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Scottish Canals
Report by Chief Internal Auditor
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INTERNAL AUDIT – AUDIT PLAN 2025/26

Purpose of report

The purpose of this report is to provide details of the internal audit plan for 2025/26 and the outputs which Scottish Canals Audit & Risk Committee and senior management of Scottish Canals can expect from Internal Audit in 2025/26.

Recommendation

The ARC recommends that the Board approve the Internal Audit Plan 2025/26.

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Scottish Canals Annual Internal Audit Plan 2025/26

1. Introduction

- 1.1 The current Public Sector Internal Audit Standards (PSIAS) and the new Global Internal Audit Standards (GIAS) in the UK Public Sector require the Chief Internal Auditor to submit an audit plan to the Audit & Risk Committee for approval. This report presents the proposed Scottish Canals Internal Audit plan for 2025/26.
- 1.2 The current Internal Audit contract expires August 2025. We have agreed with management to pull together a full plan for 2025/26 recognising that there may be a change in provider part way through. If that transpires, we will undertake a full handover to the new provider who may then wish to review the remaining elements of the plan.

2. Background

- 2.1 Internal Audit is an assurance function that primarily provides an independent and objective opinion on the control environment within Scottish Canals. The annual audit plan is designed to assist the Chief Internal Auditor in formulating that opinion.
- 2.2 In developing the annual audit plan, we:
 - Consolidated our understanding of Scottish Canals through discussions with senior management and a review of key strategic documentation.
 - Consulted risk registers to understand the nature of inherent risks facing the organisation; and
 - Reviewed the previous audit plans and forward plan previously presented to the Audit & Risk Committee.
- 2.3 Internal Audit work going forward will be undertaken in accordance with the Global Internal Audit Standards (GIAS) for the UK Public Sector. These new standards come into effect from 1 April 2025 and have been adopted by the Relevant Internal Audit Standard Setters (RIASS). The RIASS includes, among others, HM Treasury, the Scottish Government and the Chartered Institute of Public Finance and Accountancy (CIPFA).
- 2.4 The Internal Audit function is delivered by Glasgow City Council. The Internal Audit team at Glasgow holds the British Standard ISO9001:2015 Quality Management Standard. This Standard has been held for over 20 years and an annual assessment of compliance with the Standard is undertaken by independent British Standard reviewers. The last review undertaken by British Standard reviewers was in February 2024 and confirmed that the Internal Audit team continues to have processes and procedures in place that demonstrate compliance with the requirements of the Standard.
- 2.5 The new GIAS includes 15 principles that Internal Audit functions must follow and cover a range of areas including ethics and professionalism, governance of the Internal Audit function, management of the Internal Audit function and performing Internal Audit services. The PSIAS previously introduced a requirement for an external assessment of an organisation's Internal Audit function, which must be conducted at least once

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every five years by a qualified, independent reviewer from outside the organisation. This requirement continues under the new GIAS in the UK Public Sector. The latest external assessment was undertaken in 2021 and confirmed that Internal Audit conforms to the requirements of the PSIAS. The next assessment under the GIAS in the UK Public Sector is due by May 2026.

- 2.6 The Internal Audit Mandate and Charter has been updated to reflect the new GIAS and formally defines the purpose, authority, role and responsibilities of Internal Audit.

3. Approach

- 3.1 The audit plan shows the outputs which members of the Audit & Risk Committee and management can expect from Internal Audit during 2025/26. For each audit assignment, we will agree a terms of reference with management prior to commencing fieldwork. A summary of our findings will be agreed in draft with management for factual accuracy, prior to reporting to the Audit & Risk Committee.
- 3.2 Our reports will include a summary of main audit findings, highlighting any control weaknesses and recommendations for improvement. Any significant area of control weakness will be reported in the Corporate Governance Statement.
- 3.3 The GIAS in the UK Public Sector require that the audit plan should be kept under review to reflect any changing priorities and emerging risks. We will therefore ensure the plan remains relevant and reflects any changes to the inherent risks at Scottish Canals. The Audit & Risk Committee will be asked to approve any material adjustments to the audit plan.

