

Scottish Canals

2023/24 Annual Audit Report – PROPOSED



 AUDIT SCOTLAND

Prepared for Scottish Canals and the Auditor General for Scotland

March 2025

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Key messages

2023/24 annual report and accounts

- 1 Audit opinions on the annual report and accounts are unmodified.
- 2 Our audit work resulted in a number of significant adjustments including a £15.319 million prior year restatement due to the incorrect classification of operational assets as investment properties in the prior year.
- 3 Other audit adjustments related to the incorrect accounting treatment of non-current assets (£13.362 million) and of deferred income (£8.438 million).
- 4 There were issues with the quality of the unaudited accounts and working papers and the time taken to respond to audit queries.

Financial management

- 5 Scottish Canals has effective and appropriate budget processes in place with regular budget monitoring reports provided to the Board.
- 6 Scottish Canals reported a total overspend of £0.566 million against its £23.492 million 2023/24 budget.
- 7 Standards of conduct and arrangements for the prevention and detection of fraud and error are appropriate.
- 8 Our review of the key controls in the main financial systems resulted in an increased level of substantive testing.

Financial sustainability

- 9 Scottish Canals has identified medium-term financial sustainability as a very high risk. Progress has been made on a number of actions to address this risk but further work is required around workforce planning.
- 10 Scottish Canals should develop a medium-term financial plan to ensure there is a clear strategy for addressing medium-term financial sustainability.

Vision, leadership, and governance

- 11 Scottish Canals has clear plans in place to implement its vision, strategy and priorities.

- 12 Scottish Canals has effective and appropriate governance arrangements for delivery of its plans.

Use of resources to improve outcomes

- 13 Scottish Canals has developed an appropriate Best Value framework.
- 14 Scottish Canals is making good progress in delivering on its performance targets.
- 15 Scottish Canals is working effectively with partners to meet stated outcomes and improvement objectives

Introduction

1. This report summarises the findings from the 2023/24 audit of Scottish Canals and will be published on Audit Scotland's website: www.audit-scotland.gov.uk.
2. The scope of the audit was set out in an annual audit plan presented to the 25 July 2024 meeting of the Audit and Risk Committee. This Annual Audit Report comprises significant matters arising from an audit of Scottish Canals' annual report and accounts and conclusions on the wider scope areas and best value arrangements as set out in the [Code of Audit Practice 2021](#).
3. We would like to thank Board members, Audit and Risk Committee members, management and staff, particularly those in finance, for their cooperation and assistance during the audit.

Responsibilities and reporting

4. Scottish Canals has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and accounts that is in accordance with the accounts direction from Scottish Ministers. Scottish Canals is also responsible for establishing appropriate and effective arrangements for governance, propriety, and regularity.
5. The responsibilities of the independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000, the [Code of Audit Practice](#) and supplementary guidance, and International Standards on Auditing in the UK (ISAs). Rachel Browne (Audit Director, Audit Scotland) was appointed by the Auditor General for Scotland as auditor of Scottish Canals for the period from 2023/24 to 2026/27.
6. This report contains an agreed action plan at [Appendix 1](#). It sets out specific recommendations, the responsible officers, and dates for implementation. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues raised and to maintain adequate systems of control.

Auditor Independence

7. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services. We are not aware of any relationships that could compromise our objectivity and independence.

8. The 2023/24 audit fee of £100,700 was set out in the 2023/24 Annual Audit Plan. In setting the audit fee, we assumed that Scottish Canals had a robust system of internal controls operating effectively throughout the year, effective governance arrangements, and would prepare a comprehensive and accurate set of annual report and accounts for audit in line with the agreed timetable for the audit.

9. We identified matters during our 2023/24 audit that increased the audit work beyond that originally planned, for example we could not place reliance on internal controls, the accounts submitted for audit and the supporting working papers were of lower quality than expected and we experienced delays in obtaining audit evidence and explanations. The errors found during audit testing of non-current assets and deferred income also triggered additional audit work beyond that planned to address the risks identified in the annual audit plan. We are therefore charging an additional audit fee of £16,000 which brings the total 2023/24 audit fee to £116,700.

1. Audit of 2023/24 annual report and accounts

Public bodies are required to prepare an annual reports and accounts comprising financial statements and other related reports. These are the principal means of accounting for the stewardship of public funds.

Main judgements

Audit opinions on Scottish Canals' 2023/24 annual report and accounts are unmodified.

Our audit work resulted in a number of significant adjustments to the financial statements including a prior year restatement of £15.319 million due to the incorrect classification of operational assets as investment properties in the prior year.

Other audit adjustments related to the incorrect accounting treatment of non-current assets (£13.362 million) and of deferred income (£8.438 million)

There were issues with the quality of the unaudited accounts and working papers and the time taken to respond to audit queries.

Audit opinions on the annual report and accounts are unmodified

10. The Board approved the annual report and accounts for Scottish Canals for the year ended 31 March 2024 on 13 March 2025. The independent auditor's report included the following unmodified audit opinions on the annual report and accounts:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- expenditure and income were in accordance with applicable enactments and guidance
- the audited part of the remuneration and staff report was prepared in accordance with the financial reporting framework

- the performance report and governance statement were consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

Our audit approach and testing were informed by the overall materiality level of £9.8 million

11. The concept of materiality is applied by auditors to determine whether misstatements identified during the audit could reasonably be expected to influence the economic decisions of users of the financial statements, and impact the opinion set out in the independent auditor's report. Auditors set a monetary threshold when considering materiality, although some issues may be considered material by their nature. It is ultimately a matter of the auditor's professional judgement.

12. Our initial assessment of materiality was carried out during the risk assessment phase of the audit. These materiality levels were reported in our annual audit plan to the July 2024 meeting of the Audit and Risk Committee. Materiality was reviewed and revised on receipt of the unaudited annual report and accounts and is summarised in [Exhibit 1](#).

Exhibit 1

Materiality values for the 2023/24 audit

Materiality level	Amount
Overall materiality: This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set based on our assessment of the needs of the users of the financial statements and the nature of Scottish Canals' operations. The overall materiality level was set with reference to gross assets.	£9.8 million
Performance materiality: This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this could indicate that further audit procedures are required. Using our professional judgement, we set performance materiality at 55 per cent of overall materiality.	£5.4 million
Reporting threshold: We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£500 thousand

Source: Audit Scotland

We set lower specific materiality levels for income and expenditure testing

13. In addition to overall materiality, we can set lower specific materiality levels for certain classes of transactions, account balances or disclosures where lesser amounts could influence the decisions of the users of the financial statements.

14. Scottish Canals' asset position is a significantly higher value than its annual operating expenditure and materiality was set with reference to gross assets. However, we recognise that Scottish Canals' income and expenditure streams are likely to be of key interest to the users of the financial statements and we set specific materiality levels for testing in these areas as shown in [Exhibit 2](#).

Exhibit 2 Specific lower materiality levels

Materiality level	Amount
Overall materiality	£668 thousand
Performance materiality	£367 thousand

15. It is our responsibility to request that all misstatements are corrected other than those below the reporting threshold. The final decision on making the correction lies with the Board.

