



# Scottish Canals

## External Audit Report for the financial year ended 31 March 2020

Annual Report to the Board and the Auditor General for Scotland

Final Report

**Joanne Brown**  
Engagement Leader

**John Boyd**  
Audit Director

**Fraser Hoggan**  
Audit Associate



# Financial statements audit at a glance



We received a draft set of financial statements and annual report in accordance with our planned audit timetable. There were a number of accounting and disclosure adjustments required to the draft accounts detailed in Appendix 1. Due to the travel restrictions and social distancing measures introduced by the government in response to the Covid-19 pandemic, we have delivered the audit remotely.



We have fulfilled our responsibilities per International Standards of Auditing (ISAs) (UK) and the Audit Scotland Code of Audit Practice throughout our work. This final report to the Board and the Auditor General concludes our work.



Significant audit risks are: management override of controls; the risk of fraud in revenue recognition; defined benefit pension schemes' liabilities; and the valuation of investment property and work in progress (Dundas Hill). An additional significant audit risk was identified in relation to Covid-19. This was communicated to the Audit and Risk Committee in June 2020.



The Directors' Report and Strategic Report is in line with our understanding of Scottish Canals. The Corporate Governance Statement, outlines the governance framework. The Directors' Remuneration Report has been prepared in accordance with the provision of Section 412 of the Companies Act 2006, as required by Scottish Ministers. The disclosures in the Directors' Remuneration Report are consistent with Scottish Canals' underlying records.

An audit  
underpinned by  
quality and adding  
value to you



We updated our audit materiality to reflect your 2019/20 draft financial statements. Materiality is set at £340,000. This represented 1.7% of revenues in line with our audit plan. We applied a lower materiality threshold on review of the Remuneration and Staff report to ensure that remuneration and pension benefits are disclosed appropriately (being £1,000).



We issued an unmodified audit opinion on the annual report and accounts. Our audit opinion includes an emphasis of matter paragraph in relation to the material uncertainty over the valuation of investment property arising as a result of Covid and the forecast economic downturn.



Scottish Canals incurred a deficit for the year before tax of £5.450 million. This included a gain on the revaluation of investment properties of £2.263 million and a share of profits on investments of £0.748 million. The deficit for the year reflects the impact of HMRC's VAT liability assessment of £7.085 million as well as an underlying operating deficit of £1.422 million. The underlying deficit represents the challenging financial pressures facing Scottish Canals.

“

### **Adding value through our external audit work**

First and foremost our objective is to ensure we deliver a quality external audit which fully complies with International Standards on Auditing (ISAs) UK and the Audit Scotland Code of Practice (2016).

Through this Annual Audit Report we seek to provide insight and commentary over certain aspects of Scottish Canals arrangements, sharing relevant practices with the Audit and Risk Committee and Management.

We have continued to build on our working relationship with management and our understanding of Scottish Canals as an organisation. During 2019/20, our audit was delivered remotely. This required additional audit procedures to support our audit work over the completeness and accuracy of information provided by management.

For 2020/21 we will continue to work with Management to look to build on lessons learned from the current year's audit and opportunities to continue to maximise the efficiency and effectiveness of our audit processes. In particular we note from 1 April 2020 Scottish Canals will be operating as a Non-Departmental Public Body (NDPB) as opposed to the current Public Corporation model. This will require early discussions around the audit and financial accounting and reporting implications. A lessons learned session, alongside the transition to accounting under the FReM is planned for October 2020.

”

# Contents

<b>Section</b>	<b>Page</b>
Introduction	5
Responding to significant risks	8
Other key elements of the financial statements	13
Narrative elements of your annual accounts	17
Wider scope audit – Key messages	18
Wider scope – significant risks	19
Wider scope commentary	21
<b>Appendices:</b>	
Audit adjustments	30
Action plan and recommendation	32
Follow up of 2018/19 recommendations	35
Audit fees and independence	40
Fraud arrangements	41
Communication of audit matters	42

# Introduction

## Reporting

This report is a summary of our findings from our external audit work for the financial year ended 31 March 2020.

Our work has been undertaken in accordance with International Standards of Auditing (ISAs) (UK) and the Audit Scotland Code of Audit Practice 2016.

Our report is addressed to the Board of Scottish Canals. In addition, in accordance with our reporting responsibilities the report is jointly addressed to the Auditor General for Scotland.

Once the accounts are laid in parliament this report will be made publicly available on the Audit Scotland website ([www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk))

We would like to thank Scottish Canals management and the finance team for their support and assistance during the audit process and throughout the financial year.

## Structure of this report

In accordance with the Audit Scotland Code of Practice 2016, in addition to our core financial statements audit we provide conclusions on the four dimensions of wider-scope public audit (diagram below).

Our report is structured as follows:

- Financial statements audit including conclusions on significant risks and key elements of the financial statements – Section 1
- Wider scope dimensions including key messages and conclusions on significant wider scope risks – Section 2



## Our Opinion

For the financial year ended 31 March 2020 we issued an **unmodified audit opinion**:

- True and fair view of the financial statements
- Regularity – expenditure has been incurred in accordance with the purpose of Scottish Canals.
- Other prescribed matters (which include the audited information in the Directors' remuneration report)

## Emphasis of matter – Investment property valuation

We draw attention to Scottish Canals' annual report and accounts Note 1 to the financial statements, which describes the significant judgements, key assumptions and estimates in relation to investment property valuations. Management engaged experts to value their investment property portfolio. The expert's valuation included a 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty and a higher degree of caution should be attached to management's valuation than would normally be the case.

Our opinion is not modified in respect of this matter.

## Materiality

Our audit approach was set out in our audit plan presented to the Audit and Risk Committee on 5 December 2019 and finalised on the 28 February 2020.

We updated our audit materiality to reflect your 2019/20 draft financial statements. Materiality is set at £340,000. This represented 1.7% of revenues in line with our audit plan. We applied a lower materiality threshold on review of the Directors' Remuneration Report to ensure that remuneration has been disclosed in accordance with the Companies Act (being £1,000).

Since issuing the draft audit plan, we recognised an additional risk in relation to the impact of Covid-19 pandemic on Scottish Canals and the risk of material misstatement to the financial statements. The identified risks were reported to the Audit and Risk Committee in June 2020.

We report to management any difference identified over £17,000 (being 5% of overall materiality).

Details of the audit procedures undertaken and conclusions are detailed in the 'Responding to significant risk' section on pages 8 to 13.

## The audit process

In accordance with our annual external audit plan our year-end audit work commenced on 5 May 2020 with a further follow up visit at the end of May and throughout June.

Management provided the audit team with supporting schedules and working papers. An initial draft of the financial statements (excluding annual report commentary) was made available at the start of our audit. Subsequently there were a number of amendments and during the audit we received four drafts of the annual report and accounts. The completed annual report commentary was received early June 2020, the later timeline agreed with management.

Due to the travel restrictions and social distancing measures introduced by the government in response to the Covid-19 pandemic, we have delivered the audit remotely.

There were a number of adjustments to the initial draft financial statements. These included: adjustments to reflect the recognition of asset disposals (gain on sale) correctly; reflecting defined benefit pension scheme obligations in accordance with IAS 19; and tax adjustments.

There were a number of disclosure adjustments in respect of the draft financial statements including disclosures around material uncertainty in the valuation of investment property.

A full listing of adjusted misstatements is detailed in Appendix 1.

## Internal control environment

During the year we sought to understand Scottish Canals' overall control environment (design) as related to the financial statements. In particular, we have:

- Considered procedures and controls around related parties, journal entries and other key entity level controls.
- Performed walkthrough procedures of key financial processes including income and expenditure recognition, journal postings, valuation of investment properties, payroll, and defined benefit pension scheme valuations.

Our work over controls is limited to our ISA requirements in understanding an entities control environment. Our audit is not controls based and we do not place reliance on controls operating effectively as our audit is fully substantive in nature. We identified no material weaknesses or areas of concern from this work which would have caused us to alter the planned approach as documented in our plan.

## Internal Audit

As set out in our external audit plan, while we do not have any issues or concerns regarding the competence of internal audit, our audit approach is to comply with the ISA's and we do not place formal reliance on the work of Scottish Canals' internal auditor during 2019/20. We have reviewed the internal audit plan and individual reports issued to date, to consider if any impact on our audit approach. The opinion of Internal Audit for the year was that Scottish Canals':

*"Scottish Canals has a system of internal control designed to manage risk to a reasonable level. Internal controls cannot eliminate the risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.*

*As part of our reviews we have identified improvements to the internal control environment, which have been accepted by management. We will monitor the implementation of these improvements through future follow up audits. In our establishment visits we have continued to identify a number of areas of non-compliance with corporate procedures. We will report back to management and the Audit and Risk Committee on the implementation of these recommendations during 2020/21.*

*The impact of Covid-19 in March 2020 was a significant event, impacting normal business operations and risk assessments. As a result of the changes to the working arrangements arising from the pandemic response, in March 2020 many of the expected systems and controls will have been subject to change. The opinion expressed in this report therefore applies only to the period before the emergency service delivery arrangements were put in place.*

*Based on the audit work undertaken and the assurances provided by the Executive Team it is our opinion that, with the exception of the issues noted above, reasonable assurance can be placed upon the adequacy and effectiveness of the governance and control environment which operated during 2019/20 within Scottish Canals for the period before the change to the service delivery model in March 2020"*

The findings of internal audit are consistent with our knowledge and experience of Scottish Canals. From our review we are satisfied that there were no areas arising from the work of internal audit that would result in an increased risk of material misstatement to the financial statements and that appropriate disclosure is contained within the annual governance statement.

