



# Scottish Canals

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## External Audit Plan for the financial year ended 31 March 2019

Audit and Risk Committee 27 November 2018

Final Plan

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# Our audit at a glance



Performance materiality is set at 75% and trivial is 5% of materiality. This is consistent with the prior year reflecting our audit knowledge and understanding.



Planning materiality is set at **£300,000**, approximately 1.7% of gross expenditure based on 2017/18 audited information. This is based on our assessment of what misstatement either individually or in aggregate could be significant as to be misleading to the users of financial statements.



Significant audit risks are: management override of controls; the risk of fraud in revenue as set out in International Standards on Auditing (ISAs UK); risk of fraud in expenditure as set out in practice Note 10; and, accounting for Dundas Hill.

## An audit underpinned by quality and adding value to you



During 2018/19 as set out in the Audit Scotland planning guidance we will consider certain factors that may impact on the Board including: EU Withdrawal, changing landscape for public financial management, dependency on key suppliers and openness and transparency in reporting. We will consider these where relevant throughout our audit work.



For 2018/19, new accounting standards will apply for revenue and financial instruments. We will consider Scottish Canals evaluation of the new standards and the recognition of any adjustments required to the financial statements from their adoption.



Our audit is undertaken in accordance with the Audit Scotland Code of Audit Practice and reflects the wider scope nature of public audit. Our wider scope risks identified are: Financial sustainability over the medium term and governance and transparency.

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# Overarching principles of our audit

Our audit is risk based and undertaken in accordance with the International Standards on Auditing (ISAs) (UK) and the Audit Scotland Code of Audit Practice 2016 ('the Code').

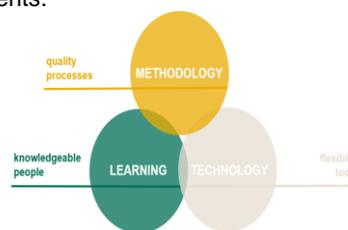
Our overall objective is a effective, quality-focused external audit which adds value through wider insights and challenge. Our audit foundations are:

- ✓ professional scepticism
- ✓ a focus on audit risks and key areas of management judgement
- ✓ Delivering a quality audit through our experienced public sector audit team, use of data analytics to focus our audit and understanding of the organisation
- ✓ clear and upfront communications, with regular communication during the year
- ✓ reporting with focused actions which will support you in improving your controls/operations

## Adding value

Our aim is to add value to Scottish Canals through our external audit work. This will be delivered through delivering a high quality audit. Specifically for Scottish Canals we will also undertake the following arrangements:

- **Robust and effective audit methodology:** Our ISA compliant audit methodology is tailored to **focus audit resource on significant risk areas** and key estimates and judgements.
- **Investing in our people:** Our resourcing model is designed to ensure you have a **skilled, experienced and knowledgeable audit team**.
- **Investing in technology:** We continue to invest in data analysis and audit software to deliver more **efficient ISA compliant audit processes**.



We will share relevant Audit Scotland and Grant Thornton publications with Senior Management and the Audit and Risk Committee, identifying particular areas for consideration. We will pro-actively work with management during the year to discuss any new or emerging matters, such as new accounting standards.

## Audit timeline



## Key audit deliverables

### 2017/18 Deliverables as set out in the Audit Scotland planning guidance (October 2018)

- Confirmation of agreed fee by end of February 2019
- Annual quality report to the Auditor General and Accounts Commission (January 2019)
- National Fraud Initiative - completed Auditor questionnaire (30 June 2019)
- Current issues return for Central Government to Audit Scotland (21 January 2019 and 19 July 2019)
- Submission of fraud cases to Audit Scotland on a quarterly basis
- Submission of annual audit report and audited accounts (deadline 31 October 2019)

### Planned Audit Scotland publications which may be relevant to Scottish Canals

- Digital progress in central government and health (reporting early 2019/20)
- Modern Apprenticeships

### External Audit deliverables for 2018/19 – Audit and Risk Committee

- External Audit Plan (this document)
- Annual Report to those Charged with Governance (June 2019)
- Audit opinion (June 2019)
- Management letter of representation (June 2019)

# Materiality



We undertake your audit in accordance with International Standards on Auditing (UK) (ISAs) and the Audit Scotland Code of Audit Practice (May 2016). On an annual basis we are required to give an opinion as to whether the Financial Statements:

- give a true and fair view
- have been properly prepared in accordance with relevant legislation and standards
- audited parts of the remuneration and staff report have been prepared in accordance with the guidance
- regularity of expenditure and income
- the wider information contained in the financial statements e.g. Accountability Report; Directors Report and Governance Statement is consistent with our audit knowledge and the financial statements

## Basis for materiality

We determine financial statement materiality based on a proportion of the operating expenditure. This approach is consistent with our prior year materiality determination. We have determined materiality to be **£0.3m**, which equates to approximately 1.7% of your prior year total operating expenditure for the year. This is based on our judgement of our consideration of material to the user of the account based on understanding of Scottish Canals.

