

Scottish Environment Protection Agency (SEPA)

2022/23 Annual Audit Report



 AUDIT SCOTLAND

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

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Key messages

2022/23 annual report and accounts

- 1 Audit opinions on the annual report and accounts are unmodified.
- 2 No material adjustments have been made to the annual report and accounts as a result of the audit process.

Financial management and sustainability

- 3 SEPA has effective and appropriate arrangements to secure sound financial management.
- 4 SEPA operated within its revised fiscal resources, reporting an underspend of £2.5 million. The underspend largely related to the recovery of £1.9 million of pre cyber attack debt which was written off after the attack but subsequently recovered.
- 5 There is appropriate and effective financial management in place with regular budget monitoring reports provided to Corporate Leadership Team (CLT), Audit and Risk Committee and the Agency Board.
- 6 Controls within the main financial systems are operating effectively while standards for the prevention and detection of fraud remain appropriate.
- 7 SEPA achieved an underspend of £2.5 million in 2022/23 against a projected deficit of £3.6 million in the draft 2022/23 budget due to effective management of vacancies and recovery of pre cyber attack debt previously written off, which contributed to this outturn position.
- 8 SEPA originally projected a deficit position in 2023/24 to 2026/27 but the final 2023/24 budget now reflects a break-even position.
- 9 SEPA should continue to monitor financial performance, giving consideration to the development of financial plans which identify opportunities for a wider range of savings through effective transformation.

Vision, leadership and governance

- 10** SEPA has effective and appropriate governance arrangements in place for the delivery of its plans.
- 11** There is effective engagement with stakeholders and evidence of effective scrutiny and challenge from members.

Use of resources to improve outcomes

- 12** SEPA has an appropriate best value framework in place.
- 13** SEPA has an effective performance management framework in place to support the achievement of targets.

Introduction

1. This report summarises the findings from the 2022/23 annual audit of the Scottish Environment Protection Agency (SEPA). The scope of the audit was set out in an annual audit plan presented to the 21 March 2023 meeting of the Audit and Risk Committee. This Annual Audit Report comprises:

- significant 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 in due course.

Audit appointment from 2022/23

3. I, Liz Maconachie, have been appointed by the Auditor General as auditor of SEPA for the period from 2022/23 until 2026/27. The 2022/23 financial year was the first of my five-year appointment. My appointment coincides with the new [Code of Audit Practice](#) which was introduced for financial years commencing on or after 1 April 2022.

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

Responsibilities and reporting

5. 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.

6. The responsibilities of the independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2021](#), and supplementary guidance and International Standards on Auditing in the UK.

7. Weaknesses or risks identified are only those which have come to our attention 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 we raise and to maintain adequate systems of control.

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

Auditor Independence

9. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2022/23 audit fee of £72,630 as set out in our 2022/23 Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

10. We add 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.

1. Audit of 2022/23 annual report and accounts

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

Main judgements

Audit opinions on the annual report and accounts are unmodified.

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

Audit opinions on the annual report and accounts are unmodified

11. The board approved the annual report and accounts for SEPA for the year ended 31 March 2023 on 12 December 2023. 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 financial reporting framework
- 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 assessed as £2.079 million

12. 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.

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

Exhibit 1

Materiality values

Materiality level	Amount
Overall materiality	£2.079 million
Performance materiality	£1.559 million
Reporting threshold	£0.104 million

14. The overall materiality threshold was set with reference to gross expenditure, which we judged as the figure most relevant to the users of the financial statements.

15. 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 75% of overall materiality, reflecting the low occurrence of errors in previous years.

16. It is our responsibility to request that all misstatements, other than those below our reporting threshold, are corrected, although the final decision on making the correction lies with those charged with governance.

Significant findings and key audit matters

17. Under International Standard on Auditing (UK) 260 we communicate significant findings from the audit to the board, including our view about the qualitative aspects of the body's accounting practices.

18. The Code of Audit Practice also requires all audits to communicate key audit matters within the annual audit report under International Standard on Auditing (UK) 701. These are matters that we judged to be of most significance in our audit of the financial statements.

