SCOTTISH CANALS

ANNUAL INTERNAL AUDIT PLAN 2026-27 - FINAL

FEBRUARY 2026

CONTENTS

	Page
INTRODUCTION AND EXECUTIVE SUMMARY	3
INTERNAL AUDIT APPROACH	4
INTERNAL AUDIT RESOURCES AND OUTPUTS	6
OUR APPROACH TO PLANNING	7
INTERNAL AUDIT PLAN 2026-2027	9
INTERNAL AUDIT SCHEDULE	12
LINK TO RISK REGISTER	13
INTERNAL AUDIT FOUR-YEAR PROGRAMME 2023-2027	14
APPENDICES:	18
APPENDIX I: INTERNAL AUDIT CHARTER	19
APPENDIX II: WORKING PROTOCOLS	25
APPENDIX III: DEFINITIONS	27
APPENDIX IV: QUALITY ASSURANCE IMPROVEMENT PROGRAMME	28
APPENDIX V: INTERNAL AUDIT STRATEGY	30

INTRODUCTION AND EXECUTIVE SUMMARY

Introduction

- Internal auditing strengthens the organisation's ability to create, protect, and sustain value by providing the board and management with independent, risk-based, and objective assurance, advice, insight, and foresight.
- Our approach is to help the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. Our approach complies with best professional practice, in particular, the principles set out in the Institute of Internal Auditor's (IIA's) International Professional Practices Framework (IPPF) which includes the new Global Internal Audit Standards that became effective from January 2025.
- The purpose of this paper is to set out, and seek agreement from, the Scottish Canals Audit and Risk Committee on the Internal Audit Annual Plan for 2026-27.

Internal Audit at Scottish Canals

We have been appointed as internal auditors at Scottish Canals to provide the Audit and Risk Committee and the Senior Leadership Team with assurance on the adequacy of risk management, governance and internal control arrangements.

Responsibility for these arrangements remains fully with management who should recognise that Internal Audit can only provide 'reasonable assurance' and cannot give any guarantee against material errors, loss or fraud. Our role is aimed at helping management to improve its risk management, governance and internal control mechanisms, so reducing the effects of any significant risks facing the organisation.

In establishing the internal audit plan for 2026-27 we have sought to further clarify our initial understanding of the organisation's business and risk profile in the context of:

- Corporate risks
- Management's priorities and objectives for the coming year
- The key challenges facing the organisation, by reviewing the significant risk register
- The internal audit work carried out in prior years
- Cyclical coverage based on the audit universe

Priorities identified include income management, project management, financial sustainability, and significant change which the organisation faces in the coming years.

Summary

- The Internal Audit Plan for 2026-27 is set out within this document and comprises four audits, an annual follow up, and contract management.
- The rolling four-year Internal Audit Plan is set out on page 14 onwards and will be subject to review each year.
- The total cost of the Annual Plan for 2026-27 will depend on the staff mix used but it is estimated to be in the region of £30,625 excluding VAT (£625 blended day rate) per the tender submission and agreed contract with additions to incorporate the increased audit from the planned three reviews a year.

INTERNAL AUDIT APPROACH

Background

- Our risk-based approach to internal audit uses the organisation's risk management processes and risk registers as a starting point for audit planning, as this represents the organisation's own assessment of the risks to it achieving its strategic objectives.
- The extent to which we can rely on management's own perception of risk largely depends on the maturity and effectiveness of the organisation's own arrangements for managing risk. In estimating the amount of audit resource required to address the most significant risks, we have also sought to confirm that senior management's own assessment of risk accurately reflects the organisation's current risk profile.

In establishing the Internal Audit Strategy, we have sought to further clarify our initial understanding of the operations at the organisation, together with its risk profile in the context of:

- The overall strategy and objectives of the organisation
- Key challenges facing the organisation, by reviewing the standing corporate risk register and discussion with Senior Management
- Key areas where management wish to monitor performance and the manner in which performance is measured
- Financial and non-financial measurements and indicators of such performance
- The information required to 'run the organisation'

Our Risk Based Planning Approach for 2026-2027

The 2026-2027 Internal Audit (IA) plan has been created to exhibit the planned Internal Audits to be conducted within the audit year.

As part of the planning process to align the IA plan to the organisation's needs, the Internal Audit team spent time with Senior Management in the initial four-year programme development to discuss the key areas of focus and concern for the organisation in 2026-2027. During these discussions, we covered the potential areas of focus in as well as any emerging risks within the organisation. The outputs from these discussions were incorporated into the Internal Audit plan outlined within this document.

The 2026-2027 Internal Audit plan was formed using the information above, the risk register, the organisation's strategic documents, previous audit coverage, along with our own knowledge and understanding of the organisation's priorities, and our own ongoing assessment of risks.

Planned Approach to Internal Audit 2026-27

- The suggested Internal Audit Plan for 2026-27 is set out on pages 9 onwards. We will keep the plan under review throughout the year and we will highlight for consideration any significant areas of risk identified during that period that may need to be included as part of the internal audit plan.
- Where auditable areas correspond to corporate risks, we will take into account the mitigation strategies in place when performing our reviews. This is to ensure that the mitigating controls, as well as the actions that have been identified by management, are in operation and are effective.

High Risk Areas

There are no significant risks which are not being covered within the outlined four-year audit programme outlined within this plan.

Contingency Audits

The audit plan is flexible to allow priority topics and emerging risk areas to be included within the 26-27 coverage.

There are currently no set contingency audits outlined within the programme. However, audits can be moved forward from later years or to cover emerging risks as required.

INTERNAL AUDIT APPROACH

Variations to the Plan

We will continue to keep the Internal Audit Plan under review throughout the year. We will highlight for consideration any significant areas of risk identified during that period, which may need to be included as part of the annual plan.

We acknowledge that variations to this plan may arise if the organisation's strategic priorities, risk profile or governance arrangements change. Approval will be sought from the Audit and Risk Committee before any changes to the Internal Audit Plan are made.

Individual Audits

In determining the timing of our individual audits, we will seek to agree a date most convenient to the organisation which ensures the availability of key stakeholders. Once this plan is agreed we will discuss priorities and workloads with management and re-issue the plan including the proposed phasing of our internal audit work.

For each we have set out whether they are an assurance or advisory engagement. For each assurance review, we will identify the key objectives of the area subject to audit and the risks of those objectives not being met. We will assess the 'unmitigated' risk (i.e. before the operation of the controls in place) and, having identified and tested those controls, make an assessment of the 'mitigated' risk. This will enable us to confirm that the control infrastructure does reduce risk to a level the organisation is comfortable with. Each of our audit reports will include two opinions:

- Firstly, on the design of controls that are in place
- Secondly, on the operational effectiveness of those controls in practice.

