Scottish Canals

2024/25 Annual Audit Report - Draft

AUDIT SCOTLAND

Prepared for Scottish Canals and the Auditor General for Scotland
March 2026

Contents

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Key messages

Audit of the annual report and accounts

1 All audit opinions stated that the annual report and accounts were free from material misstatement.

2 We identified several significant adjustments required to the financial statements in respect of the valuation of non-current assets. This included a prior period adjustment of £600,000 to the net book value of assets arising from incorrect accounting for asset disposals. Significant adjustments for 2024/25 non-current asset valuations were required:

- incorrect application of indexation (£6.564 million)
- agreed changed in presentation of assets included in the fixed asset register where Scottish Canals retain rights and obligations (£13.664 million)
- double counting of assets (£12.317 million).

3 There were significant weaknesses with internal controls relating to the payroll process, and a lack of evidence on the operation of controls in the general ledger and accounts receivable processes, which impacted on the level of testing required to gain a sufficient audit assurance.

Wider scope and Best Value audit

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

5 Progress has been made to develop the tender for valuation of non-current assets, but further work is needed, including work to address the issues identified around valuations.

6 The arrangements Scottish Canals has in place for securing financial sustainability are improving, with the development of a medium and longer-term financial plans linked to its corporate priorities.

7 Workforce planning continues to present a significant challenge. External consultants have been appointed to carry out a targeted review of workforce planning and Scottish Canals' operating model.

8 Overall, the arrangements Scottish Canals has in place for vision, leadership and governance were found to be effective and appropriate although we noted scope for improving IT strategy and assurance, along with slow progress in disaster recovery planning and testing.

9 The arrangements Scottish Canals has in place for use of resources to improve outcomes were found to be effective and appropriate, and good progress is being made in delivering on its performance targets.

10 The body has effective and appropriate arrangements in place for securing Best Value.

Introduction

Purpose of the Annual Audit Report

1. The purpose of this Annual Audit Report is to report the significant matters identified from the 2024/25 audit of Scottish Canals annual report and accounts and the wider scope areas specified in the Code of Audit Practice (2021).

2. The Annual Audit Report is addressed to Scottish Canals and the Auditor General for Scotland and will be published on Audit Scotland's website in due course.

Appointed auditor and independence

3. Rachel Browne, of Audit Scotland, has been appointed as external auditor of Scottish Canals for the period from 2023/24 until 2026/27. As reported in the Annual Audit Plan, Rachel Browne and the audit team are independent of Scottish Canals in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. There have been no developments since the issue of the Annual Audit Plan that impact on the continued independence of the engagement lead or the rest of the audit team from Scottish Canals, including no provision of non-audit services.

Acknowledgements

4. We would like to thank Scottish Canals and its staff, particularly those involved in preparation of the annual report and accounts, for their cooperation and assistance during the audit. We look forward to working together constructively over the remainder of the four-year audit appointment.

Audit scope and responsibilities

Scope of the audit

5. The audit is performed in accordance with the Code of Audit Practice, including supplementary guidance, International Standards on Auditing (ISA) (UK), and relevant legislation. These set out the requirements for the scope of the audit which includes:

- An audit of the financial statements and an opinion on whether they give a true and fair view and are free from material misstatement, including the regularity of income and expenditure.
- An opinion on statutory other information published with the financial statements in the annual report and accounts, namely the Performance Report and Governance Statement.
- An opinion on the audited part of the Remuneration and Staff Report.
- Conclusions on Scottish Canals' arrangements in relation to the wider scope areas: Financial Management; Financial Sustainability; Vision, Leadership and Governance; and Use of Resources to Improve Outcomes.
- Reporting on Scottish Canals' arrangements for securing Best Value.
- Provision of this Annual Audit Report.

Responsibilities and reporting

6. The Code of Audit Practice sets out the respective responsibilities of the audited body and the auditor. A summary of the key responsibilities is outlined below.

Auditor's responsibilities

7. The responsibilities of auditors in the public sector are established in the Public Finance and Accountability (Scotland) Act 2000. These include providing an independent opinion on the financial statements and other information reported within the annual report and accounts and concluding on the audited body's arrangements in place for the wider scope areas and Best Value.

8. The matters reported in the Annual Audit Report are only those that have been identified by the audit team during normal audit work and may not be all that exist. Communicating these does not absolve Scottish Canals from its responsibilities outlined below.

9. The Annual Audit Report includes an agreed action plan at Appendix 1 setting out specific recommendations to address matters identified and includes details of the responsible officer and dates for implementation.

Scottish Canals' responsibilities

10. Scottish Canals has primary responsibility for ensuring proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety, and regularity that enables it to successfully deliver its objectives. The features of proper financial stewardship include:

- Establishing arrangements to ensure the proper conduct of its affairs.
- Preparation of an annual report and accounts, comprising financial statements for Scottish Canals that give a true and fair view and other specified information.
- Establishing arrangements for the prevention and detection of fraud, error and irregularities, and bribery and corruption.
- Implementing arrangements to ensure its financial position is soundly based.
- Making arrangements to secure Best Value.
- Establishing an internal audit function.

National and performance audit reporting

11. The Auditor General for Scotland and the Accounts Commission regularly publish national and performance audit reports. These cover a range of matters, many of which may be of interest to Scottish Canals and the Audit and Risk Committee. Details of national and performance audit reports published during 2024/25 can be seen in Appendix 2.

Audit of the annual report and accounts

Main judgements

All audit opinions stated that the annual report and accounts were free from material misstatement.

We identified several significant adjustments required to the financial statements in respect of the valuation of non-current assets. This included a prior period adjustment of £600,000 to the net book value of assets arising from the incorrect accounting for asset disposals. Significant adjustments for 2024/25 non-current asset valuations were required:

- incorrect application of indexation (£6.564 million)
- agreed changed in presentation of assets included in the fixed asset register where Scottish Canals retain rights and obligations (£13.664 million)
- double counting of assets (£12.317 million).

There were significant weaknesses with internal controls relating to the payroll process, and a lack of evidence on the operation of controls in the general ledger and accounts receivable processes, which impacted on the level of testing required to gain a sufficient audit assurance.

Audit opinions on the annual report and accounts

12. Scottish Canals annual report and accounts were considered by the Audit Risk Committee on 26 March 2026 and signed by the appointed auditor on xx March 2026, following approval by the Board on 31 March 2026. The Independent Auditor's Report is included in the annual report and accounts, and this reports that, in the appointed auditor's opinion, these were free from material misstatement.

Audit timetable

13. The unaudited annual report and accounts and some working papers were received on 15 September 2025 in accordance with the agreed audit timetable.

14. There was an improvement in the quality of the unaudited annual report and accounts submitted for audit and in working papers in comparison to last year. However, there were still issues regarding the completeness and accuracy of parts of the unaudited annual report and accounts submitted for audit and some working papers which have increased the time required to complete the audit.

Audit fee

15. The audit fee for the 2024/25 audit was reported in the Annual Audit Plan and was set at £102,650. 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.

16. We identified matters during our 2024/25 audit that increased the audit work beyond that originally planned, for example we could not place reliance on internal controls, and some supporting working papers were of lower quality than expected. The errors found during audit testing of non-current assets 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 £17,198 which brings the total 2024/25 audit fee to £119,848.

