

Scottish Road Works Commissioner

Annual report on the 2011/12 audit



Prepared for the Commissioner and the Auditor General for Scotland
October 2012

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Contents

Key messages	4
2011/12 findings	4
Outlook.....	5
Introduction	6
Financial statements	7
Audit opinions.....	7
Accounting issues	8
Outlook.....	9
Financial position	10
Financial results	10
Outlook.....	11
Governance and accountability	12
Corporate governance.....	12
Prevention and detection of fraud and irregularities.....	13
Standards of conduct and arrangements for the prevention and detection of bribery and corruption	13
Outlook.....	14
Best value, use of resources and performance	15
Management arrangements	15
Overview of SRWC's performance in 2011/12.....	16
National performance reports	16
Outlook.....	17
Appendix A: action plan	18

Key messages

2011/12 findings

In 2011/12 we assessed the key strategic and financial risks being faced by the Scottish Road Works Commissioner. We audited the financial statements and we reviewed the use of resources and aspects of performance management and governance. This report sets out our key findings.

Financial Statements

Our independent auditor's report provided an unqualified opinion on the financial statements of the Scottish Road Works Commissioner (the Commissioner or SRWC) for 2011/12. We have also concluded that, in all material respects, the expenditure and income shown in the financial statements were incurred or applied in accordance with applicable enactments and relevant guidance issued by the Scottish Ministers.

Financial position and use of resources

In 2011/12 the consolidated financial outturn of the Scottish Road Works Commissioner and Susiephone Ltd combined was, at £2,000 surplus, approximately £4,000 lower than that reported for the previous year. Susiephone Ltd provides management services to the Commissioner for the operation of the Scottish Road Works Register (SRWR). Activity on the SRWR is funded by fees levied on the road works community (expenditure of £1,012,000), with expenditure on the Office of the Commissioner being funded by grant from the Scottish Government (funding of £263,000). Expenditure was within the budgets established for both areas of activity.

The contract for maintaining and developing the Scottish Road Works Register was re-tendered during 2010/11 and commenced in April 2011. The costs of re-tendering and implementing the new contract were significant in relation to the annual charge of the contract and £90,000 income in 2011/12 would be deferred towards the cost of the next tendering exercise.

Governance and Accountability

As reflected in the Governance Statement within the 2011/12 financial statements, SRWC continued to develop its corporate governance and control arrangements and we confirmed these operated satisfactorily during the year.

Performance and Best Value

As recorded in its annual report, SRWC met the majority of its performance targets. Of 23 targets set, SRWC assessed 20 were met, 1 partially met and 2 not met. The Commissioner continues to develop and embed best value principles into continuing activities.

For the first time the Commissioner imposed penalties on several utility companies which failed to reach the agreed compliance standard set for road works reinstatement.

Outlook

It is anticipated that a new Commissioner will be appointed shortly and given the small size of the organisation a smooth transition and handover is key. The challenge will be to ensure that the good financial, governance and performance arrangements in place continue during the period of transition. For our part as auditors we will work with the new Commissioner to ensure a good working relationship is established in advance of the 2012/13 financial statements audit.

Following on from the Commissioner's involvement in the Scottish Roads Maintenance Review (which was set up in response to the Audit Scotland performance report) a wide ranging consultation on the management of road works in Scotland was submitted to the Scottish Government. It is anticipated that the consultation will take place in autumn 2012.

Introduction

1. This report is the summary of our findings arising from the 2011/12 audit of the Scottish Road Works Commissioner (SRWC). The purpose of the annual audit report is to set out concisely the scope, nature and extent of the audit, and to summarise the auditor's opinions (i.e. on the financial statements) and conclusions and any significant issues arising. The report is divided into sections which reflect the extent of our public sector audit model.
2. Appendix A is an action plan setting out the high level risks we have identified from the audit. The Commissioner has considered the issues and agreed to take the specific steps in the column headed "planned management action". We do not expect all risks to be eliminated or even minimised. What we expect is that the SRWC understands its risks and has arrangements in place to manage these risks.
3. This report is addressed to the Commissioner and the Auditor General for Scotland. Reports should be available to the Scottish Parliament, other stakeholders and the public, where appropriate. Audit is an essential element of accountability and the process of public reporting.
4. This report will be published on our website after consideration by the Commissioner.
5. Management of the audited body are responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. Weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements 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.

