

Scottish Environment Protection Agency

2024/25 Annual Audit Report



Prepared for Scottish Environment Protection Agency and the Auditor General for
Scotland
December 2025

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Accessibility

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Key messages

Audit of the annual report and accounts

- 1 Audit opinions on the annual report and accounts are unmodified.
- 2 There were no significant findings or key audit matters to report. All audit adjustments required to correct the financial statements were processed by the Scottish Environment Protection Agency.

Financial Management

- 3 The Scottish Environment Protection Agency has sound financial management arrangements in place. It operated within its 2024/25 budget of £54.812 million, reporting a resource underspend of £0.433 million and a capital underspend of £1.177 million. This includes savings previously agreed with Scottish Government of £0.177 million of revenue and £1 million of capital.
- 4 Appropriate internal control arrangements operated throughout 2024/25, including appropriate arrangements for the prevention and detection of fraud and standards of conduct. Six frauds were identified during the year, resulting in actions taken and subsequent recommendations. There were no material financial losses as a result of these frauds.

Financial Sustainability

- 5 Financial sustainability remains challenging as SEPA continues to self-fund transformation from efficiencies. However, the arrangements for securing financial sustainability are effective and appropriate.
- 6 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 programme.

Vision, Leadership and Governance

- 7 The Scottish Environment Protection Agency has clear plans in place to implement its vision, strategy and priorities.

- 8** Effective and appropriate governance arrangements for delivery of its plans are in place.

Use of Resources to Improve Outcomes

- 9** Appropriate and effective arrangements are in place to ensure improved outcomes.
 - 10** Progress against key strategic priorities is monitored and reported on throughout the year, helping inform future decision making. This is supported by the enhanced performance measurement framework.
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Introduction

Purpose of the Annual Audit Report

1. The purpose of this Annual Audit Report is to report the significant matters identified from the 2024/25 audit of the Scottish Environment Protection Agency's annual report and accounts and the wider scope areas specified in the [Code of Audit Practice \(2021\)](#).
2. The Annual Audit Report is addressed to the Scottish Environment Protection Agency, and the Auditor General for Scotland, and will be published on [Audit Scotland's website](#) in due course.

Scope of the audit

3. The audit is performed in accordance with the Code of Audit Practice, including supplementary guidance, International Standards on Auditing (ISA) (UK), and relevant legislation. These set out the requirements for the scope of the audit which includes:
 - an audit of the financial statements and an opinion on whether they give a true and fair view and are free from material misstatement, including the regularity of income and expenditure
 - an opinion on statutory other information published with the financial statements in the annual report and accounts, namely the Performance Report and Governance Statement
 - an opinion on the audited part of the Remuneration and Staff Report
 - conclusions on the body's arrangements in relation to the wider scope areas: Financial Management; Financial Sustainability; Vision, Leadership and Governance; and Use of Resources to Improve Outcomes
 - reporting on arrangements for securing Best Value.

Appointed auditor and independence

4. Liz Maconachie, of Audit Scotland, has been appointed as the external auditor of the Scottish Environment Protection Agency for the period from 2022/23 until 2026/27. As reported in the Annual Audit Plan, Liz and the audit team are independent of the Scottish Environment Protection Agency in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. There have been no developments

since the issue of the Annual Audit Plan that impact on the continued independence of the engagement lead or the rest of the audit team from the Scottish Environment Protection Agency, including no provision of non-audit services.

Responsibilities and reporting

5. The Code of Audit Practice sets out the respective responsibilities of the body and the auditor, with a summary outlined below.

Auditor's responsibilities

6. The responsibilities of auditors in the public sector are established in the Public Finance and Accountability (Scotland) Act 2000. These include providing an independent opinion on the financial statements and other information reported within the annual report and accounts and concluding on the Scottish Environment Protection Agency's arrangements in place for the wider scope areas and Best Value.

