

Scottish Road Works Commissioner

Report on the 2008/09 Audit

December 2009

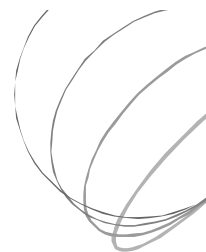


 AUDIT SCOTLAND



Scottish Road Works Commissioner

Report on the 2008/09 Audit



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Key messages



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 2008/09. 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 Consolidated Operating Cost Statement for SRWC records expenditure of £1,133 thousand, income of £860 thousand, resulting in net expenditure before tax of £273 thousand, funded by grant from the Scottish Government of £290 thousand. Comparative figures are for the Commissioner only, for 8 months, and comprise operating expenditure of £110 thousand and capital expenditure of £6 thousand, funded by grant from the Scottish Government of £120 thousand.

Scottish Ministers have agreed a budget for the SRWC of £273 thousand for 2009/10, with prescribed fees for the Scottish Road Works Register set at £779 thousand, an 8.5% reduction in the overall budget.

Governance

Corporate Governance is concerned with the structures and process for decision making, accountability, control and behaviour at the upper levels of an organisation. Overall the corporate governance and control arrangements for the SRWC continued to develop during the year and operated satisfactorily, as reflected in the Statement on Internal Control.

Performance

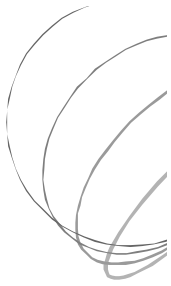
The Commissioner's Business Plan for 2008/09 set out 5 strategic aims, each supported by a number of specific objectives and targets or milestones. The Commissioner has made satisfactory progress towards achievement of those objectives.

Looking forward

The final part of our report notes some key risk areas for SRWC going forward, including developments in business processes, the control environment and accounting arrangements. We also highlight a number of national issues which affect all public sector bodies.

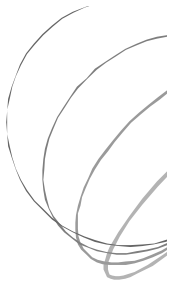
The assistance and co-operation given to us during our audit is gratefully acknowledged.

**Audit Scotland
December 2009**



Introduction

1. This report summarises the findings from our 2008/09 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 February 2009, following discussions with the Commissioner and staff. 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.
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

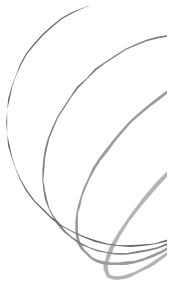
3. In this section, we summarise key outcomes from our audit of the SRWC's financial statements for 2008/09, and comment on the accounting issues arising. The financial statements are an essential means by which the organisation accounts for its stewardship of the resources available and its financial 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 given an unqualified opinion on the financial statements of the SRWC as at 31 March 2009.
7. We liaised with the SRWC during the year and post year-end on the format for the account and the need to consider a consolidated accounts approach. We wish to recognise the good work done in liaising with others and considering appropriate formats and disclosures. The accounts were signed by the Accountable Officer on 24 November 2009.

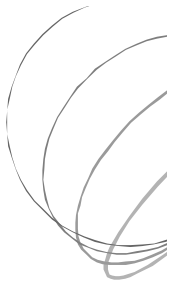


Issues arising from the audit of the financial statements

8. 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 2009. We are pleased to confirm that there were no significant issues or concerns that affected the opinion on the financial statements, but we draw to attention two areas of judgement relating to the financial statements.
9. **Consolidation** – This is the first full year of operation, with the Commissioner taking on the statutory responsibilities for Scottish Road Works Register from 1 April 2008. Following careful consideration of the relevant accounting standards and guidance it was concluded that it was appropriate for the accounts of the Commissioner to consolidate those of Susiephone Ltd, which provides management services to the Commissioner for the operation of the Scottish Road Works Register. This is a significant judgement and we confirm that the approach adopted is appropriate.
10. **Accounts and audit arrangements, disclosure requirements, etc** –During 2008/09 there was significant effort input to devising an appropriate format of account and suitable arrangements for the preparation and audit of the financial statements. In doing so, those involved attempted to strike the correct balance between following the various accounting and auditing standards and technical requirements; and keeping the accounts themselves and the audit arrangements as simple and transparent as practicable. It is hoped that the arrangements established will prove a secure foundation and that going forward there will be only some fine tuning required, for example, a need to update for some of the more minor disclosure requirements, including the recently introduced requirements to report sickness absence information and performance on a revised supplier payment performance target of 10 days.

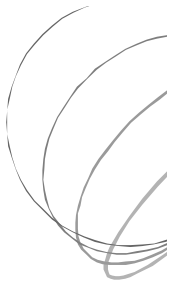
Regularity assertion

11. 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.



