our professional judgement we have calculated performance materiality at approximately 75% of overall materiality.	13,670

47. We will also report any misstatements identified through our audit that fall into one of the following categories:
- All material corrected misstatements;
  - Uncorrected misstatements with a value in excess of 5% of the overall materiality figure; and
  - Other misstatements below the 5% threshold that we believe warrant reporting on qualitative grounds.

### Key audit risks in the financial statements

48. Auditing standards require that we inform the Commissioner of our assessment of the risk of material misstatement in the financial statements. We have set out our initial assessment below, including how the scope of our audit responds to those risks. We will provide an update to the Commissioner if our assessment changes significantly during the audit.



## Exhibit 3 – Key audit risks in the financial statements

### Management override

In any organisation, there exists a risk that management has the ability to process transactions or make adjustments to the financial records outside the normal financial control processes. Such issues could lead to a material misstatement in the financial statements. This is treated as a presumed risk area in accordance with ISA (UK) 240 - *The auditor's responsibilities relating to fraud in an audit of financial statements*.

49. In response to this risk we will review SRWC's accounting records and obtain evidence to ensure that any significant transactions outside the normal course of business are valid and accounted for correctly. We will review the key accounting estimates, judgements and decisions made by management. This will include, for example, depreciation rates and accruals.

### Revenue recognition

Under ISA (UK) 240- *The auditor's responsibilities relating to fraud in an audit of financial statements* there is a presumed risk of fraud in relation to revenue recognition. The presumption is that SRWC could adopt accounting policies or recognise revenue transactions in such a way as to lead to a material misstatement in the reported financial position.

50. We have identified that for funding received as Scottish Government grant in aid, the risk of revenue recognition can be rebutted due to a lack of incentive and opportunity to manipulate transactions of this nature. We have concluded however, the risk of fraud in relation to revenue recognition is present in all non-government revenue streams. We will evaluate each material revenue stream, including the controls over revenue accounting. We will conduct substantive testing on all material revenue streams to confirm revenue has been recognised appropriately and in line with accounting policies.

### Risk of fraud in the recognition of expenditure

In 2016, the Public Audit Forum issued Practice Note 10 "*The Audit of Public Sector Financial Statements*" which applies to the audit of public sector financial statements for periods commencing after June 2016. This Practice Note recognises that most public sector bodies are net spending bodies and notes that there is an increased risk of material misstatement due to improper recognition of expenditure.

51. In response to this risk we will evaluate the significant expenditure streams (excluding payroll which is not deemed to be a significant risk area) and review the controls in place over accounting for expenditure. We will consider SRWC's key areas of expenditure and obtain evidence that the expenditure is recorded in line with appropriate accounting policies and the policies have been applied consistently across the year.



## The performance report, accountability report and other information

52. The HM Treasury Government Financial Reporting Manual 2019/20 sets out the content required within the annual report and accounts. In addition to presenting our opinions over the financial statements our independent auditor's report will also present our opinion on other aspects of the annual report and accounts:

- governance structures and how they support the achievement of the entity's objectives.
- A remuneration and staff report setting out staff numbers and costs as well as the entity's remuneration policy for directors and the remuneration awarded to directors.
- A parliamentary accountability report disclosing the regularity of expenditure and other parliamentary accountability requirements.

### Other information

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53. "Other information" in the annual report and accounts comprises any information other than the financial statements and our independent auditor's report thereon. We do not express any form of assurance conclusion on the "other information" except as specifically stated below.

54. We read all the financial and non-financial information in the annual report and accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our independent auditor's report

58. Our independent auditor's report will confirm whether in our opinion the governance statement and the audited part of the remuneration and staff report have been properly prepared and are consistent with the financial statements.

### The performance report

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55. The performance report provides information on the entity, its main objectives and strategies and the principal risks that it faces. It contains two sections:

- an overview of the organisation, its purpose, the key risks to the achievement of its objectives and how it has performed during the year; and
- a detailed summary of how the entity measures its performance.

56. Our independent auditor's report will confirm whether in our opinion the performance report has been properly prepared and is consistent with the financial statements.

### The accountability report

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57. The accountability report is required in order to meet key parliamentary accountability requirements. It has three sections:

- A corporate governance report (including a governance statement) explaining the composition and organisation of the entity's



# 5. Wider scope

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## Introduction

59. As described in section 2, the Code frames a significant part of our wider scope responsibilities in terms of four audit dimensions. Following consideration of the size, nature and risks of SRWC, the application of the full wider scope audit is judged by us not to be appropriate. Our annual audit work on the wider scope will therefore be restricted to:
- Audit work to allow conclusions to be made on the appropriateness of the disclosures in the governance statement; and
  - Consideration of the financial sustainability of the organisation and the services that it delivers over the medium and longer term.
60. Our planned audit work against these two areas is risk based and proportionate. Our initial assessment builds upon the understanding of SRWC which we developed from previous years, along with discussions with management and review of key strategy documents.
61. In 2019/20, Audit Scotland has also identified the following wider scope risks, which we will consider during our audit as they relate to SRWC:
- Fraud and corruption in respect of the procurement function; and
  - EU withdrawal
62. At this stage of our audit planning process, we have identified one significant risk to the wider scope of our audit. Audit planning is a continuous process and we will report any identified significant risks, as they relate to the wider scope, in our annual audit report.

### Exhibit 4 – Wider scope significant risk

#### Financial sustainability

SRWC has adequate arrangements in place for long term financial planning. A five-year financial plan has been developed covering the operation of the road works register and the running of SRWC. Assuming a flat rate budget of £375,000, SRWC is forecasting to breakeven across the five-year period by utilising surpluses carried forward.

The Transport (Scotland) Act 2019 received Royal Assent in December 2019. The Act includes the role of the Commissioner, the regulation of road works and the status of the office of SRWC. The Act grants SRWC the power to undertake inspections and issue compliance notices, requiring the establishment of a new inspectorate function on top of their existing responsibilities. At the planning stage of the audit, the implementation timeline and budgetary impacts of the Act are still unknown. SRWC however, has undertaken scenario planning and continues to work with Transport Scotland in respect of understanding and implementing the provisions of the Act.

63. During our audit we will review whether SRWC has appropriate arrangements in place to manage its financial position. Our work will include an assessment of progress made in developing financially sustainable operating plans that continue to support the delivery of SRWC's statutory functions and strategic objectives. We will also consider the impact of the Transport (Scotland) Act 2019 on SRWC and SRWC's preparations for managing the implementation of the Act.



# 6. Audit outputs, timetables and fees

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## Audit outputs, timetable and fees

This section of our plan provides details of our audit outputs, timetable and proposed audit fees for the audit of SRWC.

Audit output	Format	Description	Target month
External audit plan	Report	This report sets out the scope of our audit for 2019/20.	February 2020
Independent Auditor's Report	Report	This report will contain our opinion on the financial statements, the regularity of transactions and the audited part of the remuneration report, annual governance statement and performance report.	August 2020
Annual Report to SRWC and the Auditor General for Scotland	Report	At the conclusion of each year's audit we issue an annual report setting out the nature and extent of our audit work for the year and summarise our opinions, conclusions and the significant issues arising from our work. This report pulls together all of our work under the Code of Audit Practice.	August 2020

### Audit outputs

64. Prior to submitting our outputs, we will discuss all issues with management to confirm factual accuracy and agree a draft action plan where appropriate.
65. The action plans within the reports will include prioritised recommendations, responsible officers and implementation dates. We will review progress against the action plans on a regular basis.

	2019/20	2018/19
Auditor remuneration	£9,770	£9,550
Pooled costs	£2,270	£2,300
Audit support costs	£540	£570
<b>Total expected fee</b>	<b>£12,580</b>	<b>£12,420</b>

### Audit fee

66. Audit Scotland sets an expected fee for each audit carried out under appointment that assumes the body has sound governance arrangements in place, has been operating effectively throughout the year, prepares comprehensive and accurate draft accounts and meets the agreed timetable for audit. The expected fee is reviewed by Audit Scotland each year and adjusted if necessary based on auditors' experience, new requirements, or significant changes to the audited body.
67. As auditors we negotiate a fee with the audited body during the planning process. The fee may be varied above the expected fee level to reflect the circumstances and local risks within the body.
68. For 2019/20 we propose setting the audit fee at the expected fee level. The expected fee for the Scottish Road Works Commissioner for the 2019/20 audit is as follows:

69. We will take account of the risk exposure of SRWC and the management assurances in place. We assume receipt of the draft working papers at the outset of our on-site final audit visit. If the draft accounts and papers are late, or agreed management assurances are unavailable, we reserve the right to charge an additional fee for additional audit work. An additional fee will be required in relation to any other significant exercises not within our planned audit activity.



## Audit timetable

70. A summary timetable, including audit outputs, is set out as follows:

<b>JAN 20</b>	●	Planning meeting with SRWC
<b>FEB 20</b>	●	Presentation of External Audit Plan to the Commissioner
<b>JUL 20</b>	●	Accounts presented for audit and final audit visit begins
<b>AUG 20</b>	●	Presentation of our Annual Report on the Audit to the Commissioner



# 7. Appendices

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## Appendix 1: Your audit management team

Scott-Moncrieff is one of Scotland's leading firms of auditors and business advisers. We are part of the fast-growing Cogital Group, giving us a both a UK-wide presence and international reach in 190 offices with 6,500 staff. Cogital Group is an innovator, investor and early adopter of technologies that provide continuous improvement to the service we provide our clients.

We have been external auditors within the public sector for at least fifty years. We provide a comprehensive range of services to clients across the public sector, including NHS bodies, local authorities, central government bodies and FE colleges. We also provide services to charities, schools, as well as private and public limited companies.