# Responding to significant risks

## Risk area

### Risk of fraud in revenue recognition

## Identified audit risks at planning

As set out in ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue. In 2019/20, Scottish Canals received £15 million in grant-in-aid funding from Transport Scotland. Of this £6.5 million is allocated by Transport Scotland for capital purposes and is deferred to support capital expenditure leaving revenue of £8.5 million. While material, we consider this funding to be well forecast and directly agreed to Transport Scotland funding letter and draw down. We therefore consider the opportunity and incentive to manipulate this revenue stream as low and rebut the presumed risk around revenue recognition over revenue resource allocation. Similarly, as interest received from investments and interest income is unlikely to material or represent a material risk of misstatement, we do not consider these revenue streams at risk of material misstatement through fraud in revenue recognition.

Scottish Canals generates other revenue through a range of sources including the sale of goods (water, utility and retail sales) and rendering of services. These represent material revenue streams. We therefore consider the risk of fraud in revenue recognition to be present in material revenue streams recognised within Sale of goods and Rendering of services. In 2019/20 these revenue streams totalled £10.995 million.

## Work completed

- Walkthroughs of the controls and procedures over revenue income including sales of goods including water, utility and retail sales, and rendering of services.
- We performed substantive testing (at an elevated risk level) income recognised in year where there is an increased risk of fraudulent recognition, being material revenue streams within sale of goods and rendering of services.
- Through sample testing of receivable balances at they year end gaining sufficient audit assurance over the existence of receivables balances held at 31 March 2020
- Performed income cut-off procedures and substantive testing over pre and post year end balances, over non Transport Scotland grant income.
- Through testing a sample of debtor balances to post year end cash receipt to gain assurance over the recoverability of debtor balances.

## Our conclusion

Based on our testing we can conclude:

- We did not identify any exceptions in our testing of revenue recognised during the year and through cut-off testing of year end income.
- We did not identify any material misstatements arising from our testing of accrued income, prepayments and debtors at the year end or material concerns around the recoverability of balances.



## Risk area

### Management override of controls

## Identified audit risks at planning

As set out in ISA 240 there is a presumed risk that management override of controls is present in all entities. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override the Scottish Canals controls for specific transactions.

We consider those key judgements that are most susceptible to significant audit risk of management override are those over expenditure recognition. These are areas where management has the potential to influence the financial statement through estimate and judgement.

## Work completed

- Considered the design of controls in place over key accounting estimates and judgements through performance of walkthrough procedures.
- Reviewed accounting estimates for management bias / indication of fraud that could result in material misstatement. This included review of estimates as at 31 March 2020 and retrospective review of those estimates as at 31 March 2019.
- Journals testing including:
  - Assessment of the design of controls in place over journal entries, including journal preparation, authorisation and processing onto the financial ledger;
  - Risk assessment of the journals population to identify large or unusual journal entries, such as those that are not incurred in the normal course of business, or those entries that may be indicative of fraud or error that could result in material misstatement. We tested these journals to ensure they are appropriate and suitably recorded in the financial ledger;
  - Target testing of transactions around the financial year end, reviewing large journals and those which appear unusual to understand the rationale for the transaction.

## Our conclusion

Based on our testing we can conclude:

- There was no evidence of management override in our testing of controls.
- Scottish Canals' draft financial statements include the following areas of significant estimate: Investment property valuations; unagreed rent review; deferred tax; and post retirement benefits (IAS 19 defined benefit obligations). The accounts also disclose critical judgements made by management when where they consider critical because of their complexity and judgement and potential impact on the financial statements: revenue recognition in respect of contract income; Investment properties in determining when owner occupied or potentially held for sale; disposal of long leaseholds; work in progress; and, interests in joint ventures and associates. We did not identify any indications of management bias in areas of material estimation or judgement in the accounts.
- Through our audit testing we have also considered accounting estimates over the valuation of investment properties and defined benefit pension scheme obligations
- We did not identify any unusual or significant transactions throughout the financial year or during the financial close period which were out with the ordinary operations of Scottish Canals.

## Risk area

### Valuation of Investment properties and work-in progress

## Identified audit risks at planning

### *Inventory*

Scottish Canals has an ongoing development (Dundas Hill project) which has involved the acquisition of land and remediation of the site and initial development works. As at 31 March 2019, the expenditure on the site totalled £7.3 million. Scottish Canals recognise the development in accordance with International Accounting Standard 2: *Inventory*, as inventory (work-in-progress) on the basis that the asset is held for sale in the ordinary course of business (this is not the first development and sale that Scottish Canals has undertaken) and that expenditure incurred supports the production of the site for sale. During 2019/20 the work on Dundas Hill was completed and was reclassified as Investment Property.

### *Investment property*

As at 31 March 2020, Scottish Canals held £23 million of investment properties, held at their fair value, being market value. On an annual basis Scottish Canals obtain an independent valuations of the assets held based on a range of assumptions around market price or yields depending on the type of property held. In addition, we are aware that Scottish Canals has entered into a number of transactions involving investment property during the year which significantly impact on carrying values. Given the material value of investment property held and the judgement and estimation in the valuation, we consider there to be a significant risk of material misstatement in the carrying value of investment property.

## Work completed

### Management expert

- We challenged the independence and objectivity of the appointed valuer and consider their competence and experience as a suitable management experts.
- We reconciled the valuation report provided by the valuer to the underlying accounting entries made by Scottish Canals
- We challenged the work undertaken by the valuer to support the valuation including their physical inspection of properties and completeness of data provided by Management to support the valuation.
- We challenged the valuer on revaluation movements that were out with our expectation, obtaining assurance around the valuation applied as at 31 March 2020

### *Valuation*

- We considered the suitability of the valuation methodology to ensure consistent with IAS 40.
- We challenged the approach adopted to support the valuation including the completeness and accuracy of underlying data used to support the valuations.
- We challenged the appropriateness of the assumptions adopted by the valuer, including where relevant, reference to rental agreements in place and assumptions around forecast rental revenue.
- We reviewed managements impairment assessment over Investment Property

## Risk area

### Valuation of Investment properties and work-in progress

## Our conclusion

Based on our testing we conclude:

- Investment property has been valued in accordance with IAS 40: Investment Property
- Following the completion of development works at Dundas Hill, the property was transferred from Inventory to Investment Property reflecting the intention for Scottish Canals to utilise the site to generate rental income and capital appreciation.
- The assumptions adopted by Management and the valuers are reasonable and we have not identified any issues with the completeness or accuracy of the underlying data used in the valuation.
- There were a number of Investment Properties not subject to formal revaluation in year. Assets not revalued in year related to low value properties (below £5,000) and two boats that were previously part of the Natural Retreats lease arrangement. These are held at the last revaluation value at 31 March 2017 based on the natural retreats lease agreement value with a total value of £301,410. From analysis of former natural retreats assets, the average movement on revaluation was an increase of 20%. The largest valuation movement on a single asset revalued was 79%. Applying this to the two Boats would create an estimated movement of £58,964 (based on 20%) with the highest movement of £239,000). Moreover, the overall valuation would need to be misstated by 112% before it would be considered material to the financial statements and based on the other valued assets this is not considered likely. We are therefore satisfied that these would not be materially misstated. We have requested Management representation that they are satisfied that the value of Investment Property is not materially misstated and recommend that future valuations incorporate all investment properties. We have raised a recommendation that Management ensure all investment properties are subject to revaluation in future years.

### *Action plan point 1*

- We have agreed the revaluation to the independent revaluation report and confirmed through testing a sample of revaluation entries, that these have been appropriately recognised in the financial statements.

The Royal Institute of Chartered Surveyors (RICS) have issued a valuation practice note regarding material uncertainties in valuations as a result of impacts to the market caused by Covid-19. The RICS Red Book defines material uncertainty as 'where the degree of uncertainty in a valuation falls outside any parameters that might normally be expected and accepted. Scottish Canals' valuers have reported their valuation advice on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global Standards effective from 31 January 2020. Due to covid-19 there has been significantly less transactions and thus market data in which to base calculations.

Consequently, less certainty, and a higher degree of caution, should be attached to our valuation advice than would normally be the case. Scottish Canals has updated the draft accounts to disclose the material uncertainty within note 1 of the accounts. We have included an emphasis of matter paragraph within our independent audit opinion to highlight the matter to the reader of the accounts. Our audit opinion is not modified in respect of this matter.

## Risk area

### Covid-19

## Identified audit risks at planning

The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expected current circumstances would have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to;

- Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and restrict the evidence we can obtain through physical observation;
- Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to investment property valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates;
- Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and
- Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.

We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.

## Work completed




- We reviewed the impact of the Covid-19 pandemic on the valuation of investment properties.
- We liaised with Audit Scotland and other providers under the Audit Scotland contract framework, and take into account wider guidance emerging related to audit quality (for example FRC guidance) and specific sector guidance
- We evaluated the adequacy of the disclosures in the financial statements in light of the Covid-19 pandemic.
- We evaluated whether sufficient audit evidence using alternative approaches can be obtained for the purposes of our audit whilst working remotely
- We evaluated whether sufficient audit evidence can be obtained to corroborate significant management estimates such as investment property valuation and recovery of receivable balances
- We evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment
- We discussed with management any potential implications for our audit report if we have been unable to obtain sufficient audit evidence

## Our conclusion




Based on our testing we can conclude:



- Covid-19 and remote working did not restrict Scottish Canals' ability to prepare the financial statements or restrict the audit evidence required to complete the audit. We did not consider that any revision were required to our materiality calculations.
- Management's assumptions underpinning financial forecasts and the going concern assessment have adequately considered the potential impact of Covid-19.
- We have not identified any significant impact on Scottish Canals' debtor recovery, although acknowledge that the majority of these are with other public bodies
- The impact of COVID-19 has resulted in a material uncertainty surrounding the valuation of investment property (see Valuation of Investment Property significant risk)
- Management have adequately assessed the impact of Covid-19 on the organisations governance arrangements.

