

Scottish Canals

Annual report on the 2012/13 audit



Prepared for Scottish Canals and the Auditor General for Scotland

October 2013

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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Key messages

2012/13

We have given an unqualified opinion on the financial statements for 2012/13.

In July 2012 the assets, liabilities and operations of British Waterways in England and Wales transferred to a new charity, Canal and River Trust (CRT) with the Scottish element of British Waterways continuing as a distinctive public corporation, but operating as "Scottish Canals".

The 2012/13 financial statements include the results of activities for British Waterways' UK-wide operations for three months (to July 2012) and nine months of stand-alone Scottish operations.

As a new Scottish public sector body in 2012/13, Scottish Canals faced a major challenge to manage the transition from an operating segment of British Waterways to a smaller self-supporting entity. This included developing and strengthening governance and support arrangements, which were previously provided centrally across the larger UK-wide organisation.

Good progress has been made to establish a board and committee structure and corporate governance arrangements. Work is still underway to review and revise all policies and procedures initially inherited from-British Waterways.

Our audit highlighted financial control weaknesses. Many of these issues were addressed as the audit progressed, although some issues remain and are being addressed during 2013/14. The improvements have been achieved during a period of significant change, both organisationally and, particularly, within the finance section of Scottish Canals.

Outlook

Following the split from CRT in July 2012 Scottish Canals produced a transitional Business Plan covering the 2012/13 financial year. This focussed on ensuring continuity across the business and included details of the key finance challenges facing Scottish Canals in their first year of operation. However, from 2013/14 onwards Scottish Canals will extend its focus to longer term financial planning to ensure they are well placed to respond to emerging resource and cost pressures and opportunities and demonstrate that the organisation is financially sustainable.

Introduction

1. The British Waterways Board (Transfer of Functions) Order 2012 came into force on 2 July 2012. This transferred some of the assets, liabilities and operations of British Waterways to the Canal and River Trust (CRT), a new charity formed to care for the waterways in England and Wales. The Scottish Government decided that canals would remain within the public sector and British Waterways, trading as Scottish Canals, would continue to operate, in Scotland.
2. British Waterways UK produced completion accounts to 30 June 2012, which included splitting the balances and transactions at that date. The 2012/13 financial statements include the results of activities for British Waterways' UK-wide operations for three months (to July 2012) and nine months of stand-alone Scottish operations.
3. This report is the summary of our findings arising from the 2012/13 audit of Scottish Canals. The report is divided into sections which reflect the extent of our public sector audit model.
4. A number of reports have been issued in the course of the year. We do not repeat these in this report, but instead we focus on the financial statements and any significant findings from our wider review of key control systems and work on governance arrangements.
5. Appendix A is an action plan setting out the high level risks we have identified from the audit, which management have considered and agreed to take "planned management action". We do not expect all risks to be eliminated or even minimised. We expect that Scottish Canals understands its risks and has arrangements in place to manage these risks. The Accountable Officer and other members of the board should ensure that they are satisfied with the proposed management action and have a mechanism in place to assess progress.
6. This report is addressed to Scottish Canals and the Auditor General and should form a key part of discussions with the Audit and Risk Committee, as soon as possible after the formal completion of the audit of the financial statements. Reports should be made available to stakeholders and the public, where appropriate. Audit is an essential element of accountability and the process of public reporting.
7. This report will be published on our website after consideration by the Audit and Risk Committee and after the financial statements have been laid before parliament.
8. The management of the audited body is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. Weaknesses or risks identified by auditors are only those which have come to our attention during our normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Financial statements

Conduct and scope of the audit

9. Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources.
10. We are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on:
 - whether they give a true and fair view of the financial position of audited bodies and their expenditure and income
 - whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
 - the regularity of the expenditure and income.
11. We review and report on, as appropriate, other information published with the financial statements, including the part of the Directors' Remuneration Report to be audited and the information given in the Board Members' Report.

Audit opinions

12. We have given an unqualified opinion that the financial statements of Scottish Canals for 2012/13 give a true and fair view of the state of the body's affairs and its net operating cost for the year.
13. Scottish Canals is required to follow applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and we confirmed that the financial statements have been properly prepared in accordance with these requirements. We also confirmed that relevant parts of the Directors' Remuneration Report had been properly prepared and that information given in the Board Members' Report was consistent with the financial statements.
14. We also reviewed the Governance Statement and concluded that it complied with Scottish Government guidance.

