

# Scottish Environment Protection Agency

2023/24 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the Scottish Environment Protection Agency and the Auditor General for Scotland  
November 2024

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# Key messages

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## 2023/24 annual report and accounts

- 1 Audit opinions on the annual report and accounts are unmodified.
- 2 No significant matters were identified from the work undertaken in relation to the key risks identified within our Annual Audit Plan.
- 3 No material adjustments have been made to the annual report and accounts as a result of the audit process.

## Financial management

- 4 SEPA has effective and appropriate arrangements to secure sound financial management and operated within its revised fiscal resources, reporting an underspend of £0.4 million.
- 5 There is appropriate and effective financial management in place with regular budget monitoring reports provided to the Corporate Leadership Team (CLT), Audit and Risk Committee and the Agency Board (the Board).
- 6 Key controls within the main financial systems were operating effectively, while standards for the prevention and detection of fraud remain appropriate

## Financial sustainability

- 7 Effective and appropriate arrangements are in place to continue to deliver services and SEPA is projected to break even in 2024/25.
- 8 SEPA has developed the One SEPA transformation programme as a commitment to reforming the organisation.
- 9 There is no medium or long-term financial plan in place but work is ongoing to develop a range of enabling strategies, covering the medium to long term, as part of the wider service transformation.

## Vision, leadership, and governance

- 10 Clear plans are in place to implement SEPA's vision, strategy and priorities.
- 11 SEPA has effective and appropriate governance arrangements for delivery of its plans.

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# Introduction

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**1.** This report summarises the findings from the 2023/24 audit of the Scottish Environment Protection Agency (SEPA). The scope of the audit was set out in the Annual Audit Plan presented to the 19 March 2024 meeting of the Audit and Risk Committee. This Annual Audit Report comprises:

- matters arising from an audit of SEPA's annual report and accounts
- conclusions on the following wider scope areas that frame public audit as set out in the [Code of Audit Practice 2021](#):
  - Financial Management
  - Financial Sustainability
  - Vision, Leadership, and Governance
  - Use of Resources to Improve Outcomes.

**2.** This report is addressed to the Board of SEPA and the Auditor General for Scotland and will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk) in due course.

**3.** My team and I would like to thank board members, audit and risk committee members, chief officers, and other staff, particularly those in finance, for their cooperation and assistance in this year's audit, and we look forward to working together constructively over the remainder of the five-year appointment.

## Responsibilities and reporting

**4.** SEPA has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and accounts that are in accordance with the account's direction from the Scottish Ministers. SEPA is also responsible for establishing appropriate and effective arrangements for governance, propriety, and regularity.

**5.** My responsibilities as the independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000, the Code of Audit Practice 2021, supplementary guidance and International Standards on Auditing in the UK (ISAs).

**6.** Weaknesses or risks identified are only those which have come to the attention of the audit team during our normal audit work and may not be all that exist. Communicating these does not absolve management of SEPA from its responsibility to address the issues I raise and to maintain adequate systems of control.

7. This report contains an agreed action plan at [Appendix 1](#). It sets out specific recommendations, the responsible officers, and dates for implementation.

## Auditor Independence

8. The audit team comply with the Financial Reporting Council's Ethical Standard. I have not undertaken any non-audit related services and therefore the 2023/24 audit fee of £77,010 as set out in my 2023/24 Annual Audit Plan remains unchanged. I am not aware of any relationships that could compromise our objectivity and independence.

9. The annual audit adds value to SEPA by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, arrangements to ensure the best use of resources and financial sustainability.
- sharing intelligence and good practice identified.

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# 1. Audit of 2023/24 annual report and accounts

Public bodies are required to prepare annual reports and accounts comprising financial statements and other related reports. These are the principal means of accounting for the stewardship public funds.

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## Main judgements

Audit opinions on the annual report and accounts are unmodified.

No significant matters were identified from the work undertaken in relation to the key risks identified within our Annual Audit Plan

No material adjustments have been made to the annual report and accounts as a result of the audit process.

