

Richard Leonard MSP
Convener
The Public Audit Committee
Room T3.60
The Scottish Parliament
Edinburgh
EH99 1SP

10 June 2024

Your Ref:
240610 PAC

Dear Convenor

The 2022/23 audit of the Water Industry Commission

On 26 April, you wrote to me requesting further information relating to the departure of the former CEO. A further letter was provided on 10 May requesting information relating to the financial transactions of WICS during both the 2022/23 and 2023/24 financial years and requesting a response in relation to the change initiatives planned within WICS. I appreciate the offer to combine the response to these letters, which is provided below. Before I cover these sections I have added a section on staff training and development given the focus of the Section 22 and the interest in this area since.

Staff training and development

As the Chair of the WICS Board highlighted, the most important asset of WICS is its people. In recognition of this, WICS has invested on average 1.5% of revenue per year over the eight years on all types of training from cyber resilience to management development since 2016.

When colleagues depart or retire, WICS has found it difficult to recruit and fill senior positions given the competitive market that exists for expertise in niche areas of economics or corporate finance. WICS has found it difficult to retain high performing analysts. The average tenure of a graduate analyst has been less than two years with many leaving for positions paying 30-50% more.

As a result, WICS has had a longstanding policy of funding MBA programmes for analysts provided they demonstrate consistent high performance over several years. When the training is complete, WICS would then subject two thirds of the total costs of the MBA programme to a two-year lock-in which was then amortised, or paid back, over the following two years. The rationale for this policy was that 1) it increased the tenure of an analyst that completed the programme by four-fold compared to the average tenure of a graduate analyst, 2) it aided the succession planning of a small organisation with particular niche skill requirements, and 3) it reduced the potential costs of recruitment agencies when senior members or staff depart or retire.

In addition to the policy for analyst MBAs, senior members of staff undertook executive education courses to prepare them for filling more senior positions within the organisation as recommended and agreed by the former CEO.

Employees were actively encouraged to undertake these training and development opportunities. WICS has successfully appointed staff into senior roles as a direct result of such training and the subsequent development of each individual's skill set. However, WICS recognises the need to demonstrate value for money in each case and accepts that this was not demonstrated sufficiently in the past. We also accept, following the Section 22 last year, that such expenditure is classified as a single tender purchase under the WICS Governance Framework regardless of whether an options appraisal is presented or not, and as a result the lowest threshold for both Board and Scottish Government approval applies. We have made the necessary changes to our governance and controls to ensure that value for money is demonstrated going forward and that the requisite approvals will be obtained.

The departure of the former CEO

In the wake of a pending Section 22 report from the Auditor General, the Board asked the CEO for a management response to resolving the issues identified. The CEO offered to resign. The Board wanted to accept his resignation provided he departed on 31st December 2023 on his existing contractual terms.

The Board took extensive legal advice and had the approach of paying six months' salary in lieu of notice recommended and confirmed as: a) within the legal capacity of WICS; b) satisfying no more than the legal requirements of the CEO's employment contract; and c) achieving a departure date of 31st December 2023 for the CEO.

Given the urgency of the situation, to conclude the CEO's immediate departure in response to the Section 22 before the Christmas break, the WICS Chair and Board member discussed and agreed the Board's proposed approach to accepting the CEO's resignation with the Deputy Director (DD) of the SG Sponsor team on 19 December 2023. The DD noted that it was for the WICS Board to decide whether to accept the CEO's resignation (under the Water Services etc (Scotland) Act 2005), that contractual obligations would have to be met as a consequence, and that WICS should continue to seek legal advice.

Prior to making the payment to the former CEO, a business case was produced demonstrating the value for money achieved by the former CEO's contractual entitlement (six months' salary) in lieu of notice and submitted to the Scottish Government.

On 15 March, a letter from the Cabinet Secretary to WICS noted the Board's swift resolution of the departure of the former CEO following the issues identified in the Section 22. The Cabinet Secretary also noted that the process carried out by the Board did not follow the requirements outlined in the Scottish Public Finance Manual by not offering the Scottish Government enough opportunity to provide input. Payment to the former CEO was authorised on 20 March.

The review of financial transactions

WICS, First Floor, Moray House, Forthside Way, Stirling FK8 1QZ

Chair: Professor Donald MacRae OBE FRSE

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Following the departure of the former CEO on 31st December 2023, WICS undertook an internal review of all transactions to provide an analytically robust quantification of the issues raised in the Section 22 for the 22-23 financial year. The time period of the review was expanded to include the 9 months of the 23-24 financial year, for which the former CEO was in post, with the intention of sharing these data with Audit Scotland to assist with its audit of the 23-24 financial year. It was assumed that a further Section 22 was likely for the 23-24 financial year, which the Auditor General has also recently suggested.

The scope of this review was expanded to cover areas not highlighted in the Section 22. For example, WICS expanded the definition of a non-compliant expense to include missing and illegible receipts, and retrospectively labelled any subsistence expenditure over £50 per person as inappropriate and reported them separately.

The review was completed on 20 February and shared with stakeholders including the Board, Internal Audit, and Audit Scotland in advance of the Audit and Risk Committee on date 12 March. We attach this report as requested.