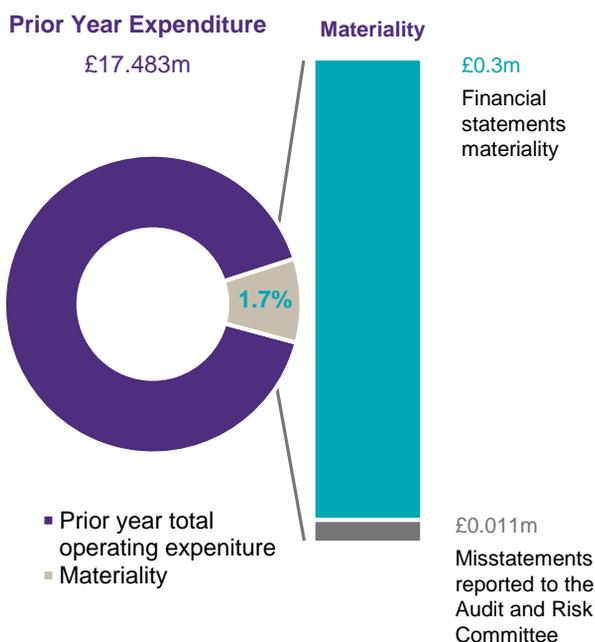
We will update our materiality based on the unaudited 2018/19 financial statements. During the course of our audit engagement, we will continue to assess the appropriateness of our materiality.

## Performance materiality

Performance materiality represents the amount set for the financial statements as a whole to reduce the probability that the aggregate of uncorrected and undetected misstatements exceed materiality. Based on our audit experience in 2017/18 we have retained this for 2018/19 at 75%. Performance materiality determines those accounts which testing will be undertaken on and the level of sample testing performed where applicable.

## Reporting to those charged with governance

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit and Risk Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are required by auditing standards to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. We have determined this threshold to be **£11,000**.



# A risk based audit methodology

A part of audit planning is understanding your organisation and the industry it operates. This is our third year as the external auditors of Scottish Canals appointed under the Audit Scotland framework. Scottish Canals income is generated circa 57% from other sources than Scottish Government, with the remainder of income coming in the form of Scottish Government grant-in-aid. Scottish Canals are responsible for the effective management of the canal network including the maintenance of the navigation channel. In addition, as set out in the Strategic vision Scottish Canals play a unique role in regeneration, tourism and destination development across Scotland. During 2018/19 Scottish Canals received additional capital monies to support the repair and maintenance work at Fort Augustus.

Given the need to maintain the Canals network, there is a longer term (30 year) capital plan, which is prioritised on the basis of safety first, with an annual delivery plan of other works determined thereafter. This forms a key focus of Scottish Canals' financial planning.

Three strategic themes underpin Scottish Canals vision: Increasing financial sustainability; growing public value; and empowering and motivating people. In order to achieve the aims and objectives set out in the corporate plan (2017-2020) Scottish Canals will continue to work in partnership with Scottish Government, other public, private, and third sector partners.

## Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

### Overview of our significant audit risks identified at planning and our proposed approach

Risk area	Description of risk	Planned response
Risk of fraud in revenue recognition	As set out in ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue. Scottish Canals anticipates grant in aid funding from the Scottish Government of £12.4 million, of which £8.1 million related to revenue. We consider this transaction stream to be well forecast and agreeable to third party confirmation and therefore rebut the presumed risk of improper recognition. Scottish Canals' main revenue comes from sales of goods as well as rendering of services. During 2017/18, Scottish Canals generated £9.3 million from these revenue streams. Scottish Canals' financial performance is measured through its outturn position at year end. We consider the risk to be prevalent around the year end where there is greatest incentive and opportunity for manipulation and therefore focus our testing on existence of debtor balances at the year end and cut-off.	<ul style="list-style-type: none"> <li>Walkthroughs of the controls and procedures around material income streams and validation of key controls where appropriate</li> <li>Considering management's assessment of the impact of IFRS 15 on revenue streams and ensuring that revenue has been recognised in accordance with the new standard.</li> <li>Evaluation of the existence of debtor balances held at 31 March 2019</li> <li>Using our data analytics tools to provide assurance that income recognised is in line with expectation</li> <li>Consider income cut off procedures and substantive testing over pre and post year end balances, over non grant in aid revenue streams</li> <li>A focus on recoverability of balances at the year end</li> </ul>
Fraud in expenditure recognition as set out in Practice Note 10.	Operating expenditure is understated or not treated in the correct period (risk of fraud in expenditure). As set out in Practice note 10 (revised) which applies to public sector entities. As payroll expenditure is well forecast and agreeable to underlying payroll systems there is less opportunity for the risk of misstatement in this expenditure stream. We therefore focus on non-pay expenditure. We consider the risk to be particularly prevalent around the year end and therefore focus our testing on cut-off of non-pay expenditure.	<ul style="list-style-type: none"> <li>Perform cut off at year end on pre and post year end transactions and recording</li> <li>Reviewing the completeness of creditors (and expenditure) recognised.</li> <li>Analytical procedures to gain assurance that expenditure recognised is in line with our expectation</li> <li>Walkthrough of the key expenditure controls in place</li> </ul>

## Overview of our significant audit risks identified at planning and our proposed approach

Risk area	Description of risk	Planned response
Management override of controls	As set out in ISA 240 there is a presumed risk that management override of controls is present in all entities	<ul style="list-style-type: none"> <li>A focus on understanding how/where management override of controls may occur</li> <li>Review of the controls over journal entries using our IDEA journal analyser tool to focus on higher risk journals</li> <li>Understanding key areas of judgement and accounting estimates within the financial statements and the basis for these judgements and the application of accounting policies. This include assumptions around IAS 19 defined benefit obligations.</li> <li>Reviewing unusual and/or significant transactions that are out with the normal course of business for the entity to understand the rationale for these transactions</li> </ul>
Valuation of Dundas Hill	The Dundas Hill project has been historically recognised as stock within the Scottish Canal's financial statements. The accounting treatment should reflect the planned use of the development.	<ul style="list-style-type: none"> <li>We will review the appropriateness of the accounting treatment for Dundas Hill.</li> <li>We will review the recognition of subsequent expenditure on the development to ensure that this continues to be recognised appropriately</li> <li>We will review managements assessment of the valuation of the development and consideration of potential impairment.</li> </ul>

### Going concern considerations

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

We have not identified any significant risks around the organisations ability to continue as a going concern during our audit planning. We will review management's assessment of the going concern assumption and evaluate the disclosures in the financial statements, confirming these are appropriate through our substantive testing.

### Working with Internal Audit

We will aim to not duplicate the work of your internal auditors. We will consider the internal audit plan for 2018/19 and identify any particular areas of risks that we either need to reflect in our approach or are relevant to our wider scope audit work. We will continue to consider internal audit work throughout the year and maintain and ongoing, open, dialogue with internal audit.

### Internal control environment

Throughout our audit planning and fieldwork we will continue to develop our understanding of the overall control environment (design) as related to the financial statements. In particular we will:

- Consider procedures and controls around related parties, journal entries and other key entity level controls.
- Perform procedures around IT general controls.
- Perform walkthrough procedures on key controls around identified risk areas including revenue, expenditure and the recognition and valuation of Dundas Hill.

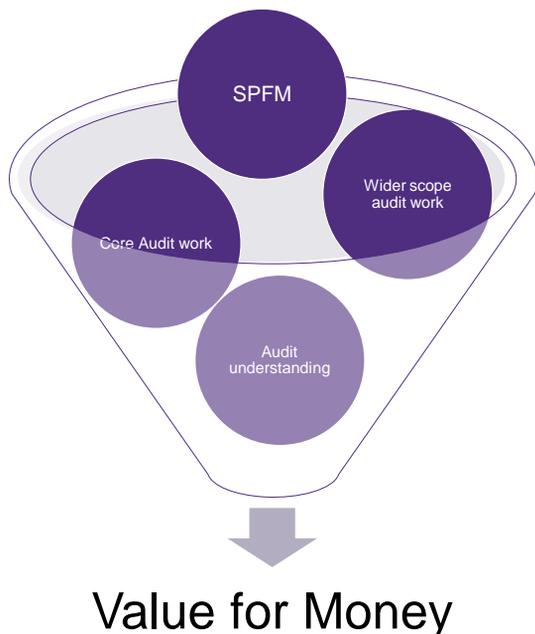
# Wider scope audit

Our responsibilities under Audit Scotland's Code of Audit Practice extend beyond the audit of the financial statements.

