

Richard Leonard MSP
Convener, Public Audit Committee
Room T3.60
The Scottish Parliament
EDINBURGH
EH99 1SP

By email only

25 October 2022

Dear Richard,

The 2020/21 Audit of Scottish Canals

Following attendance at the Public Audit Committee on 24 March 2022 and subsequent [correspondence](#), I write to update you on progress to meet the statutory reporting timetable of December 2022 for Scottish Canals' Annual Report & Accounts 2021/22 with the inclusion of a valuation of operational assets under the Government Financial Reporting Manual (FrEM) for the first time.

To meet this ambitious delivery date, at the outset, we agreed a detailed audit timeline with our external auditors, Grant Thornton, (attached as Appendix One) and developed a robust action plan specifically to deliver the canal infrastructure valuation in accordance with the detailed audit timeline. Transport Scotland reviewed our critical path and supported the planned approach.

The Board and Transport Scotland have received regular written updates on the progress of this work. In addition, the Audit & Risk Committee has regularly scrutinised the key risks to delivering the valuation work and sought assurances from myself as Accountable Officer, and the Scottish Canals' Executive Management Team.

In summary, the key stages of our delivery programme were planned as detailed below:

1. Ascertaining the high-level principles of valuation
2. Establishing detailed valuation methodology for presentation to Grant Thornton
3. Completion of the business-as-usual audit by Grant Thornton in September
4. Completion of valuation of the canal infrastructure in September (subject to EY input)
5. Audit of the valuation of the canal infrastructure in October (subject to review)
6. Restatement of Annual Report & Accounts in accordance with the new audited valuation in October/November
7. Provision of the final audit opinion by Grant Thornton with a removal on the disclaimer on the Annual Report & Accounts based on the work above concluding sufficiently for 17 November Audit & Risk Committee (ARC)

We have worked collaboratively with all parties, however, there have been significant delays from items 3 onwards. Grant Thornton had to delay the business-as-usual audit by several weeks owing to their own resource challenges, resulting in the audit not commencing until October. Scottish Canals has also experienced resource challenges and delays due to the high level of information requirements from Ernst & Young.

As advised at the public audit committee, the ambitious plan was reliant on key deliverables within the critical path. With these additional resourcing pressures on both Scottish Canals and Grant Thornton, and with there being no contingency or flexibility within the original timeline, there has been a subsequent delay in the completion of the valuation work from the original timeline of end of September to end of October. Please see the additional detail in Appendix One.

Grant Thornton raised additional technical and legal queries beyond the initial scope of work that Scottish Canals had anticipated that had formed the critical path. These audit queries are a core part of the evidence Grant Thornton requires in order to accept the fundamental basis of the valuation work. They required a legal opinion on the right to value the canals as well as requiring Scottish Canals to seek confirmation from Transport Scotland on the applicable Accounts Direction for Scottish Canals and whether there was an allowable exemption from operating under the FreM.

The complex programme of valuations will conclude on the 4th November, and significant audit work, which consists of prior year comparatives, depreciation, opening and closing balances etc by Grant Thornton will continue throughout November with

the likelihood this will continue into December raising the risk that Scottish Canals will fail to meet the statutory reporting deadline.

As stated, when I attended the PAC, the completion of this complex technical valuation was ambitious. As we enter a critical stage of our delivery programme, Grant Thornton has advised that:

“given the complexity of the valuation, the audit work on this year and prior year that is required that is not realistic or achievable.”

We also remain concerned that the complexities of the audit at this stage Scottish Canals remain apprehensive on the level of audit evidence that Grant Thornton will require to enable the audit partner to conclude on the valuation and ultimately remove the disclaimer opinion.

Scottish Canals’ auditor is changing for the 2022/23 financial year from Grant Thornton to Audit Scotland. Scottish Canals has not yet been engaged in dialogue for planning the 2022/23 audit with Audit Scotland, however, we are aware that Grant Thornton have spoken with them and will agree the handover protocol with Audit Scotland, as well as seek technical assurance & advice from them on this years set of accounts.