# Other key elements of the financial statements

Accounting area	Summary of policy	Comments	Assessment
<b>Accounting policies</b>	Accounts direction	Scottish Canals' accounting policies are in accordance with Internal Financial Reporting Standards (IFRS). During 2019/20 Scottish Ministers issued an updated Accounts Direction to Scottish Canals, effective for financial periods beginning 1 April 2019. The updated accounts direction was issued to support Scottish Canals in allowing the to defer the application of IFRS 16: Leases in the current year. Under the FReM, which Scottish Canals will be adopting from 1 April 2020, the requirements of IFRS 16 do not come into affect until 2021/22.	 Green
<b>Judgements and estimates</b>	Investment property valuations Unagreed rent review Disposal of leasehold Deferred tax Post retirement benefit	<p>Scottish Canals currently disclose significant estimates and judgements within Note 1 to the financial statements. Under IAS 1, where a judgement is to be disclosed these should clearly define the judgement, how the judgement has been considered by management and the impact on the accounts. Where a estimation uncertainty is disclosed, this should be areas where there is a significant risk of a material adjustment to the carrying amounts of assets and liabilities in the next financial year arising from the estimation. Scottish Canals should disclose information to allow the reader to fully understand the nature of the estimation uncertainty and how assumptions may impact on the value of the asset / liability. In addition, we do not consider all disclosures to reflect a significant judgement or material estimate. In particularly we do not consider unagreed rent reviews; or deferred tax to represent areas of critical accounting estimates that have a material impact on the accounts. In addition, we do not consider leasehold, joint venture and associates and work in progress as critical judgements.</p> <p>We are satisfied that these are not material to the financial statements and have raised an unadjusted disclosure adjustment in Appendix 1.</p>	 Amber
<b>Other critical policies</b>	IAS 19 – Defined benefit pension obligations	<p>Scottish Canals participates in two defined benefit pension schemes' the Strathclyde Pension Fund and the Waterways Pension Fund. Scottish Canals recognise their share of the pension funds' assets and liabilities within the Scottish Canals accounts. These are based on underlying actuarial valuations. As at 31 March Scottish Canals reported net defined pension scheme liabilities of £689,000 (2018/19: £864,000).</p> <p>Our internal actuarial specialists have reviewed the actuarial assumptions applied by Scottish Canals in valuing both schemes and we are satisfied that these are appropriate.</p>	 Green

## Assessment

-  Marginal accounting policy which could potentially be open to challenge
-  Accounting policy appropriate but scope for improved disclosure
-  Accounting policy appropriate and disclosures sufficient

Accounting area	Summary of policy	Comments	Assessment
<b>Group accounts</b>	Investments in subsidiaries, joint ventures and associates	<p>Scottish Canals has 1 ordinary share of £1, a 100% shareholding in BwB (General Partner) Limited an investment company registered in Scotland. As disclosed in Note 1 of the accounts, Scottish Canals do not prepare consolidated financial statements on the basis the transactions and balances of BwB (General Partner) Limited are not material to Scottish Canals. In addition, Scottish Canals are satisfied that Companies Act provisions in relation to the preparation of group accounts would not be applicable to them.</p> <p>BwB (General Partner) Limited reported a profit for the year ended 31 March 2020 of £24,410 and net assets of £108,032. While we are satisfied that the consolidation of BwB (General Partner) Limited would not be material to the group/Scottish Canals, we have raised an unadjusted disclosure difference in Appendix 1 on the basis the impact of consolidation is above our audit reporting threshold. Going forward, Management should consider whether consolidated accounts are required including the consolidation of BwB (General Partner) Limited depending on future financial performance of the organisation and in the adoption of the FReM.</p>	 Green
<b>Judgements</b>	Revenue	<p>Scottish Canals often receives payments for right of access to its water space and surrounding areas which are classed as either revenue receipts or lease premiums accounted for, depending upon the circumstances of the particular agreement. Where the contract or agreement does not place any obligation to provide future services to a third party in respect of the income is recognised as received. However, where terms require delivery of future products or services these are recognition in accordance with the contractual terms. Judgement is exercised in reviewing such contracts to ensure that the correct accounting is applied.</p>	 Green

## VAT liability

Scottish Canals historically recognised all of the supplies of goods and services as being linked to business activity and therefore 100% recoverable in input tax. In 2018 Scottish Canals had initial discussions with HMRC around the potential that some of the organisation's activities may not qualify as business activity. Scottish Canals VAT advisers provided a formal evaluation and response to HMRC. In February 2020 Scottish Canals received notice from HMRC that they considered the current arrangements and the tax advice and have concluded that these services would be deemed as non-business and therefore irrecoverable from a VAT position. HMRC provided a summary assessment of the total VAT due, being those sums previously claimed as £6.679 million dating back to February 2016. With interest from the date of notice the total amount payable as £7.085 million at 31 March 2020.

Scottish Canals has been in discussions with HMRC, the Scottish Government and their VAT advisers. Scottish Canals continue to dispute the amount payable with HMRC sighting advice provided by the VAT advisers. Scottish Canals has recognised a VAT liability of £7.085 million in the financial statements given the formal notice received from HMRC on amounts due and as at 31 March 2020, represents the most accurate estimate of amount that will be payable.

Scottish Canals continue to challenge HMRC assessment and are in discussions around the approach to take forward. We are satisfied that the liability reflects the amount due to HMRC as at 31 March 2020.

## Dundashill

Scottish Canals has been investing in the Dundashill development for a number of years as a key strategic investment. During 2019/20 a Development Strategy for Dundashill was created and presented to the Board. With the completion of development, Scottish Canals has taken the decision to hold the investment for capital appreciation and/or future revenue generation. This was reflected in the financial statements as a transfer from work-in-progress to Investment Property as the strategy provided greater clarity around the medium term plan for the development. In accordance with IAS 40: Investment Property, the development has been revalued in the year to reflect fair value.

Going forward it will be important that Scottish Canals has a clear understanding of the progress of the Dundashill development and the accounting implications of any decisions taken with regards the development.

## IFRS 16: Leases

IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Scottish Canals has a number of lease and lease type arrangements, including those with Millennium Link Trust. A number of assets are held within this Trust and are not assets of Scottish Canals for example the Falkirk Wheel. There are also assets where Scottish Canals retains ownership as overarching lease owner. The adoption of IFRS 16 could have significant impact on Scottish Canals. During 2019/20 we reviewed some of the preliminary work undertaken by Scottish Canals over lease arrangements. Management recognise that a comprehensive review of all lease arrangements will be required to ensure the organisation is prepared for the adoption of the new accounting standard.

*Action plan point - 2*

## Going concern

Scottish Canals has revised the financial and operational targets included within its 2020/21 business plan to reflect the impact of Covid19. The pandemic and subsequent limitations on non-essential businesses has had a significant impact on the organisation's operations. In particular the use of the canal network and income generating activities through retail. In addition, over the medium term Scottish Canals recognised that other revenue streams from investments may be more challenging. In response, Scottish Canals has sought to implement a number of cost saving measures. This includes taking advantage of the government's furlough scheme for staff who could not deliver their role due to the travel restrictions and social distancing measures put in place.

Over the medium term, Scottish Canals is looking to implement more efficient and effective ways of working through greater use of technology to support streamlining of back office functionality. For 2020/21, as an NDPB, Scottish Canals receive revenue resource funding from the Scottish Government and Management have been in dialogue with the Scottish Government around funding available to support them during the period of the pandemic. As an NDPB Scottish Canals will need to operate within resource limits set by the Scottish Government and therefore will not be able to incur overspends.

Overall management have forecast that with ongoing financial support from the Scottish Government they will continue to meet their obligations as they fall due for at least a period of 12 months from the date of signing the accounts. While we recognise the challenges facing Scottish Canals there is no indication that they will not continue to receive Scottish Government funding and have in place an initial allocation letter for 2020/21. Scottish Canals currently have a strong net assets position of £46 million as at 31 March 2020. While we recognise the restrictions on NDPBs use of reserves, there is sufficient assets that the organisation could utilise where necessary to support in-year financial sustainability.

## Fraud and Irregularity

Scottish Canals has arrangements in place to help prevent, detect, and mitigate the risk of fraud or irregularity, including anti-bribery and whistleblowing policies. While we consider these to be reasonable, no arrangements can fully prevent against the risk of fraud, theft, or irregularity.

We are not aware of any material frauds at Scottish Canals during the year and have confirmed this with management. However, there was an alleged fraud discovered in February 2020 which is currently under investigation internally and by Police Scotland.



# Narrative elements of your annual accounts

In accordance with our responsibilities we have reviewed your narrative aspects of the Annual Report and Accounts. We have considered the consistency of this narrative with our understanding and the financial statements and have set out our observations below. We have also audited the required information in the remuneration report (marked audited) and have no matters we wish to bring to your attention.

## Directors report and Strategic Report

Provides a summary of key performance activity across the year

The report summarises the key priorities, achievements and developments during the year. The performance analysis highlights activities undertaken by Scottish Canals to deliver the strategic priorities

## Overall Observations

Scottish Canals recognises the important that the Annual Report and accounts have in communicating the organisation's performance during the year. Minor disclosure amendments were required to the "front end" of the accounts to align to the requirements of the Companies Act.

Directors Report, Strategic Report, Directors' Remuneration Report, and the Corporate Governance Report.

## Directors' Remuneration Report

In accordance with ministerial direction, the Directors' Remuneration report has been prepared in accordance with Section 412 of the Companies Act 2006.

The disclosures in the Directors' remuneration report are consistent with underlying payroll records. A number of amendments were made in relation to the draft remuneration report to provide disclosure of the secondment arrangements for Executive Directors who are on secondment to Scottish Canals.

## Corporate Governance Report

The Corporate Governance report outlines the governance framework in place at Scottish Canals. The draft report was signed by the Chief Executive, as Accountable Officer and included a Statement of the Accountable Officers' responsibilities.

# Wider scope key messages



Scottish Canals incurred a financial deficit for the year before tax of £5.450 million (2018/19: Deficit £2.008 million). The outturn position included a gain on the revaluation of investment properties of £2.263 million and a share of profits on investments of £0.748 million. The operating position reflects impact of HMRC's VAT liability assessment on Scottish Canals of £7.085 million as well as an underlying operating deficit of £1.422 million.

The underlying deficit represents the challenging financial pressures facing Scottish Canals. The original budget for 2019/20 forecast a surplus of £0.125 million.

Scottish Canals face underlying financial challenges including developing a financially sustainable operating model; managing the financial and operational impact of Covid-19; ensuring prioritisation of its investment in the canals infrastructure; and managing the transition to a new accounting regime under the FReM. In light of these challenges, it is important that Scottish Canals has sufficient financial capacity, capability and leadership.

Following the departure of the Finance Director in December 2019 and the Director of Estates in April 2020, Scottish Canals has temporarily appointed a Director of Policy & Governance and Director of Corporate Services. While this has increased the capacity of the Leadership team, given the financial challenges facing Scottish Canals it is important that they have strong financial management and financial strategy experience. Scottish Canals does not have sufficiently qualified financial accounting experience within senior levels of the organisation. During 2019/20, Scottish Canals secured these services through a qualified accountant from the Scottish Police Authority one day a week on a reciprocal secondment agreement. However this is only a temporary arrangement for one day per week and Scottish Canals. While we recognise that there is regular financial reporting to the Executive Leadership Team, there is an opportunity to have qualified accounting experience within senior levels of the organisation. Scottish Canals has commenced a recruitment exercise for Executive Management Team members including senior finance personnel. It is important that appropriate resource, skills and capability, is in place to provide effective financial leadership and capacity to meet the challenges faced in the coming years.



Scottish Canals has a range of investments and commercial enterprises to contribute towards the investment in the Canals network. This includes commercial enterprises including those at Falkirk Wheel and Kelpies. In addition, Scottish Canals hold investment property of £23.913 million with the focus on generating revenue. As Scottish Canals matures as an organisation, and in the context of the new Corporate Plan, there is an opportunity to develop an overall framework for monitoring and reviewing strategic investments and their performance against planned outcomes. This will enable future investment decisions to not be taken in isolation and whether they are aligned to the wider investment priorities and support the organisation track and monitor the outcome of decisions taken and the extent they delivered value for money.

# Wider scope – significant risks

Within our annual audit plan we identified two significant wider scope risks in relation to financial sustainability and delivering performance targets in a backdrop of financial challenges. As part of our audit we have reviewed the arrangements in place at Scottish Canals round these wider scope risks.

## Wider Scope Significant Risk: Financial management

Like many public bodies, Scottish Canals face financial challenges through rising pressures on payroll costs, as well as inflationary increases on other operating expenditure. With Scottish Government Grant-in-aid revenue funding not expected to increase significantly over the medium term, Scottish Canals continues to look to support options for maximising revenue. It is critical that the Scottish Canals' financial plans focus on both the immediate pressures of meeting the day to day operating and maintenance costs of the canals network, against a context of relatively static Government funding, as well as focusing on longer term strategic investment required to maintain the canals assets.

### Audit response to significant wider scope risk

We will review the financial plans in place, including the scenarios set out, and how these align resources to the delivery of Scottish Canals' new corporate priorities. We will assess the extent to which the financial plan and corporate plans are developed recognising the short term financial pressures facing the organisation as well as the longer term challenges in terms of strategy investment required to maintain the canals assets.

## Grant Thornton's conclusion

*The impact of COVID-19 on Scottish Canals operations and subsequent shutdown of all activity across the canal network is likely to have a significant impact on the organisation's financial performance in 2020/21. Scottish Canals has taken steps to look to manage the cost base during the period of inactivity including the use of the government furlough scheme. As social restriction measures lift, Management are looking at ways of ensuring they can return operations safely. The Executive Management Team has undertaken scenario planning at 6 weeks, 3 months, 6 months, and 12 months; and the Heads of Service are capturing information on a weekly basis on the financial and operational outlook. There is also a multi-disciplinary team looking at developing a 'start up plan' once the COVID-19 restrictions are relaxed / lifted.*

*Alongside managing the impact of Covid-19, Scottish Canals face underlying financial challenges including developing a financially sustainable operating model as well as ensuring that the organisation continues to priorities its investment in the canals infrastructure. In addition, during 2020/21 Scottish Canals transition to a new accounting regime under the FReM. In light of these challenges, it is important that Scottish Canals has financial capacity, capability and leadership.*

*Following the departure of the Finance Director in December 2019 and the Director of Estates in April 2020, Scottish Canals has appointed interim Director of Policy & Governance (24 month secondment) and Director of Corporate Services (12 month secondment). However, these are only temporary secondments from the Scottish Government and Scottish Police Authority. Neither are a direct substitute for the Finance Director who left, with neither having an accounting qualification.*

**Scottish Canals does not have sufficient qualified, experienced financial accounting experience within its senior leadership. Scottish Canals has commenced a recruitment exercise for Executive Management Team members including senior finance personnel. It is important that appropriate resource is in place to provide effective financial leadership and capability to meet the challenges faced in the coming years.**

**Action plan point – 3**

## Wider Scope Significant Risk: Value for money

In the context of facing significant financial challenges in ensuring sufficient strategic investment to maintain the canals network, the effective use of resources is increasingly critical for Scottish Canals. It is critical that Scottish Canals can demonstrate value for money in the activities it undertakes, including decisions around investments. In particular, the extent to which strategic investments deliver the desired outcomes over the medium to short term.

### Audit response to significant wider scope risk

We will assess the extent to which Scottish Canals demonstrate value for money in its strategic investment decisions. In particular, we will consider the extent to which the Management and the Board consider the potential outcomes from strategic investment decisions, including option appraisal and cost/benefit analysis. We will consider the extent to which Scottish Canals monitor the outcome of strategic investment decisions and the extent to which they continue to support the delivery of corporate objectives.

## Grant Thornton's conclusion

*Scottish Canals has a range of investments and commercial enterprises to contribute towards the investment in the Canals network. This includes commercial enterprises including those at Falkirk Wheel and Kelpies. In addition, Scottish Canals hold investment property of £23.913 million with the focus on generating revenue. Investment activity is reported to Scottish Canals' Board through quarterly business reports. As Scottish Canals matures as an organisation, and in the context of the new Corporate Plan, there is an opportunity to develop an overall framework for monitoring and reviewing strategic investments and their performance against planned outcomes. This will enable future investment decisions to not be taken in isolation and whether they are aligned to the wider investment priorities.*

*One key investment is the ongoing development of Dundashill. This is a significant project for Scottish Canals, which has associated reputational risks as well as opportunities for further income generating activities in the future. During 2019/20 a Development Strategy for Dundashill was created and presented to the Board in June 2019 for which it was requested to confirm the Development Strategy for Dundashill. With the completion of development, Scottish Canals has taken the decision to hold the investment for capital appreciation and/or future revenue generation. Over the coming years it will be likely that Scottish Canals will make further decisions around the future of Dundashill development.*

### **Enhancing scrutiny and decision making**

*Following revision of governance arrangements during 2019/20, the Executive Management Team has oversight for the overall investment portfolio, within delegated authority limits. As Scottish Canals matures as an organisation, and in the context of the new Corporate Plan, the organisation has recognised the importance of developing an overall framework for monitoring and reviewing strategic investments the extent these delivery planned investment outcomes. As the development of the new framework is underway, it is important that Scottish Canals look to ensure this supports clear alignment between investment decisions and monitoring the delivery of planned outcomes and the extent to which the investment represented value for money.*

**Scottish Canals' strategic investments play an important role in delivering the organisations' corporate objectives. It is therefore critical that Scottish Canals has a robust framework of monitoring and reviewing these investments to ensure these continue to deliver value for money for the organisation.**

**Action plan point -4**

# Wider Scope Commentary

## Financial management and financial sustainability

### Financial Performance 2019/20

Scottish Canals incurred a deficit for the year before tax of £5.450 million (2018: Deficit £2.008 million). The outturn position included a gain on the revaluation of investment properties of £2.263 million and a share of profits on investments of £0.748 million. The operating position reflects impact of HMRC's VAT liability assessment on Scottish Canals of £7.085 million as well as an underlying operating deficit of £1.422 million. The underlying deficit represents the challenging financial pressures facing Scottish Canals. The original budget for 2019/20 forecast a surplus of £0.125 million.