The Code sets out four dimensions that frame wider scope audit work into identifiable areas. Alongside Value for Money, the audit dimensions set a common framework for our audit work and we review and conclude on the four dimensions and that there are organisational arrangements in place to secure Value for Money.



## Wider scope approach



Our wider scope audit work is a **risk based** approach. It is built upon our understanding of the organisation and consideration of:

- Four audit dimensions defined within the Audit Scotland Code of Audit Practice
- Scottish Public finance Manual (SPFM) nine characteristics of Value for Money
- Our core audit work and audit knowledge

We consider each of these areas through our audit planning process.

## Audit Scotland Audit Planning guidance

Audit Scotland Audit Planning guidance outlines key areas for consideration. Relevant to the organisation we will consider the following:

- EU Withdrawal,
- changing landscape for public financial management,
- dependency on key suppliers and
- openness and transparency.

Details included in the [appendix 5](#). We consider these areas during our audit planning and throughout our wider scope audit work.

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## Financial sustainability

### Financial sustainability

Scottish Canals have multiple income stream including Scottish Government funding and revenue generated through delivery of goods and services. The nature of the non-grant income is subject to risk of fluctuation through seasonal trend as well as canal usage. In addition, the core SG Grant funding may stay static or fall. Therefore the “cost” base of Scottish Canals needs to be agile and a medium term financial plan in place setting out various scenarios to ensure longer term financial viability. Furthermore, Management have forecast shortfalls in the finance required to continue to support the required investment in the canals infrastructure. Scottish Canals continue to explore options for maximising the use of resources and operating as efficiently and effectively as possible.

### Our response

*We will review the financial plans in place, including the scenarios set out, the governance of the plans and regular reporting on future financial scenarios. We will assess the extent to which savings are identified and delivered while ensuring that the organisation maintains the skills and experience within its workforce to deliver its corporate objectives.*

## Financial management

Scottish Canals have well established financial management and governance arrangements in place. This includes effectively designed systems of internal financial control. Historically, financial plans have been informed through relevant information and reasonable assumptions. Financial performance is monitored both at and operational and strategic level and reporting is clear and concise.

No specific financial management significant risks have been identified for 2018/19. *We will continue to consider Scottish Canals’ financial management arrangements informed through the work of internal audit and the high level financial framework of policies and procedures in place. This will include: Financial Standing Instructions, Scheme of Delegation; and Fraud policies and training.*

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## Governance and transparency

Scottish Canals has in place well established systems of governance including clear roles and responsibilities and systems of internal control. The organisation continues to develop and enhance its financial and non-financial performance reports, including those available to the public.

During 2018/19 there have been significant changes across both executive and non-executive roles at the organisation, including the appointment of a new Chief Executive. Recognising the challenges facing Scottish Canals, it is important that there is strong and effective leadership from senior management and the Board.

### **Our response**

*We will continue to consider through discussions with management and review of minutes Scottish Canals' overarching governance arrangements and how Scottish Canals ensure that they are transparent and open to stakeholders including members of the public.*

*We will review the arrangements in place in ensuring new members embed including support and training to new members to support them in their role in providing effective leadership and governance of the organisation.*

## Value for money

2018/19 represents Scottish Canals' sixth full financial year since becoming a stand-alone public body. The organisation continues to evolve in both its role in maintaining and management of the canals' network as well as involvement in the driving the regeneration along the network.

As the organisation continues to evolve, it is important that the organisation continues to ensure that it has effective arrangements in place both to support strategic decision making process as well as monitor the delivery of these through effective performance management frameworks. This includes strategic investment decisions.

While we have not identified any significant risks in relation to value for money, we will continue to assess this area throughout our audit. We will consider Scottish Canals performance management framework and how they capture and measure performance and outcomes. We will also consider progress against the key strategic corporate plans and how this is being reported and monitored including how the organisation engages and works with key partners.