7. The Annual Audit Report includes an agreed action plan at [Appendix 1](#). The matters reported are those that have been identified by the audit team during normal audit work and may not be all that exist. Communicating these does not absolve the Scottish Environment Protection Agency from its responsibilities outlined below.

The Scottish Environment Protection Agency's responsibilities

8. The Scottish Environment Protection Agency has primary responsibility for ensuring proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety, and regularity that enables it to successfully deliver its objectives. The features of proper financial stewardship include:

- establishing arrangements to ensure the proper conduct of its affairs
- preparation of an annual report and accounts, comprising financial statements and other specified information that gives a true and fair view and other specified information
- establishing arrangements for the prevention and detection of fraud, error and irregularities, and bribery and corruption
- implementing arrangements to ensure its financial position is soundly based
- making arrangements to secure Best Value
- establishing an internal audit function.

National and performance audit reporting

9. The Auditor General for Scotland and the Accounts Commission regularly publish national and performance audit reports. These cover a range of matters, many of which may be of interest to the Scottish Environment Protection Agency and the Audit, Risk and Assurance Committee. Details of national and performance audit reports published over the last year can be seen in [Appendix 2](#). The report [Flooding in Communities: Moving Towards Flood Resilience](#) is particularly relevant to the Scottish Environment Protection Agency.

Acknowledgements

10. We would like to thank the Scottish Environment Protection Agency and its staff, particularly those involved in preparation of the annual report and accounts, for their cooperation and assistance during the audit. We look forward to working together constructively over the remainder of the five-year audit appointment.

Audit of the annual report and accounts

Main judgements

Audit opinions on the annual report and accounts are unmodified.

There were no significant findings or key audit matters to report. All audit adjustments required to correct the financial statements were processed by the Scottish Environment Protection Agency.

We have obtained audit assurances over the significant risks of material misstatement identified in our Annual Audit Plan.

Audit opinions on the annual report and accounts are unmodified

11. The annual report and accounts were approved by the Scottish Environment Protection Agency Board on 25 November 2025 and signed by the accountable officer and appointed auditor on the 4 December 2025. The Independent Auditor's Report is included in the annual report and accounts, and this reports that, in the appointed auditor's opinion, these were free from material misstatement.



The audit has been delivered in accordance with the agreed timetable

12. The unaudited annual report and accounts and all working papers were received on 5 September 2025 in accordance with the agreed audit timetable. The working papers provided were of a good standard with the majority available at the start of the audit.

The audit fee is unchanged from the level reported at planning

13. Our Annual Audit Plan detailed an audit fee of £78,500. There have been no developments that impacted on the planned audit work required, therefore the audit fee remains unchanged.

Materiality was reviewed on receipt of the unaudited annual report and accounts

14. Materiality is applied by auditors in planning and performing an audit. The concept of materiality is to determine whether misstatements identified during the audit could reasonably be expected to influence the decisions of users of the annual report and accounts. Auditors set a monetary threshold when determining materiality, although some issues may be considered material by their nature. Therefore, materiality is ultimately a matter of the auditor's professional judgement.

15. Materiality levels for the audit were determined at the risk assessment phase of the audit and were reported in the Annual Audit Plan, which also reported the judgements made in determining materiality levels. These were reassessed on receipt of the unaudited annual report and accounts. Materiality levels were updated and these can be seen in [Exhibit 1](#).

Exhibit 1

2024/25 Materiality levels for the Scottish Environment Protection Agency

Materiality	Amount
Materiality – set at 2% of total operating expenditure (£1.9 million per Annual Audit Plan)	£2.1 million
Performance materiality – set at 70% of materiality. As outlined in the Annual Audit Plan, this acts as a trigger point. If the aggregate of misstatements exceeds performance materiality, this could indicate further audit procedures are required. (£1.4 million per Annual Audit Plan)	£1.5 million
Reporting threshold – set at 5% of materiality. (No change)	£0.1 million

Source: Audit Scotland

Significant findings and key audit matters

16. ISA (UK) 260 requires auditors to communicate significant findings from the audit to those charged as governance, which for the Scottish Environment Protection Agency is the Audit, Risk and Assurance Committee.