We reported the significant findings from the audit prior to the annual report and accounts being approved and certified

16. Under ISA (UK) 260, we are required to communicate significant findings from the audit, including our view about the qualitative aspects of the body's accounting practices, to those charged with governance prior to the audited annual report and accounts being approved and certified.

17. The Code of Audit Practice also requires us to highlight key audit matters which are defined in ISA (UK) 701 as those matters judged to be of most significance.

18. The significant findings are summarised in [Exhibit 3](#).

Exhibit 3**Significant findings and key audit matters from the audit of the annual report and accounts**

Issue	Resolution
<p>1. Investment properties re-categorised as operational assets</p> <p>The unaudited accounts included the reclassification of £15.319million of investment properties as operational assets during 2023/24.</p> <p>Our audit work identified that these assets had been classified as investment properties since 2021/22. As such, this is a material prior year error, and the correct accounting is to make a retrospective restatement of the financial statements.</p>	<p>The £15.319 million reclassification of assets has been removed from the audited accounts.</p> <p>The audited accounts include a prior year restatement with the opening balance of investment properties decreased from £38.038 million to £22.578 million.</p> <p>Adjustments were made to the opening net book value of operational assets for this issue, along with other amendments as noted at Point 2c below.</p> <p>A note has been added to the audited accounts disclosing the nature of the prior year error and amount of correction.</p>
<p>2. Incorrect treatment of Assets Under Construction (AUC)</p> <p>a) The correct valuation methodology was not applied to newly operational assets</p> <p>AUC assets should be valued at cost and when brought in to use as operational assets should be valued at fair value.</p> <p>Our audit work identified that during 2023/24 AUC of £12.312 million was transferred to operational assets (Structure) and valued at cost.</p> <p>b) Operational asset not transferred from AUC</p> <p>AUC should be transferred to operational assets when they become operational.</p> <p>The Falkirk Wheel control system upgrade, costing £3.177 million, became operational during 2023/24 and should have been transferred to operational assets. However, as a result of ongoing snagging issues the asset was not deemed to be operational and included in AUC as at 31 March 2024.</p>	<p>Management asked the valuers to revalue newly operational assets at fair value at 31 March 2024. This did not result in a material change in the audited accounts.</p> <p>The Falkirk Wheel asset has been removed from Assets Under Construction in the audited accounts and included in operational assets (Structures).</p> <p>The £7.774 million disposal of lock gate assets has been removed from operational assets (Structures) in the audited accounts.</p> <p>The audited accounts include a prior year restatement with the opening NBV balance for operational assets, including Point 1 above, has increased by £7.462 million. Note 6 has been updated to reflect the detail of this adjustment.</p> <p>A note has been added to the audited accounts disclosing the nature of the prior year error and amount of correction.</p>

Issue	Resolution
<p>c) Prior year errors</p> <p>During 2020/21 the completion of two gate renewal projects should have resulted in the disposal of the old assets and the transfer of the new assets from AUC to operational assets.</p> <p>However, until 2023/24 the old assets remained as operational assets and the new assets remained as AUC.</p> <p>The unaudited accounts included a disposal of £7.774 million during 2023/24 to correct this error.</p> <p>In view of the decision to make a retrospective restatement of the financial statements in relation to investment properties (see Point 1), management have decided to reverse the disposal and include as a prior year adjustment.</p>	<p>Recommendation 1</p> <p>(Refer Appendix 1, action plan)</p> <p>Arrangements should be put in place to ensure all assets under construction are reviewed to ensure that they remain correctly categorised at year end. Arrangements should include</p> <ul style="list-style-type: none"> • robust procedures / instructions for officers covering of the valuation of new operational assets and the disposal of any assets being replaced • management review of treatment of AUC.
<p>3. Incorrect valuation of investment properties</p> <p>Investment properties are subject to annual valuation. We compared the fixed asset register (FAR) to the valuer's (Gerald Eve) report for investment properties and found that:</p> <ul style="list-style-type: none"> • three investment properties on the FAR had been overstated by a total value of £5.588 million which had resulted in a corresponding overstatement in the accounts. • several investment properties held on the FAR with a total value of £0.240 million were not included in the valuer's report • several investment properties included in the valuer's report with a total value of £0.102 million were not included in the FAR. 	<p>The FAR and the audited accounts have been updated. The value of investment properties in the audited accounts has been reduced by £5.588 million with a similar adjustment to the revaluation reserve.</p> <p>The investment property note (Note 8) has been updated in the accounts.</p> <p>No further adjustments have been made to the accounts due to the value of the discrepancies.</p> <p>Recommendation 2</p> <p>(Refer Appendix 1, action plan)</p> <p>A reconciliation should be carried out between the valuer's report and the investment properties in FAR to ensure the FAR is complete and accurate.</p>
<p>4. Indexation of assets on the FAR had not been properly applied</p> <p>Scottish Canals apply indexation to some assets not subject to valuation.</p> <p>Our audit work found the indexation methodology for 2023-24 to be appropriate.</p>	<p>Management reviewed all assets on the FAR to ensure they are correctly classified. This resulted in a reclassification of a significant number of miscellaneous assets to other classifications. The indexation</p>

Issue	Resolution
<p>However, when testing the application of the methodology we found that assets had not been correctly classified on the FAR which resulted in incorrect indexation being applied.</p> <p>Our audit work identified issues with the underlying records:</p> <ul style="list-style-type: none"> • for numerous assets on the FAR below the de minimis limit, (not requiring indexation) we could not confirm whether these assets belonged to a group which would then require indexation. The total population was below our reporting threshold. • the FAR includes a number of third-party assets not included in the Scottish Canals financial statements. • the FAR still includes assets, held at nil value, which have been disposed of. <p>The accounting policy for valuations in the unaudited accounts did not reflect current arrangements for indexation.</p>	<p>exercise was re-performed and did not have a material impact on the financial accounts.</p> <p>The accounting policy for valuations in the audited accounts has been updated to reflect arrangements for indexation.</p> <p>Recommendation 3</p> <p>(Refer Appendix 1, action plan)</p> <p>Scottish Canals should put in place adequate arrangements to ensure the correct application of indexation to assets held on the FAR. This should include a regular review of classifications, clear application of the de minimis capitalisation threshold and the removal of third-party assets and assets which have been disposed of from the FAR to reduce the risk of errors in applying indexation.</p>
<p>5 Deferred Capital Income</p> <p>The option provided in the IAS 20 (insert title) to defer grant income relating to an asset is restricted to income where the funder imposes a condition.</p> <p>The unaudited accounts included deferred grant income of £28.402 million.</p> <p>Our audit work identified that in some cases Scottish Canals had deferred capital grant income beyond the period of construction which is not in compliance with IAS 20. The total amount identified was £8.438 million.</p>	<p>The audited accounts have been updated and deferred capital income has been reduced by £8.438 million with a corresponding increase of income.</p> <p>Recommendation 4</p> <p>(Refer Appendix 1, action plan)</p> <p>Arrangements should be put in place to ensure that deferred income applied is in line with IAS 20. This should include</p> <ul style="list-style-type: none"> – training and robust procedures / instructions for officers covering in the correct treatment of deferred income – management review of treatment of deferred income.

