

Scottish Environment Protection Agency

Annual Audit Plan 2023/24



Prepared for the Scottish Environment Protection Agency

March 2024

Contents

Introduction	3
Annual report and accounts	5
Wider Scope and Best Value	9
Reporting arrangements, timetable, and audit fee	11
Other matters	14
Appendix 1: Your audit team	16

Introduction

Summary of planned audit work

1. I, Liz Maconachie, have been appointed by the Auditor General for Scotland as external auditor of the Scottish Environment Protection Agency (SEPA) for the period from 2022/23 until 2026/27. The 2023/24 financial year is therefore the second of my five-year audit appointment. A brief biography of the audit team is provided at [Appendix 1](#).

2. This document summarises the work plan for my 2023/24 audit. The main elements of the audit include:

- an audit of the financial statements and an opinion on whether they give a true and fair view and are free from material misstatement.
- an audit opinion on regularity and other statutory information published with the financial statements in the annual report and accounts, including the Performance Report, Governance Statement, and the Remuneration and Staff Report.
- consideration of arrangements in relation to wider scope areas: financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes.
- provision of an Independent Auditor's Report expressing my opinions on the different elements of the annual report and accounts and an Annual Audit Report setting out conclusions on the wide scope areas.

Respective responsibilities of the auditor and SEPA

3. The [Code of Audit Practice](#) sets out in detail the respective responsibilities of the auditor and SEPA. Key responsibilities are summarised below.

Auditor responsibilities

4. My responsibilities as appointed auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice (including [supplementary guidance](#)) and guided by the Financial Reporting Council's Ethical Standard.

5. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual report and accounts. We also review and report on the wider scope arrangements in place at SEPA. In doing this, we aim to support improvement and accountability.

SEPA's responsibilities

6. SEPA is responsible for maintaining adequate accounting records and internal controls, and preparing financial statements for audit that give a true and fair view. It is also required to produce other reports in the annual report and accounts in accordance with applicable requirements.

7. SEPA has the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation, and establishing effective arrangements for governance, propriety, and regularity that enables it to deliver its objectives.

Adding Value

8. We aim to add value by tailoring our audit work to the circumstances of SEPA and the audit risks identified. We will be constructive and forward looking and will provide independent conclusions on all aspects of the audit. We will attend Audit and Risk Committee meetings and recommend and encourage good practice. In so doing, we will help SEPA promote improved standards of governance, better management and decision making, and more effective use of resources.

Annual report and accounts

Introduction

9. The annual report and accounts are an essential part of demonstrating SEPA's stewardship of resources and its performance in the use of those resources.

10. As appointed auditor, I am required to perform an audit of the financial statements, consider other information within the annual report and accounts, and express a number of audit opinions in an Independent Auditor's Report in accordance with International Standards on Auditing (ISAs) in the UK, Practice Note 10 from the Public Audit Forum which interprets the ISAs for the public sector, and guidance from Audit Scotland.

11. My team and I focus our work on the areas of highest risk. As part of our planning process, we perform a risk assessment highlighting the audit risks relating to each of the main financial systems relevant to the production of the financial statements.

Materiality

12. The concept of materiality is applied by auditors in planning and performing the audit, and in evaluating the effect of any uncorrected misstatements on the financial statements. I am required to plan my audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

Materiality levels for the 2023/24 audit

13. We assess materiality at different levels and the materiality values for SEPA are set out in [Exhibit 1](#).

Exhibit 1

2023/24 Materiality levels for SEPA

Materiality	Amount
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. Materiality has been set based on our assessment of the needs of the users of the financial statements and the nature of SEPA's operations. For the year ended 31 March 2024, we have set our materiality at 2% of total operating expenditure based on the audited financial statements for 2022/23.	£2.1 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality,	£1.5 million

this could indicate that further audit procedures are required. Using our professional judgement, we have assessed performance materiality at 70% of planning materiality.

Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£100 thousand
--	---------------

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

14. Our risk assessment draws on our cumulative knowledge of SEPA, its major transaction streams, key systems of internal control, and risk management processes. It is informed by our discussions with management, meetings with internal audit, attendance at committees, and a review of supporting information.

15. Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management, and where relevant, report them to those charged with governance.

