

Scottish Canals

Annual Audit Plan 2022/23



 AUDIT SCOTLAND

Prepared for Scottish Canals
7 September 2023

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Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2022/23 external audit of Scottish Canals (The British Waterways Board). The main elements of our work include:

- evaluation of the key controls within the main accounting systems
- an audit of the annual report and accounts, and provision of an Independent Auditor's Report
- an audit opinion on regularity and other statutory information published within the annual report and accounts including the Performance Report, the Corporate Governance Report and the Remuneration and Staff Report.

Audit Appointment

2. We are pleased to be appointed as the external auditor of Scottish Canals for the period 2022/23 to 2026/27 inclusive. You can find a brief biography of your audit team at Appendix 1.

3. In the first year of the audit appointment, we invest significant time gaining an understanding of your business and identifying and assessing the risks of material misstatement to the financial statements. While we use our initial assessment of risk to inform our planned audit approach, we keep our assessment of risks under review as the audit progresses. We will inform you of any significant changes in assessed risks and any resulting changes in our planned audit work.

4. The audit team will actively engage with you over the course of the audit to ensure our audit work continues to be focused on risk.

Adding value

5. We aim to add value to Scottish Canals through our external audit work by being constructive and forward looking, by attending meetings of the Audit and Risk Committee and by recommending and encouraging good practice. In so doing, we will help the Scottish Canals promote improved standards of governance, better management and decision making and more effective use of resources.

Respective responsibilities of the auditor and Audited Body

6. The [Code of Audit Practice 2021](#) sets out in detail the respective responsibilities of the auditor and the Scottish Canals. Key responsibilities are summarised below.

Auditor responsibilities

7. Our responsibilities as independent auditors are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice](#) (including [supplementary guidance](#)) and guided by the Financial Reporting Council's Ethical Standard.

8. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual report and accounts.

Scottish Canals responsibilities

9. Scottish Canals is responsible for maintaining accounting records and preparing financial statements that give a true and fair view.

10. Scottish Canals has the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to deliver their objectives.

Communication of fraud or suspected fraud

11. In line with ISA 240, in presenting this plan to the Audit and Risk Committee we seek confirmation from those charged with governance of any instances of actual, suspected, or alleged fraud that should be brought to our attention. Should members of the committee have any such knowledge or concerns relating to the risk of fraud within Scottish Canals, we invite them to communicate this to the appointed auditor for consideration. Similar assurances will be sought as part of the audit completion process.

Financial statements audit planning

Introduction

12. The annual report and accounts are an essential part of demonstrating the Scottish Canals stewardship of resources and its performance in the use of those resources.

13. We focus our work on the areas of highest risk. As part of our planning process, we prepare a risk assessment highlighting the audit risks relating to each of the main financial systems relevant to the production of the financial statements.

Materiality

14. The concept of materiality is applied by auditors in planning and performing the audit, and in evaluating the effect of any uncorrected misstatements on the financial statements. We are required to plan our audit to determine with reasonable confidence whether the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

Materiality levels for the 2022/23 audit

15. We assess materiality at different levels as described in [Exhibit 1](#). The materiality values for Scottish Canals are set out in [Exhibit 1](#).

Exhibit 1

2022/23 Materiality levels for Scottish Canals

Materiality	Amount
<p>Planning materiality– This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. Materiality has been set based on our assessment of the needs of the users of the financial statements and the nature of Scottish Canals operations. For the year ended 31 March 2023 we have set our materiality at 2% of non-current assets based on the audited financial statements for 2021/22.</p>	£8.7 million
<p>Performance materiality– This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this could indicate that further audit procedures should be considered. Using our professional judgement, we have assessed performance materiality at 55% of planning materiality.</p>	£4.785 million

Reporting threshold (ie clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£250 thousand
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Source: Audit Scotland

Lower specific materiality levels for the 2022/23 audit

16. In addition to overall materiality, we can set lower, specific materiality levels for certain classes of transaction, account balances or disclosures where lesser amounts could influence the decisions of the users of the financial statements.