During 2019/20 Scottish Canals generated revenue of £19.222 million, an increase of £1.668 million from prior year, however, operating expenditure for the year £27.460 million which was an increase of £9.125 million from the prior year. This increase in expenditure is mainly due to a potential VAT liability of £7.085 million and major infrastructure works of £4.442 million (2018/19: £1.815 million). A key cost pressure for the Scottish Canals is payroll costs which stood at £9.521 million for the year which is an increase of £93,000 from 2018/19 and indicates the recurring cost base is growing faster than the revenue generation of the organisation.



### Capital Investment during 2019/20

During 2019/20, Scottish Canals had additions of £20.730 million (2018/19: £15.592 million). The investment is part of an ongoing investment in Scottish Canals infrastructure including ongoing construction works as part of Scottish Canals investment strategy including at Fort Augustus; Garscube bridge and Bowling.

Capital Expenditure is funded primarily through Scottish Government Grant funding of £6.5 million (2018/19: £10.47 million) and in third party funded works. The capital funding is dependent on the level of capital grants from the Scottish Government and other sources including City Deal for specific one-off projects. Without this one-off funding, Scottish Canals would have been unable to complete the level of repairs work during the year.

## New accounting framework – Transition to FReM as and Non-Departmental Public Body (NDPB)

On 1 April 2020 the organisation transitioned to an NDPB and for the accounting period beginning 1 April 2020 Scottish Canals will report as per the Scottish Public Finance Manual (SPFM) and the Government Finance Reporting Manual (FReM). This will likely result in significant changes on the accounting treatment for a number of balances and transactions and of disclosure requirements. In particular, the FReM requires land and buildings to be held at current value. Similarly government funding is recognised as a resource limit to fund net operating expenditure rather than as income. This has implications on Scottish Canals financial reporting arrangements. Ultimately Scottish Canals face significant challenges in order to develop a fully FReM compliant set of financial statements for year ended 31 March 2021. In preparing accounts in accordance with the FReM for 2020/21, there will need to be a significant amount of work including restatement of opening balances within comparators (as at 1 April 2019) as well as restating transactions and balances from 2019/20 to follow the requirements of the FReM.



### Action plan point - 5

#### Financial capacity

In December 2019 the former Finance Director departed Scottish Canals under a voluntary exit agreement. Scottish Canals obtained independent legal advice on the severance package due to the individual and in accordance with the Scottish Public finance Manual Finance manual Scottish Canals business case was notified to the Scottish Government. Under the severance arrangement the former director received six months salary in place of notice. The exit arrangement totalled £76,100 which is below the SPFM threshold cap of £95,000. The exit agreement was subject to approval by the Scottish Canals Remuneration Committee.



Scottish Canals has sought to strengthen the capacity and capability of the senior leadership team and finance resource. Scottish Canals has seconded two Directors one from the Scottish Police Authority: a Director of Corporate Services and one from the Scottish Government a Director of Policy & Governance. In addition, Scottish Canals has secured the services of a qualified accountant from the Scottish Police Authority to provide technical support to the organisation working one day a week to provide finance support. However, the individual is not an employee of Scottish Canals nor are they or Scottish Police Authority remunerated for the individual. In addition, one day a week does not provide Scottish Canals with a significant level of senior qualified accountancy resource.

With the financial pressures facing the organisation, Scottish Canals does not have sufficient qualified, experienced financial accounting experience within its senior leadership. Scottish Canals has commenced a recruitment exercise for Executive Management Team members including senior finance personnel. It is important that appropriate resource is in place to provide effective financial leadership and capability to meet the challenges faced in the coming years.

## Financial planning and management

The 2020/21 budget was approved by the Board on 24 April 2020. The budget was built on zero based principles to support the delivery of the business plan and reflects all funding received being spent in year - as now required under the Scottish Public Finance Manual set out by Scottish Government.

Revenue Grant-In-Aid (GIA) is included within the 2020/21 budget at £8.5million. Whilst this is a like-for-like cash settlement on 2019/20, given inflation and other economic pressures, this is a real term decrease of between 3-4%. Revenue GIA accounts for 45% of total required revenue funding. The budget for 2020/21 is forecasting a surplus of £0.045 million. However, due to the COVID-19 situation and subsequent shutdown of all activity across the canal network, Scottish Canals were asked to indicate to Scottish Government about the likely impact this would have on their operational model. The Executive Management Team have undertaken scenario planning at 6 weeks, 3 months, 6 months, and 12 months; and the Heads of Service are capturing information on a weekly basis. There is also a multi-disciplinary team looking at developing a 'start up plan' once the COVID-19 restrictions are relaxed / lifted. Given the wider pressures on Scottish budgets in light Covid-19 and potential implications of EU exit it will be important that Scottish Canals continue to review financial plans.

Scottish Canals continue to strive to deliver significant savings in the business by evaluating and scrutinising spend across the business. However, with an underlying operating deficit of £1.422 million in 2019/20 and pressures on revenue streams due to the impact of Covid-19 on operations, Scottish Canals must rethink the way it has previously done business and look to harness digital opportunities as they arise.

Scottish Canals is moving to a new way of working and fostering greater collaborative work across the different teams. This means that there will be regular training and guidance given on all aspects of financial management to all budget holders supporting greater consistency in financial management across the organisation. Robust financial monitoring and scrutiny will be essential over the short to medium term to ensure that Scottish Canals deliver its 2020/21 targeted outturn position while delivering a financially sustainable operating model.



## Capital Budget Allocation

Scottish Canals has recognised that ongoing investment in their assets is necessary to maintain a safe and operational canal network. In June 2018, Scottish Canals launched their Asset Management Strategy, which highlighted the backlog of works on the network and sets out the required investment to maintain the canals in an operational state. Over the last two years, Scottish Canals has seen an increase in capital funding, enabling progress to be made in reducing the backlog, however, challenges remain. The 2020/21 Scottish Government GIA capital funding of £12.2million has been considered in the context of the range of business needs with £8.425 million allocated to canal infrastructure improvements, with the remainder allocated to other business objectives including £1.376 million for Materials and Contracts, Plant and Professional Fees. However, due to the current uncertainty regarding the impacts of COVID-19 on the overall budget, it is recognised that this is subject to review.

Scottish Canals are aware that the capacity of supply chains to deliver projects will be restricted in terms of accessing sites for investigations and will keep the Board updated should they require to amend the investment proposals through the financial year. Each of the packages of work constituting a project, will be developed as a stand-alone project for the purposes of managing information, procurement and financial reporting, variances and significant risks will be reported to the operational & investment boards and subsequent quarterly Board reports.

## Job evaluation – pay and grading

Scottish Canals has been going through a process of job evaluation, pay and grading model since 2014. An initial exercise with Korn Ferry Hay Group (KFHG) included a job evaluation system and grading structure. However the structure did not meet with the Scottish Government Pay Policy team approval. In 2018, Scottish Canals engaged external consultancy service JE Consultant and a full review of Scottish Canals' current role profile building on the previous KFHG methodology to determine a pay and grading structure to align with other public bodies in Scotland. During 2019/20 work has continued on the job evaluation process and a working group with Trade Union partners has been established with discussions progressing. The organisation has went through a process of establishing job descriptions and role profiles and in the process of aligning individuals to these subject to re-evaluation.

The Scottish Canals original budget incorporated the Scottish Government Pay Policy settlement although there was no allowance for the cost of job evaluation process. However, estimated costs of between £264,000 to £335,000 per annum have been reported to Scottish Government as part of the forecasted 20/21 outturn.



# Governance and transparency

## Covid-19 governance arrangements

Scottish Canals Board consists of six members, including the Chief Executive. With the relatively small number of members this can cause challenges in terms of ensuring there is enough individuals to provide effective scrutiny and challenge. During 2019/20 we observed that all meetings of the Board were quorate and there only one instance where only three of the four non-executive members were present. Due to the COVID-19 pandemic, from April 2020 Board meetings are taking place virtually.

Scottish Canals has recently commenced a governance review. This was following the introduction of the new Corporate Plan 2020-23 as one of its key aims is to ensure that Scottish Canals excels in governance, financial resilience, and demonstrates a commitment to innovation. The primary objectives of the governance review are to:

- Provide greater transparency on processes and documentation that underpin board decision making and governance;
- Re-modelled finance and project governance arrangements to meet the requirements of Scottish Public Finance Manual with finance and project management arrangements more aligned to that of a NDPB rather than a public corporation.
- A revised Corporate and Operational Governance Arrangements document that will consolidate all key governance documents to support transparency in decision making.

In supporting greater openness and transparency, during the year Scottish Canals established process of regular publishing of Board minutes and papers on the organisation's website.



## National Fraud Initiative

In 2019/20, Scottish Canals participated in the National Fraud Initiative (NFI). The NFI is a counter fraud exercise co-ordinated by Audit Scotland working together with a range of Scottish public bodies, external auditors, and the National Audit Office to identify fraud and error.

Management ensured submission of NFI data in accordance with reporting timescales. However, Management recognise that there are opportunities to improve the investigation of NFI matches and ensuring these are appropriately closed on a timely manner in the NFI database.

**Action Plan point - 6**



## Risk Management

Scottish Canals has an established Risk Management Policy and defined risk appetite statement. Scottish Canals aim to align Risk Management Policy with the organisation's objectives outlined within the Corporate Plan. Risks are recorded and managed through risk registers at a corporate and departmental level. We observed that there are regular risk updates provided to the Board and Audit and Risk Committee.