17. The Code of Audit Practice also requires public sector auditors to communicate key audit matters. These are the matters that, in the auditor's professional judgement, are of most significance to the audit of

the financial statements. A range of issues were identified during the audit, mainly presentational, but these were not considered significant.

Qualitative aspects of accounting practices

18. ISA (UK) 260 also requires auditors to communicate their view about qualitative aspects of the body's accounting practices, including accounting policies, accounting estimates, and disclosures in the financial statements.

19. The appropriateness of accounting policies adopted by the Scottish Environment Protection Agency was assessed as part of the audit. These were considered to be appropriate to the circumstances of the body, and there were no significant departures from the accounting policies set out in the Government Financial Reporting Manual (FReM).

20. Accounting estimates used in the financial statements, including the valuation of land, buildings and gauging station assets and the valuation of the pension asset/liability. Details of the audit work performed and the outcome of the work on the valuation of land, buildings and gauging stations are outlined in [Exhibit 3](#). In relation to the estimation of pensions, we used an auditor's expert to inform our review of assumptions. We tested the appropriateness of the controls in place over the provision of information to the actuary and obtained assurances from the auditor of the Falkirk Pension Fund.

21. Overall, we concluded that there:

- were no issues with the selection or application of methods, assumptions, and data used to make the accounting estimates, and these were considered to be reasonable.
- There was no evidence of management bias in making the accounting estimates.

22. The adequacy of disclosures in the financial statements was assessed as part of the audit. The disclosures are appropriate, with additional detail provided for areas of greater sensitivity, such as the valuation of the pension liability.

There were no misstatements identified during the audit process

23. No audit adjustments were required to the financial statements greater than the reporting threshold of £0.1 million, all adjustments have been presentational in nature. There are no uncorrected misstatements to report.

Other audit issues

24. Our audit testing of staff expense claims revealed issues relating to claim processing and the retention of supporting evidence:

- claims were submitted covering periods longer than one month, which is not in accordance with the expenses policy
- out of hours claims were not supported by a copy of the rota, preventing confirmation that the claims were valid.

Recommendation 1

Staff should be reminded to submit claims timeously and relevant supporting documentation should be retained. Strengthening current procedures will ensure compliance with the policy and reduce the risk of inappropriate expenditure.

Our audit work responded to the significant risks of material misstatement identified in the Annual Audit Plan

25. Audit work has been performed in response to the significant risks of material misstatement identified in the Annual Audit Plan. The outcome of audit work performed is summarised in [Exhibit 2](#).

Exhibit 2**Significant risks of material misstatement to the financial statements**

Risk of material misstatement	Planned audit response	Outcome of audit work
Significant risks of material misstatement		
<p>Fraud caused by management override of controls</p> <p>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>The audit team will:</p> <ul style="list-style-type: none"> • Evaluate the design and implementation of controls over journal entry processing. • Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries. • Test journals entries, focusing on those that are assessed as higher risk, such as those affecting revenue and expenditure recognition around the year-end. • Evaluate significant transactions outside the normal course of business. • Assess the adequacy of controls in place for identifying and disclosing related party relationships and transactions in the financial statements. • Assess changes to the methods and underlying assumptions used to prepare accounting estimates and assess these for evidence of management bias. 	<p>Audit work performed found:</p> <ul style="list-style-type: none"> • The design and implementation of controls over journal processing were appropriate. • No inappropriate or unusual activity was identified from discussions with individuals involved in financial reporting. • No issues were identified from testing of journal entries. • No unusual activity or issues with transactions outside the normal course of business. • Controls in place for identifying and disclosing related party relationships and transactions in the financial statements are appropriate. • No change to methods and underlying assumptions used to prepare accounting estimates. The assessment of accounting estimates found no evidence of management bias. <p>Conclusion: no evidence of fraud caused by management override of controls.</p>

