

# Agency Board meeting

## 24 June 2025

### ARAC Annual Report 2024-2025

### Purpose:

This is the seventeenth annual report on the workings of the Audit & Risk Committee. The report covers the activity of the Audit, Risk & Assurance Committee (ARAC) for the financial year 2024-2025. The purpose of this report is to inform the Agency Board of the activities of ARAC and provide assurance to the Agency Board that the internal control and risk management systems are fit for purpose.

### Recommendations:

### The Board is asked to discuss and note the content of the report and agree that adequate assurance has been provided.

Author: Nicola Gordon, Chair of the Audit, Risk & Assurance Committee

Date: 12 June 2025

### Introduction

* 1. The [Audit and Risk Assurance Committee Handbook](https://www.gov.uk/government/publications/audit-committee-handbook) (HM Treasury 2013; updated April 2025) sets out best practice for committees to provide an Annual Report which summarises work undertaken in the last year and how responsibilities have been discharged. It was revised by the [Scottish Government Audit and Assurance Handbook](https://www.gov.scot/publications/audit-assurance-committee-handbook/) (March 2018) which included minor amendments as well as increased responsibilities for the audit committee to clearly set out its assurance framework and to understand the various sources of assurance received. The Handbook sets out five good practice principles for Audit and Risk Assurance Committees. These are noted in figure 1 below:

**Figure 1: Good practice principles for Audit and Risk Assurance Committees**

* 1. I have assessed the activities of the Committee during the financial year 2024-2025 against the good practice principles outlined in the Handbook.

I would like to thank the members of the Committee for their diligence in supporting the Board and the Accountable Officer by reviewing the reliability of assurances on governance, risk management and financial control.

As Chair of the Audit, Risk & Assurance Committee since 1 January 2022, I note the Committee has moved from acting as a more routine Audit Committee and has developed its role, first as an Audit and Risk Committee, and in the last year as an Audit, Risk and Assurance committee. Committee activities have focused on achieving the renewed purpose in support of the Agency Board.

During the financial year 2024-2025, key focus for the Committee has been to work with leadership to strengthen the management of strategic risk and to address risk appetite. This has usefully informed our Internal Audit scope.

I note the change to a new Internal Audit partner. The transition was smooth and brought the benefit of “fresh eyes” and identifying value-for-money or improvement opportunities.

With regards to the role of the Committee in providing assurance to the board during 2025-2026, we will continue to work with leadership on holding an appropriate balance between detailed scrutiny and empowering managers to fulfil their responsibilities.

Finally, I would like to appreciate the support provided to the Audit, Risk and Assurance Committee by the Clerk to the Board, the CLT & Board Support team and other SEPA teams.

**Nicola Gordon**

**Chair of the Audit, Risk & Assurance Committee**

**14 May 2025**

### Overview

**2.1 Constitution of the Committee**

2.1.1 The Audit, Risk & Assurance Committee currently has four non-executive members.

2.1.2 The Committee is attended by SEPA’s Accountable Officer (also Chief Executive), the Chief Officer Finance, Modernisation & Digital (FMD), the Chief Officer Governance, Performance & Engagement (GPE) and the Clerk to the Board. The Chair of the Agency Board and other senior staff, including the Head of Governance, Risk & Resilience, attend as necessary. Additional Board members have attended Committee meetings as required. SEPA’s internal and external auditors also attend and are given the opportunity to speak confidentially to the Committee members. The Audit, Risk & Assurance Committee also sat privately for part of the meetings as appropriate during 2024-2025.

2.1.3 The Audit, Risk & Assurance Committee met on four planned occasions during 2024-25 (a mix of virtual and in person meetings) and a full list of members and attendance at Committee meetings for 2024-2025 is attached in Appendix 1. The Committee also met for a single agenda item financial report meeting on 14 May 2024 and special meetings on 30 July 2024 and 11 November 2024, with a focus on the Annual Report and Accounts 2023-2024. The annual Committee workshop took place on 11 June 2024.

