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Audit and Risk Committee

13 March 2025

Scottish Canals

Audit of 2023/24 annual report and accounts

Independent auditor's report

1. Our audit work on the 2023/24 annual report and accounts is now substantially complete. Subject to receipt of a revised set of annual report and accounts for final review, and completion of our internal Engagement Quality Review, we anticipate being able to issue unmodified audit opinions in the independent auditor's report on 13 March 2025 (the proposed report is attached at [Appendix A](#)).

Annual Audit Report

2. Under International Standards on Auditing in the UK, we report specific matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action. For Scottish Canals, those charged with governance are the Audit and Risk Committee. We present for the committee's consideration the draft Annual Audit Report on the 2023/24 audit. The section headed " Significant findings and key audit matters " sets out the issues identified in respect of the annual report and accounts.

3. The report also sets out conclusions on the wider scope areas that frame public audit as set out in the Code of Audit Practice.

4. This report will be issued in final form after the audit of the annual report and accounts has been completed.

Unadjusted misstatements

5. We also report to those charged with governance all unadjusted misstatements in the annual report and accounts which we have identified during the course of the audit, other than those of a trivial nature, and request that these misstatements be corrected.

6. There was one non-material misstatement identified which has not been corrected in the annual report and accounts. This related to the incorrect application of indexation of some plant and equipment assets. If corrected, this would decrease the value of property, plant and equipment assets by £762,000, with a corresponding decrease in the revaluation reserve.

Fraud, subsequent events, and compliance with laws and regulations

7. In presenting this report to the Audit and Risk Committee we seek confirmation from those charged with governance of any instances of any actual, suspected, or alleged fraud; any subsequent events that have occurred since the date of the financial statements; or material non-compliance with laws and regulations affecting the entity that should be brought to my attention.

Representations from Accountable Officer

- 8.** As part of the completion of our audit, we are seeking written representations from the Accountable Officer on aspects of the annual report and accounts including the judgements and estimates made.
- 9.** A draft letter of representation is attached at [Appendix B](#). This should be signed and returned to me by the Accountable Officer with the signed annual report and accounts prior to the independent auditor's report being certified.

Appendix A: Proposed Independent Auditor's Report

Independent auditor's report to the members of Scottish Canals, the Auditor General for Scotland and the Scottish Parliament

Reporting on the audit of the financial statements

Opinion on financial statements

I have audited the financial statements in the annual report and accounts of Scottish Canals for the year ended 31 March 2024 under section 24 of the Transport Act 1962. The financial statements comprise the Statement of Comprehensive Net Expenditure, Statement of Financial Position, Statement of Cash Flows, Statement of Changes in Taxpayers' Equity and notes to the financial statements, including material accounting policy information. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards, as interpreted and adapted by the 2023/24 Government Financial Reporting Manual (the 2023/24 FReM).

In my opinion the accompanying financial statements:

- give a true and fair view of the state of the body's affairs as at 31 March 2024 and of its net expenditure for the year then ended;
- have been properly prepared in accordance with UK adopted international accounting standards, as interpreted and adapted by the 2023/24 FReM; and
- have been prepared in accordance with the requirements of section 24 of the Transport Act 1962 and directions made thereunder by the Scottish Ministers.

Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)), as required by the [Code of Audit Practice](#) approved by the Auditor General for Scotland. My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I was appointed by the Auditor General on 3 April 2024. My period of appointment is four years, covering 2023/24 to 2026/27. I am independent of the body in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the body. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern basis of accounting

I have concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the body's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from when the financial statements are authorised for issue.

These conclusions are not intended to, nor do they, provide assurance on the body's current or future financial sustainability. However, I report on the body's arrangements for financial sustainability in a separate Annual Audit Report available from the [Audit Scotland website](#).

Risks of material misstatement

I report in my separate Annual Audit Report the most significant assessed risks of material misstatement that I identified and my judgements thereon.