Financial statements

6. Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources.
7. Auditors are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on:
 - whether they give a true and fair view of the financial position of audited bodies and their expenditure and income
 - whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
 - the regularity of the expenditure and income.
8. Auditors review and report on, as appropriate, other information published with the financial statements, including the foreword, annual governance statement and the remuneration report. Where required, auditors also review and report on the Whole of Government Accounts return. This section summarises the results of our audit on the financial statements.

Audit opinions

9. We have given an unqualified opinion that the financial statements of SRWC for 2011/12 give a true and fair view of the state of the body's affairs and its net operating cost for the year.
10. SRWC is required to follow the 2011/12 Government Financial Reporting Manual (the FReM) and we confirmed that the financial statements have been properly prepared in accordance with the FReM.

Regularity

11. We confirmed that the expenditure and income in the financial statements was in accordance with applicable legislation and Ministerial guidance.

Annual governance statement and remuneration report

12. In our opinion, the audited part of the remuneration report has been properly prepared and the remaining elements of the remuneration report and management commentary are consistent with the financial statements.
13. This is the first year that SRWC has been required to publish an annual governance statement rather than a statement of internal control. We have reviewed the governance statement and confirmed that it complies with the guidance from Scottish Ministers.

Accounting issues

Accounts submission

14. In previous years we have commented on year end accounts preparation and audit processes, which are relatively complicated given the size and nature of the Commissioner's activity. There has been good progress over the years to make these arrangements work effectively, but they remain vulnerable to changes in the personnel involved. 2011/12 was the first time that the accounts were prepared without external assistance and the process went smoothly. The accounts were submitted within the statutory deadline.
15. A number of presentational changes were required to the annual report and accounts as a result of our review of the disclosures required by the FReM. The audited financial statements have been adjusted to reflect these amendments.

Other issues

Treatment of VAT

16. The Scottish Government considers that the Commissioner cannot be classed as a Government Department and as such cannot gain the appropriate status to allow the recovery of VAT. In previous years VAT on expenditure was allocated to one line of expenditure within the accounts. To achieve greater transparency in the 2011/12 accounts it was decided to record VAT on each category of expenditure. This change in treatment is explained in the accounting policies and in the notes to the accounts. The Accountable Officer provided assurances that VAT was properly reflected in the accounting statements and that the change was presentational only and has no overall affect. We agreed with this presentational change.

Scottish Road Works Register (SRWR)

17. The contract for maintaining and developing the SRWR was re-tendered during 2010/11 leading to increased costs which were offset by an increased fee levy in that year. The implications of this cyclical increase in expenditure were considered by the Road Authorities and Utilities Committee (Scotland) (RAUC(S)), who agreed that the costs of any future retendering exercise would be spread over future fee levies which will be released in the year of the next re-tendering exercise to match the costs of the exercise. This deferred income (£0.09m) is currently held in Susiephone's bank account which, as at 31 March 2012 held, a balance of £0.599m. The deferred income element is not however separately identified. The Commissioner intends to discuss with Susiephone how best to ensure the transparency of this balance building up over the next 4 years possibly through the use of a separate bank account. (Susiephone Ltd acts as the 'provider' of the Scottish Road Works Register (SRWR) and provides management services to the Commissioner).

Refer Action Plan No. 1

Statutory Penalties

18. 2011/12 is the first year that the Commissioner has levied penalties for inadequate performance. £0.093m was levied from four utility companies which had not performed adequately in the 2010/11 National Coring Exercise, which assessed performance of contractors regarding reinstatement of works. On advice from the Sponsoring Department (Transport Scotland) the money was paid into the Consolidated Fund via Transport Scotland as required by statute.

