

**EXECUTIVE DIRECTOR SPONSOR: SARAHJANE HANNAH**

## **AUDIT & RISK COMMITTEE (ARC) CHAIR REPORT**

### **Purpose**

To report to the Board the activity of the ARC.

### **Priority**

Routine

### **Background**

In accordance with the Scottish Government's Audit and Assurance Committee Handbook, the ARC supports the Board and Accountable Officer by reviewing the comprehensiveness of Scottish Canals' assurances and reviewing the reliability and integrity of these assurances.

### **Key Issues**

The following is a summary of the key issues considered at the ARC meeting held on 10 October 2024. The draft minutes of this meeting are included as agenda item 5i for further information.

### **Finance Reporting**

Scottish Canals Annual Report and Accounts (ARAs) 2023/24 - The draft ARAs 2023/24 were submitted to Audit Scotland for review in accordance with the External Audit Plan 2023/24 timeline.

Transport Scotland have been advised that the timescale to lay the ARAs 2023/24 before the Scottish Parliament was anticipated to extend beyond the statutory filing deadline of 31<sup>st</sup> December 2024.

External Audit Recommendations – The majority of the external audit recommendations have been completed. Work is in progress to complete the outstanding recommendations relating to Medium-term Financial Strategy including VAT, Corporation Tax and Workforce Planning; Capital Policies and Procedures; and Disaster Recovery Plan.

VAT Update – The ARC receives regular updates on the HMRC's assessment of Scottish Canals' VAT liability.

Corporation Tax – A Corporation Tax review is ongoing with HMRC [REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]

Financial Sustainability - The ARC will continue to be updated on work in progress to address the challenges of medium-term financial sustainability.

### **External Audit**

Audit Scotland provided a verbal update and confirmed that external audit controls testing was underway following receipt of the draft ARAs 2023/24.

Assurance was provided that audit resource planning was in place to report the external audit findings to the ARC meeting in January 2025 to ensure a recommendation for Board approval of the ARAs 2023/24 in February 2025.

### **Internal Audit**

The Follow Up Report – Thirty-five recommendations arising from ten previous internal audits were reported as not fully implemented and work is ongoing to provide proportionate validation to demonstrate the implementation of the outstanding recommendations. In the period from 25 July 2024 to 7 October 2024 five recommendations were satisfactorily closed.

A separate meeting was held with Audit Glasgow to discuss the outstanding internal audit actions, and it was agreed that evidence of current internal controls would be shared with the internal auditors to assess levels of risk and the potential closure of several outstanding internal audit recommendations. The EMT will continue to monitor progress and report to the next ARC meeting.

Port Marine Safety Code - The findings of the audits of the harbours at Corpach on the Caledonian Canal and Ardrishaig on the Crinan Canal carried out by Marico Marine, the independent Designated Person service (DP), were disappointing. The DP was no longer able to assure Scottish Canals, the Duty Holder, that it was compliant with the Port Marine Safety Code (PMSC).

This outcome was unexpected as the previous audits of the two harbours had confirmed that both facilities were being efficiently and safely managed with due regard to the requirements of the PMSC with some areas of good practice observed. Previous outstanding recommendations relating to the Scottish Canals Board undertaking Duty Holder training and improving the quality and visibility of harbour information on Scottish Canals website had also been completed. A workshop to review all current audit actions and develop a resourced and time-framed improvement plan will take place in late 2024. This does not impact either harbour's compliance status or ability to operate.

Investigations into the statutory and title ownership status of Ardrishaig harbour is ongoing following communication from Peel Ports as the owner of Clydeport, that Clydeport had jurisdiction over Ardrishaig harbour.

Following a compliant procurement process for the independent Designated Person services contract, Associated British Ports (ABP) has been appointed for an initial three-year term and will undertake the annual PMSC audits in Q3 2025/26 with PMSC compliance and waterway safety as a high priority.

For information, the Maritime Coastguard Association has informed all Duty Holders nationwide that the 3-yearly requirement to confirm PMSC compliance has been deferred until 2025.

### **Risk and Governance**

Corporate Risk Appetite Statements - The risk appetite statements are included as agenda item 5iii for review by the Board. The ARC recommend that the Board discuss and approve the proposed risk appetite statements.

Corporate Risks – The ARC reviews quarterly summaries of corporate risk monitoring and the Corporate Risk Register. Upward movement to workforce planning risk scorings were noted and that information capture was ongoing to inform this increased corporate risk. The assessment of controls and assurance of the escalating compliance breach risk is ongoing to ensure an informed understanding of the compliance improvement journey as well as inform the residual risk score prior to incorporation into the Corporate Risk Register.

Annual Procurement Report 2023-24 - The ARC reviewed the Annual Procurement Report and welcomed the Crinan Canal Community Benefits Case Study (included as agenda item 5(ii)). The report details Regulated Procurement activity carried out in the previous financial year as well as details of proposed procurement activity in the coming years. As a statutory requirement the Board is recommended to approve the Procurement Report 2023-24 prior to submission to the Ministers and publication on Scottish Canals' website.

[REDACTED]

### **Corporate Implications**

- Strategic Priorities: The ARC provides assurance that Scottish Canals is focused on ensuring alignment of its business activities with the strategic objectives as set out in the Corporate Plan 2023-28.

- Health & Safety: No issues to note.
- Risk/Risk Appetite: The ARC provides assurance that Scottish Canals is focused on strategically critical activities and corporate behaviours that should reduce risk.
- Legal: No legal issues to note.
- Financial: No additional financial implications to note.
- Human Resources: No issues regarding human resource management policies to note.
- Fair Work First: No SG Fair Work First criteria issues to note.
- Communication: The ARC Report is published on the Scottish Canals website in accordance with Scottish Canals' objective to be more transparent and accountable.
- Community & Third Sector: No issues to note.
- Commercial: No issues to note.
- Asset: No issues to note.
- Environment: No issues to note.

## **Conclusions and Recommendations**

The Board is recommended to note the activity of the ARC and seek further assurance as required.

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**Date: 25/10/2024**