



Scott-Moncrieff
business advisers and accountants

Scottish Road Works Commissioner

2017/18 Annual Audit Report to the Scottish
Road Works Commissioner and the Auditor
General for Scotland

August 2018

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Key messages

Annual report and accounts

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

The annual report and accounts and supporting schedules were of a good standard. Our thanks go to management and staff for their assistance with our work.

Wider scope

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:

Key facts

- SRWC has reported a deficit of £3,000 against its total revenue budget of £375,000.
- SRWC operates under two segments; SRWC and the Scottish Road Works Register. SRWC reported an overspend of £19,000 against a revenue budget of £375,000. This was partially offset by an underspend of £16,000 on the operation of the Scottish Road Works Register.
- The Register is funded by the road works community, predominately through prescribed fees. SRWC collected income of £937,000 in 2017/18, an increase of £17,000 compared to the prior year (2016/17: £920,000). This was a result of agreed changes to the prescribed fees and amounts.
- Expenditure across SRWC increased by £58,000 (2017/18: £1.315million; 2016/17: £1.257million). This was principally due to an increase in staff costs.
- SRWC holds total net assets of £138,000 as at 31 March 2018 and incurred £3,000 capital expenditure in 2017/18.

Governance statement

- We are satisfied that the Governance Statement complies with Scottish Ministers' guidance and that the content is consistent with the financial statements and our understanding.
- 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.
- Transport Scotland has confirmed that, going forward, SRWC will be covered by the Transport Scotland Internal Audit Plan, applying a risk based approach. However SRWC has not been involved in the internal audit planning process. There is a risk that internal audit does not provide the Commissioner with an appropriate level of assurance over the operating effectiveness of its internal framework of control.

Financial sustainability

- Overall, SRWC has adequate arrangements in place for long term financial planning.
- There is a five year financial plan in place for the operation of the road works register and the running of SRWC. Assuming a flat rate budget of £375,000, SRWC is projecting deficits in each of the years from 2018/19 to 2022/23. The shortfall in funds will be met by carried forward surpluses until 2022/23, when a deficit of £32,639 is projected. We have recommended that consideration is given as to how the budget gap could be closed.
- The Transport (Scotland) Bill is currently in the consultancy stage and recommends a number of changes to the role of the SRWC. There are a number of proposed changes to the function of the SRWC, which if enacted, would have a significant impact on the projected financial position of the SRWC. The Commissioner is continuing to monitor this situation.

Conclusion

This report concludes our audit for 2017/18. Our work has been performed in accordance with the Audit Scotland Code of Audit Practice, International Standards on Auditing (UK) and Ethical Standards.

Scott-Moncrieff
August 2018

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Introduction

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 2017/18.

We carry out our audit in accordance with Audit Scotland's Code of Audit Practice (May 2016). This report also fulfils the requirements of International Standards on Auditing (UK) 260: Communication with those charged with governance.

We have agreed to designate the Scottish Road Works Commissioner as "those charged with governance".

Introduction

1. This report summarises the findings from our 2017/18 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 SRWC at the outset of our audit. The core elements of our work include:
 - an audit of the 2017/18 financial statements and related matters;
 - consideration of SRWC’s arrangements for securing financial sustainability.
 - any other work requested by Audit Scotland, for example, input into performance audit work.
3. SRWC is responsible for preparing an annual report and accounts that 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 appropriate actions. We give each recommendation a grading to help SRWC assess their significance and prioritise the actions required.
5. We discussed and agreed the content of this report with the Commissioner. We would like to thank all management and staff for their co-operation and assistance during our audit.

Confirmation of independence

6. International Standards on Auditing in the UK (ISAs (UK)) require us to communicate on a timely basis all facts and matters that may have a bearing on our independence.

7. We confirm that we have complied with Financial Reporting Council’s (FRC) Revised Ethical Standard (June 2016). In our professional judgement, the audit process is independent and our objectivity has not been compromised in any way.

Adding value through the audit

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

Feedback

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 the audit team or through our online survey: www.surveymonkey.co.uk/r/S2SPZBX
10. This report is addressed to both SRWC and the Auditor General for Scotland and will be published on Audit Scotland’s website www.audit-scotland.gov.uk.

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Annual report and accounts

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 2017/18 annual report and accounts.

Annual report and accounts

We reported unqualified opinions on the annual report and accounts for the year ended 31 March 2018 within our independent auditor's report. We did not identify any significant adjustments to the unaudited annual report and accounts.

SRWC has good administrative processes in place to prepare the annual report and accounts and the required supporting working papers.

Overall conclusion

An unqualified audit opinion on the annual report and accounts

11. The annual report and accounts for the year ended 31 March 2018 were considered and approved by the Commissioner in August 2018. 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.
12. We are also satisfied that there are no matters which we are required to report by exception.

Appropriate administrative processes were in place

13. We received the draft annual accounts and supporting papers of a good standard. Our thanks go to staff at SRWC for their assistance.
14. Arrangements are in place to enable the annual report and accounts to be submitted to the Scottish Government and Auditor General for Scotland by the 31 October 2018 deadline.

Our assessment of risks of material misstatement

15. The assessed risks of material misstatement described in Exhibit 1 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 in Exhibit 1.

Exhibit 1: Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

1. Management override

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*.

Excerpt from the 2017/18 External Audit Plan

16. 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

Exhibit 1: Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

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

17. In 2016/17 we recommended that management should ensure all journals were supported by evidence and authorised by an appropriate individual. We are satisfied that sufficient remedial action was taken in 2017/18. Full detail of our follow up work is outlined in Appendix 2.

2. 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 the SRWC could adopt accounting policies or recognise income and expenditure transactions in such a way as to lead to a material misstatement in the reported financial position.

Excerpt from the 2017/18 External Audit Plan

18. We have gained reasonable assurance on the completeness and occurrence of income and we are satisfied that income is fairly stated in the annual accounts. 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 revenue recognition policy is appropriate and consistently applied throughout the year.

3. 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.

Excerpt from the 2017/18 External Audit Plan

19. While we did not suspect incidences of material fraud and error, we 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 annual accounts. 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.

Our application of materiality

20. The assessment of what is material is a matter of professional judgement and involves considering both the amount and the nature of the misstatement. This means that different materiality levels will be applied to different elements of the annual accounts.
21. Our initial assessment of materiality for the annual accounts was £19,000 and it remained

at this level throughout our audit. This equates to approximately 1.5% of SRWC's 2017/18 gross expenditure. Operating within budget is a key target for SRWC and one of the principal considerations for the users of the accounts when assessing financial performance.

Performance materiality

22. Performance materiality is the amount set by the auditor at less than overall materiality for

the annual accounts as a whole to reduce to an appropriately low level the probability that the aggregate of the uncorrected and undetected misstatements exceed materiality for the annual accounts as a whole.

23. We set a performance (testing) materiality for each area of work which was based on a risk assessment for the area. We perform audit procedures on all transactions and balances that exceed our performance materiality. This means that we are performing a greater level of testing on the areas deemed to be of significant risk of material misstatement. Performance testing thresholds used are set out in the table below:

Area risk assessment	Weighting	Performance materiality
High	45%	£8,550
Medium	55%	£10,450
Low	70%	£13,300

24. We agreed to report all material corrected misstatements, uncorrected misstatements with a value in excess of 5% of overall materiality (i.e. over £950), and other misstatements below that threshold which, in our view, warranted reporting on qualitative grounds. We would also report on disclosure matters that we identified when assessing the overall presentation of the annual accounts.

Audit differences

25. We are pleased to report that there were no material adjustments to the draft annual accounts. We identified some disclosure and presentational adjustments during our audit. These have been reflected in the final set of annual accounts.
26. There were no uncorrected misstatements in the annual accounts.
27. We have requested that a signed representation letter be presented to us at the date of signing the annual accounts. This letter is to be signed by the Commissioner.

Other matters identified during our audit

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

Other information in the annual report and accounts

29. “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

30. 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.
31. We have concluded that the performance report has been prepared in accordance with directions from Scottish Ministers and is consistent with the financial statements.

The accountability report

32. 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.
33. We have obtained sufficient evidence that the information provided in the remuneration and staff report is in agreement with accounting records and has been prepared in line with ministerial guidance.
34. We have reviewed the annual governance statement and have found that it is consistent with the financial statements and has been prepared in accordance with Scottish Ministers’ guidance.

