



Scottish Road Works Commissioner

2020/21 Annual Audit Report to the Scottish Road Works Commissioner and the Auditor General for Scotland

September 2021



Table of Contents

Key messages	3
Introduction	8
Financial statements audit	11
Wider scope	23
Appendices	31

Key messages

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This report concludes our audit of the Scottish Road Works Commissioner (“SRWC”) for 2020/21.

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

Financial statements audit

Audit opinion	<p>Our independent auditor’s report includes:</p> <ul style="list-style-type: none">• An unqualified opinion on the financial statements;• An unqualified opinion on regularity; and• An unqualified opinion on other prescribed matters. <p>We are also satisfied that there were no matters which we are required to report by exception.</p>
Key findings on audit risks and other matters	<p>Our key findings are included in the financial statements audit section of this report.</p> <p>COVID-19 continues to present 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 our audit opinion. We are pleased to report those risks identified did not materialise.</p> <p>SRWC had appropriate administrative processes in place to prepare the annual report and accounts and the required supporting working papers.</p>
Audit adjustments	<p>We are pleased to report that there were no material adjustments to the financial statements and no unadjusted differences identified.</p> <p>We identified some disclosure and presentational adjustments during our audit. These have been reflected in the final set of financial statements.</p>
Accounting systems and internal controls	<p>We have applied our 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 Annual 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 has been prepared in accordance with the Transport (Scotland) Act 2005 and directions made by Scottish Ministers and that the content is consistent with the financial statements.

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

The former Commissioner's appointment ended on 27 September 2020. The new Commissioner was appointed on 9 November 2020, with the sponsor body, Transport Scotland, assuming the functions, duties and responsibilities of the Commissioner for the interim period. Appropriate handover processes were in place to provide assurance to the new Commissioner on the operation of internal controls during the period to his appointment.



Financial sustainability

Auditor judgement

SRWC has adequate arrangements in place for medium term financial planning. A rolling five-year financial plan has been developed covering the operation of the road works register and the running of SRWC for the period up to and including 2025/26. The plan assumes an increase in grant in aid from 2022/23 onwards based on discussions with Transport Scotland. This has been projected to support the Road Authorities and Utilities Committee

(Scotland) (RAUC(S)) Coring programme. The operation of the road works register is funded through the road works community and prescribed fees have been set at a level to cover forecasted costs.

The Transport (Scotland) Act 2019 received royal assent in November 2019. It contains a number of provisions which will directly affect the work of SRWC, most significantly the introduction of an inspectorate function. Enactment of these provisions has been delayed significantly by 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, the five-year financial plan does not incorporate changes arising from the implementation of those provisions. SRWC continue to undertake scenario planning however to support Transport Scotland in preparation for the commencement of the applicable provisions in the Transport (Scotland) Act 2019.

Otherwise, the impact of the COVID-19 pandemic continues to be minimal. SRWC has continued to operate throughout the period without incurring any additional costs or a decline in income collection.

Definition

We have used the following grading to provide an overall assessment of the arrangements in place as they relate to financial sustainability.



Introduction



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



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 2020/21 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



Responsibilities

2. SRWC is responsible for preparing 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, 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.

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.

Overall conclusion

11. The annual report and accounts were approved by the Commissioner on 3 September 2021. Our independent auditor’s report is unqualified.

papers of an adequate standard, in line with our agreed audit timetable. Our thanks go to staff at SRWC for their assistance with our work.

Administrative processes / timescales

12. We received the unaudited annual report and accounts and supporting

13. The annual report and accounts will be submitted to the Scottish Government and Auditor General for Scotland by the 31 October 2021 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 / conclusion 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 2021/22. 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"> • Remuneration and Staff Report • Performance Report • Governance Statement 	<p>We read all the financial and non-financial information in the annual report and accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit.</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"> • the audited part of the remuneration and staff report has been prepared in accordance with directions from Scottish Ministers. • the information given in the performance report has been prepared in accordance with directions from Scottish Ministers and is consistent with the financial statements. • the information given in the Governance Statement has been prepared in accordance with directions from Scottish Ministers and is consistent with the financial statements.
<p>Matters reported by exception</p>	<p>We are required to report on whether:</p> <ul style="list-style-type: none"> • adequate accounting records have not been kept; or • the financial statements and the audited part of the Remuneration and Staff 	<p>We have no matters to report.</p>

Opinion	Basis for opinion	Conclusions
	<p>Report are not in agreement with the accounting records; or</p> <ul style="list-style-type: none"> we have not received all the information and explanations we require for our audit. 	

