



# Scottish Road Works Commissioner

2021/22 Annual Audit Report to the Scottish Road Works Commissioner and the Auditor General for Scotland

September 2022



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# Key messages

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This report concludes our audit of the Scottish Road Works Commissioner ('SRWC') for 2021/22.

This section summarises the key findings and conclusions from our audit.

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## Financial statements audit

<b>Audit opinion</b>	Our independent auditor’s report is unqualified and there are no matters which we are required to report by exception.
<b>Key findings on audit risks and other matters</b>	<p>We have obtained adequate evidence in relation to the key audit risks identified in our audit plan.</p> <p>We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the financial statements.</p> <p>The accounting policies used to prepare the financial statements are considered appropriate.</p> <p>All material disclosures required by relevant legislation and applicable accounting standards have been made appropriately.</p> <p>SRWC had appropriate administrative processes in place to prepare the annual report and accounts and the required supporting working papers.</p>
<b>Audit adjustments</b>	<p>We are required to communicate all adjustments, other than those considered to be clearly trivial. We are pleased to report that there were no adjustments to the financial statements.</p> <p>We identified some disclosure and presentational adjustments during our audit. These have been reflected in the final set of financial statements.</p>
<b>Accounting systems and internal controls</b>	<p>We have applied a risk-based methodology to the audit. This approach requires us to document, evaluate and assess SRWC’s processes and internal controls relating to the financial reporting process.</p> <p>Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we have included these in this report. No material weaknesses or significant deficiencies were noted.</p>

## 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 are satisfied that the governance statement complies with Scottish Ministers' guidance 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.

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### Auditor judgement



Risks exist to achievement of operational objectives



### Financial Sustainability

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SRWC has appropriate 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 2026/27. The plan assumes an annual 3% increase in grant in aid, based on discussions to date with Transport Scotland, and utilises brought forward surpluses to deliver a breakeven position across all five years.

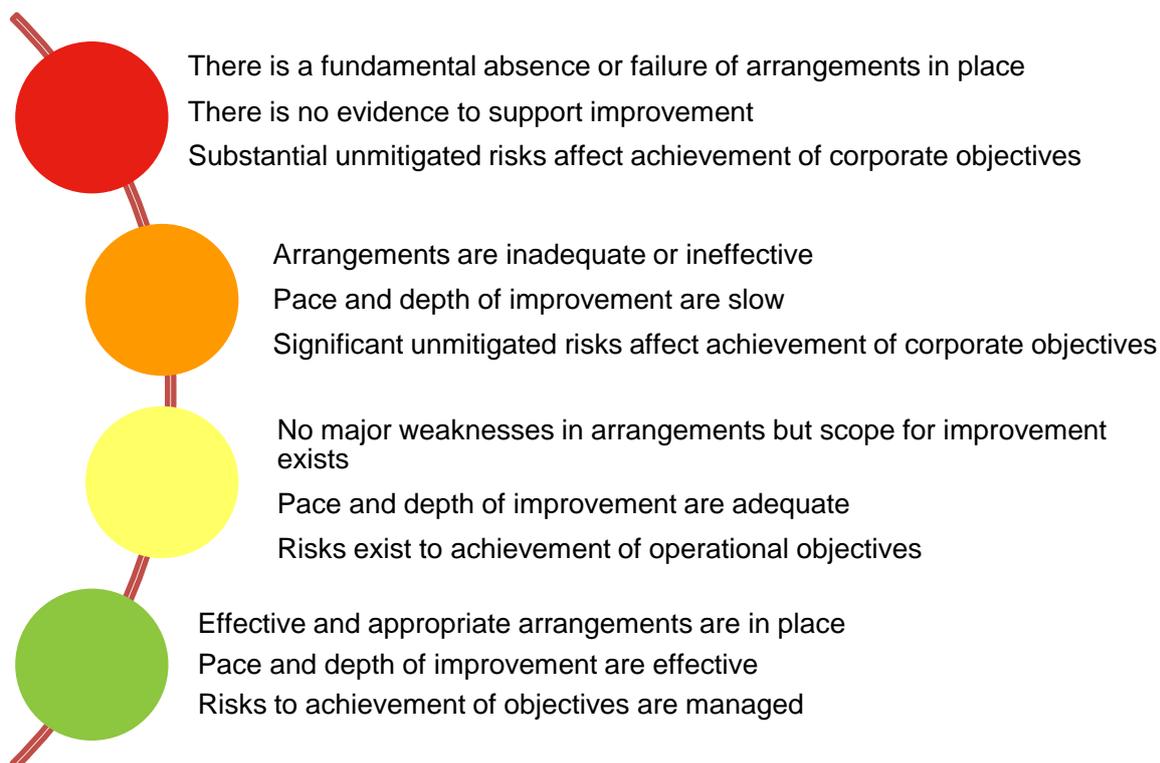
The Scottish Government's Resource Spending Review, however, proposes a 3% efficiency target across the transport portfolio from 2023/24 which casts doubt over the likelihood of SRWC receiving the level of grant in aid outlined in the five year financial plan. Scenario planning forecasts a deficit position by 2025/26 if the 3% efficiency target is applied to SRWC. Discussions with Transport Scotland continue to determine the potential impact on future grant in aid funding.