2.1.4 The Committee was established by SEPA in accordance with powers granted under Schedule 6 of the Environment Act 1995. Committee business is conducted in accordance with the Standing Orders which were approved by the Agency Board on 25 February 2025.

2.1.5 The skills required for the Committee are reviewed as part of the skills matrix for the Agency Board. The current membership to the Committee brings a good range of skills and experience in relation to governance, risk, and control, that effectively fulfils the role of the Committee.

**2.2 Duties of the Committee**

2.2.1 The purpose of the Audit, Risk & Assurance Committee is to monitor and review risk, control and corporate governance, acting independently and objectively, while providing assurance to the Agency Board. The Committee reports to the Agency Board and its programme of work complements the conduct of internal and external audit and the process of preparing and approving the annual accounts.

2.2.2 The Terms of Reference for the Audit, Risk & Assurance Committee, as approved by the Agency Board on 26 November 2024, outline in more detail the functions of the Committee including internal and external audit, risk management, whistleblowing, best value, and code of conduct. The name and remit of the Committee was expanded to explicitly include assurance. They are available on SEPA’s website: [Audit, Risk and Assurance Committee | Beta | SEPA](https://beta.sepa.scot/about-sepa/who-we-are/our-board/audit-risk-and-assurance-committee/).

2.2.3 The Audit, Risk & Assurance Committee can seek independent external advice if it considers it necessary to discharge its duties.

* 1. **Performance of the Committee**

2.3.1 The development of members of the Audit, Risk & Assurance Committee is assessed as part of the appraisal process for members of the Agency Board and subsequently considered by the Chair of the Audit, Risk & Assurance Committee to ensure the availability of the skills necessary for the Committee to be effective. New members of the Committee participate in relevant Scottish Government training including Board Induction.

2.3.2 During 2024-2025, members of the Audit, Risk & Assurance Committee participated in several Board seminars and information sessions that enhanced their knowledge of the Agency’s activities. These covered a broad range of subject matters including information governance; flooding services; Fixed and Variable Monetary Penalties and other enforcement tools/undertakings and interventions to tackle environmental crime; and training from the Standards Commission for Scotland. Members of the Audit, Risk & Assurance Committee also attended external conferences as appropriate and events virtually and worked with staff as ‘board champions’ to provide advice and guidance on specific subject matters.

2.3.3 The Audit, Risk & Assurance Committee members received audit reports on a wide range of subject matters including: complaints management; flood planning advice; corporate governance; staff development and succession planning; and estates management. The Audit, Risk & Assurance Committee worked closely with the Agency Board with the aim of ensuring that both fulfil their roles, responsibilities and accountabilities. Updates are provided at the start of every Agency Board meeting by the Clerk to the Board with a focus on keeping our people and information safe and secure.

**3**. **Review of the Work of the Audit, Risk & Assurance Committee** **2024-25**

**3.1 Audit Activity – Internal**

3.1.1 The Audit, Risk & Assurance Committee is responsible for recommending to the Accountable Officer the appointment and remuneration of internal auditors.

3.1.2 The internal auditors provide assurance on the effectiveness of SEPA’s internal control systems and the adequacy of these systems to manage business risk and safeguard SEPA’s assets. With audits undertaken during the reporting period, the internal auditors have also provided ‘value for money’ recommendations to help SEPA improve key areas of its work, seeking to increase effectiveness and efficiency, and helping to embed a culture of continuous improvement.

3.1.3 This service was provided by BDO who were appointed on 1 April 2024. The contract with BDO is in place until 31 March 2027, with SEPA retaining the option to extend the contract for a further one or two years.

3.1.4 The budget for 2024-2025 was 97 days and £53,350 (excluding VAT). We spent £53,350 on 97 days.

## 3.1.5 The Internal Audit activity carried out in 2024-2025 is detailed in Appendix 2.

## 3.1.6 An internal audit plan for 2024-2025 from BDO showing 97 audit days went to the Audit, Risk & Assurance Committee in March 2024 with an estimated cost of £53,350. The 2024-2025 audit plan was approved at the March 2024 Committee meeting with scheduling to be adjusted accordingly.

