

# The Scottish Road Works Commissioner

2023/24 Annual Audit Report



 AUDIT SCOTLAND

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

September 2024

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# Key messages

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## 2023/24 annual report and accounts

- 1 Audit opinions on the annual report and accounts are unmodified.
- 2 The unaudited annual report and accounts were received in line with the agreed timetable.

## Wider scope

- 3 SRWC operated within its budget for 2023/24 and obtained approval from its sponsor for a cash surplus.
- 4 SRWC has medium-term financial plans in place but needs to ensure that these are actively managed to operate effectively and maintain a suitable cash balance.
- 5 SRWC has developed proportionate arrangements to secure Best Value.

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# Introduction

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**1.** This report summarises the findings from the 2023/24 annual audit of the office of the Scottish Road Works Commissioner (SRWC). SRWC supports the Scottish Road Works Commissioner (the Commissioner) to carry out his role. The scope of the audit was set out in an Annual Audit Plan presented to the Commissioner on 19<sup>th</sup> March 2024. This Annual Audit Report comprises:

- significant matters arising from an audit of SRWC’s annual report and accounts
- conclusions on financial sustainability as required by the [Code of Audit Practice 2021](#).

**2.** This report is addressed to the Commissioner and the Auditor General for Scotland and will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk) in due course.

## Audit appointment

**3.** I, Stuart Nugent have been appointed by the Auditor General as auditor of SRWC for the period from 2022/23 until 2026/27. The 2023/24 financial year was the second of my five-year appointment.

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

## Responsibilities and reporting

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

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

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

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

## **Auditor Independence**

**9.** I can confirm that the audit team comply with the Financial Reporting Council's Ethical Standard. I can also confirm that we have not undertaken any non-audit related services and therefore the audit fee of £18,180 as set out in my 2023/24 Annual Audit Plan remains unchanged. To note, SRWC received a rebate of £97 in 2023/24 which relates to reduced travel costs for the audit team.

**10.** I am not aware of any relationships that could compromise our objectivity and independence.

**11.** The annual audit adds value to SRWC by:

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

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# Part 1. Audit of 2023/24 annual report and accounts

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

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## Main judgements

Audit opinions on the annual report and accounts are unmodified.

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

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## Audit opinions on the annual report and are unmodified

**12.** The Commissioner approved the annual report and accounts for SRWC for the year ended 31 March 2024 on 10 September 2024. As reported in the independent auditor's report, in my opinion as the appointed auditor:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- expenditure and income are regular and in accordance with applicable enactments and guidance
- the audited part of the Remuneration and Staff Report was prepared in accordance with the Government Financial Reporting Manual
- the Performance Report and Governance Statement were all consistent with the financial statements and properly prepared in accordance with the Government Financial Reporting Manual.

## Overall materiality was assessed on receipt of the annual report and accounts as £29,000

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

material by their nature. It is ultimately a matter of the auditor's professional judgement.

**14.** My initial assessment of materiality was carried out during the risk assessment phase of the audit. This was reviewed and revised on receipt of the unaudited annual report and accounts and is summarised in [Exhibit 1](#).

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## Exhibit 1

### Materiality values

Materiality level	Amount
Overall materiality	£29,000
Performance materiality	£22,000
Reporting threshold	£1,450

Source: Audit Scotland

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

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

**17.** It is my responsibility to request that all misstatements are corrected, other than those below the reporting threshold. The final decision on making the correction lies with those charged with governance.

## Significant findings and key audit matters

**18.** Under ISA (UK) 260, I communicate significant findings from the audit to the Commissioner, including my view about the qualitative aspects of the body's accounting practices.

**19.** The Code of Audit Practice also requires me to highlight key audit matters which are defined in ISA (UK) 701 are those matters judged to be of most significance.

**20.** I have no significant issues to report from the audit.

## Audit work responded to the risks of material misstatement identified in the annual report and accounts

**21.** My team and I have obtained audit assurances over the identified significant risks of material misstatement to the annual report and accounts. [Exhibit 2](#) sets out the significant risks of material misstatement to the financial statements identified in my 2023/24 Annual Audit Plan. It also summarises the further audit procedures performed during the year to obtain assurances over these risks and the conclusions from the work completed.

### Exhibit 2

#### Identified Significant risks of material misstatement in the annual report and accounts

Audit risk	Assurance procedure	Results and conclusions
<p><b>1. Risk of material misstatement due to fraud caused by management override of controls</b></p> <p>As stated in ISA (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> <li>• Assess the design and implementation of controls over journal entry processing.</li> <li>• Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.</li> <li>• Test journals at the year-end and post-closing entries and focus on significant risk areas.</li> <li>• Consider the need to test journal entries and other adjustments throughout the year.</li> <li>• Evaluate significant transactions outside the normal course of business.</li> <li>• Substantive testing of income and expenditure transactions around the year-end to confirm they are</li> </ul>	<p><b>Results &amp; Significant Judgements:</b></p> <p>Controls over journal entry processing are appropriate and are operated effectively.</p> <p>As part of our audit of the financial reporting process, we did not identify any unusual activity.</p> <p>Year-end adjustments and journals were tested, and no errors were identified.</p> <p>Methodologies and assumptions employed by management in preparing accounting estimates did not significantly vary from the prior year and were consistently applied.</p> <p>Cut-off testing of income and expenditure transactions found no instances where these had been accounted for in the wrong financial year.</p> <p>Testing of accruals and prepayments identified no errors.</p> <p>There were no unexplained significant transactions identified from our audit work.</p>



Audit risk	Assurance procedure	Results and conclusions
	<p>accounted for in the correct financial year.</p> <ul style="list-style-type: none"> <li>Focussed testing of accounting accruals and prepayments.</li> </ul>	<p><b>Conclusion: Satisfactory</b></p> <p>Audit work found no errors or accounting entries that would indicate management override of controls.</p>

Source: Audit Scotland

## There is one immaterial misstatements identified within the financial statements

**22.** It is my responsibility to request that all misstatements, other than those below the reporting threshold, are corrected. However, the final decision on making the correction lies with those charged with governance considering the advice from senior officers and materiality.

**23.** The audit team identified one immaterial misstatement which was duly corrected by management in the audited accounts. As a result, there were no uncorrected misstatements.

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

**24.** The unaudited annual report and accounts were received in line with the agreed audit timetable on 24<sup>th</sup> June 2024. The working papers provided with the unaudited accounts were of a good standard and staff provided support to the audit team during the audit.

**25.** To note that there was a delay in the pension scheme providing information to support the remuneration and staff report. This delay did not reflect on any part of SRWC and was common to other public bodies. SRWC opted to delay the signing of the accounts until this information was available, which presented no issues from an audit perspective.

## Good progress was made on prior year recommendations

**26.** SRWC has made substantial progress in implementing the agreed prior year audit recommendations. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in [Appendix 1](#).

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# Part 2. Wider Scope

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

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## Conclusion

SRWC operated within its budget for 2023/24 and obtained approval from its sponsor for a cash surplus.

SRWC has medium-term financial plans in place but needs to ensure that these are actively managed to operate effectively and maintain a suitable cash balance.

SRWC has developed proportionate arrangements to secure Best Value.

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## SRWC operated within its revised budget for 2023/24 and obtained approval from its sponsor for a cash surplus

**27.** The main financial objective for SRWC is to ensure that the financial outturn for the year is within the budget allocated by the Transport Scotland. SRWC has reported an outturn of £483k against its overall budget for 2023/24 of £535k.

**28.** The underspend was due to delays in expected start dates for two new members of staff and resulted in a cash surplus. The cash surplus was approved by SRWC's sponsor (Transport Scotland).

**29.** The SRWC is also responsible for the operation of the Scottish Road Works Register (SRWR). This is funded through SRWC charging fees to roads authorities and utility companies. The total fees raised in 2023/24 were £973k compared to costs of £945k.

## SRWC have medium-term financial plans in place

**30.** There are medium term financial plans in place (covering a period of five years) which are updated on a rolling basis. There are two separate financial plans: one for SRWC and one for SRWR. The two financial plans include a detailed breakdown of recurring costs and any known future demands.

**31.** The forecasts are based on several assumptions including allocation uplifts, inflationary costs and pay growth. The assumptions used are largely reasonable and in line with the current financial climate. However further work is required regarding funding assumptions as set out in [paragraphs 35 to 37](#).

## SRWC continues to hold a significant cash balance

**32.** As set out in its framework agreement with Transport Scotland, SRWC must comply with the [Scottish Public Finance Manual \(SPFM\)](#). The SPFM confirms that public bodies should keep cash balances to the minimum consistent with the principles of not providing funding in advance of need.

**33.** SRWC currently holds a significant cash balance. In the past two years, plans have been in place to reduce this, however the cash balance has continued to increase. In 2023/24 this was due to the later than anticipated start date of two new roles within SRWC.

**34.** SRWC regularly liaises with its sponsor (Transport Scotland). This includes monitoring the cash balance and any emerging issues which need to be incorporated into the budgets. For example, the SRWC drawdown of funding in 2023/24 was carried out in agreement with its sponsor (see [paragraph 28](#)).

### **SRWC needs to ensure the financial plans are actively managed**

**35.** Despite the continued increase of the cash balance over the last two years, SRWC's medium term financial plan has not significantly changed. Currently the plan has no funding increases in 2024/25 and in 2025/26. This will allow SRWC to use up some of its surplus and the cash balance is expected to decrease in these years. This will address the issue raised previously.

**36.** An increase in funding is then included in the plan for 2026/27. However, this was set prior to the budget underspend in 2023/24 and assumed that cash reserves would be suitably depleted by that time. The 2023/24 underspend has increased cash reserves, therefore SRWC should revisit this part of the plan to ensure that the increase remains appropriate.

**37.** SRWC need to ensure that the financial plans are actively managed. SRWC must also ensure that plans to reduce the cash balance in future years are put into practice.

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## **Recommendation 1**

SRWC should regularly update the 5-year financial plans for both SRWC and SRWR to ensure that they incorporate all known factors.

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### **SRWC's governance arrangements are appropriate**

**38.** As part of our review of the annual report and accounts we carried out a review of the governance statement. As part of this we confirmed that the disclosures were in line with accounting requirements and consistent with our knowledge and experience.

**39.** The governance statement confirms SRWC operates without an audit committee or an advisory board. A decision was taken in 2010 that this

arrangement was appropriate given the independent status and budget of SRWC. This approach was agreed with SRWC's sponsor (Transport Scotland).

**40.** As part of our audit, we confirmed that SRWC meets with its sponsor (Transport Scotland) on a monthly basis. Through minute review we are content that these meetings cover all expected areas, including the financial budget and adherence to the framework document. As such we are content that governance arrangements are appropriate.

## **SRWC has developed a proportionate approach to securing Best Value**

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

**42.** SRWC has developed a framework document which contains simplified descriptions of the SPFM principles. This is appropriate, given the small size of the organisation. From developing the framework, two areas for improvement were identified for the SRWC. Work to address one of the areas is complete, while the other is ongoing.

### **Good practice**

**43.** The framework of simplified SPFM principles provides a proportionate response to Best Value requirements. As such, this may be shared with other small bodies as an example of good practice.

# Appendix 1. Action plan 2023/24

## 2023/24 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p><b>1. Medium-term financial plans</b></p> <p>SRWC maintains 5-year financial plans for both SRWC and SRWR. These incorporate assumptions about future events such as future funding.</p> <p>The SRWC plan assumes future funding for 2026/27 based on a forecast cash balance at that time. Our testing confirmed that the plan had not been updated to account for the cash surplus achieved in 2023/24.</p> <p>Risk – the financial plans do not reflect likely future events and could present a misleading forecast.</p>	<p>SRWC should regularly update the 5-year financial plans for both SRWC and SRWR to ensure that they incorporate all known factors.</p> <p><a href="#">Paragraph 37.</a></p>	<p>Agreed action – The recommendation is accepted.</p> <p>The SRWC will formerly review the 5 year financial plans for both the SRWC and SRWR</p> <p>Responsible officer - Business and Governance Manager.</p> <p>Agreed date – 31 March 2025</p>

## Follow-up of prior year recommendations

Issue/risk	Recommendation and agreed action	Progress
<p><b>b/f 1. Non-Financial Performance Information in Performance Report</b></p> <p>Under the FreM, public bodies should include details</p>	<p>SRWC should incorporate metrics for the key non-financial performance indicators within the performance report.</p>	<p><b>Implemented</b> – non-financial performance indicators included in the 23/24 Performance Report.</p>

Issue/risk	Recommendation and agreed action	Progress
<p>of their performance against relevant key non-financial indicators or measures within the performance report. SRWC currently do not report metric relating to non-financial performance within the performance report.</p> <p>Risk – SRWC are not fully complying with the requirements of the FReM.</p>	<p>Agreed action – The recommendation is accepted.</p> <p>Agreed date – 30 April 2024</p>	
<p><b>b/f 2. Best Value</b></p> <p>Under the SPFM, the Commissioner (as accountable officer) has a responsibility to ensure best value. While SRWC is able to demonstrate it has some arrangements in place to secure best value, the process could be further enhanced by producing a document which details these arrangements.</p> <p>Risk – Opportunities for improvement through best value review may be missed.</p>	<p>SRWC should produce an annual formally agreed document which details how it meets the best value characteristics as set out in the SPFM.</p> <p>Agreed action – The recommendation is accepted.</p> <p>Agreed date – 31 March 2024</p>	<p><b>Implemented</b> - SRWC has developed a framework document which contains simplified descriptions of the SPFM principles.</p>

# The Scottish Road Works Commissioner

## 2023/24 Annual Audit Report

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[www.audit-scotland.gov.uk/accessibility](http://www.audit-scotland.gov.uk/accessibility)



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