INTERNAL AUDIT RESOURCES AND OUTPUTS

Resourcing

The plan has been drafted giving consideration to the organisation's budget and how coverage can be best obtained. Resource will be adequate to ensure the delivery of agreed reports to time, except where this is outside of our control. BDO has a core group of professionally qualified staff, including Chartered Accountants and The Institute of Internal Auditors qualified staff, as well as other specialists and experienced auditors. Our team is fully attuned with modern internal audit practice and recognised risk and governance standards.

Subject to approval of the budget, we can confirm that we have sufficient human, financial and technological resources to deliver the Internal Audit Plan.

Core internal audit team

The core team that will be managing the internal audit programme is:

Name	Grade	Qualification	Email
Claire Robertson	Director - Head of RAS Scotland	CA	Claire.Robertson@bdo.co.uk
Sean Morrison	Internal Audit Associate Director	CA	Sean.Morrison@bdo.co.uk

This team will be supported by members of our Risk Advisory Services (RAS) team and wider firm, as and when required.

Reporting to the Audit and Risk Committee

Each year we will submit the Internal Audit Plan for discussion and approval by the Audit and Risk Committee. We will liaise with the Director of Finance and other senior officers, as appropriate, to ensure that internal audit reports, summarising the results of our visits, are presented to the appropriate Audit and Risk Committee meeting.

Internal Audit Charter

We have formally defined Internal Audit's purpose, authority and responsibility in an Internal Audit Charter, which can be found in Appendix I. The Charter establishes Internal Audit's position within the organisation and defines the scope of its activities.

Definitions

We define in Appendix III our approach for grading individual audit findings and overall audit reports. These definitions have been designed to make the ratings clear to both the Internal Audit team and audit stakeholders.

Working Protocols

We have defined operating protocols for managing each assignment. These can be found in Appendix II. The procedures take account of how we will communicate with stakeholders before, during and after each audit.

OUR APPROACH TO PLANNING

Planning approach

Strategic objectives of Scottish Canals

Internal audit focus - adding value approach

1 Governance and control culture

What is the strength of the current environment?

Evaluate:
- Strength of internal control framework and risk management arrangements
- Organisational culture, leadership and tone at the top
- Are new systems being designed and embedded?
- Are there significant changes ongoing or planned?

2 Risk register

What risks is internal audit assurance sought on?

Consider:
- Current risk profile
- New and emerging risks in the sector/from the wider external environment and their potential impact
- Assurance available from compliance functions and other teams (2nd line of defence).

3 External influences

What work is mandated within the sector?

Incorporate:
- Mandatory requirements of sector
- An approach that meets the standards of the Institute of Internal Auditors.

4 Value add

What value is sought from internal audit?

Understand:
Stakeholder perception of value
- Audit and Risk Committee
- Executive Leadership Team
- Management and staff
- Public

Potential scope and make up of internal audit plan

- **Risk Aligned Audit Activities**: Assurance reviews that will provide an opinion over both the design and operational effectiveness of the internal controls in place for corporate risk areas. Benchmarking good practice and using our experience to improve processes and controls.
- **Key Policy Assurance**: Compliance testing and assurance of the organisations' key policies to help building a culture of compliance and accountability across the business.
- **Advisory Assignments:** Where processes and controls are knowingly not mature, we can provide advice and recommendations to improve the overall control environment.
- **Controls Assurance of Key Processes & Systems**: Controls testing and assurance of key processes and systems selected from the Audit Universe on a risk prioritised basis. This can include where appropriate continuous auditing.
- **Assurance Over Change:** Considering key change initiatives, capital expenditure and mission critical projects where assurance may be required as to progress made, realisation of notable benefits, and being delivered in line with good practice. This can include project advisory.
- **Follow Up Of Previous Audit Activities**: Management's agreed actions in response to each audit periodically followed up to ensure that they have been properly implemented as agreed and to escalate any concerns regarding their implementation to management and the Audit and Risk Committee.

OUR APPROACH TO PLANNING

Planning approach

1 Governance and control culture

The governance and control culture is a fundamental consideration when developing the internal audit approach. We believe that governance is not only affected by procedures, rules and regulations (hard controls); another equally important component is the established culture and behaviour of employees within the organisation, as these determine the effectiveness of governance.

We have developed an understanding of these areas through a combination of our discussions with you about your business strategy and through review of documents such as the Strategic Plan, Annual Report, previous internal audit coverage, good governance framework, risk registers.

Assessment of culture and behaviour will be a key theme throughout the delivery of our work and we will look to provide insight into whether these cultural factors support ethical behaviour on an ongoing basis.

In deriving the plan for 2026-27 and onwards we will focus on any planned and ongoing changes to core systems, functions, resource, and processes to respond to the changes in the wider environment.

2 Current risk register

On an ongoing basis, our audit plan will be based upon a detailed assessment of those risks that affect the achievement of the organisation's strategic objectives. Our audit programme will be designed to ensure that controls are in place such that key risks are appropriately managed and controlled. To understand the organisation's objectives and key risks, we considered the following:

- Scottish Canals's strategy and objectives
- Risk registers
- Financial forecasts and performance
- Input from other key assurance providers, including External Audit
- The content of your most recent internal audit reports
- The internal audit plan and corporate risk register will be periodically reviewed during 2026-27. Should the plan need to change we will seek approval from the Audit and Risk Committee.

3 External influences

Our programme of work is designed to comply with the Global Internal Audit Standards which form part of the International Professional Practice Framework set out by The Institute of Internal Auditors.

We will also consider in our work any externally imposed regulation relating to governance, risk and control.

4 Value add

We understand that 'value' is perceived differently by each client and therefore we do not seek to have a standard approach to this element of the audit programme.

Our methodology considers the additional value the Audit and Risk Committee and management are seeking from internal audit, beyond the assurance our work provides.

We therefore consider this alongside our understanding of the risks. Added value may take a range of forms, from benchmarking and other peer comparisons, to involvement with advising on new systems implementation, advisory assignments and training.

We will clearly set out in the plan which elements of adding value activity we will deliver.

INTERNAL AUDIT PLAN – 2026-2027

Set out below is the Internal Audit plan for 2026-2027. Executive sponsors have been assigned to each review. The Executive sponsors will be responsible for identifying the relevant colleagues who should be involved in each stage of the Internal Audit review (e.g., planning, fieldwork, reporting, follow up.).