16. Based on our risk assessment process, we identified the following significant risks of material misstatement to the financial statements. These are risks which have the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risks, management's sources of assurance over these risks, and the further audit procedures we plan to perform to gain assurance over the risks.

Exhibit 2

2023/24 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Management's sources of assurance	Planned audit response
<p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in ISA (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<ul style="list-style-type: none"> Assess the design and implementation of controls over journal entry processing. 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. Evaluate significant transactions outside the normal course of business.

Significant risk of material misstatement	Management's sources of assurance	Planned audit response
<p>otherwise appear to be operating effectively.</p>		<ul style="list-style-type: none"> • 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>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. Gauging stations were subject to full valuation in 2022/23.</p>	<ul style="list-style-type: none"> • Use of professional valuers to carry out full and desktop valuations. • Preventative property maintenance programme. • Capital and revenue budgets set aside for repairs and maintenance. • Condition surveys carried out on gauging stations. • Annual impairment review. 	<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.

Source: Audit Scotland

17. As set out in ISA (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statement*, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements.

18. We have rebutted this risk as funding received from the Scottish Government and other grant providers is clearly communicated and can be readily agreed to third party confirmations. For SEPA's other income streams, we have concluded there is limited opportunity or incentive to manipulate the

recognition of income in the financial statements. For example, charging schemes income is based on publicly available information.

19. In line with Practice Note 10: *Audit of financial statements and regularity of public sector bodies in the United Kingdom*, as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to revenue recognition.

20. We have rebutted this risk as the main expenditure streams of SEPA can be readily forecast based on a predictable pattern of spend and mainly comprise a high volume of relatively low value items. We also consider there to be limited incentive and opportunity for the manipulation of expenditure recognition in the financial statements.

21. We have not, therefore, incorporated specific work into our audit plan in these areas over and above our standard audit procedures.

Other areas of audit focus

22. As part of our assessment of audit risks, we have identified another area where we consider there is also a risk of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of this risk, we do not consider this to represent a significant risk. We will keep this area under review as our audit progresses.

23. The area of specific audit focus relates to the valuation of the pension liability due to the material value and significant assumptions used in the calculation of the liability. We will use the work of PwC as our auditor's expert in assessing the reasonableness and methodology used and assumptions made by the pension fund actuary in arriving at the pension valuation as at 31/03/2024. We will also assess the oversight exercised by management over the valuation.

Regularity

24. Auditors are required by the Public Finance and Accountability (Scotland) Act 2000 to report on whether expenditure and income were incurred or applied, in all material respects, in accordance with applicable enactments and guidance issued by the Scottish Ministers (generally referred to as the regularity opinion).

25. We will adopt an integrated audit approach to meeting this responsibility and use work on the audit of the financial statements supplemented by additional testing for any irregular transactions, where necessary.

Wider Scope and Best Value

Introduction

26. Reflecting the fact that public money is involved, public audit is planned and undertaken from a wider perspective than in the private sector. The Code of Audit Practice sets out the four areas that frame the wider scope of public sector audit, and requires auditors to consider and conclude on the effectiveness and appropriateness of the arrangements in place for each wider scope area in audited bodies.

27. In summary, the four wider scope areas are:

- **Financial management** – this means having sound budgetary processes. We will consider the arrangements to secure sound financial management, including the strength of the financial management culture, accountability, and arrangements to prevent and detect fraud, error, and other irregularities.
- **Financial sustainability** – we will look ahead to consider whether the body is planning effectively to continue to deliver services. We will comment on financial sustainability in the medium (two to five years) to longer term (longer than five years).
- **Vision, leadership, and governance** – we conclude on the clarity of plans in place to deliver the vision, strategy, and priorities adopted by SEPA. We will also consider the effectiveness of the governance arrangements to support delivery.
- **Use of resources to improve outcomes** – we will consider how SEPA demonstrates economy, efficiency, and effectiveness through the use of financial and other resources.

Wider scope risks

28. We have identified significant risks in the wider scope areas set out in [Exhibit 3](#). This exhibit sets out the risks, management's sources of assurance for the risks, and the further audit procedures we plan to perform to gain assurances over the risks.

