



Scottish Canals

Annual audit report 2014/15

June 2015

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This report has been prepared for the use of Scottish Canals and no responsibility to any member or officer in their individual capacity or any third party is accepted.

This report will be published on our website after it has been considered by the audit committee. The information in this report may be used by Audit Scotland in any reporting to the Scottish Parliament.

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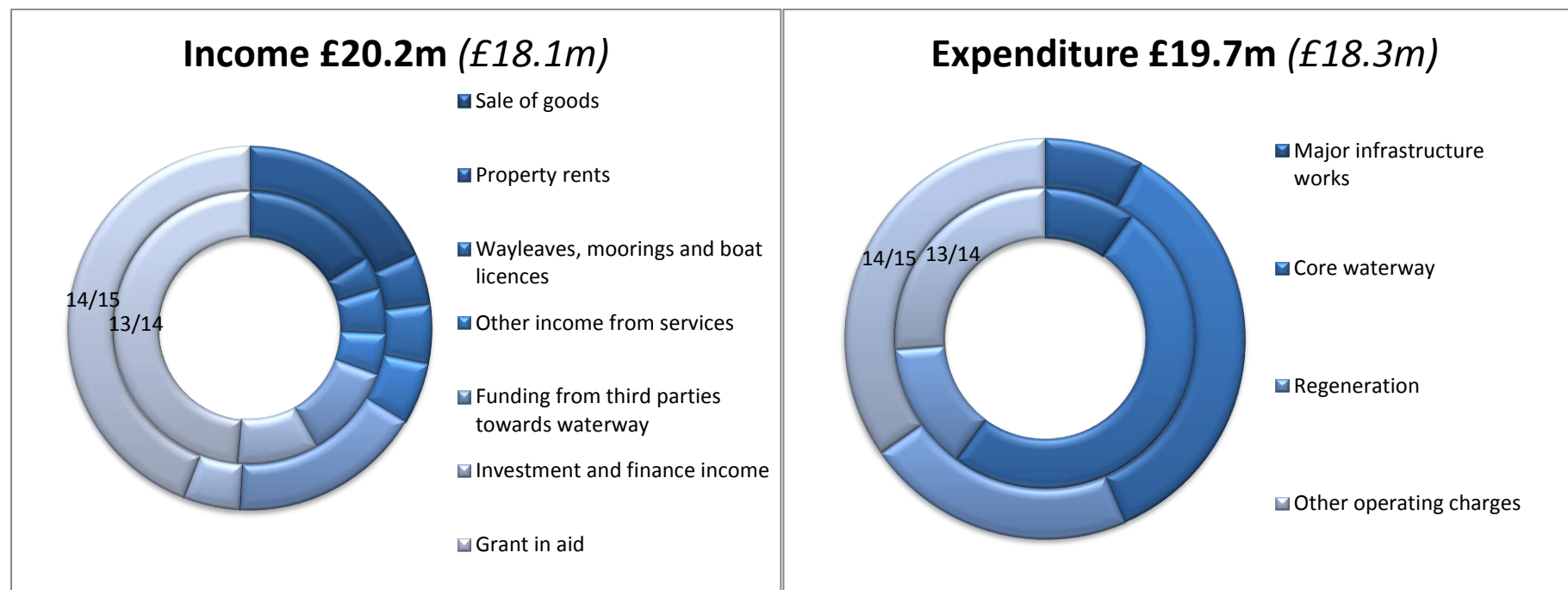
Key Messages

 <p>Audit of financial statements</p>	<ul style="list-style-type: none">• Unqualified independent auditor's report on the 2014/15 financial statements.• The investments of Scottish Canals were increased by £311,000 from the unaudited statements, reflecting Scottish Canals share of net assets in an associate.
 <p>Financial management and sustainability</p>	<ul style="list-style-type: none">• Scottish Canals made a surplus of £472,000.• Total net assets increased by £2.2m, to £51m and cash has been used to reduce trade payables• The financial position of Scottish Canals is stable in the short term.• The last instalment of the £10m dowry payment from Canal and River Trust is to be made in 2015/16 and this provides further financial challenges. We recommend that medium-term financial plans are prepared showing the cashflow position and any activities to manage this
 <p>Governance and transparency</p>	<ul style="list-style-type: none">• Overall we found that Scottish Canals had effective and transparent governance arrangements.