Risk of material misstatement	Planned audit response	Outcome of audit work
<p>Valuation of land, buildings and gauging stations</p> <p>SEPA held £42.377m of property, plant, and equipment (PPE) at 31 March 2024, of which £28.399m was land, building, and gauging station assets.</p> <p>SEPA is required to value land and building assets at existing use value where an active market exists for these assets. For non-specialised properties, where there is direct market evidence, current value is assumed to be equal to open market value for existing use.</p> <p>For specialised properties i.e. gauging stations, where there is no market evidence in respect of existing use, the value is assessed by using a depreciated replacement cost.</p> <p>As a result, there is a significant degree of subjectivity in these valuations which are based on specialist assumptions, and changes in the assumptions can result in material changes to valuations.</p>	<p>The audit team will:</p> <ul style="list-style-type: none"> • Evaluate the design and implementation of controls over the valuation process. • Review the information provided to the valuer and assess this for completeness and accuracy. • Evaluate the competence, capabilities, and objectivity of the valuer. • Obtain an understanding of management's involvement in the valuation process to assess if appropriate oversight has occurred. • Review the appropriateness of the key data and assumptions used in the 2024/25 valuation process, and challenge these where required. • Review management's assessment that the value in the balance sheet of assets not subject to a valuation process in 2024/25 is not materially different to current value at the year-end, and challenge this where required. 	<p>Audit work performed found:</p> <ul style="list-style-type: none"> • The design and implementation of controls over the valuation process were appropriate. • The information provided to the valuer was accurate and complete. • The valuer had sufficient competence, capability, and objectivity to perform their work. • Management is involved in the valuation process and have an appropriate level of oversight. • The data and assumptions used in the 2024/25 valuation process were appropriate. • Management's assessment of assets not subject to a valuation process in 2024/25 was reasonable and concluded there was unlikely to be a material difference to the current value at the year-end. <p>Conclusion: the valuation of land, buildings and gauging stations are not materially misstated.</p>

Source: Audit Scotland

Prior year recommendations are being progressed

26. The Scottish Environment Protection Agency has made good progress in implementing the agreed prior year audit recommendations. For actions not yet implemented, revised responses and timescales have been agreed and are outlined in [Appendix 1](#).

Wider scope and Best Value audit

Audit approach to wider scope and Best Value

Wider scope

27. As reported in the Annual Audit Plan, the wider scope audit areas are:

- Financial Management.
- Financial Sustainability.
- Vision, Leadership and Governance.
- Use of Resources to Improve Outcomes.

28. Audit work is performed on these four areas and a conclusion on the effectiveness and appropriateness of the arrangements for each is reported in this chapter.

Duty of Best Value

29. The [Scottish Public Finance Manual](#) (SPFM) explains that Accountable Officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. [Best Value in public services: guidance for Accountable Officers](#) is issued by Scottish Ministers and sets out their duty to ensure that arrangements are in place to secure Best Value in public services.

30. Consideration of the arrangements the Scottish Environment Protection Agency has in place to secure Best Value has been carried out alongside the wider scope audit.

31. As reported in the Annual Audit Plan, specific work covering the 'fairness and equality' Best Value characteristic was carried out as part of the 2024/25 audit.

Financial Management

Conclusion

The Scottish Environment Protection Agency has sound financial management arrangements in place. It operated within its 2024/25 budget of £54.812 million, reporting a resource underspend of £0.433 million and a capital underspend of £1.177 million. This includes savings previously agreed with Scottish Government of £0.177 million of revenue and £1 million of capital.

Appropriate internal control arrangements operated throughout 2024/25, including appropriate arrangements for the prevention and detection of fraud and standards of conduct. Six frauds were identified during the year, resulting in actions taken and subsequent recommendations. There were no material financial losses as a result.

The Scottish Environment Protection Agency operated within its 2024/25 budget and has a strong financial management culture

32. The main financial objective for the Scottish Environment Protection Agency is to ensure that the financial outturn for the year is within the departmental expenditure limit (DEL) allocated by Scottish Ministers. The Agency operated within its overall resource and capital budget allocated for 2024/25 and reported an outturn of £53.202 million against a total budget of £54.812 million. The financial performance against fiscal resource is shown in [Exhibit 3](#).