In addition, a level of uncertainty continues around the timing of implementation of the remaining provisions (as they apply to SRWC) within the Transport (Scotland) Act 2019 and the level of associated grant in aid which SRWC can expect in order to deliver those provisions. As a result, the five-year financial plan does not incorporate changes arising from the implementation of those provisions.

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## Definition

We have used the following grading structure to provide an overall assessment of the arrangements in place as they relate to the dimensions of the wider scope audit (i.e. financial sustainability).



# Introduction

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We carried out our audit in accordance with Audit Scotland's Code of Audit Practice (2016) and maintained auditor independence

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## Scope

1. 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 2021/22 annual report and accounts and related matters;
  - consideration of the wider dimensions of public audit work, as set out in Exhibit 1; and
  - any other work requested by Audit Scotland.

### Exhibit 1: Audit dimensions within the Code of Audit Practice (2016)



## Responsibilities

2. 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 in this report 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 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.
3. We do not accept any responsibility for any loss occasioned to any third party acting on, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.
4. We would like to thank all management and staff for their co-operation and assistance during our audit.

## Auditor independence

5. 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.
6. We confirm that we complied with the Financial Reporting Council's (FRC) Ethical Standard. In our professional judgement, we remained independent and our objectivity has not been compromised in any way.
7. We set out in Appendix 1 our assessment and confirmation of independence.

## Openness and transparency

10. This report will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

## Adding value through the audit

8. 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

9. 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.

# Financial statements audit

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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.

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## Overall conclusion

11. The annual report and accounts were approved by the Commissioner on 30 September 2022. Our independent auditor’s report is unqualified.

### Administrative processes

12. We received the unaudited annual report and accounts and supporting papers of a high standard, in line with our agreed audit timetable. Our thanks go to staff at SRWC for their assistance with our work.

13. The annual report and accounts were submitted to the Scottish Government and Auditor General for Scotland by the 31 October 2022 deadline.

## Our audit opinion

Opinion	Basis for opinion	Conclusions
Financial statements	<p>We conduct our audit in accordance with applicable law and International Standards on Auditing as required by the Code of Audit Practice.</p> <p>Our findings / conclusions to inform our opinion are set out in this section of our annual report.</p>	We have issued unqualified audit opinions.
Going concern basis of accounting	<p>In the public sector when assessing whether the going concern basis of accounting is appropriate, the anticipated provision of the services is more relevant to the assessment than the continued existence of a particular public body.</p> <p>We assess whether there are plans to discontinue or privatise SRWC’s functions.</p> <p>Our wider scope audit work considers the financial sustainability of SRWC.</p>	<p>We reviewed the financial forecasts for 2022/23. 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.</p> <p>Our audit opinion is unqualified in this respect.</p>

Opinion	Basis for opinion	Conclusions
<p>Regularity</p>	<p>We plan and perform our audit recognising that non-compliance with statute or regulations may materially impact on the annual report and accounts.</p>	<p>We did not identify any instances of irregular activity.</p> <p>In our opinion in all material respects the expenditure in the financial statements was incurred or applied in accordance with applicable enactments and guidance issued by the Scottish Ministers.</p>
<p>Matters prescribed by the Auditor General for Scotland:</p> <ul style="list-style-type: none"> <li>• Remuneration and Staff Report</li> <li>• Performance Report</li> <li>• Governance Statement</li> </ul>	<p>Other information in the annual report and accounts comprises the Performance Report and the Accountability Report excluding the audited part of the Remuneration and Staff Report.</p> <p>We read all the other 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.</p> <p>We plan and perform audit procedures to gain assurance that the statutory other information has been prepared in accordance with directions from Scottish Ministers.</p>	<p>The annual report contains no material misstatements or inconsistencies with the financial statements.</p> <p>We have concluded that:</p> <ul style="list-style-type: none"> <li>• the audited part of the Remuneration and Staff Report has been prepared in accordance with directions from Scottish Ministers.</li> <li>• the information given in the Performance Report has been prepared in accordance with directions from Scottish Ministers and is consistent with the financial statements.</li> <li>• the information given in the Governance Statement has been prepared in accordance with directions from Scottish Ministers and is consistent with the financial statements.</li> </ul>

Opinion	Basis for opinion	Conclusions
Matters reported by exception	<p>We are required to report on whether:</p> <ul style="list-style-type: none"> <li>adequate accounting records have not been kept; or</li> <li>the financial statements and the audited part of the Remuneration and Staff Report are not in agreement with the accounting records; or</li> <li>we have not received all the information and explanations we require for our audit.</li> </ul>	We have no matters to report.

