

Scottish Road Works Commissioner

Annual report on the 2012/13 audit



Prepared for the Commissioner and the Auditor General for Scotland

October 2013

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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Key Messages

2012/13

We have given an unqualified opinion that the financial statements of the Scottish Road Works Commissioner (the Commissioner or SRWC) for 2012/13 give a true and fair view of the state of the body's affairs and of its net expenditure for the year.

A number of issues were identified during the course of the audit and several adjustments were made to the draft statements. These included a consolidation adjustment which had not previously been included, changes to the balance sheet to enable assets to equal liabilities and changes to several of the notes. Back up working papers provided were not of a good standard. These difficulties arose as a consequence not having appropriately experienced staff in place. In addition, there were difficulties in accessing the necessary information from Susiephone Limited.

Overall the SRWC's arrangements for the prevention and detection of fraud were satisfactory during 2012/13. We also concluded that the systems of internal control are operating effectively.

In 2012/13 the consolidated financial outturn of the Scottish Road Works Commissioner and Susiephone Limited was, at £2,000 deficit, approximately £4,000 lower than that reported for the previous year.

Susiephone Limited provided management services to the Commissioner for the operation of the Scottish Road Works Register (SRWR). Activity on the SRWR was funded by fees levied on the road works community (£739,000), with expenditure on the Office of the Commissioner funded by grant from the Scottish Government (£267,000).

The annual accounts record a net assets position of £76,000; the Commissioner only position indicates net assets of £14,000. SRWC has a relatively low fixed asset base reflecting the nature of the organisation and its business. The 2013/14 Grant in Aid figure from the Scottish Government is £317,000 and represents a 12% increase from the 2012/13 original budget.

Outlook

In July 2013 the activities of Susiephone Limited were brought in-house and are now managed directly by the Commissioner. This represents a major change for the SRWC and there are organisational challenges in managing the enhanced arrangements.

The challenge going forwards will be to contain spending within the agreed budget while maintaining performance.

Introduction

1. This report is the summary of our findings arising from the 2012/13 audit of the Scottish Road Works Commissioner (SRWC). The purpose of the report is to set out concisely the scope, nature and extent of the audit. It summarises our opinions (i.e. on the financial statements) and conclusions on significant issues arising.
2. The report also reflects our overall responsibility to carry out an audit in accordance with the public sector audit model which is based on the Code of Audit Practice prepared by Audit Scotland (May 2011). This sets out the wider dimensions of the public sector audit which involves not only the audit of the financial statements but also consideration of areas such as financial performance and corporate governance.
3. An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements prepared by management; however this does not relieve management of their responsibilities in this respect. This report has been prepared for the use of the Commissioner and no responsibility to any third party is accepted.
4. [Appendix A](#) is an action plan setting out the high level risks we have identified from the audit. Officers have 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 SRWC understands its risks and has arrangements in place to manage these risks.
5. This report is also addressed to the Auditor General for Scotland and will be published on our website after consideration by the Commissioner.

Financial statements

Conduct and scope of the audit

6. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in our Annual Audit Plan which was submitted to the Commissioner in February 2013, and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in May 2011.
7. As part of the requirement to provide full and fair disclosure of matters relating to our independence we can confirm that we have not undertaken non-audit related services. The 2012/13 agreed fee for the audit was disclosed in the Annual Audit Plan and this fee remains unchanged.

Audit opinion & accounting issues

8. We have given an unqualified opinion that the financial statements of the SRWC for 2012/13 give a true and fair view of the state of the body's affairs and of its net expenditure for the year. The audit opinion was formally issued and signed on 30 October 2013.
9. We received the unaudited financial statements at the end of August which was 2 months later than the originally agreed date. The delay was as a result of there being no suitably experienced staff available to compile the financial statements on behalf of the Commissioner.
10. The draft statements and working papers provided for audit were not of a good standard and additional work was required by both ourselves and officers, to resolve a number of accounting and presentational issues. These issues included:
 - the opening trial balance taken from the financial ledger did not balance
 - the draft statement of financial position provided for audit recorded a difference of £175,000 between assets and liabilities
 - there were a number of basic arithmetic errors and rounding issues in several of the main statements and related notes
 - income and expenditure had been overstated by £135,000
 - the consolidation of the SRWC accounts with Susiephone Limited was not carried out correctly.
11. Notwithstanding all of the above, officers provided good support to the audit team. We completed our on-site fieldwork in mid-September but it has taken a further five weeks to fully resolve the issues arising.
12. The SRWC is required to follow the 2012/13 Financial Reporting Manual (FReM) and we can confirm that the financial statements have been properly prepared in accordance with these accounting requirements with the exception of the matter raised in paragraph 19.