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**10.** The annual report and accounts for SEPA for the year ended 31 March 2024 were approved by the Board on 26 November 2024. As reported in the independent auditor's report, in my opinion as the appointed auditor:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- expenditure and income were in accordance with applicable enactments and guidance
- the audited part of the Remuneration and Staff Report was prepared in accordance with the Government Financial Reporting Manual
- the Performance Report and Governance Statement were consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

## Overall materiality was reviewed on receipt of the unaudited annual report and accounts and assessed as £1.9 million

**11.** Broadly, the concept of materiality is applied by auditors to determine whether misstatements identified during the audit could reasonably be expected to influence the economic decisions of users of the financial statements, and hence impact their opinion set out in the independent auditor's report. Auditors set a monetary threshold when considering materiality, although some issues may be considered material by their nature. It is ultimately a matter of the auditor's professional judgement.

**12.** My initial assessment of materiality was carried out during the risk assessment phase of the audit. This was reviewed and revised on receipt of the unaudited annual report and accounts and is summarised in [Exhibit 1](#).

## Exhibit 1

### Materiality values

Materiality level	Amount
Overall materiality	£1.9 million (£2.1 million per Annual Audit Plan)
Performance materiality	£1.3 million (£1.5 million per Annual Audit Plan)
Reporting threshold	£100 thousand (no change)

**13.** The overall materiality threshold was set with reference to total operating expenditure which I judged as the figure most relevant to the users of the financial statements.

**14.** Performance materiality is used by auditors when undertaking work on individual areas of the financial statements. It is a lower materiality threshold, set to reduce the probability of aggregated misstatements exceeding overall materiality. Performance materiality was set at 70% of overall materiality, reflecting the misstatements identified during the 2022/23 financial statements audit, and the degree of estimation relating to non-current asset valuations and the estimation of actuarial liabilities.

**15.** It is my responsibility to request that all misstatements are corrected other than those below the reporting threshold. The final decision on making the correction lies with those charged with governance.

## Significant findings and key audit matters

**16.** Under ISA (UK) 260, I communicate significant findings from the audit to the board, including my view about the qualitative aspects of the body's accounting practices.

**17.** The Code of Audit Practice also requires me to highlight key audit matters which are defined in ISA (UK) 701 as those matters judged to be of most significance.

**18.** A variety of issues were identified from my audit but these were not considered significant.

## Audit work responded to the risks of material misstatement we identified in the annual report and accounts

**19.** My team and I have obtained audit assurances over the identified significant risks of material misstatement in the annual report and accounts. [Exhibit 2](#) sets out the significant risks of material misstatement to the financial statements identified in my 2023/24 Annual Audit Plan. It also summarises the further audit

procedures performed during the year to obtain assurances over these risks and the conclusions from the work completed.

## Exhibit 2

### Identified Significant risks of material misstatement in the annual report and accounts

Audit risk	Assurance procedure	Results and conclusions
<p><b>1. Risk of material misstatement due to fraud caused by management override of controls</b></p> <p>As stated in ISA (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>Assess the design and implementation of controls over journal entry processing.</p> <p>Test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.</p> <p>Review accounting estimates for biases and evaluate whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud.</p> <p>Evaluate significant transactions outside the normal course of business.</p> <p>Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year.</p> <p>Focussed testing of accounting accruals and prepayments.</p>	<p>We did not identify any incidents of management override of controls from our testing of journals, year-end transactions, accruals and prepayments.</p> <p>The methods and assumptions used to prepare accounting estimates were confirmed to be reasonable.</p> <p>We have reviewed SEPA's accounting records and obtained evidence to ensure that transactions outside normal processes were accounted for correctly.</p>
<p><b>2. Estimation in the valuation of land, buildings, and gauging stations</b></p> <p>There is a significant degree of subjectivity in the valuation of land and buildings. Valuations are based on specialist and management assumptions and changes in these can result in material changes to valuations.</p>	<p>Review the information provided to the external valuer to assess for completeness.</p> <p>Evaluate the competence, capabilities, and objectivity of the professional valuer.</p> <p>Obtain an understanding of management's involvement in the valuation process to</p>	<p>We reviewed how management engages with the external valuer.</p> <p>We assessed the valuer and confirmed that they are competent and appropriately qualified for their role.</p> <p>The results from the valuation exercise were correctly recorded in the financial</p>