Introduction

1. This report is a summary of our findings arising from the 2014/15 audit of Scottish Canals.
2. The directors of Scottish Canals are responsible for:
 - preparing financial statements which give a true and fair view, in accordance with the relevant financial reporting framework
 - ensuring the regularity of transactions, by putting in place systems of internal control
 - maintaining proper accounting records
 - preparing and publishing with their financial statements an annual governance statement and a remuneration report.
3. Our responsibility, as the external auditor of Scottish Canals, is to undertake our audit in accordance with International Standards on Auditing, the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011 and the ethical standards issued by the Auditing Practices Board.
4. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements; that have been prepared by management with the oversight of those charged with governance. This does not relieve management of their responsibility for the preparation of financial statements.
5. **Appendix II** is an action plan setting out our recommendations to address the high level risks we have identified from the audit. We recognise that not all risks can be eliminated or even minimised. What is important is that Scottish Canals understands its risks and has arrangements in place to manage these risks. The committee should ensure that they are satisfied with proposed action and have a mechanism in place to assess progress and monitor outcomes.
6. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.
7. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

2014/15 financial statements



Income and funding of £20m this year is £2m (11%) more than last year. Scottish Government funding remained fairly constant at £9m, but retail income increased by £0.7m (25%) and third party funding increased by £1.4m (42%). The increase in retail income is due to the Falkirk Wheel, which it had its most successful year to date.

Expenditure increased by £1.4 m (8%) to £19.7m. The main increases were regeneration (+£1.8m or 71%); other operating charges (+£2m or 43%) and core waterway (-£2.2m or -24%). Regeneration increased significantly due to increased activity on towpaths in the year, which reflects the increase in third party funding above (from a variety of partners such as Sustrans). There was less activity/ expenditure on the core waterway as a result, and the increase in operating charges reflected increased retail activity

In March 2015 half of the weir at Culloch was washed away. Additional capital funding of £1 million was provided by Transport Scotland and the restorative work undertaken by Scottish Canals meant that the Caledonian Canal was re-opened to sea-to-sea traffic at the end of April 2015.

Audit of the 2014/15 financial statements

Audit opinions

Financial Statements

- The financial statements of Scottish Canals for 2014/15 give a true and fair view of the state of the body's affairs and of its net expenditure for the year.
- The financial statements have been properly prepared in accordance with IFRSs; the Transport Act 1962 and directions by Scottish Ministers.

Regularity

- In all material respects, the expenditure and income in the financial statements were incurred or applied in accordance with applicable enactments and guidance.

Other prescribed matters

- The audited part of the directors' remuneration report has been properly prepared in accordance with the Transport Act and directions by Scottish Ministers.
- The information in the directors' report and strategic report is consistent with the financial statements.

Audit of the 2014/15 financial statements

Submission of financial statements for audit

8. We received the unaudited financial statements on 4 May 2015 in accordance with the agreed timetable. The working papers were of a high standard and the staff provided good support to the audit team and we completed our on-site fieldwork on 22 May 2015.

Overview of the scope of the audit of the financial statements

9. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in our Annual Audit Plan presented to the Audit and Audit & Risk Committee on 26 November 2014.
10. As part of the requirement to provide full and fair disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2014/15 agreed fee for the audit was set out in the Annual Audit Plan and, as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.
11. The concept of audit risk is of central importance to our audit approach. During the planning stage of our audit we identified a number of key audit risks which had the greatest effect on the audit strategy, resources and effort. We set out in our Annual Audit Plan the audit work we proposed to undertake to secure appropriate levels of assurance.

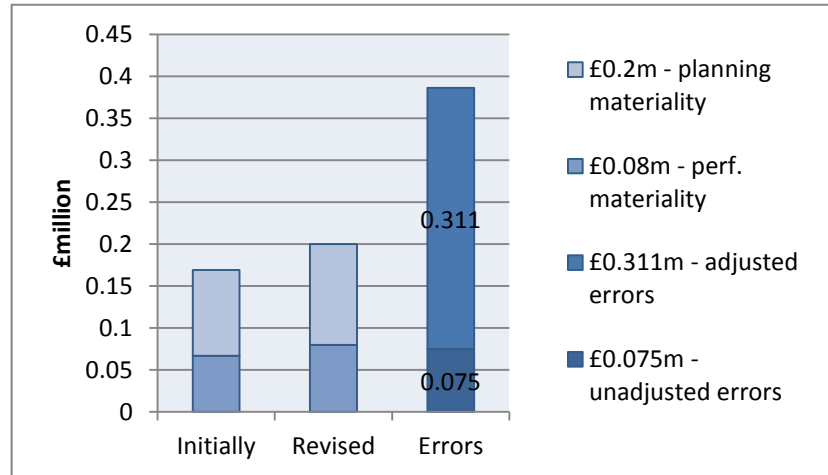
12. [Appendix I](#) sets out the significant audit risks identified at the planning stage and how we addressed each risk in arriving at our opinion on the financial statements.
13. Our audit involved obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