17. The asset position of Scottish Canals is a significantly higher value than the annual operating expenditure. We recognise that income and expenditure streams of Scottish Canals are likely to be of key interest to the users of the financial statements and we set specific materiality levels as shown in [Exhibit 2](#).

Exhibit 2

2022/23 Lower specific materiality levels for Scottish Canals

Materiality	Amount
Specific materiality – This has been set at 2% of total operating expenditure based on the audited financial statements for 2021/22.	£675 thousand
Specific performance materiality – Using our professional judgement, we have assessed specific performance materiality at £50 thousand.	£50 thousand

Source: Audit Scotland

Significant and non-significant risks of material misstatement to the financial statements

18. Our risk assessment draws on our cumulative knowledge of Scottish Canals, its major transaction streams, key systems of internal control and risk management processes. It is informed by our discussions with management, meetings with internal audit, attendance at committees and a review of supporting information.

19. Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management and where relevant, report them to those charged with governance.

20. Based on our risk assessment process, we identified the following significant and non-significant risks of material misstatement to the financial statements. Significant risks are risks which have the greatest impact on our planned audit procedures. Other non-significant risks of material misstatement are risks that require a specific audit response in addition to our standard audit procedures. [Exhibit 3](#) summarises the nature of the risk, the sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurance over the risk.

Exhibit 3

2022/23 Significant risks of material misstatement to the financial statements

Risk of material misstatement	Sources of assurance	Planned audit response
Significant risk of material misstatement to the financial statements		
<p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<ul style="list-style-type: none"> • Assess the design and implementation of controls over journal entry processing. • Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual journal entries and other adjustments. • Test journals at the year-end focussing on significant risk areas. • Consider the need to test journal entries and other adjustments during the period. • Evaluate any significant transactions outside the normal course of business. • Assess the adequacy of controls in place for identifying and disclosing related party relationships and transactions in the financial statements. • Assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. • Substantively test income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year.

Risk of material misstatement	Sources of assurance	Planned audit response
<p>2. Risk of fraud over income recognition</p> <p>As set out in International Standard on Auditing (UK) 240, there is a presumed risk of fraud over the recognition of revenue.</p> <p>Scottish Canals generate income from retail and other sources totalling £8 million.</p>	<ul style="list-style-type: none"> • 3rd party Grant Funding Agreements can be provided where applicable. • Bank statements and Daily takings reconciliations. 	<ul style="list-style-type: none"> • Test accounting accruals and prepayments focusing on significant risk areas. • Perform a walkthrough of the controls in place around point-of-sale income. • Review the accounting policies around revenue recognition. • Test income transactions at the year end with a focus on material income streams. • Review the judgements and estimates made by management when recognising accrued and deferred income at the year end.
<p>3. Insufficient audit evidence and quality of working papers</p> <p>The previous auditor identified extensive issues with the quality, completeness and accuracy of working papers.</p> <p><i>“Overall the quality of the working papers provided alongside suitable audit evidence to support balances in the financial statements was not of the standard we would expect. This led to significant additional time being required for audit, where audit evidence submitted...was sent back as insufficient and/ or incomplete”.</i></p> <p>The previous auditor recommended that <i>“management work with the new auditors closely over the requirements of the audit and are more readily able to support the audit process through good quality, self-reviewed, complete and accurate working papers. This extends beyond PPE, to other material areas of the accounts.”</i></p> <p>There is a risk that existing records do not adequately support the audit of the 2022/23 transactions and</p>	<ul style="list-style-type: none"> • Inspection and analysis of Lead sheets and working papers will be performed by Head of Finance and peer review of working papers will be done before the audit commences. • The accounts will be reviewed back to the TB before audit commences. • Meeting with Audit team to be set up to review working paper checklist and agree format of working papers before audit. • Fixed asset register to be completed in time for the audit. • Audit preparation 	<ul style="list-style-type: none"> • Early engagements with officers on the PPE supporting documentation to allow us to establish if it is sufficient. • Establish that financial statements submitted for audit are substantially complete. • Confirm that financial statements are supported by a valid trial balance that reconciles to the ledger. • Confirm that a fixed asset register exists that agrees to the trial balance. • Confirm that reconciliations are all complete including the bank reconciliation and any feeder system control accounts. • Review the working papers in each audit area to ensure they are complete and sufficient to commence the audit.