Exhibit 3

2023/24 wider scope risks

Description of risk	Management's sources of assurance	Planned audit response
<p>1. Financial sustainability</p> <p>Whilst it is recognised that SEPA generates contract income via various charging schemes, there is a risk that SEPA may not be able to achieve its planned outcomes should insufficient grant-in-aid income be available. There are financial uncertainties and pressures SEPA will need to manage to remain financially sustainable.</p>	<ul style="list-style-type: none"> • For 2023/24 onward, in line with public sector review, One SEPA Modernisation currently reviewing deliverables and the outcomes will be mapped to financial resources. • Regular liaison meetings with the Scottish Government (SG) on corporate plan and funding. • Monthly financial reports to the Corporate Leadership Team (CLT). • Quarterly financial reports to the Audit and Risk Committee and Board. • Regular SG returns and Comprehensive Spending Review (CSR). 	<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 papers and minutes and attendance at committees.

Source: Audit Scotland

29. Our planned work on the wider scope areas is risk based and proportionate, and in addition to local risks, we may be asked by the Auditor General for Scotland to consider specific risk areas which are impacting the public sector as a whole. We have not been asked to consider specific risks for 2023/24 audits, but we will remain cognisant of challenges identified in prior years such as climate change.

Duty of Best Value

30. [Ministerial Guidance to Accountable Officers](#) for public bodies and the [Scottish Public Finance Manual](#) (SPFM) explain that Accountable Officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. We will be carrying out a high-level review to confirm that such arrangements are in place within SEPA.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

31. Audit reporting is the visible output for the annual audit. All audit outputs on matters of public interest, including those detailed in Exhibit 4, will be published on our website: www.audit-scotland.gov.uk

32. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft reports will be shared with the relevant officers to confirm factual accuracy.

33. We will provide:

- an Independent Auditor's Report to SEPA, the Scottish Parliament, and the Auditor General for Scotland setting out our opinions on the annual report and accounts.
- SEPA and the Auditor General for Scotland with an Annual Audit Report containing observations and recommendations on significant matters which have arisen during the audit and conclusions on wider scope areas.

34. [Exhibit 4](#) outlines the target dates for our audit outputs. The Auditor General for Scotland determined a target reporting date of 31 October and due regard was paid to meeting the statutory deadline for laying the accounts by 31 December 2024.

35. We're unable to achieve the target reporting date outlined above due to prioritising the delivery of high-quality audits. We are working towards completion of the audit by the later date of 26 November 2024 which is an improvement on last year. We will work towards delivering the audit and audit outputs by the Auditor General for Scotland's target dates over the period of the audit appointment.

Exhibit 4 2023/24 Audit outputs

Audit Output	Target date	Audit and Risk Committee Date
Annual Audit Plan	31/03/2024	19/03/2024
Independent Auditor's Report	26/11/2024*	12/11/2024

Audit Output	Target date	Audit and Risk Committee Date
Annual Audit Report	26/11/2024*	12/11/2024

Source: Audit Scotland

* These dates represent the date for the independent auditor's report to be signed and the final audit report issued. We will provide copies to those charged with governance in advance of the Audit and Risk Committee for consideration.



36. All Annual Audit Plans and the outputs detailed in [Exhibit 4](#), and any other outputs on matters of public interest, will be published on our website: www.audit-scotland.gov.uk.

Timetable

37. To support an efficient audit, it is critical that the timetable for producing the annual report and accounts for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 5](#) that has been discussed with management.

38. We will continue to work closely with management to identify the most efficient approach as appropriate and will keep timeframes and logistics for the completion of the audit under review. Progress will be discussed with management and finance officers over the course of the audit.

Exhibit 5 Proposed annual report and accounts timetable

 Key stage	 Provisional Date
Latest submission date for the receipt of the unaudited annual report and accounts with complete working papers package.	2 September 2024
Latest date for final clearance meeting with the Director of Finance (or equivalent)	24 October 2024
Issue of draft Letter of Representation and proposed Independent Auditor's Report	1 November 2024
Agreement of audited and unsigned annual report and accounts	28 October 2024
Issue of Annual Audit Report to those charged with governance.	1 November 2024
Signed Independent Auditor's Report	26 November 2024

Source: Audit Scotland

Audit fee

39. In determining the audit fee, we have taken account of the risk exposure of SEPA and the planned management assurances in place. Fee levels are also impacted by inflation which increases the cost of audit delivery. The audit fee for 2023/24 has been agreed at the baseline level of £77,010 as set out in [Exhibit 6](#).