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 March 2021. 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.

Risk assessment: High

How the scope of our audit responded to the significant risk

Key judgement

There is the potential for the Commissioner or SRWC staff 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 and expenditure transactions in such a way as to lead to a material misstatement in the reported financial position.

Risk assessment: High

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 from Scottish Government due to a lack of incentive and opportunity to manipulate transactions.

Audit procedures

- Evaluate the significant 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

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.

Risk assessment: High

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 accruals 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

Impact of COVID-19 on the annual accounts

19. COVID-19 continues to present 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
<p>Content of the annual report and accounts</p>	<p>In response to the continuing impact of COVID-19; HM Treasury issued an addendum to the Government Financial Reporting Manual 2020-21 which sets out the minimum reporting requirements in respect of the performance report and accountability report:</p> <ul style="list-style-type: none"> • The addendum permits, but does not require, bodies to omit the performance analysis section from the Performance Report. Where relevant performance information has already been published elsewhere, bodies are encouraged to refer to the relevant publication. • Where unaudited information otherwise required to be included in the Accountability Report is already published elsewhere, bodies are permitted to refer to the relevant publication rather than including the information in their Accountability Report. 	<p>SRWC took the decision to include the performance analysis section of the Performance Report and make the full disclosures in the Accountability Report.</p>

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 colleagues right up until the point of accounts signing, to ensure all relevant 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.

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 the Commissioner any uncorrected misstatements of lower value errors to the extent that our audit identifies these.
- 24. Our initial assessment of materiality for SRWC's financial statements was £20,000. On receipt of the unaudited financial statements, we reassessed materiality and updated it to £19,000. We consider that our updated assessment has remained appropriate throughout our audit.

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

Materiality

Overall materiality

£19,000



100%

Accounts materially misstated where total errors exceed this value

Performance materiality

£14,250



75%

Work performed to capture individual errors at this level

Trivial threshold

£950



5%

All errors greater than this level are reported

Materiality

Our assessment is made with reference to SRWC's gross expenditure. We consider the level of gross expenditure 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 2020/21 unaudited financial statements.

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.

Performance materiality

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.

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.

Trivial misstatements

Clearly trivial are matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

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. Our findings are reported in Appendix 3.

Follow up of prior year recommendations

- 28. As part of our audit we have followed up on the two outstanding audit recommendations from prior years. Detail on these recommendations is included in the action plan at Appendix 4. We have reported both actions as closed.

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

Shared systems and functions

- 29. 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.
- 30. 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.

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 annual accounts, 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 the attention of the Commissioner. 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 SRWC. 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 standard 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 in respect of bank and legal confirmations have been received.

Wider scope

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.
-

Wider scope conclusions



Governance statement

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

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

The former Commissioner's appointment ended on 27 September 2020. The new Commissioner was appointed on 9 November 2020, with the sponsor body, Transport Scotland, assuming the functions, duties and responsibilities of the Commissioner for the interim period. Appropriate handover processes were in place to provide assurance to the new Commissioner on the operation of internal controls during the period to his appointment.



Financial sustainability

Auditor judgement



SRWC has adequate arrangements in place for medium term financial planning. A rolling five-year financial plan has been developed covering the operation of the road works register and the running of SRWC for the period up to and including 2025/26. The plan assumes an increase in grant in aid from 2022/23 onwards based on discussions with Transport Scotland. This has been projected to support the Road Authorities and Utilities Committee (Scotland) (RAUC(S)) Coring programme. The operation of the road works register is funded by the road works community and prescribed fees have been set at a level to cover forecasted costs.