Materiality

14. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the decisions of users of financial statements. A misstatement or omission, which would not normally be regarded as material by amount, may be important for other qualitative reasons (for example an item contrary to law).
15. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
16. We summarised our approach to materiality in our Annual Audit Plan. Based on the financial statements, we revised our planning materiality for 2014/15 to £0.2m (1% of gross expenditure). Performance materiality of £0.08m is determined to ensure that uncorrected and undetected audit differences do

Audit of the 2014/15 financial statements

not exceed our planning materiality level. We report all misstatements greater than £5,000



Evaluation of misstatements

17. Three unadjusted misstatements were identified during the audit, which have not been adjusted in the statement of comprehensive income in the financial statements.
- An over accrual of towpath maintenance expenditure in error (£60,000) with an associated application of third party funding which should otherwise be deferred (£60,000)
 - A further accrual of towpath maintenance expenditure (£6,000) and associated income recognition (£6,000), where no evidence was provided to support the amount by the conclusion of the audit

- The absence of an adjustment to increase the carrying amount of the investment in Edinburgh Quay in 2014/15 (£19,000) and 2013./14 (-£10,000)

18. The net effect of these issues is to understate the surplus for 2014/15 by £19,000.
19. In addition to the above issues we also noted an understatement in the carrying value of the investment in Edinburgh Quay of £320,000 (which is explained further at paragraph 24).
20. We requested that all errors be corrected, although the final decision on this matter rests with those charged with governance taking into account advice from officers.
21. The total value of misstatements exceeded our performance materiality of £80,000. However, we consider Edinburgh Quay to be an isolated error, which does not indicate that further systematic undetected errors exist within the account area or more pervasively within the financial statements. The over accrual of towpath expenditure was also matched by income recognised and we tested all towpath accruals to ensure there wasn't more extensive error in this area. The net effect, on the surplus, of misstatements identified is relatively small at £19,000 and well within our performance materiality level. We considered the impact of these errors on our audit approach and decided that further audit procedures were not required.

Significant findings from the audit

22. International Standard on Auditing 260 requires us to communicate to you significant findings from the audit:
- The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and disclosures.
 - Significant difficulties encountered during the audit.
 - Significant matters arising from the audit that were discussed, or subject to correspondence with management.
 - Written representations requested by the auditor.
 - Other matters which in the auditor's professional judgment, are significant to the oversight of the financial reporting process.
23. A number of presentational adjustments were identified within the financial statements during the course of our audit. These were discussed with relevant officers who agreed to amend the unaudited financial statements. The overall effect of the adjustments made to the financial statements is to increase net assets as recorded in the Statement of Financial Position by £311,000. The following table identifies significant issues that, in our view, require to be communicated to you in accordance with ISA 260.

Significant findings from the audit in accordance with ISA260 –

- 24. Investment in Edinburgh Quay: (Note 10, Statement of Financial Position, Accounting Policies (basis of preparation))** A key accounting judgement identified in the accounting policies is that “The Directors consider that no consolidation is required on the basis of materiality”. Effectively the accounts presented for audit (for the Company), represent investments at values which are not materially different from Group Accounts and separate Group Accounts are not required. We identified that the carrying value of an investment was materially different in the unaudited statements from the value that would be presented in Group Accounts using the equity method as prescribed in IAS 28 *Investments in Associates and Joint Ventures* and the basis of valuation of Edinburgh Quay was inconsistent with Scottish Canals’ treatment of its other main interest (Bigg Regeneration LP). The value of the investment was accurate in the Group financial statements at the end of 2012/13 this was not case in the 2013/14 financial statements or in the unaudited 2014/15 financial statements. **Scottish Canals has adjusted the Statement of Financial Position to reflect the carrying value of the asset in the audited financial statements. This change is explained in a prior year adjustment note in the accounting policies. The effect of this is for net assets to increase by £311,000. However, Scottish Canals elected not to adjust the Statement of Comprehensive Income for the movement in carrying value in 2013/14 and 2014/15. The impact of this would have been to reduce income by £10,000 in 2013/14 and increase income by £19,000 in 2014/15.**