The budgeted number of days is subject to change, following the completion of the planning stage of each review and will be charged at the agreed blended day rate. In addition, the detailed significant risks each Internal Audit is associated with can be found on page 13.

REF	AUDIT TOPIC	CORPORATE RISK REGISTER #	LINK TO STRATEGIC PRIORITIES	PRIMARY SOURCE & REASON FOR SELECTION	PROPOSED EXECUTIVE SPONSOR(S)	BUDGETED DAYS
SC/FY26/ 01	Financial Planning	1003	People and business; Canals for the future	Risk register, audit assessment and management request	Director of Finance and Resources	10
SC/FY26/ 02	Asset Management - Compliance	1001, 1008	Canals for the future	Risk register, audit assessment and management request	Chief Operating Officer	10
SC/FY26/ 03	Risk Management	NA	People and business	Risk register, audit assessment and management request	Director of Finance and Resources	6
SC/FY26/ 04	Management Information and Performance Management	2139	People and business	Risk register, audit assessment and management request	Chief Operating Officer	10
SC/FY26/ 05	Follow Up	NA	NA	NA	Director of Finance and Resources	4
NA	Audit Plan Development	NA	NA	NA	NA	2
NA	Audit and Risk Committee Attendance and Preparation	NA	NA	NA	NA	4
NA	Client Liaison	NA	NA	NA	NA	2
NA	Annual Reporting	NA	NA	NA	NA	1
			Total			49

INTERNAL AUDIT PLAN - 2026-2027

For each review which forms part of the proposed Internal Audit plan for 2026-2027, we have outlined a high-level scope for illustration purposes to support the planning phase. Executive sponsors have been assigned to each review. The Executive sponsors will be responsible for identifying the relevant colleagues who should be involved in each stage of the Internal Audit review (e.g., planning, fieldwork, reporting, follow up.).

REF	AUDIT TOPIC	REVIEW TYPE	HIGH LEVEL SCOPE	EXEC SPONSOR(S)
SC/FY26/01	Financial Planning	Assurance	We will assess whether the organisation has well designed, effective controls in place in relation to financial planning. We will consider whether there are effective financial plans in place which are based on reliable and accurate information and reasonable assumptions and forecasts, whether scenario and sensitivity analysis is performed, and whether there is appropriate reporting and oversight.	Director of Finance and Resources
SC/FY26/02	Asset Management - Compliance	Assurance	Scope to be refined with management. Internal Audit will conduct a review of the processes in place to ensure that assets are well maintained. This will include assessing policies and procedures, action tracking, reporting of issues, compliance and oversight of works completed.	Chief Operating Officer
SC/FY26/03	Risk Management	Assurance	We will assess the risk management arrangements and provide management with advice and recommendations for improving the arrangements further. The deliverables will include an internal audit report and a populated risk management maturity model, to demonstrate to management in detail the maturity status and actions which can be taken to further develop the risk management processes.	Director of Finance and Resources
SC/FY26/04	Management Information and Performance Management	Assurance	The purpose of this review will be to assess whether the organisation has effective systems and controls in place to measure and manage the achievement of strategic and operational goals, targets and outcomes. This will include an examination of the robustness of the management information presented, and the efficiency and effectiveness of the systems and processes in place to collate it.	Chief Operating Officer
SC/FY26/05	Follow Up	Assurance	The effectiveness of internal control systems may be compromised if management fails to implement agreed audit recommendations. Our follow up work will provide the Audit & Risk Committee with assurance that recommendations are implemented within the expected timescales.	Director of Finance and Resources

AREAS CONSIDERED BUT NOT INCLUDED

The following areas have been considered for 2026-27 but have been de-prioritised. This will be considered in future years, and should any areas of the Internal Audit Plan be removed during the year, we will consider whether any of these can be brought forward. We have worked within the budget to undertake a spread of reviews to provide assurance over the organisation's risk environment.

AUDIT AREA	REASON FOR DE-SELECTION	PRIORITY	RISK	LINK TO STRATEGIC PRIORITIES
IT General Controls	To allow further embedding of controls and processes we have suggested undertaking a review in this area in 2027-28.	Medium	1006	People and business
Workforce Planning	To allow further embedding of controls and improvements that will be identified within the current external reviews we have suggested undertaking a review in this area in 2028-29.	Low	1905	People and business
Operational Areas	We have proposed topics that will touch on operational areas within the organisation. However, within the four-year programme there may be a need to include more Scottish Canals specific audit topics in addition to the water management review currently outlined for 2027-28.	Medium	1906	Canals for the future

INTERNAL AUDIT SCHEDULE - 2026-2027

The chart below sets out the proposed delivery schedule for the 2026-2027 Internal Audit plan.

REF	INTERNAL AUDIT	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	TARGET ARC
SC/FY26/01	Financial Planning													SEP 26
SC/FY26/02	Asset Management - Compliance													DEC 26
SC/FY26/03	Risk Management													DEC 26
SC/FY26/04	Management Information and Performance Management													FEB 27
SC/FY26/05	Follow Up													FEB 27

LINK TO RISK REGISTER

We have linked the Scottish Canals's corporate risk register to the audits in our Internal Audit Plan (as of September 2025)

RISK #	RISK TITLE	INHERENT RATING	RESIDUAL RATING	2026-27	2027-28	2028-29	2029-30	OTHER ASSURANCE
1001	Asset Health - Potential degradation of a canal asset	250	200	Asset Management				
1003	Medium-term Financial Sustainability	200	150	Financial Planning		Partnership Working	General Financial Controls	
1004	Health & Safety	150	50		Health and Safety			
1006	Cyber Security	250	75		IT General Controls; IT Strategy		Data Protection	
1008	Asset Health - Potential Failure of a 3rd party asset adjacent, above or below the canals	250	200	Asset Management				
1905	Workforce Planning	200	100			Staff Development		
1906	Water Control	200	100		Water Management			
1907	Climate Change Resilience	200	75				Environmental and Social	
2139	Compliance	200	100	Management information and performance management		Fraud Management	Corporate Governance	
2301	Service Disruption	125	40		Business Continuity			
2302	Business Continuity and Resilience	250	150		Business Continuity		Data Protection	

INTERNAL AUDIT FOUR-YEAR PROGRAMME 2026-2030

The table below outlines our proposed four-year internal audit four-year programme against the areas of the organisation's Audit Universe for 2024-2028. Audits included in Year 4 are indicative of what might be included based on our initial discussions with management, the current risk register and our audit needs assessment but will be subject to a formal review towards the end of each audit year.