Audit risk	Assurance procedure	Results and conclusions
SEPA holds specialist property assets (gauging stations) for which there is no market evidence in respect of existing use, and these are valued using depreciated replacement cost. Gauging stations were subject to full valuation in 2022/23.	<p>assess if appropriate oversight has occurred.</p> <p>Critically assess the adequacy of disclosures regarding the assumptions in relation to the valuation of land and buildings</p>	<p>ledger and the annual report and accounts.</p> <p>We assessed the approach taken by the valuer in respect of desktop valuations in-year and confirmed that these were reasonable.</p> <p>No issues identified with gauging station valuations in 2023/24.</p>

Source: Audit Scotland

**20.** In addition, I identified one “area of audit focus” in my 2023/24 Annual Audit Plan where I considered there to be a risk of material misstatement to the financial statements:

- Valuation of the pension liability due to the material value and significant assumptions used in the calculation of the liability. I reviewed the work of PwC as our auditor’s expert and assessed the reasonableness and methodology used and assumptions made by the pension fund actuary in arriving at the pension valuation as at 31/03/2024. I also assessed the oversight exercised by management over the valuation. I did not identify any significant issues.

## No material misstatements were identified

**21.** The audit did not reveal any material misstatements. There was one misstatement above the reporting threshold identified which related to a classification error between long and short-term prepayments of £225k. This error has been corrected.

## Other audit issues

**22.** Audit testing of staff expenses identified invoices for hotel accommodation outside the UK booked through the Corporate Travel Management (CTM) booking company were subject to significant delays. The invoice tested related to accommodation costs incurred in June 2022 and the invoice was received and paid in November 2023. SEPA’s finance department is not informed of the actual costs until it receives the invoice from CTM. Although these costs are not material, and below our reporting threshold, this has resulted in 2022/23 expenditure being recognised in the incorrect financial year.

**23.** The finance department now has access to this information and will now monitor, and accrue where appropriate, any future hotel bookings that have not yet been invoiced. This will ensure that this expenditure is recognised in the correct financial year.

## **Recommendation 1**

SEPA should ensure that appropriate procedures are in place to recognise all expenses expenditure in the correct accounting year.

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### **The unaudited annual report and accounts were received in line with the agreed audit timetable**

**24.** The unaudited annual report and accounts were received on 2 September 2024 which is line with the agreed audit timetable. The working papers provided were of a good standard and the audit team received good support from finance staff which enabled the audit process to progress in accordance with the planned timetable.

### **Good progress was made on prior year recommendations**

**25.** SEPA has made good progress in implementing the agreed prior year audit recommendations. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in [Appendix 1](#).

## 2. Financial management

Financial management means having sound budgetary processes, and the ability to understand the financial environment and whether internal controls are operating effectively.

### Conclusion

SEPA has effective and appropriate arrangements to secure sound financial management and operated within its revised fiscal resources, reporting an underspend of £0.4 million.

There is appropriate and effective financial management in place with regular budget monitoring reports provided to the Corporate Leadership Team (CLT), Audit and Risk Committee and the Board.

Key controls within the main financial systems were operating effectively, while standards for the prevention and detection of fraud remain appropriate.

### SEPA operated within its overall revised budget in 2023/24

**26.** The main financial objective for SEPA is to ensure that the financial outturn for the year is within the budget allocated by Scottish Ministers. SEPA is allocated a Departmental Expenditure Limit (DEL) by the Scottish Government at the start of the financial year, and this can be amended through the spring and autumn budget revision process.

**27.** The body has reported an outturn of £51.3 million against its overall budget for 2023/24 with an overall underspend of £0.4 million, although there was a slight overspend of £0.1m against Resource DEL. The financial performance against fiscal resources is shown in [Exhibit 3](#).

### Exhibit 3

Performance against fiscal resource in 2023/24

Performance	Initial budget £m	Final budget £m	Outturn £m	Over/(under) spend £m
Resource DEL (cash)	39.048	40.248	40.324	0.076
Resource DEL (non-cash)	3.713	5.196	5.258	0.062
Capital	6.200	6.200	5.680	(0.520)

Total	48.961	51.644	51.262	(0.382)
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Source: SEPA Annual Report and Accounts 2023/24

## Budget processes were appropriate.

**28.** SEPA's budget was increased by £2.7m as part of the summer/ autumn / spring budget revisions and this was utilised to fund several key deliverables including the Water Environment Fund and COVID19 wastepaper testing.