Significant findings (ISA260)

13. During the course of the audit we identified a number of significant issues which are discussed further below.
14. **Accounts preparation.** The office manager had been responsible for compiling the annual accounts in 2011/12. We referred in our annual audit plan to the risk that the financial statements would not be properly completed and that financial governance would also be affected by the absence of alternative arrangements to cover the departure of the office manager who left in January 2013. While action was taken immediately in an attempt to fill the vacant position, a part time finance assistant was recruited in May 2013 which was too late to have any direct impact on the accounts preparation process.
15. In recognition of the absence of expertise, the Commissioner requested assistance from the Scottish Government Accountancy Services Unit and from her sponsor department, Transport Scotland. Limited assistance was provided by Scottish Government Accountancy Services Unit but this was neither at the required time nor at the level of experience required.
16. It is essential that this matter is addressed as soon as practicable. We are aware that this is a common issue across a number of the Commissioners in Scotland. The Road Works Commissioner should engage with the Scottish Government, the sponsor department and the other Commissioners to see if a suitably experienced and knowledgeable resource could be shared across a number of organisations. As an alternative, in-house expertise should be developed and utilised to ensure that there is no repetition of the issues faced in 2012/13.

Refer Action Plan No. 1

17. **Monies due to SRWC from Susiephone Limited.** The Susiephone Limited annual accounts record that £250,000 is due to the SRWC. There was however no corresponding entry in the SRWC annual accounts. While we agreed that £180,000 of this total does not need to be reflected in the SRWC accounts as it refers to deferred income being held by Susiephone Limited for a future tendering exercise, the remaining £70,000 should have been accrued into the SRWC financial statements. We have since been advised that this represents deferred income for the Commissioner. As a consequence, the Commissioner's trade payables and receivables are both understated by £70,000. In addition, the consolidation process should have taken account of the £70,000 income by excluding it from Susiephone Limited trade payables and SRWC's trade receivables.

Resolution. The annual accounts have been adjusted to reflect the accrual of £70,000. In addition the consolidation process has been amended to reflect the required adjustments. These funds should be spent on the Register in 2013/14.

18. **Treatment of VAT.** 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. Prior to 2011/12, VAT on expenditure was allocated to one line of Other Operating Costs within the SRWC accounts. However in 2011/12 this approach was amended and VAT was recorded on each category of expenditure and income. However, in 2012/13 due to the staffing issues noted above, no cognisance was taken of VAT. The

SRWC financial statements record gross sums (ie including VAT) while the Susiephone Limited accounts do not include VAT. On consolidation however there was no overall effect on the net expenditure for the year. This change in VAT treatment between years is explained in the accounting policies and in the notes to the accounts. The Accountable Officer has provided assurances that VAT was properly reflected in the SRWC accounts and that the change was presentational only and has no overall affect. We agreed with this presentational change.

19. **Disclosure of new accounting standards.** IAS8 requires disclosure of information on the expected impact of applying new accounting standards that have been issued but are not yet in effect. Due to the staffing issues discussed earlier, the Commissioner has not been able to consider whether there will be a material impact. The Commissioner has given assurances that this will be considered going forwards.

Refer Action Plan No. 2

20. **Scottish Road Works Register (SRWR).** 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)). They agreed that the costs of any future retendering exercise would be spread over future fee levies which would be released in the year of the next re-tendering exercise (2015/16) to match the costs of the exercise. It was initially estimated that up to 5 years additional fees would be levied. After a review of the projected costs of this exercise it has been agreed by the Scottish Road Works Register Management Group that the monies collected in 2011/12 and 2012/13 would be sufficient. As a consequence, £180,000 is being held by Susiephone on behalf of the Commissioner, as previously referred to in paragraph 17.

Financial position

2012/13 Outturn

21. Susiephone Limited operated the Scottish Road Works Register on behalf of the Commissioner. The company raised invoices for the prescribed fees and amounts and expenditure incurred was offset against the income collected. The Commissioner's direct expenditure is funded by grant from Scottish Ministers.
22. The Scottish Government agreed a budget of £283,000 for SRWC direct activities for the year. The SRWC disclosed net operating costs of £268,000 and the actual draw down of funds during 2012/13 was £267,000.
23. The consolidated annual outturn figures for 2012/13 are summarised in the table below. The net deficit for SRWC and Susiephone Limited was £2,000, compared to a surplus position of £2,000 in 2011/12. The change in costs and income reflect the impact of excluding VAT in 2012/13 (discussed in paragraph 18) and the income and expenditure related to the upgrade of the register.

Table 1: Annual Outturn Figures

	2012/13 (£m)	2011/12 (£m)
Expenditure	1.008	1.428
Income	0.739	1.167
Net Expenditure	0.269	0.261
Scottish Government funding	0.267	0.263
Net surplus/(deficit)	(0.002)	0.002

Source: SRWC Annual Accounts 2012/13

2012/13 financial position

24. As noted earlier, the financial statements are relatively complicated as they comprise two sets of accounts (the Commissioner and Susiephone Limited) which require to be consolidated. The Statement of Financial Position shows a consolidated net assets position of £76,000 at 31 March 2013 (£78,000 for 2011/12); the Commissioner-only position is net assets of £14,000 (£15,000 for 2011/12). The SRWC has a relatively low fixed asset base reflecting the nature of the organisation and its business.
25. We have previously reported that Susiephone Limited often has large cash balances in its accounts at the year end as the road works community is invoiced in advance each February and some organisations pay before the year end. As at 31 March, a bank balance of £806,000 is included within the accounts of which £605,000 relates to this pre-payment of prescribed fees.

Financial planning

26. The 2013/14 Grant in Aid figure from the Scottish Government is £317,000 and represents a 12% increase from the 2012/13 original budget. The agreed budget takes account of the recruitment of a new post of Policy Officer.
27. There is no longer-term financial plan for the SRWC which links business objectives to resources and budgets. Funding for the Scottish Government as a whole is reducing, leading to a general downsizing. There is a risk that future grant funding for the SRWC may reduce. Any reduction may in turn lead to challenges in achieving the Commissioner's statutory functions.
- Refer Action Plan No. 3**
28. In March 2013, the Commissioner gave notice that she wished to terminate the agreement for Susiephone Limited to act as provider of the road works register. The activities of Susiephone Limited were brought in-house in July 2013 and are now managed directly by the

Commissioner. This represents a major change for the SRWC and there will be organisational challenges in managing the enhanced arrangements.

Refer Action Plan No. 4

Corporate governance and systems of internal control

Overall governance arrangements

29. The Code of Audit Practice gives auditors a responsibility to review and report on audited bodies' corporate governance arrangements.
30. Primary legislation established SRWC as an independent Commissioner with no Board and 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. This practice has continued in 2012/13 and, as confirmed in the Governance Statement, the Commissioner has encountered no practical difficulties with this arrangement. We found that, overall for SRWC, sound governance arrangements were in place during 2012/13.
31. The new Commissioner started in post in January 2013 and, with the departure of the Office Manager in early 2013, the turnover of staff was 50% in one year. We noted in our annual audit plan that there was a risk that this transition in leadership and loss of experience in such a small organisation could impact on the achievement of key objectives. We are aware that the new Commissioner's workload has been challenging and that there are continuing issues with a lack of resource and expertise available to draw on. The Commissioner is intending to address the resource shortfall going forward.

Refer Action Plan No. 1

Accounting and internal control systems

32. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial systems and controls of audited bodies as a whole. However, the extent of this work should also be informed by their assessment of risk and the activities of internal audit.
33. 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.
34. The central systems assurance letter provided by the auditor of the Scottish Government concluded that there was adequate assurance for all systems used by the SRWC. Adequate assurance is where key controls and procedures are operating to enable reliance to be placed on the system.
35. 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 financial statements. However, there were problems with the preparation and the submission of the financial statements as discussed previously.