International financial reporting standards (IFRS)

12. As announced by the Chancellor in the 2008 Budget report on 12 March 2008 (Budget report paragraph C103), Government departments and other public sector bodies will report using International Financial Reporting Standards (IFRS) from 2009/10. The Scottish Government announced on 25 April 2008 that all Scottish Government Departments, Executive Agencies, Health Bodies and Non-Departmental Public Bodies would be required to produce shadow IFRS based accounts for financial year 2008/09. This was to include a restated balance sheet as at 1 April 2008.
13. In terms of the audit of the IFRS opening balance sheet at 1 April 2008, there were two key dates to achieve as outlined below:
 - **28 November 2008** – opening 2008 IFRS-based balance sheet were to be presented to auditors for dry-run audit
 - **28 February 2009** – dry-run audit of opening balances was to be completed, resulting in a letter to management highlighting the work done, auditors' findings and areas for further work.
14. The opening balance sheet and supporting documentation were submitted by the Commissioner for audit review on 28 November 2008. The restated balance sheet and supporting working papers were appropriate. We carried out a review of the restated balance sheet and reported at 27 February 2009.
15. There were no specific recommendations arising from our work on the restated opening balance sheet. However, both the Commissioner and we noted that the accounts for 2008/09 changed to reflect the Commissioner taking on responsibility for the Scottish Road Works Register; and that this, together with the implications for the restatement of the full accounts, means further preparatory work is necessary to ensure that the shadow IFRS accounts for 2008/09 (and full IFRS accounts in 2009/10) comply with requirements.
16. The timetable for production and audit of dry run IFRS accounts for 2008/09 is now: the Commissioner to produce by 30 November 2009 and Audit Scotland to audit and report by 28 February 2010. We will therefore report formally on the outcome of this exercise as part of the 2009/10 audit.



Governance

Overview of arrangements

17. 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. The Commissioner took up his appointment on 23 July 2007 and his responsibility for Scottish Road Works register on 1 April 2008. Within that context of establishing and developing systems and controls we concluded that the overall arrangements within the SRWC were satisfactory, while noting the plans to develop arrangements further.

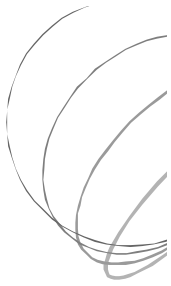
Statement on Internal Control

18. 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 over the initial periods of operation. We welcome the finalisation and agreement of the Management Statement and Financial Memorandum between the Scottish Government and the Commissioner in May 2009 as this is a major element of the governance environment. The Statement on Internal Control 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.
19. No material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the accounts. We will monitor progress in implementing the proposed development of arrangements as part of our 2009/10 audit.

Systems of internal control

Arrangements for accounting services

20. The Commissioner had accounting and certain other support functions provided by the Scottish Government in the period to 31 May 2008 after which the Commissioner took responsibility for financial administration.



Scottish Government central systems

21. 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.
22. 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.

Financial Position

2008/09 outturn

23. The Consolidated Operating Cost Statement for SRWC records expenditure of £1,133 thousand, income of £860 thousand, resulting in net expenditure before tax of £273 thousand, funded by grant from the Scottish Government of £290 thousand. Comparative figures are for the Commissioner only, for 8 months, and comprise operating expenditure of £110 thousand and capital expenditure of £6 thousand, funded by grant from the Scottish Government of £120 thousand.

2009/10 Budget

24. Scottish Ministers have agreed a budget for the Commissioner of £273 thousand for 2009/10, a 6% reduction in budget. The funding for the operation of the Scottish Road Works Register through prescribed fees has been set at £779 thousand, a reduction of 9%. The Commission will face challenges to meet these budgets while absorbing pay inflation and other cost pressures.

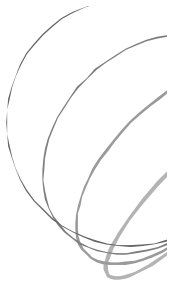


Performance

25. Public audit is more wide-ranging than in the private sector and covers the examination of, and reporting on, performance and value for money issues. Key features of best value include:
- setting a clear vision of what the organisation wants to achieve, backed up by plans and strategies to secure improvement, with resources aligned to support their delivery
 - a performance management culture which is embedded throughout the organisation and a performance management framework which is comprehensive and supports the delivery of improved outcomes.
26. In this section we comment on:
- the Commissioner's business plans
 - performance against targets.

Business plans

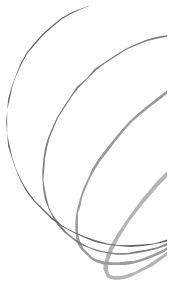
27. The Commissioner's Business Plans for the periods 2008/09 and 2009/10 set out the Commissioner's mission/ purpose:
- Through our monitoring and promotional role, seek improvements to the planning, co-ordination and quality of works in roads in Scotland.*
28. The Business Plans also set out the following strategic aims for the Commissioner:
- to monitor the carrying out of works in roads in Scotland
 - to promote compliance with the New Roads and Street Works Act 1991 and obligations imposed under it
 - to promote the pursuit of good practice
 - to undertake dispute resolution as required
 - to ensure the effective operation of the Commissioner's office.
29. The Business Plans set out how each of the Commissioner's strategic aims will be performed successfully in terms of key deliveries or actions along with timescales; given the nature of the Commissioner's activity in some cases the timescales are "on-going".