**29.** The main underspend relates to the capital programme. This was due to a change in Scottish Government procedures, and the pause and cessation of planned capital projects.

**30.** SEPA's budget setting and monitoring arrangements in 2023/24 were reviewed and we noted that senior management and those charged with governance receive regular and accurate financial information.

**31.** The budget monitoring reports presented to the Corporate Leadership Team, Audit and Risk Committee and Board clearly show the costs pressures facing SEPA and the content and format of the reports allow members to perform their scrutiny role.

**32.** I have concluded that SEPA has appropriate budget monitoring arrangements in place.

## Capital expenditure increased in 2023/24

**33.** SEPA had a Capital DEL budget in 2023/24 of £6.2 million, which was a £1.8 million increase on the previous year, with a total £0.5 million underspend in year. The main areas of capital expenditure related to digital transformation, an upgrade to the hydrometric network, improvements to the Aberdeen laboratory, the fleet replacement programme and the replacement of end-of-life plant and equipment.

## SEPA has appropriate financial control arrangements in place

**34.** Our 2023/24 work covered a high level review of key financial systems including payroll, other expenditure, income, non current assets and the general ledger. We undertook a wholly substantive approach to the SEPA audit and therefore, have not conducted detailed tests of control. Our conclusion relates solely to our assessment of the design of the systems of control.

**35.** From a review of the design and implementation of key controls within SEPA's systems of internal control (including those relating to IT) relevant to our audit approach, we did not identify any internal control weaknesses which could affect SEPA's ability to record, process, summarise and report financial and other relevant data and result in a material misstatement in the financial statements.

## Standards of conduct and arrangements for the prevention and detection of fraud and error are appropriate

**36.** In the public sector there are specific fraud risks, including those relating to tax receipts, welfare benefits, grants and other claims made by individuals and organisations. Public sector bodies are responsible for implementing effective systems of internal control, including internal audit, which safeguard public assets and prevent and detect fraud, error and irregularities, bribery and corruption.

**37.** SEPA has adequate arrangements in place to prevent and detect fraud or other irregularities. Plans are in place to develop a cyber and information governance report.

### National Fraud Initiative

**38.** The National Fraud Initiative (NFI) is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud. SEPA participates in this biennial exercise. The 2022/23 exercise concluded during 2023/24 financial year and the [final report](#) was published on 15 August 2024.

**39.** The return gave SEPA a 'green' RAG (Red, Amber, Green) rating, based on the conclusion that SEPA actively participated in the NFI process, submitted all data on time and reviewed matches within the desired timescale. No instances of fraud or error were identified.

**40.** The previous RAG rating was 'red' and this demonstrates that SEPA has made significant progress since the last exercise. The outcome of its NFI progress has not been reported to senior management or those charged with governance.

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## Recommendation 2

Updates on SEPA's participation in the National Fraud Initiative should be reported to senior management and those charged with governance.

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# 3. Financial sustainability

Financial sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs.

## Conclusion

Effective and appropriate arrangements are in place to continue to deliver services and SEPA is projected to break even in 2024/25.

SEPA has developed the One SEPA transformation programme as a commitment to reforming the organisation.

There is no medium to long-term financial plan in place but work is ongoing to develop a range of enabling strategies, covering the medium to long term, as part of the wider service transformation.

## Audit work has addressed the wider scope risks identified in the Annual Audit Plan

41. [Exhibit 4](#) sets out the wider scope risks relating to financial sustainability identified in my 2023/24 Annual Audit Plan. It summarises the audit procedures performed during the year to obtain assurances over these risks and the conclusions from the work completed.

## Exhibit 4

Risks identified from my responsibility under the Code of Audit Practice

Audit risk	Assurance procedure	Results and conclusions
<p><b>1. Financial sustainability</b></p> <p>Whilst it is recognised that SEPA generates contract income via various charging schemes, there is a risk that SEPA may not be able to achieve its planned outcomes should insufficient grant-in-aid income be available.</p> <p>There are financial uncertainties and pressures SEPA will need to manage to</p>	<p>Review of relevant financial plans and strategies to assess the reasonableness of the assumptions contained within.</p> <p>Ongoing monitoring of board and committee papers and minutes and attendance at committees.</p>	<p>We reviewed SEPA's budget setting process and reporting of progress against this, concluding this is clearly reported and reviewed.</p> <p>SEPA achieved a £0.4 million underspend in 2023/24.</p>

Audit risk	Assurance procedure	Results and conclusions
remain financially sustainable.		