## An overview of the scope of our audit

- The scope of our audit was detailed in our External Audit Plan, which was presented to the Commissioner in February 2022. 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.
- 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.
- In our audit, we test and examine information using sampling and other audit techniques, to the extent we consider necessary to provide a

reasonable basis for us to draw conclusions. We obtain evidence through performing a review of the significant accounting systems, substantive procedures and detailed analytical procedures.

## Significant risk areas

- Significant risks are defined by professional standards as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, we consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.
- The significant risk areas 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.

## Significant risk areas

### 1. Management override

#### Significant risk description

In any organisation, there exists a risk that management have 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*.

#### How the scope of our audit responded to the significant risk

##### Key judgement

There is the potential for management to use their judgement to influence the financial statements as well as the potential to override SRWC's controls for specific transactions.

##### Audit procedures

- Review of SRWC's accounting records and audit testing on transactions.
- Adoption of data analytics techniques in carrying out testing.
- Review of judgements and assumptions made in determining accounting estimates as set out in the financial statements to determine whether they are indicative of potential bias. This included a retrospective review of the prior year estimates against the current year estimates.

#### Key observations

We have not identified any indication of management override in the year. We did not identify any areas of bias in key judgements made by management and judgements were consistent with prior years.

## 2. Revenue recognition

### Significant risk description

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 income transactions in such a way as to lead to a material misstatement in the reported financial position.

### How the scope of our audit responded to the significant risk

#### Key judgements

Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of income around the year end. However, we do not deem this risk to be present for funding received as Scottish Government grant in aid due to a lack of incentive and opportunity to manipulate transactions of this nature.

#### Audit procedures

- Evaluate the material revenue streams and review the controls in place over accounting for revenue.
- Consideration of SRWC key areas of revenue and obtain evidence that revenue is recorded in line with appropriate accounting policies and the policies have been applied consistently across the year.

### Key observations

At the planning stage of our audit, we concluded that the revenue recognition risk was present in all revenue streams except for Scottish Government grant in aid. Our conclusion remained that same throughout the audit.

For all other material revenue streams, we have gained reasonable assurance on the completeness and occurrence of income and we are satisfied that it is fairly stated in the financial statements.

### 3. Expenditure recognition

#### Significant risk description

As most public sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. There is a risk that expenditure may be misstated resulting in a material misstatement in the financial statements.

#### How the scope of our audit responded to the significant risk

##### Key judgements

Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of expenditure, in particular around the year end.

##### Audit procedures

- Evaluate the significant non-pay expenditure streams and review the controls in place over accounting for expenditure. (Payroll is subject to separate tailored testing).
- Consideration of SRWC's key areas of expenditure and obtain evidence that expenditure is recorded in line with appropriate accounting policies and the policies have been applied consistently across the year.
- Review of accruals around the year end to consider if there is any indication of understatement of balances held through consideration of accounting estimates.

#### Key observations

We gained reasonable assurance over the completeness and occurrence of expenditure and are satisfied that expenditure is fairly stated in the financial statements.

## Other risk factors

### Other impacts of COVID-19 on the financial statements

19. COVID-19 presented unprecedented challenges to the operation, financial management and governance of organisations, including public sector

bodies. In response to the pandemic we identified potential areas of increased risk of material misstatement to the financial statements and/or our audit opinion. Our conclusions are set out in the table below.

Area considered	Description	Conclusion
Access to audit evidence	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 inherent nature of carrying out our audit remotely.	<p>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.</p> <p>We stayed in close contact with SRWC to ensure all relevant outstanding issues were satisfactorily addressed.</p>

## Estimates and judgements

20. We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the financial statements.
21. As part of the planning and fieldwork stages of the audit we identified all accounting estimates made by management and determined which of those are key to the overall financial statements. Consideration was given to depreciation rates, provisions for legal obligations, and accruals. We have not determined the accounting estimates to be significant. We revisited our assessment during the completion stages of our audit and

concluded that our assessment remained appropriate.

