

## News release

For immediate release, 13 June 2023

# Scottish Canals urgently needs to improve financial reporting

Scottish Canals' struggle to value its assets meant auditors did not have enough reliable evidence to provide assurance over the public body's finances.

Scottish Canals status changed from operating as a public corporation to a non-departmental public body from April 2020. But it has not been able to fully adapt to the financial reporting and accounting rules required by its change of status. Chief among these issues is ongoing difficulties around valuing its 4,000 assets, ranging from 200-year-old engineering structures such as the Avon Aqueduct to tourism attractions The Kelpies.

Management have taken steps to address concerns raised by auditors in 2020/21, including undertaking a new asset valuation. But progress has been limited by underlying issues with the accuracy of Scottish Canal's documentation and data. This has impacted the body's financial statements, meaning auditors are again unable to provide public assurance over Scottish Canals' financial position, how it spent public money allocated to it or its performance.

To date Scottish Canals has spent more than £500,000 on consultant support for its asset valuation activity which had not originally been budgeted for. These costs will be ongoing, with £100,000 set aside for valuation work in 2022/23.

**Stephen Boyle, Auditor General for Scotland**, said:

"Scottish Canals urgently needs to develop an effective plan to resolve these ongoing issues relating to the valuation of its assets.

"Senior leaders also need to ensure they have the right staff and expertise to draw on in order to meet their financial reporting responsibilities in a way that provides value for money."

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### Notes to Editor:

1. The Auditor General has prepared the report on Scottish Canal's audited accounts for 2021/22 under Section 22 of the Public Finance and Accountability (Scotland) Act 2000. This allows the Auditor General to bring to the Parliament's and the public's attention matters of public interest related to the financial statements of public bodies.
2. Section 22 reports are submitted to Scottish Ministers for laying in the Parliament along with the accounts of the relevant body. While there are statutory deadlines for these reports, the

actual timing of publication is determined by when the report is laid in the Scottish Parliament by Scottish Ministers.

**3.** The ongoing uncertainty around the valuations of Scottish Canals assets was deemed to be material to the audit. This resulted in the auditors issuing a disclaimer on the audit opinion for the second year in a row, as there was insufficient evidence available to conclude that there were no material misstatements in the valuation of the assets.

**4.** From April 2020 Scottish Canals has been required to meet the accounting and financial reporting framework applicable to non-departmental public bodies, a change from the previous position where it operated as a public corporation. This meant that from 2020/21 Scottish Canals was required to account for its activities in accordance with HM Treasury's Government Financial Reporting Manual. This required Scottish Canals to change the way in which it values its assets. This was a substantial change to the body's accounting and financial reporting responsibilities.

**5.** Scottish Canals' core function involves the management of infrastructure assets. It is therefore important that Scottish Canals has a robust and accurate record of the assets it owns, and that appropriate valuations are obtained for these assets. This includes all property, plant and equipment records being included in the fixed asset register, and the maintenance of accurate and timely records.

**6.** Consultants currently retain ownership of the valuation model which could mean that Scottish Canals will have ongoing spending commitments to support its annual valuations work. Scottish Canals will need to consider the value for money of the approach it takes to progressing this work.

**7.** A new Chief Executive took up post with Scottish Canals in late May 2023. He will need to work quickly, with the support of Transport Scotland in its role as Scottish Canals' Scottish Government sponsor division, to ensure that the organisation implements an effective plan to address these issues and has the expertise and capacity to deliver the improvements needed.

**8.** 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](http://www.audit-scotland.gov.uk)

- The Auditor General for Scotland 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 for Scotland is independent and is not subject to the control of the Scottish Government or the Scottish Parliament
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