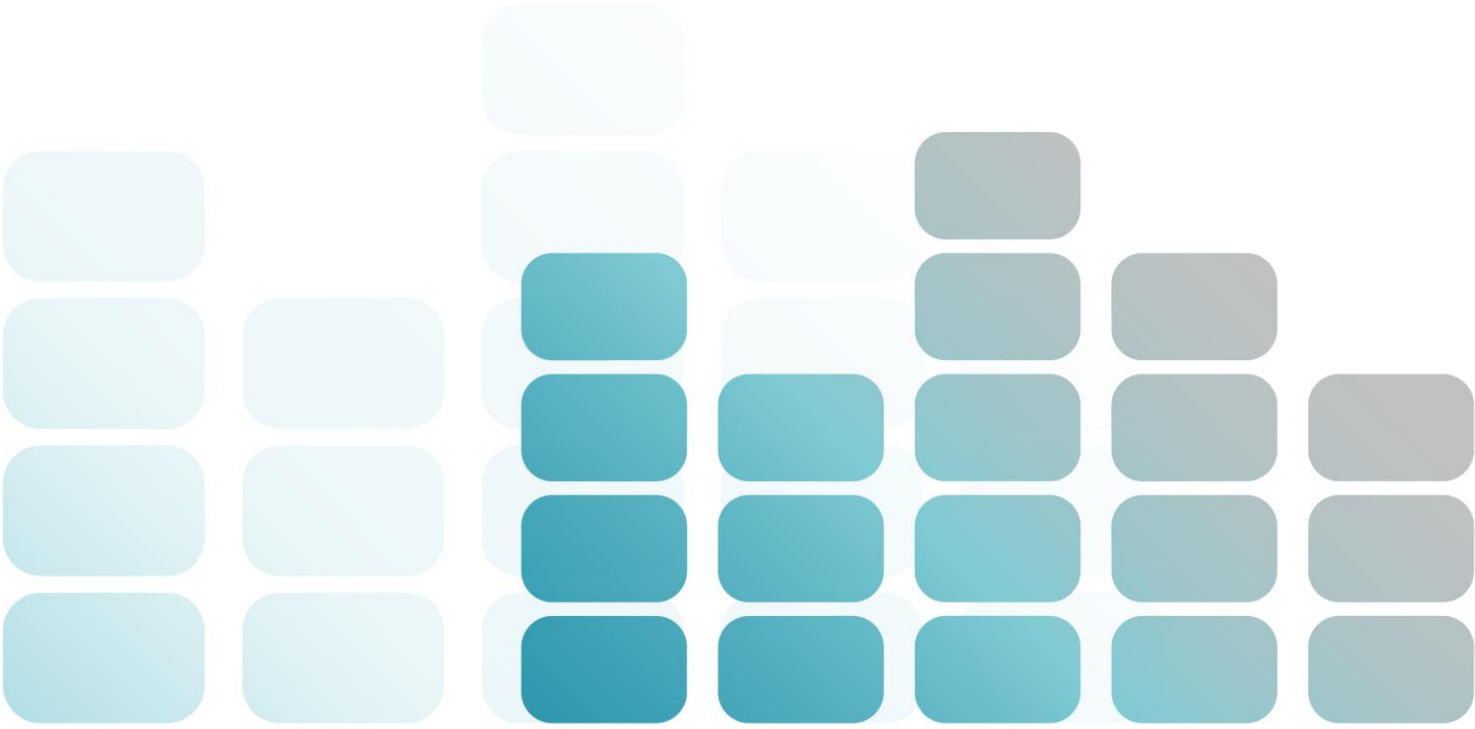


Scottish Canals

Annual Audit Plan 2024/25



Contents

Introduction	3
Audit scope and responsibilities	4
Audit of the annual report and accounts	6
Wider scope and Best Value	11
Reporting arrangements, timetable and audit fee	14
Other matters	17

Accessibility

You can find out more and read this report using assistive technology on our website www.audit.scot/accessibility.

Introduction

Purpose of the Annual Audit Plan

1. The purpose of this Annual Audit Plan is to provide an overview of the planned scope and timing of the 2024/25 audit of Scottish Canals annual report and accounts. It outlines the audit work planned to meet the audit requirements set out in [auditing standards](#) and the [Code of Audit Practice](#), including supplementary guidance.

Appointed auditor and independence

2. Rachel Browne, of Audit Scotland, has been appointed by the Auditor General for Scotland as external auditor of Scottish Canals for the period from 2023/24 until 2026/27. The 2024/25 financial year is her second year of appointment, and the third of Audit Scotland's five-year audit appointment.

3. 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. This standard imposes stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has robust arrangements in place to ensure compliance with ethical standards. The arrangements are overseen by the Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

4. The Ethical Standard requires auditors to communicate any relationships that may affect the independence and objectivity of the audit team. There are no such relationships pertaining to the audit of Scottish Canals to communicate.

Communication of fraud or suspected fraud

5. In line with ISA 240, in presenting this plan to the Audit and Risk Committee we seek confirmation from those charged with governance of any instances of actual, suspected or alleged fraud that should be brought to our attention. Should members of the committee have any such knowledge or concerns relating to the risk of fraud within Scottish Canals, we invite them to communicate this to the engagement lead for consideration. Similar assurances will also be sought as part of the audit completion process.

Audit scope and responsibilities

Scope of the audit

6. The audit is performed in accordance with the Code of Audit Practice, including supplementary guidance, International Standards on Auditing (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.
- An opinion on statutory other information published with the financial statements in the annual report and accounts, the Performance Report, and the Governance Statement, and 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.
- Providing assurance on the Whole of Government Accounts return.
- Provision of an Annual Audit Report setting out significant matters identified from the audit of the annual report and accounts and the wider scope areas specified in the Code of Audit Practice.

Responsibilities

7. The Code of Audit Practice sets out the respective responsibilities of Scottish Canals and the auditor. A summary of the key responsibilities is outlined below.

Auditor's responsibilities

8. 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 Scottish Canals' arrangements in place for the wider scope areas.

Scottish Canals' responsibilities

9. 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 and other information that gives a true and fair view.
- 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.

Audit of the annual report and accounts

Introduction

10. The audit of the annual report and accounts is driven by materiality and the risks of material misstatement in the financial statements, with greater attention being given to the significant risks of material misstatement. This chapter outlines materiality, the significant risks of material misstatement that have been identified, and the impact these have on the planned audit procedures.

Materiality

11. 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.

12. Broadly, the concept of materiality is to determine whether matters identified during the audit could reasonably be expected to influence the decisions of users of the financial statements. 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.

13. The materiality levels determined for the audit of Scottish Canals are outlined in [Exhibit 1](#).

Exhibit 1

2024/25 Materiality levels for Scottish Canals

Materiality	Audited body
Materiality – based on an assessment of the needs of users of the financial statements and the nature of Scottish Canals operations, the benchmark used to determine materiality is gross assets excluding investments based on the audited 2023/24 financial statements. Materiality has been set at 2% of the benchmark.	£10 million

Materiality	Audited body
Performance materiality – this acts as a trigger point. If the aggregate of misstatements identified during the audit exceeds performance materiality, this could indicate that further audit procedures are required. Using professional judgement, performance materiality has been set at 55% of planning materiality.	£5.5 million
Reporting threshold – all misstatements greater than the reporting threshold will be reported.	£0.5 million

Source: Audit Scotland

14. In certain situations, it may be appropriate to set separate lower materiality levels for specific classes of transactions, account balances, or disclosures in the annual report and accounts. The asset position of Scottish canals is significantly higher value than the annual operating expenditure position. We recognise that income and expenditure streams of Scottish Canals is likely to be of interest to the user of the accounts. Materiality levels for income and expenditure have been set at £810,000 for materiality and £446,000 for performance materiality.

Significant risks of material misstatement to the financial statements

15. The risk assessment process draws on the audit team's cumulative knowledge of Scottish Canals, including the nature of its operations and its significant transaction streams, the system of internal control, governance arrangements and processes, and developments that could impact on its financial reporting.

16. Based on the risk assessment process, significant risks of material misstatement to the financial statements have been identified and these are summarised in [Exhibit 2](#). These are the risks which have the greatest impact on the planned audit approach, and the planned audit procedures in response to the risks are outlined in [Exhibit 2](#).

17. The risk assessment process is an iterative and dynamic process. The assessment of risks set out in this Annual Audit Plan and [Exhibit 2](#) may change as more information and evidence is obtained over the course of the audit. Where such changes occur, these will be reported to Scottish Canals and those charged with governance, where relevant.

Exhibit 2**Significant risks of material misstatement to the financial statements**

Risk of material misstatement	Planned audit response
<p>Fraud caused by management override of controls</p> <p>Management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<p>The audit team will:</p> <ul style="list-style-type: none"> • 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. • Assess changes to the methods and underlying assumptions used to prepare accounting estimates and assess these for evidence of management bias.
<p>Valuation of Investment Properties</p> <p>Scottish Canals held £508 million of property, plant, and equipment (PPE) at 31 March 2024, of which £23 million was Investment Properties.</p> <p>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.</p> <p>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.</p>	<p>The audit team will:</p> <ul style="list-style-type: none"> • 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.

Risk of material misstatement	Planned audit response
<p>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 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.</p>	<p>The audit team will</p> <ul style="list-style-type: none"> • 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.

Source: Audit Scotland

Key audit matters

18. The Code of Audit Practice requires public sector auditors to communicate key audit matters. Key audit matters are those 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.

19. 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.

20. We have identified two key audit matters during our planning procedures. Several issues were highlighted during our 2023/24 audit in relation to the valuation and classification of non-current assets. Actions were identified to address these issues, however we recognise there is a risk of material misstatement should these not be properly implemented.

21. Our risk assessment of the payroll system identified several control deficiencies in procedures for adding new starts and removing terminated employees from the payroll system, which could result in under and overpayments.

22. These issues and any other key audit matters identified will be communicated in the Annual Audit Report, along with the outcome of audit procedures to address the significant risks of material misstatement to the financial statements highlighted in [Exhibit 2](#).

Wider scope and Best Value

Introduction

23. Reflecting the fact that public money is involved, the Code of Audit Practice requires that public audit is planned and undertaken from a wider perspective than in the private sector. The wider scope audit set out by the Code of Audit Practice broadens the audit of the annual report and accounts to include consideration of additional aspects or risks in four wider scope areas, which are summarised below:

- **Financial Management** – this means having sound budgetary processes. Factors that can impact on Scottish Canals being able to secure sound financial management include the strength of the financial management culture, accountability, and arrangements to prevent and detect fraud, error and other irregularities, bribery and corruption.
- **Financial Sustainability** – this means looking forward over the medium and longer term in planning the services to be delivered and how they will be delivered effectively. This is assessed by considering Scottish Canals' medium- to longer-term planning for service delivery.
- **Vision, Leadership and Governance** – this means having a clear vision and strategy, with set priorities within the vision and strategy. This is assessed by considering the clarity of plans in place to deliver the vision and strategy and the effectiveness of the governance arrangements to support delivery.
- **Use of Resources to Improve Outcomes** – this means using resources to meet stated outcomes and improvement objectives through effective planning and working with partners and communities. This is assessed by considering Scottish Canals' arrangements for ensuring resources are deployed to improve strategic outcomes, meet the needs of service users, and deliver continuous improvement.

24. A conclusion on the effectiveness and appropriateness of arrangements Scottish Canals has in place for each of the wider scope areas will be reported in the Annual Audit Report.

Duty of Best Value

25. 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.

26. Consideration of the arrangements Scottish Canals has in place to secure Best Value will be carried out alongside the wider scope audit, and a conclusion on the arrangements Scottish Canals has in place will be reported in the Annual Audit Report.

27. Auditors may also carry out specific audit work covering the seven Best Value characteristics set out in the SPFM. The risk assessment process did not identify a need to carry out specific audit work on any of the characteristics. In addition,, auditors are required to carry out a review of the 'fairness and equality' characteristic at least once during the audit appointment, and this will be carried out later in the audit appointment.

Significant wider scope and Best Value risks

28. The risk assessment process has identified significant risks in the wider scope areas and Best Value as outlined in [Exhibit 3](#), and this includes the planned audit procedures in response to the risks.

Exhibit 3

Significant wider scope and Best Value risks

Description of risk	Planned audit response
<p>Financial management : non-current assets valuation programme</p> <p>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.</p> <p>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.</p> <p>In the interim, Ernst & Young 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.</p>	<p>The audit team will:</p> <ul style="list-style-type: none"> • 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.
<p>Financial Sustainability - Medium term financial plan</p> <p>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.</p> <p>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.</p>	<p>The audit team will:</p> <ul style="list-style-type: none"> • 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.

Source: Audit Scotland

Reporting arrangements, timetable and audit fee

Audit outputs

29. The outputs from the 2024/25 audit include:

- This Annual Audit Plan.
- An Independent Auditor's Report to Scottish Canals, the Auditor General for Scotland, and the Scottish Parliament setting out opinions on the annual report and accounts.
- An Annual Audit Report to Scottish Canals and the Auditor General for Scotland setting out significant matters identified from the audit of the annual report and accounts, conclusions from the wider scope and Best Value audit, and recommendations, where required.

30. The matters to be reported in the outputs will be discussed with Scottish Canals for factual accuracy before they are issued. All outputs from the audit will be published on Audit Scotland's website, apart from the Independent Auditor's Report, which is included in the audited annual report and accounts.

31. Target dates for the audit outputs are set by the Auditor General for Scotland. In setting the target dates for the audit outputs, consideration is given to the target date for approving the annual report and accounts, which is 31 October 2025 for central government non-departmental public bodies, and other similar bodies.

32. The audit team will be unable to achieve the target date of 31 October 2025 for issuing the Independent Auditor's Report and Annual Audit Report. This is due to prioritising the quality of our audit work over meeting target dates, as required by the Accounts Commission, and consistent with messaging from the Financial Reporting Council which has made clear that audit quality takes precedence. The audit team are working towards completion of the audit by the December 2025 and are working towards delivering the audit by target dates over the course of the five-year audit appointment.

Audit timetable

33. Achieving the timetable for production of the annual report and accounts, supported by complete and accurate working papers, is critical to delivery of the audit to agreed target dates. [Exhibit 4](#) includes a timetable for the audit, which has been agreed with management. Agreed target dates will be kept under review as the audit progresses, and any changes required, and their potential impact, will be discussed with Scottish Canals and reported to those charged with governance, where required.

Exhibit 4 2024/25 audit timetable

Audit activity	Scottish Canals target date	Audit team target date	Relevant committee date
Issue of Annual Audit Plan	N/A	28 May 2025	5 June 2025
Annual report and accounts:			
• Review of annual report narrative by those charged with governance	5 June 2025	N/A	5 June 2025
• Submission of unaudited annual report and accounts and all working papers to audit team	15 September 2025	N/A	N/A
• Latest date for audit clearance meeting	20 November 2025	20 November 2025	N/A
• Issue of draft Letter of Representation, proposed Independent Auditor's Report, and proposed Annual Audit Report	N/A	27 November 2025	4 December 2025 (ARC)
• Agreement of audited and unsigned annual report and accounts	27 November 2025	27 November 2025	N/A
• Approval by those charged with governance and signing of audited annual report and accounts	4 December 2025 (ARC) 18 December 2025 (Board)	N/A	4 December 2025 (ARC) 18 December 2025 (Board)

Audit activity	Scottish Canals target date	Audit team target date	Relevant committee date
<ul style="list-style-type: none"> Signing of Independent Auditor's Report and issue of Annual Audit Report 	N/A	18 December 2025	N/A
Certification of Whole of Government Accounts	N/A	December 2025	N/A

Source: Audit Scotland

Audit fee

34. Scottish Canals audit fee is determined in line with Audit Scotland's fee setting arrangements. The proposed audit fee for the 2024/25 audit is £102,650 (2023-24 £116,700).

35. In setting the audit fee, it is assumed that Scottish Canals has effective governance arrangements in place and the complete annual report and accounts will be provided for audit in line with the agreed timetable. The audit fee assumes there will be no significant changes to the planned scope of the audit. Where the audit cannot proceed as planned, for example, due to incomplete or inadequate working papers, or where prior year actions have not been implemented in line with timescales, the audit fee may need to be increased.

Other matters

Internal audit

36. Scottish Canals is responsible for establishing an internal audit function as part of an effective system of internal control. As part of the audit, the audit team will obtain an understanding of internal audit, including its nature, responsibilities, and activities.

37. While internal audit and external audit have differing roles and responsibilities, external auditors may seek to rely on the work of internal audit where it is considered appropriate. A review of internal audit's 2024/25 audit plan was carried out to identify if there were any areas where the audit team could rely on its work. The audit team concluded it will not rely on internal audit's work. However, the audit team will review internal audit's reports and assess if there is any impact on the audit.

Audit quality

38. Audit Scotland is committed to the consistent delivery of high-quality audit. Audit quality requires ongoing attention and improvement to keep pace with external and internal changes. Details of the arrangements in place for the delivery of high-quality audits is available from the [Audit Scotland website](#).

39. The International Standards on Quality Management (ISQM) applicable to Audit Scotland for 2024/25 audits are:

- ISQM (UK) 1, which deals with an audit organisation's responsibilities to design, implement, and operate a system of quality management (SoQM) for audits. Audit Scotland's SoQM consists of a variety of components, such as: governance arrangements and culture to support audit quality, compliance with ethical requirements, ensuring Audit Scotland is dedicated to high-quality audit through engagement performance and resourcing arrangements, and ensuring there are robust quality monitoring arrangements in place. Audit Scotland carries out an annual evaluation of its SoQM and has concluded it complies with this standard.
- ISQM (UK) 2, which sets out arrangements for conducting engagement quality reviews, which are performed by senior management not involved in an audit, to review significant judgements and conclusions reached by the audit team, and the appropriateness of proposed audit opinions on high-risk audits.

40. To monitor quality at an individual audit level, Audit Scotland carries out internal quality reviews on a sample of audits. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) carries out independent quality reviews on a sample of audits.

41. Actions to address deficiencies identified by internal and external quality reviews are included in a rolling Quality Improvement Action Plan, which is used to support continuous improvement. Progress with implementing planned actions is monitored on a regular basis by Audit Scotland's Quality and Ethics Committee.

42. Audit Scotland may periodically seek the views of Scottish Canals on the quality of audit services provided. The audit team would also welcome feedback at any time.

Scottish Canals

Annual Audit Plan 2024/25



Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
Phone: 0131 625 1500 **Email: info@audit.scot**
www.audit.scot