AUDIT AREA	LAST AUDITED	PREVIOUS RATING		2026-27	2027-28	2028-29	2029-30	OTHER ASSURANCE
		DESIGN	EFF.					
Governance, Leadership and Management								
Corporate governance	24/25							
Risk management	22/23							
Risk assurance								
Strategic and business planning								
Management information and performance management								
Communications and stakeholder engagement								
Environmental and social								
Data Protection	21/22							
Health, safety and security								
Legal								
Business continuity planning and disaster recovery								
Compliance function								
Total								

INTERNAL AUDIT FOUR-YEAR PROGRAMME 2026-2030

AUDIT AREA	LAST AUDITED	PREVIOUS RATING		2026-27	2027-28	2028-29	2029-30	OTHER ASSURANCE
		DESIGN	EFF.					
Finance								
Revenue recognition								External Audit
Accounts receivable								External Audit
General ledger								External Audit
Accounts payable								External Audit
Expenses/ credit cards								External Audit
Treasury management								
Budget management/investment prioritisation	23/24							
Capital investment strategy								
Financial Planning								
Commercial Income	24/25							
General financial controls								
Fraud Management								External Audit
Procurement and tendering	23/24							
AML, Bribery, Gifts and Hospitality								
Supplier management								
Tax								External Audit
Total								

INTERNAL AUDIT FOUR-YEAR PROGRAMME 2026-2030

AUDIT AREA	LAST AUDITED	PREVIOUS RATING		2026-27	2027-28	2028-29	2029-30	OTHER ASSURANCE
		DESIGN	EFF.					
IT								
ITGC								
Cyber	23/24							
Artificial intelligence								
IT strategy implementation								
IT project management – Change management systems								
Service and support								
Application review	25/26							
HR								
Payroll	22/23							
HR general controls								
Staff recruitment								
Starters and Leavers	21/22							
Case Management								
Talent development								
Training								
Staff development, performance management and succession planning								
Workforce planning	25/26							
Absence management								
Culture	25/26							
Equality, diversity and inclusion								
Total								

INTERNAL AUDIT FOUR-YEAR PROGRAMME 2026-2030

AUDIT AREA	LAST AUDITED	PREVIOUS RATING		2026-27	2027-28	2028-29	2029-30	OTHER ASSURANCE
		DESIGN	EFF.					
Core activities								
Change management								
Freedom of information								
Environmental management								
Partnership working								
Project Management	23/24							
Asset Management - Compliance								
Complaints Management								
Customer Management								
Water Management	22/23							
Capital Projects - Bowling	22/23							
Spot Check Visits	24/25							
Estates Management								
Management action plans follow up								
Planning, liaison, management, committee attendance and reporting								
Contingency								
Total								


APPENDICES
IDEAS | PEOPLE | TRUST
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APPENDIX I: INTERNAL AUDIT CHARTER

Internal Audit's Purpose and Mandate

Purpose

The purpose of the internal audit function is to strengthen the organisation's ability to create, protect, and sustain value by providing the board and management with independent, risk-based, and objective assurance, advice, insight, and foresight.

The internal audit function enhances Scottish Canals's:

- Successful achievement of its objectives
- Governance, risk management, and control processes
- Decision-making and oversight
- Reputation and credibility with its stakeholders
- Ability to serve the public interest

Scottish Canals's internal audit function is most effective when:

- Internal auditing is performed by competent professionals in conformance with the Institute of Internal Audit's Global Internal Audit Standards ™, which are set in the public interest.
- The internal audit function is independently positioned with direct accountability to the board.
- Internal auditors are free from undue influence and committed to making objective assessments.

Mandate

Authority

The board grants the internal audit function the mandate to provide the board and senior management with objective assurance, advice, insight, and foresight.

The internal audit function's authority is created by its direct reporting relationship to the board. Such authority allows for unrestricted access to the board.

The board authorises the internal audit function to:

- Have full and unrestricted access to all functions, data, records, information, physical property, and personnel pertinent to carrying out internal audit responsibilities. Internal auditors are accountable for confidentiality and safeguarding records and information.
- Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques, and issue communications to accomplish the function's objectives.
- Obtain assistance from the necessary organisation's personnel in relevant engagements, as well as other specialised services from within or outside the organisation to complete internal audit services.

Independence, position, and reporting relationships

The Head of Internal Audit (HoIA) HoIA will be positioned at a level in the organisation that enables internal audit services and responsibilities to be performed without interference from management, thereby establishing the independence of the internal audit function.

The HoIA will report functionally to the board and administratively to the Senior Leadership Team.

This positioning provides the organisational authority and status to bring matters directly to senior management and escalate matters to the board, when necessary, without interference and supports the internal auditors' ability to maintain objectivity.

The HoIA will confirm to the board, at least annually, the organisational independence of the internal audit function.

The HoIA will disclose to the board any interference internal auditors encounter related to the scope, performance, or communication of internal audit work and results. The disclosure will include communicating the implications of such interference on the internal audit function's effectiveness and ability to fulfil its mandate.

APPENDIX I: INTERNAL AUDIT CHARTER

Board Oversight

To establish, maintain, and ensure the organisation's internal audit function has sufficient authority to fulfil its duties, the board will:

- Discuss with the HoIA and senior management the appropriate authority, role, responsibilities, scope, and services (assurance and/or advisory) of the internal audit function.
- Ensure the HoIA has unrestricted access to and communicates and interacts directly with the board, including in private meetings without senior management present.
- Discuss with the HoIA and senior management other topics that should be included in the internal audit charter.
- Participate in discussions with the HoIA and senior management about the "essential conditions," described in the Global Internal Audit Standards, which establish the foundation that enables an effective internal audit function.
- Review and approve the internal audit function's charter annually, which includes the internal audit mandate and the scope and types of internal audit services.
- Approve the risk-based internal audit plan.
- Approve the internal audit function's human resources administration and budgets.
- Collaborate with senior management to determine the qualifications and competencies the organisation expects in a chief audit executive.
- Authorise the appointment and removal of the chief audit executive and out-sourced internal audit provider.
- Approve the fees paid to the out-sourced internal audit provider.
- Review the chief audit executive's and internal audit function's performance.
- Receive communications from the HoIA about the internal audit function including its performance relative to its plan.
- Ensure a quality assurance and improvement program has been established and review the results annually.
- Make appropriate inquiries of senior management and the HoIA to determine whether scope or resource limitations are inappropriate.

Changes to the Mandate and Charter

Circumstances may justify a follow-up discussion between the chief audit executive, board, and senior management on the internal audit mandate or other aspects of the internal audit charter. Such circumstances may include but are not limited to:

- A significant change in the Global Internal Audit Standards.
- A significant acquisition or reorganisation within the organisation.
- Significant changes in the chief audit executive, board, and/or senior management.
- Significant changes to the organisation's strategies, objectives, risk profile, or the environment in which the organisation operates.
- New laws or regulations that may affect the nature and/or scope of internal audit services.

APPENDIX I: INTERNAL AUDIT CHARTER

HoIA Roles and Responsibilities

Ethics and Professionalism

The HoIA will ensure that internal auditors:

- Conform with the Global Internal Audit Standards, including the principles of Ethics and Professionalism: integrity, objectivity, competency, due professional care, and confidentiality.
- Understand, respect, meet, and contribute to the legitimate and ethical expectations of the organisation and be able to recognise conduct that is contrary to those expectations.
- Encourage and promote an ethics-based culture in the organisation.
- Report organisational behaviour that is inconsistent with the organisation's ethical expectations, as described in applicable policies and procedures.

Objectivity

The HoIA will ensure that the internal audit function remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of engagement selection, scope, procedures, frequency, timing, and communication. If the HoIA determines that objectivity may be impaired in fact or appearance, the details of the impairment will be disclosed to appropriate parties.

Internal auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively such that they believe in their work product, do not compromise quality, and do not subordinate their judgment on audit matters to others.

Internal auditors will have no direct operational responsibility or authority over any activities they review. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, or engage in other activities that may impair their judgment

Internal auditors will:

- Disclose impairments of independence or objectivity, in fact or appearance, to appropriate parties and at least annually, such as the chief audit executive, board, management, or others.
- Exhibit professional objectivity in gathering, evaluating, and communicating information.
- Make balanced assessments of all available and relevant facts and circumstances.
- Take necessary precautions to avoid conflicts of interest, bias, and undue influence.

APPENDIX I: INTERNAL AUDIT CHARTER

HoIA Roles and Responsibilities

Managing the Internal Audit Function

The HoIA has the responsibility to:

- At least annually, develop a risk-based internal audit plan that considers the input of the board and senior management. Discuss the plan with the board and senior management and submit the plan to the board for review and approval.
- Communicate the impact of resource limitations on the internal audit plan to the board and senior management.
- Review and adjust the internal audit plan, as necessary, in response to changes in the organisation's business, risks, operations, programs, systems, and controls.
- Communicate with the board and senior management if there are significant interim changes to the internal audit plan.
- Ensure internal audit engagements are performed, documented, and communicated in accordance with the Global Internal Audit Standards.
- Follow up on engagement findings and confirm the implementation of recommendations or action plans and communicate the results of internal audit services to the board and senior management periodically and for each engagement as appropriate.
- Ensure the internal audit function collectively possesses or obtains the knowledge, skills, and other competencies and qualifications needed to meet the requirements of the Global Internal Audit Standards and fulfil the internal audit mandate.
- Identify and consider trends and emerging issues that could impact the organisation and communicate to the board and senior management as appropriate.
- Consider emerging trends and successful practices in internal auditing
- Establish and ensure adherence to methodologies designed to guide the internal audit function
- Ensure adherence to relevant policies and procedures unless such policies and procedures conflict with the internal audit charter or the Global Internal Audit Standards. Any such conflicts will be resolved or documented and communicated to the board and senior management
- Coordinate activities and consider relying upon the work of other internal and external providers of assurance and advisory services. If the HoIA cannot achieve an appropriate level of coordination, the issue must be communicated to senior management and if necessary escalated to the board.

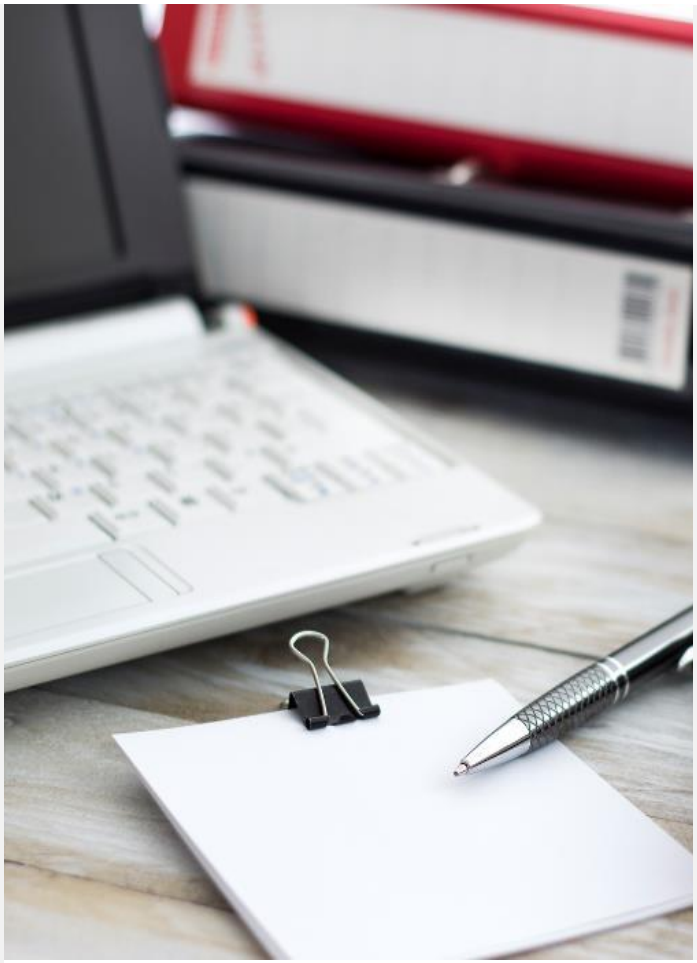
APPENDIX I: INTERNAL AUDIT CHARTER

HoIA Roles and Responsibilities

Communication with the Board and Senior Management

The HoIA will report as required or where appropriate to the board and senior management regarding (see appendix II for an example of proposed working protocols):

- The internal audit function's mandate
- The internal audit plan and performance relative to its plan
- Internal audit budget
- Significant revisions to the internal audit plan and budget
- Potential impairments to independence, including relevant disclosures as applicable
- Results from the quality assurance and improvement program, which include the internal audit function's conformance with the IIA's Global Internal Audit Standards and action plans to address the internal audit function's deficiencies and opportunities for improvement
- Significant risk exposures and control issues, including fraud risks, governance issues, and other areas of focus for the board
- Results of assurance and advisory services
- Resource requirements
- Management's responses to risk that the internal audit function determines may be unacceptable or acceptance of a risk that is beyond the organisation's risk appetite.