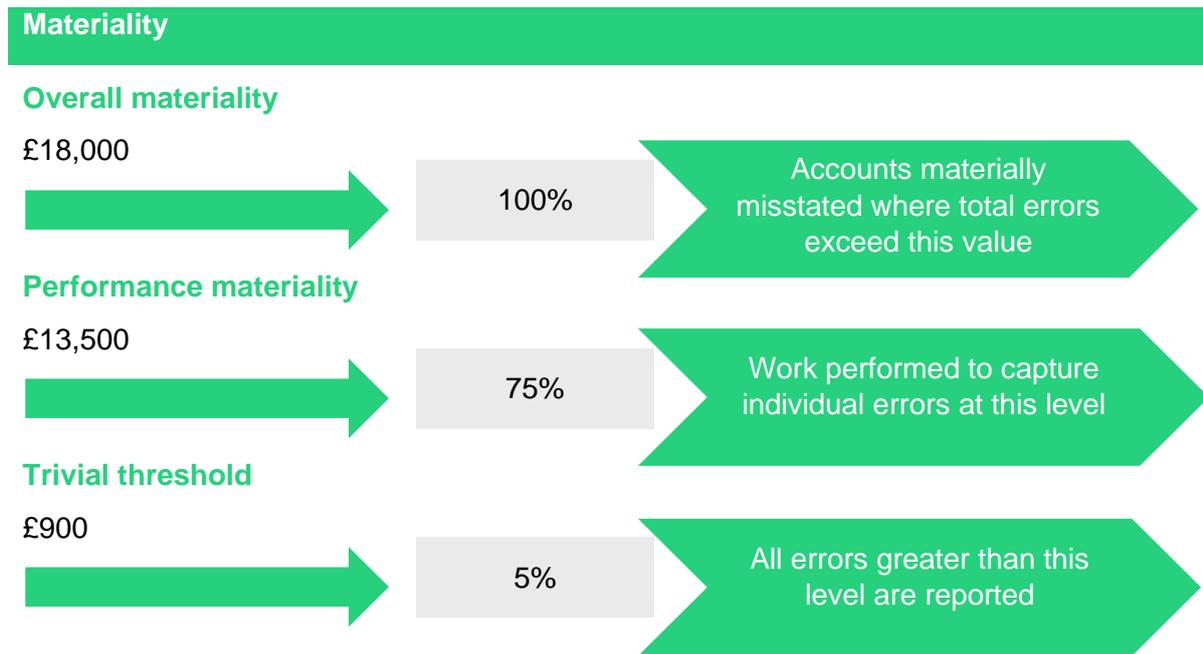
## Materiality

22. 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 and is affected by our assessment of the risk profile of the organisation and the needs of users. We review our assessment of materiality throughout the audit.
23. Whilst our audit procedures are designed to identify misstatements

which are material to our audit opinion, we also report to SRWC any uncorrected misstatements of lower value errors to the extent that our audit identifies these.

£19,000. On receipt of the unaudited financial statements, we reassessed materiality and updated it to £18,000. We consider that our updated assessment has remained appropriate throughout our audit.

24. Our initial assessment of materiality for SRWC’s financial statements was



**Materiality**

Our assessment is made with reference to SRWC’s gross expenditure. We consider this to be the principal consideration for the users of the financial statements when assessing financial performance.

Our assessment of materiality equates to approximately 1.5% of SRWC’s gross expenditure as disclosed in the 2021/22 unaudited annual report and accounts.

In performing our audit we apply a lower level of materiality to the audit of the Remuneration and Staff Report. Our materiality is set at £5,000.

<b>Performance materiality</b>	<p>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.</p> <p>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.</p>
<b>Trivial misstatements</b>	<p>Trivial misstatements are matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.</p>

## Audit differences

25. We are pleased to report that there were no adjustments to the financial statements.
26. We identified disclosure and presentational adjustments during our audit which have been detailed in Appendix 2.

## Internal controls

27. As part of our work we considered internal controls relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to SRWC. These matters are limited to those which we have concluded are of sufficient importance to merit being reported.

Area	Assessment	Comment
Control and process environment	<b>Satisfactory</b>	We consider the control environment within SRWC to be satisfactory.
Quality of supporting schedules	<b>Satisfactory</b>	The supporting schedules received during the course of the fieldwork were sufficient for our audit purposes.
Responses to audit queries	<b>Satisfactory</b>	Management's responses to our audit queries were appropriate and received on a timely basis.