Risk of material misstatement	Sources of assurance	Planned audit response
<p>balances at 31 March 2023, leading to a further disclaimer opinion.</p>	<p>meeting to be had with team to ensure they provide correct audit evidence, regular checking of evidence during audit by Head of Finance and appropriate mechanism to be discussed with audit team as soon as any issues arise.</p>	
<p>4. Existence, accuracy completeness and operation of Fixed Asset Register (FAR)</p> <p>The previous auditors noted several issues in their 2021/22 annual audit report relating to the existence, accuracy, completeness and operation of the fixed asset register (FAR) during the 2021/22 audit:</p> <ul style="list-style-type: none"> • A complete, up-to-date FAR was not available at the time of audit • There were significant delays in provision of supporting working papers for property, plant and equipment assets subject to audit testing. • Manual depreciation calculations were undertaken in the absence of system generated information. • An inadequate control environment existed around the FAR and underlying asset records. <p>The auditors identified a number of areas requiring management consideration, including:</p> <ul style="list-style-type: none"> • The need for accurate and timely recording of source data in AMX (the project management system) and subsequent reflection of asset 	<ul style="list-style-type: none"> • A complete and accurate Fixed Asset register will be provided. Finance resources has been allocated specifically to the update and improvement of the Fixed Asset process. • Project job costing reports and reconciliations will be available. • Staff Time capitalisation calculations can be provided for testing. • Images with date stamps of assets will be available. • The team has reviewed and are updating accounting policies. 	<ul style="list-style-type: none"> • Complete a walk-through of the valuation model (E&Y). • Establish and confirm the operation of key controls over the FAR to ensure controls exists over recognition, addition and enhancements, disposals, derecognition and reconciliation to the AMX/ capital project information. • Review and confirm a sample of significant assumptions/ evidence to source including AMX data. • Asses the adequacy of key assumptions including cost or rebuild estimates (The assumptions over residual lives and index movements are covered in separate risks below). • Establish that an operational, complete and accurate FAR exists and reconciles to the E&Y model. • Test a significant sample of closing values at 31 March 2023 to the evidence. • Test a reduced sample of closing values at 31 March 2022 and 31 March 2022 to the evidence • Confirm or test 2022/23 transactions to supporting evidence. Including additions, depreciation,