Exhibit 3

Performance against resource limits in 2024/25

	Initial Budget £m	Final Budget £m	Outturn £m	Over / (under) spend £m
Resource cash DEL	39.911	41.870	41.816	(0.054)
Resource non-cash DEL	6.280	6.445	6.066	(0.379)
Capital	6.400	6.497	5.320	(1.177)
Total budget	52.591	54.812	53.202	(1.610)

Source: Scottish Budget 2024/25; Spring Budget Revision 2024/25; and Scottish Environment Protection Agency's Annual Report and Accounts 2024/25

33. The initial 2024/25 budget was set at £52.591 million and increased to £54.812 million as part of the Spring Budget Revision. Most of the increase in budget related to an increase in resource cash DEL to fund key projects including the Water Environment Fund, COVID 19 waste water testing and emission trading.

34. The large underspend against the capital budget is due to an agreement between the Scottish Environment Protection Agency and the Scottish Government to defer £1 million of budgeted expenditure. This decision was taken following a mid-year savings review.

35. From the audit work undertaken, we have concluded that the Scottish Environment Protection Agency has effective financial management arrangements in place.

Appropriate internal control arrangements operated throughout 2024/25, including appropriate arrangements for the prevention and detection of fraud and standards of conduct

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. We did not identify any significant internal control weaknesses which could affect the Scottish Environment Protection Agency's ability to record, process and report financial and other relevant data which could result in a material misstatement in the financial statements. Our work included a review of the design and implementation of systems of internal control, including those relating to IT, relevant to our audit approach.

38. Internal Audit's review of 'staff development and succession planning', and 'estates management' reported an assurance rating of 'limited' for the operational effectiveness of the controls in place. We are pleased to note that actions have been identified by management and work is on track to address the control weaknesses identified.

39. The Scottish Environment Protection Agency has arrangements in place which are effective and appropriate for ensuring the prevention and detection of fraud and standards of conduct. This includes a Framework Agreement with the Scottish Government, supported by an Anti-Fraud, Corruption and Bribery Policy and Whistleblowing Policy. The Code of Conduct for Employees was subject to review and updated in August 2025. An Information Governance Manager took up post in October 2025 and this will help strengthen capacity to improve the governance framework.

40. Six frauds were identified in 2024/25, resulting in actions taken and subsequent recommendations. We are pleased to note that there were no material financial losses as a result.

41. The National Fraud Initiative (NFI) is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud. The Scottish Environment Protection Agency participates in this biennial exercise. The current NFI exercise began in September 2024 with the final report due to be published in September 2026.

42. The Scottish Environment Protection Agency actively engages in the NFI process and reports on progress to the Audit, Risk and Assurance Committee. The process of reviewing NFI matches is currently in progress, with a deadline of December 2025 for completion. We will continue to monitor participation and report on the outcome of the current NFI exercise as part of our 2025/26 audit.

Financial Sustainability

Conclusion

Financial sustainability remains challenging as SEPA continues to self-fund transformation from efficiencies. However, the arrangements for securing financial sustainability are effective and appropriate.

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 programme.

A balanced budget has been set for 2025/26

43. The Scottish Government approved revenue funding of £55.4 million, including £5.6 million of capital funding for 2025/26. The Quarter 1 Financial Monitoring Report projects a break-even position. Savings are predicted through vacancy management. Capital funding has increased by an additional £0.6m for supporting the creation of a foundational flood and coastal asset database for Scotland. This has resulted in a revised total capital budget of £6.24m.

The Scottish Environment Protection Agency's medium-term position looks increasingly challenging

44. In June 2025, Scottish Government published a new Public Service Reform Strategy (PSRS), its seventh Medium-Term Financial Strategy (MTFS) and the first Fiscal Sustainability Delivery Plan (FSDP). These documents provide a framework for the future of Scottish public sector finance and public service reform.

