



# Scottish Road Works Commissioner

2019/20 Annual Audit Report to the Scottish Road Works Commissioner and the Auditor General for Scotland

September 2020



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# 1. Key messages



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## Annual report and accounts audit

We have reported within our independent auditor's report unqualified opinions on the financial statements, the regularity of transactions and on other prescribed matters. There were no matters which we are required to report by exception.

We specifically updated our risk assessment and audit plan in light of the COVID-19 pandemic and recognised this as a key audit risk. Our findings as they relate to this risk are documented under each section of this report.

Our thanks go to management and staff for their assistance with our work.

## Wider scope audit

As outlined in our External Audit Plan, our annual audit work in respect of our wider scope audit responsibilities was 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.

Our conclusions and key observations are set out below:



### Governance statement

- We satisfied that the Governance Statement has been prepared in accordance with the Transport (Scotland) Act 2005 and directions made by Scottish Ministers and that the content is consistent with the financial statements.
- SRWC has appropriate systems in place to record, process, summarise and report financial and other relevant data. We have not identified any significant weaknesses or governance issues in SRWC's accounting and internal control systems throughout the period or as a result of remote working during the COVID-19 pandemic.
- The Commissioner's five-year appointment ends in September 2020. Robust handover arrangements are important to ensuring that appropriate assurances can be made in the 2020/21 Governance Statement. We will consider this further as part of the 2020/21 audit.



### Financial sustainability

- SRWC has adequate arrangements in place for medium term financial planning. A rolling five-year financial plan has been developed covering the operation of the road works register and the running of SRWC for the period up to and including 2024/25. The plan assumes a flat rate budget of £375,000 across the period with additional grant in aid allocated to cover specific projects. The operation of the road works register is funded through the road works community and prescribed fees have been set at a level to cover forecasted costs.
- The Transport (Scotland) Act 2019 is currently in the enactment phase following the passing of the Act in December 2019, with provisions relevant to SRWC expected to commence during 2020/21 and 2021/22. However, due to the COVID-19 pandemic, this has been put on hold. SRWC are awaiting further details of the impact of the Act and has undertaken scenario planning to aid Transport Scotland in budgeting for the introduction of an inspectorate function.
- Otherwise, the impact of the COVID-19 pandemic has been minimal. SRWC has continued to operate throughout the period without incurring any additional costs and do not forecast there to be a significant impact on income collection.

## Conclusion

This report concludes our audit for 2019/20. Our work has been performed in accordance with the Audit Scotland Code of Audit Practice, International Standards on Auditing (UK) and Ethical Standards.

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September 2020

## 2. Introduction

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This report is presented to those charged with governance and the Auditor General for Scotland and concludes our audit of the Scottish Road Works Commissioner for 2019/20.

We carried out our audit in accordance with Audit Scotland’s Code of Audit Practice. This report also fulfils the requirements of International Standards on Auditing (UK) 260: *Communication with those charged with governance*.

The Commissioner has been designated as “those charged with governance”.

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## Introduction

1. This report summarises the findings from our 2019/20 audit of the Scottish Road Works Commissioner (“SRWC”).
2. We outlined the scope of our audit in our External Audit Plan, which we presented to the Commissioner at the outset of our audit. The core elements of our work include:
  - an audit of the 2019/20 annual report and accounts and related matters;
  - consideration of SRWC’s arrangements against the audit dimensions within the Code of Audit Practice (Exhibit 1); and
  - any other work requested by Audit Scotland.

### Exhibit 1: Audit dimensions within the Code of Audit Practice



3. SRWC is responsible for preparing an annual report and accounts which show a true and fair view and for implementing appropriate internal control systems. The weaknesses or risks identified are only those that have come to our attention during our normal audit work and may not be all that exist. Communication in this report of matters arising from the audit of the annual report and accounts 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.
4. The report contains an action plan with specific recommendations, responsible officers and dates for implementation. Senior management should assess these recommendations and consider their wider implications before deciding on appropriate actions. We give each recommendation a grading to help the Commissioner assess their significance and prioritise the actions required.
5. We would like to thank all management and staff for their co-operation and assistance during our audit.
6. International Standards on Auditing in the UK (ISAs (UK)) require us to

### Confirmation of independence

communicate on a timely basis all facts and matters that may have a bearing on our independence.

7. We confirm that we complied 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 1 our assessment and confirmation of independence.

## Adding value through the audit

9. All of our clients 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 report will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).