19. The significant findings are summarised in [Exhibit 2](#).

Exhibit 2

Significant findings and key audit matters from the audit of the annual report and accounts

Issue	Resolution
<p>1. Gauging Stations</p> <p>The valuer undertook a physical inspection of 20% of these assets with the remainder subject to a desktop valuation this year. We were advised that the physical inspection is undertaken on a representative sample of all gauging stations covering all areas. This is similar to the exercise undertaken in 2018. In the interim period, indexation is applied based on indices confirmed as appropriate by the valuer. Due to the specialised nature of these assets, they are valued at Depreciated Replacement Cost (DRC).</p> <p>IAS 16 requires revaluations to be done regularly to ensure the carrying value of assets isn't materially different from the current value.</p> <p>Paragraph 38 of IAS 16 lets bodies either revalue all assets in each class simultaneously or a proportion of the assets each year on a rolling basis.</p> <p>Only 20% of assets have been subject to a physical examination in the past 5 years and our work identified a difference in the movement between those physically inspected and those subject to a desktop valuation with an overall movement in NBV of -£1.8 million.</p>	<p>SEPA should consider adopting a rolling programme of valuations ensuring that all gauging stations are subject to a physical examination over the 5-year period.</p> <p>Recommendation 1</p> <p>(Refer Appendix 1, action plan)</p>
<p>2. Gauging Stations</p> <p>Our sample testing of gauging stations identified that the valuer identified incorrect values for anchor blocks which had been included in the asset register. Further work identified that this error was replicated across 89 assets.</p>	<p>An adjustment of £0.616 million was made to reduce the NBV of these assets.</p> <p>Appropriate scrutiny of the valuation work completed should be undertaken to ensure these are accurate.</p> <p>Recommendation 2</p> <p>(Refer Appendix 1, action plan)</p>

Issue	Resolution
<p>3. Gauging Stations</p> <p>We reviewed the working papers provided in relation to the revaluation of gauging stations and this detailed that 9 had been capitalised at 31/03/2023 with a NBV of £0.138 million.</p> <p>SEPA's gauging station estate includes those which may not meet the capitalisation threshold disclosed in the Accounting Policies.</p> <p>It was confirmed that SEPA do not routinely check completeness of the fixed asset register each year end.</p>	<p>SEPA should consider reviewing the value of gauging stations not included on the fixed asset register against the capitalisation threshold each year to ensure this is complete.</p> <p>Recommendation 3</p> <p>(Refer Appendix 1, action plan)</p>

Our audit work responded to the risks of material misstatement we identified in the annual report and accounts

20. We have obtained audit assurances over the identified significant risks of material misstatement in the annual report and accounts. [Exhibit 3](#) sets out the significant risks of material misstatement to the financial statements we identified in our 2022/23 Annual Audit Plan. It also summarises the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 3

Significant risks of material misstatement in the annual report and accounts

Audit risk	Assurance procedure	Results and conclusions
<p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in International Standard on Auditing (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>	<ul style="list-style-type: none"> • Test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. • 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>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 the SEPA's accounting records and obtained evidence to ensure that transactions outside</p>

Audit risk	Assurance procedure	Results and conclusions
<p>This is presumed to be a risk in every audit.</p>	<ul style="list-style-type: none"> • Evaluate significant transactions outside the normal course of business. • Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. • Focussed testing of accounting accruals and prepayments. 	<p>normal processes were accounted for correctly.</p>
<p>2. Estimation in the valuation of land, buildings, and gauging stations.</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>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. The previous valuation has been indexed annually to reflect inflationary increases to the replacement cost. 2022/23 was a full valuation year for these assets.</p>	<ul style="list-style-type: none"> • Review the information provided to the external valuer to assess for completeness. • Evaluate the competence, capabilities, and objectivity of the professional valuer. • Obtain an understanding of management's involvement in the valuation process to assess if appropriate oversight has occurred. • Critically assess the adequacy of disclosures regarding the assumptions in relation to the valuation of land and buildings. 	<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, in the main, correctly recorded in the financial 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>We have made some recommendations around the revaluations process for gauging stations.</p> <p>(Refer to Appendix 1, action plan)</p>

21. In addition, we identified one “area of audit focus” in our 2022/23 Annual Audit Plan where we 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. We 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 31/03/2023. We also assessed the oversight exercised by management over the valuation. We did not identify any significant issues.