3.1.7 An internal audit plan for 2025-2026 from BDO showing 100 audit days was approved at the Audit, Risk and Assurance Committee in March 2025. The estimated cost for the 2025-2026 plan is £56,000. A summary of the plan for 2025-2026 is provided in Appendix 3.

**3.2 Audit Activity - External**

3.2.1 Under the Public Finance and Accountability (Scotland) Act 2000, SEPA’s auditors are appointed by Audit Scotland on behalf of the Auditor General. Audit Scotland was appointed as SEPA’s auditor for a five-year period until 2026/2027. The external audit fee for the year is £78,500 (including VAT**)** in respect of statutory audit for 2024-2025.

3.2.2 External audit provides an independent audit opinion on the financial statements as to

 whether:

1. they give a true and fair view;
2. they have been prepared properly in accordance with relevant legislation and standards;
3. they are consistent with the wider information contained in the Annual Report e.g., the Performance Report and Accountability Report;
4. they reflect regularity of expenditure;
5. audited parts of the remuneration and staff report have been prepared in accordance with applicable guidance.

3.2.3 As part of their wider role they also undertake work on the following and report to SEPA and the Auditor General for Scotland:

## Financial sustainability

## Financial management

## Governance and Transparency

## Value for Money.

## 3.2.4 In respect of financial year 2024-2025, pre-work has already commenced by Audit Scotland with a view to reporting the unaudited version to the Audit, Risk & Assurance Committee on 2 September 2025 with the fully audited version accompanied by the External Audit Letter of Representation and External Audit Report at a Special ARAC meeting on 4 November 2025 prior to a Special Board meeting on 25 November 2025.

## 3.2.5 Their audit approach is risk based and proportionate: it is undertaken in accordance with the relevant international auditing standards and the Audit Scotland code of practice 2021.

**3.3 Risk Management**

## 3.3.1 SEPA has a framework for the management of risk which aims to minimise the likelihood and effect of risks to SEPA. This includes the identification and assessment of risk at corporate level, but also through risk registers held in each portfolio and for corporate programmes and projects.

## 3.3.2 When formulating the strategic and annual internal audit plans, the Audit, Risk & Assurance Committee and the Internal Auditors have taken into consideration the risks on the corporate risk register. Relevant risks are referenced in the terms of reference for the scope of each internal audit.

## 3.3.3 The Audit, Risk & Assurance Committee discussed an annual review of risk management, reviewing the risk process and the corporate risk register in June 2024. This report was considered in the context of significant changes to SEPA’s approach to Risk Management that were initiated from March 2024 with a strategic reset of the organisation’s risk management framework. This framework was the focus of the Committee’s workshop in June 2024 and included the development of a clear common vision for risk management; creation of a set of strategic/principal risks for SEPA; and consideration of SEPA’s appetite to risk and tolerances.

## 3.3.4 Quarterly reviews of risk management were discussed at Committee meetings in September 2024, December 2024 and March 2025, including the principal risk register summaries.

## The Committee undertook Risk deep dives in December 2024 on Principal Risk 1 (“Strategic direction is not focused and agile enough to adapt to political and policy changes which impact SEPA’s ability to deliver on its purpose and duties”), and SEPA Transformation in March 2025.

## SEPA’s risk management process details the responsibilities of the Committee to provide assurance to the Agency Board that SEPA manages risk well, in accordance with the [SEPA Framework Document](https://beta.sepa.scot/about-sepa/who-we-are/our-board/sepa-framework/), [Scottish Public Finance Manual](https://www.gov.scot/publications/scottish-public-finance-manual/), and UK Government’s [The Orange Book](https://www.gov.uk/government/publications/orange-book). The Audit, Risk & Assurance Committee from time to time draws the attention of the Agency Board to aspects of risk management that are functioning effectively and those that need to be improved, as well as highlighting any risks that pose an immediate threat to the organisation. In addition, the Board reviews existing risks annually.