Risk of material misstatement	Sources of assurance	Planned audit response
<p>additions and modifications in the FAR</p> <ul style="list-style-type: none"> • An appropriate interface between AMX and FAR to correctly componentise spend • A clear process to maintain a complete and accurate FAR including recognition and accounting for assets under construction, additions and disposals • The need for additional, specific finance resource to support the process. <p>There is a risk that the accounts are misstated. This risk extends to the previous two financial years where the auditor opinion was disclaimed due to lack of robust reliable evidence.</p>	<ul style="list-style-type: none"> • Current improvement plan to align asset detail for componentisation will be provided. 	<p>disposals and transfers, where material.</p> <ul style="list-style-type: none"> • Confirm or test 2021/22 transactions to supporting evidence. Including additions, depreciation, disposals and transfers, where material. • Undertake sample testing of existence of assets. • Review a sample of physical assets and wider records to ensure the asset register is complete.
<p>5. Scope and basis for the valuation experts</p> <p>The previous auditor determined that “the ‘Valuer’ must prepare a written ‘Terms of Engagement’ document. This is a mandatory requirement of the RICS Valuation – Global Standards 2022. Scottish Canals should ensure these are obtained from the valuers on an annual basis. Additionally, Scottish Canals should ensure that formal ‘Letter of Instructions’ are agreed upon and signed by the relevant individual on an annual basis as these outline the base requirements and form a vital and mandatory part of the valuation process. “</p> <p>We expect that the engagement and scope of valuation exercises will be clearly identified in documentation.</p> <p>There is a risk that the terms of engagement are outdated.</p>	<ul style="list-style-type: none"> • A risk-based decision to extend the current contract with E&Y has been agreed in order to support the 2022/23 valuation, together with an analysis of the prior year property, plant and equipment note. This provides sufficient cover to also support audit queries from Audit Scotland, together with a full handover to new permanent staff, including a new Head of Finance and Statutory 	<ul style="list-style-type: none"> • Review information provided by management to E&Y and Gerald Eve to assess completeness of valuation process. • Establish the scope and basis of E&Y and Gerald Eve contract and any valuation process. • Review the handover procedures between E&Y and Scottish Canals for the asset valuation model. • Consider the appointment and scope of any valuer providing current value valuation advice.

Risk of material misstatement	Sources of assurance	Planned audit response
<p>6. Value of assets not subject to full in year valuation</p> <p>The Government Financial Reporting Manual (FReM) requires "the most appropriate methodology for obtaining either a current value in existing use or a fair value" and describes a number of methods for keeping valuations updated at the balance sheet date.</p> <p>The previous auditors noted "<i>Canals will need to consider whether indices will be used, and the most appropriate indices, in between intervening valuation years, and whether to value all assets once in a five-year period or a rolling valuation programme.</i>"</p> <p>There is a risk that assets not fully revalued in year are not held at an appropriate value.</p>	<p>Reporting Manager</p> <ul style="list-style-type: none"> • Accounting policies for valuation have been reviewed and updated where necessary 	<ul style="list-style-type: none"> • Establish and review methodology used by management to provide year end current cost reassessments for assets not subject to full revaluation in year. • Walkthrough the process and understand the systems for in-year current cost review. • Confirm the process is completed by a valuation expert • Assess the use and uprating of key assumptions in the valuation methodology. • Review and assess the dredging capitalisation policy and application. • Review valuation of Bowling viaduct access.
<p>7. Estimated residual lives</p> <p>Scottish Canals' asset portfolio includes a significant number of assets that are over 200 years old.</p> <p>The previous auditors, Grant Thornton, noted "<i>we were unable to obtain sufficient assurance over the assumptions relating to residual values for assets where the valuation reflected a residual value equating to 12 years remaining. This assumption is highly sensitive.</i>"</p> <p>There is a risk that the carrying value of assets is materially misstated due to insufficient evidence to support assumptions around residual lives and movement during the year.</p>	<ul style="list-style-type: none"> • Accounting policies for valuation have been reviewed and updated where necessary. • Subject matter expert opinion has been sought and included within the accounting policies and procedures. 	<ul style="list-style-type: none"> • Review and assess the basis for residual life estimates of assets.
<p>8. VAT liability</p>	<ul style="list-style-type: none"> • The HMRC assessment has been subject to a 	<ul style="list-style-type: none"> • Review correspondence between HMRC and Scottish Canals for the VAT liability.