Performance overview

30. The Commissioner's Annual Report for 2008/09 records the outturn against the objectives set out in the Business Plan. There were 29 specific objectives set and the Annual Report records comments and outcomes against each. The Commissioner substantially met the key targets relevant to 2008/09. The Annual Report adopts a Red, Amber, Green format and indicates that 25 were achieved (Green) 3 partially achieved (Amber) and one deferred (Red).

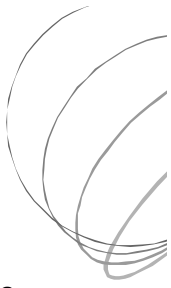
31. The Commissioner's overview of performance highlights the development of a suite of indicators to allow benchmarking of organisations and the progress made in specifying these so that the relevant reports can be drawn from the Scottish Road Works Register. Formal monitoring of organisations will commence using the indicators from quarter 1 of 2009/10.



Looking Forward

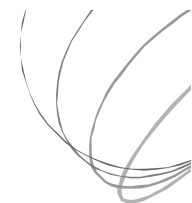
32. The Commissioner faces a number of challenges in 2009/10, which include:

- **Further development of the performance management arrangements** – Over 2008/09 the Commissioner developed a range of indicators and statistics to assess performance. From quarter 1 of 2009/10 the Commissioner will monitor and further develop these arrangements to allow him to challenge underperformance.
- **Further developments in the control environment and accounting arrangements** – As recorded in the Statement on Internal Control, during 2008/09 the Commissioner further developed the control environment and has identified other aspects which will be reviewed or further developed in 2009/10, including risk management, business continuity and accounting systems; the Commissioner will also monitor the bedding in of the governance and accounting arrangements relating to the consolidation of the Scottish Road Works Register.
- **Value Added Tax (VAT)** – As the official keeper of the Scottish Road Works Register from 1 April 2008, the Commissioner is responsible for invoicing roads authorities and statutory undertakers of road works for the prescribed fees and amounts for the upkeep, development and maintenance of the Register. This change to the previous arrangements has meant that the net cost to those invoiced has increased because of a change in the VAT position. The Commissioner sought to remedy this position over 2008/09 and is still pursuing available avenues. We will monitor progress on this matter during 2009/10.
- **IFRS** - The timetable for IFRS implementation requires central government accounts in Scotland to become IFRS-compliant with effect from the 2009/10 financial year. As part of the timetable for the implementation for IFRS, shadow accounts for 2008/09 are required for audit review by 30 November 2009; and it will be important that any issues arising are addressed early after the completion of the 2008/09 statutory accounts and audit process.
- **Data Handling** - The Scottish Government carried out a review of data handling arrangements in Scotland during 2007. The review considered current policies and procedures on data protection, consistency with government standards and local arrangements for implementation of procedures. A report published in June 2008 made recommendations for a higher level of oversight and guidance from the Scottish Government and improved security of sensitive information. We will monitor the Commissioner's continuing consideration of this issue.
- **National Performance Framework** - The Scottish Government is continuing to develop its approach to performance management based on the National Performance Framework and local authority single outcome agreements. The National Performance Framework is an outcome-



based approach that is publically reported on the Scottish Government's web site in the 'Virginia-style' model of performance measurement and reporting. This will include progress on overall delivery of the administration's purpose for Government, the five strategic objectives for Scotland and other aspects of the outcomes based National Performance Framework. We will consider what implications, if any, these developments have for the Commissioner as part of the 2009/10 audit.

Audit Scotland
December 2009



Appendix A: Action Plan

Key Risk Areas and Planned Management Action

Action Point	Risk Identified	Planned Action	Responsible Officer	Target Date
1	Developing the business and control environment – the Commissioner has identified a range of operational aims and objectives for 2009-10 and also a number of areas of the control environment to be developed over the year and it will be important to monitor progress during the year.	Regular monitoring of planned developments.	Commissioner	Ongoing
2	Accounting developments over 2009-10 SRWC will further develop accounting arrangements in areas such as complying with International Financial Reporting Standards; bedding in the arrangements surrounding consolidation accounting; improving minor public interest disclosures in the Foreword and Management Commentary (eg sickness absence, supplier payment performance); and exploring any further avenues for favourably resolving the position on VAT.	The SRWC will submit IFRS shadow accounts for 2008-09 in accordance with the Scottish Government timetable. Other accounting developments will be carried forward in line with guidance, supported by consultation with relevant providers of advice and external audit as appropriate.	Office Manager	Ongoing