## Shared systems and functions

28. SRWC uses Scottish Government payroll services and accounting systems (SEAS). On an annual basis, Audit Scotland, the appointed auditor to the Scottish Government, shares with us their findings on work carried out on those systems.
29. Audit Scotland has reported, in 2021/22, that the Scottish Government has progressed with the action plan developed in prior years to address identified improvements to the payroll function. However, improvements to payroll controls, including review of changes to payroll data, remain to be fully implemented. We have completed sufficient substantive testing to gain assurance that SRWC payroll costs are free from material misstatement in the financial statements.

## Follow up of prior year recommendations

30. As part of our audit we have followed up on SRWC progress in implementing the audit recommendation from prior year. We have concluded that this has been

implemented and this recommendation is now closed. Detail on this recommendation is included in the action plan at Appendix 3.

## Other communications

### Accounting policies, presentation and disclosures

31. Our work included a review of the adequacy of disclosures in the financial statements and consideration of the appropriateness of the accounting policies adopted by SRWC.
32. The accounting policies, which are disclosed in the financial statements, are in line with the FReM and are considered appropriate.
33. There are no significant financial statements 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.
34. Overall we found the disclosed accounting policies, and the overall disclosures and presentation to be appropriate.

### **Fraud and suspected fraud**

35. We have previously discussed the risk of fraud with management. We have not been made aware of any incidents in the period nor have any incidents come to our attention as a result of our audit testing.
36. Our work as auditor is not intended to identify any instances of fraud of a non-material nature and should not be relied upon for this purpose.

### **Non-compliance with laws and regulations**

37. As part of our audit testing, we have reviewed the laws and regulations impacting SRWC. There are no indications from this work of any significant incidences of non-compliance or material breaches of laws and regulations that would necessitate a provision or contingent liability.

### **Written representations**

38. The Commissioner signed a letter of representation at the same time as approving the annual report and accounts.

### **Related parties**

39. We are not aware of any related party transactions which have not been disclosed.

### **Confirmations from third parties**

40. All requested third party confirmations have been received.

## 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

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### Governance Statement

We are satisfied that the governance statement complies with Scottish Ministers' guidance 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.

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### Auditor judgement



Risks exist to achievement of operational objectives

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### Financial Sustainability

SRWC has appropriate 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 2026/27. The plan assumes an annual 3% increase in grant in aid, based on discussions to date with Transport Scotland, and utilises brought forward surpluses to deliver a breakeven position across all five years.

The Scottish Government's Resource Spending Review, however, proposes a 3% efficiency target across the transport portfolio from 2023/24 which casts doubt over the likelihood of SRWC receiving the level of grant in aid outlined in the five year financial plan. Scenario planning forecasts a deficit position by 2025/26 if the 3% efficiency target is applied to SRWC. Discussions with Transport Scotland continue to determine the potential impact on future grant in aid funding.

In addition, a level of uncertainty continues around the timing of implementation of the remaining provisions (as they apply to SRWC) within the Transport (Scotland) Act 2019 and the level of associated grant in aid which SRWC can expect in order to deliver those provisions. As a result, the five-year financial plan does not incorporate changes arising from the implementation of those provisions.

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## Our approach to the wider scope audit

41. Our approach to the wider scope audit (as set out in our 2021/22 External Audit Plan) builds on our understanding of SRWC which we have developed from previous years, along with discussions with management and review of minutes and key strategy documents.
42. During our audit we also considered SRWC's arrangements as they relate to the best value theme of fairness and equality.
43. Overall we concluded that SRWC has appropriate arrangements in place as noted below.

### Fairness and equality

SRWC published an equalities statement in October 2016 that outlines its commitment to promoting equality and human rights in delivering its services and within the organisation. The revised Equality, Diversity and Inclusion Policy is in development with implementation planned for late 2022.

SRWC oversees the improvements to road work activity, therefore its relationship to the service user is primarily indirect but seeks to promote fairness and equality where possible particularly through accessible consultation processes.

SRWC promotes equality as an employer, drawing on Scottish Government HR services and policies to achieve this.



### Governance statement

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

44. We are satisfied that the Governance Statement for the year to 31 March 2022 is consistent with the financial statements and has been prepared in accordance with the Transport (Scotland) Act 2005 and directions made by Scottish Ministers.
45. From our audit work we have 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.
46. The Commissioner has confirmed that in his opinion, the control arrangements are appropriate and effective and no significant issues have been identified.

### Governance arrangements

47. Governance arrangements have continued as normal throughout this period. SRWC assessed the level of risk arising from any potential impact of the pandemic to be low.
48. The Commissioner received and considered all standing items in 2021/22 including regular budget monitoring reports, performance information and updates on ongoing activity. We are satisfied that the Commissioner received sufficient and timely information throughout the period to support effective scrutiny, challenge and decision making.

### System of internal control

49. We have evaluated SRWC's key financial systems and internal controls to determine whether they are adequate to safeguard public assets, and prevent and detect fraud, error and irregularity. Our approach has included documenting the key internal financial controls and performing walkthroughs to confirm that they are operating as intended.
50. We did not identify any significant weaknesses in SRWC's accounting and internal control systems during our audit.
51. The accounting and internal control system has continued to operate effectively during the period of remote working, with no significant changes in controls.

### Internal audit

52. An effective internal audit service is an important element of an entity's overall governance arrangements. During our audit we considered the work of internal audit wherever possible to avoid duplication of effort and to make

the most efficient use of SRWC's total audit resource.

53. SRWC's internal audit service is provided by Transport Scotland. Given the scale of SRWC's operations and internal audit's assessment of the low level of risk at SRWC, coverage is provided on an ad hoc basis. This arrangement is reflected in SRWC's Framework Agreement with Transport Scotland.
54. An audit of risk management was undertaken in 2021/22 which concluded the arrangements to be proportionate and with due consideration of the Scottish Government Risk Management Policy. Three recommendations were made, with two implemented fully by SRWC and one partially.
55. We did not place formal reliance on the work of internal audit; however, we have considered their findings in respect of our wider scope responsibilities and we are grateful to the internal audit team for their assistance during the course of our work.

### Prevention and detection of fraud and irregularity

56. We found SRWC's arrangements for the prevention and detection of fraud and other irregularities to be adequate.
57. The Commissioner is notified of any incidences of fraud or security breaches by the relevant team member. Issues arising and preventative actions are discussed at monthly team meetings.



## 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

58. 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 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 up to 2025/26. Management is currently reviewing the financial plan and revising forecasts for the period 2022/23 to 2026/27 to reflect the Scottish Budget announcement in December 2021.

The Transport (Scotland) Act 2019 received royal assent in November 2019. It contains a number of provisions which directly affect the work of SRWC, most significantly the introduction of an inspectorate function. Enactment of these provisions however has been delayed significantly due to the pandemic and are now expected to be implemented over the next two to three year period. The exact budgetary implications of the Act are still unknown, with SRWC awaiting further instructions and detail on what the inspectorate function will look like in practice and the phasing of its implementation. As a result, SRWC is unable to reflect the potential budgetary implications in its five year financial plan. Scenario planning has been carried out and SRWC continues to work with Transport Scotland in respect of understanding and implementing the provisions of the Act.

*Noted in the 2021/22 External Audit Plan*

59. Our detailed findings on the SRWC's financial framework for achieving medium term financial sustainability are set out below.

## Future financial plans

60. 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 2026/27. The plan forecasts a breakeven position across each of the five years.
61. To achieve a breakeven position across the five-year period, SRWC will utilise brought forward surpluses. Surpluses of £252,000 were carried forward into 2022/23 and SRWC forecasts that this will be reduced to £102,000 by 31 March 2027, the end of the five-year financial plan. SRWC deem this level to be sufficient to

support ongoing operation in the medium term.

62. Grant in aid has been confirmed for 2022/23. From 2023/24, SRWC has assumed a 3% increase per year in grant in aid which reflects discussions with Transport Scotland to date. The increase in funding requirement for 2022/23 is based on the following assumptions:

- An increase to reflect pay and national insurance increases.
- An increase to reflect inflationary pressures.
- Other assumptions required to reflect the timing and scale of current activity.

### Resource Spending Review

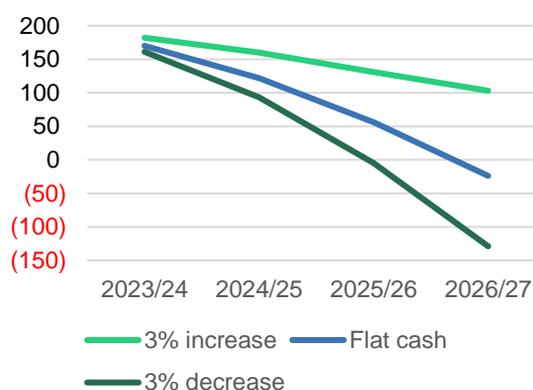
63. In May 2022, the Scottish Government published its Resource Spending Review which covers the period from 2022/23 to 2026/27. Covering both revenue and capital, this outlines the broad priorities and spending plans for the medium term which will be used to inform annual budget negotiations and funding allocations for public sector bodies.

64. Recognising the constrained fiscal environment, a 3% efficiency target has been set for the transport portfolio, with further investment only provided to deliver specific national goals and initiatives.

65. In response, SRWC has modelled three scenarios to inform ongoing discussions its sponsor body, Transport Scotland, regarding future funding allocations. The three scenarios are as follows:

- Annual 3% increase in funding – as assumed in the current five-year financial plan;
- Flat cash allocation – in line with previous years; and
- Annual 3% reduction in funding – applying the 3% efficiency target to SRWC's budget.

**Exhibit 2: Forecasted surplus/(deficit) per scenario planning (£'000)**



Source: SRWC scenario planning

66. SRWC forecasts an overall deficit position by 2026/27 under a flat cash allocation and by 2025/26 if a 3% reduction in funding was applied.

67. With staff costs accounting for 89% of total expenditure in 2021/22, SRWC believe there is limited opportunity for to deliver efficiency savings to manage this position without workforce transformation. Assuming a 3% funding decrease, staff costs alone would exceed grant in aid by 2025/26 for example, with remaining expenditure covered through brought forward surpluses.

68. The Commissioner remains in discussion with Transport Scotland to ensure future funding allocations support effective service delivery and longer term financial sustainability.

### Transport (Scotland) Act 2019

69. The Transport (Scotland) Act 2019 received Royal Assent in December 2019. The Act includes provisions relating to the role of the Commissioner, the regulation of road works and the status of the office of SRWC. These provisions grant the Commissioner the power to undertake inspections and issue compliance notices, requiring the establishment of a new inspectorate function on top of their existing responsibilities.
70. Some provisions have already commenced, including new requirements on road authorities, with no significant budgetary impact. However, the implementation of remaining provisions, including the proposed inspectorate function, have been significantly delayed due to COVID-19 and are now expected to be commenced over the next two to three year period.
71. SRWC expect to incur additional costs following the implementation of these remaining provisions. The proposed inspectorate function, for example, will require additional staff resource with corresponding costs. Given the continued uncertainty around the timing of the implementation and whether additional grant in aid will be provided, SRWC has deemed it prudent to exclude the operation of these provisions from all financial plans.
72. Further decisions on the implementation and funding of these provisions are not expected until October 2022, having been delayed due to the Scottish Government's Resource Spending Review. SRWC

remain in close contact with Transport Scotland to manage the position.

### Scottish Road Works Register (SRWR)

73. The operation of the road works register is funded by the road works community, primarily through prescribed fees which are set within legislation to cover working capital requirements.
74. SRWR Prescribed Fees and Amounts are set at £883,000 in 2022/23, a reduction of £32,000 in comparison to 2021/22 with the forecast deficit to be met by brought forward reserves. The forecast position is shown in Exhibit 3.

### Exhibit 3: SRWR Forecast (Surplus) / Deficit

	2022/ 23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/ 27 £'000
Prescribed Fees	(883)	(950)	(857)	(945)	(964)
Other income	(12)	(12)	(12)	(12)	(12)
<b>Total income</b>	<b>(895)</b>	<b>(962)</b>	<b>(869)</b>	<b>(957)</b>	<b>(976)</b>
Expenditure	901	936	943	958	976
Use of reserves	(6)	-	(74)	(1)	-
<b>Net shortfall / (surplus)</b>	<b>(0)</b>	<b>(26)</b>	<b>(0)</b>	<b>(0)</b>	<b>(0)</b>
<b>Total Balance on SRWR Reserves at 31 March</b>	<b>98</b>	<b>124</b>	<b>50</b>	<b>50</b>	<b>50</b>

Source: SRWR Five Year Budget to 2026/27

75. Thereafter, increased expenditure is assumed to be met by increased prescribed fees along with use of brought forward reserves. The most significant driver of increased expenditure is the retendering exercise for the road works register provider contract.

### SRWC's financial performance in 2021/22

76. The main financial objective for SRWC is to ensure its financial outturn for the year is within budget / grant in aid from Scottish Government. The agreed grant in aid for 2021/22 was £375,000. SRWC reported spend of £306,000 on the operation of the office of the SRWC, achieving a surplus of £69,000. SRWC therefore met its financial objective for 2021/22.

77. Prescribed fees were set at £915,000 in 2021/22, maintaining the level set in 2020/21 following a retendering

exercise in 2019/20. A further £22,500 was collected from new users admitted to the road works register.

78. SRWR Prescribed Fees and Amounts of £915,000 were collected from utility companies and roads authorities towards the provision of the register. A further £22,500 was collected from new undertakers for access to the SRWR.

79. SRWC reported related spend of £872,000 on the operation of the register; resulting in a surplus of £64,000 for the operation of the Scottish Road Works Register.