Risk of material misstatement	Sources of assurance	Planned audit response
<p>Scottish Canals are concluding negotiations with HMRC on a VAT liability. The 2021/22 accounts include a liability of £15.5m at 31 March 2022.</p> <p>Additional funding has been provided by Scottish Government to assist in the settlement, however going forward any VAT liability will be funded from the core budget.</p> <p>There are significant cash and provision/creditor balances that will require to be included on the closing balance sheet at 31/3/2023. There is a risk that these balances do not reflect the most up-to-date settlement position.</p> <p>Depending on the outcome and value of settlement with HMRC, there may be implications on future savings plans, or a requirement to return funding to Scottish Government.</p>	<p>number of internal reviews</p>	<ul style="list-style-type: none"> Assess the completeness and accuracy of the provision/creditor balances as at 31 March 2023. Review the impact of changes in VAT accounting on future financial projections and planning
<p>9. Deferred capital grants</p> <p>The 2021/22 accounts include £25 million of deferred capital grants. The Financial Reporting Manual (FReM) interprets the accounting standards for grants in such a way that so that only grants from government which have conditions which have not been met at 31 March can be deferred.</p> <p>There is a risk that the value of deferred capital grants is misstated due to incorrect accounting treatment of grants received.</p>	<ul style="list-style-type: none"> Funding agreements can be reviewed, to see if deferral is line with grant type. Management are in the process of updating Policies to reflect the correct recognition of deferred capital grant. 	<ul style="list-style-type: none"> Review the accounting policy in relation to deferring capital grants. Sample testing of deferred capital grants to supporting documentation and conditions to ensure there are significant conditions that have not been met.
<p>10. IFRS 16 leases</p> <p>Accounting standard IFRS 16 replaces IAS 17 and is mandatory for central government bodies in 2022/23.</p> <p>This requires lessees to recognise assets and liabilities for the rights</p>	<ul style="list-style-type: none"> Scottish Canals owns most of its properties outright, and so taking IFRS 16 into account from a budgeting and 	<ul style="list-style-type: none"> Review the treatment of leases to ensure they are in line with IFRS 16 requirements. Test a sample of lease assets to contract, payment and other evidence.

Risk of material misstatement	Sources of assurance	Planned audit response
<p>and obligations arising from leases previously classified as operating leases.</p> <p>The 2021/22 accounts state that the standard is expected to result in the recognition of additional right-of-use assets and an associated lease liability.</p> <p>This has not yet been reviewed by Scottish Canals and there is a risk that the accounting treatment is not correct for leases.</p>	<p>statutory point of view in this coming year will be limited to vehicles and just a few properties.</p>	
<p>11. Key estimations and judgements</p> <p>Grant Thornton reported that "<i>The annual report and accounts include an accounting policy on management judgements and critical estimates. The current disclosures could be further improved, to demonstrate full compliance with the FReM. For example: not all that is currently included meets the definition of a judgement or critical estimate</i>".</p> <p>Scottish Canals do not currently produce group accounts on the grounds of materiality. Evidence is needed to support this and an assessment of the impact of consolidating their various group bodies, and this should be classified as a key judgement and included within the note.</p> <p>There is a risk that narrative on significant judgements and estimates within the financial statements is insufficient.</p>	<ul style="list-style-type: none"> • Head of Finance to check narrative within report and note is updated, and in line with FReM. 	<ul style="list-style-type: none"> • Critically assess which are the key judgements and estimates that require disclosure in the accounting policies. • Review disclosures to ensure that they are complete. • Assess the narrative and any information required to determine the importance or sensitivity of these estimates.
<p>Other non-significant risk of material misstatement</p>		
<p>12. Related party disclosures</p> <p>Grant Thornton noted "<i>As part of our audit work, we completed a review over the completeness of the register of interest forms completed</i></p>	<ul style="list-style-type: none"> • Finance manager walkthrough of related party check before 	<ul style="list-style-type: none"> • Review the process for identification of related parties throughout the year and at the year end. • Determine whether registers of interest are up to date and complete/

Risk of material misstatement	Sources of assurance	Planned audit response
<p><i>by members. From this review, we identified certain related parties which had not been disclosed within the signed forms, which are completed and updated on an annual basis”.</i></p> <p>There is a risk that related party forms are not correctly completed, and the disclosure within the annual report and accounts is therefore incomplete.</p>	<p>authorisation of payments.</p> <ul style="list-style-type: none"> • Related party disclosures to be checked before audit commences. 	<p>accurate and related party disclosures are in line with guidance.</p> <ul style="list-style-type: none"> • Review the related party disclosures within the annual report and accounts.