22. On receipt of the draft Annual Report and Accounts we recognised that the implementation of IFRS 16 changed the way in which SEPA accounts for leases, including recognising assets and liabilities for the rights and obligations arising from leases previously classified as operating leases. The change in accounting has resulted in £8.928 million of right of use assets being disclosed for 2022/23.

23. We reviewed SEPA's arrangements for IFRS 16 and confirmed the changes were in line with applicable guidance.

There were 3 non-material misstatements identified within the financial statements

24. We identified three non-material misstatements totalling £0.616 million which were corrected by management in the audited accounts. This resulted in a reduction in Total Taxpayers Equity of £0.616 million. Two of the misstatements related to misclassifications between lines and had no monetary impact on the accounts. Details on one of the misstatements is included within [Exhibit 2](#). There are no uncorrected misstatements above our clearly trivial level of £0.104 million.

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

25. The unaudited annual report and accounts were received in line with our agreed audit timetable on 23 October 2023. 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

26. SEPA has made good progress in implementing the audit recommendations identified by Grant Thornton, SEPA's previous external auditor. 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.

SEPA operated within its revised fiscal resources, reporting an underspend of £2.5 million. The underspend largely related to the recovery of £1.9 million of pre cyber attack debt which was written off after the attack but subsequently recovered.

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

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

SEPA operated within its revised budget in 2022/23

27. 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.

28. The body has reported an outturn of £44.3 million against its overall budget for 2022/23 with an underspend of £2.5 million. The financial performance against fiscal resources is shown in [Exhibit 4](#).

Exhibit 4

Performance against fiscal resource in 2022/23

Performance	Initial budget £m	Final budget £m	Outturn £m	Over/(under) spend £m
Resource DEL (cash)	32.0	35.3	33.7	1.6
Resource DEL (non cash)	5.3	7.1	6.2	0.9
Capital	4.2	4.4	4.4	-
Total	41.5	46.8	44.3	2.5

Source: SEPA Annual Report and Accounts 2022-2023

Budget processes were appropriate

29. SEPA's budget was increased as part of the Summer /Autumn / Spring Budget revision and this was utilised to fund several key initiatives such as Flood Warning Improvement and Flood Forecasting and Water Environment Fund.

30. The underspend of £2.5 million mainly related to savings as a result of higher than anticipated vacancies, recovery of £1.9 million pre cyber attack debt which had been written off after the attack but subsequently recovered and an underspend in forecasted depreciation.

31. We reviewed SEPA's budget setting and monitoring arrangements in 2022/23 and observed that senior management and those charged with governance receive regular and accurate financial information.

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

33. We have concluded that SEPA has appropriate budget monitoring arrangements in place.

Capital expenditure reduced in 2022/23

34. SEPA had a Capital DEL budget in 2022/23 of £4.4 million and this was matched by capital expenditure in year. The main areas of capital expenditure related to digital transformation, an upgrade to the hydrometric network and the replacement of end of life plant and equipment.

35. This is a reduction on the previous year which had an increased budget for digital transformation to help SEPA recover from the 2020 cyber attack.

SEPA has appropriate financial control arrangements in place

36. As required by Audit Scotland's Code of Audit Practice, as part of our audit we identified and evaluated the key internal controls in the accounting systems. From our review of the design and implementation of systems of internal control (including those relating to IT) relevant to our audit approach we concluded that key controls in the main financial systems generally operated effectively.

37. We identified one control that could be strengthened relating to the review of payroll and bank reconciliations. No issues were identified with the operation of this but for the examples we selected for our work, we noted that evidence of review was not attached to the reconciliation document. SEPA have agreed evidence of review will be implemented moving forward.

Recommendation 4

Management should ensure that evidence of review is attached to the reconciliation document to ensure there is a complete audit trail of work undertaken.

38. As part of our work to identify and evaluate controls at SEPA, we reviewed the process for raising and approving journals and identified no issues. Testing of journals as part of the financial statements audit was concluded satisfactorily but it was identified that the journals report submitted in the working paper package for audit did not include information on who had raised and approved relevant journals.

Recommendation 5

Management should review the parameters for the journals listing report to ensure that the individuals who raise and approve journals can be easily identified.

39. Finally, our testing of disposal of non-current assets confirmed SEPA have appropriate procedures in place for the identification and approval of disposals. However, we concluded that there was scope to strengthen the documentation around this to include evidence of disposal in the certificates completed by Officers. The current document does not require officers to include this and there is a risk that assets may not be appropriately disposed of.