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

The Code of Audit Practice (2016) sets out the responsibilities of both the SRWC and the auditor and are detailed below.

### SRWC responsibilities

SRWC has primary responsibility for ensuring the proper financial stewardship of public funds, complying with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.

Area	SRWC responsibilities
<b>Corporate governance</b>	<p>The Commissioner (as Accountable Officer) is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements.</p>
<b>Financial statements</b>	<p>SRWC has responsibility for:</p> <ul style="list-style-type: none"> <li>• preparing financial statements which give a true and fair view of its 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 its 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 the financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that is consistent with the disclosures made in the financial statements. Management commentaries should be fair, balanced and understandable and also address the longer term financial sustainability of SRWC.</li> </ul> <p>SRWC is responsible for communicating relevant information to users about the entity and its financial performance, including providing adequate</p>

Area	SRWC responsibilities
	<p>disclosures in accordance with the applicable financial reporting framework. The relevant information should be communicated clearly and concisely.</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 its objectives and safeguard and secure value for money from the public funds at its disposal. SRWC is also responsible for establishing effective and appropriate internal audit and risk-management functions.</p>
<p><b>Standards of conduct for prevention and detection of fraud and error</b></p>	<p>SRWC is responsible for establishing 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.</p>
<p><b>Financial position</b></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 statutory financial requirements and achievement of financial targets;</li> <li>• Balances and reserves, including strategies about levels and their future use;</li> <li>• 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>
<p><b>Best value</b></p>	<p>Accountable officers have a specific responsibility to ensure that arrangements have been made to secure best value.</p>

## Auditor responsibilities

Auditor responsibilities are derived from statute, the Code of Audit Practice, International Standards on Auditing (UK), professional requirements and best practice. These are to:

- undertake statutory duties, and comply with professional engagement and ethical standards;
- provide an opinion on the financial statements and 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; and
- demonstrate compliance with the wider scope of public 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

In accordance with our profession's ethical guidance and further to our External Audit Annual Plan issued confirming audit arrangements there are no further matters to bring to your attention in relation to our integrity, objectivity and independence.

We confirm that Azets Audit Services and the engagement team complied with the FRC's Ethical Standard. We confirm that all threats to our independence have been properly addressed through appropriate safeguards and that we are independent and able to express an objective opinion on the financial statements.

### Audit and non-audit services

The total fees charged to SRWC for the provision of services in 2021/22 (with prior year comparators) is as follows:

	Current year	Prior year
	£	£
Audit of Scottish Road Works Commissioner (Auditor remuneration)	10,270	10,060
<b>Total audit</b>	<b>10,270</b>	<b>10,060</b>
Non-audit services	-	-
<b>Total fees</b>	<b>10,270</b>	<b>10,060</b>

FRC's Ethical Standard stipulates that where an auditor undertakes non audit work, appropriate safeguards must be applied to reduce or eliminate any threats to independence. No non-audit services were provided to the Scottish Road Works Commissioner.

### Audit quality

The Auditor General and the Accounts Commission require assurance on the quality of public audit in Scotland through comprehensive audit quality arrangements that apply to all audit work and providers. The audit quality arrangements recognise the importance of audit quality to the Auditor General and the Accounts Commission and provide regular reporting on audit quality and performance.

Audit Scotland maintains and delivers an [Audit Quality Framework](#).

The most recent audit quality report which covers our work at SWRC since appointment can be found at <https://www.audit-scotland.gov.uk/publications/quality-of-public-audit-in-scotland-annual-report-202122>

## Appendix 2: Adjusted and unadjusted errors identified during the audit

### Adjusted differences

We did not identify any material adjustments during our audit of the Scottish Road Works Commissioner's annual report and accounts.

### Disclosure amendments

No	Detail
1	Cashflow Statement - updated to reflect disposal of fixed assets appropriately.
2	Remuneration and Staff Report – additional disclosures on fair pay to ensure compliance with the new requirements of the FReM
3	Related Parties – additional disclosures to add clarity over transactions between SRWC and the Commissioner

## Appendix 3: Follow up of prior year recommendations

We have followed up on progress in implementing the recommendation raised in the prior year. This action has been implemented and we have closed the recommendation.

### Fixed Asset Register – recommendation first raised in 2020/21

**Recommendation** The fixed asset register should be reviewed to ensure all records are complete and accurately reflect SRWC’s current asset base. The register should be reviewed at least annually to ensure information remains accurate and up to date.

Rating	Other deficiency	Implementation date	Initial target date:
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March 2022

<b>Closed</b>	SRWC has undertaken an appropriate review of the fixed asset register and implemented the recommendation.
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