The Transport (Scotland) Act 2019 received royal assent in November 2019. It contains a number of provisions which will directly affect the work of SRWC, most significantly the introduction of an inspectorate function. Enactment of these provisions has been delayed significantly by 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, the five-year financial plan does not incorporate changes arising from the implementation of those provisions. SRWC

continue to undertake scenario planning however to support Transport Scotland in preparation for the commencement of the applicable provisions in the Transport (Scotland) Act 2019.

Otherwise, the impact of the COVID-19 pandemic continues to be minimal. SRWC has continued to operate throughout the period without incurring any additional costs or a decline in income collection.

Our approach to the wider scope audit

41. Our approach to the wider scope audit (as set out in our 2020/21 External Audit Plan) builds on our understanding of SRWC which we developed from previous years, along with discussions with SRWC and review of minutes and key strategy documents.
- Changes in governance arrangements in response to the pandemic; and
 - Counter-fraud arrangements, including the risk of fraud and corruption in relation to the procurement function.
42. During our audit we also considered the following risk areas as they relate to SRWC:
- Impact of COVID-19 on financial sustainability;
43. Overall we concluded that SRWC has appropriate arrangements in place in respect of these areas as noted below.

Impact of COVID-19 on financial sustainability

Following the UK and Scottish Government escalation of the national response to the COVID-19 pandemic in March 2020, the operation of SRWC was adapted to implement remote working. The impact of the pandemic on performance of road authorities and member bodies has been closely monitored.

Additional costs incurred as a result of the pandemic have been minimal. Work has been ongoing to revise operational plans to reflect the impact of COVID-19 on service delivery.

Changes in governance arrangements in response to the pandemic

Governance arrangements have continued as normal with discussions with Transport Scotland and team meetings being held remotely. We are satisfied that the Commissioner received sufficient and timely information throughout the period to support effective scrutiny, challenge and decision making.

**Counter-fraud
arrangements,
included the
risk of fraud
and
corruption in
the
procurement
function**

Since the start of the pandemic, there has been potential for the risk of fraud and error to increase as the control environment and internal controls have changed.

We found SRWC's arrangements for the prevention and detection of fraud and other irregularities to be adequate. We reviewed Audit Scotland's report on COVID-19 Emerging Fraud Risks and satisfied ourselves that where there have been changes in the control environment, appropriate mitigating controls have been implemented.

We reflected on the risk of fraud and corruption in respect of the procurement function as part of our 2019/20 Annual Audit Report and deemed the level of risk to be low. We have revisited this assessment during our audit fieldwork and have not identified any changes to this.



Governance statement

**Our audit work includes
consideration of the appropriateness of
the disclosures in the governance
statement.**

44. We are satisfied that the Governance Statement for the year to 31 March 2021 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 at SRWC are appropriate and effective, and no significant issues have been identified.
- ### Appointment of the new Commissioner
47. The previous Commissioner's five year term of appointment ended in September 2020. The new Commissioner's term commenced on 9 November 2020. In the interim period, Transport Scotland, as the sponsor body, assumed the responsibilities of the Commissioner.
 48. Suitable handover arrangements were in place such that the Commissioner has been able to provide assurance over the governance arrangements and system of internal control over the full period.
 49. A formal written handover was provided by Transport Scotland to the incoming Commissioner as part of the Commissioner's induction. The outgoing Commissioner provided assurance via the signed Governance Statement dated 24 September 2020. The incoming Commissioner undertook a review of income and expenditure transactions which covered the full year.
 50. The Accountable Officers review of effectiveness is further supported by the signed statements of assurance

provided by the SRWC team which cover the full period and consider the design and operation of internal controls in their relevant area.

Governance arrangements during COVID-19

51. With national lockdown announced on 23 March 2020, all SRWC activity moved to being delivered remotely and they have continued to operate as such to date.
52. 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.
53. The accounting and internal control system has continued to operate effectively during remote working, with no significant changes in controls.
54. The Commissioner has continued to receive and consider all standing items in 2020/21 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

55. We 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.

56. We did not identify any significant weaknesses in SRWC's accounting and internal control systems during our audit.

Internal audit

57. Internal audit services are provided by Transport Scotland. Given the scale of SRWC's operations and the assessed low level of risk at SRWC, internal audit coverage is provided on an ad hoc basis. This arrangement is reflected in SRWC's Framework Agreement with Transport Scotland.
58. Internal audit last completed a review in 2015/16, focusing on risk, control and governance arrangements. In response to an external audit recommendation in 2017/18, the Commissioner has liaised with internal audit annually to confirm that SRWC is included in the Transport Scotland internal audit plan. The audit planning exercise did not identify the need to undertake internal audit reviews of SRWC in 2018/19, 2019/20 or 2020/21.
59. Internal audit will under a review of risk management arrangements within SRWC as part of their 2021/22 programme of work.