Management have recognised opportunities to continue to develop and enhance risk management arrangements across the organisation. In 2019/20, Internal Audit undertook a review of risk management arrangements and concluded that a reasonable level of assurance can be placed on the control environment. The key development area for Scottish Canals identified within the review is operationalising risk management, through enhancing the level of guidance and support to staff in managing risks. Management are working through an action plan to address these points.



# Value for money

## Strategic investments

Scottish Canals has a range of investments and commercial enterprises to contribute towards the investment in the Canals network. This includes commercial enterprises including those at Falkirk Wheel and Kelpies. In addition, Scottish Canals hold investment property of £23.913 million with the focus on generating revenue.

One key investment is the ongoing development of Dundashill. This is a significant project for Scottish Canals, which has associated reputational risks as well as opportunities for further income generating activities in the future. During 2019/20 a Development Strategy for Dundashill was created and presented to the Board in June 2019 for which it was requested to confirm the Development Strategy for Dundashill. With the completion of development, Scottish Canals has taken the decision to hold the investment for capital appreciation and/or future revenue generation. Over the coming years it will be likely that Scottish Canals will make further decisions around the future of Dundashill development.

During 2019/20 Scottish Canals developed and published their new 2020-23 Corporate Plan which builds on the key priorities set out in the 2017-2020 plan. The new plan retains a strong focus on Scottish Canals financial responsibilities as a publicly-funded body, delivering their pioneering Asset Management Strategy 2018-30 and reinforcing their agile approach to adapting and using the canals; reimagining the ways Scottish Canals value, protect and enjoy their environment. The 2020-23 Corporate Plan has four key priorities:

1. Transform our canals - Scottish Canals maintains and restores our historic canals for all to use and enjoy, while safeguarding and nurturing the environment.
2. Create opportunities - Scottish Canals makes a broader contribution to the economy of Scotland and its people.
3. Excel in what we do - Scottish Canals excels in governance, financial resilience, and demonstrates a commitment to innovation.
4. Respond to global challenges - Scottish Canals understands how it can mitigate and adapt to climate change risks.

Given the financial and operational pressures facing Scottish Canals, including the forecast level of underinvestment in the canals network, the Corporate Plan is critical in setting how the organisation will face these challenges in the coming years, a key element of this will be the planned and ongoing funding of strategic investments, including Dundas Hill and the wider North Glasgow developments.

Investment activity is reported to Scottish Canals' Board through quarterly business reports. As Scottish Canals matures as an organisation, and in the context of the new Corporate Plan, Management have recognised that there is an opportunity to develop an overall framework for monitoring and reviewing strategic investments and their performance against planned outcomes. Work has progressed to develop a new monitoring framework and this should enable future investment decisions to not be taken in isolation and whether they are aligned to the wider investment priorities.

## Performance

The annual Business Plans outlines the planned activities, priorities and resources needed in the year to support the delivery of the strategic objectives outlined in the Corporate Plan. The Corporate Plan and Business Plans are aligned with the delivery of the Scottish Government's national performance framework.

The 2019/20 Business Plan was aligned to the outgoing 2017-20 Corporate Plan. Underpinning these are a suite of 49 Key Performance Indicators (KPIs) covering Scottish Canals key strategic and operational objectives as well as Asset Management KPIs. During 2019/20 Scottish canals met 44 out of 49 KPIs with consistent achievement throughout the year in a number of areas. Of the five KPIs not met during the year, Management have reported that COVID-19 prove to be a key driver on the non delivery of these. The areas not achieved were:

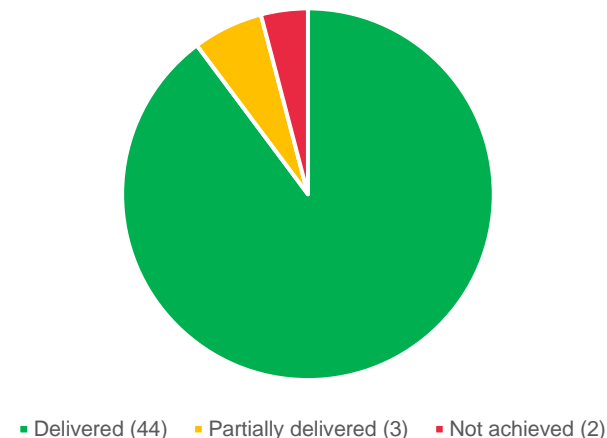
- Timing of project delivery due to postponement of non-essential work including Caledonian Middle districts
- Failing to reduced the number of high risk assets as targeted
- Failure to deliver 30 new moorings (17 achieved); and
- Not progressing with Sighthill Enterprise Wharf; and
- Availability of funding streams

We observed that performance against these KPIs is reported to the Board through the quarterly Business Reports and were scrutinised by senior management and the Board and that the underlying performance of the organisation was transparent. In addition, a quarterly Asset Management Report is presented which details the ongoing, clear process of inspection, risk assessment, prioritisation, mitigation, and review in line with the published Asset Management Strategy.

To support the its strategic and operational decision making and ensuring they remain transparent and accountable, Scottish Canals has outlined within the new 2020-23 Corporate Plan a range of 'Key Performance Indicators' (KPIs) which reflect the vision and outcomes the organisation is seeking to achieve. The KPIs will be updated each year to better ensure progress is being made against the Corporate Plan's strategic objectives and can accurately report on success.

Scottish Canals has also recognised that the organisational culture must be committed to improvement. The Board, the Executive Management Team and all Scottish Canals staff have a role to play in achieving this. A key element of ensuring they can succeed is committing to a robust communication and engagement process around the Corporate Plan's strategic priorities. This activity will be led by the Corporate Affairs team.

Scottish Canals KPI summary



# Appendices

- Audit adjustments
- Action plan and recommendations
- Follow up of prior year recommendations
- Audit fees and independence
- Fraud arrangements
- Communication of audit matters

# Audit adjustments

## Uncorrected and corrected misstatements

We are pleased to report that there were no material uncorrected misstatements to the financial statements arising during our audit.

The following adjusted misstatements arose during our audit. These have been corrected by Management in the updated draft accounts.

No	Description	Dr £'000	(Cr) £'000
1	Income	535	
	Expenditure		(535)
	Being adjustment to recognise disposal in appropriately		
2	Cash and cash equivalents		(700)
	Trade and other payables – trade payables	700	
	Being recognition of payment of trade payable balance		
3	Expenditure	41	
	Deferred consideration agreement		(41)
	Being reduction in amounts receivable under deferred consideration agreement (note also adjusted from non-current to current receivable)		
4	Gain on revaluation on investment properties	234	
	Investment property		(234)
	Being reduction in valuation of investment property to reflect valuation		
5	Pension costs – Net interest cost	6	
	Pension costs – remeasurements ( IAS 19)		(88)
	Pension & other retirement benefits – Pension liability	82	
	Being adjustment to recognise IAS 19 pension costs (note other disclosure adjustments made that didn't impact the primary financial statements)		
6	Tax	5	
	Deferred tax on pension remeasurement	41	
	Deferred tax		(46)
	Being recognition of deferred tax remeasurement		

During the course of our audit work we identified a number of disclosure adjustments required to the draft financial statements. The following are the more significant adjustments that have been adjusted within the final annual report and accounts.

Item	Description	Adjusted
1	Annual governance statement	Layout amendments to comply with Companies Act requirements
2	Remuneration report	Adjustments to the Remuneration report to include disclosure around secondment disclosures
3	Material uncertainty disclosures	Updated to reflect material uncertainty within the financial statement with regards investment property
4	Annual External audit fee	Updated to reflect amounts payable for the external audit 2019/20
5	VAT disclosure	Being disclosure of VAT cost within expenditure rather than extraordinary item
6	Adjustment to disclose income reclassified	Error in disclosure in draft 1 accounts in relation to income recognised
7	Related party	Being adjustment to disclose related party transactions with sponsor
8	Being correction to recognise post balance sheet disclosure	Being update to post balance sheet events

## Disclosure misstatements – uncorrected

The following disclosure misstatements have not been corrected by management. We do not consider these to be material to the accounts. As Scottish Canals transitions to the FReM, Management intend on fully reviewing accounting policies to ensure consistent with its requirements, including disclosure requirements.

**Significant Judgements:** Scottish Canals currently disclose significant estimates and judgements within Note 1 to the financial statements. Under IAS 1, where a judgement is to be disclosed these should clearly define the judgement, how the judgement has been considered by management and the impact on the accounts. Where a estimation uncertainty is disclosed, this should be areas where there is a significant risk of a material adjustment to the carrying amounts of assets and liabilities in the next financial year arising from the estimation. Scottish Canals should disclose information to allow the reader to fully understand the nature of the estimation uncertainty and how assumptions may impact on the value of the asset / liability. In addition, we do not consider all disclosures to reflect a significant judgement or material estimate. In particular we do not consider unagreed rent reviews; or deferred tax to represent areas of critical accounting estimates that have a material impact on the accounts. In addition, we do not consider leasehold, joint venture and associates and work in progress as critical judgements.

**Group accounts:** Scottish Canals has 1 ordinary share of £1, a 100% shareholding in BwB (General Partner) Limited an investment company registered in Scotland. As disclosed in Note 1 of the accounts, Scottish Canals do not prepare consolidated financial statements on the basis the transactions and balances of BwB (General Partner) Limited are not material to Scottish Canals. In addition, Scottish Canals are satisfied that Companies Act provisions in relation to the preparation of group accounts would not be applicable to them.

