

The Scottish Road Works Commissioner

Annual Audit Plan 2023/24



 AUDIT SCOTLAND

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

March 2024

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Introduction

Summary of planned audit work

1. This document summarises the work planned for the 2023/24 audit of the Scottish Road Works Commissioner (SRWC). The main elements of the audit include:

- an audit of the financial statements and an opinion on whether they give a true and fair view and are free from material misstatement
- an audit opinion on regularity and other statutory information published with the financial statements in the annual report and accounts, including the Performance Report, Governance Statement, and the Remuneration and Staff Report
- consideration of arrangements in relation to wider scope areas concluding on the financial sustainability of SRWC and a review of the Governance Statement
- provision of an Independent Auditor's Report expressing my opinions on the different elements of the annual report and accounts and an Annual Audit Report setting out conclusions on the wide scope areas.

Respective responsibilities of the auditor and the SRWC

2. The [Code of Audit Practice](#) sets out in detail the respective responsibilities of the auditor and the SRWC. Key responsibilities are summarised below.

Auditor responsibilities

3. My responsibilities as appointed auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice (including [supplementary guidance](#)) and guided by the Financial Reporting Council's Ethical Standard.

4. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual report and accounts. We also review and report on the wider scope arrangements in place at SRWC. In doing this, we aim to support improvement and accountability.

SRWC's responsibilities

5. SRWC is responsible for maintaining adequate accounting records and internal controls, and preparing financial statements for audit that give a true and fair view. They are also required to produce other reports in the annual report and accounts in accordance with applicable requirements.

6. SRWC has the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation, and establishing effective arrangements for governance, propriety, and regularity that enable them to deliver their objectives.

Adding Value

7. My team and I aim to add value by: tailoring audit work to the circumstances of SRWC and the audit risks identified; being constructive and forward looking; providing independent conclusions; and by recommending and encouraging good practice. In so doing, we will help SRWC promote improved standards of governance, better management and decision making, and more effective use of resources.

Annual report and accounts

Introduction

8. The annual report and accounts are an essential part of demonstrating SRWC's stewardship of resources and its performance in the use of those resources.

9. As appointed auditor, I am required to perform an audit of the financial statements, consider other information within the annual report and accounts, and express a number of audit opinions in an Independent Auditor's Report in accordance with International Standards on Auditing (ISAs) in the UK, Practice Note 10 from the Public Audit Forum which interprets the ISAs for the public sector, and guidance from Audit Scotland.

10. My team and I focus our work on the areas of highest risk. As part of our planning process, we perform a risk assessment highlighting the audit risks relating to each of the main financial systems relevant to the production of the financial statements.

Materiality

11. The concept of materiality is applied by auditors in planning and performing the audit, and in evaluating the effect of any uncorrected misstatements on the financial statements. I am required to plan my audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

Materiality levels for the 2023/24 audit

12. We assess materiality at different levels as described in [Exhibit 1](#). The materiality values for SRWC are set out in [Exhibit 1](#).

Exhibit 1

2023/24 Materiality levels for SRWC

Materiality	Amount
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. Materiality has been set based on our assessment of the needs of the users of the financial statements and the nature of SRWC's operations. For the year ended 31 March 2024, we have set our materiality at 2% of gross expenditure based on the audited financial statements for 2022/23.	£26,000
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality,	£20,000

this could indicate that further audit procedures are required. Using our professional judgement, we have assessed performance materiality at 75% of planning materiality.

Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£1,300
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Source: Audit Scotland

Significant risks of material misstatement to the financial statements

13. Our risk assessment draws on our cumulative knowledge of the SRWC, its major transaction streams, key systems of internal control, and risk management processes. It is informed by our discussions with management, meetings with internal audit, attendance at committees, and a review of supporting information.

14. Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management, and where relevant, report them to those charged with governance.

15. Based on our risk assessment process, we identified the following significant risks of material misstatement to the financial statements. These are risks which have the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risks, management's sources of assurance over these risks, and the further audit procedures we plan to perform to gain assurance over the risks.