Exhibit 6

Audit fees (including VAT)

Fee component	Fees (£)
External Auditor Remuneration	80,490
Pooled costs	860
Sectoral Cap Adjustment	(4,340)
2023/24 audit fee	77,010

Source: Audit Scotland

40. In setting the fee for 2023/24, we have assumed that SEPA has effective governance arrangements and will prepare a comprehensive and accurate set of annual report and accounts for audit in line with the agreed timetable for the audit. The audit fee assumes there will be no major change in respect of the scope of the audit during the year and where our audit cannot proceed as planned, a supplementary fee may be levied.

Other matters

Internal audit

41. It is the responsibility of SEPA to establish adequate internal audit arrangements. We will review the internal audit plan and the results of internal audit's work.

42. While we are not planning to place formal reliance on the work of internal audit in 2023/24, we will review internal audit reports and assess the impact of the findings on our financial statements and wider scope audit responsibilities.

Independence and objectivity

43. I am independent of SEPA in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. This standard imposes stringent rules to ensure the independence and objectivity of auditors.

44. Audit Scotland has robust arrangements in place to ensure compliance with Ethical Standard including an annual *'fit and proper'* declaration for all members of staff. The arrangements are overseen by the Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

45. The Ethical Standard requires auditors to communicate any relationships that may affect the independence and objectivity of the audit team. I am not aware of any such relationships pertaining to the audit of SEPA.

Audit Quality

46. Audit Scotland is committed to the consistent delivery of high-quality public audit. Audit quality requires ongoing attention and improvement to keep pace with external and internal changes. A document explaining the arrangements for providing assurance on the delivery of high-quality audits is available from the [Audit Scotland website](#).

47. The International Standards on Quality Management (ISQM) applicable to Audit Scotland for 2023/24 audits are:

- ISQM (UK) 1 which deals with an audit organisation's responsibilities to design, implement and operate a system of quality management (SoQM) for audits. Our SoQM consists of a variety of components, such as: our governance arrangements and culture to support audit quality, compliance with ethical requirements, ensuring we are dedicated to high-quality audit through our engagement performance and resourcing arrangements, and ensuring we have robust quality monitoring arrangements in place. Audit Scotland carries out an annual evaluation of our SoQM and has concluded that we comply with this standard.

- ISQM (UK) 2 which sets out arrangements for conducting engagement quality reviews, which are performed by senior management not involved in the audit to review significant judgements and conclusions reached by the audit team, and the appropriateness of proposed audit opinions of high-risk audit engagements.

48. To monitor quality at an individual audit level, Audit Scotland also carries out internal quality reviews of a sample of audits. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) carries out independent quality reviews.

49. Actions to address deficiencies identified by internal and external quality reviews are included in a rolling Quality Improvement Action Plan which is used to support continuous improvement. Progress with implementing planned actions is regularly monitored by Audit Scotland's Quality and Ethics Committee.

50. Audit Scotland may periodically seek your views on the quality of our service provision. The team would also welcome feedback more informally at any time.

Appendix 1: Your audit team

51. The audit team involved in the audit of SEPA have significant experience in public sector audit.

Liz Maconachie
Senior Audit Manager
Imaconachie@audit-scotland.gov.uk

Liz has over 25 years of public sector audit experience and has delivered external audit services to a range of bodies including local authorities, health boards and central government bodies.

Gillian McCreadie
Senior Auditor
gmccreadie@audit-scotland.gov.uk

Gillian McCreadie has considerable experience in planning and delivering audits. Gillian will manage the team and work alongside the Senior Audit Manager to deliver the audit.

Matthew Cronin
Trainee Auditor
mcronin@audit-scotland.gov.uk

Matthew is a professional trainee and is currently studying for his ICAS qualification. Matthew has worked on health and central government audits.

Munya Mzenda
Trainee Auditor
mmzenda@audit-scotland.gov.uk

Munya is a professional trainee and will be studying for his ICAS qualification. Munya has worked on health and central government audits.

52. The local audit team is supported by a specialist technical accounting team, all of whom have significant experience of public bodies and work with accounting regulatory bodies.

Scottish Environment Protection Agency

Annual Audit Plan 2023/24

Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

www.audit-scotland.gov.uk/accessibility

For the latest news follow us on social media or [subscribe to our email alerts.](#)



Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
Phone: 0131 625 1500 Email: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk