

Scottish Road Works Commissioner

Report on the 2007/08 Audit

AUDIT SCOTLAND

November 2008



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Executive Summary

Introduction

Our audit was based on understanding the key strategic and financial risks being faced by the Scottish Road Works Commissioner (SRWC). We audited the financial statements and we also reviewed relevant aspects of governance and performance. This report sets out our key findings.

Financial Statements

We have given an unqualified audit opinion on the financial statements of the SRWC for 2007/08. We have also concluded that in all material respects, the expenditure and receipts shown in the financial statements were incurred or applied in accordance with applicable enactments and relevant guidance.

Financial Position

The SRWC Operating Cost Statement records a net administration cost of £110 thousand for the 8 month period to March 2008, which with a further £6 thousand capital expenditure was £4 thousand within the budget for the period of £120 thousand.

The budget for 2008/09 is £300 thousand, reflecting the fact that this will be the first full year of operation, with appropriate staffing levels built up, etc.

Governance

Within the context of the Commissioner establishing arrangements over this first period of activity from taking up appointment on 23 July 2007 until 31 March 2008, we concluded that the overall arrangements within the office of the SRWC were satisfactory, while noting the plans to develop arrangements further.

Looking forward

The final part of our report notes some risk areas for the SRWC going forward. In particular, the plans to further develop the business and the control environment could put a strain on staff and resources and the implementation of international financial reporting standards (IFRS), starting with 'shadow accounts' for 2008/09, may present some challenges.

The assistance and co-operation given to us during our audit is gratefully acknowledged.

Audit Scotland
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Introduction

1. This report summarises the findings from our 2007/08 audit of the Scottish Road Works Commissioner (SRWC). The scope of the audit was set out in our Audit Plan, which was presented to the Commissioner in June 2008, following discussions with the Commissioner and staff over the preceding months. The Audit Plan described the work we planned to carry out, the primary focus being an audit of the financial statements and a limited review of the SRWC's arrangements for governance and internal control, given the restricted nature of activity over the Commissioner's first accounting period.
2. The contents of this report have been agreed with relevant officers to confirm factual accuracy. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by the Commissioner and his staff during the course of our audit. This report will be submitted to the Auditor General for Scotland and will be published on our website, www.audit-scotland.gov.uk.

Financial Statements

3. In this section, we summarise key outcomes from our audit of the SRWC's financial statements for 2007/08, and comment on the key financial management and accounting issues arising. The financial statements are an essential means by which the organisation accounts for its stewardship of the resources available and its financial performance in the use of those resources.

Our responsibilities

4. Our audit plan sets out our responsibilities in detail. In summary, we audit the financial statements and give an opinion on:
 - whether they give a true and fair view of the financial position of the SRWC and its expenditure and income for the period in question;
 - whether they and the Remuneration Report were prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements;
 - the consistency of the Foreword and Management Commentary with the financial statements; and
 - whether, in all material respects, the expenditure and receipts are regular (comply with statutes and guidance).
5. We also review the statement on internal control by:
 - considering the adequacy of the process put in place by the Commissioner, in his role as Accountable Officer, to obtain assurances on systems of internal control;
 - assessing whether disclosures in the statement are consistent with our knowledge of the SRWC.

Overall conclusion

6. We have concluded that the financial statements give a true and fair view of the state of affairs of the SRWC as at 31 March 2008.

7. We have also concluded that:

- the financial statements and the Remuneration Report have been properly prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by Scottish Ministers;
- the Foreword and Management Commentary is consistent with the financial statements; and
- the financial statements and the Remuneration Report have been properly prepared in accordance with the Transport (Scotland) Act 2005 and directions made thereunder by the Scottish Ministers.

8. We liaised with the SRWC post year-end on the format for the draft account and recognise the good work done in reviewing the approaches adopted by others and selecting appropriate formats in preparing the initial draft accounts. We continued to liaise with the SRWC on updated disclosures and editorial amendments over the final audit phase. The accounts were signed by the Accountable Officer on 25 November 2008.

Financial Position

Outturn 2007/08

9. The SRWC's net outturn on capital and revenue was £116 thousand, £4 thousand below the overall budget set for the period of £120 thousand. This comprised:

- an outturn on net operating costs of £110 thousand; and
- £6 thousand capital expenditure.

10. The biggest component of the operating costs was staff costs at £83 thousand. Capital expenditure was on IT and other office equipment.

2008/09 Budget

11. The budget for 2008/09 is £300 thousand.

Issues arising from the audit of the financial statements

12. International Standard on Auditing (ISA) 260 requires auditors to report certain matters arising from the audit of the financial statements to 'those charged with governance' prior to the accounts being signed. We reported in the terms of ISA 260 to the Commissioner in November 2008. We are pleased to confirm that there were no significant issues or concerns that merit inclusion in this report.

Regularity assertion

13. The Public Finance and Accountability (Scotland) Act 2000 imposes a responsibility on auditors that requires us to certify that, in all material respects, the expenditure and receipts shown in the accounts were incurred or applied in accordance with applicable enactments and guidance issued by the Scottish Ministers. We have addressed the requirements of the regularity assertion through a range of procedures, including written assurances from the Accountable Officer as to his view on adherence to enactments and guidance. No significant items were identified for disclosure.

Governance

Overview of arrangements

14. This section sets out our main findings arising from our review of the SRWC's governance arrangements and key systems of internal control. We also discharged our responsibilities as they relate to the prevention and detection of fraud and irregularity, standards of conduct and the organisation's financial position (see paragraphs 9 and 10). Within the context of the Commissioner establishing arrangements over this first period of activity from taking up appointment on 23 July 2007 until 31 March 2008, we concluded that the overall arrangements within the SRWC were satisfactory, while noting the plans to develop arrangements further.

Statement on Internal Control

15. The Statement on Internal Control provided by the Commissioner, as Accountable Officer, recorded his responsibility for maintaining a sound system of internal control and set out the Commissioner's approach and the operating procedures established in this the first period of operation. It also outlines the arrangements for reviewing effectiveness and the areas to be further developed in the following year. We concluded the disclosures in the statement were appropriate and we plan to follow up the further development of arrangements as part of the 2008/09 audit.

Systems of internal control

Arrangements for accounting services

16. The Commissioner had accounting and certain other support functions provided by the Scottish Government in the period to 31 March 2008. The Commissioner took responsibility for financial administration from 1 May 2008.

Scottish Government central systems

17. In addition to our own testing of systems and transactions during the year, we also relied on the work of the Scottish Government external audit team to assess the effectiveness of key internal controls in the following areas:
 - the main accounting system (SEAS);
 - accounts payable systems (including the operation of Easebuy);
 - the central aspects of the accounts receivable system, and cash and banking systems; and

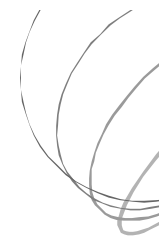
- the central aspects of the operation of the payroll and subsistence systems.
18. The Scottish Government auditors concluded that adequate assurance could be taken from the key controls in all main financial systems with the exception of payroll, where only limited assurance could be taken. As a result the Scottish Government external audit team carried out additional substantive testing and we also undertook audit testing on payroll to ensure that the SRWC's financial statements were not materially mis-stated.

Looking Forward

19. The SRWC faces a number of challenges in 2008/09, which include:

- **Developing the business and control environment** – the Commissioner has identified a range of operational aims and objectives for 2008-09 and also a number of areas of the control environment to be developed over the year. He also became the keeper of the Scottish Road Works Register from 1 April 2008. The proposed activity across these areas could put a strain on staff and resources and it will be important to monitor the position carefully during the year.
- **International Financial Reporting Standards (IFRS)** – the transition to IFRS commences in 2008/09, with a timetable that requires the SRWC to prepare a re-stated IFRS opening balance sheet as at 1 April 2008, followed by full “shadow” IFRS accounts for 2008/09, in addition to the statutory accounts under the existing framework. Although this process should be reasonably straightforward for the SRWC it will be important to consider the impact of taking on responsibility for the Road Works Register from 1 April and any broader accounting issues that may be involved.
- **Data handling** – in response to failures in UK government bodies’ procedures and practices during 2007, the Scottish Government carried out a review of data handling arrangements in Scotland. The review considered current policies and procedures in data protection, consistency with government standards and local arrangements for implementation of procedures. An interim report published in April 2008 made some initial recommendations and a final report was published in June 2008. It is also likely that the Financial Reporting Manual (FReM) will be updated to require the Statement on Internal Control to comment on data handling arrangements. We will liaise with the SRWC on these developments during 2008/09.
- **Value Added Tax (VAT)** – the SRWC became the official keeper of the Scottish Road Works Register in April 2008. One of his responsibilities in that role is to invoice roads authorities and statutory undertakers of road works for the prescribed fees and amounts for the upkeep, development and maintenance of the Register (this amounts to £775 thousand for 2008/09). We understand that the SRWC has sought expert advice from his legal advisors and from the Scottish Government, in order to establish the VAT position of the fees relating to the Scottish Road Works Register, and is awaiting a response. We will monitor progress on this matter during 2008/09.

**Audit Scotland
November 2008**



Appendix A: Action Plan

Key Risk Areas and Planned Management Action

Action Point	Risk Identified	Planned Action	Responsible Officer	Target Date
1	<p>Developing the business and control environment – the Commissioner has identified a range of operational aims and objectives for 2008-09 and also a number of areas of the control environment to be developed over the year. He has also become the keeper of the Scottish Road Works Register. The additional activities could put a strain on staff and resources and it will be important to monitor the position carefully during the year.</p>	Regular monitoring of planned developments.	Commissioner	Ongoing
2	<p>International Financial Reporting Standards (IFRS) – the transition to IFRS requires the SRWC to prepare a re-stated IFRS opening balance sheet as at 1 April 2008, followed by full “shadow” IFRS accounts for 2008/09, in addition to the statutory accounts under the existing framework. While this should be reasonably straightforward for the SRWC, it will be important to consider the impact of the Scottish Road Works Register from 1 April and any broader accounting issues that may be involved.</p>	<p>The SRWC will submit his restated opening balance sheet, and supporting documents, to Audit Scotland in accordance guidance and the timetable set by the Scottish Government.</p> <p>...</p>	Office Manager	28 November 2008 and ongoing
3	<p>Value Added Tax (VAT) – one of the SRWC’s responsibilities as keeper of the Scottish Road Works Register from April 2008 is to charge for the upkeep and maintenance of the Register. The VAT position in respect of the charges has not yet been clarified.</p>	The SRWC has sought expert advice from its legal advisors and from the Scottish Government. We will reflect on this advice and act accordingly.	Office Manager	31 March 2008