Recommendation 6

Management should ensure the disposal certificates are updated to include evidence of disposal thus providing a clear audit trail.

40. Our work has been undertaken to provide an audit opinion on the annual report and accounts, and in response to our additional responsibilities set out in the Code of Audit Practice. The control deficiencies reported here are limited to those we identified while completing our audit work for these purposes.

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

41. 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.

42. SEPA has adequate arrangements in place to prevent and detect fraud or other irregularities.

National Fraud Initiative

43. The National Fraud Initiative (NFI) is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud. SEPA had 138 matches flagged and all have been investigated. No instances of fraud or error were identified.

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

SEPA achieved an underspend of £2.5 million in 2022/23 against a projected deficit of £3.6 million in the draft 2022/23 budget due to effective management of vacancies and recovery of pre cyber attack debt previously written off, which contributed to this outturn position.

SEPA originally projected a deficit position in 2023/24 to 2026/27 but the final 2023/24 budget now reflects a break-even position.

SEPA should continue to monitor financial performance, giving consideration to the development of financial plans which identify opportunities for a wider range of savings through effective transformation.

44. [Exhibit 5](#) sets out the wider scope risks relating to Financial Sustainability we identified in our 2022/23 audit. It summarises the audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

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

Exhibit 5

Risks identified from the auditor's wider responsibility under the Code of Audit Practice

Audit risk	Assurance procedure	Results and conclusions
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	<ul style="list-style-type: none"> Review of relevant financial plans and strategies to assess the reasonableness of the assumptions contained within. Ongoing monitoring of Board and committee 	<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 £2.5 million underspend in 2022/23</p>

Audit risk	Assurance procedure	Results and conclusions
<p>should insufficient grant-in-aid income be available.</p> <p>There are financial uncertainties and pressures SEPA will need to manage to remain financially sustainable.</p>	<p>papers and minutes and attendance at committees.</p>	<p>largely owing to higher than forecast number of vacancies and an over-recovery of debt.</p> <p>Financial challenges will continue to face SEPA in the short to medium term future and savings plans should be developed to address these whilst also ensuring SEPA's ability to achieve its objectives.</p>

SEPA identified and implemented measures to address the deficit in their draft 2022/23 budget

45. SEPA's draft 2022/23 budget identified a £3.6 million funding gap. The final budget presented to the Agency Board in June 2022 reduced this to nil through a reduction in operating costs, primarily related to management of vacancies to reduce staff costs.

46. Financial monitoring reports are regularly presented to the Agency Board and these contain sufficient information to allow members to scrutinise performance.

47. A £2.5 million underspend was achieved in 2022/23 largely as a result of savings generated from unfilled vacancies and the recovery of £1.9 million of debt which had previously been written off after the cyber attack in 2020.

Financial challenges remain for SEPA in the short to medium future

48. The finalised 2022/23 budget presented to the Agency Board in June 2022 projected a net deficit position for 2023/24-2026/27 reaching a peak of £3.191 million in 2025/26. We reviewed the assumptions used in these projections and found them to be reasonable.

49. The 2023/24 budget presented to the April 2023 Agency Board updated the forecast above and projected a break-even position. The latest budget monitoring report shows SEPA is on track to achieve this. Savings plans continue to be driven by management of vacancies.

50. SEPA recognise the financial challenge in the short to medium term. The Annual Operating Plan includes measures to address deficits with the key focus being management of staff vacancies. SEPA should continue to monitor and review financial performance and consider identifying opportunities for savings

and transformation. Consideration should also be given to the development of a multi-year financial plan to support effective planning and management of budgets.

Recommendation 7

SEPA should consider the development of a multi-year financial plan to support the identification of savings and transformation.

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.

Conclusion

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

There is effective engagement with stakeholders and evidence of effective scrutiny and challenge from members.

SEPA has a clear vision and plans to support this

51. SEPA has an Annual Operating Plan and this was identified as the main strategic plan. This details a clear vision and strategy and it consistently measures performance against objectives and the actions undertaken to achieve these.

52. There is also a Consultation Hub on the website which allows members of the public and other stakeholders to have their say in SEPA's day to day activities.