Regularity

15. We confirmed that in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by Scottish Ministers.

British Waterways' transition accounts

16. The transfer of CRT took place during the financial year, on 2 July 2012. This required British Waterways' balances and transactions to be split at that date. British Waterways produced

completion accounts to 30 June 2012 and engaged Grant Thornton UK LLP to provide assurance over the figures at transition.

17. As part of our audit we visited Grant Thornton's offices in Leeds to review their work on British Waterways' transition accounts to 30 June 2012. We concluded that the work completed was sufficient and we therefore placed reliance on this as part of our 2012/13 audit of Scottish Canals.

Accounting issues

Provision of unaudited financial statements and working papers package

18. In our Annual Audit Plan issued in January 2013 we included a timetable for the financial statements audit. We issued a working papers' checklist to Scottish Canals on 28 March 2013. The date for the provision of the unaudited financial statements was 13 May 2013.
19. At the commencement of the audit, journals were still being processed to make amendments to the ledger. As a result of this, a number of changes were made to the initial version of the financial statements and a final updated trial balance and complete copy of the financial statements was not provided until 22 May 2013.
20. The initial working papers package did not include supporting papers for a number of areas.
21. As this was the first year that Scottish Canals had produced separate financial statements (and given the complexity of the mid-year split or CRT), some issues were probably inevitable. However, the delay in the provision of the financial statements and working papers placed additional pressure on the agreed audit timetable. Despite this our on-site fieldwork was substantially complete by the planned target date of 7 June, but with additional off site work continuing until 16 June. The tight timescales were achieved thanks to additional remedial work undertaken by finance staff and especially the Director of Finance.

Adjustments to unaudited financial statements

22. A number of presentational and monetary adjustments were identified within the financial statements during the course of our audit. These were discussed with senior finance officers who amended the unaudited financial statements. The effect of these adjustments was to increase group net expenditure by £0.37 million.

Unadjusted misstatements in financial statements

23. Our audit identified a number of monetary errors which were not processed through the financial statements by management. If adjusted the effect on the group income statement would have been to increase group net expenditure by £0.04 million.

Significant findings from the financial statements audit

24. Our significant findings from the financial statements audit, in our report to those charged with governance (ISA260) were presented to the Audit and Risk Committee on 27 June.

25. **Annual leave accrual:** A review of the unaudited financial statements identified an accrual had not been included for untaken annual leave of staff at 31 March 2013. As Scottish Canals staff are entitled to bank five annual leave days per year, up to a maximum of thirty days, we considered that the level of the year end accrual to be significant. To address this, officers assessed the potential liability and an accrual of £0.183 million was made in the financial statements.
26. **Edinburgh Quay consolidation adjustment:** The entries processed to consolidate Edinburgh Quay, a joint venture with Miller Developments Limited. within the group statements resulted in a dividend of £0.15 million received in March 2013 being double-counted. This was corrected in the audited financial statements.
27. **Inventories:** Issues identified with the year-end inventories balance for stock held at the Falkirk Wheel included:
- a number of stock records were included with negative values
 - the method used by the Gamma stock system to value stock balances did not comply with accounting requirements (IAS2 - Inventories) or Scottish Canals' stated accounting policy on inventories
 - no stock take was undertaken prior to the upgrade to the Gamma stock system or at 31 March 2013
28. Given the low value of stock held it was accepted that there was no significant risk of material misstatement in the accounts, but improvements will be implemented during 2013/14.
- Refer Action Plan No. 1**
29. **Suspense account balance write-off:** A large volume of items were posted to the suspense account. Officers were not able to identify and resolve all of these postings and £0.05 million was written-off to operating expenditure.

Outlook

Assessment of 2013/14 group boundary and consolidation adjustments

30. Scottish Canals are currently involved in a number of joint projects with different partner organisations. As many of these projects only commenced towards the end of the financial year, they did not require to be consolidated within Scottish Canals' 2012/13 financial statements, on the grounds of materiality. However, it is anticipated that the majority of these bodies will require to be consolidated within the 2013/14 financial statements.
31. There is a risk that relationships with partner organisations are incorrectly assessed when determining which entities require to be consolidated within the 2013/14 financial statements, or that the required consolidation adjustments are incorrectly processed.