Future accounting and auditing developments

- 25.** The financial statements are prepared in accordance with the Accounts Direction signed by Scottish Ministers and where applicable comply with International Financial Reporting Standards (IFRS) as adopted by the European Union and the accounting and disclosure requirements of companies’ legislation currently in force.
- 26.** Per the accounting policies disclosed within a note to the accounts, the following issued IFRSs and interpretations as modified by the Accounts Direction were in issue but not yet

adopted by Scottish Canals in the 2014/15 financial statements, these are effective for annual accounting periods beginning on or after 1 January 2016:

- Regulatory deferral accounts - IFRS 14
- Accounting for acquisitions of interests in joint operations - amendments to IFRS 11
- Clarification of acceptable methods of depreciation and amortisation – amendments to IAS 16 and IAS 38
- Equity method in separate financial statements – amendments to IAS 27

Audit of the 2014/15 financial statements

- Sale of contribution of assets between an investor and its associate or joint venture – amendments to IFRS 10 and IAS 28
 - Annual improvements to IFRSs 2012-2014 cycle – various standards
 - Investment entities: applying the consolidation exception – amendments to IFRS 10, IFRS 12 and IAS 28
- Disclosure initiative – amendments to IAS 1.
27. Scottish Canals anticipates that the adoption of these Standards and Interpretations in future periods will not have a material impact on the financial statements of the organisation.

Financial management and sustainability

2014/15 financial position

28. Scottish Canals achieved a surplus of £0.5m for the year. And significant increases in revenue (up from £7.6m to £10.3m). External revenue exceeded the revenue funding from Scottish Government recognised in the statement of comprehensive income (£8.9m)
29. Scottish Canals initially received grant-in-aid funding of £10m in 2014/15, as indicated in Supporting Budget Act documents (<http://www.gov.scot/Resource/0044/00441949.pdf>) . This was increased by £1m during the year reflecting the costs of reinstatement and improvement of Cullochry Weir and £0.8m from the Future Transport Fund. £2.9m of the total funding is for capital expenditure and has been deferred and released to income over the expected useful lives of the assets.
30. The Framework Document allows Scottish Canals to make a surplus for future reinvestment and to fund future planned deficits. Therefore the surplus is in line with the framework document.
31. At 31 March 2015, Scottish Canals' Statement of Financial Position shows an increase in net assets of £2.2m, primarily due to an increase in property, plant and equipment. The ratio

of current assets to current liabilities has also improved over the year, with a significant decrease in trade and other payables (£3.4m), as represented in the net outflow of cash from operating activities in the cashflow.

32. The 2015/16 budget was approved by the Board in March 2015. Key points from this include:
 - GIA revenue funding is expected to stay constant at £8m.
 - They budget for retail income to increase by £1.0m – continuing to drive growth through the café and shop
 - Revenue expenditure remains fairly constant.
 - Capital investment will be funded through the remaining dowry funds, grant-in-aid of £1.7m and an operational capital budget of £0.5m.
33. The 2015/16 Budget Act shows continuing total funding of £10m from the Scottish Government and the financial position of Scottish Canals is stable in the short term.