Outlook

19. There are no significant revisions to the FReM that are expected to have an impact on the SWRC annual accounts for 2012/13.
20. The current commissioner had intended to retire in August 2012. However a recruitment exercise to appoint a new commissioner was not successful and it was agreed that the current commissioner would continue until a successor took up post. Given the small size of the organisation we would see transition arrangements as key to ensuring a smooth audit process and would intend to liaise with the new commissioner at an early date as part of the annual audit process.

Refer Action Plan No. 2

Financial position

21. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
22. Auditors consider whether audited bodies have established adequate arrangements and examine:
 - financial performance in the period under audit
 - compliance with any statutory financial requirements and financial targets
 - ability to meet known or contingent, statutory and other financial obligations
 - responses to developments which may have an impact on the financial position
 - financial plans for future periods.
23. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

Financial results

Annual Outturn

24. The annual outturn figures for 2011/12 and the previous year are summarised in the table below. The net surplus was £2,000, slightly less than 2010/11. The Scottish Government agreed a budget of £281,000 for the year. The actual draw down of funds during 2011/12 was £263,000. The increase in costs and income over the two years reflect increased running costs resulting from the new contract with Susiephone.

Table 1: Annual outturn figures

	2011/12 (£m)	2010/11 (£m)
Expenditure	1.428	1.138
Income	1.167	0.879
Net expenditure	0.261	0.259
Scottish Government funding	0.263	0.265
Net surplus	0.002	0.006

25. In 2011/12 the Commissioner's operating costs were £24,000 within the budget established by the Scottish Government; the costs of operating the Scottish Road Works Register (SRWR or Register) were £19,000 within the budget established for activity on the Register.

Financial position

26. As noted earlier, the financial statements are relatively complicated as they comprise two sets of accounts (the Commissioner and Susiephone) which require to be consolidated. The Statement of Financial Position shows a consolidated net asset position of £78,000 at 31 March 2012 (£76,000 for 2010/11); the Commissioner only position is net assets of £15,000 (£9,000 for 2010/11). SRWC has a relatively low fixed asset base reflecting the nature of the organisation and its business. The reported asset values for 2011/12 were £2,000 consolidated and £1,000 Commissioner (2010/11: £2,000 and £nil, respectively).
27. An aspect of running the SRWR is that Susiephone often has large cash balances in its accounts at year end as the road works community is invoiced in February each year and some organisations pay before the financial year end (2011/12: £599,000; 2010/11: £705,000). It has already been suggested that these balances and the element of deferred income for the cost of the next SRWR contract tendering exercise is separated by using different bank accounts.

Refer Action Plan No. 1

28. There was an action in the 2010/11 Annual Audit Report for a post implementation review of the contracting process for the provision of the SRWR. The Tender Group reviewed the outcome of this exercise and the Commissioner is satisfied that any actions identified will be taken forward to any future tendering process. The current contract is due to be retendered in 2015 although there is an option for extending the current contract for a further two years.

Outlook

2012/13 budget

29. SRWC has a total approved budget for expenditure of £0.283 million for 2012/13 (for Commissioner activity). The challenge going forwards will be to contain spending within the agreed budget while maintaining performance particularly at a time when a new Commissioner is to be appointed. In addition, the costs of running the SRWR will require to be carefully managed given the funding impact on partners.

Governance and accountability

30. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.
31. Through its chief executive or accountable officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance (including audit committees or similar groups) in monitoring these arrangements.
32. Consistent with the wider scope of public audit, auditors have a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:
 - corporate governance and systems of internal control
 - the prevention and detection of fraud and irregularity
 - standards of conduct and arrangements for the prevention and detection of corruption.
33. In this part of the report we comment on key areas of governance.

Corporate governance

Overall effectiveness

34. We found that, overall, corporate governance arrangements operated effectively during 2011/12.

Processes and committees

35. Primary legislation established SRWC as an independent Commissioner with no Board and made no specific provision for an Audit Committee. In 2010 the Commissioner agreed with Transport Scotland, the sponsor organisation, that he could operate without an audit committee or advisory board but that the topic should be kept under review. As confirmed in the Governance Statement, the Commissioner has encountered no practical difficulties with this arrangement during 2011/12.

Internal control

36. In the interests of an efficient audit approach we rely on assurances received from the auditor of the Scottish Government on work performed on shared systems that operate at SRWC, hosted by the Scottish Government. This approach ensures we are delivering an efficient co-ordinated audit that avoids unnecessary duplication and expense.

37. The central systems assurance letter provided by the auditor of the Scottish Government concluded that there was adequate assurance for all systems except travel and subsistence payments. Adequate assurance is where key controls and procedures are operating to enable reliance to be placed on the system; limited assurance was provided for the travel and subsistence system due to controls concerns. However, we found SRWC procedures to be operating satisfactorily.
38. It was agreed previously that specific internal audit work be undertaken by Scottish Government internal audit on a cyclical basis or if there were specific needs or problems. There has been no specific coverage as yet and we will continue to monitor arrangements in future years.
39. Our audit approach includes a review of the high level controls operating within SRWC's key financial systems. Although there are small numbers of staff, which limits the scope for segregation of duties, there is compensating control through a high level of scrutiny by the Commissioner and through independent advice and review of the activity of the Register. In 2011/12 we continued to monitor the control environment through discussion with officers and review of documentation.

Governance Statement

40. The Governance Statement provided by SRWC's Accountable Officer records management's responsibility for maintaining a sound system of internal control and summarises the process by which the Accountable Officer obtains assurances on the contents of the Statement.
41. In 2011/12, we followed up governance developments. As confirmed in the Governance Statement, the Commissioner has continued to develop arrangements and we confirmed these operated satisfactorily during the year.

Prevention and detection of fraud and irregularities

42. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. Auditors review and report on these arrangements.
43. SRWC has appropriate arrangements in place (based on Scottish Government guidance) to prevent and detect instances of fraud and corruption including detailed policies which have recently been reviewed and updated.
44. There were no instances of fraud or irregularity reported by SRWC in 2011/12.

Standards of conduct and arrangements for the prevention and detection of bribery and corruption

45. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. We consider whether bodies have adequate arrangements in place.

46. We consider that SRWC has appropriate procedures in place to help ensure appropriate standards of conduct and to prevent and detect bribery and corruption. We are not aware of any specific issues that we need to identify in this report.

Outlook

47. Proposed changes to the relationship between the SRWC and Transport Scotland are still under discussion. It is essential that good governance arrangements are in place particularly in relation to transparently demonstrating the independence of SRWC.

Best value, use of resources and performance

48. Audited bodies have a specific responsibility to ensure that arrangements have been made to secure best value.
49. The Auditor General may require that auditors consider whether accountable officers have put in place appropriate arrangements to satisfy their corresponding duty of Best Value. Where no requirements are specified for auditors in a period they may, in conjunction with their audited bodies, agree to undertake local work in this area.
50. As part of their statutory responsibilities, the Auditor General may procure, through Audit Scotland, examinations of the use of resources by audited bodies and publish reports or guidance. Auditors may be requested from time to time to participate in:
 - a performance audit which may result in the publication of a national report
 - an examination of the implications of a particular topic or performance audit for an audited body at local level
 - a review of a body's response to national recommendations.
51. During the course of their audit appointment auditors should also consider and report on progress made by audited bodies in implementing the recommendations arising from reviews in earlier years.
52. This section includes a commentary on the best value/ performance management arrangements within SRWC. We also note any headline performance outcomes / measures used by SRWC and any comment on any relevant national reports and the body's response to these.

Management arrangements

Best Value

53. Scottish Government guidance for accountable officers on best value in public services requires a systematic approach to self-evaluation and continuous improvement. The guidance identifies the themes an organisation needs to focus on in order to deliver the duty of best value, but notes that implementation should be appropriate and proportionate to the priorities, operating environment, scale and nature of the body's business.
54. SRWC's Governance Statement confirms that the organisation is committed to a process of continuous development and improvement.