Source: Audit Scotland

Audit work responded to the risks of material misstatement

19. Our Annual Audit Plan set out the five significant risks identified during the planning stage of the audit. Our subsequent audit review resulted in the risks

relating to VAT and corporation tax being re-assessed as non-significant risks of material misstatement. [Exhibit 4](#) sets out these identified risks and summarises the further audit procedures performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 4

Identified risks of material misstatement

Audit risk	Assurance procedure	Results and conclusions
Significant risks of material misstatement		
1. Risk of material misstatement due to fraud caused by management override of controls As stated in ISA (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.	Assess the design and implementation of controls over journal entry processing. Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. Test journals at the year-end and post-closing entries and focus on significant risk areas. Consider the need to test journal entries and other adjustments throughout the year. Evaluate significant transactions outside the normal course of business. Assess the adequacy of controls in place for identifying and disclosing related party relationship and transactions in the financial statements. Assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. Substantive testing of income and expenditure transactions around the year-end to	The completion of the assurance procedures did not identify any evidence of management override of controls. Journal controls review provided us with reasonable assurance that journals are controlled and limited to senior finance officers. We undertook detailed substantive testing of a sample of journals with no issues identified. We completed a risk assessment of all journal reports throughout the year. In addition, we reconciled payroll journals to the payroll system. No issues noted. We found that a payment had been made on a Scottish Canals proforma matched to the purchase order in advance of receiving suppliers' invoices. Discussions with Scottish Canals confirmed that this was the exception, and the process will no longer continue. Related party controls are adequate, and disclosures reported in the financial accounts is as expected.

Audit risk	Assurance procedure	Results and conclusions
	<p>confirm they are accounted for in the correct financial year.</p> <p>Focussed testing of accounting accruals and prepayments.</p>	<p>We assessed changes in the methods of assessing accounting estimates including non-current assets (NCA) valuation, pensions, deferred capital grants and corporation tax. We also reviewed accounting estimates and transactions for appropriateness. No issues were identified.</p> <p>We tested a sample of income and expenditure items to confirm that they had been accounted for in the correct financial year. No issues were noted.</p> <p>A review of accruals and prepayments was completed, and no issues were noted.</p> <p>Conclusion: We did not identify any incidents of management override in our work.</p>
<p>2. Estimation in the valuation of canal infrastructure</p> <p>There is a significant degree of subjectivity in the valuation of the canal infrastructure (non-current assets). Valuations are based on specialist and management assumptions, and changes in these can result in material changes to valuations.</p> <p>All non-current assets are revalued at least once every five years. (Network assets and investment properties are valued annually.) Values may also change year on year, and it is important that Scottish Canals ensures the</p>	<p>Evaluate the competence, capabilities, and objectivity of the professional valuers.</p> <p>Review any changes to the contracts or to the scope of work for the valuers.</p> <p>Review the information provided to the valuers to assess for completeness.</p> <p>Critically assess the application of indices and review the revaluation accounting entries to ensure the figures provided by the external valuer are accurately recorded.</p> <p>Review the reconciliation between the financial statements, asset register and valuers' reports.</p>	<p>Our review concluded that all valuers had the required capabilities and competence, and were of professional standing and objectively separate from Scottish Canals.</p> <p>The scope of the work of the valuers remained the same. No additional work or instruction was given to the valuers.</p> <p>The information provided to the valuers was complete.</p> <p>We found errors in the application of the indexation methodology. See Exhibit 3 and Recommendation 3.</p> <p>We found errors in relation to the reconciliation between the</p>

Audit risk	Assurance procedure	Results and conclusions
<p>financial statements accurately reflect the value of its assets.</p>	<p>Review the fixed asset register to confirm correct formulas have been applied and the fixed asset register has been updated in line with the findings reported in the 2022-23 Annual Audit Report.</p> <p>Review management's involvement in the valuation process to assess if appropriate oversight has occurred.</p> <p>Review management's assessment of the fair value of assets not revalued in 2023/24 and assess the appropriateness of any assumptions.</p> <p>Review management's approach to assessing asset impairment.</p> <p>Critically assess the adequacy of disclosures regarding the assumptions in relation to the valuation of land and buildings.</p>	<p>financial statements, asset register and valuers' reports. See Exhibit 3 and Recommendation 3.</p> <p>The fixed asset register has been updated in line with the findings reported in our 2022-23 Annual Audit Report</p> <p>Operational assets had been incorrectly shown as assets under construction. See Exhibit 3 and Recommendation 1.</p> <p>There is appropriate management oversight of the work of the valuers.</p> <p>Further work is required to improve current arrangements around indexation. See Exhibit 3 and Recommendation 3.</p> <p>Management's approach to assessing impairment can be improved by expanding and considering other sources of information in addition to the maintenance team.</p> <p>Our audit work identified an inadequate valuation accounting policy that has been addressed in the audited accounts.</p> <p>Conclusion: Based on the audit work undertaken and the audit adjustments made we are satisfied that the estimation of valuation of canals infrastructure is not materially misstated.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>3. Presumed risk of fraud over income recognition</p> <p>As set out in International Standard on Auditing (UK) 240, there is a presumed risk of fraud over the recognition of revenue.</p> <p>Scottish Canals generates income from multiple commercial sources including retail, totalling approximately £10 million.</p> <p>Scottish Canals has also deferred significant capital grant income to be recognised in future years. This income should only be deferred if there are significant grant conditions that have not been met. Errors were identified in the accounting treatment for deferred capital grants last year.</p>	<p>Review the accounting policies relevant to revenue recognition.</p> <p>Test income transactions at the year end with a focus on material income streams, to confirm completeness, accuracy and cut-off.</p> <p>Review the judgements and estimates made by management when recognising accrued and deferred income at the year end.</p> <p>Sample testing of deferred capital grants to supporting documentation and conditions are met.</p>	<p>Accounting policies relevant to revenue recognition are satisfactory.</p> <p>No issues were identified from our sampling testing of income.</p> <p>No issues were noted from our review of accrued income.</p> <p>We found a material misstatement with deferred capital grants that has been corrected in the audited accounts. See Exhibit 3 and Recommendation 4.</p> <p>Conclusion: Based on the audit work undertaken and the audit adjustments made we are satisfied that income is not materially misstated.</p>

Risks of material misstatement

4. VAT liability calculation

In the previous year, Scottish Canals was concluding negotiations with HMRC on the calculation of its VAT liability. A £1.600 million contingent liability for a potential penalty as at 31 March 2023 was disclosed in the financial statements.

The VAT calculation method provided by KPMG has now been agreed with HMRC. The 2023/24 position, including any requirement to return funding to the Scottish Government, is still to be calculated and included in the financial statements.

Review correspondence between HMRC and Scottish Canals regarding the VAT liability.

Assess the completeness and accuracy of the provision/c creditor balances as at 31 March 2024.

Our wider scope work on financial management will consider the impact of changes in VAT accounting on future financial projections and planning.

We considered the treatment of the estimated historic VAT liability as being reasonable and in line with the correspondence between HMRC and Scottish Canals.

Our work did not identify any issues with the accuracy of the VAT creditor balance in the accounts. We are satisfied with the reasonableness of the contingent liability if £1.600 million as at 31 March 2024.