Financial outlook

34. A key element of the cashflow over the last 3 years has been the dowry payments from Canal and River Trust (CRT)

Financial management and sustainability

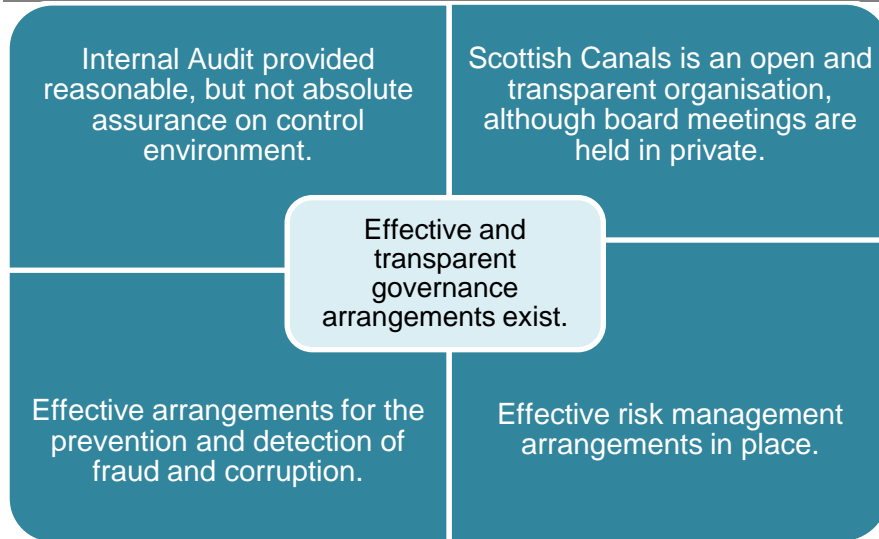
Cashflow (£000)	14/15	13/14	12/13
Operating activities	(3,147)	880	3,153
Investing/ financing activities excluding CRT	(1,269)	(2,659)	(4,515)
Subtotal	(4,416)	(1,779)	(1,362)
CRT Dowry	3,658	3,658	1,815
Total	(758)	1,879	453

35. Scottish Canals is to receive the last dowry payment of £1.8m in July 2015. The aim for the dowry payments was to use them to invest and generate future income. These have at times been used to fund working capital requirements.
36. Scottish Canals acknowledge the financial challenge they face in terms of the management of working capital requirements in the medium term and officers have identified the measures in place to manage this, including budget monitoring and forecasting throughout the year. The Strategic report identifies that the principal financial risk is the effective management of medium-term working capital requirements.
37. However, there are ~~no~~ no formal medium term financial plans in place and the development of a financial plan depends on key elements of the draft corporate plan being agree by the Scottish Government.

38. Audit Scotland's report, *Scotland's Public Finances: a follow-up audit* recommends that "More work is needed to develop and regularly review long-term financial strategies that reflect priorities, risks and liabilities and the implications for affordability." (http://www.audit-scotland.gov.uk/docs/central/2014/nr_140605_public_finances.pdf)
39. Based on our accumulated knowledge, our review of board papers and through our attendance at committees we conclude that Scottish Canals has good short -term financial management arrangements in place. However, this is will be challenged over the medium term, given the working capital pressures and lack of medium term financial plans setting out how these will be addressed.

Refer Action Plan no. 2

Governance and transparency



year and the Audit & Risk Committee meets quarterly. We concluded that the Scottish Canals has effective overarching and supporting governance arrangements, which provide an appropriate framework for organisational decision making.

43. Scottish Canals undertook a review of all policies and procedures, following the split from CRT in July 2012, to ensure they reflect revised business practices and satisfy their new requirements as a Scottish public sector body. The compliance programme was completed during 2014/15.
44. As described in the Governance Statement, Scottish Canals developed a Corporate and Operational Governance Framework to provide:
 - assurance to the Scottish Government that Scottish Canals has in place an effective governance system, accountable to Scottish Ministers
 - transparency of the roles and responsibilities of the Board, Audit & Risk Committee and executive team to demonstrate a shared governance agenda across Scottish Canals
 - assurance that the Board is focused on ensuring effective strategic leadership and

Corporate governance

40. The board and Accountable Officer are responsible for establishing arrangements for ensuring the proper conduct of the affairs of Scottish Canals and for monitoring the adequacy of these arrangements.
41. Scottish Canals is managed by a board of non-executives, directors and the Chief Executive.
42. The board is supported in its role by the Audit & Risk Committee. The Board meet on a regular basis throughout the

Governance and transparency

- assurance that there is a fully empowered executive management team within Scottish Canals.

Risk Management

45. Scottish Canals has a risk management strategy, policy, process and assurance framework in place. The risk management system includes processes for the identification, evaluation and mitigation of risk. Review and reporting of risk is undertaken at corporate, director, departmental and project level. From our attendance at committee, we have observed the risk register being considered regularly and in detail.

Transparency

46. The Scottish Government's *On Board* guidance (<http://www.gov.scot/Publications/2015/04/9736/0>), for board members of public bodies was updated and reissued in April 2015. *On Board* states that boards should demonstrate high standards of corporate governance at all times including openness and transparency in decision making. It recommends boards should consider:
- holding an annual open meeting
 - holding board meetings in public unless there is a good reason not to
 - publishing summary reports and/or minutes of meetings

- inviting evidence from members of the public in relation to matters of public concern
- consulting stakeholders and users on a wide range of issues
- making corporate plans and the annual report widely available.