## Financial challenges remain for SEPA in the short to medium future

**42.** The draft 2023/24 budget presented to the Board in February 2023 projected a break-even position at the year end. We reviewed the assumptions used in these projections and found them to be reasonable.

**43.** The 2024/25 budget presented to the February 2024 Board also projects a break-even position. Savings are predicted to be generated through procurement, vacancy management, and the Scottish Government's spending controls. The Quarter 1 Financial Monitoring Report demonstrates that SEPA is on track to achieve this, with only a small projected overspend of £0.3 million currently forecast for capital expenditure. The Capital Working Group has plans in place to ensure a balanced budget is achieved at the year-end.

**44.** SEPA recognises the financial challenge in the short to medium term. The Annual Operating Plan includes information on the development of its One SEPA transformation programme. This programme focusses on investing in people, systems, regulation and income, and the restructuring of the Corporate Leadership Team and portfolios form part of this transformation process. Strategies are time lined over the medium term (3 years) and longer term (10 years). We will monitor these developments as part of our 2024/25 audit.

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# 4. Vision, leadership and governance

Public sector bodies must have a clear vision and strategy and set priorities for improvement within this vision and strategy. They work together with partners and communities to improve outcomes and foster a culture of innovation.

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## Conclusion

Clear plans are in place to implement SEPA's vision, strategy and priorities.

SEPA has effective and appropriate governance arrangements for delivery of its plans.

There are effective and appropriate governance arrangements in place that support the scrutiny of decisions made by the Board.

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## SEPA has a clear vision and strategy

**45.** SEPA implemented a new three-year Corporate Plan setting out its priorities for 2024-2027. The Corporate Plan is supported by Annual Operating Plans which detail the key areas of focus for each year. This provides a clear vision and strategy and consistently measures performance against objectives and the action taken to achieve these.

**46.** SEPA's website also supports a Consultation Hub which allows members of the public and other stakeholders to have their say in day-to-day activities.

## Governance arrangements are effective and appropriate

**47.** SEPA's governance arrangements have been set out in the Governance Statement in the annual report and accounts. The Board is supported by the Audit and Risk Committee, People and Remuneration Committee and Corporate Leadership Team. I have reviewed these arrangements and concluded that they are effective and appropriate.

**48.** Papers and minutes for the Board meetings, including financial and performance information, and details of decision made are available of SEPA's website.

**49.** Scrutiny arrangements are working well in SEPA and there is effective scrutiny, challenge and transparency at Board and Committee levels.



**50.** We attended all Audit and Risk Committee meetings, and one Board meeting during 2024. We observed the interactions during these meetings and conclude that committee members are engaged and provide effective scrutiny and challenge. There have been a number of new board appointments in 2024, including the new Board Chair.

**51.** At the Board meeting held in February 2024, the Board Champions Initiative was approved. This Initiative is to reflect the role of Board members to assist in adding value and engaging at the strategic level but will not be involved in decision making.

**52.** As part of the transformation of SEPA, the Corporate Leadership Team was restructured and effective from April 2024. The previous structure comprised of five Chief Officers and one Executive Director role reporting to the Chief Executive. The new structure is comprised of five Chief Officers reflecting a reduction in the number of portfolios from six to five and a redistribution of responsibilities.

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# 5. Use of resources to improve outcomes

Public sector bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities.

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## Conclusions

There is an appropriate best value framework in place within SEPA but reporting of this should be formalised.

A new corporate performance management system is currently being developed.

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## SEPA has developed an appropriate Best Value framework

**53.** [Ministerial guidance to Accountable Officers](#) for public bodies and the [Scottish Public Finance Manual](#) (SPFM) sets out the accountable officer's duty to ensure that arrangements are in place to secure best value. The guidance sets out the key characteristics of best value and states that compliance with the duty of best value requires public bodies to take a systematic approach to self-evaluation and continuous improvement.