## 3. Annual report and accounts

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SRWC's annual report and accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources.

In this section we summarise the findings from our audit of the 2019/20 annual report and accounts.

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## Annual report and accounts

### An unqualified audit opinion on the annual report and accounts

Our independent auditor's report includes an unqualified opinion on the financial statements, regularity and on other prescribed matters.

#### Overall conclusion

12. The annual report and accounts for the year ended 31 March 2020 were considered and approved by the Commissioner on 16 September 2020. We report within our independent auditor's report:
- An unqualified opinion on the financial statements;
  - An unqualified opinion on regularity; and
  - An unqualified opinion on other prescribed matters.
13. We are also satisfied that there were no matters which we are required to report by exception.

#### Our assessment of risks of material misstatement

14. The assessed risks of material misstatement described in the table below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the audit team. Our audit procedures relating to these matters were designed in the context of our audit of the annual report and accounts as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the annual report and accounts is not modified with respect to any of the risks described below.

## Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

### 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*.

*Noted in the 2019/20 External Audit Plan*

15. We have not identified any indications of management override in the year. We have reviewed SRWC's accounting records and obtained evidence to ensure that transactions outside the normal course of business were valid and accounted for correctly. We have also reviewed management estimates and the journal entries processed in the period and around the year end. We did not identify any areas of bias in key judgements made by management and judgements were consistent with prior years.

### 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.

*Noted in the 2019/20 External Audit Plan*

16. At the planning stage of our audit we concluded that the revenue recognition risk was present in all revenue streams except for SRWC's grant in aid funding from Scottish Government.
17. Based on audit work performed, we have gained reasonable assurance on the completeness and occurrence of income and we are satisfied that income is fairly stated in the financial statements. To inform our conclusion we evaluated SRWC's key revenue streams and reviewed the controls in place over revenue accounting. We also carried out testing to confirm that the revenue recognition policy is appropriate and that it was applied consistently throughout the year.

### 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.

*Noted in the 2019/20 External Audit Plan*

18. We have evaluated each type of expenditure transaction and documented our conclusions. We have gained reasonable assurance on the completeness and occurrence of expenditure and are satisfied that expenditure is fairly stated in the financial statements. To inform our conclusion, we carried out testing to confirm that SRWC’s policy for recognising expenditure is appropriate and has been applied consistently throughout the year.

### Update to our initial risk assessment

19. Planning is a continuous process and our audit plans are updated during the course of our audit to take account of developments as they arise. We have specifically updated our risk assessment and audit plan in light of COVID-19. We recognised this as a key audit risk<sup>1</sup>.

<sup>1</sup> A key audit risk is one which may result in a material misstatement to the financial statements or

significantly impact on our audit judgements and conclusions on the wider scope dimensions..

## COVID-19

The COVID-19 pandemic is presenting unprecedented challenges to the operation, financial management and governance of organisations, including public sector bodies. Core areas of service delivery have been suspended or substantially reduced, systems and processes have been amended to support remote working, arrangements for governance, decision making and performance management have been adapted, and many organisations are forecasting large operating deficits due to loss of income and/ or additional cost pressures. It is uncertain how long these challenges will persist.

The implications of these risks and uncertainties are under consideration by SRWC and the Scottish Government. We continue to monitor government and relevant announcements as they pertain to the audit and have adapted our audit approach as required.

20. In response to this risk we identified potential areas where there was the risk of material misstatement to the financial statements and/or our audit opinion. These areas included:

- Content of the annual report and accounts
- Access to audit evidence

### Content of the annual report and accounts

21. In May 2020, HM Treasury issued an addendum to the Government Financial Reporting Manual (FRoM) which covered the following:

- The addendum permits, but does not require, bodies to omit or reduce the performance analysis section from the Performance Report. Where relevant performance information has already been published elsewhere, bodies are encouraged to refer to the relevant publication.
- Where unaudited information otherwise required to be included in the Accountability Report is already published elsewhere, bodies are permitted to refer to the relevant publication rather than including the

information in their Accountability Report.

22. SRWC took the decision to include the performance analysis section of the Performance report and make the full disclosures in the Accountability Report.

### Access to audit evidence

23. Our audit this year has been carried out remotely. As a consequence, we identified a risk that access to and provision of sufficient, appropriate audit evidence in support of our audit opinion may be impacted by the inherently challenging nature of carrying out our audit remotely.