Refer Action Plan No. 2

Financial position

32. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
33. We consider whether audited bodies have established adequate arrangements and examine:
 - financial performance in the period under audit
 - compliance with any statutory financial requirements and financial targets
 - ability to meet known or contingent, statutory and other financial obligations
 - responses to developments which may have an impact on the financial position
 - financial plans for future periods.
34. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

Financial results

35. Our comments in this section focus only on the financial results and financial position of Scottish Canals independent of the financial results of the British Waterways Board's UK operations, which are shown as discontinued from 2 July 2012, in the audited financial statements.

Annual outturn

36. Scottish Canals planned for a break-even position for 2012/13. The financial statements reported a surplus after taxation of £0.7 million for the year. This comprised an operating deficit for the year of £0.6 million, interest received (from CRT) on the outstanding balance of the capital payment owed to Scottish Canals of £0.4 million, a gain on the revaluation of investment properties of £0.5 million and release of deferred taxation of £0.4 million.

Revenue and funding

37. During 2012/13 Scottish Canals generated revenue of £7.0 million which included income from water sales of £1.3 million, retail sales of £1.5 million, property rents of £0.8 million and boat licenses of £0.6 million, as well as funding from third parties (e.g. local authorities) towards waterway maintenance/repair of £1.5 million.
38. In terms of Scottish Government funding Scottish Canals received annual grant-in-aid funding of £10.0 million and funding for shovel ready projects of £1.4 million (see paragraph 48 for details).

Budgetary control

39. In 2012/13 the budgetary control reporting included monthly management accounts and an income and expenditure account for Scottish Canals as a whole, as well as more detailed analysis of income and expenditure by budget area.
40. Exhibit 1 shows the movement between projected income and expenditure set out in the director of finance's report to the July 2012 board meeting and final outturn reported in the financial statements.

Exhibit 1: 2012/13 Outturn against budget

	Projected Income and Expenditure at 31 May 2012 (£m)	Final Outturn at 31 March 2013 (£m)	Variance (£m)
Income			
Revenue	6.9	7.0	0.1
Government grant	10.0	11.4	1.4
Operating expenditure	(16.9)	(19.0)	(2.1)
Operating (deficit) / surplus	0.0	(0.6)	(0.6)

Source: Director of Finance board reports and Scottish Canals Annual Report and Accounts 2012/13

41. Scottish Canals received an additional £1.4 million government grant for shovel ready projects. The £2.1 million increase in operating expenditure during the year was mainly attributable to this £1.4 million expenditure incurred on shovel ready projects. The remaining additional expenditure can be attributed to the annual leave accrual (£0.2 million - detailed at paragraphs 25) and £0.5m for additional canal restoration work undertaken during the year.
42. A review of the budget monitoring reports confirmed that the projected outturn reported to board members demonstrated the changing financial position throughout the year and was consistent with the developing final outturn.

Net assets

43. The Statement of Financial Position shows net assets of £30.6 million and total assets of £38.3 million. Assets include property, plant and equipment of £6.8 million, investment property of £13.1 million and non-current receivables of £5.8 million, which represents payments due from CRT as part of the financial separation settlement.
44. A significant factor in the strong balance sheet position is due to the pension arrangements. Scottish Canals operates a defined contribution plan for employees starting after 31 March 2011 and a defined benefit scheme for employees in-post before this.

45. The defined benefit scheme is the British Waterways' Pension Fund and Scottish Canals has been relieved from any obligation to make deficit repair contributions on the British Waterways' Pension Fund at the date of separation. The next triennial valuation (at 31 March 2013) exposes Scottish Canals to the financial risk of any increase in the deficit as determined by the pension actuary.

Public reporting

46. The Directors' Report included within the Annual Report and Accounts 2012/13 included a Finance Review section setting out the financial arrangements for the separation from CRT and providing analysis of the financial results of Scottish Canals for the year.

Overall financial position

47. On the basis of the information above, we conclude that that the financial position of Scottish Canals is tentatively strong, but we note that the elimination of the underlying annual deficit on operating activities (see paragraph 55), the development of investment returns (funded from the capital payments from CRT) and continued government funding during its transition period (see paragraph 57) are key elements in proving longer term financial sustainability (see paragraph 51).

Capital investment and performance 2012/13

48. In November 2012 the Finance Secretary announced that additional capital funding would be made available to Scottish public sector bodies for infrastructure projects ('shovel ready' projects). As a result Scottish Canals was awarded additional funding over two years of £4.6 million: £1.3 million for 2012/13 and £3.3 million for 2013/14. This included projects for the regeneration of the entrance to the Forth and Clyde canal at Bowling Harbour, improvements to the public realm at Speirs Wharf and the construction of the Glasgow Paddlesports Centre at Port Dundas.
49. In addition to capital expenditure on the shovel ready projects Scottish Canals also continued their annual programme of investment in repairs, maintenance and enhancements to the canal network. This included £1.1 million of towpath improvements which were jointly funded by Scottish Canals, local authorities and other public bodies.

Financial planning to support priority setting and cost reductions

50. Following the split from CRT in July 2012, Scottish Canals produced a transitional Business Plan covering the 2012/13 financial year. This focussed on ensuring continuity across the business and included details of the key finance challenges facing Scottish Canals in their first year of operation.
51. Given the degree of business transformation and the unique challenges presented during 2012/13 this was a sensible approach to achieve the short term financial aims of the organisation. However, from 2013/14 onwards, Scottish Canals will need to prepare longer

term financial plans to ensure they are well-placed to respond to emerging resource/cost pressures and opportunities and demonstrate that the organisation is financially sustainable.

Refer Action Plan No. 3

Workforce planning and capacity to deliver

52. The workforce needs of Scottish Canals were reviewed and increased to reflect the additional requirements of operating as a separate entity. However, during the year these requirements were revised, as it was identified that staffing levels in a number of areas were insufficient to meet the increased demands on staff. Staff turnover in finance resulted in external accountancy services being secured in May to help prepare the statutory accounts.
53. The Director of Finance left in June and a new director joined in October. During this period an interim head of finance was in post. As Scottish Canals' business operations and practices evolve over the next few years their staffing requirements will require further revision. Effective workforce planning will therefore be essential for the success of the organisation and to ensure business continuity in key areas such as finance.

Refer Action Plan No. 4

Outlook

2013/14 budget

54. Scottish Canals has budgeted to achieve an in-year surplus for 2013/14 of £0.2 million, (expenditure of £16.4 million and income of £16.6 million, which comprises revenue of £6.6 million and grant-in-aid of £10.0 million, but excludes funding and expenditure for shovel ready projects discussed at paragraphs 48).

2013/14 budget reporting

55. The interim Head of Finance's report to the August 2013 board meeting highlighted that at the end of July income was £0.2 million less than forecast and expenditure was £0.3 million more than forecast. This suggests there is a significant risk to Scottish Canals achieving their budgeted surplus for the year.

Refer Action Plan No. 5

Income generation and classification beyond 2015/16

56. The Office of National Statistics (ONS) re-categorised British Waterways, operating as Scottish Canals, as a non-departmental public body (NDPB). This could have a significant impact on the financial statements, as the accounting framework is different for an NDPB. The Financial Reporting Manual (FReM) would become the main accounting framework and this would require a revaluation of the canals and the associated infrastructure together with other changes. However, Transport Scotland, Scottish Canals' sponsor department, confirmed that for the purposes of accounting Scottish Canals would retain its status as a public corporation until 2015/16. At this point the classification would be reviewed by the

Scottish Government. In order to retain their status as a public corporation Scottish Canals will require to demonstrate that they are generating the majority of their income from commercial activities (i.e. Scottish Government funding would represent less than fifty per cent of total income).

57. Scottish Government core funding represented fifty nine per cent of Scottish Canals' total income during 2012/13 and is budgeted to represent sixty per cent in 2013/14. This clearly presents a significant challenge for the body to increase its revenue from commercial activities over the next few years.

Refer Action Plan No. 6

Governance and accountability

58. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.
59. Through its chief executive or accountable officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance (including audit committees or similar groups) in monitoring these arrangements.
60. Consistent with the wider scope of public audit, we have a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:
 - corporate governance and systems of internal control
 - the prevention and detection of fraud and irregularity
 - standards of conduct and arrangements for the prevention and detection of corruption
61. In this part of the report we comment on key areas of governance.

Corporate governance

Overall effectiveness

62. Through the financial year Scottish Canals put in place overall governance arrangements, however, as would be expected for a body in its first year, some aspects still need to be completed to ensure an adequate governance framework, covering all aspects of Scottish Canals' operations.

Processes and committees

63. The Board consists of five non-executive members and the chief executive. In addition to the new Board, three sub-committees were established:
 - Audit and Risk Committee whose remit includes responsibility for reviewing the system of internal control and ensuring that wider governance arrangements are operating effectively
 - Property and Commercial Committee who are tasked with providing a strategic oversight of the property and commercial business
 - Remuneration Committee who determine the policy for the remuneration of the Chief Executive and the executive directors of the organisation.

Review of policies and procedures

64. Due to the split from CRT on 2 July 2012, Scottish Canals require to review all existing policies and procedures to ensure they reflect revised business practices and satisfy their new requirements as a Scottish public sector body. Given the scale and resource intensive nature of this exercise, an eighteen-month programme has been agreed to review every policy, procedure, process document, guidance note and standing order. Progress with the programme is reported to, and monitored by, the Audit and Risk committee.
65. During the period of the review Scottish Canals will continue to adhere to the requirements of the relevant British Waterways' legacy policies.

Internal control

66. During 2012/13 a number of issues were identified in the internal control environment including:
- lack of timely completion of bank reconciliations during the period to September 2012
 - lack of controls over the posting of income to debtors' systems
 - lack of controls over matching of invoices to purchase orders prior to payment of suppliers
 - failure to regularly review and clear suspense account balances
 - lack of segregation of duties between human resources and payroll functions
67. These weaknesses in the accounting and internal control environment were reported to the Board in March 2013 and were included within the Review of effectiveness of internal control section of the corporate governance statement in the 2012/13 Annual Report and Accounts.
68. Management advised that action has been taken to address these weaknesses and this will be followed-up as part of our 2013/14 audit activity.

Termination payments

69. During 2012/13 Scottish Canals made termination payments to staff members which included compensation for loss of office.
70. Scottish Canals' framework document requires that: '*...any redundancy or compensation for loss of office, requires the prior approval of the Scottish Government*'. Although the framework document was only issued in draft at the time, and the amounts were not material, it is our view that Scottish Government approval should have been sought for these payments.
71. To ensure best use is made of public funds, and to comply with the requirements of the framework document, Scottish Government approval should be obtained for any future termination payments.

Internal audit

72. During 2012/13 Scottish Canals operated without an internal audit function in place. As a result of this, and the weaknesses in the accounting and internal control environment detailed above, we required to extend our work on financial systems and detailed testing to support our opinion on the financial statements.
73. BDO UK LLP has been appointed as Scottish Canals' internal auditors for 2013/14. For our 2013/14 audit we will review their planned activity to determine where we can place reliance on their work on financial controls.

Governance statement

74. In accordance with Scottish Government guidance, the corporate governance statement included a description and assessment of the essential components of corporate governance and details of any significant risk-related matters arising during the period.
75. The Scottish Public Finance Manual (SPFM) requires that an internal control checklist, and certificates of assurance from directors, are completed and provided to the Accountable Officer (Chief Executive) to inform the contents of the corporate governance statement. These had not been completed as part of the initial accounts preparation process. To address this issue, the director of finance arranged for these to be provided prior to the completion of our audit.

Prevention and detection of fraud and irregularities

76. Scottish Canals is responsible for establishing arrangements to prevent and detect fraud and other irregularity. As detailed at paragraph 66 weaknesses were identified in the internal control environment during 2012/13. A number of these weaknesses have impacted upon the robustness of the overall arrangements for the prevention and detection of fraud during the year and actions are being taken by management to address any issues that were highlighted during our audit review.

Standards of conduct and arrangements for the prevention/ detection of bribery and corruption

77. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. We consider whether bodies have adequate arrangements in place.
78. We reviewed Scottish Canal Board's Code of Conduct and were satisfied that this is appropriate/ adequate.
79. Employees of Scottish Canals are expected to comply with the requirements set out in the British Waterways' Code of Conduct and Ethics Statement until this is updated as part of the review of policies and procedures detailed at paragraph 64.

Outlook

Framework document / Scottish Public Finance Manual (SPFM)

80. In July 2013 Scottish Canals' framework document was approved by the Scottish Government. This sets out the broad framework within which Scottish Canals will operate and defines key roles and responsibilities which underpin the relationship between Scottish Canals and the Scottish Government. The document also stipulates any activities or undertakings which require Scottish Government approval. These include:
- establishing subsidiaries or entering into joint ventures
 - novel or contentious proposals for new sources of income or methods of fundraising
 - non-standard tax management arrangements
81. In addition to operating within their framework document, Scottish Canals are also required to comply with the requirements of the Scottish Public Finance Manual (SPFM). As this framework is relatively new to Scottish Canals, the board and senior management team should ensure that due consideration is given to the requirements of the framework document, and the SPFM, and that these are communicated to relevant staff.

Refer Action Plan No. 7

Best Value, use of resources and performance

82. Audited bodies have responsibility to ensure that arrangements have been made to secure best value. The Auditor General may require that we consider whether accountable officers have put in place appropriate arrangements to satisfy their corresponding duty of best value. Where such requirements are not specified we may, in conjunction with audited bodies, agree to undertake local work in this area.
83. As part of their statutory responsibilities, the Auditor General may procure, through Audit Scotland, examinations of the use of resources by audited bodies and publish reports or guidance. We may be requested from time to time to participate in:
- a performance audit which may result in the publication of a national report
 - an examination of the implications of a particular topic or performance audit for an audited body at local level
 - a review of a body's response to national recommendations.
84. During the course of our audit appointment we also consider and report on progress made by audited bodies in implementing the recommendations arising from reviews in earlier years. We may also consider the use of resources in services or functions, where the need for this is identified through local audit risk assessments.
85. This section includes a commentary on the best value and performance management arrangements within Scottish Canals. We also highlight any relevant national reports and comment on the body's response to these.

Management arrangements

Best value

86. Scottish Government guidance for accountable officers on best value in public services requires a systematic approach to self-evaluation and continuous improvement. The guidance identifies the themes an organisation needs to focus on in order to deliver the duty of best value, but notes that implementation should be appropriate and proportionate to the priorities, operating environment, scale and nature of the body's business.
87. At the February meeting of the Audit and Risk Committee we delivered a presentation on the duty of best value, as set out in the SPFM, and possible different approaches to demonstrating best value. Scottish Canals agreed to establish a programme of best value self-assessments which will demonstrate a systematic approach to self-evaluation and continuous improvement. This will include the application of Audit Scotland's best value toolkits.

Refer Action Plan No. 8

Performance management arrangements

88. In April 2013, the Scottish Government published its new policy for the canal network and Scottish Canals launched its vision for the organisation over the next 5-10 years. In May 2013 Scottish Canals published its 2013-18 Heritage Strategy which sets out how they will manage the historic assets of the canals and associated land and buildings.
89. A corporate plan is currently being prepared, but progress was delayed due to the recruitment of a permanent Director of Finance. In the meantime, in order to measure and monitor performance across the business, a suite of indicators have been developed which focuses on the vision and strategic priorities of the organisation. This includes 10 key performance indicators (KPIs) which are monitored on a quarterly basis and reported to the board in the chief executive's report.
90. The chief executive's report to the August 2013 board meeting, identified that performance against 5 of the 10 KPIs were flagged as 'red' at the end of the second quarter 2013/14. This indicates that these areas require attention to improve performance going forward.
91. A review of the KPIs used by Scottish Canals, identified that most were clear, challenging and measurable, although two targets are being reviewed to establish a baseline. Scottish Canals is working towards a robust framework for monitoring and reporting performance.

National performance reports

92. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. As a Scottish public sector body Scottish Canals may now be included in any relevant national performance studies carried out by our Performance Audit and Best Value team.
93. The SPFM requires the accountable officer to formally consider a proportionate response to relevant national reports and Scottish Canals should consider what processes should be put in place to meet this requirement.