Overview of SRWC's performance in 2011/12

55. During 2011/12, SRWC undertook a number of initiatives to evaluate and improve performance both of utility companies and the Commissioner's office. These included participation in working groups and committees and working with third party partners. The 2011/12 Annual Report records SRWC's mission / purpose as: *Through our monitoring and promotional role, seek improvements to the planning, co-ordination and quality of works in roads in Scotland.*
56. The 2011/12 Business Plan had 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.
57. The Business Plan sets out how each of the Commissioner's strategic aims will be performed in terms of key deliveries or actions along with timescales.
58. The Commissioner's Annual Report for 2011/12 records the outturn against the objectives set out in the Business Plan. As recorded in the annual report, SRWC substantially met its performance targets. Of 23 targets set, SRWC assessed 20 were met, 1 partially met and 2 not met.

The Commissioner's performance management monitoring role

59. SRWC's principal activity is to monitor road works and to promote compliance with legislation and good practice. As recorded in its Annual Report, SRWC now has three full years' of monitoring data and a third round of Performance Reviews have been issued to roads authorities and main utility companies which show an overall improvement in performance for the period.
60. As noted previously, for the first time several utility companies had financial penalties, ranging from £2,000 to £38,000, imposed by the Commissioner as a result of poor roads reinstatement performance. Since then the utility companies themselves have agreed a new and higher target for 2012/13 which is an indication of their intention to achieve the target and improve performance. This demonstrates that the Commissioner is achieving continuous improvement as a result of his role.

National performance reports

61. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Reports in the last year of direct interest to the SRWC include:

- Scotland's Public Finances: Addressing the challenges.
 - National Fraud Initiative in Scotland.
62. The Commissioner considers any aspects or issues from national reports relevant to SRWC's activities.

Maintaining Scotland's Roads

63. The Audit Scotland national report "Maintaining Scotland's Roads: a follow-up" was published in February 2011. A central recommendation was that "The Scottish Government should consider a national review on how the road network is managed and maintained, with a view to stimulating service redesign and increasing the pace of examining the potential for shared services."
64. As a consequence of this national report, the Commissioner was invited to join a steering group which led to the publication of the National Roads Maintenance Review report. The Commissioner was separately tasked with responding to two of the options contained within the final report and as a consequence he has submitted to the Scottish Government a wide-ranging strategic consultation document on the management of road works in Scotland which is due to be launched in autumn 2012.

Outlook

65. With the change in the Commissioner there is a risk that performance and working practices may be affected. The challenge will be to ensure a smooth transition process thereby reducing the potential impact on the performance of the organisation.

Refer Action Plan No. 2

66. In April 2011, the Equality Act 2010 introduced a new public sector 'General Duty' which encourages equality to be mainstreamed into public bodies' core work so that it is not a marginal activity but part and parcel of how public bodies operate. We will consider progress made by SRWC in implementing these requirements as part of our ongoing audit activity.

Appendix A: action plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	17, 27	There is a risk that monies held as deferred income for the next contracting exercise is not separately identifiable.	The Commissioner has discussed with Susiephone how best to ensure the transparency of this. A separate bank account has now been created.	Scottish Road Works Commissioner	Action completed.
2	20, 65	There is a risk that financial management and governance arrangements are adversely affected during the transition period to a new Commissioner.	During the last year we have ensured that all financial procedures have been reviewed and updated. The Performance Manager has during 2012 been involved in all significant meetings discussing financial and audit issues to ensure a wider understanding prior to the Commissioner leaving office. The draft record management plan will be in place by the end of December 2012. The Commissioner will ensure that detailed handover notes will be prepared for the new Commissioner including financial issues. The Commissioner has agreed to make himself available for handover	Office Manager Performance Manager Office Manager Scottish Road Works Commissioner Scottish Road Works Commissioner	December 2012 Ongoing December 2012 December 2012 December 2012 /January

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
			meetings with the new Commissioner either before or after leaving office.		2013