45. The 2025 MTFS presents a stark picture with gaps in resource projected to grow from a balanced budget in 2025-26, to a gap of £2.6

billion in 2029-30. Similarly capital spending is forecast to exceed the available budget by £1.1 billion in 2026-27, rising to a gap of £2.1 billion in 2029-30. Significant further action is required, for both resource and capital, to deliver a sustainable future for the Scottish public sector.

46. Financial sustainability remains challenging amid self-funded transformation. The Scottish Environment Protection Agency's budget setting incorporates scenario modelling and sensitivity analysis over a minimum of three future years. Vacancy management decisions are managed by Corporate Leadership Team in line with public sector reform and Scottish Pay Policy commitments. Non-staff spending is regularly reviewed and subject to challenge. Detailed financial plans will be developed following the finalisation of the long-term strategy.

47. The Transformation Board was established, and held its first meeting, in October 2024. The Board is comprised of the Corporate Leadership Team, Head of Regulatory Transformation, Head of Transformation and Programme Management, Programme Manager, and Framework support. The purpose of this board is to identify and provide strategic oversight for the work required to deliver the organisation's transformation programme.

48. The meetings were initially held monthly from October 2024 to December 2024, then as items at Corporate Leadership Team strategy sessions from January 2025 until June 2025. Following the appointment of the Head of Transformation and Programme Management in the summer of 2025, formal board meetings have resumed.

Vision, Leadership and Governance

Conclusion

The Scottish Environment Protection Agency has clear plans in place to implement its vision, strategy and priorities.

Effective and appropriate governance arrangements for delivery of its plans are in place.

The Scottish Environment Protection Agency has a clear vision and strategy

49. This is the second year since the implementation of the Corporate Plan 2024-27 which is supported by Annual Operating Plans detailing the area of focus for each year. This provides a clear vision and strategy and performance against these objectives are measured and reported on a quarterly basis. Quarterly performance and financial monitoring reports are available on the Scottish Environment Protection Agency website.

There have been no significant changes in leadership

50. As part of the transformation programme, the Corporate Leadership Team was restructured, with the new structure becoming effective from April 2024. There were no significant changes during 2024/25, and the leadership structure will continue to be embedded as part of the ongoing transformation.

51. We have no concerns regarding the stability and leadership of the Scottish Environment Protection Agency.

Governance arrangements continue to operate effectively

52. The Scottish Environment Protection Agency has well established governance arrangements in place, involving both Corporate Leadership Team and Board members. The Board is supported by the Audit, Risk and Assurance Committee (ARAC), previously known as the Audit and Risk Committee and the People and Resources Committee. The change of name for the ARAC reflects the independent assurance provided to the Board around the effectiveness of the systems of governance, risk management, and internal control. Quarterly Assurance Reports presented to the ARAC in 2024/25 provide members' with oversight on high risk areas of work

53. We attended all Audit, Risk and Assurance Committee meetings during 2025 and can confirm that committee members are engaged and provide effective scrutiny and challenge.

Use of Resources to Improve Outcomes

Conclusion

Appropriate and effective arrangements are in place to ensure improved outcomes.

Progress against key strategic priorities is monitored and reported on throughout the year, helping inform future decision making. This is supported by the enhanced performance measurement framework.

The Scottish Environment Protection Agency has consistently achieved strong performance and is delivering its strategic priorities

54. As reported in the Annual Report and Accounts, eleven of the twelve performance measures were achieved in 2024/25. Plans are in place to improve performance relating to the measure that was not achieved in year.

55. The performance measurement framework has been strengthened during 2024/25 to support effective monitoring and reporting against

strategic priorities. This includes the identification of 29 new key performance indicators (KPIs). For 2025/26, there are eleven annual objectives with specific key results confirmed as performance measures, supported by 40 KPIs. A Performance Manager has been appointed to support the ongoing development of the framework. These enhancements are expected to improve data driven decision making across the organisation.