See [para 30](#) for our wider scope consideration of the impact of VAT on financial management.

Audit risk	Assurance procedure	Results and conclusions
<p>5. Corporation tax calculations</p> <p>We established last year that corporation tax calculations had incorrectly included expenditure funded from government grant in aid, which is out of the scope of corporation tax. Accumulated tax losses brought forward meant that there was no liability for Corporation Tax in 2022/23.</p> <p>An agreement with HMRC is needed on the required treatment for 2023/24 and future years. The 2023/24 position is still to be calculated and included in the financial statements.</p>		<p>Conclusion: Based on the audit work undertaken we are satisfied that the VAT liability is not materially misstated.</p>
	<p>Examine management's consideration of calculation options and subsequent reflection in financial statements.</p> <p>Review agreement between HMRC and Scottish Canals on the required treatment for 2023/24</p> <p>Our wider scope work on financial management will review Scottish Canals' financial projections, which should take account of the additional corporation tax payable once accumulated losses are extinguished or expired.</p>	<p>Disclosures in the accounts were agreed back to the tax calculations provided by KPMG assessment of the figures given by Scottish Canals. No issues were identified.</p> <p>HMRC have still to confirm their agreement of Scottish Canals' proposals on the terms of corporate tax assessment going forward.</p> <p>See para 30 for our wider scope consideration of the impact of corporation tax on financial management.</p> <p>Conclusion: Based on the audit work undertaken we are satisfied corporation tax is not materially misstated.</p>

Four misstatements identified within the financial statements have been corrected

20. The four significant misstatements identified from our audit work have been included in [Exhibit 3](#) and have been corrected by management in the audited annual report and accounts. The net impact of these changes on the audited accounts was:

- Prior year balances
 - comprehensive net expenditure for the year to 31 March 2023 decreased by £5.602 million to £16.824 million.
 - Non-current assets as at 31 March 2023 decreased by £7.807 million to £486.084 million
 - The general fund balance at 31 March 2023 decreased by £12.034 million to £100.357 million

- The revaluation reserve balance increased by £4.226 million to £350.495 million.
- Current year balances:
 - Comprehensive net income for the year to 31 March 2024 decreased by £5.662 million to £10.501 million.
 - Non-current assets at 31 March 2024 increased by £1.514 million to £508.489 million
 - Non-current liabilities at 31 March 2024 decreased by £8.438 million to £22.099 million
 - General fund balance increased by £9.084 million to £118.546 million.
 - Revaluation reserve increased by £0.868 million to £364.345 million.

21. The audit team identified one further non-material misstatement which was not corrected by management. Following Scottish Canals' review of valuation accounting policies, it was identified that transportation, crafts and miscellaneous equipment should be held at depreciated cost, however indexation had been applied to the value of assets held resulting in total overstatement in value of £720,000. Due to the value being below materiality management have decided to not adjust in year and will review the process for 2024/25.

22. We have considered the size, nature, and circumstances leading to all uncorrected misstatements, individually and in aggregate, and concluded that these were not material.

There were issues with the quality of unaudited accounts and working papers and the time taken to respond to audit queries

23. The unaudited annual report and accounts were received in line with the agreed audit timetable on 1 October 2024. Resource challenges within the audit team delayed the commencement of the final accounts audit, and staff availability over the extended audit period for both client and the audit team impacted on the audit delivery timeframe. However, the Scottish Canals team maintained ongoing communication on matters and we would like to thank the staff for their cooperation and support through the audit delivery.

24. As set out in [para 9.](#), during the course of the audit significant additional, unplanned audit time was required to deal with the following:

- the quality of the accounts submitted for audit was poor with numerous typos and errors that could have been avoided if a second review had been carried out

- on several occasions, we experienced significant delays in obtaining responses to audit queries
- there were issues around our audit of staff costs this work including: excessive delays in receiving supporting documentation; excessive time spent on client engagement / communication; having to consider two separate systems used for recording data relating to leavers
- poor quality of working papers and information provided.

Scottish Canals has made progress towards implementing our prior year recommendations

25. Scottish Canals has made good progress towards implementing the agreed prior year audit recommendations, but further work is required. For actions not yet implemented, revised responses and timescales have been agreed with management and are set out in [Appendix 1](#).

2. Financial management

Financial management means having sound budgetary processes, and the ability to understand the financial environment and whether internal controls are operating effectively.

Conclusion

Scottish Canals had effective and appropriate budget processes in place with regular budget monitoring reports provided to the Board.

Scottish Canals reported a total overspend of £0.566 million against the 2023/24 budget of £23.492 million.

Standards of conduct and arrangements for the prevention and detection of fraud and error were appropriate.

Our review of the key controls in the main financial systems resulted in an increased level of substantive testing.

Audit work was completed in response to risks relating to financial management identified in our 2023/4 Annual Audit Plan

26. [Exhibit 5](#) sets out the wider scope risks relating to Financial Management identified in my 2023/24 Annual Audit Plan. It summarises the audit procedures performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 5 Financial Management risks identified in the annual audit plan

Audit risk	Assurance procedure	Results and conclusions
Financial management: non-current assets valuation programme The Government Financial Reporting Manual (FReM) requires that non-current assets are revalued at least once every 5 years. The most recent valuation	We will review the asset valuation methodology and review Scottish Canals' arrangements for ensuring that staff will be adequately trained	The valuation methodology followed complies with FReM requirements. One officer in Finance has received support and training from Ernst & Young. However, based on the results of our substantive testing, further

Audit risk	Assurance procedure	Results and conclusions
<p>of non-current assets was undertaken as at 31 March 2022, with indexation applied in 2022/23. This was the first time that Scottish Canals had to implement a FReM-compliant asset valuation. Scottish Canals is still in the process of developing a methodology with EY for future asset valuations. This was due in March 2024; now expected August 2024.</p> <p>Without a robust methodology in place, financial management arrangements are not adequate to ensure FReM compliance and appropriate asset values in future years' financial statements.</p>	to apply the methodology in-house for future years' valuations.	<p>support and training is required. Consideration should be given to providing training to more than one officer.</p> <p>Recommendation 5</p> <p>(Refer Appendix 1, action plan)</p> <p>Training and support on the application of the indexation methodology should be extended to ensure sufficient officer capacity and resilience.</p> <p>Management should review the application of the indexation methodology as part of accounts completion process.</p>

Scottish Canals reported a total overspend of £0.566 million against the 2023/24 budget

27. The main financial objective for Scottish Canals is to ensure that the financial outturn for the year is within the budget allocated by Scottish Ministers.

28. Scottish Canals has reported an outturn of £24.059 million against its £23.492 million overall budget for 2023/24, an overspend of £0.566 million. The financial performance against fiscal resources is shown in [Exhibit 6](#).

Exhibit 6

Performance against fiscal resource in 2023/24

Performance	Final budget £m	Outturn £m	Over/(under) spend £m
Resource	11.292	11.686	0.394
Capital	12.200	12.372	0.172
Total	23.492	24.059	0.566

Source: Scottish Canals Annual Report and Accounts 23/24

Budget processes are effective and appropriate

29. Scottish Canals presents regular budget monitoring to the Board on a quarterly basis showing the position for the year-to-date, and the projected year-end outturn. These reports were considered by the Executive Management Team during 2023/24 to enable them to respond to any emerging issues and take corrective action. In addition to this, financial governance reports are taken to the Audit and Risk Committee which updates on financial issues, revenue forecasting and issues identified by audit.

The impact of VAT and Corporation Tax has been considered as part of the budget process

30. The Financial Governance report to the Audit and Risk Committee on 4 February 2025 confirmed the final historic VAT interest figure as £1.385 million. A response is awaited from HMRC regarding Scottish Canals' proposed VAT methodology going forward. In the meantime, work continues to establish process and procedure around the monthly VAT returns.

31. Agreement on the terms of corporation tax assessment going forward is awaiting review by HMRC. This was expected in December and remains outstanding. Corporation tax payable in 2023/24 was £35,000; however, this was after offsetting prior year losses. Going forward it is likely that corporation tax will be higher as prior year losses have been utilised.

32. From review of finance reports to committee and discussions with management we are satisfied that the impact of VAT and corporation tax is being considered as part of Scottish Canals' budget process.

Our review of the key controls in the main financial systems resulted in an increased level of substantive testing

33. Our responsibilities under the Code of Audit Practice require us to assess the system of internal control put in place by management. We seek to gain assurance that Scottish Canals:

- has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements
- has systems of internal control which provide an adequate means of preventing and detecting error, fraud, or corruption
- complies with established policies, procedures, laws, and regulations.

34. Our work included initial system reviews of the main financial systems to determine the extent to which we can rely on key internal controls to gain assurance over the processes and systems used in preparing the annual accounts. We consider the results of this work when determining our approach to the audit of the 2023/24 annual accounts.

35. Our systems review of the main financial system (Sage 300) and commercial income streams found that the effective operation of key controls could not be properly evidenced.

36. As a result of our findings, we did not place reliance on these internal controls for our audit of the 2023/24 annual accounts. Instead, we increased our substantive audit testing to obtain the required assurance to support our audit opinion.

Internal audit

37. Scottish Canals' internal audit function is carried out by Audit Glasgow. Internal Audit have completed their 2023/24 audit work and presented their Annual Audit Report to the 25 July 2024 Audit and Risk Committee. Internal Audit reported that reasonable assurance can be placed upon the adequacy and effectiveness of the governance and control environment which operated during 2023/24 in Scottish Canals.

Standards of conduct and arrangements for the prevention and detection of fraud and error are appropriate

38. In the public sector there are specific fraud risks, including those relating to tax receipts, welfare benefits, grants and other claims made by individuals and organisations. Public sector bodies are responsible for implementing effective systems of internal control, including internal audit, which safeguard public assets and prevent and detect fraud, error and irregularities, bribery and corruption.

39. Based on audit work during the year we concluded that Scottish Canals has adequate arrangements in place to prevent and detect fraud or other irregularities.

3. Financial sustainability

Financial sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs.

Conclusion

Scottish Canals has identified medium-term financial sustainability as a very high risk. Progress has been made on a number of actions to address this risk, but further work is required around workforce planning.

Scottish Canals should develop a medium-term financial plan to ensure there is a clear strategy for addressing medium-term financial sustainability.

Audit work completed in response to risks relating to financial sustainability in our Annual Audit Plan

40. [Exhibit 7](#) sets out the wider scope risks relating to Financial Sustainability identified in our 2023/24 Annual Audit Plan. It summarises the audit procedures performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 7

Financial Sustainability risks identified in the annual audit plan

Audit risk	Assurance procedure	Results and conclusions
Financial sustainability: medium term financial planning required Scottish Canals' Corporate Plan 2023-28 sets out its vision, priorities and future plans. There are further strategies to support delivery of the Corporate Plan but some are still in draft (e.g. Investment Strategy waiting for Scottish Government approval) and there is not a medium-term financial plan to	We will review Scottish Canals' medium to longer-term financial planning, including any scenario planning to demonstrate how the organisation will operate in the context of uncertain future funding. We will continue to develop our understanding of Scottish Canals' forward planning arrangement including	Scottish Canals investment strategy and medium-term financial projections have been agreed with Transport Scotland. There has been agreement with HMRC on arrangements for VAT. An agreement with HMRC on the terms of corporation tax assessment going forward was expected in December 2024 but is still outstanding.

Audit risk	Assurance procedure	Results and conclusions
<p>demonstrate how the organisation will deliver its priorities and remain within its resource constraints.</p> <p>Scottish Canals' risk register highlights a very high residual risk regarding the affordability of maintenance and repair of the canals network.</p> <p>It is critical that Scottish Canals has robust medium term financial planning that underpins the delivery of the organisation's priorities and ensures its financial sustainability.</p>	<p>workforce plans, financial plans, asset management plans and how these align to support delivery of the Corporate Plan.</p>	<p>A workforce plan has been drafted but not yet approved as part of Scottish Canals' People Strategy.</p> <p>Scottish Canals should develop a medium-term financial plan that incorporates the position around investment, VAT, corporation tax and workforce planning.</p> <p>Recommendation 6</p> <p>(Refer Appendix 1, action plan)</p> <p>Scottish Canals should finalise its three-year medium-term financial plan to address the significant challenges around financial sustainability and the delivery of its corporate plan.</p>

Scottish Canals does not have a medium-term financial plan

41. In its 2024/25 Quarter 2 Business Performance Plan, Scottish Canals reported that it continues to carry considerable risk regarding workforce and financial pressures and that its repeatedly challenging revenue provision and long-term financial sustainability is of growing concern.

42. In its risk register Scottish Canals shows medium-term financial sustainability as a very high risk. The key actions identified to mitigate this risk are:

- agreement of position with HMRC around VAT and corporation tax and incorporating this into the budget process and medium-term financial plan.
- development of a workforce plan and incorporating this into the medium-term financial plan
- assessment of possible changes to its structure and joint venture developments.

43. As noted in [Exhibit 7](#), an investment strategy has been agreed with Transport Scotland and progress has been made on the position around VAT

and corporation tax. A workforce plan has been drafted but not yet approved. A medium-term financial plan requires to be developed to show how Scottish Canals will deliver its Corporate Plan while ensuring financial sustainability.

4. Vision, leadership and governance

Public sector bodies must have a clear vision and strategy and set priorities for improvement within this vision and strategy. They work together with partners and communities to improve outcomes and foster a culture of innovation.

Conclusion

Scottish Canals has clear plans in place to implement its vision, strategy and priorities.

Scottish Canals has effective and appropriate governance arrangements for delivery of its plans.

Scottish Canals has a clear vision and strategy

44. The Scottish Canals Corporate Plan 2023-2028 sets out its vision and strategy over the five-year period. The plan includes clear priorities and commitments and sets out how progress against these priorities will be measured.

Governance arrangements are effective and appropriate

45. Scottish Canal's governance arrangements have been set out in the Governance Statement in the annual accounts. We have reviewed these arrangements and concluded that they are effective and appropriate.

46. A key part of the governance arrangements is Scottish Canals' Framework Agreement. This sets out corporate governance arrangements and includes the roles and responsibilities in the relationship between Scottish Canals and the Scottish Government. The framework should be reviewed and updated at least every three years. An updated Framework Agreement has been shared with Transport Scotland and a response is expected by April 2025.