47. Scottish Canals' website includes a corporate section where you can easily access the annual report and accounts; minutes from Board meetings and details on customer forum and key stakeholder meetings, attended by senior staff. The Corporate Plan 2014-17 is also available. Scottish Canals' board meetings are not held in public and there no immediate plans to change this due to the commercial sensitivity of much of the business.
48. Audit Scotland also believes in transparency of financial reporting within the Annual Report and Accounts including:
- A clear reconciliation between expenditure and the outturn against Scottish Government Resource budgets.
 - Identification of, and explanation of, any significant movements in budget during the year.
49. The Scottish Government's budget for 2014/15 was £10m for Scottish Canals, but this was further supplemented by additional funding for Culloch during the year. Scottish Canals sponsor (Transport Scotland) provides a split between capital and revenue funding. The strategic report provides the

Governance and transparency

detail of the revenue/capital split (excluding Cullochry) and this can be traced through to the accounts (Note 3 *Grants receivable from central government*, where the accounting of deferred capital element is shown).

50. Overall we concluded that the Scottish Canals is open and transparent although board meetings are held in private because of the confidential and sensitive nature of their business.

Internal control

51. Based on the testing carried out, Internal Audit provided reasonable, but not absolute assurance that the related risk management, control and governance objectives were achieved by the end of the period under review. In 2014/15, one high priority recommendation was made for IT security. Scottish Canals have subsequently implemented the recommendation.
52. Internal audit reviewed Scottish Canal's financial controls and procedures manual to assess whether the design of the controls was appropriate and in line with the requirements of the Scottish Public Finance Manual. This work provided a substantial level of assurance over the design of the key financial controls examined.
53. No material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the organisation's ability to record, process, summarise

and report financial and other relevant data so as to result in a material misstatement in the financial statements.

54. During testing of staff costs, we identified two cases where termination benefits were paid. In accordance with the Scottish Public Finance Manual (SPFM), Scottish Government approval must be granted for these prior to the payment being made. We have confirmed that the Scottish Government approved these termination payments, but this confirmation is retrospective.

Refer to Action Plan no. 1

Internal audit

55. Internal audit provides the Audit & Risk Committee and accountable officer with independent assurance on the overall risk management, internal control and corporate governance processes. We are required by international auditing standards to make an assessment of internal audit to determine the extent to which we can place reliance on its work. To avoid duplication, we place reliance on internal audit work where possible.
56. Our review of internal audit concluded that the internal audit service operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.

Governance and transparency

57. The internal audit plan for 2014/15 is materially complete and we were able to place reliance on internal audit's work on the internal control framework for the corporate governance statement.

Arrangements for the prevention and detection of fraud

58. We assessed the arrangements for the prevention and detection of fraud during the planning phase of our audit. This involved reviewing the Anti-Fraud and Anti-Bribery standards, approved annually by the Board, and the Whistleblowing policy in place. Both documents are communicated to staff and are appropriate to the organisation.
59. Scottish Canals was not asked to participate in this year's National Fraud Initiative (NFI). NFI is a counter-fraud exercise led by Audit Scotland, overseen by the Cabinet Office for the UK as a whole. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify circumstances (matches) that might suggest the existence of fraud or error. These exercises are undertaken every two years. <http://www.audit-scotland.gov.uk/work/nfi.phpf>. We would encourage Scottish Canals to consider being involved in the next exercise in 2016/17.
60. We conclude that there are effective arrangements for the prevention and detection of fraud.

Arrangements for maintaining standards of conduct and the prevention and detection of corruption

61. Scottish Canals has in place a range of activities designed to maintain standards of conduct including Codes of Conduct for employees and members.
62. All managers within Scottish Canals are required to complete a Declaration of Interest form annually, to confirm that all staff within their department or team have read the Scottish Canals' Code of Conduct relating to the Declaration of Interests, and to detail any interests disclosed by their staff and any action required to address these issues. In addition, all board members and executive directors are required to maintain an individual register of interests.
63. Based on our review of the evidence we concluded that there are good and appropriate arrangements in place for the prevention and detection of corruption and we are not aware of any specific issues that we need to record in this report.