BwB (General Partner) Limited reported a profit for the year ended 31 March 2020 of £24,410 and net assets of £108,032. While we are satisfied that the consolidation of BwB (General Partner) Limited would not be material to the group/Scottish Canals. While the entity should be consolidated into group accounts as a subsidiary, we are are satisfied BwB are not material to the Scottish Canals, Going forward, Management should consider whether consolidated accounts are required including the consolidation of BwB (General Partner) Limited depending on future financial performance of the organisation and in the adoption of the FReM.

**Financial instruments:** the current financial instruments note should be reviewed to ensure consistent with the requirements of IFRS.

# Action plan and recommendations

We have set out below, based on our audit work undertaken in 2019/20, the significant recommendations arising from our audit work.

## Recommendation

### 1. Investment properties

Under the Accounts Direction and IAS 40: Investment Property, Scottish Canals are required to recognise Investment property at fair value and therefore subject to annual valuation. During 2019/20 there were a number of Investment Properties not subject to formal revaluation in year. While we are satisfied that their fair value would not materially differ from carrying value, all investment properties should be subject to annual valuation.

### 2. IFRS 16: Leases

There are also assets where Scottish Canals retains ownership as overarching lease owner. The adoption of IFRS 16 could have significant impact on Scottish Canals. During 2019/20 we reviewed some of the preliminary work undertaken by Scottish Canals over lease arrangements. Management recognise that further work is required over the coming year to cover all lease and lease type arrangements. It is important that a comprehensive review of lease arrangements is undertaken to ensure Scottish Canals is appropriately prepared for adoption of the new standard.

## Agreed management response

**Management response:** Scottish Canals changed its property valuations specialists this year and through this process 2 boats were omitted by the external evaluator. Scottish Canals have made arrangements for these to be reviewed during the Mid-Year assessment. We have already spoken with the valuations team to ensure this does not occur in future years.

**Action owner:** Director of Infrastructure

**Timescale for implementation:** November 2020

**Management response:** IFRS will be part of our 2020/21 year end preparations, which are due to commence in October 2020.

**Action owner:** Director of Corporate Services

**Timescale for implementation:** October 2020.



---

## Recommendation

### 3. Finance capacity

In light of the financial and operational challenges facing the organisation, it is important that Scottish Canals has financial capacity, capability and leadership. Following the departure of the Finance Director in December 2019 and the Director of Estates in March 2020, Scottish Canals has strengthened through the appointment of a Director of Policy & governance and Director of Corporate Services. However, these are only temporary secondments from the Scottish Government and Scottish Police Authority and the organisation does not have a qualified accountant within its Executive Management Team. While we recognise that there is regular financial reporting to the Executive Leadership Team, there is an opportunity to enhance qualified accounting experience within the organisation. Scottish Canals has commenced a recruitment exercise for EMT members including senior finance personnel. It is important that appropriate resource is in place to provide effective financial leadership and capability to meet the challenges faced in the coming years.

### 4. Transparency in investment decisions

As Scottish Canals matures as an organisation, and in the context of the new Corporate Plan, the organisation has recognised the importance of developing an overall framework for monitoring and reviewing strategic investments the extent these delivery planned investment outcomes. As the development of the new framework is underway, it is important that Scottish Canals look to ensure this supports clear alignment between investment decisions and monitoring the delivery of planned outcomes and the extent to which the investment represented value for money.

---

## Agreed management response

**Management response:** The Board have considered the Executive Team structure and approved permanent recruitment on the 23/7/20. The Executive Team have also reviewed the Finance team capabilities and capacity and recruitment for key roles will commence in July 2020.

**Action owner:** Chief Executive Officer

**Timescale for implementation:** October 2020

---

**Management response:** An internal review is underway with regards to governance boards and reporting. This recommendation forms part of this and will be incorporated in to this work.

**Action owner:** Director of Policy and Governance

**Timescale for implementation:** December 2020

---

---

## Recommendation

### 5. New accounting framework – Transition to FReM as and Non-Departmental Public Body (NDPB)

From 1 April 2020, the organisation will follow the accounting and financial reporting requirements of other NDPBs. The new Accounts Direction effective from 1 April 2020 requires Scottish Canals to prepare accounts under the FReM. The adoption of the FReM will have significant implications on Scottish Canals financial reporting and financial planning arrangements. While we recognise that the initial budgeting for 2020/21 was based on the FReM, and that plans are in place to prepare for the transition, there is still a significant amount of work required for the Scottish Canals to identify, assess and report on the impact of the transition to the FReM to ensure that Scottish Canals will be in a position to produce FReM compliant financial statements, and comparators, in 2020/21.

---

## Agreed management response

**Management response:** Scottish Canals have already transitioned to the new reporting standards, including updating the reporting and financial planning methods. Continued preparation and delivery of this recommendation has formed part of our 2020/21 governance requirements and year end preparations.

**Action owner:** Director of Corporate Services

**Timescale for implementation:** Ongoing throughout year, final review & assessment linked to 2020/21 year end accounts.

---

### 6. National Fraud Initiative

In 2019/20, Scottish Canals participated in the National Fraud Initiative (NFI). The NFI is a counter fraud exercise co-ordinated by Audit Scotland working together with a range of Scottish public bodies, external auditors, and the National Audit Office to identify fraud and error.

Management ensured submission of NFI data in accordance with reporting timescales. However, Management recognise that there are opportunities to improve the investigation of NFI matches and ensuring these are appropriately closed on a timely manner in the NFI database

**Management response:** Scottish Canals recognise the importance of this and the opportunity to build continuous improvement in to the delivery of this initiative & piece of work.

**Action owner:** Director of Corporate Services

**Timescale for implementation:** December 2020

# Follow up of 2018/19 recommendations

We set out below our follow up of our 2018/19 recommendations and these are reflected below for information.

## Recommendation

---

### Local government defined benefit pension scheme

The ruling from the original McCloud case impacts on local government pension schemes and their admitted bodies, including Scottish Canals. As a consequence, the original McCloud judgment gives rise to a past service cost and liability within the scope of IAS 19 as the original ruling effectively creates a new obligation.

Scottish Canals IAS 19 actuarial valuation did not include provision for the impact of McCloud case. Consequently there is an estimation difference within the accounts. Based on the Government Actuarial Departments' assessment of the potential impact on the IAS 19 defined benefit liability at the balance sheet date, Management consider the maximum impact to be an increase in liabilities of £207,000 with the actual impact likely to be less. We are satisfied that while the exclusion of the McCloud case gives rise to an estimation difference this is not material to the financial statements.. Looking forward, we recommend that Management engage with the SPF and actuaries during 2019/20 to ensure Scottish Canals maintain an accurate understanding of pension liabilities

### Initial management response:

Accepted. Scottish Canals will continue to work with the actuaries as they determine the liabilities in relation the defined benefit pension scheme, taking fully in to account the implications of the McCloud case and through the next triennial revaluation of the Fund.

### Follow up: CLOSED

LGPS scheme valuation as at 31 March 2020 includes an allowance for McCloud case.

---

## Financial Governance

Scottish Canals financial statements are prepared in accordance with the Transport Act 1962 and directions issued thereunder by Scottish Ministers. The Accounts directions require Scottish Canals to prepare accounts in accordance with International Financial Reporting Standards (as adopted by the EU), and Companies Act 2006. This follows the framework of Public Corporation.

While Scottish Canals generate over 50% of their own revenue from commercial enterprises, the organisation remains dependent on Scottish Government revenue funding to meet operational costs. This is more reflective of central government body than a public corporation. The new corporate strategy expected to be finalised in 2020 will shape the future vision for Scottish Canals. With this it would be appropriate for Scottish Canals to liaise with Scottish Government to consider the suitability of the Accounts Direction and accounting framework that is adopted, including potential adoption of the HM Treasury FReM. We recommend that Scottish Canals discuss their classification, and then future accounting requirements, during 2019/20 to ensure they remain correctly classified and where appropriate in line with ONS classifications.

### Initial management response

Accepted. Scottish Canals recognises the challenge to maximise its commercial and regeneration returns and the ongoing maintenance of the canal. This is part of the on-going dialogue with Scottish Government, via the Sponsor team regarding the original settlement agreed in 2012

### Follow up: SUPERCEDED

See action 2019/20 – Action Plan Point 5

---

## Recommendation

---

### Independence

Per the guidance both Public Corporations and NDPBs are independent of Scottish Government and employees are not Civil Servants. It is recognised that the Chief Executive seconded to Scottish Canals from the Scottish Prison Service until 2023 is a Civil Servant. Scottish Canals and the sponsor department should ensure, where appropriate, independent safeguards are established to ensure the independent relationship is maintained, and there is no perceived conflict or otherwise from the perspective of customers or stakeholders of Scottish Canals.

### Initial management response:

Scottish Canals are not aware of any guidance describing public corporations and NDPBs as being independent of Scottish Government. The board of Scottish Canals is appointed by and may be removed by Scottish Ministers. We will seek further guidance from Scottish Government on the implications of this recommendation

### Follow up: CLOSED

This has been discussed with Scottish Government and no potential conflicts or independence concerns identified. .

---

### Financial management and capacity

Scottish Canals has recognised the need for effective management of cost base to align investment expenditure with revenue receipts. Within the 2019/20 Business Plan and financial plan, there is greater focus on cost base and planned phasing of expenditure.

Given the financial pressures facing Scottish Canals, including rising cost pressures such as the required maintenance of the Canals infrastructure, and the level of uncertainty and volatility around some of the revenue streams, it is critical that Scottish Canals has close financial monitoring and oversight. Management and the Board should consider if quarterly nonexecutive oversight is sufficient given the financial challenges faced by Scottish Canals.