Quality Assurance Improvement Programme (QAIP)

The HoIA will develop, implement, and maintain a quality assurance and improvement program that covers all aspects of the internal audit function.

The program will include external and internal assessments of the internal audit function's conformance with the Global Internal Audit Standards, as well as performance measurement to assess the internal audit function's progress toward the achievement of its objectives and promotion of continuous improvement.

The plan will assess the efficiency and effectiveness of internal audit and identify opportunities for improvement.

Annually, the HoIA will communicate with the board and senior management about the internal audit function's quality assurance and improvement program, including the results of internal assessments (ongoing monitoring and periodic self-assessments) and external assessments.

External assessments will be conducted at least once every five years by a qualified, independent assessor or assessment team from outside BDO; qualifications must include at least one assessor holding an active Certified Internal Auditor credential.

APPENDIX I: INTERNAL AUDIT CHARTER

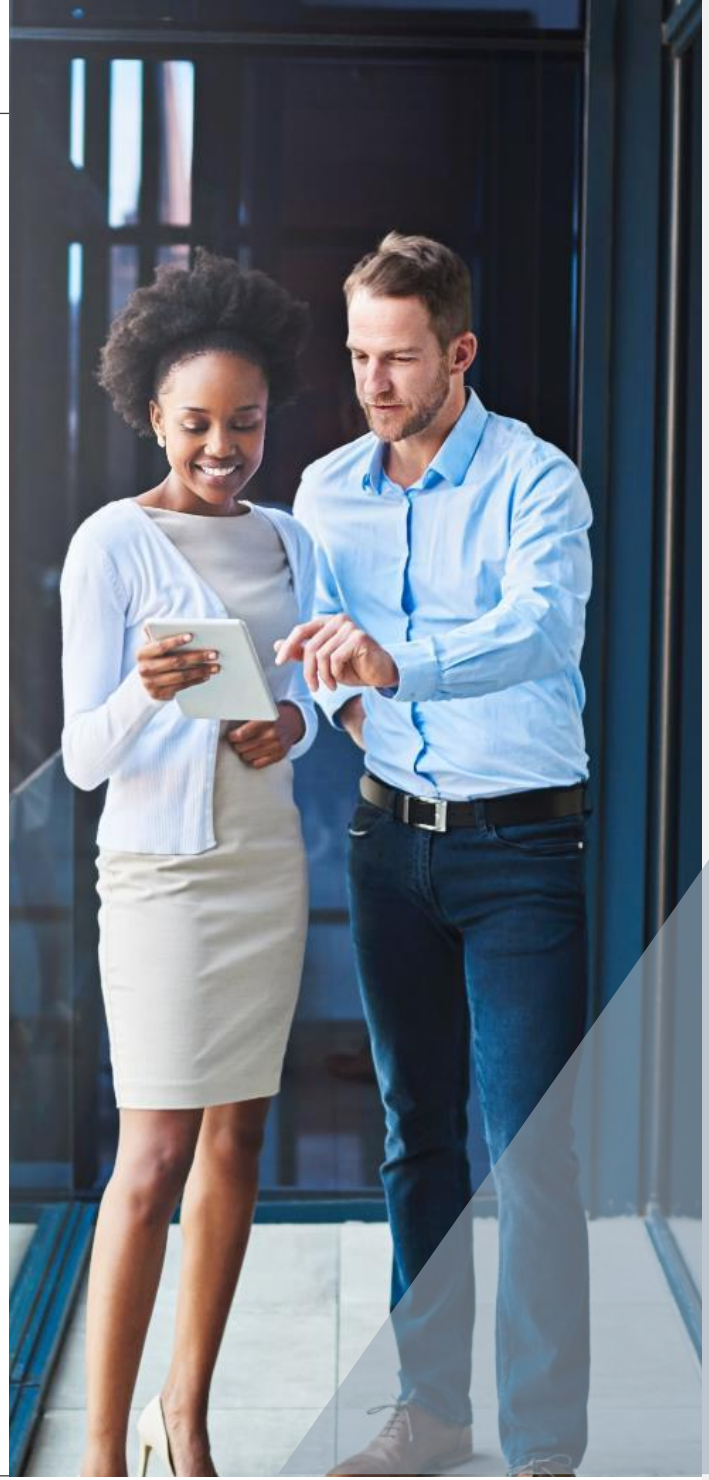
Scope and Types of Internal Audit Services

Scope and Types of Internal Audit Services

- The scope of internal audit services covers the entire breadth of the organisation, including all Scottish Canals activities, assets, and personnel.
- The scope of internal audit activities also encompasses but is not limited to objective examinations of evidence to provide independent assurance and advisory services to the board and management on the adequacy and effectiveness of governance, risk management, and control processes for the organisation.
- The nature and scope of advisory services may be agreed with the party requesting the service, provided the internal audit function does not assume management responsibility. Opportunities for improving the efficiency of governance, risk management, and control processes may be identified during advisory engagements. These opportunities will be communicated to the appropriate level of management.

Internal audit engagements may include evaluating whether:

- Risks relating to the achievement of the organisation's strategic objectives are appropriately identified and managed.
- The actions of Scottish Canals's directors, management, employees, and contractors or other relevant parties comply with organisational policies, procedures, and applicable laws, regulations, and governance standards.
- The results of operations and programs are consistent with established goals and objectives.
- Operations and programs are being carried out effectively and efficiently.
- Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact the organisation.
- The integrity of information and the means used to identify, measure, analyse, classify, and report such information is reliable.
- Resources and assets are acquired economically, used efficiently and sustainably, and protected adequately.



APPENDIX II – WORKING PROTOCOLS AND PERFORMANCE

The tables opposite set out the principal communication and reporting points between and Internal Audit, which are subject to regular review. Any future changes to the communication and reporting points are reported to the Audit and Risk Committee for approval.