24. We have employed a greater use of technology to examine evidence, but only where we have assessed both the sufficiency and appropriateness of the audit evidence produced.

25. Throughout our audit of SRWC, we have been provided with sufficient audit evidence to form our audit opinion. There were no issues noted with the reliability or appropriateness of evidence provided.

26. The unaudited annual report and accounts and supporting papers

received were of a good standard. Our thanks go to staff at SRWC for their assistance with our work.

## An overview of the scope of our audit

27. The scope of our audit was detailed in our External Audit Plan, which was considered by the Commissioner in February 2020. The plan explained that 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. Planning is a continuous process and our audit plan is subject to review during the course of the audit to take account of developments that arise.
28. At the planning stage we identified the significant risks that had the greatest effect on our audit. Audit procedures were then designed to mitigate these risks.
29. Our standard audit approach is based on performing a review of the key financial systems in place, substantive tests and detailed analytical procedures. Tailored audit procedures, including those designed to address significant risks, were completed by the audit fieldwork team and the results were reviewed by the audit management team. In performing our work we have applied the concept of materiality, which is explained earlier in this report.

## Our application of materiality

30. 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 the audit.

31. 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.
32. 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.
33. Our initial assessment of materiality for the financial statements was £18,225. This was increased upon receipt of the unaudited annual report and accounts to £19,650. This equates to approximately 1.5% of SRWC's 2019/20 gross expenditure. We consider our updated assessment has remained appropriate throughout our audit.

	Materiality £
<p><b>Overall materiality:</b> Our assessment is made with reference to SRWC’s gross expenditure. Operating within budget is a key target for SRWC and one of the principal considerations for the users of the financial statements when assessing financial performance.</p>	19,650
<p><b>Performance materiality:</b> Using our professional judgement we have calculated performance materiality at approximately 75% of overall materiality.</p>	14,740

34. We noted within our External Audit Plan that we would report on all audit differences in excess of 5% of the overall materiality figure, as well as differences below that threshold which, in our view, warranted reporting on qualitative grounds. We also report on disclosure matters that we identify when assessing the overall presentation of the financial statements.

### Audit differences

35. We are pleased to report that there were no material adjustments to the financial statements. We identified some disclosure and presentational adjustments during our audit. These have been reflected in the final set of financial statements.

36. We identified one unadjusted audit difference which is not considered material to the financial statements. This relates to an adjustment of £3,000 to the employee benefit accrual and is set out in Appendix 3. The employee benefit accrual reflects the additional

cost SRWC expect to pay as a result of unused annual leave entitlement as at 31 March. SRWC have accrued the salary and associated employer’s national insurance costs but have not accrued for pension contributions as required by the Government Financial Reporting Manual.

### Representations

37. We have requested that a signed representation letter be presented to us at the date of signing the annual report and accounts. This letter is to be signed by the Commissioner.

### Other matters identified during our audit

38. During the course of our audit we noted the following:

#### Other information in the annual report and accounts

39. “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.

#### The performance report

40. The performance report provides information on the entity, its main objectives and strategies and the principal risks that it faces. It comprises an overview of the organisation and a detailed summary of how the entity measures performance.

41. We have concluded that the performance report has been prepared in accordance with the Transport (Scotland) Act 2005, directions from



Scottish Ministers and is consistent with the financial statements.

### The accountability report

42. The accountability report is required in order to meet key parliamentary accountability requirements and comprises three sections: a corporate governance report (including the governance statement), a remuneration and staff report, and a parliamentary accountability report.
43. Our audit opinion specifically refers to the governance statement and the audited part of the remuneration and staff report.

### Governance statement

44. Based on the audit work carried out, we have concluded that the governance statement has been prepared in accordance with the Transport (Scotland) Act 2005 and directions made thereunder by the Scottish Ministers and is consistent with the financial statements. We have provided further detail on our work and findings within the Wider Scope section of our report (section 4).

### Remuneration and staff report

45. We have concluded that the audited part of the remuneration and staff report has been prepared in accordance with the Transport (Scotland) Act 2005 and directions made thereunder by the Scottish Ministers.

### Regularity

46. We have planned and performed our audit recognising that non-compliance with statute or regulations may materially impact on the annual report and accounts. We did not identify any instances of irregular activity.

47. In our opinion in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

### Systems of internal control

48. We have evaluated SRWC's key financial systems and internal financial controls to determine whether they are adequate to prevent material misstatement in the annual report and accounts. Our approach has included documenting key internal financial controls and performing walkthroughs to confirm they are operating as intended.
49. We did not identify any material weaknesses in SRWC's accounting and internal control systems.