**54.** SEPA notes within the 2023/24 Annual Report and Accounts that it is expected to deliver best value and achieve efficiency savings of at least 3% in year. A balanced budget was set assuming savings from staff turnover and operating costs which equated to 3.3% efficiency savings.

**55.** Although a number of activities are undertaken by SEPA in relation to the best value framework these are not formally reported to any committee or the Board.

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## Recommendation 3

A summary of SEPA's compliance with the duty of best value should be formalised and presented to the Corporate Leadership Team and those charged with governance.

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## **SEPA has appropriate arrangements in place for performance monitoring and reporting**

**56.** SEPA's Annual Operating Plan for 2023/24 details nine measures used to drive delivery and assess progress throughout the financial year. Updates on performance are taken to the Board on a quarterly basis.

**57.** In 2023/24, SEPA fully achieved seven of its nine measures, and partially achieved the remaining two. Plans are in place to address measures that were only partially met.

**58.** The Quarter 1 Corporate Performance Summary Report sets out twelve measures for 2024/25. SEPA is currently on track to achieve ten of the twelve measures, two measures have a partially met status. As set out in the Annual Operating Plan, SEPA plans to review the availability and quality of performance information and is currently developing a new corporate performance management framework. We will monitor these developments as part of our 2024/25 audit.

# Appendix 1. Action plan 2023/24

## 2023/24 recommendations

Issue / risk	Recommendation	Agreed management action / timing
<p><b>1. CMT Accruals</b></p> <p>Audit testing of staff expenses identified that invoices for hotel accommodation outside the UK booked through the Corporate Travel Management (CTM) booking company were subject to significant delays.</p> <p>The invoice tested related to accommodation costs incurred in June 2022 and the invoice was received and paid in November 2023.</p> <p>Risk: There is a risk that expenditure is not recognised in the correct financial year.</p>	<p>SEPA should ensure that appropriate procedures are in place to recognise all expenses expenditure in the correct accounting year.</p> <p>Paragraph 22.</p>	<p><b>Accepted</b></p> <p>Finance staff now have access to the booking portal. We review the data at month end to ensure any future hotel bookings that have not yet been invoiced are accrued. This will ensure that this expenditure is recognised in the correct financial year.</p> <p>Ian Bryce 30 November 2024</p>
<p><b>2. NFI reporting</b></p> <p>SEPA was awarded a 'green' RAG rating from this counter-fraud exercise. Prior to the cyber-attack, participation in NFI would have been presented to the Board.</p> <p>Risk: Board members would not be aware of any instances of fraud identified as a result of the data matching exercise.</p>	<p>Updates on SEPA's participation in the National Fraud Initiative should be reported to the Corporate Leadership Team and those charged with governance.</p> <p>Paragraph 40.</p>	<p><b>Accepted</b></p> <p>We will report the findings of the 2022-23 NFI exercise to the CLT and Audit and Risk Committee this financial year. We will ensure the findings for future NFI exercises are reported to CLT and the Audit &amp; Risk Committee.</p> <p>Ian Bryce 31 December 2024</p>

Issue / risk	Recommendation	Agreed management action / timing
<p><b>3. Best value reporting</b></p> <p>The SPFM sets out the accountable officer's duty to ensure arrangements are in place to secure best value. SEPA does not formally report progress against the key characteristics of best value</p> <p>Risk: There is a risk that SEPA is not fully complying with the key best value characteristics.</p>	<p>A summary of SEPA's compliance with the duty of best value should be formalised and presented to the Corporate Leadership Team and those charged with governance.</p> <p>Paragraph 55.</p>	<p><b>Accepted</b></p> <p>We will issue a report as requested; Audit Scotland have agreed to share examples of reports produced by other bodies.</p> <p>Angela Milloy /Rosaleen Burke</p> <p>31 March 2025</p>