Exhibit 2

2023/24 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Management's sources of assurance	Planned audit response
<p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in ISA (UK) 240, management is in a unique position to perpetrate fraud because of</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance</p>	<ul style="list-style-type: none"> • Assess the design and implementation of controls over journal entry processing. • 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. • Test journals at the year-end and post-closing entries and focus on significant risk areas. • Consider the need to test journal entries and other adjustments throughout the year. • Evaluate significant transactions outside the normal course of business.

Significant risk of material misstatement	Management's sources of assurance	Planned audit response
management's ability to override controls that otherwise appear to be operating effectively.		<ul style="list-style-type: none"> • Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. • Focussed testing of accounting accruals and prepayments.

Source: Audit Scotland

16. As set out in ISA (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statement*, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements.

17. We have rebutted this risk as funding received from Transport Scotland is clearly communicated and can be readily agreed to third party confirmations. In addition, SRWC's other income streams comprise of prescribed transactions, and we have concluded there is limited opportunity or incentive to manipulate the recognition of income in the financial statements.

18. In line with Practice Note 10: *Audit of financial statements and regularity of public sector bodies in the United Kingdom*, as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to revenue recognition.

19. We have rebutted this risk as the main expenditure streams of SRWC can be readily forecast based on a predictable pattern of spend and mainly comprise a high volume of relatively low value items. We also consider there to be limited incentive and opportunity for the manipulation of expenditure recognition in the financial statements.

20. We have not, therefore, incorporated specific work into our audit plan in these areas over and above our standard audit procedures.

Regularity

21. Auditors are required by the Public Finance and Accountability (Scotland) Act 2000 to report on whether expenditure and income were incurred or applied, in all material respects, in accordance with applicable enactments and guidance issued by the Scottish Ministers (generally referred to as the regularity opinion).

22. We will adopt an integrated audit approach to meeting this responsibility and use work on the audit of the financial statements supplemented by additional testing for any irregular transactions, where necessary.

Wider Scope and Best Value

Introduction

23. The Code of Audit Practice requires auditors to consider the adequacy of the arrangements in place for the wider scope areas in audited bodies. The Code also includes provisions relating to the audit of less complex bodies.

24. In light of the low value and complexity of the financial transactions, we plan to apply the less complex body provisions of the Code to the 2023/24 audit of SRWC. In line with the Code of Audit Practice we therefore plan to focus on:

- the appropriateness of the disclosures in the governance statement; and
- concluding on the financial sustainability of SRWC and its services and the arrangements for securing Best Value.

Duty of Best Value

25. [Ministerial Guidance to Accountable Officers](#) for public bodies and the [Scottish Public Finance Manual](#) (SPFM) explain that Accountable Officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. We will be carrying out a high-level review to confirm that such arrangements are in place within SRWC.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

26. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft reports will be shared with the relevant officers to confirm factual accuracy.

27. We will provide:

- an Independent Auditor's Report to SRWC, the Scottish Parliament, and the Auditor General for Scotland setting out our opinions on the annual report and accounts
- SRWC and the Auditor General for Scotland with an Annual Audit Report containing observations and recommendations on significant matters which have arisen during the audit and conclusions on wider scope areas.

28. [Exhibit 4](#) outlines the target dates for our audit outputs set by the Auditor General for Scotland. In determining the target reporting date, due regard is paid to the administrative date set by the Scottish Government for the consolidated accounts of 31 August 2024. We plan to issue our Independent Auditor's Report and Annual Audit Report by the target date.

Exhibit 4 2023/24 Audit outputs

Audit Output	Target date
Annual Audit Plan	31 March 2024
Independent Auditor's Report	31 August 2024
Annual Audit Report	31 August 2024

Source: Audit Scotland



29. All Annual Audit Plans and the outputs detailed in [Exhibit 4](#), and any other outputs on matters of public interest, will be published on our website: www.audit-scotland.gov.uk.