**Our planned work, like our financial statements work, is risk based and proportionate. We will continue to develop our understanding over the four dimensions and conclude on these in our final report, based on the work we have undertaken during the year.**

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# Appendices

**Key audit deliverables and our team**

**Fees and independence**

**Fraud arrangements**

**Respective responsibilities**

**Specific considerations as set out in the Audit Scotland  
planning guidance**

**Technical updates**

**Communication of audit matters with those charged with  
governance**



# Fees and independence

## External Audit Fee

Service	Fees £
External Auditor Remuneration	29,370
Pooled Costs	7,070
Contribution to Audit Scotland costs	1,760
Contribution to Performance Audit and Best Value	0
<b>2017-18 Fee</b>	<b>38,200</b>

The audit fee is calculated in accordance with guidance issued by Audit Scotland. In accordance with the Audit Scotland guidance we can increase the fee by up to 10% from the base fee set by Audit Scotland, depending on risk factors identified by us as your external auditors. We cannot reduce the fee from the baseline set out by Audit Scotland. At the time of our audit planning, the proposed fees had not been issued by Audit Scotland. We will agree the annual external audit fee with management when the baseline fee information becomes available. Our proposed fee will be based on the following assumptions:

- supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- the scope of the audit, and Scottish Canals activities will not change significantly from planned
- Scottish Canals will make available management and accounting staff to help us locate information and to provide explanations. We reserve the right to charge an additional fee for any additional work.
- We will only receive (and audit) 3 sets of accounts (1st draft; amended draft and final)
- Specific balances such as pensions and valuations of assets are supported by an independent specialist

## 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.

## Fees for other services

Service	Fees £
At planning stage we confirm there are no non-audit fees. Scottish Canals have engaged Grant Thornton to provide independent certification of EU grant claims. At the time of planning no fee's have been raised in relation to these services. We do not consider this work to impact on our audit independence. We will report on any non-audit services fees in our annual audit report.	Nil

## 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 Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Annual Report to those charged with governance at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board'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.

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# 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.

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.

In addition, as set out in the Audit Scotland Code of Audit Practice we have a role in reviewing Scottish Canals arrangements in response to the national fraud initiative exercise.

All suspected frauds and/or irregularities over £5,000 are reported to Audit Scotland by us as your auditors on an annual basis (no later than end of April 2019)

## 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.

# Respective responsibilities

As set out in the Code of Audit Practice (pages 10 to 16) there are a number of key responsibilities you as an organisation are responsible for, and others, as appointed auditors we are responsible for. These are summarised below:

Area	Scottish Canals Responsibilities
Corporate governance	<ul style="list-style-type: none"> <li>Establishing arrangements for proper conduct of its affairs</li> <li>Legality of activities and transactions</li> <li>Monitoring adequacy and effectiveness of arrangements (inc role of those charged with governance)</li> </ul>
Financial statements	<ul style="list-style-type: none"> <li>Preparing financial statements which give a true and fair view of their financial position</li> <li>Maintaining accounting records and working papers</li> <li>Putting in place systems of Internal Control</li> <li>Maintaining proper accounting records</li> <li>Preparing and publishing an annual governance statement, management commentary and remuneration report</li> <li>Effective systems of internal control as well as financial, operational and compliance controls – supporting achievement of objectives and secure value for money</li> </ul>
Financial position	<ul style="list-style-type: none"> <li>Proper arrangements to ensure financial position is soundly based and responsibility to ensure arrangements secure best value</li> </ul>
Fraud and error	<ul style="list-style-type: none"> <li>Establishing appropriate arrangements for prevention and detection of fraud, error, irregularities, bribery and corruption and affairs are properly managed</li> </ul>

## Our responsibilities



- Undertake statutory duties and comply with professional engagement and ethical standards
- Provide an opinion on financial statements and where appropriate regularity of transactions
- Review and report on, as appropriate, other information eg annual governance statements, management commentary, remuneration reports
- Notify the Auditor General when circumstances indicate a statutory report may be required
- Demonstrate compliance with wider public audit scope

## How do we do this in practice



- By reviewing and providing judgements and conclusions on Scottish Canals arrangements including those across the wider scope of audit dimensions.
- Suitability and effectiveness of corporate governance arrangements in year
- Financial position and arrangements for ensuring financial sustainability in the medium to longer term
- Review of other information in line with our knowledge and understanding of Scottish Canals
- Ongoing dialogue and engagement with Audit Scotland during the year

Weaknesses and risks identified by us as your auditors are only those which have come to our attention during our normal audit work in accordance with the Code, and may not be all that exist. Communication by us of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

# Specific considerations as set out in the Audit Scotland planning guidance

In accordance with the Audit Scotland Planning Guidance, we consider the following areas of focus as part of our audit work:



There are uncertainties surrounding the terms of the UK's withdrawal from the European Union in March 2019 and these are subject to ongoing negotiation between the UK government and EU. Whatever the outcome of these negotiations there is inevitably implications for devolved government in Scotland and for Scottish Canals.