56. The Board has considered the draft Digital Strategy and plans are in place to implement the updated Strategy in 2025/26.

Conclusions on duty of Best Value

57. The audit work performed on the arrangements in place for securing Best Value found these were effective and appropriate. This judgement is evidenced by:

- well established and effective governance arrangements in place, with best value being a key aspect of the governance arrangements
- arrangements in place around the four wider scope audit areas, which are effective and appropriate, contribute to it being able to secure best value
- an assessment of best value arrangements was presented to the Audit, Risk and Assurance Committee in May 2025. This addresses our prior year recommendation.

58. Our audit of the 'fairness and equality' characteristic concluded that there are satisfactory arrangements in place to comply with relevant legislation and meet the characteristics set out in the Scottish Public Finance Manual.

Appendix 1 – Action plan 2024/25

2024/25 recommendations

Matter giving rise to recommendation	Recommendation	Agreed action, officer and timing
<p>Staff Expense Claims</p> <p>Our audit testing of staff expense claims revealed issues relating to claim processing and the retention of supporting evidence:</p> <ul style="list-style-type: none"> claims were submitted covering periods longer than one month, which is not in accordance with the expenses policy. out-of-hours claims were not supported by a copy of the rota, preventing confirmation that the claims were valid. <p>Risk: There is a risk that inappropriate expense claims may be approved and paid.</p>	<p>Staff should be reminded to submit claims timeously and relevant supporting documentation should be retained. The procedure could be strengthened by:</p> <ul style="list-style-type: none"> staff submitting expense claims on a monthly basis, in line with the expenses policy. retain appropriate supporting documentation, such as rota evidence for out-of-hours claims. provide guidance and training to approvers to ensure claims are only authorised when appropriate evidence has been provided to support the claim. <p>This will ensure compliance with the expenses policy and reduce the risk of inappropriate expenditure.</p>	<p>Partially accepted</p> <p>Out of hours are contractual allowances and are generally approved after checking the rota which is on a live SharePoint site that is continuously updated. However, there is a plan to move from the current way of displaying duty rota via a SharePoint page which Customer Hub staff have to constantly update, to a new arrangement where rota members and managers etc will be able to directly keep their rotas up to date on a planned basis. This means that there will be an historical record across all participating rotas of who is recorded as being on at any given time. Most teams also keep local copies of the duty rota and in the interim we have asked the manager of this team to implement a similar practice. This will not be required when the new system is implemented.</p> <p>The current policy states that SEPA will not normally reimburse expenses claimed more than 60 days after it has been incurred by the staff member. The out of hours claims are contractual allowances rather than expenses. There is no requirement for an employee to attach back up as on call rotas are published and the manager is aware.</p> <p>Rosaleen Burke</p> <p>March 2026</p>

Matter giving rise to recommendation	Recommendation	Agreed action, officer and timing
<p>B/fwd 1. CMT Accruals</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>Ian Bryce</p> <p>30 November 2024</p>	<p>Implemented</p> <p>No issues identified from our cut-off audit testing in 2024/25.</p>
<p>B/fwd 2. NFI reporting</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>Ian Bryce</p> <p>31 December 2024</p>	<p>Implemented</p> <p>A NFI paper updating the Audit, Risk and Assurance Committee on activities was presented to CLT in January 2025 and ARAC meeting in March 2025.</p>

Matter giving rise to recommendation	Recommendation	Agreed action, officer and timing
<p>B/fwd 3. Best value reporting</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>Angela Milloy /Rosaleen Burke</p> <p>31 March 2025</p>	<p>Implemented</p> <p>A paper reporting progress against the key characteristics of best value was presented to the Corporate Leadership Team and Audit, Risk and Assurance Committee in June 2025.</p>
<p>B/fwd 4. Management scrutiny of gauging stations</p> <p>Sample testing of gauging station valuations (in 2022/23) 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>Rosaleen Burke</p> <p>31 March 2026</p>	<p>Work in progress</p> <p>20% of our gauging stations will be inspected by Avison Young by March 2026 and the remaining 80% by March 2027. We have been working closely with the valuers in the planning of the work and will ensure all working papers are properly scrutinised on completion.</p> <p>Rosaleen Burke</p> <p>31 March 2027</p>

