

The Scottish Road Works Commissioner

2022/23 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the Scottish Road Works Commissioner and the Auditor General for Scotland

August 2023

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Key messages

2022/23 annual report and accounts

- 1 Audit opinions on the annual report and accounts are unmodified and there were no significant issues.

Wider-scope

- 2 SRWC operated within its budget for 2022/23.
- 3 SRWC has effective medium-term financial plans in place which are updated on a rolling basis. SRWC will need to maintain and further develop these to meet future financial challenges.
- 4 SRWC should further develop its approach to demonstrating best value.

Introduction

1. This report summarises the findings from the 2022/23 annual audit of the office of the Scottish Road Works Commissioner (SRWC). The scope of the audit was set out in an Annual Audit Plan presented to the Scottish Road Works Commissioner (the Commissioner) on 30th March 2023. This Annual Audit Report comprises:

- significant matters arising from an audit of SRWC's annual report and accounts
- wider scope areas that frame public audit as set out in the [Code of Audit Practice 2021](#), which for less complex bodies includes conclusions on financial sustainability

2. This report is addressed to SRWC and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

Audit appointment from 2022/23

3. I, Stuart Nugent, have been appointed by the Auditor General as auditor of SRWC for the period from 2022/23 until 2026/27. The 2022/23 financial year was the first of my five-year appointment. My appointment coincides with the new [Code of Audit Practice](#) (the Code) which was introduced for financial years commencing on or after 1 April 2022.

4. My team and I would like to thank the Commissioner and other staff for their cooperation and assistance in this year and we look forward to working together constructively over the course of the five-year appointment.

Responsibilities and reporting

5. SRWC has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and accounts that are in accordance with the accounts direction from Scottish Ministers. SRWC is also responsible for compliance with legislation putting arrangements in place for governance, propriety and regularity.

6. The responsibilities of the independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2021](#) and supplementary guidance and International Standards on Auditing in the UK.

7. The weaknesses or risks identified in this report are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

8. This report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers, and dates for implementation.

Auditor Independence

9. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2022/23 audit fee of £17,150 as set out in our 2022/23 Annual Audit Plan remains unchanged. To note, SRWC received a rebate of £770 in 2022/23 which relates to previous years but should be applied against the current year's fee.

10. We are not aware of any relationships that could compromise our objectivity and independence.

11. We add value to SRWC by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- sharing intelligence and good practice identified.

Part 1. Audit of 2022/23 annual report and accounts

Public bodies are required to prepare annual report and accounts comprising financial statements and other related reports. These are principal means of accounting for the stewardship public funds.

Main judgements

Audit opinions on the annual report and accounts are unmodified and there were no significant issues.

The unaudited annual report and accounts were received in line with the agreed timetable.

Audit opinions on the annual report and are unmodified

12. The Commissioner approved the annual report and accounts for SRWC for the year ended 31 March 2023 on 31 August 2023. As reported in the independent auditor's report, in my opinion as the appointed auditor the accompanying financial statements:

- give a true and fair view of the state of the body's affairs as at 31 March 2023 and of its net expenditure for the year then ended;
- have been properly prepared in accordance with UK adopted international accounting standards, as interpreted and adapted by the 2022/23 Government Financial Reporting Manual (FRoM); and
- have been prepared in accordance with the requirements of the Transport (Scotland) Act 2005 and directions made thereunder by the Scottish Ministers.

Overall materiality was assessed as £26,000

13. Broadly, the concept of materiality is applied by auditors to determine whether misstatements identified during the audit could reasonably be expected to influence the economic decisions of users of the accounts, and hence impact their opinion set out in the independent auditor's report. Auditors set a monetary threshold when considering materiality, although some issues may be considered material by their nature. It is ultimately a matter of the auditor's professional judgement.

14. Our initial assessment of materiality was carried out during the planning phase of the audit. This was reviewed and updated on receipt of the unaudited annual report and accounts and is summarised in [Exhibit 1](#). The updated materiality reflects the level of spend reported in the unaudited 2022/23 annual report and accounts.