Internal audit

35. We noted that no internal audit work was carried out in 2017/18. Transport Scotland has confirmed that SRWC will be covered by the Transport Scotland Internal Audit Plan from 2018/19, applying a risk based approach. Hence, internal audit will provide coverage on an ad hoc basis and not annually.

36. SRWC has however not been involved in the development of the plan or discussions with internal audit. There is a risk that SRWC does not achieve the required level of scrutiny, and consequently there is inadequate assurance over the system of internal control.

Prior year action plan point 1

Accounting and internal control systems

37. SRWC has appropriate systems in place to record, process, summarise and report financial and other relevant data. We have not identified any material weaknesses in this respect.
38. As part of our audit, we have followed up on the recommendations we raised in 2016/17. We are satisfied that the recommendations have been addressed. Further detail is included in the action plan in Appendix 2.

Regularity

39. 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.

Cyber Security

40. In May 2017, a number of public sector bodies across Scotland were impacted by the Wannacry global ransomware attack. In response to this the Scottish Government launched 'A Cyber Resilience Strategy for Scotland: Public Sector Action Plan, 2017/18'.
41. The action plan outlines a number of requirements that public bodies should be taking forward. This includes an action for public sector bodies to achieve Cyber Essentials Plus certification by the end of October 2018.
42. In March 2018, SRWC published a Cyber Resilience Report, documenting its IT arrangements, their relationship with Scottish Government and current governance

arrangements. SRWC has identified a number of key actions required in 2018 to ensure compliance with the Public Sector Action Plan. Updates will be provided to Scottish Government in October 2018 and the Cyber Resilience Report will be reviewed in March 2019.

General Data Protection Regulations

43. The General Data Protection Regulations (the Regulations) came into force in the UK on 25 May 2018. The Regulations replace the Data Protection Act 1998 and as well as strengthening existing regulations, the Act has brought in new legislative duties for SRWC. The Regulations bring significant potential penalties for non-compliance.
44. SRWC used guidance issued by the Information Commissioner's Office to ensure appropriate action was taken during 2017/18. All staff attended GDPR awareness training; SRWC have appointed a data protection officer; and an information asset register has been developed. SRWC's revised privacy statement was published on the website in May 2018.
45. Compliance with the Regulations is an ongoing process, which we will monitor as part of our annual audit procedures. We have not identified any significant issues at this stage.

Qualitative aspects of accounting practices and financial reporting

46. 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 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 annual accounts.
The appropriateness of the going concern assumption	We have reviewed the detailed financial forecasts for 2018/19. 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 annual accounts 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 accounts.
The extent to which the annual accounts 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 financial statements.	The annual report contains no material misstatements or inconsistencies with the financial statements.
Any significant annual accounts disclosures to bring to your attention.	There are no significant annual accounts 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.
Disagreement over any accounting treatment or annual 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.

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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.

Financial sustainability



SRWC has adequate arrangements in place for long term financial planning. There are 5 year financial plans in place for the operation of both SRWC and the Scottish Road Works Register.

Assuming that funding from Transport Scotland remains at the same level across the five year plan, SRWC is forecasting deficits in each of the years from 2018/19 to 2022/23. The forecast shortfall against budget will be met by carried forward surpluses until 2021/22. There is a forecast deficit position of £32,639 in 2022/23 and there are currently no plans in place to bridge the budget gap.

In addition, the publication of the Transport (Scotland) Bill may result in changes to the role and operation of the SRWC which cannot currently be reflected in long-term financial planning.

We will continue to monitor this position throughout 2018/19.

Significant audit risk

47. As outlined in our audit plan, we considered there to be a significant risk to the wider scope of our audit in relation to financial sustainability:

Exhibit 2: Key audit risk: financial sustainability

Financial sustainability

SRWC has a five year budget in place which has been approved by the SRWC. Public sector bodies are coming under strain in the short and long term due to the end of the pay cap and the increasing uncertainty and complexity of the Scottish Government budgeting process. In addition, the review of the Transport (Scotland) Bill may result in changes to the operation of SRWC, which cannot currently be reflected in long-term financial planning.