The WICS Audit and Risk Committee Chair also instructed the internal audit team to scrutinise this review independently. While a draft of this report is complete, it is pending review and confirmation from the Audit and Risk Committee on 11 June. I am happy to share this report with you as Convenor once the report it is finalised.

Changes made to date address a culture lacking in value for money

Following the Section 22 and the departure of the former CEO, WICS developed a workplan of actions to strengthen the governance and controls around expenditure. These actions included strengthening the expenses policy, removing the use of corporate credit cards for expenses, and reinstating an Approval Panel to scrutinise and collectively approve expenditure over £10,000. These actions were necessary initial steps for WICS to begin the process ensuring value for money in the use of public funds.

You may be aware that WICS has been operating remotely since subleasing our office during COVID. Since the beginning of the year, we have held 6 all staff meetings in person to discuss recent events and the impact that it has had on the mental health and wellbeing of colleagues.

We have also established weekly in-person Leadership Team meetings to ensure collective scrutiny and challenge of WICS functions. This combined with revisions to board reporting is increasing the transparency and understanding of the options considered by the Leadership Team in advance of any decision.

Despite these changes, the work undertaken during this time was always intended to be the first step in a wider change programme withing WICS.

Changes planned to date address a culture lacking in value for money

In the period since my appointment as Interim CEO, I have met with employees, the Leadership Team, the WICS Board and stakeholders to discuss the challenges facing WICS and develop an organisational change programme.

In early May, I presented a paper to the WICS Board highlighting the key themes underpinning this organisational change programme. Greater clarity around roles, responsibilities and budgets is required for WICS to develop a culture grounded in value for money. Ensuring alignment between individual objectives, budgets and decision making within WICS will complement and enhance the collective controls and are therefore at the heart of this organisational change programme.

Following discussions with employees, the Leadership Team, the WICS Board and stakeholders, there is also a need to strengthen certain functional areas of WICS such as Human Resources, Risk, Assurance and Communications. We will begin strengthening these functional areas as part of this organisational change programme.

The final initiative as part of this programme is engaging with staff on a hybrid working operating model on the basis that we will return to having an office. We are engaging with the Scottish Government on its Single Scottish Estate Programme to explore options for co-locating with other NDPBs and public bodies to ensure value for money while demonstrating a commitment to public sector reform.

The Committee has my commitment to continue engaging with Audit Scotland and the Auditor General and making the changes necessary within WICS.

Yours sincerely,

David Satti
Interim Chief Executive Officer



INTERNAL REVIEW OF TRANSACTIONS: FINDINGS AND RECOMMENDATIONS



20 February 2024

WICS Economic
regulation for
Scotland's water



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1. Key findings

Following the Section 22 report issued by the Auditor General for Scotland on 20 December 2023, WICS has carried out an internal review and analysis of financial transactions from 1 April 2022, in preparation of WICS representatives presenting evidence to the Public Accounts Committee. The review also included a review of financial transactions for the financial year 2023-24 to identify areas of non-compliance, pre-emptively rectifying any issues, where possible, in preparation for the external audit.

1.1 Scope

The review covered:

- all receipts and invoices submitted in financial year 2022-23; and
- all transactions, receipts and invoices submitted in the first three quarters of financial year 2023-24, along with purchase orders (POs) for transactions over £1,000.

1.2 Findings

NON-COMPLIANT PROOF OF PURCHASE

As identified by Audit Scotland, there was an issue where insufficient evidence was provided to the finance team for expense claims and credit card expenditure. Some incidences of mis-filing was identified and rectified. Remaining issues identified are quantified below:

- In FY23, 7.5% of transactions had non-compliant proof of purchase, representing 0.97% of the amount paid.
- In FY24, 12.0% of all transactions had non-compliant proof of purchase, or 0.88% of the amount paid.

INAPPROPRIATE EXPENDITURE

The review identified 7 items of expenditure totalling £2,669 on meals that exceeded £50 per head and included significant expenditure on alcohol.

In relation to recording financial transactions, the key themes identified by the review were:

- descriptions lacking key details about expenditure transactions; and
- lack of uniformity when assigning accounts and departments across transactions of similar nature and type.

INSUFFICIENT APPROVAL

The review identified various issues with the approvals process. The key issues identified related to three occurrences where Scottish Government approval was not sought and other incidences where document retention and clarity over approval received could have been improved. The finance team added that there had been difficulty with obtaining proper approval documentation prior to travel arrangements being booked.

1.3 Recommendations

The key recommendations arising from the review include:

- Employees should be reminded of the importance of providing fully itemised receipts and invoices and relevant information pertaining to expenditure incurred in carrying out WICS business.
- Policies should be strengthened to prohibit inappropriate expenditure on meals, including the purchase of alcohol.
- For the financial year 2023-24, existing transactions should be re-allocated to the correct accounts and cost activity, as appropriate.
- Training should be provided to employees on the approval process, including completing the necessary documentation and understanding delegation limits.
- Inform the Board and Scottish Government of issues identified as soon as possible.