### Shared systems and functions

50. SRWC use and rely upon Scottish Government core financial systems to carry out payment and payroll functions. Scottish Government external auditors have provided assurance that with the exception of payroll, the Scottish Government's main systems of internal control operated effectively during 2019/20. Issues were identified regarding the payroll function and Scottish Government have developed an action plan to address these. We have completed sufficient substantive testing to gain assurance that SRWC payroll costs are free from material misstatement in the financial statements.
51. During our testing of payroll costs, however, we found some trivial discrepancies in calculations made by the Scottish Government Payroll Shared Service. We noted that there is no formalised service level agreement (SLA) in place between SRWC and



Payroll Shared Services. We would encourage the Commissioner to establish a SLA. This SLA should set out responsibility for detecting and addressing errors and any associated financial penalties.

*Action plan point 1*

## Follow up of prior year recommendations

52. As part of our audit we have followed up on the one outstanding audit recommendation from prior years. Detail on this recommendation is included in the action plan at Appendix 2. We have reported this action as completed.

## Prevention and detection of fraud and irregularity

53. Our audit was planned to provide a reasonable expectation of detecting material misstatement in the financial statements resulting from fraud and irregularity. We found SRWC's arrangements for the prevention and detection of fraud and other irregularities to be adequate and appropriate.
54. SRWC currently adopts the Scottish Government's counter fraud and whistleblowing policies, which is deemed appropriate given the scale of their operations. As Accountable Officer, the Commissioner is responsible for ensuring these are adhered to and monitoring the risk of fraud.

## Qualitative aspects of accounting practices and financial reporting

55. During the course of our audit, we consider the qualitative aspects of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the annual report and accounts. The following observations have been made:

Qualitative aspect considered	Audit conclusion
The appropriateness of the accounting policies used.	We consider the accounting policies, which are disclosed in the financial statements, to be appropriate and in line with the Government Financial Reporting Manual.
The timing of the transactions and the period in which they are recorded.	We did not identify any concerns over the timing of transactions or the period in which they were recognised.
The appropriateness of the accounting estimates and judgements used.	We are satisfied with the appropriateness of other accounting estimates and judgements used in the preparation of the financial statements.
The appropriateness of the going concern assumption	We have reviewed the detailed financial forecasts for 2020/21. Our understanding of the legislative framework and activities undertaken provides us with sufficient assurance that SRWC will continue to operate for at least 12 months from the signing date.
The potential effect on the financial statements of any uncertainties, including significant risks and related disclosures that are required.	We have not identified any uncertainties, including any significant risk or required disclosures, which should be included in the annual report and accounts.
The extent to which the financial statements have been affected by unusual transactions during the period and the extent that these transactions are separately disclosed.	From the testing performed, we identified no significant unusual transactions in the period.
Apparent misstatements in the annual report or material inconsistencies with the accounts.	The annual report contains no material misstatements or inconsistencies with the financial statements.
Any significant annual report and accounts disclosures to bring to your attention.	There are no significant financial statement disclosures that we consider should be brought to your attention. All the disclosures required by relevant legislation and applicable accounting standards have been made appropriately.

<b>Qualitative aspect considered</b>	<b>Audit conclusion</b>
Disagreement over any accounting treatment or annual report and accounts disclosure.	While disclosure and presentational adjustments were made during the audit process there was no material disagreement during the course of the audit over any accounting treatment or disclosure.
Difficulties encountered in the audit.	There were no significant difficulties encountered during the audit.

## 4. Wider scope

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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 has therefore been 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.
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## Wider scope conclusions

### Governance statement



We are satisfied that the Governance Statement has been prepared in accordance with the Transport (Scotland) Act 2005 and directions made by Scottish Ministers and that the content is consistent with the financial statements.

SRWC has appropriate systems in place to record, process, summarise and report financial and other relevant data. We have not identified any significant weaknesses or governance issues in SRWC's accounting and internal control systems throughout the year or as a result of remote working during the COVID-19 pandemic.

The Commissioner's five-year appointment ends in September 2020. Robust handover arrangements are important to ensuring that appropriate assurances can be made in the 2020/21 Governance Statement and we will consider this further as part of the 2020/21 audit.