Excerpt from the 2017/18 External Audit Plan

48. A five year budget is in place for both the operation of the Scottish Road Works Register and the direct activities of the SRWC, assuming that funding from Transport Scotland will remain at the current level.
49. The Transport (Scotland) Bill was introduced to parliament on 8 June 2018. The Bill is currently in the consultation period, which is due to end in September 2018. There are a number of proposed changes to the function of the SRWC with increased responsibilities for inspection and an increase in the information to be recorded on the Scottish Road Works Register.
50. If the proposed changes to legislation are enacted this would have a significant impact on the projected financial position of the SRWC. We will consider the outcome of the consultation on the Transport (Scotland) Bill and the associated impact on long term financial planning of SRWC in 2018/19.

SRWC's financial performance in 2017/18

51. Segmental reporting shows that SRWC spent £0.921million on the operation of the road works register and collected £0.883 million through Prescribed Fees and the provision of training. This resulted in a net surplus of £16,000 for the operation of the register.
52. In addition, SRWC spent £0.394 million on direct costs associated with the running of SRWC. This resulted in an overall net expenditure position of £0.378 million.
53. 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 2017/18 was £0.375 million, resulting in a deficit of £3,000. However, SRWC are carrying forward a surplus of £92,000 against their Grant in Aid operations, which this deficit can be offset against. Therefore, SRWC met its financial objective for the year

Financial Planning

Indicative 2018/19 budgets

54. Grant in aid funding has been agreed as £0.375million for 2018/19. SRWC are planning on utilising surplus carried forward to enable them to continue to operate within this allocation, with budgeted expenditure of £0.434million.

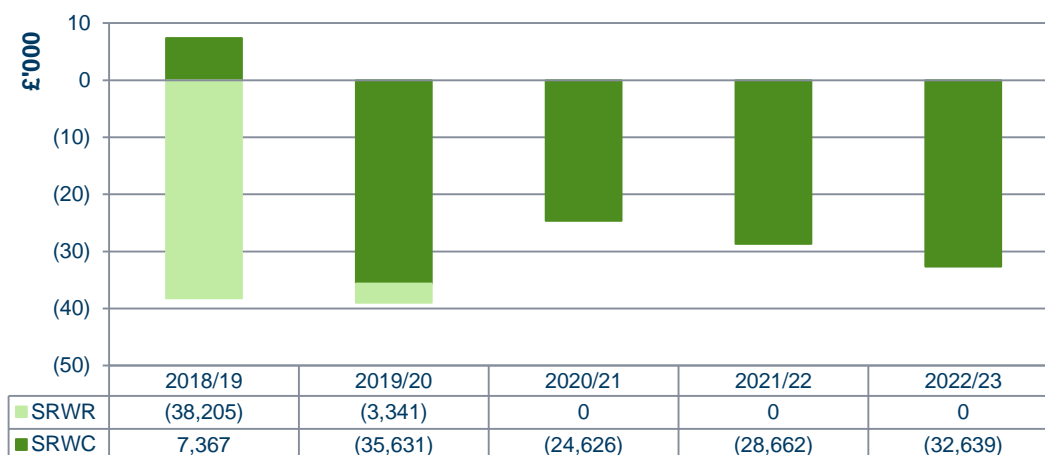
55. Prescribed Fees are set within legislation and are collected to fund the operation of the road works register. Budgeted income for 2018/19 is £0.829million, £0.108million decrease from 2017/18. Similarly, SRWC plan to utilise surplus carried forward to offset the budgeted deficit of £38,000.

Long-term financial planning

56. SRWC has prepared a 5 year budget for the operation of the register and direct costs of running SRWC.
57. For the operation of the register, deficits are forecast for 2018/19 and 2019/20, which will be met by carried forward surpluses. In the remaining three years to 2022/23, SRWC is forecasting a breakeven position on the operation of the register.
58. SRWC is forecasting a deficit of £22,000 on average, for every year of the five year plan. This will be met by carried forward surpluses from 2018/19 to 2021/22, but not in 2022/23 . Assuming a constant grant in aid allocation of £0.375million from Transport Scotland, and based on £85,000 being carried forward from 2017/18 SRWC are forecasting a deficit of £32,639 in 2022/23.
59. This represents a risk to the ongoing sustainability of SRWC. We would therefore recommend that there is consideration of how the shortfall can be met and actions which are required to bridge the gap.

