

**BOARD: NOVEMBER 2025**  
**Item: Audit & Risk Committee**  
 5i: Audit and Risk Committee Chair Report

CORPORATE / ASSURANCE / OPEN

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<b>EMT APPROVED DATE:</b>	21 October 2025

**PURPOSE**

To report to the Board the activity of the ARC.

**RECOMMENDATION**

The Board is recommended to note the activity of the ARC and seek further assurance as required regarding the key issues considered at the ARC meeting held on 6 October 2025.

**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 meeting held on 6 October 2025. The draft minutes of this meeting are included as agenda item 5ii.

**Finance Reporting**

Annual Report & Accounts (ARAs) 2024/25 Update – The draft ARAs 2024/25 have been submitted to Audit Scotland for review, and the external audit is underway. The only observation Audit Scotland has provided so far relates to the methodology on the annual indexation of infrastructure. Although the inherent model of valuation is reliable, with indexation being applied in-house since 31 March 2023, the model may need updated to reflect the indexation in-year. At present, changes to assets affect the indexation calculation.

External Audit Recommendations Update – Five of the eight outstanding recommendations are complete. A senior financial accountant has joined Scottish Canals and will be trained to address the red rated recommendation regarding the application of the Asset Valuation Methodology. The Board is considering the Medium-Term Financial Strategy and testing of the Disaster Recovery Plan is ongoing to address the two amber rated recommendations.

HMRC and Pension Compliance Update – There are no further issues identified with pension compliance. HMRC has confirmed that the VAT for the 2024/25 financial year is settled. [REDACTED]

[REDACTED]

Fraud Update – There was one case of alleged fraud investigated during the last quarter relating to the misuse of a purchase card. The investigation was completed independently of the finance department, and there was no evidence to support the claim. The ARC is assured that Scottish Canals has several routes to encourage reporting of concerns in a supportive environment.

### **External Audit**

External Audit 2024/25 – Audit Scotland confirmed receipt of the draft ARAs 2024/25 and that external audit controls testing is underway by an experienced team with no significant risks identified to date. Audit Scotland confirmed that the indexation implications identified in the complex valuation modelling of significant assets were under discussion with the finance team.

Annual Report & Accounts (ARAs) 2024/25 – The target is for the Board to approve the ARAs 2024/25 at its meeting on 16 December 2025. Transport Scotland is aware of Scottish Canals financial reporting timetable and has advised that the laying of the ARAs 2024/25 before the Scottish Parliament may extend beyond the statutory filing deadline of 31 December 2025.

### **Internal Audit**

Internal Audit Procurement Update – The contract with Audit Glasgow for internal audit services has been varied to ensure Audit Glasgow complete internal audit services for the financial year ending on 31 March 2026. Audit Glasgow is not seeking to renew its contract.

In accordance with the Scottish Government (SG) Public Service Reform initiative (PSR), options were explored, firstly, to utilise SG internal audit services, however, this is not currently an efficient and effective option as Scottish Canals does not have access to the SG IT system. Secondly, discussions with Transport Scotland (TS) cluster of transport public bodies and other local authorities explored a collaborative approach to tendering for shared internal audit services, however, the timing of contract renewals has prevented this as a current option. The ARC recommends that the Executive Management Team highlight this missed opportunity of central co-ordination to ensure best value in ongoing public service reform discussions with SG and TS.

The procurement process for the appointment of a new internal audit services supplier will use The Crown Commercial Internal Audit Framework with planned appointment with effect from 5 December 2025. This overlap will ensure a smooth transition and sufficient lead in time to agree an Internal Audit Plan 2026/27. The ARC highlighted the modest budget based on an uplift to the current Audit Glasgow rates for 33 days' work and recommended that contingencies be explored if suppliers did not respond to the tender. Board approval of an appointment will be sought in early December 2025 in accordance with the Schedule of Matters Reserved for Board Approval.