Edinburgh	Glasgow	Inverness
Exchange Place 3 Semple Street Edinburgh EH3 8BL	25 Bothwell Street Glasgow G2 6NL	10 Ardross Street Inverness IV3 5NS
(0131) 473 3500	(0141) 567 4500	(01463) 701 940

### Your audit management team



#### Karen Jones

##### Engagement Lead

[karen.jones@scott-moncrieff.com](mailto:karen.jones@scott-moncrieff.com)

Karen is one of our directors responsible for the audit of our Audit Scotland external audit appointments. She has considerable experience in planning and delivering audits, producing management reports and liaising with senior officers.



#### Nicola Mackenzie

##### Assistant Manager

[nicola.mackenzie@scott-moncrieff.com](mailto:nicola.mackenzie@scott-moncrieff.com)

Nicola will manage the delivery of the onsite work and work alongside Karen to deliver the audit engagement. Nicola has delivered external audits to a range of public sector bodies, including central government bodies, health bodies and local authorities.



## Appendix 2: Confirmation of independence

International Standard on Auditing (UK) 260 "Communication with those charged with governance" requires us to communicate on a timely basis all facts and matters that may have a bearing on our independence.

In particular, FRC's Ethical Standards stipulate that where an auditor undertakes non audit work, appropriate safeguards must be applied to reduce or eliminate any threats to independence. Scott-Moncrieff has not been appointed by SRWC to provide any non-audit services during the year.

We confirm that we comply with FRC's Ethical Standards. In our professional judgement, the audit process is independent and our objectivity has not been compromised in any way. In particular there are and have been no relationships between Scott-Moncrieff, the Commissioner and management that may reasonably be thought to bear on our objectivity and independence.



## Appendix 3: Statement of understanding

### Introduction

The purpose of this statement of understanding is to clarify the terms of our appointment and the key responsibilities of SRWC and Scott-Moncrieff.

### Annual report and accounts

We will require the annual report and accounts and supporting working papers for audit by the agreed date specified in the audit timetable. It is assumed that the relevant SRWC staff will have adequate time available to deal with audit queries and will be available up to the expected time of completion of the audit.

### Scope of audit

As auditors we will take reasonable steps to plan and carry out the audit so as to meet the objectives and comply with the requirements of the Code of Audit Practice. Audit work will be planned and performed on the basis of our assessment of audit risks, so as to obtain such information and explanations as are considered necessary to provide sufficient evidence to meet the requirements of the Code of Audit Practice.

As auditors we do not act as a substitute for SRWC's responsibility to establish proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively.

As part of our normal audit procedures, we will ask you to provide written confirmation of certain oral representations which we have received from SRWC during the course of the audit on matters having a material effect on the annual report and accounts. This will take place by means of a letter of representation, which will require to be signed by the Accountable Officer.

### Internal audit

It is the responsibility of SRWC to establish adequate internal audit arrangements. The audit fee is agreed on the basis that an effective internal audit function exists.

We will liaise with internal audit to ensure an efficient audit process.

### Fraud and irregularity

In order to discharge our responsibilities regarding fraud and irregularity we require any fraud or irregularity issues to be reported to us as they arise. In particular we require to be notified of all frauds which:

- Involve the misappropriation or theft of assets or cash which are facilitated by weaknesses in internal control
- Are over £5,000

We also require a historic record of instances of fraud or irregularity to be maintained and a summary to be made available to us after each year end.

### Anti-money laundering

The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 impose an obligation on the Auditor General to inform the National Crime Agency (NCA) if she knows or suspects that any person has engaged in money laundering or terrorist financing.

We require SRWC to notify us on a timely basis of any suspected instances of money laundering so that we can inform Audit Scotland who will determine the necessary course of action.

### Ethics

We are bound by the ethical guidelines of our professional body, the Institute of Chartered Accountants in England and Wales.

### Fees

We base our agreed fee upon the assumption that all of the required information for the audit is available within the agreed timetable. If the information is not available within the timetable we reserve the right to charge a fee for the additional time spent by our staff. The fee will depend upon the level of skill and responsibility of the staff involved.

### Service

If at any time you would like to discuss with us how our service to you could be improved or if you are dissatisfied with the service you are receiving please let us know by contacting Karen Jones. If you are not satisfied, you should contact our Ethics Partner, Bernadette Higgins. In the event of you not being satisfied by our response, you may also wish to bring the matter to the attention of the Institute of Chartered Accountants in England and Wales.

We undertake to look at any complaint carefully and promptly and to do all we can to explain the position to you.



## Reports

During the course of the audit we will produce reports detailing the results and conclusions from our work. Any recommendations arising from our audit work will be included in an action plan. Management are responsible for providing responses, including target dates for implementation and details of the responsible officer.

## Agreement of terms

We shall be grateful if the Commissioner would consider and note this statement of understanding. If the contents are not in accordance with your understanding of our terms of appointment, please let us know.