4. Internal Audit Outputs in 2025/26

- 4.1 The main output from Internal Audit in 2025/26 will be the Chief Internal Auditor's annual report. This is used to inform the Scottish Canals' Corporate Governance Statement, which is incorporated into the annual accounts. This provides assurance to the Board, Audit & Risk Committee, and senior management on matters of governance and internal control within Scottish Canals.
- 4.2 The annual report will be based principally on the work undertaken by Internal Audit during the year to complete the audit plan. The key areas we will cover in 2025/26, and on which we will provide assurance, are shown in Appendix 1.
- 4.3 The Audit Coverage, which details all the key areas we have covered over the previous 3-year period, is included at Appendix 2. This has been updated to include proposed areas to be included within the audit plan over the next two years.
- 4.4 As noted at 1.2, there may be a change in provider during the year. We have agreed with management that we will complete one of the three planned assurance audits under the current contract.

5. Resources

- 5.1 In 2025/26, 33 days are available to carry out assurance audit work. This is subject to discussion with the Audit & Risk Committee, and approval by the Board.

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- 5.2 We have identified a dedicated team to deliver the internal audit plan to Scottish Canals however we are able to draw upon additional audit and specialist resources as required.

Scottish Canals Internal Audit Plan 2025/26

Assurance Area	Planned Internal Audit Activity	Days	Link to Corporate Risk Register
Human Resources	Workforce / Succession Planning To gain assurance that there are effective arrangements in place for workforce and succession planning to ensure that the right staff are in the right place with the right skills and that future skills/knowledge gaps have been identified.	8	CRR 1905 – Workforce Planning – There is a growing concern around Scottish Canals' ability to succession plan and retain corporate knowledge of the canal infrastructure. There are legal and compliance consequences associated with this risk, with the potential for ongoing skills shortages making it a challenge to carry out essential compliance activities.
Governance	Organisational Culture To gain assurance that there are sufficient arrangements in place to review, assess and understand the culture of the organisation. To gain assurance that Scottish Canals has arrangements in place to implement cultural change programmes where appropriate.	8	CRR 1905 – Workforce Planning – There have been concerns around disengagement and burnout due to hours and lack of staff.
ICT	Application Review To gain assurance that the Vennersys system (the Electronic Cash Receipting replacement) is operating as expected and that the application controls in place are effective in preventing and detecting weaknesses.	8	n/a

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Assurance Area	Planned Internal Audit Activity	Days	Link to Corporate Risk Register
Follow up	Assess the progress against Internal Audit recommendations, undertaking additional testing as required. Summary progress updates will be reported to the Audit & Risk Committee.	6	n/a
Annual Opinion	Chief Internal Auditor's Annual Opinion	n/a	n/a
Other	Planning, attendance at meetings and engagement with management	3	n/a
TOTAL DAYS		33	

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Audit Coverage – Scottish Canals

The Audit Coverage detailing the areas covered in the last 4 years and areas for consideration for future years.

Assurance Area	Audit Area	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Governance	Health & Safety							✓
	Risk Management/Assessments		(5)					
	Performance	(7)						
	Board Operations				(10)			
	Organisational Culture					(8)		
	Governance maturity assessment						✓	
Compliance	Water Management – Smart Canals		(6)					
	Information Management							✓
	Customer Management	(5)					✓	
	GDPR compliance	(4)						✓
Projects	Capital Projects – Bowling		(9)					
	Capital Project Management			(8)				
Income/Cash Management	Unannounced spot check visits		(3)		(5)			
	Commercial Income				(10)			
Financial Governance	Financial Management			(8)				
	Expenses/Purchase Cards							
Human Resources	Payroll		(5)					
	Starters and Leavers	(6)						
	Workforce/Succession Planning					(8)		
Information Technology	Cyber Information Security			(6)				
	IT General Controls						✓	
	IT Resilience	(6)						
	Application Review					(8)		
Procurement	Procurement			(5)				
Follow up		(3)	(3)	(4)	(5)	(6)	✓	✓
Other	Planning, attendance at meetings, contract management	(2)	(2)	(2)	(3)	(3)	✓	✓
TOTAL DAYS		33	33	33	33	33	33	33