Exhibit 1

Materiality values

Materiality level	Amount
Overall materiality	£26,000
Performance materiality	£20,000
Reporting threshold	£1,300

Source: Audit Scotland

15. The overall materiality threshold was set with reference to gross expenditure, which we judged as the figure most relevant to the users of the financial statements.

16. Performance materiality is used by auditors when undertaking work on individual areas of the financial statements. It is a lower materiality threshold, set to reduce the probability of aggregated misstatements exceeding overall materiality. Performance materiality was set at 75% of overall materiality, reflecting low number of historical errors and the lack of significant estimates in the accounts.

There were no significant findings from the audit

17. Under International Standard on Auditing (UK) 260, we communicate significant findings from the audit to the Commissioner, including our view about the qualitative aspects of the body's accounting practices.

18. The Code of Audit Practice also requires all audits to communicate key audit matters within the annual audit report under International Standard on Auditing (UK) 701. These are matters that we judged to be of most significance in our audit of the financial statements.

19. We have no significant findings to report from the audit. However, we identified an area for improvement relating to the performance report.

20. The performance report included in the annual accounts should provide information on a body, its main objectives and the principal risks faced. It should provide a fair, balanced and understandable analysis of a body's performance as well as helping stakeholders understand the financial statements.

21. The performance report is of a good standard and clearly explains the strategy, finances and links to the financial statements. We found one aspect of

the performance report which could be improved. Requirements under the FReM relating to non-financial performance could be further enhanced by including metrics relating to key performance indicators.

Recommendation 1

SRWC should incorporate metrics for non-financial key performance indicators within the performance report.

Our audit work responded to the risks of material misstatement we identified in the annual report and accounts

22. We have obtained audit assurances over the identified significant risks of material misstatement to the annual report and accounts. [Exhibit 2](#) sets out the significant risks of material misstatement to the financial statements we identified in our 2022/23 Annual Audit Plan. It also summarises the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 2

Identified significant risks of material misstatement in the annual report and accounts

Audit risk	Assurance procedure	Results and conclusions
<p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> • Assess the design and implementation of controls over journal entry processing. • Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. • Test journals at the year-end and post-closing entries and focus on significant risk areas. • We will assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. • Substantive testing of income and expenditure transactions around the year-end to confirm they are 	<p>Results & Significant Judgements:</p> <p>Controls over journal entry processing are appropriate and operated effectively.</p> <p>Officers involved in financial reporting processes did not identify any unusual activity.</p> <p>Year-end adjustments and journals were tested, and no errors were identified.</p> <p>Methodologies and assumptions employed by management in preparing accounting estimates did not significantly vary from the prior year and were consistently applied.</p> <p>Cut-off testing of income and expenditure transactions found no instances where these had been accounted for in the wrong financial year.</p>

Audit risk	Assurance procedure	Results and conclusions
	<p>accounted for in the correct financial year.</p> <ul style="list-style-type: none"> • Focussed testing of accounting accruals and prepayments. 	<p>Testing of accruals and prepayments identified no errors.</p> <p>There were no unexplained significant transactions identified from our audit work.</p> <p>Conclusion: Satisfactory - Audit work found no errors or other accounting entries that would indicate management override of controls.</p>

There were no identified misstatements within the financial statements

23. It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected. However, the final decision on making the correction lies with those charged with governance considering advice from senior officers and materiality. There were no misstatements identified that exceeded our reporting threshold.

The unaudited annual report and accounts were received in line with the agreed timetable

24. The unaudited annual report and accounts were received in line with our agreed audit timetable on 20 June 2023. The working papers provided with the unaudited accounts were of a good standard and staff provided support to the audit team during the audit.

Part 2. Wider Scope

For less complex bodies wider-scope audit work considers the financial sustainability of the body and the services that it delivers over the medium to longer term

Conclusion

SRWC has effective medium-term financial plans in place which are updated on a rolling basis. SRWC will need to maintain and further develop these to meet future financial challenges.

SRWC should further develop its approach to demonstrating best value.

SRWC operated within its budget for 2022/23

25. The main financial objective for SRWC is to ensure that the financial outturn for the year is within the budget allocated by Transport Scotland. SRWC has reported an outturn of £390,000 against its overall budget for 2022/23 of £411,000.