Action plan point 1

Exhibit 3: Projected deficits over the five years to 2022/23



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Appendices

Appendix 1: Respective responsibilities of SRWC and the Auditor

Responsibility for the preparation of the annual accounts

It is the responsibility of the Commissioner, as Accountable Officer, to prepare financial statements in accordance with the Government Financial Reporting Manual (FReM) issued by HM Treasury and the accounts directions issued by Scottish Minister under section 19(4) of the Public Finance and Accountability (Scotland) Act 2000.

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 the SRWC's affairs as at 31 March 2018 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 2017/18 FReM ;
- they have been prepared in accordance with the requirements of the Transport (Scotland) Act 2005 and directions made thereunder by the Scottish Ministers;
- 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

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

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 by exception if, in our opinion:

- adequate accounting records have not been kept; or
- the annual accounts 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; or
- there has been a failure to achieve a prescribed financial objective.

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 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. The Code recognises that full application of its requirements may be impractical or inappropriate due to the nature or size of the audited body.

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

We are required by International Standards on Auditing in the UK (ISAs (UK)) to communicate on a timely basis all facts and matters that may have a bearing on our independence. We can confirm that we have complied with the Ethical Standards. In our professional judgement the audit process has been independent and our objectivity has not been compromised. In particular, there have been no relationships between Scott-Moncrieff, the Commissioner or 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.

It should be noted that the weaknesses identified in this report are only those that have come to our attention during the course of our normal audit work. The audit cannot be expected to detect all errors, weaknesses or opportunities for improvements in management arrangements that may exist. The weaknesses or risks identified are only those which have come to our attention during our normal audit work, and may not be all that exist. Communication of the matters arising from the audit of the annual 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.

Action plan grading structure

To assist SRWC in assessing the significance of the issues raised and prioritising the action required to address them, the recommendations have been rated.

The rating structure is summarised as follows:

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

Action plan point	Issue, Risk & Recommendation	Management Comments
1. Shortfall in funding	<p>Issue</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 the SRWC will continue to operate within the current grant-in-aid levels.</p>	<p>Responsible officer:</p> <p>Angus Carmichael</p>
Rating		
Grade 4	<p>Risk</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>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>
Paragraph ref		
60	<p>Recommendation</p> <p>SRWC should consider how the shortfall can be met, while maintaining the required service levels.</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"> • 5 year budget projections will be reviewed to identify operational savings. • Office staffing levels will be reviewed. • 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 Prescribed Fee and Amounts collected annually. <p>Implementation date:</p> <p>1 April 2020</p>

Outstanding recommendations from previous audit reports

Action plan point	Issue & Recommendation	Management Comments	External audit update 2017/18
1. Source of assurance for the governance statement	<p>Observation</p> <p>The SPFM requires that the governance statement is informed by certificates of assurance from senior staff and reviews by internal auditors.</p> <p>There is no formal assurance process with senior staff and there has been no internal audit reviews in year.</p> <p>Recommendation</p> <p>To ensure there is appropriate assurances received by the Accountable Officer to enable the signing of the governance statement, we recommend:</p> <ul style="list-style-type: none"> an assurance process is developed, requiring senior staff to provide assurances to the Commissioner over the internal control systems for which they have responsibility. Any processes should be proportionate to the size and scale of SRWC; and an internal audit work programme is developed which sets out how assurances over internal control systems and governance arrangements are provided to the Commissioner over the medium to long term. 	<p>Action owner: Scottish Road Works Commissioner</p> <p>Due Date: January 2018</p> <p>In view of the size, and flat organisational structure, assurances in respect of internal controls will be sought from managers at team meetings prior to drafting the annual governance statement. Assurances will be recorded in a minute and/or held in an internal control checklist.</p> <p>Agree a 3 to 5 year internal review plan with Transport Scotland. Policy to be agreed by the end of January 2018.</p>	<p>Assurance process</p> <p>To inform the Governance Statement, all members of staff completed a certification of assurance, addressed to the Commissioner, confirming that they were not aware of any significant weaknesses in control.</p> <p>Action complete</p> <p>Internal audit</p> <p>Transport Scotland confirmed that SRWC will be covered by the Transport Scotland Internal Audit Plan on a risk based approach. The Framework Agreement with the sponsor body has been updated to reflect this. Internal audit will therefore be provided on an ad hoc basis rather than annually.</p> <p>Whilst we consider this arrangement to be appropriate, SRWC has not been sufficiently included in the planning process.</p> <p>Recommendation</p> <p>SRWC should ensure they are sufficiently engaged with Transport Scotland and Scottish Government Internal Audit to ensure the programme of work is effectively planned.</p> <p>Management comment:</p> <p>SRWC to liaise directly with Transport Scotland to ensure that the office is involved in the Internal Audit Planning process.</p>
Rating			
Grade 3			