Prevention and detection of fraud and irregularity

60. We found SRWC's arrangements for the prevention and detection of fraud and other irregularities to be adequate.
61. The Commissioner would be 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

63. 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 2024/25. Management is currently reviewing the financial plan following the announcement of the Scottish Budget in February 2021 and revising forecasts for the period 2021/22 to 2025/26.

The Transport (Scotland) Act 2019 is currently in the enactment phase following the passing of the Act in December 2019. Provisions relating to SRWC were initially expected to commence during 2020/21 and 2021/22, however this was put on hold due to the COVID-19 pandemic. Discussions are ongoing with Transport Scotland to consider how these provisions may be enacted, but it is expected that these will not be introduced until at least 2022/23. As the implementation timeline remains unknown, SRWC is unable to reflect the potential budgetary implications in its five year financial plan. Scenario planning has been undertaken and SRWC continues to work with Transport Scotland in respect of understanding and implementing the provisions of the Act.

Noted in the 2020/21 External Audit Plan

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

Future financial plans

65. 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 2025/26. The plan forecasts a breakeven position across each of the five years.
66. The financial plan assumes a flat rate budget of £375,000 in 2021/22 and 2022/23 before increases of 9% in 2022/23 (£410,000) and 3% per annum in the subsequent two years. This reflects ongoing discussions with Transport Scotland regarding funding to support the RAUC(S) Coring programme and does not take account of any additional funding allocations in

relation to the implementation of the Transport (Scotland) Act 2019.

Transport Scotland to manage the position.

67. To achieve a breakeven position across the five-year period, SRWC will utilise surpluses that have been carried forward. Surpluses of £175,000 were carried forward into 2021/22 and SRWC forecasts that this will be reduced to £76,000 by 31 March 2026, the end of the five year financial plan. SRWC deem this level to be sufficient to support ongoing operation in the medium to long term.
68. 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. The 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. Implementation of these provisions have been significantly delayed due to COVID-19. Commencement is expected to be delayed until at least 2023/24.
69. The financial plan does not consider any possible changes which might arise from the Transport (Scotland) Act 2019. We noted in 2019/20 that SRWC had undertaken scenario planning to aid Transport Scotland in budgeting for the introduction of an inspectorate function. This has continued in 2020/21, with further planning activity being undertaken. Due to the continued uncertainty around the timing of the implementation, SRWC has however deemed it prudent to exclude the changes from its financial plan. SRWC is continuing to work closely with

Scottish Road Works Register

70. The operation of the road works register is funded by the road works community, primarily through prescribed fees which are set within legislation. Budgeted income for 2021/22 is £915,000, a £4,000 increase on 2020/21. SRWR are forecasting an overall surplus for the year of £57,000.

SRWC's financial performance in 2020/21

71. 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 2020/21 was £375,000. SRWC reported spend of £362,000 on the operation of the office of the SRWC, achieving a surplus of £12,000 against its allocated budget. Therefore, SRWC met its financial objective for 2020/21.
72. Prescribed fees were set at £912,000 in 2020/21 with an additional £10,000 collected in year from new register users. This reflects an increase of £58,000 from prior year to mirror the increased costs in maintaining the register following a retendering exercise in 2019/20.
73. SRWC reported spend of £889,000 on the operation of the register against total register income of £922,000, resulting in a surplus of £33,000.
74. In line with SRWC's reserves policy, prescribed fees are set to increase until 2022/23 so that SRWC reach a level of reserves which will cover working capital requirements.

Thereafter, prescribed fees will be set
in with consideration of maintaining
this level of reserves.