Materiality

17. The concept of materiality is applied by auditors in planning and performing an audit, and in evaluating the effect of any uncorrected misstatements on the financial statements or other information reported in the annual report and accounts.

18. Broadly, the concept of materiality is to determine whether misstatements identified during the audit could reasonably be expected to influence the decisions of users of the annual report and accounts. Auditors set a monetary threshold when determining materiality, although some issues may be considered material by their nature. Therefore, materiality is ultimately a matter of the auditor’s professional judgement.

19. Materiality levels for the audit of Scottish Canals were determined at the risk assessment phase of the audit and were reported in the Annual Audit Plan, which also reported the judgements made in determining materiality levels. These were reassessed on receipt of the unaudited annual report and accounts. There were no changes required to the materiality levels for gross assets, which are outlined in Exhibit 1.

Exhibit 1
2024/25 Materiality levels for Scottish Canals

Materiality	Amount
Materiality – set at 2% of gross assets	£10 million
Performance materiality – set at 55% of materiality. As outlined in the Annual Audit Plan, this acts as a trigger point. If the aggregate of misstatements identified during the audit exceeds performance materiality, this could indicate further audit procedures are required.	£5.5 million
Reporting threshold – set at 5% of materiality.	£500,000

Source: Audit Scotland

We set lower specific materiality levels for income and expenditure testing

20. 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.

21. 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 level

Materiality	Amount
Overall Materiality	£761,000
Performance materiality	£418,000

Source: Audit Scotland

22. It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected, although the final decision on making the correction lies with those charged with governance, considering advice from senior staff and materiality.

Significant findings and key audit matters

23. ISA (UK) 260 requires auditors to communicate significant findings from the audit to those charged as governance, which for Scottish Canals is the Audit and Risk Committee.

24. The Code of Audit Practice also requires public sector auditors to communicate key audit matters. These are the matters that, in the auditor's professional judgement, are of most significance to the audit of the financial statements and require most attention when performing the audit.

25. In determining key audit matters, auditors consider:

- Areas of higher or significant risk of material misstatement.
- Areas where significant judgement is required, including accounting estimates that are subject to a high degree of estimation uncertainty.
- Significant events or transactions that occurred during the year.

26. The significant findings and key audit matters to report are outlined in Exhibit 3**Error! Reference source not found.**.

Exhibit 3
Significant findings and key audit matters

Significant findings and key audit matters	Outcome
1. Non-current asset indexation Since the last full valuation in 2020/21 management have applied indexation using the model provided by the valuer Ernst & Young (EY). We identified significant movement in 2024/25 valuations arising from the use of this model. Further investigation and discussions with management found that changes to asset life and underlying assumptions implemented during 2024/25 had, unknown to management, caused the model to recalculate asset valuations and not simply apply indexation.	To identify any potential misstatement, management applied their own indexation calculation as designed and agreed during the initial 2021/22 valuation process from the last full revaluation. This calculation highlighted significant differences with the output from the indexation model. The overall impact was a net increase of £6.564 million to the value of Property, Plant and Equipment (PPE) assets as at 31 March 2025. PPE cost has increased by £105.197 million and accumulated depreciation has increased by £98.633 million.

Significant findings and key audit matters	Outcome
	Management completed the required amendments to the fixed asset register. The audit team reviewed the register to assess the accuracy of updates, and confirmed the changes were reflected in the audited accounts. The design of the indexation model has been amended to allow it to be used correctly in future years.
2. Application of PPE valuation policy Scottish Canals' accounting policies should guide decision making and ensure consistent treatment of its asset base. The accounting policy for Real Estate Operational assets states that asset valuations are appraised using the market approach with formal valuations conducted every five years, supplemented by annual indexation in alternate years. However, most of these assets had been valued in 2024/25 by the newly appointed valuer. This is not in line with stated policy. In line with the Government Financial Reporting Manual, Scottish Canals may elect to adopt a depreciated historical cost basis as a proxy for current value in existing use or fair value for assets that have short useful lives or low values (or both). These assets would then be excluded from valuation or indexation. Scottish Canals has broad asset classes containing assets with widely varying values and useful lives. It was unclear how management define assets with short useful lives or low value. For example, assets such as £2,000 boat cradles were scheduled for revaluation, while a £2.9 million bridge was held at net book value. It is unclear how annual revaluations and the inclusion of assets of low value or short useful lives is delivering value for money.	Management reviewed each asset class to define thresholds for low value and short useful lives. Where necessary assets were reclassified to improve clarity and consistency. This exercise resulted in: • Canal and Waterside Accessories now being held at cost • Real Estate Operational assets will no longer be subject to annual valuation • Adjustments to move assets between classes within note 6 totalling £122 million cost, but a net nil effect to the Statement of Financial Position. We reviewed the appropriateness of the asset reclassifications and the updated narrative disclosures in the audited accounts. We note that many assets now identified by management as falling below the low value thresholds represent immaterial components of larger, significant assets that will themselves be subject to revaluation (see Significant Finding 4).
3. Management oversight of valuation EY provided valuations of new assets for 2024/25. Management provided EY with a list of 373 additions, including signage items valued at £250, which are well below the capitalisation threshold, and benches valued at £14,000 that	Management performed an exercise to determine potential risk for double counting within the fixed asset register. They then requested their valuers to review the listed assets and determine if

Significant findings and key audit matters	Outcome
the valuer determined required formal revaluation. Strengthening management's review of assets before instructing the valuer would reduce unnecessary work and cost and ensure that revaluation decisions remain aligned with accounting policies. Ryden provided full valuations on 2024/25 investment properties and operational land and buildings. We reported in our 2023/24 Annual Audit Report that valuing operational buildings annually was inconsistent with accounting policies, and management advised that the new valuer procurement would address this. However, Ryden was subsequently given largely the same asset list for 2024/25 revaluation, resulting in unnecessary additional work for both the valuer and the audit team. We found that the valuation instructions did not request the identification of key building components, such as heating systems and roofs, preventing adequate componentisation. We also found that the valuer was not informed of certain assets already recorded as components of the main asset, resulting in double counting within the fixed asset register. This led to an overstated valuation, most notably affecting The Falkirk Wheel building complex, which contains extensive asset componentisation. Lastly the valuer's work identified a number of assets classified as investment property which, following review, the audit team deemed to be incorrectly classified based on current use.	the value would have already been included in an existing asset. We performed a further check on the assets not originally sent to the valuer and identified some further potential cases and requested that the valuer review a sample of these. The result was that 86 assets were identified as double counted and were removed from the asset register. The impact of the adjustment was a reduction of £12.317m in the net book value of asserts in the audited accounts. There remains a residual untested asset population with a cost value of around £1 million, where audit consider there to be a risk of double counting. This does not present a risk of material misstatement in the accounts, however management should consider whether they wish to review these for next year or to address it as part of the full valuation in 2026/27. Management also reclassified 32 assets with a net book value of £781,000 from investment property to PPE, based on our audit findings and this was reflected in the audited accounts. **Recommendation 1** The timetable for valuation processes led by teams within Scottish Canals should allow adequate time for the finance team to fully review the valuation prior to audit. Management should ensure there is clarity and consistency in valuation treatment across the organisation. This should include: • establishing clear thresholds for new assets requiring valuation; and • identifying assets requiring componentisation and ensuring these are not subject to double counting (see Significant Finding 4) • Classification of assets as investment property should be regularly reviewed to

