



The Scottish Parliament
Pàrlamaid na h-Alba

John Paterson
Chief Executive
Scottish Canals

Public Audit Committee
Room T3.60
The Scottish Parliament
EDINBURGH
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By email only

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3 October 2023

Dear John

The 2021/22 audit of Scottish Canals

Thank you for giving evidence to the Public Audit Committee on the above section 22 report by the Auditor General for Scotland on [21 September 2023](#). After considering the evidence heard, the Committee agreed to write to you in your role as Accountable Officer to express its ongoing concerns.

We understand that Scottish Canals has faced significant challenges in adapting to the requirements of HM Treasury's Financial Reporting Manual (FReM), in particular, the need to provide a valuation of the canal infrastructure. The Committee recognises the scale of this task and the implications this has had for Scottish Canals. We also note your commitment to resolve this issue and to deliver a set of accounts free from a disclaimer opinion.

However, from the evidence we received, the Committee was left unclear that Scottish Canals fully understands and acknowledges the importance of the reporting framework that it is now required to comply with as a non-departmental public body. During evidence you told us that, in respect of Scottish Canals' investments "I do not share the concerns that have been expressed about the gravity of the potential consequences of not complying with the FReM" and that in your view "not complying

with the FReM is a serious matter, but I think that the potential for misdirection of public funds is absolutely negligible”.

We noted your statement made during the evidence session that you—

“fully accept the Auditor General’s recommendations but the point of disagreement is perhaps on the level of sanction that has been applied.”

We further noted that your Director of Finance and Corporate Services believed that “a qualified opinion would have been more appropriate than a disclaimer opinion.”

Taking these statements together, the Committee is concerned that Scottish Canals does not appear to have fully accepted the Auditor General for Scotland’s recommendations.

The FReM is in place to provide assurance on the use of public money. As you are aware, an auditor issuing a disclaimer opinion on a public body’s accounts means that the auditor has been unable to provide an opinion on the body’s financial statements due to a lack of sufficient appropriate audit evidence. This means that the auditor has been unable to provide assurance to the Scottish Parliament, the Scottish Government and HM Treasury on the robustness of Scottish Canals’ accounts, and this is of concern to the Committee. The issuing of a disclaimer opinion two years in a row is an almost unprecedented situation and the Committee considers this to be a serious issue.

The Committee has agreed to keep its scrutiny of the 2021/22 audit of Scottish Canals open while the Auditor General for Scotland continues to monitor progress on the issues that have arisen and decides whether further public reporting is necessary.

Yours sincerely,

Richard Leonard MSP
Convener

CC: Stephen Boyle, Auditor General for Scotland
Alison Irvine, Interim Chief Executive Transport Scotland