### Financial sustainability



SRWC has adequate arrangements in place for medium term financial planning. A rolling five-year financial plan has been developed covering the operation of the road works register and the running of SRWC for the period up to and including 2024/25. The plan assumes a flat rate budget of £375,000 across the period with additional grant in aid allocated to cover specific projects. The operation of the road works register is funded through the road works community and prescribed fees have been set at a level to cover forecasted costs.

The Transport (Scotland) Act 2019 is currently in the enactment phase following the passing of the Act in December 2019, with provisions relevant to SRWC expected to commence during 2020/21 and 2021/22. However, due to the COVID-19 pandemic, this has been put on hold. SRWC are awaiting further details of the impact of the Act and has undertaken scenario planning to aid Transport Scotland in budgeting for the introduction of an inspectorate function.

Otherwise, the impact of the COVID-19 pandemic has been minimal. SRWC has continued to operate throughout the period without incurring any additional costs and do not forecast there to be a significant impact on income collection.

## Our approach to the wider scope audit

56. Our approach to the wider scope audit (as set out in our 2019/20 External Audit Plan) builds upon our understanding of SRWC which we developed from previous years, along with discussions with management and review of minutes and key strategy documents.

57. During our audit we also considered the following risk areas as they relate to SRWC:

- EU withdrawal
- Fraud and corruption in respect of the procurement function

58. Overall, we concluded that SRWC has appropriate arrangements in place in respect of these areas as noted below:

<b>Impact of EU withdrawal</b>	<p>SRWC was prepared for leaving on the original due date of 29 March 2019 and has been able to demonstrate consideration of all key risk areas. This includes a review of the workforce, relevant legislation and current dealings with the EU.</p> <p>Given its small workforce, regulatory role and minimal dealings with the EU, SRWC deem the impact of EU withdrawal to be limited and a low risk to the organisation.</p>
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<b>Fraud and corruption in respect of the procurement function</b>	<p>Due to the size of SRWC, procurement exercises are not undertaken on a regular basis. The main procurement exercise to be carried out is on the operation of the Scottish Road Works Register. SRWC adopts the Scottish Government procurement procedures for any procurement exercises undertaken, which are in line with best practice.</p> <p>The risk of fraud and corruption in respect of SRWC's procurement function is deemed to be low</p>
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## Governance statement

**Our audit opinion considers whether the Governance Statement has been prepared in accordance with the Transport (Scotland) Act 2005 and directions made by Scottish Ministers and is consistent with the financial statements.**

59. We are satisfied that the Governance Statement for the year to 31 March 2020

is consistent with the financial statements and has been prepared in accordance with the Transport (Scotland) Act 2005 and directions made by Scottish Ministers.

60. The Commissioner has confirmed that in his opinion, the control arrangements at SRWC are appropriate and effective, and no significant issues have been identified.

61. From our audit work performed we concluded that SRWC has appropriate

systems in place to record, process, summarise and report financial and other relevant data. We have not identified any significant weaknesses or governance issues in SRWC's accounting and internal control systems.

62. The Commissioner's five year term of appointment ends in September 2020 and the recruitment process is still ongoing to find a replacement. It is important to ensure appropriate handover arrangements are in place such that sufficient assurance can be provided for the preparation of the 2020/21 Governance Statement.

#### Impact of COVID-19

63. With national lockdown announced on 23 March 2020, all SRWC activity moved to being delivered remotely and they have continued to operate throughout the period.
64. Governance arrangements have continued as normal throughout this period and SRWC assessed the level of risk arising from any potential impact of the pandemic to be low. The accounting and internal control system has continued to operate effectively during remote working, with no significant changes in controls.

#### Internal audit

65. Internal audit coverage of SRWC forms part of the Transport Scotland internal audit plan. Given the scale of SRWC's operations and the assessed low level of risk at SRWC, internal audit coverage is provided on an ad hoc basis rather than annually. This arrangement is reflected in SRWC's Framework Agreement with Transport Scotland.
66. Internal audit last completed a review in 2015/16, focusing on risk, control and governance arrangements. In response

to an external audit recommendation in 2017/18, the Commissioner has liaised with internal audit annually to confirm that SRWC has been included in the approved Transport Scotland internal audit plan. The audit planning exercise did not identify the need to undertake internal audit reviews of SRWC in 2018/19, 2019/20 or 2020/21.