53. The preparation of a 2024-2027 Corporate Plan will be undertaken during 2023/24. The 2017-2022 Corporate Plan has been rolled over in the interim.

Governance arrangements are appropriate

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

55. Papers and minutes for the Agency Board meetings, including financial and performance information and details of decisions made of are available on SEPA's website.

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

57. We attended the Audit and Risk Committee throughout 2023. We observed the interactions during these meetings and conclude that committee members are engaged and provide effective scrutiny and challenge.

Climate change arrangements

58. The Scottish Parliament has set a legally binding target of becoming net zero by 2045 and has interim targets including a 75% reduction in greenhouse gas emissions by 2030. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impacts of climate change.

59. SEPA has in place a Regenerative Routemap. This sets out five targets for net zero and the actions SEPA will undertake to achieve these. These targets are:

- Net zero direct greenhouse gas emissions by 2025
- Net zero all greenhouse gas emissions by 2030
- Net zero materials use by 2030
- Net zero water use by 2030
- Zero waste by 2030

60. SEPA achieved a 52% reduction against baseline in 2022/23 but there has been a regression in 2022/23 to 2019/20 levels. Further work is required to meet the ambitious targets set out in the Routemap and we note that a new Routemap will be approved by March 2024.

61. Progress against emissions targets is monitored internally via the Corporate Leadership Team and Board. Quarterly updates are posted on SEPA's website.

62. The Annual Report adequately sets out SEPA's response to climate change and the risks to the organisation.

63. The Auditor General and Accounts Commission are developing a programme of work on climate change. This involves a blend of climate change-specific outputs that focus on key issues and challenges as well as moving towards integrating climate change considerations into all aspects of audit work.

Cyber security

64. We have reviewed arrangements in place at SEPA to ensure cyber and network security, including arrangements for continuity and security of IT operations and cyber and network security.

65. SEPA continues to recover from the cyber-attack in 2020 and has undertaken a range of actions to strengthen and improve cyber security, including adopting new policies and procedures. As these have been adopted in the recent past, we will monitor the impact of these through our audit work during the appointment.

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.

Conclusions

SEPA has an appropriate best value framework in place.

SEPA has an effective performance management framework in place to support the achievement of targets.

SEPA has developed an appropriate Best Value framework

66. [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.

67. SEPA notes within the 2022/23 Annual Report and Accounts that it is expected to deliver best value and achieve efficiency savings of at least 3% in year. SEPA set a balanced budget assuming savings from staff turnover and operating costs which equated to 3.3% efficiency savings.

SEPA has appropriate arrangements in place for performance monitoring and reporting

68. SEPA's Annual Operating Plan for 2022/23 details 10 measures which it used to drive delivery and assess progress throughout the year. Updates on performance are taken to the Agency Board on a quarterly basis.

69. In 2022/23 SEPA achieved 8 of its 10 measures. Of the 2 measures not achieved, SEPA has an understanding of why the measure was not achieved and plan's to address this in 2023/24.

Appendix 1. Action plan 2022/23

2022/23 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1 Valuation of gauging stations</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 gauging station does not comply with IAS 16.</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>Exhibit 2</p>	<p>SEPA have been operating to previous auditor's recommendations. Considering the nature of the assets, the proposal of 20% on site valuations across the network each year (100% visited over 5 years) feels disproportionate, and management are exploring options. The assets are regularly visited by staff and kept in a maintained condition.</p> <p>There are significant similarities between sites across the network including site layouts, contents, construction type, etc.</p> <p>A high proportion of the sites are very remote, particularly those in the Highlands and Islands. These would be disproportionately costly to value – some taking circa 3 days to value 2-3 sites in the most remote locations.</p> <p>We do think that the desktop element of the valuation could be strengthened in future years. We are confident we can commit to an interim desktop valuation</p>

Issue/risk	Recommendation	Agreed management action/timing
		<p>in the 2024/25 accounts using a new gauging station database which is being populated in early 2024. This will include photographs, site condition surveys, site footprints, etc. This will increase confidence in the valuations.</p> <p>In 2023/24, we will have spent ~£600k capital and ~£220k (supplies and services) revenue on property maintenance across the Hydrometric Network, showing our ongoing commitment to regular maintenance and upgrade of the network. Additionally, an estimated at least 12FTE across the team is spent each year on supporting maintenance or upgrade of the Hydrometric Network.</p> <p>We would welcome having further discussions with the auditors and professional valuers to deliver an outcome which ensures compliance with the accountancy standards but does not result in the unnecessary use of scarce resources. In 2023/24 we intend to apply indices in line with previous years as we would be unable to deliver an external inspection programme in the remainder of this financial year.</p> <p>Responsible officer: David Morgan</p> <p>Agreed date: 31 March 2025</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>2. Management scrutiny of gauging stations valuations</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>Exhibit 2</p>	<p>This was due to an error on the valuers back up spreadsheet. Whilst the information provided by the valuer was reviewed by finance and hydrology, the back up papers provided made it very difficult for the individuals involved to identify this error. We will action this recommendation and work with valuers in future to ensure all working papers are available to ensure errors can be better identified.</p> <p>Responsible officer: Rosaleen Burke</p> <p>Agreed date: 31 March 2024 (or on the date of the next professional valuation)</p>
<p>3. 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>Exhibit 2</p>	<p>Resulted from inflation in this area (and therefore build costs) rising more quickly than the capital threshold. Not all gauging station sites are capital assets as their total value is below the capital threshold. The sites in question are secondary sites (a small box on a post with instrumentation in the water) which have steps (allowing safe access to the water) and a ramp gauge (to enable calibration of the equipment). Our recent experience is that new builds of this type of site exceed the current capital threshold. We are not anticipating any similar circumstances where a group of gauging stations are added to the asset register in future years. Although we will action this recommendation by each year reviewing the list to</p>

Issue/risk	Recommendation	Agreed management action/timing
		<p>ensure that none need added.</p> <p>Responsible officer D Morgan</p> <p>Agreed date: 31 March 2024</p>
<p>4. 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. Paragraph 36</p>	<p>We will action this recommendation. The reconciliations are checked however this check is not documented. In future, either email confirmation will be provided, or the reconciliation sheets will be signed.</p> <p>Responsible officer: Ian Bryce</p> <p>Agreed date: January 2024</p>
<p>5. 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 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. Paragraph 37</p>	<p>We have spoken to our Agresso Contractors who advised that this would be a very complicated change to make. Although the listing does not provide information on who raised the journal, the full workflow and approval process is available on screen. We have been advised that Agresso must move to a cloud-based service by 2025, and we should not undertake any new developments until this is complete. We can demonstrate on Agresso workflow for all steps from raising to approval. This is maybe something we can look at following the cloud transition as it may be easier to develop in a cloud version of the software.</p> <p>Responsible officer:</p> <p>Fiona Rooney</p> <p>Agreed date: 31 March 2026</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>6. 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>Paragraph 38</p>	<p>Agreed we will implement this change.</p> <p>Responsible officer: Rosaleen Burke</p> <p>Agreed date: 31 March 2024</p>
<p>7. 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>Paragraph 50</p>	<p>The organisation is going through a reset and developing a new 3-year Corporate Plan with priorities being set in agreement with Scottish Government. We are also developing financial reports to map resources and priorities as we deliver for Scotland. At a time of annual funding and public sector reform we will maximise opportunities to deliver more for less by driving efficiencies via digitisation. This will allow a medium term (more than 2 year) financial plan to be developed.</p> <p>Responsible officer: Angela Milloy</p> <p>Agreed date: Ongoing</p>