Climate change arrangements

47. The Auditor General and Accounts Commission are developing a programme of work on climate change. This involves a blend of climate change-

specific outputs that focus on key issues and challenges as well as moving towards integrating climate change considerations into all aspects of audit work.

48. The Scottish Parliament has set a legally binding target of becoming net zero by 2045. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impacts of climate change.

49. In November 2023, Scottish Canals published its Routemap to Net Zero, detailing its five-year environmental plan. Climate resilience is also embedded into the corporate plan. Progress is being made towards the set targets however climate-change readiness remains an area of high risk.

5. Use of resources to improve outcomes

Public sector bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities.

Conclusions

Scottish Canals has developed an appropriate Best Value framework

Scottish Canals is making good progress in delivering on its performance targets.

Scottish Canals is working effectively with partners to meet stated outcomes and improvement objectives

Scottish Canals has developed an appropriate Best Value framework

50. [Ministerial guidance to Accountable Officers](#) for public bodies and the [Scottish Public Finance Manual](#) (SPFM) sets out the accountable officer's duty to ensure that arrangements are in place to secure Best Value. The guidance sets out the key characteristics of Best Value and states that compliance with the duty of Best Value requires public bodies to take a systematic approach to self-evaluation and continuous improvement.

51. Scottish Canals' arrangements for securing Best Value include its:

- Transformation Committee - supports the Transformation Programme which is aligned with Corporate Plan and Annual Business Plan and seeks to maximise Best Value
- Investment Committee - supports the Investment Programme that optimises the investment portfolio to promote future financial sustainability whilst seeking to maximise Best Value
- Project Assurance Committee - monitors governance and control arrangements to ensure that investment decisions are delivered efficiently and effectively and provide Best Value.

Scottish Canals is making good progress in delivering on its performance targets

52. Scottish Canals' key performance indicators (KPIs) are aligned with the delivery of its Corporate Plan. Progress against these targets is reported on a quarterly basis to the Board through the Business Plan Performance Report.

53. The 2023/24 Quarter 4 Business Plan Performance Report highlighted that Scottish Canals was on track to achieve sixteen out of twenty three business plan activities. Three of the forty-five KPIs being tracked were identified as red status - 80% or less of target met. These related to the Falkirk Wheel customer satisfaction, transits and Crinan Canal leisure moorings. Scottish Canals reports that 2023/24 performance targets not yet achieved were impacted by resourcing challenges and management have identified actions where improved performance is required.

54. Since then further progress has been made with the 2024/25 Quarter 2 Business Plan Performance Report highlighting that Scottish Canals was on track for all twenty three 2024/25 business plan activities with four KPIs showing red status. These related to the Falkirk Wheel customer satisfaction, transits, boat movements and press stories.

Scottish Canals is working effectively with partners to meet stated outcomes and improvement objectives

55. Our outcomes for public audit note that tackling complex social and environmental challenges requires better collaboration across public bodies, with an increase in the pace and scale of reform needed across the Scottish public sector. While public bodies need to deal with immediate financial pressures, they also need to change how services are delivered to people in a way that more effectively meets their needs.

56. The Board recognises that successful partnership working and collaboration is key to Scottish Canals delivering its strategic objectives. The Corporate Plan sets out how Scottish Canals will work with partners in delivering these objectives. Many performance measures include an element of partnership working and good progress against these objectives is being made. Examples of partnership working include

- Progress North Glasgow Regeneration in partnership with Glasgow City Council
- Union Canal Strategy in partnership with City of Edinburgh Council
- Community Engagement and Employability Programmes in partnership with Youngscot.

Appendix 1. Action plan

2023/24 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Accounting for assets under construction (AUC)</p> <p>Operational assets should be held at fair value; assets under construction are valued at cost. When assets under construction are completed and transferred to operational assets they should be revalued (or their value assessed to confirm it is not materially different from fair value). Some operational assets transferred from assets under construction during 2023/24 were valued at cost and not at fair value.</p> <p>Some assets that became operational in-year were not transferred from AUC to operational assets.</p> <p>Some assets that were replaced were not removed from operational assets.</p> <p>Risk – Inadequate procedures increase the risk of material error in the value of AUC and operational assets in the financial statements.</p>	<p>Recommendation</p> <p>Arrangements should be put in place to ensure all assets under construction are reviewed to ensure that they remain correctly categorised at year end. Arrangements should include</p> <ul style="list-style-type: none"> robust procedures / instructions for officers covering of the valuation of new operational assets and the disposal of any assets being replaced. management review of treatment of assets under construction. <p>See Exhibit 3</p>	<p>Accepted</p> <p>Improvements in the Project Assurance Committee have been put in place to ensure reporting on assets under construction are adequately reported to the finance team for recording in the fixed asset system timeously after the year-end.</p> <p>Responsible officer</p> <p>Director of Finance and Business Services</p> <p>Agreed date</p> <p>30 June 2025</p>
<p>2. Valuation of Investment Properties</p> <p>There were discrepancies between the valuation of</p>	<p>Recommendation</p> <p>A reconciliation should be carried out between the valuer's report and the</p>	<p>Accepted</p> <p>A reconciliation will now be conducted at least annually, and is reflected in the</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>investment properties in the valuer's report as at 31 March 2024 and the values of those assets in the fixed asset register (FAR).</p> <p>Risk – Without proper reconciliation processes between the valuer's report and the FAR there is a risk of a material error in the financial statements.</p>	<p>investment properties in the fixed asset register to ensure the fixed asset register is complete and accurate.</p> <p>See Exhibit 3</p>	<p>timetable of work prior to the audit of the 2024/25 Annual Report & Accounts</p> <p>Responsible officer Director of Finance and Business Services</p> <p>Agreed date 31 August 2025</p>
<p>3.Indexation of assets held on the Fixed Asset Register</p> <p>Indexation had not been properly applied to assets held on the fixed asset register as a result of inadequate update of the fixed asset register. This included incorrect classification of assets, unclear application of de minimis capitalisation threshold and the inclusion of third-party assets and prior year disposals.</p> <p>Risk- If the fixed asset register is not properly maintained then the application of indexation to assets held on the fixed asset register could result in a material error in the financial statements.</p>	<p>Recommendation</p> <p>Scottish Canals should put in place adequate arrangements to ensure the correct application of indexation to assets held on the fixed asset register. This should include a regular review of asset classifications, clear application of the de minimis capitalisation threshold, removal of third-party assets and disposals from the fixed asset register to reduce the risk of errors in applying indexation.</p> <p>See Exhibit 3</p>	<p>Accepted</p> <p>A review of asset classifications will be conducted annually, with an additional policy and procedure in place for classification on capitalisation.</p> <p>The existing disposal policy will be reviewed and further work will be done at the Project Assurance Committee to identify disposals / possible disposals on project approval.</p> <p>Responsible officer Director of Finance and Business Services</p> <p>Agreed date 31 August 2025</p>
<p>4.Deferred Income</p> <p>Scottish Canals were deferring income over the lifetime of the related assets.</p> <p>The financial accounts were overstated by £8.438 million.</p>	<p>Arrangements should be put in place to ensure that deferred income applied is in line with IAS 20. This should include</p> <ul style="list-style-type: none"> • training and robust procedures / instructions 	<p>Accepted</p> <p>Additional policy and procedure will be created in order that the Project Assurance Committee</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>Risk - The reported deferred income figures are overstated because of incorrect accounting treatment.</p>	<p>for officers covering in the correct treatment of deferred income</p> <ul style="list-style-type: none"> management review of treatment of deferred income. <p>See Exhibit 3</p>	<p>reviews third party funding requirements on agreement.</p> <p>Responsible officer</p> <p>Director of Finance and Business Services</p> <p>Agreed date</p> <p>30 September 2025</p>
Wider Scope		
<p>5. Asset Valuation Methodology</p> <p>Ernst & Young have provided support and training to ensure FReM compliant valuations around useful lives and indexation.</p> <p>This support and training has been provided for one officer.</p> <p>Our financial statement work on valuations resulted in a number of audit adjustments.</p> <p>Risk – Without further support or training asset valuations will continue to require audit adjustments.</p>	<p>Training and support on the application of the indexation methodology should be extended to ensure sufficient officer capacity and resilience.</p> <p>Management should review the application of the indexation methodology as part of the accounts completion process.</p> <p>See Exhibit 5</p>	<p>Accepted</p> <p>Training on application of the valuation will be provided to four members of the finance team in order to provide some resilience on single points of expertise.</p> <p>Responsible officer</p> <p>Director of Finance and Business Services</p> <p>Agreed date</p> <p>30 June 2025</p>
<p>6. Medium Term Financial Plan</p> <p>Scottish Canals investment strategy and draft medium term financial projections have been agreed with Transport Scotland.</p> <p>There has been agreement with HMRC on arrangements for VAT and corporation tax.</p> <p>A workforce plan is currently being developed as part of a new People Strategy.</p> <p>To support the delivery of its Corporate Plan Scottish</p>	<p>Scottish Canals should finalise its three-year medium-term financial plan to address the significant challenges around financial sustainability and the delivery of its corporate plan.</p> <p>See Exhibit 7</p>	<p>Accepted</p> <p>A draft medium-term financial plan will be agreed by the EMT in the summer, for approval at the next available Board meeting in August 2025.</p> <p>Responsible officer</p> <p>Director of Finance and Business Services</p> <p>Agreed date</p> <p>28 August 2025</p>

Issue/risk	Recommendation	Agreed management action/timing
Canals' draft medium-term financial plan will need to be updated to reflect the position around investment, VAT, corporation tax and workforce planning. Risk – There is a risk that strategic objectives are not met.		

Follow-up of prior year recommendations

Issue/risk	Recommendation and Agreed Action	Progress
b/f 1 Review of Valuation status of Assets We found some assets that hadn't been subject to revaluation review process, and these were obtained late in the audit process but not adjusted in the accounts Risk – valuations are not fully reflected in the accounts	Scottish Canals undertakes a review of all Depreciated Replacement Cost assets to check that that a valuation report has been obtained and is reflected in the fixed asset register. Agreed Action A review of all the valuations will be conducted for the 31 March 2024 year-end to ensure assets requiring revaluation have been incorporated in the valuation. 31 July 2024 (Director of Finance & Business Services)	Implemented We can confirm the roll forward of Depreciated Replacement Cost assets reviewed in 2022/23, and the expected changes have been incorporated in the 2023/24 fixed asset register.
b/f 2. Asset register formula checking We found errors in the Fixed Asset Register formulae. Risk - Amounts used in the Accounts are incorrect due to errors in Fixed Asset Register formulae	Management should review the formulae in the fixed asset register as part of the fixed asset register closedown procedures. Agreed Action Although a review of the 31 March 2023 Fixed Asset Register was undertaken, this formulae error was not	Implemented The formula error identified in the 2022/23 fixed asset register which omitted adjustments relating to the net book value of assets was corrected.

Issue/risk	Recommendation and Agreed Action	Progress
	<p>identified prior to audit. Time for both peer review and manager review of the completed Fixed Asset Register will be incorporated within the year-end timetable.</p> <p>31 July 2024 (Director of Finance & Business Services)</p>	
<p>b/f 3 Medium term financial strategy / outlook projections and Corporation Tax / VAT</p> <p>Scottish Canals does not have a medium-term financial strategy (MTFS) in place as of November 2023.</p> <p>Recent changes to the calculation of tax may not be fully reflected in future financial plans.</p> <p>Risk – That future financial position is unsustainable</p>	<p>Scottish Canals should review and revise future financial forecasts and issue a 3-year medium term financial plan.</p> <p>Agreed Action</p> <p>a. Adjustments to the final proposition for calculating VAT are being collated, with an expected final position expected in April 2024</p> <p>b. The methodology for the organisation's corporation tax since becoming a non-departmental public body will also be reviewed. Discussions with HMRC have not begun pending the VAT work, however HMRC have been informed of the intention to reach a written agreement on the treatment of grant-in-aid and associated expenditure. (June 2024)</p> <p>c. Draft medium term projections were shared with Transport Scotland in July 2023, with an investment strategy shared in February 2024. Once the VAT position has been finalised, a full projection on investments has been conducted, a more robust medium-term financial strategy will be completed.</p>	<p>Superseded</p> <p>Good progress has been made around the calculation VAT and corporation tax and there is now clarity on the figures.</p> <p>The impact of VAT and corporation tax going forward should be incorporated into the medium-term financial plan.</p> <p>The medium-term financial plan has not yet been finalised and is awaiting the completion of an updated workforce plan</p> <p>See Recommendation 6</p>

Issue/risk	Recommendation and Agreed Action	Progress
	31 July 2024 (Director of Finance & Business Services)	
<p>b/f 4 Late Capital Grants</p> <p>A significant amount of capital grants were not identified till after the accounts were submitted for audit.</p> <p>Risk – capital grant funding is not recognised in the accounts</p>	<p>Accounts closedown procedures should include a process to identify capital grants to ensure these are complete</p> <p>Agreed Action</p> <p>As part of the internal audit on project management, procedures on Stagegate completion of projects (SG5) are being reviewed and improved within the Project Assurance Committee. Part of this review includes a financial review of any third-party funding agreements going forward. An additional review will be timetabled as part of the year-end procedures prior to the first draft of the 31 March 2024 accounts being collated</p>	<p>Implemented</p> <p>Evidence provided for audit confirmed all capital grants were included in the 2023/24 financial statements.</p>
	31 July 2024 (Director of Finance & Business Services)	
<p>b/f 5. Procedures and controls over asset movements and completion/disposal</p> <p>Some assets were incorrectly recorded as assets under construction when they had been completed and the unaudited accounts included an asset disposal in error.</p> <p>Risk – Movements in assets are not correctly recorded.</p>	<p>Scottish Canals should establish processes and controls to ensure asset additions, disposals and transfers are correctly recorded and communicated to Finance</p> <p>Agreed Action</p> <p>As detailed above, the Stagegate reports on project completion (SG5) are being improved. These were not all completed timeously for the 31 March 2023 financial year.</p>	<p>Superseded</p> <p>See Exhibit 3 and Recommendations 1 and 2.</p>

Issue/risk	Recommendation and Agreed Action	Progress
	<p>These will form part of the Project Assurance Committee timeline during April and May going forward.</p> <p>15 June 2024 (Director of Finance & Business Services)</p>	
<p>b/f 6. Review of the group and group accounts</p> <p>Millennium Link Trust (MLT) was effectively a subsidiary body prior to 2021/22 and had material assets, which should have led to Scottish Canals preparing group accounts. The status of ownership of Bigg Regeneration Ltd Partnership changed possibly, due to the consequences of the land swap deal. Any growth in value of the joint ventures could mean that these become material group bodies</p> <p>Risk – that Scottish Canals wrongly continues to rely on the immateriality of its group and continues not to prepare group accounts.</p>	<p>Scottish Canals should review the status of each of its group entities for accounts purposes, with legal advice if necessary. The accounts closedown process should include an explicit review of the materiality of group entities.</p> <p>Agreed Action</p> <p>This has been reviewed each year with previous auditors, Scottish Government and Azets during the 31 March 2023 financial year who all concurred no consolidation was necessary. However, this will continue to be reviewed annually on the basis of any material increase in the value in Bigg Regeneration as advised above.</p> <p>A special resolution to wind up MLT was lodged with Companies house in November 2023, and Johnston Carmichael are managing that voluntary liquidation process.</p> <p>Edinburgh Quay Limited and Edinburgh Quay (Three) Limited were both dissolved on 2 January 2024.</p> <p>The only remaining related organisations are:</p>	<p>Implemented</p> <p>Our audit review confirmed that Bigg Regeneration is the only significant joint venture and its value is below materiality.</p>

Issue/risk	Recommendation and Agreed Action	Progress
	<ul style="list-style-type: none"> • BwB (General Partner) Limited • Bigg Regeneration (General Partner) Limited • Bigg Regeneration Limited Partnership <p>30 April 2024 (Director of Finance & Business Services)</p>	
<p>b/f 7. Approach to future revaluations</p> <p>The current valuation of assets was undertaken at 31 March 2022. Revaluations must be redone within five years in accordance with the FreM.</p> <p>Risk - Valuations become out of date and accounting policies are not FreM compliant.</p>	<p>Scottish Canals should outline plans for the future revaluation of its assets within the FreM framework.</p> <p>Agreed Action</p> <p>A handover piece of work from EY is due in March 2024, with an initial proposal to use indices to update the valuation for the 31 March 2024 year-end.</p> <p>31 March 2024 (Director of Finance & Business Services)</p> <p>A full proposition for the year-ended 31 March 2025, 31 March 2026 and 31 March 2027 will be collated and provided to Audit Scotland during the 2023/24 audit.</p>	<p>Ongoing</p> <p>Indices were used to calculate the value of assets as at 31 March 2024.</p> <p>See Exhibit 3 and Recommendations 3.</p> <p>Scottish Canals is considering the full valuation requirements of its assets for 2026-27.</p> <p>A tender process will begin in May 2025, with an intention to have a new valuation contract in place by May 2026.</p> <p>Responsible officer</p> <p>Director of Finance and Business Services</p> <p>Agreed date</p> <p>31 May 2026</p>
<p>b/f 8. Review of disclosures</p> <p>Significant improvements were made in the accounting disclosures in 2022/23, but there is further scope to review these and make further improvements. For example, in describing the sensitivity of key assumptions in estimates</p>	<p>Scottish Canals should further review its disclosures as part of preparing 2023/24 financial statements</p> <p>Agreed Action</p> <p>A technical review of disclosure requirements will be conducted as part of the timetable for the 31 March 2024 year-end.</p>	<p>Implemented</p> <p>Our audit work on 2023/24 accounts disclosures identified one issue. The accounting policy on asset valuation was not clear regarding classes of assets. This was updated for the audited accounts.</p>

Issue/risk	Recommendation and Agreed Action	Progress
Risk - important disclosures that assist in the understanding of the accounts might be omitted.	31 July 2024 (Director of Finance & Business Services)	
b/f 9. Related party interests and register of interests We found an inconsistent approach for identifying and recognising other related parties, which did not consider recording or reporting any related party responsibilities undertaken by heads of departments.	Scottish Canals should review its process for recording and related parties Agreed Action A review of our Senior Management Team will now be incorporated as part of the annual review. 31 July 2024 (Director of People, Safety & Governance)	Implemented Scottish Canals has implemented a process to review the senior management team's declared interests in related parties.
b/f 2021-22-Disaster Recovery Plan	Scottish Canals should establish a formal disaster recovery plan. Agreed Action This is being monitored as part of our key requirements in internal audit. A working group will be established to work through this during quarter one. 31 July 2024 (Director of Finance & Business Services)	Ongoing A working group was created to further the creation of a formal disaster recovery plan. A presentation was provided to the Audit and Risk Committee in October 2024. Additional Business Impact Analysis are being finalised in the last quarter of 2024/25, with more work to continue to develop testing of the system during the summer months. Responsible officer Director of Finance and Business Services Agreed date 30 September 2025
b/f 2021-22. Dundashill	Scottish Canals still owns certain Dundashill plots, which are currently valued as an investment property. It is	Implemented Dundashill plots form part of wider Scottish Canal's Investment Strategy has

Issue/risk	Recommendation and Agreed Action	Progress
	<p>recommended that the Board review this strategy.</p> <p>Agreed Action</p> <p>The Board has been updated since the 2021/22 financial year on the progress and updated strategy at Dundashill as part of the overriding Investment Strategy. This will continue to be reported to Board, however there has been no change in strategy recently whilst the existing plots are being developed out through the BIGG joint venture.</p> <p>30 September 2024 (Chief Operating Officer)</p>	<p>been discussed and agreed with Transport Scotland.</p>
<p>b/f 2021-22. Workforce planning</p>	<p>Scottish Canals should develop a workforce plan.</p> <p>Agreed Action</p> <p>Recent years have focussed around workstreams within the job evaluation project. Establishing a workforce plan is key to the medium-term financial strategy going forward.</p> <p>Re-setting the establishment, a review of working hours and rotas, defining business and customer needs, and embedding succession planning throughout the organisation, consolidating into a new People Strategy will be targeted during the calendar year.</p> <p>31 December 2024 (Director of People, Safety & Governance)</p>	<p>Implemented</p> <p>The Board approved a 35-hour working week for Scottish Canals. The November 2024 Board meeting considered a workforce plan scope. The finalised workforce plan was approved by EMT in February 2025 and implementation of key workforce initiatives continues.</p>

Issue/risk	Recommendation and Agreed Action	Progress
b/f 2021-22. VAT Position	<p>It is anticipated that the VAT settlement will be finalised over the next two months. Transport Scotland has intimated that any overpayment should be repaid as part of a capital grant-in-aid return back to Transport Scotland for distribution.</p> <p>Based on the latest revised estimations, the likelihood of there being a large repayment is low.</p> <p>31 May 2024 (Director of Finance & Business Services)</p>	<p>Superseded</p> <p>See bf/3 and Recommendation 6</p>

Scottish Canals

2023/24 Annual Audit Report

Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:
www.audit-scotland.gov.uk/accessibility



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