Matter giving rise to recommendation	Recommendation	Agreed action, officer and timing
<p>B/fwd 5. Completeness of fixed asset register</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>Iain Menzies/Sandra Jones</p> <p>31 March 2026</p>	<p>Complete</p> <p>A review has been undertaken of gauging stations not currently included on the asset register to ensure all relevant gauging stations above the capitalisation threshold have been included on the asset register.</p>
<p>B/fwd 6. Internal Controls</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>Risk: There is no audit trail of reconciliation review and approval.</p>	<p>Management should ensure that procedures for evidencing review of reconciliations are followed.</p> <p>Ian Bryce</p> <p>30 November 2024</p>	<p>Implemented</p> <p>We can confirm that both payroll and bank reconciliations were evidenced as reviewed in 2024/25.</p>

Matter giving rise to recommendation	Recommendation	Agreed action, officer and timing
<p>B/fwd 7. Journals</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 to 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>Vicky Muir</p> <p>Ongoing timeline</p>	<p>Work in Progress</p> <p>Developments cannot be made to Agresso until it's 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>Steven Brown</p> <p>Ongoing timeline</p>
<p>B/fwd 8. Disposal of non-current assets</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>Sandra Jones</p> <p>March 2025</p>	<p>Implemented</p> <p>SEPA launched new online asset record forms in January 2024 which included a mandatory requirement to attach evidence of disposal. Of the five samples selected for audit testing, three disposals did not have evidence of physical disposal (e.g. photo or invoice). As an alternative, where there is no physical evidence of disposal, a written statement from the relevant manager is provided to confirm SEPA no longer holds the asset and it can be removed from the assets register. The written statement is attached to the asset disposal record as evidence of disposal.</p>

Matter giving rise to recommendation	Recommendation	Agreed action, officer and timing
<p>B/fwd 9. Financial Sustainability</p> <p>SEPA has achieved a net underspend position in 2022/23 but looking ahead, financial sustainability 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>Management should continue to closely monitor financial performance and should consider developing more detailed financial plans to support identification of savings and transformation.</p> <p>Angela Milloy/ Rosaleen Burke</p> <p>Ongoing timeframe.</p>	<p>Closed</p> <p>An update on financial sustainability has been provided in the wider scope section of the report.</p> <p>We propose to close this recommendation and will continue to monitor financial sustainability as part of our wider code responsibilities.</p>

Appendix 2 – National reports

Report name	Date published
Scotland's colleges 2024	19 September 2024
Integration Joint Boards: Finance and performance 2024	25 July 2024
The National Fraud Initiative in Scotland 2024	15 August 2024
Transformation in councils	1 October 2024
Alcohol and drug services	31 October 2024
Fiscal sustainability and reform in Scotland	21 November 2024
Public service reform in Scotland: how do we turn rhetoric into reality?	26 November 2024
NHS in Scotland 2024: Finance and performance	3 December 2024
Auditing climate change	7 January 2025
Local government in Scotland: Financial bulletin 2023/24	28 January 2025
Transparency, transformation and the sustainability of council services	28 January 2025
Sustainable transport	30 January 2025
A review of Housing Benefit overpayments 2018/19 to 2021/22: A thematic study	20 February 2025
Additional support for learning	27 February 2025
Integration Joint Boards: Finance bulletin 2023/24	6 March 2025
Integration Joint Boards finances continue to be precarious	6 March 2025
General practise: Progress since the 2018 General Medical Services contract	27 March 2025
Council Tax rises in Scotland	28 March 2025
Delivering for the future: Responding to the workforce challenge	7 August 2025
Flooding in Communities: Moving Towards Flood Resilience	28 August 2025

Scottish Environment Protection Agency

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