Source: Audit Scotland

21. Practice Note 10: *Audit of financial statements and regularity of public sector bodies in the United Kingdom*, indicates that the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to revenue recognition, as most public-sector bodies are net spending bodies.

22. We have rebutted this risk as we consider that Scottish Canals does not manage or administer significant grant or welfare payments and the majority of transactions are exchange contracts for goods and services. We believe that there is limited incentive and opportunity for the fraud in expenditure which does not present a material risk. We have not, therefore, incorporated specific work into our audit plan in these areas over and above our standard audit procedures. However these standard procedures do recognise the risk of management override.

Other areas of audit focus

23. In addition to the risks identified above, we will also be following up the actions within the Section 22 report for 2021/22 and ensuring that Scottish Canals have a plan in place to follow up on the recommendations from the 2021/22 annual audit report from Grant Thornton.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

24. Audit reporting is the visible output for the annual audit. All Annual Audit Plans and the outputs, as detailed in [Exhibit 4](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

25. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officers to confirm factual accuracy.

26. We will provide an independent auditor's report to Scottish Canals, the Scottish Parliament and the Auditor General for Scotland setting out our opinions on the annual report and accounts. We will provide Scottish Canals and the Auditor General for with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

27. [Exhibit 4](#) outlines the target dates for our audit outputs.

Exhibit 4 2020/21 Audit outputs



Audit Output	Target date	Audit and Risk Committee Date
Annual Audit Plan	7 September 2023	7 September 2023
Independent Auditor's Report	January 2024	January 2024 (TBC)
Annual Audit Report	January 2024	January 2024 (TBC)

Source: Audit Scotland

Timetable

28. To support an efficient audit, it is critical that the timetable for producing the annual report and accounts for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 5](#) that has been discussed with management.

Exhibit 5 Proposed annual report and accounts timetable

 Key stage	 Provisional Date
Consideration of the unaudited annual report and accounts by those charged with governance	7 September 2023
Latest submission date for the receipt of the unaudited annual report and accounts with complete working papers package.	1 November 2023
Latest date for final clearance meeting with the Director of Finance (or equivalent)	15 December 2023
Agreement of audited and unsigned annual report and accounts Issue of Annual Audit Report including ISA260 report to those charged with governance	January 2024(TBC)
Signed Independent Auditor's Report	January 2024(TBC)

Source: Audit Scotland

29. The timing of the audit has been impacted by the later resolution of the 2021/22 audit, and the delay which it had on our planning process for 2022/23.

30. Given previous audit criticisms of the standard and completeness of working papers, we have discussed with management the need for a realistic practical timetable to correct these issues this year and we plan to commence the audit on 1 November 2023. We will only commence the financial statements audit on submission of a complete set of unaudited financial statements, supported by a trial balance and mapped to the ledger. If we do not have the fully package of working papers, we will have to delay the beginning of the final accounts audit.

31. We do intend to undertake earlier work particularly on the valuation model and fixed asset register from September. This will enable us to highlight any significant issues with key valuation principles earlier.

32. We intend to take a hybrid approach to the 2022/23 audit with a blend of onsite and remote working. We will continue to work closely with management to identify the most efficient approach as appropriate and will keep timeframes and logistics for the completion of the audit under review. Progress will be discussed with management and finance officers over the course of the audit.

Audit fee

33. In determining the audit fee, we have taken account of the risk exposure of the Scottish Canals and the planned management assurances in place. The proposed audit fee for 2022/23 is £95,000. The audit fee is reflective of the audit work that will be required to address the issues identified. There is an element of multi-year

audit to assure ourselves over the opening balances for 2022/23 and 2021/22 and for transactions in 2022/23, given the previous auditor disclaimed opinion.