67. As Accountable Officer, the Commissioner is responsible for ensuring a sound system of internal control is implemented and maintained in line with the Scottish Public Finance Manual. Internal audit is key in providing assurance over SRWC's risk management, control framework and governance arrangements, and should be undertaken at appropriate intervals.
68. With no internal audit activity planned in 2020/21, it will have been five years since SRWC was last subject to an internal audit. We would encourage the Commissioner to liaise with internal audit to gain assurance that SRWC will be covered within Transport Scotland's internal audit plan in the short to medium term. The need for independent assurance will be particularly prominent with a new Commissioner coming into post in 2020/21.

#### *Action plan point 2*



## Financial sustainability

**Financial sustainability looks forward to the medium and longer term to consider whether SRWC is planning effectively to continue to deliver its services or the way in which they should be delivered.**

## Significant audit risk

69. Our audit plan identified a significant risk in relation to financial sustainability under our wider scope responsibilities.

### 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.

*As noted in the 2019/20 External Audit Plan*

70. SRWC has adequate arrangements in place for medium term financial planning. A rolling five-year financial plan has been developed covering the operation of the road works register and the running of SRWC for the period up to and including 2024/25. The plan forecasts a breakeven position across each of the five years.
71. The financial plan assumes a flat rate budget of £375,000 across the five year period. However, additional grant in aid has been projected to support the Road Authorities and Utilities Committee (Scotland) (RAUC(S)) Coring Programme and cover the retendering costs for the Scottish Road Works Register. SRWC continue to forecast a breakeven position across the five-year period, utilising surpluses that have been carried forward.
72. 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. These provisions were expected to commence during 2020/21 and 2021/22, however further development of the enactment of these provisions has been put on hold given the impact of the COVID-19 pandemic. As a result, the exact timeline and budgetary impacts of the Act are still unknown.

73. SRWC has undertaken scenario planning across numerous options to aid Transport Scotland in budgeting for the introduction of an inspectorate function. However, it is awaiting further instruction and details of what this will look like in practice. Given the continued level of uncertainty, the five-year financial plan does not take account of any possible changes that may arise from the Transport (Scotland) Act 2019 and SRWC is continuing to work closely with Transport Scotland to manage the position.

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## Indicative 2020/21 budgets

74. Grant in aid funding has been agreed as £375,000 for 2020/21. SRWC are planning on utilising its surplus carried forward to enable them to continue to operate within this allocation, with budgeted expenditure of £430,000.
75. The operation of the road works register is funded by the road works community, primarily through Prescribed Fees which are set within legislation. Budgeted income for 2020/21 is £911,000, £56,000 increase from 2019/20. SRWC are forecasting an overall surplus for the year of £26,000.

## SRWC's financial performance in 2019/20

76. The main financial objective for SRWC is to ensure the financial outturn for the year is within the budget allocated by Transport Scotland. The agreed grant in aid for 2019/20 was £375,000, with an additional in year allocation of £20,035 to cover the redrafting of Specification for the Reinstatement of Openings in Roads. SRWC reported spend of

£393,000 on the operating of the office of the SRWC, achieved a surplus of £2,000 against their allocated budget. Therefore SRWC met its financial objective for 2019/20.

77. The operation of the register is funded by the road works community, predominantly through prescribed fees. These were set at £856,000 in 2019/20 with an additional £8,000 collected in year from new register users. This reflects an increase of £117,000 from prior year but is in line with the level set in 2017/18 (£851,000). Prescribed fees were set at a lower level in 2018/19 to mirror the reduced cost of operating the register following the contract retendering exercise.
78. SRWC reported spend of £917,000 on the operation of the register against total register income of £900,000, resulting in a deficit of £16,000 which was met through reserves carried forward from 2018/19.

## Impact of COVID-19

79. SRWC has continued to consider the possible impact of the COVID-19 pandemic on operations and financial

position as part of their risk management arrangements. Overall, SRWC deem the risk level to low and have gained assurance that the provider of the register is able to continue operating effectively.

80. SRWC has continued to operate as normal throughout the period. Additional costs have been minimal and SRWC does not forecast there to be an impact on income collection.
81. The most significant impact of the pandemic is the delay in the implementation of the Transport (Scotland) Act 2019 and the new responsibilities this introduces to SRWC.
82. At the time of writing, Transport Scotland is still considering the form in which these responsibilities will be introduced and how the resulting financial implications will be managed.
83. SRWC has undertaken scenario planning to assess the risk and funding requirement of each option. However, this can not be reflected in medium term financial plans until a decision has been made. We will continue to monitor this position as part of the 2020/21 audit.

## 5. Appendices



## Appendix 1: Respective responsibilities of SRWC and the Auditor

### Responsibility for the preparation of the annual report and accounts

It is the responsibility of the Commissioner, as Accountable Officer, to prepare financial statements in accordance with the Government Financial Reporting Manual (FRoM) issued by HM Treasury and the accounts directions issued by Scottish Minister under section 19(4) of the Transport (Scotland) Act 2005.

#### **In preparing the annual report and accounts, the Commissioner, as Accountable Officer is required to:**

- apply on a consistent basis the accounting policies and standards;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the Financial Reporting Manual have not been followed where the effect of the departure is material;
- prepare the accounts on a going concern basis unless it is inappropriate to presume that SRWC will continue to operate; and
- ensure the regularity of expenditure and income.

#### **The Commissioner is also responsible for:**

- keeping proper accounting records which are up to date; and
- taking reasonable steps for the prevention and detection of fraud and other irregularities.

## Auditor responsibilities

### We audit the annual report and accounts and give an opinion on whether:

- they give a true and fair view in accordance with the Transport (Scotland) Act 2005 and directions made thereunder by the Scottish Ministers of the state of SRWC's affairs as at 31 March 2020 and of its net expenditure for the year then ended;
- they have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2019/20 FReM ;
- they have been prepared in accordance with the requirements of the Transport (Scotland) Act 2005 and directions made thereunder by the Scottish Ministers;
- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate;
- SRWC has not disclosed in the financial statements any identified material uncertainties that may cast doubt about its ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue;
- in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers;
- the auditable part of the Remuneration and Staff Report has been properly prepared in accordance with the Transport (Scotland) Act 2005 and directions made thereunder by the Scottish Ministers; and
- the information given in the Performance Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Transport (Scotland) Act 2005 and directions made thereunder by the Scottish Ministers; and
- the information given in the Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Transport (Scotland) Act 2005 and directions made thereunder by the Scottish Ministers.

### We are also required to report, if in our opinion:

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration and Staff Report to be audited are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

## Wider scope of audit

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.

The Code of Audit Practice frames a significant part of our wider scope responsibilities in terms of four audit dimensions: financial sustainability; financial management; governance and transparency; and value for money.

We have concluded that the full application is not appropriate due to the size of the organisation. As part of our annual audit we consider and report against:

- appropriateness of the disclosures in the governance statement; and
- financial sustainability of the body and the services that it delivers over the medium to longer term.

## 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.

### Confirmation of independence

We confirm that we have complied with the 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 Azets, the Commissioner or senior management that may reasonably be thought to bear on our objectivity and independence.

## Appendix 2: Action Plan

Our action plan details the weaknesses and opportunities for improvement that we have identified during our audit.

### Action plan grading structure

The recommendations have been rated to help SRWC assess the significance of the issues and prioritise the actions required.

The rating structure is summarised as follows:

Grade	Explanation
<b>Grade 5</b>	Very high risk exposure - Major concerns requiring immediate attention.
<b>Grade 4</b>	High risk exposure - Material observations requiring management attention.
<b>Grade 3</b>	Moderate risk exposure - Significant observations requiring management attention.
<b>Grade 2</b>	Limited risk exposure - Minor observations requiring management attention
<b>Grade 1</b>	Efficiency / housekeeping point.

## Current year action plan

Action plan point	Issue & recommendation	Management comments
<p>1. Payroll SLA</p> <p>Rating</p> <p>Grade 3</p> <p>Paragraph Ref</p> <p>51</p>	<p><b>Issue</b></p> <p>There is no formalised service level agreement (SLA) in place between SRWC and Payroll Shared Services.</p> <p><b>Risk</b></p> <p>We found some trivial discrepancies in calculations made by Payroll Shared Services. Until the relationship is defined, it is unclear at this stage who would be deemed financially liable for rectifying any future errors.</p> <p><b>Recommendation</b></p> <p>We would encourage the Commissioner to establish a SLA with Payroll Shared Services. This should include reference to responsibility for detecting and addressing errors and any associated financial penalties.</p>	<p>This matter is noted and it is agreed that this requires review. The Scottish Road Works Commissioner will engage with the Scottish Government's Payroll team with respect to the provision of an SLA within the next 6 months.</p> <p><b>Responsible officer:</b></p> <p>Scottish Road Works Commissioner</p> <p><b>Implementation date:</b></p> <p>before April 2021</p>