Timetable

30. To support an efficient audit, it is critical that the timetable for producing the annual report and accounts for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 5](#) that has been discussed with management.

31. We will continue to work closely with management to identify the most efficient approach as appropriate and will keep timeframes and logistics for the completion of the audit under review. Progress will be discussed with management and finance officers over the course of the audit.

Exhibit 5 Proposed annual report and accounts timetable

 Key stage	 Provisional Date
Latest submission date for the receipt of the unaudited annual report and accounts with complete working papers package.	1 July 2024
Latest date for final clearance meeting with the SRWC	9 August 2024
Issue of draft Letter of Representation and proposed Independent Auditor's Report	16 August 2024
Agreement of audited and unsigned annual report and accounts	30 August 2024
Issue of Annual Audit Report to those charged with governance.	30 August 2024
Signed Independent Auditor's Report	30 August 2024

Source: Audit Scotland

Audit fee

32. In determining the audit fee, we have taken account of the risk exposure of the SRWC and the planned management assurances in place. Fee levels are also impacted by inflation which increases the cost of audit delivery. The proposed audit fee for 2023/24 is £18,180 (£17,150 in 2022/23).

33. In setting the fee for 2023/24, we have assumed that the SRWC has effective governance arrangements and will prepare a comprehensive and accurate set of annual report and accounts for audit in line with the agreed timetable for the audit. The audit fee assumes there will be no major change in respect of the scope of the audit during the year and where our audit cannot proceed as planned, a supplementary fee may be levied.

Other matters

Internal audit

34. It is the responsibility of the SRWC to establish adequate internal audit arrangements. SRWC's internal audit function is provided by Transport Scotland. We will review the results of any internal audit work on SRWC.

35. While we are not planning to place formal reliance on the work of internal audit in 2023/24, we will review internal audit reports and assess the impact of the findings on our financial statements and wider scope audit responsibilities.

Independence and objectivity

36. I am independent of the SRWC in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. This standard imposes stringent rules to ensure the independence and objectivity of auditors.

37. Audit Scotland has robust arrangements in place to ensure compliance with Ethical Standard including an annual *'fit and proper'* declaration for all members of staff. The arrangements are overseen by the Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

38. The Ethical Standard requires auditors to communicate any relationships that may affect the independence and objectivity of the audit team. I am not aware of any such relationships pertaining to the audit of the SRWC.

Audit Quality

39. Audit Scotland is committed to the consistent delivery of high-quality public audit. Audit quality requires ongoing attention and improvement to keep pace with external and internal changes. A document explaining the arrangements for providing assurance on the delivery of high-quality audits is available from the [Audit Scotland website](#).

40. The International Standards on Quality Management (ISQM) applicable to Audit Scotland for 2023/24 audits are:

- ISQM (UK) 1 which deals with an audit organisation's responsibilities to design, implement and operate a system of quality management (SoQM) for audits. Our SoQM consists of a variety of components, such as: our governance arrangements and culture to support audit quality, compliance with ethical requirements, ensuring we are dedicated to high-quality audit through our engagement performance and resourcing arrangements, and ensuring we have robust quality monitoring arrangements in place. Audit Scotland carries out an annual evaluation of our SoQM and has concluded that we comply with this standard.

- ISQM (UK) 2 which sets out arrangements for conducting engagement quality reviews, which are performed by senior management not involved in the audit to review significant judgements and conclusions reached by the audit team, and the appropriateness of proposed audit opinions of high-risk audit engagements.

41. To monitor quality at an individual audit level, Audit Scotland also carries out internal quality reviews of a sample of audits. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) carries out independent quality reviews.

42. Actions to address deficiencies identified by internal and external quality reviews are included in a rolling Quality Improvement Action Plan which is used to support continuous improvement. Progress with implementing planned actions is regularly monitored by Audit Scotland's Quality and Ethics Committee.

43. Audit Scotland may periodically seek your views on the quality of our service provision. The team would also welcome feedback more informally at any time.

Scottish Road Works Commissioner

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Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

www.audit-scotland.gov.uk/accessibility

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