I would like to reassure you that Scottish Canals, whilst remaining challenged by the scale of the task, believe we have appointed high-quality consultants and provided a talented and focused internal team to deliver. We continue to press all teams to meet the statutory deadline for submission of the accounts, however, note the increased risk of late delivery.

Yours sincerely

Catherine Topley
Chief Executive & Accountable Officer

Cc:
Auditor General
Transport Scotland
Cabinet Secretary

Appendix

The below Valuation Action Plan was discussed and agreed with Grant Thornton in May:

Detailed audit procedures		Estimated Date of Delivery (as at May '22)	Deadline Met	Revised Deadline	Comments / Details of Delay
1	Planning and risk assessment procedures	31/03/2022	✓ <input type="checkbox"/>		
2	Early audit testing and walkthrough of key business cycles	30/04/2022	✓ <input type="checkbox"/>		
3	Final External Audit Plan 2021/22	31/05/2022	✓ <input type="checkbox"/>		
4	Scottish Canals to propose high level approach	14/06/2022	✗ <input type="checkbox"/>	24/06/2022	Short delay due to complexity of work required by Azets
5	Audit review of proposed high level approach	30/06/2022	✓ <input type="checkbox"/>		Multiple queries raised by Grant Thornton
6	Scottish Canals to propose approach to useful economic lives	14/06/2022	✗ <input type="checkbox"/>	24/06/2022	Short delay due to complexity of work required by Azets
7	Audit review of proposed approach to useful economic lives	30/06/2022	✓ <input type="checkbox"/>		High level approach only
8	Scottish Canals to propose approach to componentisation	30/06/2022	✓ <input type="checkbox"/>		High level approach only
9	Audit review of proposed approach to componentisation	30/06/2022	✓ <input type="checkbox"/>		High level approach only
10	Draft 1 ARA to be presented to Grant Thornton	04/07/2022	✓ <input type="checkbox"/>		
11	Grant Thornton select samples	29/07/2022	✓ <input type="checkbox"/>		
12	Draft 2 ARA to be presented to Grant Thornton	05/09/2022	✓ <input type="checkbox"/>		

13	Grant Thornton begin the business as usual audit	05/09/2022 - 23/09/2022	✘ <input type="checkbox"/>	10/10/2022 - 11/11/2022	Grant Thornton team resourcing issues - the timing of the audit now clashing with Scottish Canals' internal forecasting and budgeting cycle
14	Valuation of Canal Infrastructure and PPE complete for audit	30/09/2022 initial estimate, - agreed needed reviewed	✘ <input type="checkbox"/>	20/10/2022	Delay due to extremely high level of data requirements dating back from contracts over twenty years old
15	Scottish Canals' review of Valuation	30/09/2022	✘ <input type="checkbox"/>	31/10/2022	Delay due to revised timescales creating a clash over holiday period for Scottish Canals staff
16	Audit testing of the valuation of freehold land and buildings	20/10/2022	✘ <input type="checkbox"/>	14/11/2022	Grant Thornton team resourcing issues
17	Audit testing of the valuation of operational infrastructure assets	31/10/2022	✘ <input type="checkbox"/>	14/11/2022	Delay due to late valuation completion (item 14)
18	ARC - meeting for approval of accounts	17/11/2022	<input type="checkbox"/>		At risk
19	Draft 3 ARA to be presented to Grant Thornton	21/11/2022	<input type="checkbox"/>		At risk
20	Audit of the final financial statement adjustments (including valuation adjustments), final review of Annual Report and Accounts, draft Annual Audit Report, draft Audit Opinion and Letter of Representation.	28/11/2022	<input type="checkbox"/>		At risk
21	Signed audit opinion and final annual audit report	14/12/2022	<input type="checkbox"/>		At risk