National performance audit reports

64. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2014/15, two reports were issued which are of direct interest. These are outlined in below.

65. **Update on developing financial reporting:** This report reviews the principles of public financial management and provides an update on the actions the Scottish Government is taking to further develop financial reporting. It considers potential implications in light of the Smith Commission but also emphasises the importance of transparent financial reporting, which applies to all parts of the public sector and supports decision-making and accountability.

66. **Scotland's public finances – a follow-up audit: Progress in meeting the challenges.** This report provides a high-level update on the financial position and on how public bodies are meeting the challenges of reduced public spending. It reinforces that non-executives have a role to play in making sure the budgets they approve are used to best effort. To do this they need good quality and timely financial information and take a longer term view of the

- options available for services and how these will deliver outcomes
- standards of services that are affordable and

- sustainability of financial plans.

67. The report found that there is limited evidence of longer-term financial planning.

Appendix I – Significant audit risks

The table below sets out the financial statement audit risks, how we addressed each risk and our judgement in arriving at our opinion on the financial statements.

Audit Risk	Planned Assurance procedure	Results and conclusions
Risk of material misstatement		
<p>Reliance on internal audit</p> <p>Internal Audit plan to undertake a review of the controls in place within the financial systems. However, the scope of their financial systems controls review has not yet been established and Scottish Canals' financial procedures are not yet finalised.</p> <p><i>There is a risk that we cannot place reliance on the work of internal audit as planned.</i></p>	<p>We will continue discussion with internal audit to monitor progress in scoping the audit and establish whether we can place reliance on this work.</p> <p>If payroll controls work is not completed we will undertake further substantive procedures to confirm the accuracy, occurrence and completeness of pay expenditure.</p>	<p>Internal audit carried out a review of financial controls against the financial procedures document. The review found that all controls were operating as set out in the procedures document, no weaknesses were identified. We were able to place reliance on Internal Audit's review of financial controls.</p> <p>Internal audit's review involved a walkthrough of each control and a full review of the payroll system was not undertaken, instead a review of workforce planning was completed. We therefore, carried out further substantive testing of payroll expenditure. No issues were identified from this testing.</p>

Appendix I – Significant audit risks

Audit Risk	Planned Assurance procedure	Results and conclusions
<p>Management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates for bias.</p> <p>Evaluating significant transactions that are outside the normal course of business.</p> <p>Focused testing of accruals and prepayments.</p>	<p>The audit procedures did not identify any instances of management override of controls. Focussed testing of accruals identified an accrual for £60,000 where the works had not yet been undertaken, and therefore the amount should not be accrued. As set out at paragraph 17, this is being treated as an unadjusted error, but had no net effect on the surplus recorded.</p>
<p>Risk of fraud in revenue recognition</p> <p>ISA240 presumes a risk of fraud where income streams are significant.</p> <p><i>The extent of income at Scottish Canals means that there is an inherent risk income could be materially misstated.</i></p>	<p>Analytical review of income streams will be used to confirm completeness and identify any unusual transactions or variations in income.</p> <p>Substantive testing of income transactions will confirm occurrence and accuracy.</p>	<p>Analytical review and detailed substantive testing of income transactions were undertaken. No fraudulent activity was identified.</p>
<p>Valuations</p> <p>The financial statements of Scottish Canals include a range of assets and liabilities that rely on the provision of valuations by management experts.</p> <p><i>There is a risk of error in valuation assumptions used by actuary and valuer.</i></p>	<p>Our audit will consider the nature, scope and assumptions made in these valuations.</p>	<p>We reviewed the nature, scope and assumptions in the valuations by the actuary and the valuer. We discussed with the actuary and officers the treatment of the salary sacrifice scheme in the IAS19 report and within the financial statements.</p> <p>We did not identify any material error in the valuations. –</p>

