

News release

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For immediate use

Audit finds asset valuation flaws at Scottish Canals

Flaws found in the way the public body in charge of Scotland's inland waterways recorded and valued its assets meant auditors could not give an opinion on its accounts.

Scottish Canals' status changed from a public corporation to a non-departmental public body in 2020/21. That change came with a requirement to follow HM Treasury's accounting guide, including the methodology to be used to value the canal infrastructure and inland waterways.

Although the required valuations for investment properties and land and buildings were conducted, auditors found that Scottish Canals did not get valuations for around £51 million of specialist assets. These included dredging equipment, lock gates and canal basin widening works. A subsequent valuation, aimed at estimating the cost of replacing these assets in their current condition and existing use, then raised concerns about the accuracy of Scottish Canal's fixed asset register, amongst other valuation flaws. This meant auditors had to issue a disclaimer of opinion on the accuracy of Scottish Canals' financial statements, a very unusual step.

Turnover in Scottish Canals' finance team during this period increased the challenge of fully adopting HM Treasury's accounting rules associated with its changed status. A new valuation process of the canal infrastructure estate in its entirety will now be undertaken during 2022. It is a substantial piece of work but necessary to support Scottish Canals' medium-term financial strategy and asset management strategy.

Stephen Boyle, Auditor General for Scotland, said: "Scottish Canals' core role is to manage infrastructure assets. To plan effectively for the future, it is clearly important that Scottish Canals has a robust record of those assets and their values.

"Scottish Canals' Board must also be able to satisfy itself that the body has sufficient skills and capacity to deliver the valuation project, and provide the appropriate support to ensure it is delivered to plan."

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Notes to editors

1. This release is about a Section 22 report, where the Auditor General can directly raise his concerns with Parliament and the public arising from annual audit work under Section 22 of the Public Finance and Accountability (Scotland) Act.
2. Scottish Canals was required to follow HM Treasury's Financial Reporting Manual (FReM) when preparing its financial statements for 2020/21 following a change in its status from a public corporation to a non-departmental public body.
3. The positions of Director of Finance and Corporate Services and Head of Finance were only filled on a permanent basis in 2021.

4. Scottish Canals' Corporate Plan 2020-23 sets out priorities which include maintaining and restoring the canal network, making a greater contribution to the Scottish economy and tackling climate change. But at the moment, the cost of running Scottish Canals alongside the required investment in the network, exceed the funding and income available.
5. Scottish Canals' medium term financial strategy, which it is currently preparing, is expected to set out how it will achieve efficiencies in its cost base and generate additional income, while also delivering its capital investment programme. A key part of the investment programme is how best to address Scottish Canals' maintenance backlog which is currently assessed at around £70 million.
6. Audit Scotland has prepared this report for the Auditor General for Scotland. All Audit Scotland reports published since 2000 are available at www.audit-scotland.gov.uk
 - The Auditor General appoints auditors to Scotland's central government and NHS bodies; examines how public bodies spend public money; helps them to manage their finances to the highest standards; and checks whether they achieve value for money. The Auditor General is independent and is not subject to the control of the Scottish Government or the Scottish Parliament
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