

Richard Leonard MSP  
Convener  
Public Audit Committee  
Scottish Parliament  
Edinburgh  
EH99 1SP

29 April 2024

Dear Convener

### **The 2022/23 audit of Scottish Canals**

I am writing to advise the Public Audit Committee that I have received the independent auditor's report and annual audit report from the external auditor of Scottish Canals following the conclusion of the 2022/23 audit.

The auditor's opinions on the annual report and accounts are unmodified. This reflects the significant progress that has been made by Scottish Canals to address the issues detailed in my previous Section 22 report published in June 2023. I previously reported that there was a lack of sufficient and appropriate audit evidence, reflecting the ongoing issues around the valuation of assets. I also highlighted the considerable challenges Scottish Canals has faced in adapting to the financial reporting and accounting framework required of a non-departmental public body.

These areas have been the focus of the 2022/23 annual audit. The auditor has reported that the 2022/23 unaudited accounts were substantially complete, when submitted for audit on 3 November 2023, and were accompanied by an accurate trial balance and ledger. The accounts were also supported by a fixed asset register for the first time. The valuation model for the fixed asset register reconstruction was developed by consultants at EY. The underlying methodology for the model was reviewed by the auditor who was satisfied with the assumptions used to value each class of asset and concluded that the overall asset valuation was reasonable.

Scottish Canals still had errors with the completeness and valuation of a marginal number of assets, resulting in material adjustments before the audit process was concluded. An unmodified audit opinion was appropriate once these adjustments had been made in the audited annual report and accounts.

This outcome exceeded the early expectations of the auditor and reflects the willingness of Scottish Canals to engage with the audit process and address the identified issues.

The 2022/23 audit did continue to identify issues with the introduction of non-departmental public body accounting. These included corporation tax and deferred grant accounting, where further adjustments were made. The auditor has included recommendations to ensure progress is made in these areas.

The additional finance staffing put in place by Scottish Canals in 2023 has had a positive impact on the quality of accounts submitted for audit and in the support provided to the audit process. There are still some control improvements that are required to the non-current assets processes and these are reflected in actions identified by Scottish Canal's management and will be subject to future audit review.

Within the annual audit report the auditor has highlighted that further work must be undertaken to plan for a future valuation exercise (or exercises) by March 2027 and to develop a medium-term financial strategy for Scottish Canals.

I have considered the findings from the 2022/23 annual audit carefully. Given that it sets out considerable progress on the issues identified by the previous auditors and explored by the Committee and it has not identified any new matters of concerns, I have decided not to produce a further section 22 report on Scottish Canals at this time.

The auditor has made 13 recommendations in the 2022/23 annual audit report which have all been accepted for implementation by Scottish Canals. The auditor will continue to monitor progress and I will continue to report to the Committee as appropriate.

Yours sincerely

**Stephen Boyle**  
**Auditor General for Scotland**