Responsibilities of the Accountable Officer for the financial statements

As explained more fully in the Statement of Accountable Officer's Responsibilities, the Accountable Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Accountable Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Accountable Officer is responsible for assessing the body's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention to discontinue the body's operations.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. I design procedures in line with my responsibilities outlined above to detect material misstatements in respect of irregularities, including fraud. Procedures include:

- using my understanding of the central government sector to identify that section 24 of the Transport Act 1962 and directions made thereunder by the Scottish Ministers are significant in the context of the body;
- inquiring of the Accountable Officer as to other laws or regulations that may be expected to have a fundamental effect on the operations of the body;
- inquiring of the Accountable Officer concerning the body's policies and procedures regarding compliance with the applicable legal and regulatory framework;
- discussions among my audit team on the susceptibility of the financial statements to material misstatement, including how fraud might occur; and
- considering whether the audit team collectively has the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.

The extent to which my procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of the body's controls, and the nature, timing and extent of the audit procedures performed.

Irregularities that result from fraud are inherently more difficult to detect than irregularities that result from error as fraud may involve collusion, intentional omissions, misrepresentations, or the override of internal control. The capability of the audit to detect fraud and other irregularities depends on factors such as the skilfulness of the perpetrator, the frequency and extent of

manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Reporting on regularity of expenditure and income

Opinion on regularity

In my opinion in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

Responsibilities for regularity

The Accountable Officer is responsible for ensuring the regularity of expenditure and income. In addition to my responsibilities in respect of irregularities explained in the audit of the financial statements section of my report, I am responsible for expressing an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

Reporting on other requirements

Opinion prescribed by the Auditor General for Scotland on audited parts of the Remuneration and Staff Report

I have audited the parts of the Remuneration and Staff Report described as audited. In my opinion, the audited parts of the Remuneration and Staff Report have been properly prepared in accordance with section 24 of the Transport Act 1962 and directions made thereunder by the Scottish Ministers.

Other information

The Accountable Officer is responsible for the other information in the annual report and accounts. The other information comprises the Performance Report and the Accountability Report excluding the audited parts of the Remuneration and Staff Report.

My responsibility is to read all the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on the Performance Report and Governance Statement to the extent explicitly stated in the following opinions prescribed by the Auditor General for Scotland.

Opinions prescribed by the Auditor General for Scotland on Performance Report and Governance Statement

In my opinion, based on the work undertaken in the course of the audit:

- the information given in the Performance Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that

report has been prepared in accordance with section 24 of the Transport Act 1962 and directions made thereunder by the Scottish Ministers; and

- the information given in the Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with section 24 of the Transport Act 1962 and directions made thereunder by the Scottish Ministers.

Matters on which I am required to report by exception

I am required by the Auditor General for Scotland to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the audited parts of the Remuneration and Staff Report are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit.

I have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

In addition to my responsibilities for the annual report and accounts, my conclusions on the wider scope responsibilities specified in the Code of Audit Practice are set out in my Annual Audit Report.

Use of my report

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 108 of the Code of Audit Practice, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Rachel Browne CPFA

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Appendix B: Letter of Representation (ISA 580) - to be reproduced on client's letterhead

Rachel Browne, Audit Director
Audit Scotland
4th Floor
102 West Port
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EH3 9DN

Dear Rachel

Scottish Canals Annual report and accounts 2023/24

1. This representation letter is provided in connection with your audit of the annual report and accounts of Scottish Canals for the year ended 31 March 2024 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view and have been properly prepared, and for expressing other opinions on the regularity of income and expenditure, Remuneration and Staff Report, Performance Report, and Governance Statement.
2. I confirm to the best of my knowledge and belief, and having made such enquiries as I considered necessary, the following representations given to you in connection with your audit of Scottish Canals annual report and accounts for the year ended 31 March 2024.

General

3. I have fulfilled my responsibilities for the preparation of the 2023/24 annual report and accounts. All the accounting records, documentation and other matters which I am aware are relevant to the preparation of the annual report and accounts have been made available to you for the purposes of your audit. All transactions undertaken by Scottish Canals have been recorded in the accounting records and are properly reflected in the financial statements.
4. I confirm that the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as a whole. I am not aware of any uncorrected misstatements other than those reported by you.

Regularity of Expenditure and Income

5. I confirm that, in all material respects, expenditure was incurred, and income applied in accordance with applicable enactments and guidance issued by the Scottish Ministers.