Action plan point	Issue & recommendation	Management comments
<p data-bbox="193 394 507 479">2. Internal audit</p> <p data-bbox="193 490 507 575">Rating</p> <p data-bbox="193 622 507 707">Grade 3</p> <p data-bbox="193 741 507 826">Paragraph Ref</p> <p data-bbox="193 837 507 925">64</p>	<p data-bbox="544 394 962 645"><b>Issue</b> With no internal audit activity planned in 2020/21, it has been five years since SRWC was last subject to an internal audit.</p> <p data-bbox="544 645 962 1137"><b>Risk</b> The Accountable Officer is responsible for ensuring a sound system of internal control and internal audit is a key source of assurance over the effectiveness of this. There is a risk the Commissioner does not receive sufficient assurance to allow them to fulfil their duties as Accountable Officer.</p> <p data-bbox="544 1160 962 1496"><b>Recommendation</b> We encourage the Commissioner to liaise with internal audit to gain assurance that SRWC will be covered within Transport Scotland's internal audit plan in the short to medium term.</p>	<p data-bbox="999 394 1401 734">This matter is noted and it is agreed that this requires review. The Scottish Road Works Commissioner will engage with Transport Scotland Internal Audit on this matter within the next 6 months.</p> <p data-bbox="999 757 1401 880"><b>Responsible officer:</b> Scottish Road Works Commissioner</p> <p data-bbox="999 902 1401 981"><b>Implementation date:</b> before April 2021</p>

## Follow up of prior year recommendations

One recommendation was reported as outstanding in our 2018/19 annual audit report. We note below that this has been implemented.

### Shortfall in funding

Initial rating	Issue & recommendation	Management comments
<b>Grade 4</b>	<p><b>Issue</b></p> <p>In 2017/18 SRWC developed a long term budget, which identified a shortfall of funds in the year 2022/23. At present there is no plan for how SRWC will continue to operate within the current grant-in-aid levels.</p> <p><b>Risk</b></p> <p>There is a risk that the level and quality of service delivery is not maintained due to lack of planning to bridge the budget gap.</p> <p><b>Recommendation</b></p> <p>SRWC should consider how the shortfall can be met, while maintaining the required service levels.</p>	<p>Budget projections demonstrate that the office can operate on a going concern basis at current grant-in-aid levels for a period of 4 years. However, from year 5 onwards, an increasing deficit will accrue if no action is taken. This has been highlighted to the office SG sponsor who has confirmed that currently no provision exists for any growth in the level of grant-in-aid across all sectors.</p> <p>In parallel, the ongoing Transport (Scotland) Bill process is progressing which will likely impact on the functions and duties of the office, requiring a fundamental review of the level of grant-in-aid.</p> <p>The Bill process is likely to receive Royal Assent and be enacted towards the end of 2019 leaving around 2 ½ years to renegotiate the office finances.</p> <p>Should no additional funding be made available for 2020/21, the following actions will be taken:</p> <ul style="list-style-type: none"> <li>• 5 year budget projections will be reviewed to identify operational savings.</li> <li>• Office staffing levels will be reviewed.</li> <li>• SRWC / SRWR budgets will be scrutinised in granular detail to identify functions which can be transferred from the SRWC budget to the SRWR budget and hence be funded through</li> </ul>

Initial rating	Issue & recommendation	Management comments
		<p>Prescribed Fee and Amounts collected annually.</p> <p><b>Responsible officer:</b> Scottish Road Works Commissioner</p> <p><b>Implementation date:</b> 1 April 2020</p>
Current status	Update	
<p><b>Complete</b></p>	<p>The financial plan has been updated in 2018/19 and 2019/20 to identified operational savings. The plan forecasts a breakeven position across each of the five year.</p> <p>We deem this action to be complete and will continue to monitor financial planning through the financial sustainability section.</p>	

## Appendix 3: Unadjusted errors

We identified the following potential adjustment to the financial statements during our audit. We have discussed this with management and agreed that it will not be reflected in the financial statements on the basis of materiality.

Unadjusted difference	Statement of Comprehensive Net Expenditure		Statement of Financial Position	
	DR £'000	CR £'000	DR £'000	CR £'000
Staff costs	3			
Employee benefit accrual				3
<i>Being the accrual of pension costs relating to untaken annual leave as at 31 March 2020</i>				
<b>Net impact on (income) / expenditure (£'000)</b>	<b>3</b>			



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