34. In setting the fee we have assumed that Scottish Canals has effective governance arrangements and will prepare comprehensive and accurate accounts for audit in line with the agreed timetable for the audit. The audit fee assumes there will be no major change in respect of the scope of the audit during the year and where our audit cannot proceed as planned, a supplementary fee may be levied.

Wider Scope and Best Value

Introduction

35. Due to the nature of the issues identified in the 2021/22 audit of Scottish Canals, we have taken to decision that the wider scope work for 2022/23 will be limited to the following:

36. Financial management and sustainability – as auditors, we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on the financial outturn for 2022/23 and on financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years).

37. Duty of Best Value - [Ministerial Guidance to Accountable Officers](#) for public bodies and the [Scottish Public Finance Manual](#) (SPFM) explain that accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. We will be carrying out a high-level review to confirm that such arrangements are in place within Scottish Canals.

Other matters

Internal audit

38. It is the responsibility of the Scottish Canals to establish adequate internal audit arrangements. We will review the internal audit plan and the results of internal audit's work.

39. While we are not planning to place formal reliance on the work of internal audit in 2022/23, we will review internal audit reports and assess the impact of the findings on our financial statements audit responsibilities.

Independence and objectivity

40. Auditors appointed by the Auditor General for Scotland or Accounts Commission must comply with the [Code of Audit Practice](#) and relevant supporting guidance. When auditing the financial statements, auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors.

41. Audit Scotland has robust arrangements in place to ensure compliance with these standards including an annual *'fit and proper'* declaration for all members of staff. The arrangements are overseen by the Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

42. The appointed auditor for Scottish Canals is Brian Howarth, Audit Director. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of Scottish canals.

Audit Quality

43. Quality is at the core of public audit in Scotland and is the foundation for building consistency and confidence across all audit work. High quality audits provide assurance, add value and can support public bodies to achieve their objectives.

44. Until 2021/22, the applicable audit quality standard was International Standard on Quality Control 1 (ISQC (UK) 1). This set out an audit practice's responsibilities for its system of quality control for audits.

45. ISQC(UK) 1 has been replaced by two new audit quality standards: Internal Standards on Quality Management (ISQM (UK) 1) applicable from 15 December 2022 and (ISQM(UK) 2) effective for the 2023/24 audits. Work is underway at Audit Scotland to meet the requirements of these quality standards.

46. Audit Scotland is committed to delivering high quality audits. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the [Code of Audit Practice](#) (and supplementary guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards, Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) have been commissioned to carry out external quality reviews.

47. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time, and this may be directed to the engagement lead.

Appendix 1. Your audit team

48. The audit team involved in the audit of Scottish Canals have significant experience in public sector audit.

Brian Howarth

Audit Director

BHowarth@audit-scotland.gov.uk

Brian is the appointed auditor for a portfolio of health, local government, and central government bodies, including the Crown Office and Procurator Fiscal Service, Scotrail Holdings and Scottish Canals. He has previously been the appointed auditor for Scottish Canal, prior to Grant Thornton. He has 30 years' experience of public sector audit with Audit Scotland and is a member of the Chartered Institute of Management Accountants.

Fiona Owens

Senior Audit Manager

FOwens@audit-scotland.gov.uk

Fiona has 10 years of public sector audit experience with Audit Scotland and is a member of the Institute of Chartered Accountants Scotland. She has delivered external audit services to a range of bodies including central government, local authorities and health boards.

Rosemarie Khan

Senior Auditor

RKhan@audit-scotland.gov.uk

Rosemarie is a member of the Association of Chartered Certificate Accountants. Prior to joining Audit Scotland, she worked for Audit Wales for 20 years and has audited central government, local authorities, and NHS bodies. Rosemarie will be the key point of contact for day-to-day audit work.

49. The local audit team is supported by a specialist technical accounting team, all of whom have significant experience of public bodies and work with accounting regulatory bodies.

Scottish Canals

Annual Audit Plan 2022/23

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