Financial Reporting Framework

6. The annual report and accounts have been prepared in accordance with section 24 of the Transport Act 1962 and directions made thereunder by the Scottish Ministers.
7. I have ensured that the financial statements give a true and fair view of the financial position of the Scottish Canals at 31 March 2024 and the transactions for 2023/24.

Accounting Policies and Estimates

8. All material accounting policies applied are as shown in the note included in the financial statements. The accounting policies are determined by the 2023/24 Government Financial Reporting Manual (the FReM), where applicable. All accounting policies applied are appropriate to Scottish Canals circumstances and have been consistently applied.

9. The significant assumptions used in making accounting estimates are reasonable and properly reflected in the financial statements. Judgements used in making estimates have been based on the latest available, reliable information. Estimates have been revised where there are changes in the circumstances on which the original estimate was based or because of new information or experience.

Going Concern Basis of Accounting

10. I have assessed Scottish Canals ability to continue to use the going concern basis of accounting and have concluded that it is appropriate. I am not aware of any material uncertainties that may cast significant doubt on Scottish Canals ability to continue to adopt the going concern basis of accounting.

Assets

11. I carried out an assessment at 31 March 2024 as to whether there is any indication that an asset may be impaired and have recognised any impairment losses identified.

12. I have provided you with all information of which I am aware regarding any valuation exercises carried out after 31 March 2024.

13. There are no plans or intentions that are likely to affect the carrying value or classification of the assets recognised within the financial statements.

14. Owned assets are free from any lien, encumbrance or charge except as disclosed in the financial statements.

Liabilities

15. All liabilities at 31 March 2024 of which I am aware have been reported in the financial statements.

16. The accrual recognised in the financial statements for annual leave untaken by 31 March 2024 has been estimated on a reasonable basis.

17. There are no plans or intentions that are likely to affect the carrying value or classification of the liabilities recognised in the financial statements.

Contingent Liabilities

18. There are no significant contingent liabilities, other than those disclosed in Note 20 to the financial statements, arising either under formal agreement or through formal undertakings requiring disclosure in the accounts. All known contingent liabilities have been fully and properly disclosed in accordance with the 2023/24 FReM and IAS 37.

Litigation and Claims

19. All known actual or possible legal claims have been disclosed to you and have been accounted for and disclosed in the financial statements in accordance with the 2023/24 FReM.

Fraud

20. I understand my responsibilities for the design, implementation, and maintenance of internal control to prevent fraud and I believe I have appropriately fulfilled those responsibilities.

21. I have provided you with all information in relation to:

- my assessment of the risk that the financial statements may be materially misstated as a result of fraud,
- any allegations of fraud or suspected fraud affecting the financial statements, and
- fraud or suspected fraud that I am aware of involving management, employees who have a significant role in internal control, or others that could have a material effect on the financial statements.

Laws and Regulations

22. I have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

Related Party Transactions

23. All material transactions with related parties have been appropriately accounted for and disclosed in the financial statements in accordance with IAS 24 as interpreted by the FReM. I have made available to you the identity of all the Scottish Canals related parties and all the related party relationships and transactions of which I am aware.

Remuneration and Staff Report

24. The Remuneration and Staff Report has been prepared in accordance with the requirements of the FReM to the extent they apply in Scotland and all required information of which I am aware has been provided to you.

Performance Report

25. I confirm that the Performance Report has been prepared in accordance with the requirements of the FReM to the extent they apply in Scotland and the information is consistent with the financial statements.

Corporate Governance

26. I have fulfilled my responsibilities for Scottish Canals corporate governance arrangements. I have disclosed to you all deficiencies in internal control identified from this review or of which I am otherwise aware.

27. I confirm that the Governance Statement has been prepared in accordance with the Scottish Public Finance Manual and the information is consistent with the financial statements. There have been no changes in the corporate governance arrangements or issues identified since 31 March 2024 which require to be reflected.

Group Accounts

28. I have identified all the other entities in which Scottish Canals has a material interest and have classified and accounted for them in accordance with the 2023/24 FReM. Any significant issues with the financial statements of group entities, including any qualified audit opinions, have been advised to you.

Events Subsequent to the Date of the Statement of Financial Position

29. All events subsequent to 31 March 2024 for which IAS 10 as interpreted by the FReM requires adjustment or disclosure have been adjusted or disclosed.

Yours sincerely

Accountable Officer