36. Internal audit is an important element of an organisation's governance structure. Although there is an agreement with the Scottish Government for internal audit input over a 3-5 year cycle, there has been no specific activity agreed nor has there been any direct internal audit work undertaken for more than three years. The Commissioner has agreed to raise this as an issue with the sponsoring department.

Refer Action Plan No. 5

37. As part of actions agreed by management in the 2011/12 Annual Audit Report the Commissioner had planned to have a draft record management plan in place by the end of December 2012. An agreed record management plan is an element of good governance and internal control in an organisation. While some progress has been made on this, the plan is currently incomplete.

Refer Action Plan No. 6

Prevention and detection of fraud and irregularity

38. In our Annual Audit Plan we highlighted the responsibility audited bodies have for establishing arrangements to prevent and detect fraud and other irregularities. In our opinion the overall arrangements for the prevention of fraud are satisfactory, although it should be noted that no system can eliminate the risk of fraud entirely.
39. There were no instances of fraud or irregularity reported by SRWC in 2012/13.

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

40. 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. Auditors consider whether bodies have adequate arrangements in place. No issues have been identified by us for inclusion in this report.

Best value

41. Achievement of best value or value for money depends on the existence of sound management arrangements for services, including procedures for planning, appraisal, authorisation and control. Audited bodies are responsible for ensuring that these matters are given due priority and resources, and that proper procedures are established and operate satisfactorily. The Auditor General may require that we consider whether accountable officers have put in place appropriate arrangements to satisfy their corresponding duty of best value.
42. SRWC's Governance Statement confirms that the organisation is committed to a process of continuous improvement and development.

Performance

43. The SRWC Annual Report, issued in September 2013, describes developments in the Commissioner's approach to monitoring the performance of the roadworks community in Scotland. The Commissioner has temporarily reduced the number of performance indicators from 27 to 12 and has embarked on a survey of users regarding the relevance of the performance indicators used.
44. No financial penalties were imposed by the Commissioner during 2012/13. However since April 2013, two penalties (totalling £58,000) have been issued for failures to comply with the duties under the relevant legislation.

Acknowledgements

45. We would like to express our thanks to the staff of the SRWC for their help and assistance during the audit of this year's financial statements which has enabled us to provide an audit report within the agreed timetable.

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	16 31	<p>SWRC resources</p> <p>There is an absence of suitably knowledgeable staff to compile the financial statements.</p> <p><i>There is a risk that the 2013/14 financial statements may not be prepared in accordance with government guidelines.</i></p>	<p>The SRWC is exploring the possibility of using a firm of Accountants to help prepare her Annual Accounts for future years.</p>	SRWC	March 2014
2	19	<p>Disclosure of new accounting standards</p> <p>The impact of new accounting standards should be reviewed and considered for disclosure.</p> <p><i>There is a risk that that the financial statements are not compliant with the FReM.</i></p>	<p>The SRWC will ensure that this is considered going forward as per the response to Action Point 1.</p>	SRWC	March 2014
3	27	<p>Financial planning</p> <p>No longer-term financial plan has been prepared linking objectives to available funds.</p> <p><i>There is a risk that future funding will not be sufficient to cover planned performance.</i></p>	<p>Discussions on this issue are due to be held with the Sponsor Department.</p>	SRWC	March 2014

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
4	28	<p>Management capacity</p> <p>The Commissioner will not have the organisational capacity and resilience to cope with the challenges of a more complex organisation.</p> <p><i>There is a risk that the organisation will not achieve its objectives if management capacity is not reviewed.</i></p>	The issues of resourcing, skill sets and resilience required to enable the Office of the SRWC to meet statutory requirements are currently under review and will be discussed with the Sponsor Department.	SRWC	March 2014
5	36	<p>Internal audit</p> <p>There has been no independent review of the control environment for over 3 years.</p> <p><i>There is a risk of weaknesses in key systems leading to financial or reputational loss to the organisation.</i></p>	The SRWC will raise this with Transport Scotland, the Sponsoring Department.	SRWC	Jan 2014
6	37	<p>Records Management</p> <p>The records management plan is still incomplete.</p> <p><i>There is a risk of error and reputational loss if the organisation's records are not appropriately managed.</i></p>	Records Management continues to be under review by the SRWC and she is currently assessing alternative options. However she will comply with the due date for having a Records Management Plan in place when this is issued to her.	SWRC	Ongoing