##  Assurance

* + 1. Following the expansion of the name and remit of the Committee in November 2024 to explicitly include assurance, a new report was tabled from March 2025; the Quarterly Assurance report. This report provides information on high-risk areas of work to give the Committee assurance that they are being managed well. This incorporates the Customer Service Level Complaints and Standards report previously reported separately to the Committee, as well as adding some areas which were not previously reported on, but where additional assurance was requested by the Committee including information governance and cyber resilience.
		2. The first report in March 2025 focused on the following areas: Business Resilience; Complaints; Cyber Resilience; Data Protection; Health and Safety; and Information Governance.
		3. More areas of assurance will be added as the report is developed over 2025-2026. This will include, but is not limited to: Whistleblowing; Fraud, Bribery and Corruption; and updates on current and ongoing legal action.

## 3.5 Audit, Risk & Assurance Committee Outcomes and Recommendations in 2024-25

## 3.5.1 The Internal Audits undertaken in 2024-2025 (detailed in Appendix 2) resulted in 25 findings, from the six audits, the Audit, Risk & Assurance Committee has discussed. The Committee has also considered the adequacy of management’s responses and progress of the actions taken as a result of the audit findings.

3.5.2 During the year the Audit, Risk & Assurance Committee received additional reports including in relation to National Fraud Initiative (NFI) Audit Scotland Report (March 2025); Corporate Procurement Strategy (June 2024); and Audit Scotland Community Flood Resilience ToR and cover paper (June 2024). To ensure continuous improvement a new standing item was added from March 2025 to the end of each committee meeting for an opportunity for Committee members’ feedback. This was in response to an action arising from the 2024 Internal Audit on Corporate Governance and an output of a Board Values session in November 2024.

# Appendix 1

**Member attendance at Audit, Risk & Assurance Committee meetings 2024-2025**

100% attendance rate for Committee members in 2024-25.

|  |  |  |
| --- | --- | --- |
| **Member**  | **Total number of meetings** | **Overall attendance rate** |
| N Gordon (Chair) | 8 | 100% |
| H Kohli | 8 | 100% |
| C Evans  | 8 | 100% |
| L MacDonald  | 8 | 100% |

Four Audit, Risk & Assurance Committee meetings were held in 2024-2025 on 11 June, 9 September, 10 December and 25 March. Committee members also attended four further meetings: extra Finance meeting on 14 May 2024, special meetings on 30 July 2024 and 11 November 2024 on the Annual Report and Accounts 2023-2024, and the annual Committee workshop on 11 June 2024.

# Appendix 2

**Summary of Annual Internal Audit Plan and Fees for 2024-2025**

**BDO**

The total planned audit days for 2024-2025 is **97 days** broken down as follows:

|  |  |
| --- | --- |
| **Internal audit area** | **Planned Days** |
| Complaints management  | 13 |
| Flood planning advice | 13 |
| Corporate governance  | 13 |
| Staff development and succession planning  | 13 |
| Estates management  | 13 |
| Risk management (postponed to 2025-26) | 1.5 |
| Fixed and variable monetary penalties | 11.5 |
| Follow-up | 5 |
| Management  | 14 |
| **Total** | 97 |

The budget cost for the year 2024-2025 (excluding VAT) has been agreed as not exceeding **£53,350**.

|  |  |  |
| --- | --- | --- |
|  | **Total budget** | **Total paid (estimate)** |
| Audit and management activity | £53,350 | £53,350 |
| Expenses | - | - |
| **Total (excluding VAT)** | **£53,350** | **£53,350** |

# Appendix 3

**Summary of draft Annual Internal Audit Plan and Fees for 2025-2026**

**BDO**

The total planned audit days for 2025-2026 is **100 days** broken down as follows:

|  |  |
| --- | --- |
| **Internal audit area** | **Planned Days** |
| COMAH | 13 |
| Financial processes | 13 |
| Staff wellbeing and absence management | 13 |
| Health and safety | 14 |
| Risk management | 13 |
| Transformation – project management | 13 |
| Follow-up | 6 |
| Management  | 15 |
| **Total** | 100 |

The budget cost for the year 2025-2026 (excluding VAT) has been agreed as not exceeding £56,000.

END

<Report date here (month, year)>