26. SRWC is also responsible for the operation of the Scottish Road Works Register (SRWR). This is funded through SRWC charging fees to roads authorities and utility companies. Total fees raised in 2022/23 were £898,000 compared to costs of £902,000.

27. SRWC had planned on achieving a loss in respect of SRWR to reduce surplus funds accumulated over previous years. The level of loss was less than planned however, as costs did not rise as much as had been anticipated.

SRWC have medium-term financial plans in place

28. There are medium term financial plans in place (covering a period of five years) which are updated on a rolling basis. There are two separate financial plans: one for the SRWC and one for the SRWR.

29. The two financial plans include a detailed breakdown of the reoccurring costs and any known demands facing SRWC in the future. The forecasts are based on several assumptions including allocation uplifts, inflationary costs and pay growth. The assumptions used are reasonable and in line with the current financial climate.

30. Taking into account costs, demands and estimated funding changes, the SRWC financial plan estimates a funding shortfall of £14,339 by 2027/28. SRWC will need to maintain and further develop this budget to manage future financial challenges and to address this forecast funding gap.

31. The SRWR budget estimates an overall surplus position over the period of 2023/24 to 2027/28. A deficit of £60,481 is forecast in 2024/25 but SRWC plans to address this with surpluses brought forward.

SRWC holds a significant cash balance

32. SRWC holds a significant cash balance which has been increasing in recent years, in large part due to the SRWR. SRWC regularly liaise with its sponsor (Transport Scotland) which includes monitoring the cash balance and emerging issues which need to be incorporated into the budgets.

33. Under [Scottish Public Finance Manual \(SPFM\)](#), public bodies are encouraged to keep cash balances to the minimum consistent with the principles of not providing funding in advance of need. SRWC should ensure that the level of funds held is consistent with the SPFM.

SRWC should further develop its approach to demonstrating best value

34. [Ministerial guidance to Accountable Officers](#) for public bodies and the [Scottish Public Finance Manual \(SPFM\)](#) sets out the accountable officer's duty to ensure that arrangements are in place to secure best value. The guidance sets out the key characteristics of best value and states that compliance with the duty of best value requires public bodies to take a systematic approach to self-evaluation and continuous improvement.

35. We found that SRWC have some arrangements in place to secure best value, however there is not a formally agreed document that details these arrangements.

36. The best value process could be further enhanced by producing a document that is updated annually. This should detail the arrangements that support the best value characteristics as set out in the SPFM.

Recommendation 2

SRWC should produce an annual formally agreed document which details how it meets the best value characteristics as set out in the SPFM.

Appendix 1. Action plan 2022/23

2022/23 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Non-Financial Performance Information in Performance Report</p> <p>Under the FReM, public bodies should include details of their performance against relevant key non-financial indicators or measures within the performance report. SRWC currently do not report metric relating to non-financial performance within the performance report.</p> <p>Risk – SRWC are not fully complying with the requirements of the FReM.</p>	<p>SRWC should incorporate metrics for the key non-financial performance indicators within the performance report.</p> <p>Paragraph 21</p>	<p>Agreed action – The recommendation is accepted.</p> <p>The key performance indicator data will be included in the performance report for 2023/24 and beyond.</p> <p>Responsible officer – Business and Governance Manager.</p> <p>Agreed date – 30 April 2024</p>
<p>2. Best value</p> <p>Under the SPFM, the Commissioner (as accountable officer) has a responsibility to ensure best value. While SRWC is able to demonstrate it has some arrangements in place to secure best value, the process could be further enhanced by producing a document which details these arrangements.</p> <p>Risk – Opportunities for improvement through best value review may be missed.</p>	<p>SRWC should produce an annual formally agreed document which details how it meets the best value characteristics as set out in the SPFM.</p> <p>Paragraph 36</p>	<p>Agreed action – The recommendation is accepted.</p> <p>A best value performance framework document will be developed and reviewed annually to enable the organisation to evaluate and demonstrate how the best value principles are being met with an emphasis on continuous improvement. The framework will be proportionate to the size and scale of the organisation.</p> <p>Responsible officer – Policy and Quality Manager.</p> <p>Agreed date – 31 March 2024</p>

The Scottish Road Works Commissioner

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