Refer Action Plan No. 9

Appendix A: action plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	27/28	<p>Inventories</p> <p>A number of issues were identified with the year-end inventories balance for stock held at the Falkirk Wheel.</p> <p><i>There is risk that these issues could result in a material misstatement in future years and also increase the risk of fraud or misappropriation.</i></p>	An interim stock take will be conducted in addition to the year end stock take.	Interim Head of Finance	30 November 2013 / 31 March 2014
2	30/31	<p>Group boundary</p> <p>Scottish Canals are currently involved in a number of joint projects with a variety of partner organisations.</p> <p><i>There is a risk that relationships with partner organisations are incorrectly assessed when determining which entities require to be consolidated within the 2013/14 financial statements, or that the required consolidation adjustments are incorrectly processed.</i></p>	Group boundary assessment will be completed to assess which entities require to be consolidated within the 2013/14 financial statements.	Interim Head of Finance	31 December 2013
3	50/51	<p>Financial Planning</p> <p>Scottish Canals do not have a separate financial plan setting out the medium / long term financial strategy of the organisation.</p> <p><i>There is a risk that this will</i></p>	Scottish Canals' draft Corporate Plan is with the Scottish Government for approval. The Corporate Plan will then feed into a high level business plan covering	Director of Finance	30 November 2013

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		<i>impact on Scottish Canals' ability to achieve their medium and long terms goals and respond to emerging resource and cost pressures.</i>	a period of 3-5 years.		
4	52/53	<p>Workforce planning</p> <p>During the year staffing levels were revised in a number of areas to meet the increased demands on staff.</p> <p><i>There is a risk that workforce planning arrangements will be insufficient to ensure business continuity going forward.</i></p>	Staffing resources continue to be assessed. A Financial Controller will be appointed in due course and discussions are ongoing regarding the potential for a human resources shared services arrangement.	Director of Finance	30 November 2013
5	55	<p>2013/14 outturn</p> <p>At the end of July 2013 income was £0.2 million less than forecast and expenditure was £0.3 million more than forecast.</p> <p><i>There is a risk that Scottish Canals may fail to break even for the year.</i></p>	The high level budget is currently being reforecast at the six month stage. This will mitigate against any overspend beyond budget.	Interim Head of Finance	15 November 2013
6	57	<p>Income generation</p> <p>Scottish Government core funding is budgeted to represent sixty per cent of total income for 2013/14.</p> <p><i>There is a risk that Scottish Canals will be unable to generate sufficient income from commercial activities by 2015/16 to maintain their status as a public corporation.</i></p>	Scottish Canals' draft Corporate Plan sets out anticipated future income streams from commercial activities that will generate sufficient income to maintain our public corporation status.	Director of Finance	30 November 2013

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
7	80/81	<p>Framework document / SPFM</p> <p>Scottish Canals require to communicate the requirements of their framework document and the SPFM to all relevant staff.</p> <p><i>There is a risk that Scottish Canals fail to comply with their framework document or the SPFM.</i></p>	A Finance Manual is being drafted that will ensure compliance with our Framework Document and the Scottish Public Finance Manual.	Director of Finance / Acting Head of Finance	31 December 2013
8	86/87	<p>Best Value</p> <p>Scottish Government guidance for accountable officers on best value in public services requires a systematic approach to self-evaluation and continuous improvement.</p> <p><i>There is a risk that Scottish Canals are unable to demonstrate that they have adopted a systematic approach to self-evaluation and continuous improvement.</i></p>	A programme of best value self-assessments will be established to demonstrate a systematic approach to self-evaluation and continuous improvement. This will include the application of Audit Scotland's best value toolkits where applicable.	Chief Executive	Ongoing
9	92/93	<p>Audit Scotland national reports</p> <p>A process requires to be put in place to formally consider a proportionate response to relevant national reports prepared by Audit Scotland.</p> <p><i>Scottish Canals risk not meeting the requirements of the Scottish Public Finance Manual.</i></p>	Summaries of relevant national reports will be included within the Audit and Risk Committee papers for consideration and to identify any proposed action for Scottish Canals in response to key findings.	Director of Finance	Immediate