Global Internal Audit Standards (GIAS) Implementation Update – Audit Glasgow continue to implement its action plan to ensure compliance with GIAS. The inclusion of root cause analysis in internal audit reporting templates will be a helpful addition. Audit Glasgow confirmed it would share best practice in handover discussions with the new internal audit services supplier.

Workforce and Succession Planning Internal Audit Report – A limited level of assurance was placed upon the control environment following a review of the workforce and succession planning arrangements in place. The ARC was assured that Public Service Reform Spend to Save loan-

based funding would secure the necessary consultancy resources to progress workforce and succession planning.

The Follow Up Report – Nineteen outstanding recommendations were reported although 13 were partially implemented and three recommendations had been satisfactorily implemented since the previous report. The ARC continues to encourage the management team to maintain momentum to close older recommendations. The ARC requested a clear view of incomplete internal audit recommendations which may require to be reflected in Departmental risk registers. Accountable Heads of Service may be invited to attend the ARC meeting to report on progress or otherwise on their relevant internal audit actions.

Internal Audit Plan 2025/26 Update – Two internal audits relating to Organisational Culture and the Application of the Electronic Cash Receipting System (Vennersys) are ongoing. Audit Glasgow will provide the internal audit opinion for the ARAS 2025/26.

Port Marine Safety Code (PMSC) Compliance Update – Five high areas of non-compliance with the PMSC at Ardrishaig and Corpach remain outstanding. The ARC was updated on the timeline to address the outstanding system improvements, specifically a legal review to clarify statutory powers, revisions to the Marine Safety Management System and documentation of procedures.

## **Risk and Governance**

Corporate Risks – The ARC reviews quarterly summaries of corporate risk monitoring and the Corporate Risk Register. The scoring of corporate risks remained stable during Q2.

Corporate Risk Gap Analysis – The gap analysis undertaken to compare Scottish Canals' corporate risk register with the risks evidenced in the Report to Director General for Net Zero considered at the Board meeting on 28 August 2025 (DGNZ report) demonstrated strong alignment around asset health, financial sustainability, climate resilience, compliance, workforce planning, cyber security, and health and safety.

It is recommended that risks on service continuity and network closures, organisational resilience, and reputation and stakeholder confidence, with a focus on communications are considered for escalation to the corporate risk register.

Work is in progress to strengthen the link between departmental and corporate risks to ensure that Scottish Canals corporate risks are not only thematically aligned but also supported by the most current and robust data. A quarterly asset management report of high-risk assets to ARC and Board will provide increased visibility of operational issues. The ARC will also consider risk deep dives going forward.

Risk Tolerance Plan Proposal – It is recommended that the Board adopt a risk tolerance model to replace the current risk appetite framework. A separate Board report is included as agenda item 5iv.

Annual Procurement Report 2024/25 – To comply with statutory timelines to submit the Procurement Report 2024-25 to the Scottish Government and publish on Scottish Canals' website, the ARC recommended that Board members approve the report, attached as agenda item 5iii,

by email ahead of the next Board meeting. The report was duly approved. In accordance with the procedures for Board meetings this Board approval is to be ratified at the Board meeting.

#### **CORPORATE CONSIDERATIONS ANALYSIS**

<b>Strategic Priorities</b>	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.
<b>Health &amp; Safety</b>	N/A
<b>Financial</b>	No additional financial implications to note.
<b>Legal</b>	N/A
<b>Risk / Risk Appetite</b>	The ARC provides assurance that Scottish Canals is focused on strategically critical activities and corporate behaviours that should reduce risk.
<b>Sustainability</b>	N/A
<b>Environment</b>	N/A
<b>People</b>	No issues regarding people management policies to note.
<b>Fair Work</b>	N/A
<b>Communication</b>	The ARC Report is published on the Scottish Canals website in accordance with Scottish Canals' objective to be more transparent and accountable.
<b>Community &amp; Third Sector</b>	N/A
<b>Commercial</b>	N/A
<b>Asset</b>	N/A