Scottish Canals

Board: **March 2026**
Item: **Audit & Risk Committee**
5vi **ARC Terms of Reference**

CORPORATE / ASSURANCE / OPEN

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EMT APPROVED DATE:	24 February 2026

PURPOSE
The Board to review the Audit & Risk Committee (ARC) terms of reference.

RECOMMENDATION
As recommended by the ARC, the Board to approve the amended ARC terms of reference attached as Appendix 1 (with tracked changes for ease of reference).

BACKGROUND
The ARC terms of reference are in line with the model as detailed in the current Scottish Government Audit and Assurance Committee Handbook (updated February 2023) applicable to Scottish Canals as a Non-Departmental Public Bodies (NDPB). This Handbook sets out the fundamental principles with explanatory good practice notes, relating to the role, membership and work of Audit and Assurance Committees in organisations to which the Scottish Public Finance Manual is directly applicable.

The Handbook states that an effective Audit and Assurance Committee must have members who are both independent and objective. It recommends membership comprising of at least three members but does not prescribe a quorum. In addition, the Handbook states that the Chair should be a Non-Executive Board Member (NEBM) (with relevant experience). There should be at least one other NEBM. The committee may also need to seek further independent, non-executive membership from sources other than the Board in order to ensure an appropriate level of skills and experience to effectively engage with and challenge the organisation.

ASSESSMENT

ARC Succession Planning
At its meeting on 4th November 2025, the Board discussed ARC succession planning to manage a smooth transition in anticipation of the end of terms in office of two Board members, who were also members of the ARC, in June 2027. The Board approved the appointment of Robin Strang as a member of the ARC with effect from 30 June 2026.

At its meeting on 15th December 2025 the Board considered the skills matrix of the Board member to replace the Vice Chair in June 2026 and agreed that a financial qualification and recent and relevant experience working within the public sector should be essential requirements to be assessed at application and interview to aid succession planning in anticipation of the successful applicant becoming a member of the Audit & Risk Committee (ARC). It was noted that the Scottish Government guidance required at least one member of the ARC to have "recent and relevant financial experience". The recruitment process is underway with a view to the Minister for Agriculture and Connectivity approving an appointment in March 2026.

In addition, the Board had noted that an independent ARC member would also be recruited for a 3-year term to replace the ARC independent member stepping down in 2026.

Current ARC Membership

The ARC comprises of four members:

- At least two non-executive Board members, one of whom shall be Chair of the Committee;
- Up to two independent members appointed for up to three years (to be reviewed and reassessed upon completion of this term).

In addition, a co-opted member may be appointed for a period not exceeding twelve months, unless the Board decides otherwise, to provide specialist skills, knowledge and experience.

Current Quorum

A minimum of three members (with a Board member as Chair) will be present for the meeting to be deemed quorate. The Scottish Canals Board members appointed as ARC members may nominate a deputy from the Scottish Canals Board with delegated authority to represent them at ARC meetings if either are unable to attend an ARC meeting.

ARC Membership and Quorum Proposal

The ARC discussed whether the current two Board and two independent member model remained optimal. It was noted that some organisations have chosen to move away from including independent members, given recruitment challenges and the difficulty of integrating independent members into established governance structures. However, the ARC recognised the valuable scrutiny and challenge of the current independent ARC members and would wish to retain independent membership from sources other than the Board, potentially the Scottish Government Public Sector Reform working groups.

The ARC concluded that the Board considers amendments to the number and composition of ARC membership and quorum.

Proposed Membership
The ARC comprises of at least four members:

- three non-executive Board members, one of whom shall be Chair of the Committee;
- One independent member appointed for up to three years (to be reviewed and reassessed upon completion of this term).

In addition, a co-opted member may be appointed for a period not exceeding twelve months, unless the Board decides otherwise, to provide specialist skills, knowledge and experience.

Quorum
The ARC noted that the Scottish Government Handbook does not prescribe a quorum and that other small public sector bodies have an ARC with a quorum of two. It is recommended that a minimum of two members (with a Board member as Chair) be present for the meeting to be deemed quorate.

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	The current ARC terms of reference reflect the model as detailed in the current Scottish Government Audit and Assurance Committee Handbook.
Risk / Risk Appetite	The ARC provides assurance that Scottish Canals is focused on strategically critical activities and corporate behaviours to mitigate risk.
Sustainability	N/A
Environment	N/A
People	N/A
Fair Work	N/A
Communication	The ARC terms of reference included in Scottish Canals' Governance Handbook on Scottish Canals' website for transparency.
Community & Third Sector	N/A
Commercial	N/A
Asset	N/A

Appendix 1

AUDIT & RISK COMMITTEE: TERMS OF REFERENCE

(Approved by the Board of Scottish Canals on 13th March 2026)

The Board has established an Audit & Risk Committee as a Committee of the Board to support in their responsibilities for issues of risk, control and governance and associated assurance through a process of constructive challenge.