## Follow-up of prior year recommendations

Issue / risk	Recommendation and Agreed Action	Progress
<p><b>b/f 1. Valuation of gauging stations</b></p> <p>When valuing the gauging stations, the valuer undertook a physical inspection of 20% of the estate with the remaining 80% being valued on a desktop basis. A similar exercise was undertaken in 2018. IAS 16 requires all assets in a class to be revalued simultaneously or a proportion to be valued each year on a rolling basis.</p> <p>SEPA currently revalue gauging stations every 5 years with indexation being applied in the interim. IAS 16 requires revaluations to be undertaken regularly to ensure the carrying value is not materially different to the current value.</p> <p>Risk: There is risk that the valuation programme for</p>	<p>Management should consider adopting a rolling programme of valuations ensuring that all gauging stations are subject to a physical examination by an independent valuer over the 5-year period.</p> <p>31 March 2025</p>	<p><b>Implemented</b></p> <p>SEPA has adopted a new programme for gauging station valuations, this includes:</p> <ul style="list-style-type: none"> <li>• valuations every three years, instead of every five</li> <li>• clearer programme for the rolling 20% of site visits</li> <li>• definition of "remote sites". Additional video evidence of state of repair to be submitted to the valuer</li> <li>• significantly improved site information to be provided to the valuers to enable a more effective and accurate desktop assessment.</li> </ul>

Issue / risk	Recommendation and Agreed Action	Progress
<p>gauging station does not comply with IAS 16.</p>		
<p><b>b/f 2. Management scrutiny of gauging stations valuations</b></p> <p>Sample testing of gauging station valuations identified that the valuer had included incorrect costs for anchor blocks which had been included in the fixed asset register for 89 stations. An adjustment of £0.616 million was made to correctly amend the values.</p> <p>Risk: The value of gauging stations included on the fixed asset register is not correctly recorded</p>	<p>Management should undertake appropriate scrutiny of the working papers provided by the valuer to support the valuation to ensure the figures are accurate.</p> <p>31 March 2024</p>	<p><b>Work in progress</b></p> <p>Unable to fully implement until there has been a full revaluation of gauging stations.</p> <p>Rosaleen Burke</p> <p>31 March 2026</p>
<p><b>b/f 3. Completeness of fixed asset register</b></p> <p>SEPA's gauging station estate extends beyond those held on the fixed asset register. Review of the working papers provided to support the revaluation identified 9 had been capitalised with a NBV of £0.138 million in 2022/23 as they exceeded the capitalisation threshold at 31/03/2023.</p> <p>Risk: The fixed asset register is not complete with regards to gauging station assets.</p>	<p>Management should review the current value of gauging stations not included on the fixed asset register each year against SEPA's capitalisation threshold to ensure this is complete.</p> <p>31 March 2024</p>	<p><b>Work in progress</b></p> <p>SEPA are in the process of preparing a full list of active and closed hydrometry sites in order to develop a full inventory of fixed assets and costs.</p> <p>Iain Menzies/Sandra Jones</p> <p>31 March 2026</p>
<p><b>b/f 4. Internal controls</b></p> <p>Review of payroll and bank reconciliations was not evidenced on the documentation shared for audit despite the SEPA prepared template requiring this.</p>	<p>Management should ensure that procedures for evidencing review of reconciliations are followed.</p> <p>January 2024</p>	<p><b>Work in Progress</b></p> <p>Our audit of bank reconciliations revealed that these had been appropriately evidenced.</p> <p>The payroll reconciliation had not been dated by the authoriser. We recommend</p>

Issue / risk	Recommendation and Agreed Action	Progress
<p>Risk: There is no audit trail of reconciliation review and approval.</p>		<p>that these reconciliations should be signed and dated as evidence of review.</p> <p>Ian Bryce 30 November 2024</p>
<p><b>b/f 5. Journals</b></p> <p>As part of our work to identify and evaluate key controls, we reviewed the process for raising and approving journals and found no issues in this.</p> <p>However, from review of the listing submitted for audit, it was not possible identify which officers in SEPA had raised and approved journals.</p> <p>Risk: The listing from the general ledger does not show who raised and approved journals.</p>	<p>Management should review the journal listing report and update this to show who has raised and approved journals.</p> <p>31 March 2026</p>	<p><b>Work in Progress</b></p> <p>Developments cannot be made to Agresso until its moved to a cloud-based service by 2025.</p> <p>Workflow extracts were obtained from Agresso and we were able to check that there has been appropriate segregation of duties. No issues identified from this audit testing.</p> <p>Vicky Muir Ongoing timeline</p>
<p><b>b/f 6. Disposal of non-current assets</b></p> <p>Disposal certificates used to record disposal of non-current assets do not require evidence of disposal to be attached.</p> <p>Risk: There is no record that disposals have been undertaken appropriately and in accordance with SEPA's policies.</p>	<p>Management should update the disposal certificate to require evidence of disposal to be attached.</p> <p>31 March 2024</p>	<p><b>Work in Progress</b></p> <p>A few samples selected for audit testing did not have the evidence attached as this pre-dated the launch of the new form. Although management accounts requested evidence of disposal, it was sometimes not available. On this basis, the recommendation has been partly implemented and we would expect this to be fully implemented in 2024/25.</p> <p>Sandra Jones March 2025</p>
<p><b>b/f 7. Financial sustainability</b></p> <p>SEPA has achieved a net underspend position in 2022/23 but looking ahead, financial sustainability</p>	<p>Management should continue to closely monitor financial performance and should consider developing more detailed financial plans to</p>	<p><b>Work in Progress</b></p> <p>Financial sustainability remains challenging, and savings are required to deal with both pricing increases</p>