Table One: Liaison Meetings Between the organisation and Internal Audit and with External Audit

MEETING	FREQUENCY	AUDIT & RISK COMMITTEE	DIRECTOR OF FINANCE	MANAGEMENT TEAM	RELEVANT STAFF	EXTERNAL AUDIT
Internal audit liaison meeting with management	As required		✓		✓	
Internal audit update meetings	As required		✓	✓		
Quality Assurance Meeting	As required		✓			
Liaison meeting with Chair of the Audit and Risk Committee	As required	✓				
ARAC to discuss audit progress	Quarterly	✓				
Meetings to raise immediate concerns	As necessary	✓	✓	✓	✓	
Meetings with external audit	As necessary					✓

Table Two: Key Reporting Points Between the organisation and Internal Audit

MEETING	AUDIT & RISK COMMITTEE	AUDIT SPONSOR	MANAGEMENT TEAM	RELEVANT STAFF
Annual Internal Audit Plan	✓	✓	✓	✓
Individual internal audit planning documents		✓	✓	✓
Draft Internal Audit Reports*		✓	✓	✓
Final Internal Audit Reports*	✓	✓	✓	✓
Quality Progress Reports	✓	✓	✓	
Annual Internal Audit Report	✓	✓		

*Internal Audit reports are distributed to the relevant Management Team members only.

APPENDIX II – WORKING PROTOCOLS AND PERFORMANCE

Internal Audit Performance Measures and Indicators

Internal Audit's performance is assessed in two ways. Firstly, there is the ability for us to self-assess our performance on a regular basis and report back to the Audit and Risk Committee on certain measures around inputs and satisfaction from those members of management who have been subject to a review.

Secondly, the view of the Audit and Risk Committee as to the value being received from its internal audit provider has to be taken into account. Much of this can be drawn from our attendance at Audit and Risk Committee, in camera meetings and by the views of management. For our part, we look to report to the Audit and Risk Committee regularly on the internal audit inputs as detailed below.

The tables contain performance measures and indicators that we consider to have the most value in assessing the efficiency and effectiveness of Internal Audit.

Tables three and four contain performance measures and indicators that we consider to have the most value in assessing the efficiency and effectiveness of internal audit. We recommend that the Audit and Risk Committee approves the following measures which we will report to each meeting and/or annually as appropriate.

Table Three – Performance reporting to Audit and Risk Committee

MEASURE / INDICATOR
Audit coverage
▶ Audits completed against the Annual Audit Plan
▶ Actual days input compared with Annual Audit Plan
Audit planning and reporting
▶ Days to issue draft report after end of fieldwork

Table Four: Annual Performance Reporting

MEASURE / INDICATOR
Relationships and client satisfaction
▶ Client satisfaction reports
Staffing
▶ Colleague mix compared with budget
▶ Percentage of Director and Manager time
▶ Continuity of staffing
▶ Use of specialist staff (e.g. IT Risk and Advisory)

Management performance measures and indicators

Management's ability to respond efficiently to internal audit findings and recommendations helps the Audit and Risk Committee to form its own view of the internal control framework.

Importantly, management's consideration of internal audit findings plays a contributory factor in our ability to deliver timely reports to the Audit and Risk Committee. Therefore, the following measures are also reported to the Audit and Risk Committee.

MEASURE/INDICATOR
Audit reporting
▶ Days for receipt of management responses

Other performance measures

In addition to the above mentioned measures, we will also provide the Audit and Risk Committee with the results of other reviews of our internal audit service as and when they become available, including:

- Independent quality assurance reviews as required by the Chartered Institute of Internal Auditors (IIA)
- BDO internal quality assurance reviews.

APPENDIX III: DEFINITIONS

LEVEL OF ASSURANCE	DESIGN OF INTERNAL CONTROL FRAMEWORK		OPERATIONAL EFFECTIVENESS OF INTERNAL CONTROLS	
	FINDINGS FROM REVIEW	DESIGN OPINION	FINDINGS FROM REVIEW	EFFECTIVENESS OPINION
SUBSTANTIAL	Appropriate procedures and controls in place to mitigate the key risks.	There is a sound system of internal control designed to achieve system objectives.	No, or only minor, exceptions found in testing of the procedures and controls.	The controls that are in place are being consistently applied.
MODERATE	In the main there are appropriate procedures and controls in place to mitigate the key risks reviewed albeit with some that are not fully effective.	Generally, a sound system of internal control designed to achieve system objectives with some exceptions.	A small number of exceptions found in testing of the procedures and controls.	Evidence of non-compliance with some controls, that may put some of the system objectives at risk.
LIMITED	A number of significant gaps identified in the procedures and controls in key areas. Where practical, efforts should be made to address in-year.	System of internal controls is weakened with system objectives at risk of not being achieved.	A number of reoccurring exceptions found in testing of the procedures and controls. Where practical, efforts should be made to address in-year.	Non-compliance with key procedures and controls places the system objectives at risk.
NO	For all risk areas there are significant gaps in the procedures and controls. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Poor system of internal control.	Due to absence of effective controls and procedures, no reliance can be placed on their operation. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Non-compliance and/or compliance with inadequate controls.

Recommendation Significance	
HIGH	A weakness where there is substantial risk of loss, fraud, impropriety, poor value for money, or failure to achieve organisational objectives. Such risk could lead to an adverse impact on the business. Remedial action must be taken urgently.
MEDIUM	A weakness in control which, although not fundamental, relates to shortcomings which expose individual business systems to a less immediate level of threatening risk or poor value for money. Such a risk could impact on operational objectives and should be of concern to senior management and requires prompt specific action.
LOW	Areas that individually have no significant impact, but where management would benefit from improved controls and/or have the opportunity to achieve greater effectiveness and/or efficiency.

APPENDIX IV: QUALITY ASSURANCE IMPROVEMENT PROGRAMME

In accordance with Standard 8.3 of the Global Internal Audit Standards, we must develop, implement and maintain a quality assurance improvement programme (QAIP).

Our QAIP is premised on the following three key activities. We will report annually to the Audit & Risk Committee on the results of the ongoing monitoring of quality and performance (including the results of the internal quality assessments). Results of the external quality assessments will be reported when completed. If applicable, plans to address any improvements identified will also be communicated.

Ongoing monitoring of quality and performance

Internal audit methodology - A standard internal audit methodology, working papers and templates are in use. Our methodology is updated when necessary and formally reviewed on an annual basis.

Supervision and review of outputs – All internal audit work is supervised and formal review of all deliverables including annual plans, terms of reference, draft and final reports and written advice is performed by Claire Robertson before issue.

Use of subject matter experts – Our work employs sufficient technical knowledge and skills to safeguard quality. To deliver your Internal Audit Plan, we will draw on the use of subject matter expert (SME) where applicable. The SME will be used either to review the scope and work or to deliver it.