Significant findings and key audit matters	Outcome
	ensure all assets meet this classification per IAS 40.
4. Componentisation within the fixed asset register Asset components are used to identify significant elements of an asset that have materially different useful lives and therefore require separate recognition and depreciation. Our review of the fixed asset register identified instances of both over componentisation and under componentisation. Over componentisation can unnecessarily complicate the fixed asset register and increase the risk that management loses visibility over what has been capitalised, as evidenced by the double counting error in Significant Finding 3 above. Under componentisation increases the risk of misstated depreciation charges where inappropriate useful lives are applied. Notably this was found in an asset labelled 'monkey bars' (£1.4 million net book) which contained a variety of asset types (bridges, towpaths, other infrastructure) which have significantly different useful lives.	Management accepted audit findings and has committed to updating the fixed asset register and engaging with the valuers to ensure appropriate valuation of asset components, including the 'monkey bars' asset (Recommendation 1, Appendix 1). **Recommendation 2** In preparation for the full valuation as at 31 March 2027, management should • review and update the fixed asset register to remove all cases of over or under componentisation. • work with the valuer to ensure the correct valuation approach for each component. (Recommendation 2, Appendix 1)
5. Recognition of non-current asset disposals Our testing of 2024/25 non-current asset disposals identified errors in all items sampled; all items related to 2023/24 disposals. Following our findings, management completed a wider review and identified that assets with a cost value of £5.668 million were recorded as disposals in the incorrect financial year. The issue was mainly due to delays in notifying the Finance team of disposals during new asset construction. We also noted weaknesses in the use of asset disposal forms that should be improved to strengthen record-keeping.	A prior period adjustment of £600,000 has been reflected in the audited accounts to correct the disposal errors identified through audit. This reflects the net book value impact in 2023/24 to remove the £5.668 million cost value of assets. The Finance team had already introduced a control over assets under construction following a prior-year recommendation, and they have confirmed this will mitigate similar issues in future. We will review its effectiveness during disposal testing in 2025/26. **Recommendation 3** Management should update the asset disposal form to ensure key dates are captured and implement arrangements (e.g. procedural instructions, staff

Significant findings and key audit matters	Outcome
	training) to strengthen compliance with its use. (Recommendation 3, Appendix 1)
6. Completeness of fixed asset register The fixed asset register is the key data source to inform asset values in the annual accounts. Following audit recommendations in prior years, management identified a subset of non-current assets in the register where Scottish Canals did not have title to the land on which the assets were located. These assets were then excluded from the fixed asset register and not reflected in asset values in the accounts. At management's request we reviewed the decision this year, consulting with our technical support team and reviewing the nature of the agreement with the landowner, Scottish Water.	Following review of documentary evidence we concluded that while Scottish Canals does not have ownership of the land areas, it retains rights and obligations in relation to the assets and they should be included within the asset values in the accounts. This led to 62 assets being added back to the register and represented an increase of £13.664 million to net book value for non-current assets.

Source: Audit Scotland

Qualitative aspects of accounting practices

27. ISA (UK) 260 also requires auditors to communicate their view about qualitative aspects of Scottish Canals' accounting practices, including accounting policies, accounting estimates, and disclosures in the financial statements.

Accounting policies

28. The appropriateness of accounting policies adopted by Scottish Canals was assessed as part of the audit.

29. As reported in Exhibit 3, item 2 above, issues were identified within the asset valuation accounting policies.

30. Our review of the other accounting policies found that these were appropriate to Scottish Canals' circumstances, and there were no other significant departures from the accounting policies set out in the Government Financial Reporting Manual (FReM).

Accounting estimates

31. Accounting estimates are used in number of areas in Scottish Canals' financial statements, including the valuation of non-current assets, valuation of investment properties and the valuation of the pension liability. Audit work considered the process that management has in place around making accounting estimates, including the assumptions and data used in making the estimates, and the use of any management experts. Audit work concluded:

- There were no issues with the selection or application of methods, assumptions, and data used to make the accounting estimates, and these were considered to be reasonable.
- There was no evidence of management bias in making the accounting estimates.

32. Details of the audit work performed and the outcome of the work on accounting estimates that gave rise to significant risks of material misstatement are outlined in Exhibit 6, (page 21).

Disclosures in the financial statements

33. The adequacy of disclosures in the financial statements was assessed as part of the audit. The quality of disclosures was adequate, with additional levels of detail provided for disclosures around areas of greater sensitivity, such as financial instruments and valuation of the pension liability.

Other matters to report

34. Auditing standards require auditors to report a number of other matters if they are identified or encountered during an audit. The matters identified or encountered on the audit of Scottish Canals are outlined in Exhibit 4.

Exhibit 4
Other matters to report

Auditing standard requirement	Matter to report	Outcome
1. Significant deficiencies in internal control ISA (UK) 265 requires auditors to report any significant deficiencies in internal control identified during the audit.	We identified several significant weaknesses with internal controls relating to the payroll process, and a lack of evidencing of controls within ledger and accounts receivable processes. This is set out in more detail in the Financial Management section below (Para 55. to 59.) We were unable to place reliance on the operation of several internal controls. As a result, additional substantive testing was undertaken to obtain sufficient and appropriate audit evidence to support the audit opinions on the financial statements.	The additional substantive testing performed on staff costs and other income provided sufficient and appropriate audit evidence to conclude that the financial statements were free from material misstatement. **Recommendation 4** Management should ensure that key controls within the general ledger, accounts receivable, and payroll processes operate consistently as designed, and that sufficient evidence is retained to demonstrate their effective operation. (Recommendation 4, Appendix 1)
2. Related parties ISA (UK) 550 requires auditors to report any significant matters in connection with related parties identified during the audit.	We identified two instances where the Registers of Interest were not fully completed or completed accurately by individuals. This created a risk for the completeness and accuracy of the Related Party Transactions disclosure note 19 which is based on the Registers of Interests.	Officers updated the Related Party Transactions Note 19 based on their knowledge and experience as well as disclosures in Registers of Interests. We reviewed the supporting evidence and concluded that Note 19 disclosures were not materially misstated. **Recommendation 5** Executive and Non-Executive Directors should update Registers of Interest annually. Officers should follow up if a register is not received. (Recommendation 5, Appendix 1)

Source: Audit Scotland

Significant matters discussed with management

35. All significant matters identified during the audit and discussed with management have been reported in the Annual Audit Report.

Audit adjustments

36. Audit adjustments were required to the financial statements to correct misstatements that were identified from the audit. Details of all audit adjustments greater than the reporting threshold of £0.5 million are outlined in Exhibit 5.

Exhibit 5
Audit adjustments

Details	Financial statements lines impacted	Statement of Comprehensive Net Expenditure (SoCNE)		Statement of Financial Position (SoFP)	
Audit adjustments to financial statements		**Dr**	**Cr**	**Dr**	**Cr**
		£000	**£000**	**£000**	**£000**
1. **Indexation model revision** See Exhibit 3, point 1 for details					
	Property Plant and Equipment				(6,564)
	Gain/loss on revaluation reserve for PPE	6,564			
2. **Add back unrecognised assets** See Exhibit 3, point 6 for details					
	PPE			13,664	
	Gain/loss on revaluation reserve for PPE		(13,664)		

Details	Financial statements lines impacted	Statement of Comprehensive Net Expenditure (SoCNE)	Statement of Financial Position (SoFP)
3. **Removal of double counted assets** See Exhibit 3, point 3 for details			
	PPE		(12,317)
	Gain/loss on revaluation reserve for PPE	12,317	
4.			
5. **Reclassification of assets from investment property to PPE** See Exhibit 3, point 3 for details			
	PPE		781
	Investment property		(781)
6. **Assets disposed in 2023/24** See Exhibit 3, point 5 for details			
	Reversal of PPE disposal		5,668
	Reversal of removal of accumulated depreciation		(5,231)
	Reversal of gain/loss on revaluation reserve for PPE	(437)	
7. **Deferred capital income** Correction of deferred grant income amortisation spreadsheet error			
	Other operational income	508	

Details	Financial statements lines impacted	Statement of Comprehensive Net Expenditure (SoCNE)	Statement of Financial Position (SoFP)
	Deferred capital income		(508)
8. **VAT liability** Removal of provision for VAT penalty following updated HMRC notification in Jan 2026, and reclassification of remaining liability			
	Provision for long term liabilities		3,211
	Accruals		(233)
	Other operating charges	(2,978)	
Net impact on financial statements		**2,310**	**(2,310)**

Source: Audit Scotland

37. In addition to the corrected misstatements outlined in Exhibit 5, our audit identified two misstatements which have not been corrected by management.

38. The uncorrected misstatements, with a total estimated gross value of £1.8 million, are classification errors between lines within Note 6 Property, Plant and Equipment: if corrected, they would not change the value of net assets in the Statement of Financial Position. Our sample testing of potentially double counted non-current assets identified errors within the sample. In accordance with ISA requirements, the identified misstatements were projected to the entire population to estimate the potential total misstatement. The £1.9 million projected misstatements represent the auditor's best estimate of the error across the full population, based on the sample results.

39. The value, nature, and circumstances of the uncorrected misstatements were considered, individually and in aggregate, by the audit team, and it was concluded these were not material to the financial statements. As a result, these did not have any impact on the audit opinions given in the Independent Auditor's Report.

40. It is the auditor's responsibility to request that all misstatements greater than the reporting threshold are corrected, even if they are not material. Management do not propose to make audit adjustments to correct these misstatements. Due to the misstatements not being material and having a nil impact on the overall financial position, management propose to address this through future engagement with the valuer. However, the final decision on whether an audit adjustment is processed to correct a misstatement rests with the Audit and Risk Committee as those charged with governance.

Significant risks of material misstatement identified in the Annual Audit Plan

41. Audit work has been performed in response to the significant risks of material misstatement identified in the Annual Audit Plan. The outcome of audit work performed is summarised in Exhibit 6.

Exhibit 6
Significant risks of material misstatement to the financial statements

Risk of material misstatement	Planned audit response	Outcome of audit work
1. Fraud caused by management override of controls Management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.	The audit team will: • Evaluate 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. • Test journals entries, focusing on those that are assessed as higher risk, such as those affecting revenue and expenditure recognition around the year-end. • Evaluate significant transactions outside the normal course of business. • Assess the adequacy of controls in place for identifying and disclosing related party relationships and transactions in the financial statements.	Audit work performed found: • The design and implementation of controls over journal processing were appropriate. • No inappropriate or unusual activity relating to the processing of journal entries was identified from discussions with individuals involved in financial reporting. • No significant issues were identified from testing of journal entries. • No significant issues were identified from transactions outside the normal course of business. • As reported in Exhibit 4, there was a weakness in the controls for identifying and disclosing related party relationships and transactions but following review of supporting evidence we

<table>
<tr><th>Risk of material misstatement</th><th>Planned audit response</th><th>Outcome of audit work</th></tr>
<tr><td></td><td>• Assess changes to the methods and underlying assumptions used to prepare accounting estimates and assess these for evidence of management bias.</td><td>concluded disclosures were not materially misstated.
• No significant issues were identified with changes to methods and underlying assumptions used to prepare accounting estimates and there was no evidence of management bias.
Conclusion: no evidence of fraud caused by management override of controls.</td></tr>
<tr><td>2. Valuation of Investment Properties
Scottish Canals held £508 million of property, plant, and equipment (PPE) at 31 March 2024, of which £23 million was Investment Properties.
Scottish Canals is required to value Investment Assets at existing use value where an active market exists. The contract for investment property valuation services is currently out to tender.
There is a significant degree of subjectivity in these valuations which are based on specialist assumptions, and changes in the assumptions can result in material changes to valuations.</td><td>The audit team will:
• Evaluate the design and implementation of controls over the valuation process.
• Review the information provided to the valuer and assess this for completeness and accuracy.
• Evaluate the competence, capabilities, and objectivity of the valuer.
• Obtain an understanding of management's involvement in the valuation process to assess if appropriate oversight has occurred.
• Review the appropriateness of the key data and assumptions used in the 2024/25 valuation process, and challenge these where required.
• Review management's assessment that the value in the balance sheet of assets not subject to a valuation process in 2024/25 is not materially different to current value at the year end, and challenge this where required.</td><td>Audit work performed found:
• The design and implementation of controls over the valuation process were appropriate.
• We confirmed that the valuer was provided with complete and accurate information.
• We concluded the valuer was sufficiently competent, capable and objective.
• Engagement and oversight was primarily driven by the Estates team. The Finance team should be have appropriate involvement in the process to ensure the accounting requirements are met. See Exhibit 3, point 4 and Recommendation 2.
• All explanations and evidence for the valuations sample tested were reasonable.
• Our work identified 32 PPE assets worth £781,000 which had been misclassified as investment property. Management have corrected this in the audited accounts.
Conclusion:
We concluded that following the above audit adjustment the</td></tr>
</table>

Risk of material misstatement	Planned audit response	Outcome of audit work
		value of investment property in the audited financial statements was not materially misstated.
3. Presumed risk of fraud over income recognition As set out in International Standard on Auditing (UK) 240, there is a presumed risk of fraud over the recognition of revenue. Scottish Canals receives grant income from several sources and generates income from multiple commercial sources including retail, totalling approximately £10 million. Our prior year review highlighted that effective operation of key controls around commercial income collection could not be evidenced.	The audit team will: • Test income transactions at the year end with a focus on material income streams, to confirm completeness, accuracy and cut-off. • Review the judgements and estimates made by management when recognising accrued and deferred income at the year end. • Sample testing of deferred capital grants to supporting documentation and conditions to ensure there are significant conditions that have not been met.	Audit work performed found: • No issues were identified from our sample testing of income • No issues were noted from our review of accrued income. • We found a £0.508 million misstatement of deferred capital grants that has been corrected in the audited accounts. **Conclusion:** Based on the audit work undertaken and the audit adjustments made we are satisfied that income is not materially misstated.

Source: Audit Scotland

Prior year recommendations

42. Scottish Canals has made limited progress in implementing the agreed prior year audit recommendations. For actions not yet implemented, revised responses and timescales have been agreed with management and are outlined in Appendix 1.

Wider scope and Best Value audit

Main Conclusions

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

Progress has been made to develop the tender for valuation of non-current assets, but further work is needed, including work to address the issues identified around valuations.

The arrangements Scottish Canals has in place for securing financial sustainability are improving, with the development of a medium and longer-term financial plans linked to its corporate priorities.

Workforce planning continues to present a significant challenge. External consultants have been appointed to carry out a targeted review of workforce planning and Scottish Canals' operating model.

Overall, the arrangements Scottish Canals has in place for vision, leadership and governance were found to be effective and appropriate although we noted scope for improving IT strategy and assurance, along with slow progress in disaster recovery planning and testing.

The arrangements Scottish Canals has in place for use of resources to improve outcomes were found to be effective and appropriate, and good progress is being made in delivering on its performance targets.

The body has effective and appropriate arrangements in place for securing Best Value.

Audit approach to wider scope and Best Value

Wider scope

43. As reported in the Annual Audit Plan, the wider scope audit areas are:

- Financial Management.
- Financial Sustainability.

- Vision, Leadership and Governance.
- Use of Resources to Improve Outcomes.

44. Audit work is performed on these four areas and a conclusion on the effectiveness and appropriateness of the arrangements Scottish Canals has in place for each of these is reported in this chapter.

Duty of Best Value

45. The Scottish Public Finance Manual (SPFM) explains that Accountable Officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. Best Value in public services: guidance for Accountable Officers is issued by Scottish Ministers and sets out their duty to ensure that arrangements are in place to secure Best Value in public services.

46. Consideration of the arrangements Scottish Canals has in place to secure Best Value has been carried out alongside the wider scope audit.

Significant wider scope risks

47. Audit work has been performed in response to the significant wider scope risks identified in the Annual Audit Plan. The outcome of audit work performed is summarised in Exhibit 7.

Exhibit 7
Significant wider scope risks identified in the annual audit plan

Significant risk	Planned audit response	Outcome of audit work
Financial management: non-current assets valuation programme In line with the Government Financial Reporting Manual (FReM), Scottish Canals is required to revalue its non-current assets at least once every five years. A full revaluation is scheduled for the 2026–27 financial year. To support this, a tender process was initiated in May 2025, with the objective of awarding a new valuation contract by May 2026. Failure to secure the contract on time poses a risk to the timely and accurate completion of the revaluation, given the complexity and specialised nature of the asset base. In the interim, EY has provided an indexation methodology to maintain FReM compliance. However, the application of this methodology is complex and currently dependent on a single individual, presenting a knowledge continuity risk.	The audit team will: • Liaise with Scottish Canals to confirm the status of the PPE asset valuation tender • Seek assurance that relevant finance team members have received training on the valuation process to mitigate reliance on a single point of expertise.	• Scottish Canals has made some progress in preparing for the forthcoming tendering exercise and is currently considering the scope and valuation treatments, which are key preparatory steps. However, supporting documentation has not yet been provided, and no specific timeline has been confirmed. Several weaknesses previously identified in relation to asset classification, component lives and valuation treatment remain outstanding and continue to impact the accuracy of the fixed asset register. • A senior financial accountant has been employed to support the tender process alongside the current team. **Conclusion:** Progress has been made to develop the tender for valuation of non-current assets. However, further work is needed to clarify expectations following the issues and complexities identified in Exhibit 3.

Significant risk	Planned audit response	Outcome of audit work
Financial sustainability - medium term financial plan Scottish Canals' new framework document was approved by the Board and was shared with Transport Scotland for approval on 26th March 2025. The Investment Strategy is now agreed and in place. However, there is currently no medium-term or longer-term financial plan, and the Corporate Plan does not include financial resources available to Scottish Canals. This lack of financial clarity makes it difficult to assess how the organisation will demonstrate financial sustainability and effectively deliver on the priorities set out in the Corporate Plan.	The audit team will: • Review the progress made by Scottish Canals in developing comprehensive financial plans. • Evaluate the financial plans produced, including an assessment of their robustness and the validity of underlying assumptions. • Determine whether the financial plans are appropriately aligned with the Corporate Plan and reflect Scottish Canals' strategic priorities.	• Scottish Canals' medium-term financial strategy was approved by the Board in December 2025. • The assumptions made in the strategy appear valid, but we expect the strategy to develop further detail over time to demonstrate the robustness of its assumptions. • The financial plans being developed are being aligned to Scottish Canals' Corporate Plan and priorities. **Conclusion:** Scottish Canals is making progress in developing medium and longer-term financial plans linked to its Corporate Plan and priorities.

Source: Audit Scotland

Conclusions on wider scope audit – Financial Management

Scottish Canals had effective and appropriate budget processes in place with regular budget monitoring reports provided to the Board. A total underspend of £0.197 million was reported against the 2024/25 budget of £27.075 million.

The capacity of the small finance team is limited and this has contributed to errors in the annual report and accounts.

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

Significant issues were identified during audit review of the revaluation of non-current assets and further work will be required by management to support the upcoming tender valuation process.

Financial Management

48. In assessing Scottish Canals' arrangements for securing sound financial management, we consider whether:

- a system of internal control is in place that is operating effectively and has no significant weaknesses or deficiencies.
- there are clear and up-to-date policies and procedures, for example, financial regulations and scheme of delegation, in place that ensure effective financial management.
- there are clear and up-to-date policies in place for preventing and detecting fraud and other irregularities, and participation in fraud prevention and detection activities such as the National Fraud Initiative (NFI).
- there are effective arrangements in place for the scrutiny of arrangements that support sound financial management, and effective scrutiny and challenge provided by the Audit and Risk Committee.

49. Based on our audit work we found that, overall, Scottish Canals effective and appropriate arrangements in place for securing sound financial management.

50. However, significant issues were identified in the revaluation of non-current assets, and weaknesses were identified in relation to evidencing the operation of key internal financial controls.

Budget setting and monitoring arrangements

51. The 2024/25 budget was approved by the Board on 21 March 2024 with quarterly. Scottish Canals ended 2024/25 with a £0.197 million underspend against a total budget of £27.075 million as shown in Exhibit 8. We found that Scottish Canals had effective budget setting and monitoring arrangements in place.

Exhibit 8
2024/25 Resource outturn

	Final budget £m	Outturn £m	Over/(under) spend £m
Resource	12.845	12.490	(0.355)
Capital	14.230	14.388	0.158
Total Resources	27.075	26.878	(0.197)

Source: Scottish Canals 24/25 Annual Report & Accounts

Valuation of Non-Current Assets

52. In our Annual Audit Plan, we identified the non-current asset valuation programme as a significant wider scope risk. As outlined in Exhibit 3, our audit work identified several issues relating to the revaluation of PPE, including the application of indexation, adherence to accounting policies, componentisation, and the level of engagement with valuers. We also noted that progress has been made in developing the tender for the valuation of non-current assets, as set out in Exhibit 7.

Framework Document

53. In August 2025, the Framework Document between Scottish Canals and Transport Scotland was updated to strengthen governance and operational clarity. The revised agreement introduces clearer financial regulations and an enhanced scheme of delegation, improving accountability and decision making processes. These changes support more effective financial management and better alignment of operational responsibilities with strategic oversight, contributing to improved transparency and control across the organisation.

Fraud Prevention and Detection Arrangements

54. The Scottish Canals Board is responsible for maintaining arrangements to prevent and detect fraud, error, irregularity, bribery and corruption, and for ensuring that its affairs are managed in accordance with proper standards of conduct. Based on our work, we conclude that the Board has adequate arrangements in place to prevent and detect fraud and other irregularities. This conclusion is informed by our review of relevant policies and procedures, including codes of conduct for members and officers, internal audit reports, and the minutes provided by Scottish Canals. We also considered Scottish Canals' participation in fraud prevention and detection activities such as the National Fraud Initiative (NFI).

Weaknesses in Key Financial Controls

55. Scottish Canals' internal audit service during the financial year was provided by Audit Glasgow, with the contract extended for a further year to cover 2025/26. Internal Audit completed its 2024/25 programme of work and presented the Annual Audit Report to the Audit and Risk Committee on 5 June 2025. The report noted improvements in the control environment and concluded that reasonable assurance could be placed on the adequacy and effectiveness of the governance and control environment in operation during 2024/25.

56. However, as set out in Exhibit 4, we identified several significant weaknesses with internal controls relating to the payroll process, and a lack of evidencing of controls within ledger and accounts receivable processes. Consequently, we did not place reliance on these internal controls for our audit and instead increased our substantive testing to obtain the assurance required to support our audit opinion.

57. **General Ledger:** Management were unable to demonstrate that the following key controls operated as intended throughout 2024/25:

- Sage user access -quarterly review of access report not evidenced
- monthly budget monitoring - management accounts issued to each service area but lack of consistent evidencing of report review
- feeder system reconciliation – monthly review of accounts payables and receivables modules not evidenced
- journal review – end of month transaction reports issued to each service but no evidence of review for mis postings
- changes to standing data – lack of evidenced review/signoff of changes.

58. **Accounts Receivable:** Management were unable to demonstrate that the following key controls operated as intended throughout 2024/25:

- aged debt reporting – inconsistent/lack of evidencing of follow-up action on outstanding invoices
- segregation of duties – areas of income collection with limited staff segregation and no evidence of secondary/spot check reviews
- feeder system reconciliations – monthly review of accounts receivable reconciliations not evidenced.

59. **Payroll:** Our audit work on staff costs found the following control weaknesses:

- incorrect start and leaving dates on the payroll system
- no reconciliation of headcount figures between HR and Payroll
- incomplete monthly reconciliations between payroll journals and the general ledger
- payroll journals not authorised before being uploaded to the general ledger
- some staff costs being charged to the incorrect ledger code
- inadequate audit trail of changes made to payroll records.

Recommendation 4

Key Financial Controls

Management should ensure that key controls within the general ledger, accounts receivable, and payroll processes operate consistently as designed, and that sufficient evidence is retained to demonstrate their effective operation.

Finance team capacity

60. The Director of Finance is suitably qualified and experienced and provides effective leadership of the finance function. However, recruitment for some vacancies within the team was not authorised due to significant challenge by EMT around vacancy recruitment with very constrained financial resources. Therefore, the finance team was performing under significant resource pressure until long after the 2024/25 financial statements audit started in September 2025. This contributed to a number of errors in the annual report and accounts and supporting working papers, increasing the time and resources required to complete the audit (see paragraph 14).

Conclusions on wider scope audit – Financial Sustainability

The arrangements Scottish Canals has in place for securing financial sustainability are improving, with the development of a medium-term financial strategy.

Workforce planning remains a challenge. External consultants have been appointed to carry out a targeted review of workforce planning and Scottish Canals' operating model. Developing robust workforce plans and an efficient operating model will be an essential part of arrangements to secure financial sustainability.

Financial Sustainability

61. The audit work performed on the arrangements Scottish Canals has in place for securing financial sustainability found that these were effective and appropriate. This judgement is evidenced by Scottish Canals:

- making appropriate arrangement to develop medium and longer-term financial plans linked to its Corporate Plan and priorities. In our Annual Audit Plan we identified medium term financial planning as a significant wider scope risk for securing financial sustainability. As set out in Exhibit 7, we found that Scottish Canals is making progress, and the Medium-Term Financial Strategy was approved by the Board in December 2025. We expect the Medium-Term Financial Strategy to develop further over time.

- having effective arrangements in place for identifying risks to financial sustainability over the medium and longer-term, and understanding medium and longer-term demand pressures that could impact on available resources.

- having savings plans in place to manage forecast budget deficits, and a reserves strategy in place to manage the use of reserves if the required level of savings cannot be met.

62. Workforce planning remains a significant risk in the corporate risk register. Staff costs were approximately one third of Scottish Canals' 2024/25 expenditure: developing an efficient operating model with a lower headcount will be an essential part of arrangements to secure financial sustainability. Scottish Government "Invest to Save" funding is being used to develop workforce planning. External consultants Baker Tilly have been appointed to carry out a targeted programme of work to review workforce planning and Scottish Canals' operating model. This will assess current and future staffing needs, identify skills gaps and explore more efficient ways of working.

Conclusions on wider scope audit – Vision, Leadership and Governance

Overall, the arrangements Scottish Canals has in place for vision, leadership and governance were found to be effective and appropriate.

However, we noted scope for improving IT strategy and assurance, along with slow progress in disaster recovery planning and testing.

Vision, Leadership and Governance

63. The audit work performed on the arrangements Scottish Canals has in place around its Vision, Leadership and Governance found that these were generally effective and appropriate. This judgement is evidenced by:

- Scottish Canals has an approved Corporate Plan for 2023–2028, supported by the 2024/25 Business Plan, which sets out its vision, strategy, and priorities in a manner that reflects the scale of improvement required to achieve these sustainably.

- The Scottish Canals Framework Document, which is a key element of the governance arrangements, has been updated and was approved by Transport Scotland in August 2025.

- having effective governance arrangements in place in general, as reflected in the Governance Statement included in the annual report and accounts.
- an Audit and Risk Committee that continues to operate effectively in its oversight role. Members consistently demonstrate robust scrutiny of agenda items, providing constructive challenge and informed questioning that enhances the quality of discussion and decision making. This proactive approach ensures that key risks are appropriately examined and that management is held to account on significant matters. The Committee makes an important contribution to the organisation's overall governance framework, supporting transparency, accountability and continuous improvement.

64. However, we note that progress in addressing some recommendations has been slow. Scottish Canals put in place its Disaster Recovery Plan during 2025, in response to the 2021/22 recommendation to establish a formal Disaster Recovery Plan (see Appendix 1, B/f 8). While some testing of recovery processes has been undertaken, detailed scenario testing across all business areas will not be completed until financial year 2026/27.

Environmental Sustainability

65. The Scottish Government requires public bodies, to comply with guidance issued by the Taskforce on Climate-related Financial Disclosures (TCFD) in the annual report and accounts. Implementation is phased over 3 years, with 2024/25 being the second year. The Environmental Sustainability reported in the Performance Report annual account 2024-25 include specific metrics, such as a breakdown of carbon emissions and renewable energy generation and explain how these align with its climate change strategy for the year. Scottish Canals confirmed the current environment strategy has entered its tenth and final year and is set for renewal in 2025/26.

IT Strategy and assurance

66. Scottish Canals' IT strategy covers the 3-year period 2023 to 2026. Although the strategy aligns with the corporate plan, detailed investment planning is limited because a full assessment of IT requirements has not yet been completed. Once this assessment is finalised, it will provide a clearer picture of future needs and help ensure resources are allocated effectively to support the priorities within the refreshed strategy.

Recommendation 6

IT strategy and priorities

Scottish Canals should complete its assessment of IT requirements and use this to ensure resources are appropriately targeted towards strategic priorities. The results should be reflected in the future IT strategy refresh.

67. Scottish Canals use several software providers in the delivery of core business. A clear understanding of responsibilities and arrangements in the event of supplier failure or outage is critical to business continuity arrangements. In response to prior year internal audit recommendations on IT resilience, Scottish Canals developed a third party and hosted policy to be applied when negotiating new contracts. It was acknowledged by management during 2024 that further work would be required to assess existing hosting arrangements, and, in some instances, relevant evidence would only be available when the contract is renewed.

68. As part of our audit review, we sought to assess the sufficiency of documented arrangements and responsibilities. We sampled two key third party providers and were able to gain sufficient assurance through contract documentation review that appropriate provisions exist to ensure continued access to systems and data in the event of provider failure. We will undertake further work in this area as part of our 2025/26 IT audit approach.

Conclusions on wider scope audit – Use of Resources to Improve Outcomes

The arrangements Scottish Canals has in place for use of resources to improve outcomes were found to be effective and appropriate.

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

Use of Resources to Improve Outcomes

69. The audit work performed on the arrangements Scottish Canals has in place around its Use of Resources to Improve Outcomes found that these were effective and appropriate. This judgement is evidenced by Scottish Canals:

- being able to demonstrate a clear link between the use of resources and delivery of its priorities as set out in its Corporate Plan.

- having arrangements in place to benchmark its performance to identify areas of improvement.
- being able to demonstrate improvements in performance against benchmarks.
- regular reporting of performance to the Board.

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

70. 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.

71. The 2024/25 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 reported that 2024/25 performance targets not yet achieved were impacted by resourcing challenges and management have identified actions where improved performance is required.

72. Overall KPI performance since then has shown a slight dip. The 2025/26 Q2 tracker highlights 4 indicators flagged as red - the Falkirk Wheel customer satisfaction, transits, boat movements and press stories – and an increase in the number of indicators flagged as amber status. Despite this dip, the 2025/26 Quarter 2 Business Plan Performance Report highlights that Scottish Canals was on track for all twenty three 2024/25 business plan activities.

Conclusions on duty of Best Value

73. The audit work performed on the arrangements Scottish Canals has in place for securing Best Value found these were effective and appropriate. This judgement is evidenced by the activity of the:

- 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.

74. Our audit conclusions on the four wider scope areas also contribute to our assessment of Scottish canals' arrangements to secure Best Value.

Appendix 1

Action plan 2024/25

2024/25 recommendations

Matter giving rise to recommendation	Recommendation	Agreed action, officer and timing
1. **Management oversight of valuations** There is insufficient engagement between management and the valuers, resulting in unnecessary valuations of Property Plant and Equipment assets and instances of both over and under componentisation. **Risks –** Assets below capitalisation thresholds are capitalised; The value of componentised assets is misstated.	The timetable for valuation processes led by teams within Scottish Canals should allow adequate time for the finance team to fully review the valuation prior to audit. Management should ensure there is clarity and consistency in valuation treatment across the organisation. This should include • establishing clear thresholds for new assets requiring valuation • identifying assets requiring componentisation and ensuring these are not subject to double counting • regularly reviewing the classification of assets as investment property to ensure all assets meet this classification per IAS 40. (Exhibit 3, item 3)	**Accepted** Additional policies and procedures are required in this area. A review of all policies relating to non-current assets will be undertaken by 15 May 2026 by the Head of Finance, Head of Estates, and Head of Engineering. A review of the register will be conducted by Senior Financial Accountant and Head of Finance during June, with additional review by the Director of Finance & Business Services in July. **Responsible officer:** Director of Finance & Business Services **Agreed date:** 31 July 2026

Matter giving rise to recommendation	Recommendation	Agreed action, officer and timing
2. **Componentisation within the fixed asset register** The fixed asset register incudes includes assets that are both over and under componentised. **Risk:** The values of componentised assets are overstated or understated.	In preparation for the full valuation in 2026/27, management should • review and update the fixed asset register to remove all cases of over or under componentisation. • work with the valuer to ensure the correct valuation approach for each component. (Exhibit 3, item 4)	**Accepted** Additional policies and procedures are required in this area. A review of all policies relating to componentisation will be undertaken by 15 May 2026 by the Head of Finance, Head of Estates, and Head of Engineering. Further work will be conducted with a new valuer onboarded by quarter three in order that the full valuation as at 31 March 2027 fully reflects material components within assets with differences in treatment required where significant and applicable. **Responsible officer:** Director of Finance & Business Services **Agreed date:** 31 March 2027
3. **Recognition of non-current asset disposals** Control weakness in the use of asset disposal forms and delays in notification of asset disposals resulted in £5.668 million of asset disposals being recorded in the incorrect year.	Management should update the asset disposal form to ensure key dates are captured and implement arrangements (e.g. procedural instructions, staff training) to strengthen compliance with its use. (Exhibit 3, item 5)	**Accepted** Asset disposal forms as part of project sign-off for the 2025/26 will be required to be minuted and confirmed at the Project Assurance Committee chaired by the Chief Operating Officer prior to the Financial Statements being finalised. **Responsible officer:** Chief Operating Officer / Project Assurance Committee **Agreed date:** 31 May 2026

Matter giving rise to recommendation	Recommendation	Agreed action, officer and timing
4. **Key Financial Controls** We identified several significant weaknesses with internal controls relating to the general ledger, accounts receivable, and payroll processes. **Risk –** Invalid or inappropriate transactions are processed resulting in a material misstatement.	Management should ensure that key controls within the general ledger, accounts receivable, and payroll processes operate consistently as designed, and that sufficient evidence is retained to demonstrate their effective operation. (Exhibit 4, item 1; Para 56.)	**Accepted** A review of all reconciliations and controls will be undertaken by the Senior Financial Accountant and reviewed by the Head of Finance for the 2025/26 financial year to ensure any controls inadequately evidenced are reviewed and updated. **Responsible officer:** Head of Finance **Agreed date:** 30 June 2026
5. **Registers of Interest** We identified two instances where a Register of Interests was not fully completed or completed accurately. The incomplete register was not followed up by officers with the relevant individual due to absence. **Risk** – Related Party Transactions disclosures are misstated in the annual report and accounts.	Executive and Non-Executive Directors should update Registers of Interest annually. Officers should follow up if a register is not received. (Exhibit 4, item 2)	**Accepted** The Head of Legal & Governance will report to EMT any missing Register of Interest, and liaise with the relevant individual's line manager to ensure the required paperwork is completed. **Responsible officer:** Head of Legal & Governance **Agreed date:** 30 June 2026

Matter giving rise to recommendation	Recommendation	Agreed action, officer and timing
6. **IT strategy and priorities** Scottish Canals' IT strategy has limited information on investment planning because a full assessment of IT requirements has not yet been completed. **Risk –** resources are not appropriately targeted to organisational priorities.	Scottish Canals should complete its assessment of IT requirements and use this to ensure resources are appropriately targeted towards strategic priorities. The results should be reflected in the future IT strategy refresh. (Paragraph 66.)	**Accepted** The IT Strategy is aligned to the Corporate Plan, however revenue investment in this area has been unavailable due to the historic structural revenue deficit position. Additional resources are available now in 2026/27, and an options analysis and decision will be made by EMT on the infrastructure required for adequate reporting during the year. **Responsible officer:** Executive Management Team **Agreed date:** 31 March 2027

Follow-up of prior year recommendations

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
B/f 1. Accounting for assets under construction (AUC) 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 - robust procedures / instructions for officers covering the valuation of new operational assets and the disposal of any assets being replaced. - management review of treatment of assets under construction. Risk – Inadequate procedures increase the risk of material error in the value of AUC and operational assets in the financial statements.	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. Responsible officer- Director of Finance and Business Services Agreed date - 30 June 2025	**Implemented** The Finance team now has a year-end meeting with each project manager to discuss progress on all AUC projects at year end. This has enabled identification of disposals which have occurred during the year and any assets which are in use, so require moving from AUC. For completed assets there is evidence that valuers have been engaged, however, as identified within our key findings this should be more nuanced. Only new assets which are to be held at fair value should be considered. Those which are either immaterial components of existing assets, or those to be held under the cost model do not need to be reviewed by a valuer upon completion.
B/f 2. Valuation of Investment Properties A reconciliation should be carried out between the valuer's report and the investment properties in the fixed asset register to ensure the fixed asset register is complete and accurate. Risk – Without proper reconciliation processes between the valuer's report and the Fixed Asset Register there is a	A reconciliation will now be conducted at least annually and is reflected in the timetable of work prior to the audit of the 2024/25 Annual Report & Accounts. Responsible officer: Director of Finance and Business Services Agreed date: 31 August 2025	**Partly implemented** We were informed a reconciliation was undertaken by management, however working paper did not clearly evidence this, or any secondary review. This resulted in the audit team having to undertake their own analysis of the fixed asset register to determine the transfer of information was complete and correct. Audit will discuss documentation expectations around this reconciliation as part of post

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
risk of a material error in the financial statements.		audit review with officers, with a view to this being incorporated into working papers for the 2025/26 audit. **Responsible officer:** Head of Finance **Agreed date:** 30 September 2026
B/f 3. Indexation of assets held on the Fixed Asset Register 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 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.	A review of asset classifications will be conducted annually, with an additional policy and procedure in place for classification on capitalisation. 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. Responsible officer: Director of Finance and Business Services Agreed date: 31 August 2025	**Superseded** Following significant issues flagged within this report, it was determined that the previous indexation model was not fit for purpose. Management have performed significant work to decouple the register from this model and applied changes retrospectively (see Exhibit 3 point 1). It remains paramount for management to ensure that classification of assets, control around disposals and other key policies around fixed assets are kept up to date and implemented correctly. Our audit work will continue to monitor this however the specific recommendation is no longer required.

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
B/f 4. Deferred Income Arrangements should be put in place to ensure that deferred income applied is in line with IAS 20. This should include • training and robust procedures / instructions for officers covering in the correct treatment of deferred income • management review of treatment of deferred income.	Additional policy and procedure will be created in order that the Project Assurance Committee reviews third party funding requirements on agreement. Responsible officer Director of Finance and Business Services Agreed date 30 September 2025	**Implemented** Our audit testing of deferred income identified only one misstatement of £0.508 million, just above our reporting threshold (see Exhibit 5, item 6); a significant improvement compared to misstatements of £8.4 million last year.
B/f 5. Asset Valuation Methodology Training and support on the application of the indexation methodology should be extended to ensure sufficient officer capacity and resilience. Management should review the application of the indexation methodology as part of the account's completion process. Without further support or training, asset valuations will continue to require audit adjustments.	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. Responsible officer: Director of Finance and Business Services Agreed date 30 June 2025	**Superseded** As detailed in Exhibit 3 point 1, the complicated valuation model being used for indexation has been removed. The new approach is much simpler and only requires the Finance team to identify the change in the index, apply this to the model and it will perform the calculation for them. This will make the process much simpler to run and to audit. Therefore, the training requirement is likely to reduce. We will monitor implementation next year, but the specific recommendation is no longer required.

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
B/f 6. Medium Term Financial Plan 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.	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. Responsible officer Director of Finance and Business Services Agreed date 28 August 2025	**Implemented** A draft Medium-Term Financial Strategy has been developed and reviewed by the Board in December 2025.
B/f 7. (2022-23): Approach to future revaluations Scottish Canals should outline plans for the future revaluation of its assets within the FReM framework.	Indices were used to calculate the value of assets as at 31 March 2024. Scottish Canals is considering the full valuation requirements of its assets for 2026-27. A tender process will begin in May 2025, with an intention to have a new valuation contract in place by May 2026. Responsible officer: Director of Finance and Business Services Agreed date: 31 May 2026	**Superseded** see Recommendation 1 and Recommendation 2 above.
B/f 8. (2021-22): Disaster Recovery Plan Scottish Canals should establish a formal disaster recovery plan.	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	**Implemented** The Disaster Recovery Plan put in place May 2025, with regular shutdowns of servers to ensure processes and procedures are in place for recovery. Detailed scenario testing is being conducted with information asset owners across the organisation during 2026/27, to ensure the business impact analyses and trial shutdowns are fully tested within each business area. We will review progress and outcome of detailed scenario testing as part of our IT audit assessment on the 2025/26 audit.

Appendix 2

Supporting national and performance audit reports 2024/25

Report name	Date published
Local government budgets 2024/25	15 May 2024
Scotland's colleges 2024	19 September 2024
Integration Joint Boards: Finance and performance 2024	25 July 2024
The National Fraud Initiative in Scotland 2024	15 August 2024
Transformation in councils	1 October 2024
Alcohol and drug services	31 October 2024
Fiscal sustainability and reform in Scotland	21 November 2024
Public service reform in Scotland: how do we turn rhetoric into reality?	26 November 2024
NHS in Scotland 2024: Finance and performance	3 December 2024
Auditing climate change	7 January 2025
Local government in Scotland: Financial bulletin 2023/24	28 January 2025
Transparency, transformation and the sustainability of council services	28 January 2025
Sustainable transport	30 January 2025
A review of Housing Benefit overpayments 2018/19 to 2021/22: A thematic study	20 February 2025
Additional support for learning	27 February 2025
Integration Joint Boards: Finance bulletin 2023/24	6 March 2025
Integration Joint Boards finances continue to be precarious	6 March 2025
General practise: Progress since the 2018 General Medical Services contract	27 March 2025
Council Tax rises in Scotland	28 March 2025

Scottish Canals

2024/25 Annual Audit Report - Draft

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