Action plan point	Issue & Recommendation	Management Comments	External audit update 2017/18
			Updated due date: 31 December 2018

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2. Asset Lives	<p>Observation</p> <p>We noted during our audit, that a number of fixed assets have been fully depreciated, leaving a nil net book value on the balance sheet. These assets however are still in operation.</p> <p>Recommendation</p> <p>The useful economic lives applied to all asset categories should be reviewed to ensure that they remain appropriate.</p>	<p>Action owner: Scottish Road Works Commissioner</p> <p>Due Date: January 2018</p> <p>SRWC Depreciation Policy will be reviewed for 2017/18 accounts.</p>	<p>We confirmed that useful economic lives have been reviewed for all asset categories and appropriate updates have been made to accounting policies.</p> <p>Action complete</p>
Rating			
Grade 2			

Action plan point	Issue & Recommendation	Management Comments	External audit update 2017/18
3. Long term financial planning	<p>Observation</p> <p>The Commissioner develops a budget for long term financial planning in relation to the Scottish Road Works Register with a five year financial plan. However, the Commissioner does not prepare financial plans for the direct activities of the Office of the Scottish Road Works Commissioner due to the uncertainty over future funding allocations</p> <p>Recommendation</p> <p>In order to ensure financial sustainability the Commissioner should develop medium to long term financial plans on a 3 to 5 year basis for the Office of the Scottish Road Works Commissioner. This would assist the Commissioner in ensuring the work outside the register operation is sustainable.</p>	<p>Action owner: Scottish Road Works Commissioner</p> <p>Due Date: March 2018</p> <p>Along similar lines to the current 5 Year budget plan for the SRWR, a 5 Year budget plan will be prepared and maintained for routine SRWC activities.</p> <p>Whilst the vast majority of Grant in Aid is required to fund salaries and general office running costs, the financial plan will reflect costs such as replacing IT hardware, updating the office website, replacing the office car and other periodic costs.</p> <p>The proposed plan will reflect a continued commitment by Transport Scotland to provide funding at least equivalent to the current level.</p>	<p>We confirmed that a 5 year budget has been prepared for the direct activities of the Office of Scottish Road Works Commissioner. This has been prepared on the assumption that Transport Scotland will continue to provide funding equivalent to the current level.</p> <p>Action complete</p>
Rating			
Grade 4			

Action plan point	Issue & Recommendation	Management Comments	External audit update 2017/18
4. Journal controls	<p>Our review of the journals environment found the following issues with regard to the posting of journals:</p> <ul style="list-style-type: none"> • there is a lack of segregation of duties over the posting of journals. Journals are prepared and posted without any secondary review or authorisation; and • from our sample testing, four journals did not have supporting documentation and there was no documentation to show who had posted the journal. <p>Recommendation</p> <p>While our audit review in respect of the 2016/17 financial year did not identify any indications of management override we recommend that a formal process is put in place for the preparation and posting of journals to the ledger.</p>	<p>Going forward journals prepared and processed by the external accountant will be printed out for review by the Scottish Road Works Commissioner.</p> <p>Action owner: Scottish Road Works Commissioner</p> <p>Due date: immediate</p>	<p>We confirmed that all 2017/18 journals were reviewed against supporting documentation and approved by the Scottish Road Works Commissioner prior to processing.</p> <p>Action complete</p>
Rating			
Grade 4			



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