Membership
The number and composition of the membership of the Committee is approved by the Board of Scottish Canals. It comprises at least four members, three non-executive Board members, one of whom shall be Chair of the Committee, and one independent member appointed for up to three years (to be reviewed and reassessed upon completion of this term). In addition, a co-opted member may be appointed for a period not exceeding twelve months, unless the Board decides otherwise, to provide specialist skills, knowledge and experience.

The current members and terms of appointment are set out in the appendix.

The Committee will be provided with a secretariat function by the secretary to the Board of Scottish Canals.

Reporting
The Committee will formally report in writing to the Board and Accountable Officer after each meeting. A copy of minutes of the meeting may form the basis of the report.

The Committee will provide the Board and Accountable Officer with an Annual Report, timed to support finalisation of the accounts and the governance statement, summarising its conclusions from the work it has done during the year.

Responsibilities
The Committee will advise the Board and Accountable Officer on:

- the strategic processes for risk, control and governance and the governance statement.
- the accounting policies, the accounts, and the annual report of the organisation, including the process for review of the accounts prior to submission for audit, levels of error identified, and management's letter of representation to the external auditors.
- the planned activity and results of both internal and external audit.
- the adequacy of management response to issues identified by audit activity, including external audit's management letter/report.
- the effectiveness of the internal control environment.
- assurances relating to the corporate governance requirements for the organisation.
- proposals for tendering for either internal or external audit services or for purchase of non-audit services from contractors who provide audit services.
- anti-fraud policies, whistle-blowing processes, and arrangements for special investigations.
- specific issues as directed by the Board and/or the Accountable Officer on which the Board and/or the Accountable Officer wants the Committee's advice.

The Audit & Risk Committee will also periodically review its own effectiveness and report the results of that review to the Board.

Rights
The Committee may procure specialist ad-hoc advice at the expense of the organisation, subject to budgets agreed by the Board or Accountable Officer.

Access
The representatives of Internal Audit and External Audit will have free and confidential access to the Chair of the Committee.

Meetings
The procedures for meetings are:

- the Committee will meet at least four times a year. The Chair of the Committee may convene additional meetings, as he/she deems necessary.
- A minimum of two members (with a Board member as Chair) will be present for the meeting to be deemed quorate. The Scottish Canals Board members appointed as ARC members may nominate a deputy from the Scottish Canals Board with delegated authority to represent them at ARC meetings if either are unable to attend an ARC meeting.
- Committee meetings will normally be attended by the Accountable Officer, relevant Directors and a representative of Internal Audit and External Audit.
- the Committee may ask any other officials of the organisation to attend to assist it with its discussions on any matter.
- the Committee may ask any or all of those who normally attend but who are not members to withdraw to facilitate open and frank discussion of matters.
- the Board or Accountable Officer may ask the Committee to convene further meetings to discuss issues on which they want the Committee's advice.

Information requirements
For each meeting the Committee will be provided with:

- a report summarising any significant changes to the organisation's Risk Register
- a progress report from the External Audit representative summarising work done and emerging findings.
- a progress report from the Internal Auditors summarising:
- work performed (and a comparison with work planned).
- key issues emerging from Internal Audit work.
- management response to audit recommendations.
- significant changes to the audit plan.
- any resourcing issues affecting the delivery of Internal Audit objectives.

As and when appropriate, the Committee will also be provided with:

- an update on the Business Continuity Action plan.
- business update reports from the Accountable Officer.
- the Terms of Reference of the Internal Auditors.
- the Internal Audit Strategy.
- the annual Internal Audit Plan.
- the Internal Auditors Annual Opinion and Report.
- quality assurance reports on the Internal Audit function.
- the draft accounts of the organisation.
- the draft governance statement.
- a report on any changes to accounting policies.
- External Audit's management letter/report.
- a report on any proposals to tender for audit functions.
- a report on co-operation between Internal and External Audit.
- a report on the Counter Fraud and Bribery arrangements and performance.
- reports from other sources within the "three lines of assurance" integrated assurance framework.
- Reports on matters identified as high risk to the organisation.

Appendix

The Members of the Audit & Risk Committee in the financial year ending 31st March 2027 are:

Michelle Wailes - Chair

(Re -appointed with effect from 30th June 2025 to 30th June 2027) *

Rob McGregor

(Re-appointed with effect from 30th June 2025 to 30th June 2027) *

Robin Strang

(Appointed with effect from 30th June 2026 to 30th June 2029) *

Katharina Kasper

(Re-appointed with effect from 1st March 2024 to 28th February 2027) *

Nick Martin

(Re-appointed with effect from 2nd August 2024 to 1st August 2027) *

*Or such earlier date in accordance with the terms and conditions of appointment