Follow-up of prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>b/f 1. Valuation of gauging stations</p> <p>Due to the specialised nature of gauging stations, SEPA have yet to appoint a suitably skilled and experienced valuer to undertake the full valuation which is required under the FreM for the 2022/23 financial statements.</p> <p>Risk – Without a suitable valuer, and a full in-year valuation, SEPA would not be in compliance with the FreM.</p>	<p>Given the nature of these assets, SEPA may need to explore whether an engineering firm (or equivalent) may be best placed to assist.</p>	<p>Complete</p> <p>SEPA appointed Cushman & Wakefield to undertake the revaluation of the gauging stations. Our review of their work confirmed the valuer was suitably skilled and experienced.</p>
<p>b/f 2. Journals</p> <p>Following the rebuilding of the financial system following the cyber-attack, journals are added to a queue to be processed within the Agresso Team, with journals processed based upon receipt. As such, as the end SEPA user is not identifiable.</p> <p>Risk – From testing, it was identified that, within the general ledger, it is not possible to identify who within SEPA has prepared the journals, with the majority of user IDs being Hennessy IT individuals.</p>	<p>Management should review the current system processes and update to ensure that the individuals preparing, reviewing, and posting journals can be easily.</p>	<p>In progress</p> <p>Refer to 2022/23 recommendations.</p> <p>See Appendix 1 no. 5.</p>
<p>b/f 3. Related Parties</p> <p>As part of audit work, a review of the register of interest forms completed by Board members. We identified instances where</p>	<p>There is an opportunity to look at training and the related party form, that Board members complete, to ensure it is clear and to support</p>	<p>Complete</p> <p>No issues were identified as part of our testing of Related Parties.</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>the description and supporting narrative on the form, whilst complete, could have been clearer. This resulted in follow up queries, which were then resolved, with no matters identified.</p>	<p>Board members in its completion.</p>	
<p>b/f 4. Bad debt policy 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>In progress</p> <p>Allowance for expected credit losses remains complex, including balances relating to amounts owed at 31 March 2021 and a provision for expected credit loss.</p> <p>Our testing of this balance did not identify any issues.</p> <p>SEPA will continue to review the reasonableness of the provision in 2023/24.</p>
<p>b/f 5. Annual Accounts</p> <p>From review of SEPA's annual report, it was noted that the report is extensive and very detailed. It is recognised, in following the FreM, there can be areas of duplication within the performance report.</p>	<p>However, there is an opportunity for 2022/23 to re-review the content of the upfront annual report narrative to ensure it is succinct, focuses on SEPA's performance and outcomes, and supports the user of the financial statements to understand SEPA's purposes and achievements in-year. In being more succinct, the impact will be greater, and key messages will not be lost in the detail.</p>	<p>Complete</p> <p>The Annual Report was reviewed and revised ahead of submitting for audit. The updated report was reviewed against the requirements of the FReM with not significant issues identified.</p>
<p>b/f 6. Remuneration Committee</p>	<p>It is recommended that a review is undertaken to determine whether a Remuneration Committee</p>	<p>Complete</p> <p>The terms of reference for a new People and Remuneration Committee</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>SEPA do not have an established Remuneration Committee in place.</p> <p>The Remuneration Committee would have responsibility for reviewing workforce remuneration and related policies, a remit which currently sits with the Board.</p>	<p>should be established in 2022/23, or whether those responsibilities rest with the People Committee or the Board, and that these arrangements still represent good governance.</p>	<p>were considered by the Agency Board on 25 July 2023.</p>
<p>b/f 7. Climate Change</p> <p>There are currently no specific disclosure requirements on climate change. However, public bodies should be including climate change in their consideration of principal risks and making disclosures accordingly. The FRC completed a thematic review of climate change-related considerations explaining the general requirements of IFRS providing a clear framework for incorporating the risks of climate change into financial reporting and although this review focused on companies, the principles can be applied to public sector bodies.</p>	<p>SEPA need to ensure that their narrative reporting adequately reflects their exposure to climate-related issues and how they are monitoring and managing these risks. Narrative reporting requirements and expectations should relate to both the body's impact on the environment, and the impact climate change may have on the body's future.</p>	<p>Complete</p> <p>SEPA's Annual Report includes climate change in its narrative reporting.</p>
<p>b/f 8. Performance reporting</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</p>	<p>From a review of the quarterly performance report shared with Agency 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</p>	<p>In progress</p> <p>Quarterly Corporate Performance Reports are presented to those charged with governance.</p> <p>We have also confirmed that SEPA have a Performance Hub on their website with</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>measures are in place to support SEPA in providing services. From a review of the quarterly performance report shared with Agency 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 SEPA are carrying in not providing and/or providing in an interim way, certain services.</p>	<p>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>links to key strategic documents and performance against corporate measures. We will continue to review performance reporting throughout the audit appointment.</p>

Appendix 2. Summary of uncorrected misstatements

We report all uncorrected misstatements in the annual report and accounts that are individually greater than our reporting threshold of £0.104m. There were no uncorrected misstatements above our reporting threshold.

Scottish Environment Protection Agency

2022/23 Annual Audit Report

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