BOARD: **March 2026**
Item: **Audit & Risk Committee**
5 i **ARC Chair Report**

CORPORATE / ASSURANCE / OPEN

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EMT APPROVED DATE:	03 February 2026

PURPOSE
To report to the Board the activity of the ARC.

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

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.

ASSESSMENT
The following is a summary of the key issues considered at the ARC meetings held on 21 January 2026 and 19 February 2026. The minutes of these meetings are included as agenda item 5ii & 5iii.

Finance Governance Reporting
Reporting of Commercial Investments – The Capital Investment Quarterly Board report and Commercial Investment Quarterly Board report will be circulated to ARC members for information and transparency.

Annual Report and Accounts (ARAs) 2024/25
External Audit Update – Due to unforeseen absences in the external audit team, limited progress has been made to scrutinise the audit evidence and explanations provided by the finance team to address the potentially material matter concerning double counting of assets which had been identified in the fixed asset register. Audit Scotland cannot commit to issuing an opinion until the audit director is satisfied that the adjustments and narrative justify a reduction in the value of double-counted assets to below the £4m overall materiality threshold. All other audit work is complete, and Audit Scotland confirmed that no other significant matters are outstanding. External audit recommendations will focus on assets and improving transparency in financial management controls.

The Transport Scotland sponsor team has been advised of the further delay with anticipated Board approval of the ARAs 2024/25 by the end of March 2026. An update of the revised financial reporting timetable will be reported to the Board, ARC, and the sponsor team once advised. A lessons learned discussion will be held with Audit Scotland following the completion of the current audit to inform a timelier external audit 2025/26 with a view to re-establishing a compliant financial reporting timetable going forward.

Internal Audit

Internal Audit Procurement - Following a compliant procurement process using the Crown Commercial Internal Audit Framework, the Internal Audit function is to be delivered by BDO LLP. The call-off contract commenced on 2 February 2026 to 1 February 2028 with the option to extend by two periods of twelve months. The total contract value is £100k including all extensions. The ARC recommends that the Board ratifies the appointment of BDO LLP to provide internal audit services in accordance with the matters reserved to the Board.

The contract with Audit Glasgow was varied to ensure the completion of internal audit services for the financial year ending on 31 March 2026 and to ensure an orderly close-off and hand-over of internal audit matters to BDO LLP. Audit Glasgow will attend the next ARC meeting to report on the organisational culture internal audit, together with the Follow-up report and Internal Audit opinion 2025/26.

Vennersys Internal Audit Report - A reasonable level of assurance was placed upon the control environment to ensure there were adequate controls in place with four medium and three low priority recommendations for improvements. The ARC was assured that the recommendations were being progressed by management in accordance with agreed timelines.

The Follow Up Report – Progress continues in the implementation of recommendations from reported internal audits with seven recommendations satisfactorily implemented since the previous report. Sixteen recommendations remain outstanding although many are partially implemented.

Draft Internal Audit Plan 2026-27 – Prepared by BDO, the Plan includes the outline four-year internal audit plan, the Audit Charter and working protocols. Four internal audits are proposed to be undertaken in 2026/27 on Financial Planning; Asset Management – Compliance; Risk Management; and Management Information and Performance Management together with a follow-up recommendation review. The selected audits are aligned to the risk register, focussed on areas of high risk and were targeted to relevant business areas to improve efficiency and effectiveness. The ARC recommends that the Board approve the Internal Audit Plan 2026-27 at agenda item 5 iv.

Port Marine Safety Code (PMSC) Update - Associated British Ports (ABP), the appointed independent Designated Person, undertook the annual PMSC audits in Q3 2025/26. In summary, Scottish Canals demonstrates a strong understanding of risk management with a good safety culture and conservancy duty. Continuous improvements to the Marine Safety Management System (MSMS) had been made. The finalised audit report recommendations and observations for improvement with management responses will be reported to the next ARC meeting.

As an internal legal review had raised questions about the jurisdiction and applicability of the PMSC to Scottish Canals an external specialist legal opinion is to be sought to clarify the jurisdiction and application of the PMSC prior to further discussions with Peel Ports regarding a potential Minute of Agreement clarifying the jurisdiction and operation of Ardrishaig Harbour. A formal position from Transport Scotland on PMSC applicability is also to be pursued. In addition, consideration of PMSC principles for the canal network is advised. Scottish Canals remains non-compliant with the PMSC due to continuing uncertainty regarding legislative powers and responsibilities relating to the functions at Ardrishaig and Corpach.

The PMSC, as updated in April 2025 with a new guide for good practice, is the UK standard for port marine safety, with compliance confirmation to the Maritime Coastguard Agency (MCA) required every three years. The current PMSC compliance reporting window is open to 31 March 2026. Participation in the PMSC compliance exercise is encouraged but not legally required. The ARC recommends to the Board, as Duty Holder, that Scottish Canals provides the MCA with a statement of intent that it is working towards PMSC compliance due to the complexity of local legislation.

Risk
Risk Tolerance – A risk tolerance survey has been circulated to Board, ARC and EMT members to gather views on risk tolerance across key risk categories. The survey output will inform the development of draft risk tolerance statements for consideration at the ARC meeting on 19 May 2026 prior to reporting to the Board for approval.

Corporate Risks – The ARC reviewed the Q3 Corporate Risk Report. Asset Health risk has increased in the short term, reflecting a concentration of critical reactive maintenance activity on high-risk assets. This position is partially offset by the significant uplift in Grant in Aid funding secured for the financial year 2026/27, however, it will take time to see significant changes/ improvements. The uplift in capital investment provides a foundation for addressing underlying asset condition issues and reduces Scottish Canals' medium-long term financial sustainability risk. While reactive interventions will continue in the near term, the investment profile supports a transition towards proactive asset improvement and risk reduction.

Governance
Insurance - The ARC recommends to the Board that Scottish Canals continues to maintain a risk protection programme balanced between self-insurance of the canal infrastructure and commercially insured risks based on value for money, appetite for risk and claims history compared to insurance premium costs. The proposed insurance arrangements are set out in detail at agenda item 5 v.

Terms of Reference - The proposed revisions to the ARC terms of reference are set out in detail at agenda item 5 vi for consideration and approval by the Board.

CORPORATE CONSIDERATIONS ANALYSIS

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	N/A
Financial	N/A
Legal	N/A
Risk / Risk Appetite	The ARC provides assurance that Scottish Canals is focused on strategically critical activities and corporate behaviours that should reduce risk.
Sustainability	N/A
Environment	N/A

People	N/A
Fair Work	N/A
Communication	The ARC Chair Report is published on the Scottish Canals website in accordance with Scottish Canals' objective to be transparent and accountable.
Community & Third Sector	N/A
Commercial	N/A
Asset	N/A