## Planning consideration

There is considerable uncertainty around the potential impact of Brexit. Likely areas to impact Scottish Canals are: workforce implications; funding; and regulation. We will consider the work done by Scottish Canals with regards assessing the potential risks faced and readiness for EU withdrawal.



Recognising the changing landscape of Scottish public finances, including significant tax –raising powers as well responsibility for 11 social security benefits provides the Scottish Parliament with more policy choices. Subsequently, there is potentially greater volatility and complexity around Scottish budget and greater focus on the use of Scottish funds. This is likely to increase the scrutiny of public sector annual accounts and audit reports.

## Planning consideration

The focus on public entities performance reporting will be under increasing security, including that of the Board and how public funds are used. As part of our audit we will consider the extent to which the performance report provides an accessible account of the Board's overall performance and impact of its public spending and transparency of reporting.



The collapse of Carillion and the subsequent impact across the public sector, has brought into focus the risk of key supplier failure and underperformance. We will consider the arrangements in place for identifying key supplier and risks, if any associated with these and how effectively these are being managed.

## Planning consideration

We consider the risk to Scottish Canals and the arrangements in place with regards key supplier dependencies during our audit.



There is an increased focus on how public money is used and what is achieved. This includes the extent to which Scottish Canals keeps pace with public expectations and good practices in this area. Including: increased public availability of papers, insight into why any business is conducted in private and development of the form and content of annual reporting.

## Planning consideration

We will consider Audit Scotland's guidance around openness and transparency as we consider Scottish Canals' governance arrangements during 2018/19.

# Technical updates

For 2018/19, new accounting standards (International Financial Reporting Standards (IFRS)), will apply covering revenue (IFRS 15) and financial instruments (IFRS 9).

## IFRS 9: Financial Instruments

The introduction of IFRS 9 produces a more principles based approach to the accounting of financial instruments, including their classification and measurement. The main features of the new standard are summarised in the table.

IFRS 9	Impact
Criteria for classification of financial assets	IFRS 9 applies a single classification and measurement approach to all types of financial assets based on: <ul style="list-style-type: none"><li>- The body's business model for managing financial assets;</li><li>- The contractual cash flow characteristics of the financial asset.</li></ul> This represent a departure from IAS 39's reliance on the terms of an instrument (traded or not).
Measurement categories for financial assets	The new measurement categories for financial assets are as follows: <ul style="list-style-type: none"><li>- Financial assets measured at amortised cost</li><li>- Financial assets measured at fair value through other comprehensive income</li><li>- Financial assets measured at fair vale through profit or loss</li></ul>
Impairment	IFRS 9 contains a forward looking expected loss impairment model and requires the sae measurement basis for impairment for all items subject to its impairment requirements.

## IFRS 15: Revenue from Contracts with Customers

The core principle of IFRS 15 is that a body should recognise revenue for the transfer of goods or services to customers at an amount that reflects the expected price. A body recognises revenue in accordance with that core principle by applying the following five steps:

1. Identify the contract(s) with a customer.
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognise revenue when (or as) the entity satisfies a performance obligation.

The impact of the introduction of IFRS 15 will vary across organisations.

The standard allows a policy choice to retrospectively restate the opening financial position to reflect the impact of the new standard or recognise prospectively. We understand Management propose prospective recognition. On transition, entities will recognise the difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period that includes the date of initial application in opening reserves.

## Audit action

We will continue to work with management to understand the impact of the introduction of IFRS 9 and IFRS 15 on the entity's financial statements and any potential changes in accounting policy that arise from these. We do not anticipate that IFRS 9 will have a material impact on the entity's financial statements. However, further assessment is required around the impact of IFRS 15, particularly over contract arrangements. We will provide an early review of the proposed year end accounting treatment, providing relevant technical insight and challenge to provide assurance that the year end financial statements have been prepared in accordance with the new accounting standards.

# Communication of audit matters with those charged with governance

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	•	•
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	•	•
Views about the qualitative aspects of Scottish Canals accounting and financial reporting practices, including accounting policies, accounting estimates and financial statement disclosures		•
Significant findings from the audit		•
Significant matters and issues arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

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 above.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while our Annual Report to those Charged with Governance will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to Scottish Canals Management and the Audit and Risk Committee.