Issue / risk	Recommendation and Agreed Action	Progress
<p>remains challenging. Savings to date to have been derived largely through vacancy management.</p> <p>Risk: SEPA does not currently have a medium-term financial plan which identifies savings and opportunities for transformation over the short to medium future.</p>	<p>support identification of savings and transformation.</p> <p>Ongoing</p>	<p>and to fund transforming the organisation. The Corporate Leadership Team and Board Champions are currently working on a range of enabling strategies as part of wider service transformation. These strategies are time-lined into phases over both the short term (within 3 years) and long term (up to 10 years).</p> <p>Angela Milloy/ Rosaleen Burke</p> <p>Ongoing timeframe.</p>
<p><b>2021/22 b/f 4. Bad debt policy</b></p> <p>SEPA do not have a specific policy in place around the allowance for expected credit losses and the basis behind the calculation. All outstanding debt as at 31 March 2021 has been provided for, as this is not expected to be recovered and management have completed a review at year-end of new debt to identify on an individual basis what should be provided for.</p>	<p>Management should review their approach and document into a formal policy.</p>	<p><b>Implemented</b></p> <p>SEPA has always had a bad debt policy however it has been updated to reflect this recommendation. Going forward, SEPA will regularly review their policies to check they have met all financial requirements.</p>
<p><b>2021/22 b/f 8. Performance reporting</b></p> <p>SEPA are still recovering from the cyber-attack. In some cases, systems have been re-built and re-established. In other cases, this is work in progress and interim measures are in place to support SEPA in providing services. From a review of the quarterly performance report shared with Management Team and the Board (Q1 2022/23), it isn't</p>	<p>From a review of the quarterly performance report shared with Management Team and the Board (Q1 2022/23), it isn't always clear from the narrative what services are being provided, what ones are provided by with a work around/interim arrangements and what is still not operational. Alongside this, it was not possible to see a clear reporting of the prioritisation and an assessment of the risks that</p>	<p><b>Implemented</b></p> <p>At the time Grant Thornton Auditors made this recommendation, SEPA only partially agreed to it as we felt both performance reporting and service delivery were separate. Performance reporting is designed to measure SEPA's delivery against its objectives, not designed to update on every service provided by SEPA. This is what the Service Status Update was</p>



Issue / risk	Recommendation and Agreed Action	Progress
<p>always clear from the narrative what services are being provided, what ones are provided by with a work around/interim arrangements and what is still not operational. Alongside this, it was not possible to see a clear reporting of the prioritisation and an assessment of the risks that SEPA are carrying in not providing and/or providing in an interim way, certain services.</p>	<p>SEPA are carrying in not providing and/or providing in an interim way, certain services.</p>	<p>for, which was also, rightly, updated in the performance section of our website at the time. The Service Status Update provided a public facing update on our website on the status of our service on a weekly basis from 2021 post cyber-attack. In August, our services began to stabilise, so we moved to fortnightly updates and then in January 2024 to monthly. In September 2024 we stopped the updates. In terms of ongoing status of our public register we still maintain a public facing update <a href="#">Public Register   Scottish Environment Protection Agency (SEPA)</a> and there is ongoing investment to improve access to public register information.</p>

# Scottish Environment Protection Agency

2023/24

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