Monitoring of the performance - A suite of quantitative and qualitative key performance metrics is in place to monitor the performance and effectiveness of the Internal Audit team and the value Internal Audit brings to the business.

Stakeholder feedback - Is requested from audit stakeholders after each audit and used to identify ways to improve our service.

Sharing of good practice – We promote a culture where lessons learned and good practice are shared across the team.

Internal assessments

Annual self assessment - On an annual basis, an experienced review Partner or Director will perform a self-assessment of compliance with the Global Internal Audit Standards which will include a sample of files. An improvement action plan will be drafted based on the findings.

Hot and cold reviews - During the year, an experienced review Partner, Director or Senior Manager, independent of the engagements under review, will also review a selection of individual internal audit engagements to obtain ongoing assurance on the technical quality of our work. These will be performed based upon an agreed review programme, of closed (cold) files and thematic (hot) reviews of in-flight engagements.

Four eyes principle - All our outputs and the key underlying documentation are subject to review by a second person. For you, our work will be subject to one detailed review by a Senior manager and a higher-level review by the Director/Partner.

External assessments

In accordance with Standard 8.4, an external assessment of the quality (EQA) of our internal audit work must be conducted at least once every five years by a qualified, independent assessor or assessment team.

Previous EQA

At BDO we recognise the importance of independent quality assurance and so submit our RAS team to an External Quality Assurance (EQA) review every five years, most recently in April 2021. We engaged the Chartered Institute of Internal Auditors (CIIA) to carry out the EQA and, in summary, their conclusion was that BDO generally conforms to the International Professional Practices Framework (IPPF). This is the highest of the three gradings awarded by the CIIA.

A copy of the EQA report is available to our clients so they can obtain comfort regarding our working practices.

Next EQA

Our next EQA is expected to be delivered in 2026. As part of communications with clients, the project team will discuss the results of the external assessment with the Audit, Risk and Assurance Committee

APPENDIX IV: QUALITY ASSURANCE IMPROVEMENT PROGRAMME

Initiative	Benefit	Due date	Completed
Enhance the use of data analytics in our audits where relevant	Allow the analysis of 100% of the population and provide meaningful insights to the business	Ongoing throughout delivery of our 26/27 IA plan	
Perform benchmarking in each Internal Audit review where relevant	Allows management to gain insights into what other similar organisations are doing	Ongoing throughout delivery of our 26/27 IA plan	
Align Internal Audit's focus to the strategic objectives and challenges of the organisation	Focus IA's attention to matters of most significance.	Ongoing throughout delivery of our 26/27 IA plan	
Implement agreed actions as a result of stakeholder feedback on completed review and general engagement	Meet stakeholder's expectations.	Ongoing throughout delivery of our 26/27 IA plan	

APPENDIX V: INTERNAL AUDIT STRATEGY

BUSINESS STRATEGIC CONTEXT

To protect and improve the environment in ways that, as far as possible, also contribute to improving health and well-being and achieving sustainable economic growth.

INTERNAL AUDIT VISION AND OBJECTIVES

Internal Audit is positioned to play a pivotal role in the organisation's journey toward sustained success. By focusing on technology, developing and retaining top talent, optimising processes, and expanding its role as a Strategic Advisor and collaborator, we will ensure that Internal Audit remains an essential and respected contributor to the business goals and strategic objectives globally and the enhancement of risk resilience. In addition, Internal Audit will continue to oversee the implementation of audit recommendations.

STRATEGIC PILLARS

Supporting the strategy

- Internal Audit is positioned to serve as a trusted and strategic advisor, providing business leadership with forward-looking, high-value insights that support strategic decision-making, enhance risk awareness, and align with the organisational risk appetite.
- Internal Audit will work closely with other assurance providers - notably second line functions such as IT Security, Compliance, H&S.

People management and development

- A high-performing and flexible Internal Audit team is essential for delivering quality and impactful audit services.
- The people strategy focuses on recruiting and nurturing a talented, versatile, and technically proficient workforce.
- By investing in IIA/ CA trainees, advanced qualifications, availability of SMEs and specialised training across key areas—such as ESG, fraud, IT, operations, and regulatory frameworks we will deepen the team's expertise and strengthen our capacity to address complex audit demands.

Process and methodology

- Optimising our audit methodologies to ensure they remain agile, relevant, and compliant with the latest IIA standards and regulatory expectations.
- Maintaining strong relationships with the Institute and regulators.
- Quality will remain at the heart of our service with robust assurance checking and review procedures, overseen through annual and periodic hot/cold review procedures.
- Our Quality Assurance and Improvement Programme (QAIP) will continue to be robust, involving regular internal and external assessments that align with industry best practices.

Technology development

- In an environment of rapid technological change, Internal Audit will continuously evolve and adopt digital innovations to deliver more effective, insightful, and efficient assurance. This strategy prioritises the integration of advanced data analytics and AI across audit operations, positioning these tools as essential elements of our methodology.
- Internal Audit will maintain close relationships with the DPO of the business to ensure our approach is aligned with the organisation's approach to data protection and IT/ Cyber security.

APPENDIX V: INTERNAL AUDIT STRATEGY - PROPOSED ACTIONS 2026/27

AREA	INITIATIVE / ACTION
STRATEGY SUPPORT	• Work closely with wider management to align working practices to support assurance over the strategy • Ensure annual plan reflects strategic priorities including key programmes e.g. organisational restructure and regulatory performance • Consider more agile/ advisory auditing techniques to provide timely conclusions and develop and adopt alternative reporting formats e.g. Board briefing papers
PEOPLE	• Resources will remain broadly constant with the HIA supported by the Associate Director plus additional BDO resources as required • Review team resources periodically to confirm sufficient capacity and capability • Ensure team members hold or are working towards professional and relevant qualifications • Reflect on SME input requirements through annual audit planning e.g. cyber, ESG, ECCTA • Ensure team CPD remains up to date • Invest in 1-1 time and additional coaching as required to develop team members
PROCESS	• Perform annual desktop review of manual and methodology to confirm in line with professional standards • Undertake annual self assessment against EQA • Review/ revisit regulator/ other key stakeholder expectations • Participate in BDO cold/hot review process and NPS process. Act upon any improvement points • Update QAIP • Commission independent EQA every five years
TECHNOLOGY	• Investigate opportunities for wider use of data analytics to support IA project work • Invest in new technologies and team training as required to widen the use of GenAI in IA delivery • Work closely with CIO/ DPO to ensure data/ cyber security protocols are maintained

FOR MORE INFORMATION:

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