Appendices



Appendix 1: Respective responsibilities of SRWC and the Auditor	32
Appendix 2: Adjusted and unadjusted errors identified during the audit	36
Appendix 3: Action Plan	37
Appendix 4: Follow up of prior year recommendations	38



Appendix 1: Respective responsibilities of SRWC and the Auditor

The Code of Audit Practice (2016) sets out the responsibilities of both 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 its objectives.

Area	SRWC responsibilities
Corporate governance	<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>
Financial statements.	<p>SRWC has responsibility for:</p> <ul style="list-style-type: none"> • 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; • 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; • ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority; • maintaining proper accounting records; and • 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. The management commentary should be fair, balanced and understandable and also address the longer term financial sustainability of SRWC. <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>Standards of conduct for prevention and detection of fraud and error</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>Financial position</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"> • Such financial monitoring and reporting arrangements as may be specified; • Compliance with statutory financial requirements and achievement of financial targets; • Balances and reserves, including strategies about levels and their future use; • Plans to deal with uncertainty in the medium and long term; and • The impact of planned future policies and foreseeable developments on the financial position.
<p>Best value</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 2020/21 (with prior year comparators) is as follows:

	Current year £	Prior year £
Audit of Scottish Road Works Commissioner (Auditor remuneration)	10,060	9,770
Total audit	10,060	9,770
Non-audit services	-	-
Total fees	10,060	9,770

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 SRWC since appointment can be found at <https://www.audit-scotland.gov.uk/report/quality-of-public-audit-in-scotland-annual-report-202021>

Appendix 2: Adjusted and unadjusted errors identified during the audit

Corrected and uncorrected misstatements

We did not identify any corrected or uncorrected misstatements during our audit.

Disclosure amendments

No	Detail
1	Governance Statement – additional disclosure over the governance arrangements in place during the interim period where Transport Scotland assumed control. Further detail has also been included over how the Commissioner gained assurance over the effectiveness of governance arrangements and the system of internal control over the period prior to his appointment in November 2020.
2	Remuneration Report – update to the disclosure of the Commissioners’ pay to reflect actual remuneration in year alongside annualised figures. Disclosure of period each Commissioner was in post has been disclosed.
3	Staff Report – update to disclosure of staff costs to reflect actual remuneration of the Commissioners’.

Appendix 3: Action Plan

Our action plan details the weaknesses and opportunities for improvement that we have identified during our audit. The recommendations are categorised into three risk ratings:

Key:

Significant deficiency

Other deficiency

Other observation

1. Fixed asset register

Other observation

Observation	<p>We noted the following observations on review of the fixed asset register:</p> <ul style="list-style-type: none"> • In some cases, asset details per the fixed asset register are incomplete. • Whilst the net book value as at 31 March 2021 has been correctly calculated as part of the accounts preparation process, this has not been documented within the fixed asset register for some assets. • Older assets which narrative indicate had been disposed in previous years had been written down to nil but not removed from the register. <p>Due to audit testing completed, we do not deem these issues to have a material impact on the financial statements.</p>
Implication	<p>SRWC plans to undertake significant capital expenditure over the next five years. Clear records should be maintained to support robust management of its assets and the accuracy of information used to prepare the financial statements.</p>
Recommendation	<p>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</p>
Management response	<p>This matter is noted and it is agreed that this requires a review to be completed every six months.</p> <p>Responsible officer: Scottish Road Works Commissioner</p> <p>Implementation date: March 2022</p>

Appendix 4: Follow up of prior year recommendations

Payroll Service Level Agreement (SLA)

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

Rating **Other deficiency** **Implementation date** Initial target date:
March 2021

Closed Responsibilities and obligations of Payroll Shared Services have been formally communicated via the sponsor department, Transport Scotland. This confirms responsibility for provision of information along with detecting and addressing errors.

Internal Audit

Recommendation We encourage the Commissioner to liaise with internal audit to gain assurance that SRWC will be covered within Transport Scotland's internal audit plan in the short to medium term.

Rating **Other observation** **Implementation date** Initial target date:
March 2021

Closed Transport Scotland has confirmed that SRWC has been included in its 2021/22 plan and a review on risk management will be carried out.



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