### Initial management response

Scottish Canals recognises the need to address this, and notes the symmetry with the internal audit recommendations that report the need to standardise Board reports with relevant supporting information and suitable timescales for presentation. This will help to ensure that the Board packs when read alongside the minutes will provide a clear and robust audit trail for both internal and external audit.

### Follow up: SUPERCEDED

See action 2019/20 – Action Plan Point 2

---

## Recommendation

---

### Chief Executive Recruitment

Scottish Canals went through a recruitment exercise during summer 2018 to recruit a new Chief Executive. This led to the appointment of an interim Chief Executive on secondment from Scottish Prison Service. On 24 June 2019, the Remuneration Committee approved the extension of the secondment by a further four years. While we recognise the initial decision to have interim arrangements in place to support the organisation, we have found a lack of transparency in the decision making process and governance around both the initial decision to appoint an interim Chief Executive for a period of 19 months, and subsequently extend the secondment by a further four years. In particular, as the arrangement is under secondment, Scottish Canals incur additional costs through both VAT and expenses on costs and we have been unable to evidence that this was factored into the decision making process by the Board prior to the appointment. Given the importance of the appointment to the organisation, it is critical that there is clear and transparent reporting of the recruitment and decision making processes.

### Initial management response:

A new CEO has been appointed by Scottish Canals on a fixed term secondment basis following a robust recruitment exercise and on the basis of a unanimous recommendation from the recruitment panel.

The appointment has been agreed by Scottish Ministers on the basis of written submissions from civil servants. The Executive Management Team have developed Governance Standardisation Methodology which sets out a standard format for all future Board reports to ensure consistent and clear reporting.

No further action is considered necessary at this time.

### Follow up: CLOSED

The CEO was appointed on a fixed term basis for a period of five years. The appointment has been agreed by Scottish Ministers and Scottish Canals.

---

### Financial management and capacity

Scottish Canals has a range of investments including the ongoing development of Dundas Hill. From review of Board minutes and papers during 2018/19 we found that investment activity was reported sporadically throughout the year. As Scottish Canals matures as an organisation there is an opportunity to develop an overall framework for monitoring and reviewing strategic investments and their performance against planned outcomes. This will enable future investment decisions to not be taken in isolation and whether they are aligned to the wider investment priorities.

It is important that Scottish Canals ensure the investment continues to represent value for money with a marketable asset. In addition, it is important that should the planned use of the site change, this may have a material impact on the accounting treatment for the investment. Given the value of the level of investment made, it is important that the level of works and investment activity is kept under regular review.

### Initial management response

We accept that reporting of investment activity has been sporadic, and we will put in place systematic regular reporting going forward as part of a wider overhaul of reporting to the board. We accept that the evolving nature of our investment funds means that we need to better align individual investment decisions with wider investment priorities, including the need to develop an overall framework for doing so. We will develop such a framework to distinguish clearly between investment of unrestricted investment capital for public value and investment of restricted capital to fulfil associated contractual liabilities (such as that derived from NGIWMS).

### Follow up: SUPERCEDED

See action 2019/20 – Action Plan Point 3

---

### Strategic Leadership and governance

Scottish Canals has gone through a period of significant change across Board membership. The level of transition in membership created governance challenges during 2018/19, including level of oversight and scrutiny. With the level of new members there is an opportunity for Scottish Canals to self assess the existing governance arrangements in place against good practice and to consider whether the current arrangements are appropriate to provide the level of scrutiny and governance required, particularly during a period of financial and operational challenge. We would also recommend that Scottish Canals, working with Scottish Government and Sponsor Department, review the Board member terms to reduce the risk of such a large turnover in non-executives over a short period of time.

#### Initial management response

This will be considered as part of the on-going discussions with Scottish Government, via the Sponsor and in conjunction with the Internal audit recommendations

**Follow up:** CLOSED

A key aim of new Corporate Plan 2020-23 as one of its key aims is to ensure that Scottish Canals excels in governance, financial resilience, and demonstrates a commitment to innovation. During 2019/20 Scottish Canals has undertaken a review of governance arrangements and implemented a number of changes to enhance the transparency of processes and assurance activity as well as adapting arrangements to meet the requirements of the SPFM. Further work is underway including revising the Governance documentation to ensure consistent practices across the organisation. While this will take time to embed, Management have made progress in enhancing governance arrangements while maintaining a degree of stability on the Board.

---

# Audit fees and independence

## External Audit Fee

Service	Fees £
External Auditor Remuneration	39,550
Pooled costs	6,990
Contribution to Audit Scotland costs	1,660
Contribution to Performance Audit and Best Value	-
<b>2019/20 Fee</b>	<b>48,200</b>

### Fees for other services

Service	Fees £
At planning stage we confirm there are no non-audit fees. We undertake individual grant audit inspections for EU Grant funding for Scottish Canals. The total number of claims during 2019/20 have to be confirmed but maximum of 6	Nil  £1,000 per claim

## Client service

We take our client service seriously and continuously seek your feedback on our external audit service. Should you feel our service falls short of expected standards please contact Joanne Brown, Head of Public Sector Assurance Scotland in the first instance who oversees our portfolio of Audit Scotland work ([joanne.e.brown@uk.gt.com](mailto:joanne.e.brown@uk.gt.com)). Alternatively, should you wish to raise your concerns further please contact Jon Roberts, Partner and Head of Assurance, 30 Finsbury Square, London, EC2A 1AG. If your feedback relates to audit quality and we have not successfully resolved your concerns, your concerns should be reported to Elaine Boyd, Assistant Director, Audit Scotland Quality and Appointments in accordance with the Audit Scotland audit quality complaints process.

## Independence and ethics

- We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention.
- We have complied with the Financial Reporting Council's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.
- We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standards.
- We are required by auditing and ethical standards to communicate any relationships that may affect the independence and objectivity of the audit team.
- We can confirm no independence concerns have been identified.

# Fraud arrangements

The term fraud refers to intentional acts of one or more individuals amongst management, those charged with governance, employees or third parties involving the use of deception that result in a material misstatement of the financial statements. In assessing risks, the audit team is alert to the possibility of fraud at Scottish Canals.

As part of our audit work we are responsible for:

- identifying and assessing the risks of material misstatement of the financial statements due to fraud in particular in relations to management override of controls.
- Leading a discussion with those charged of governance (for Scottish Canals this is assumed to be the Audit and Risk Committee) on their view of fraud. Typically we do this when presenting our audit plan and in the form of management and those charged with governance questionnaires.
- designing and implementing appropriate audit testing to gain assurance over our assessed risks of fraud
- responding appropriately to any fraud or suspected fraud identified during the audit.

As auditors we obtain reasonable but not absolute assurance the financial statements as a whole are free from material misstatement, whether due to fraud or error.

We will obtain annual representation from management regarding managements assessment of fraud risk, including internal controls, and any known or suspected fraud or misstatement.

## Anti-Money Laundering Arrangements

As required under the Money Laundering, Terrorist Financing and Transfer of Funds Regulations 2017 there is an obligation on the Auditor General (as set out in the planning guidance) to inform the National Crime Agency if she knows or suspects that any person has engaged in money laundering or terrorist financing. Should we be informed of any instances of money laundering at Scottish Canals we will report to the Auditor General as required by Audit Scotland.

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance including establishing and maintaining internal controls over the reliability of financial reporting effectiveness and efficiency of operations and compliance with applicable laws and regulations.

It is Scottish Canals responsibility to establish arrangements to prevent and detect fraud and other irregularity. This includes:

- developing, promoting and monitoring compliance with standing orders and financial instructions
- developing and implementing strategies to prevent and detect fraud and other irregularity
- receiving and investigating alleged breaches of proper standards of financial conduct or fraud and irregularity.

Throughout the audit we work with Scottish Canals to review specific areas of fraud risk, including the operation of key financial controls. We also examine the policies in place, strategies, standing orders and financial instructions to ensure that they provide a strong framework of internal control.

All suspected frauds and/or irregularities over £5,000 are reported to Audit Scotland by us as your auditors on a quarterly basis.



# Communication of audit matters

International Standards on Auditing (UK) (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table below.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, including planning assessment of audit risks and wider scope risks	•	
Confirmation of independence and objectivity <b>Confirmed, no matters to report.</b>	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant matters in relation to going concern <b>None identified although commentary included on financial sustainability alongside going concern commentary.</b>	•	•
Views about the qualitative aspects of Scottish Canals' accounting and financial reporting practices, including accounting policies, accounting estimates and financial statement disclosures <b>Included within the report.</b>		•
Significant findings from the audit <b>Included within the report</b>		•
Significant matters and issues arising during the audit and written representations that have been sought <b>Included in this report and letter of representation obtained at date of signing.</b>		•
Significant difficulties encountered during the audit <b>None identified.</b>		•
Significant deficiencies in internal control identified during the audit <b>None identified.</b>		•
Significant matters arising in connection with related parties <b>None identified.</b>		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements. <b>None identified.</b>		•
Non-compliance with laws and regulations <b>None identified</b>		•
Unadjusted misstatements and material disclosure omissions <b>Reported in Appendix 1 of this report.</b>		•
Expected modifications to the auditor's report, or emphasis of matter. <b>Emphasis of Matter paragraph in relation to the material uncertainty of the valuation of Investment Property as at 31 March 2020.</b>		•



The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit reporting process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the entity or all weaknesses in your internal controls.

© 2020 Grant Thornton UK LLP.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.