Appendix I – Significant audit risks

Audit Risk	Planned Assurance procedure	Results and conclusions
<p>General moorings valuation</p> <p>The general moorings valuation is based on applying a multiplier to the annual moorings income figure.</p> <p><i>There is a risk of material misstatement linked to the valuation as it is susceptible to year-on year fluctuation dependant on the income figure used.</i></p>	<p>We will substantively test moorings income transactions to confirm occurrence and accuracy.</p> <p>We will review the valuation calculation, based on the income figure.</p>	<p>Substantive testing of moorings income confirmed the accuracy and occurrence of transactions.</p> <p>We reviewed the calculations to determine the valuation. We concluded that the calculation was appropriate and consistent with the previous year.</p>
<p>Pinkston Paddlesports Centre</p> <p>The accounting treatment for the Pinkston Paddlesports Centre is still to be finalised.</p> <p><i>There is a risk of material misstatement linked to the adjustments required to the associated assets/ liabilities.</i></p>	<p>We will discuss with officers the basis of accounting for Property, Plant and Equipment under IAS16 and leases under IAS17.</p> <p>We will review the classification, valuation accuracy and completeness of transactions prepared by officers.</p>	<p>We discussed the treatment of arrangement with finance officers and obtained evidence of the lease arrangement and risks associated with the lease. We concluded that Pinkston Paddlesports should be treated as an operating lease, in accordance with IAS 17.</p> <p>We reviewed the treatment of the assets in line with IAS 16 and found the accounting treatment appropriate.</p>

Appendix I – Significant audit risks

Audit Risk	Planned Assurance procedure	Results and conclusions
<p>2014/15 Outturn</p> <p>The 2014/15 revenue budget proposes a challenging target for Scottish Canals. The 2014/15 budget has not been fully phased to reflect the timing of transactions.</p> <p><i>There is a risk linked to Scottish Canals' achievement of the budgeted year end position.</i></p>	<p>We will review the accuracy of budgets based on actual results through the year.</p> <p>We will assess the year end financial position based on the surpluses achieved, the balance sheet position and income targets appropriate to a public corporation.</p>	<p>Scottish Canals achieved a surplus of £0.472 m in 2014/15</p> <p>A review of finance reports through the year, we found that the budget was being reviewed regularly against forecast outturn.</p>
<p>Working Capital</p> <p>An element of the dowry funds received from the separation from Canal & River Trust has been absorbed into working capital.</p> <p><i>There is a risk that Scottish Canals does not have sufficient working capital to cover its operational activity and that dowry funds will not deliver future returns as planned.</i></p>	<p>We will establish medium term financial plans and the plans for applying the dowry funds.</p>	<p>Scottish Canals have produced a financial plan for 2015/16. We have been advised there are no medium-term financial plans in place.</p> <p>Scottish Canals acknowledges the challenge it faces in terms of its medium term working capital requirements and directors believe there are currently sufficient measures in place.</p> <p>We have recommended that medium term plans are developed</p>

Appendix II – Action plan

Para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
Financial audit Issues				
54	<p>Approval of termination payments</p> <p>Scottish Canals are required to obtain Scottish Government approval for termination payments, prior to the payment being made, in line with the Scottish Public Finance Manual. Two cases were identified where there was no audit evidence of approval prior to the payments being made.</p> <p>Risk: There is a risk that termination payments are being made without Scottish Government prior approval. These transactions would then be considered ‘irregular’ in terms of our audit opinion.</p> <p>Recommendation: Evidence of Scottish Government approval should be obtained prior to payment being made. This should be kept for audit evidence.</p>	<p>The payments made were small in value and only out of a small number of payments.</p> <p>HR and finance have confirmed that audit trails of the approvals will be kept to provide evidence that approval was obtained prior to payment being made.</p>	Operations Director.	Immediate

Appendix II – Action plan

Para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
Wider audit issues				
40	<p>Medium term financial plans</p> <p>A medium term financial plans does not exist and the end of the CRT dowry funding in 2015/16 places additional pressures on working capital management.</p> <p>Risk</p> <p>There is a risk that due to insufficient information the Board cannot identify or evaluate the risk of working capital pressures over the medium term and approve actions to manage these risks.</p> <p>Recommendation</p> <p>A medium term financial plan is prepared including working capital projections and discussed with the Board. This should include scenario planning where major elements are uncertain.</p>	<p>The level of uncertainty of Scottish Government funding makes future planning difficult. The corporate plan 2014-17 provides detail of indicative spend for our priorities.</p> <p>Medium term plans will be prepared but the timescale will be determined by Scottish Government and when they advise us of the type and level of investment they are going to provide. We do not know when this will be, hence our plans are short term. We have already provided indicative 3 year numbers to our sponsor team in the context of ONS classification conversations but these have been purely indicative and very high level.</p>	Director of Finance	Timescale dependent on Scottish Government