These recommendations are consistent with the actions agreed as part of the management responses to the annual audit report and should be considered as part of the work that is underway to deliver the required changes to WICS' systems of control and over-arching culture.

2. Introduction

On 20 December 2023, the Auditor General for Scotland issued a Section 22 report following the external audit of the WICS annual report and accounts for 2022-23. The report raised several concerns, including:

- expense claims not supported by itemised receipts;
- items of expenditure not having the requisite approvals in place, in line with the expenditure limits provided in WICS' Finance Policies and Guidelines and the rules and guidance set out in the Scottish Public Finance Manual (SPFM); and
- the payment of a PAYE settlement agreement for UK tax and national insurance due on taxable benefits that had been paid to employees, with Audit Scotland recommending that WICS attributes taxable benefits to relevant staff so that they pay the related income tax and national insurance contributions.

Given these findings, WICS decided to review its financial transactions from 1 April 2022 to 31 December 2023 to:

- prepare key facts and figures on the issues raised in the Auditor General's report, anticipating that WICS may be invited to present evidence before the Public Accounts Committee and could be asked questions on these areas; and
- perform a 'pre-audit' exercise for the current financial year 2023-24, identifying expense claims and items of expenditure relating to the issues raised in the Auditor General's report.

The following sections detail the scope of each of these two tasks, the process undertaken to perform the review, summary of the findings, and the suggested recommendations for improving processes and data recording in the future.

The review was carried out by a WICS employee who is independent from the finance team. However, the finance team assisted with the provision of information to the reviewer and the Head of Finance has reviewed the findings and recommendations made by the reviewer, adding to the report as required.

3. Scope and methodology

If WICS is asked to provide evidence to the Public Accounts Committee, the individuals representing WICS will require a detailed briefing on the issues and items of expenditure identified in the Section 22 report and subsequent media coverage.

The first step required the review of all expenditure transactions from 1 April 2022 to 31 December 2023, identifying those that did not have sufficient proof of purchase and segmenting each item in to one of the following three categories:

- **Missing** – expense claims or items of expenditure without a receipt or invoice;
- **Non-itemised** – expense claims or items of expenditure with a non-itemised receipt or invoice (such as a credit card slip); and
- **Itemised** – expense claims or items of expenditure with an itemised receipt or invoice.

During the course of the review, two more categories were created for transactions which did not fall neatly into the three main categories above. These were:

- **Illegible/obscured** – expense claims or items of expenditure with an itemised receipt or invoice which is either physically obscured by another object in the photo, too blurred to be legible in the photo, or too pixelated to be legible in the screenshot of the receipt or invoice; and
- **Incomplete** – expense claims or items of expenditure with an itemised receipt or invoice which is missing critical important information.

Besides the type of receipt, it was also noted which member of staff paid for the expense or placed the order and was ultimately responsible for providing the receipt or invoice. This allowed for analysis by specific member of staff or by groups of employees.

The review and analysis were carried out in an Excel workbook named "[Transaction listing 22-24.xlsx](#)". The source data for the analysis was downloaded by the Head of Finance from the accounting platform Xero containing all transactions from 1 April 2022 to 31 December 2023.

The Head of Finance updated the source data to include the financial year to which each transaction related so that the results could be categorised by year.

As the source data resulted in a workbook with 23,000 lines, the Head of Finance performed an exercise to identify transactions that were pertinent to the analysis. Examples of the types of transactions excluded from the review were manual journals/tracking adjustments, depreciation, income and balance sheet transactions.

In addition, the finance team provided the reviewer with PDF files containing all invoices and receipts submitted to Dext Prepare which is the software used by WICS to collate and process these documents.

4. Review of transactions: FY 22-23

4.1 Process

The aim of this part of the review was to identify and quantify issues with back-up information provided in evidencing expenditure made by WICS and WICS employees.

Several employees are provided with corporate credit cards. Corporate credit cards are cleared by a monthly payment from WICS. There are occasions where employees do not supply sufficient evidence for expenditure on the credit card. On these occasions, the finance team will contact the relevant employee. If the evidence is not supplied, an explanation from the employee is uploaded to Dext Prepare as evidence.

It was established at the start of the review that all the transactions which had a missing receipt had been identified during the normal course of business by the finance team.

The PDF downloads from Dext Prepare were reviewed to identify non-compliant proof of purchase. For the purpose of this review, non-compliant proof of purchase is defined by the categories outlined in the scope and methodology section of this report.

Incidences of non-compliant proof of purchase were located and matched in the source data from Xero and a column added to document the issues found.

For each non-compliant proof of purchase, the employee who provided the invoice/receipt was noted. This was determined by either looking at who paid/received the receipt or invoice, or by checking the transaction description. If neither of those methods explained who was responsible for providing an itemised receipt, then it was assumed that whoever uploaded the receipt or invoice on Dext was the one who made the expense.

4.2 Findings

Following a review of all documents submitted to Dext for financial year 2022-23, the transactions were analysed using the newly added information on the type of receipt and employee responsible for uploading the receipt.

Summary tables were created disaggregating the number and value of the transactions by type of receipt, individual employee, groups of employees (CEO, directors¹ and non-directors), account type and by department.

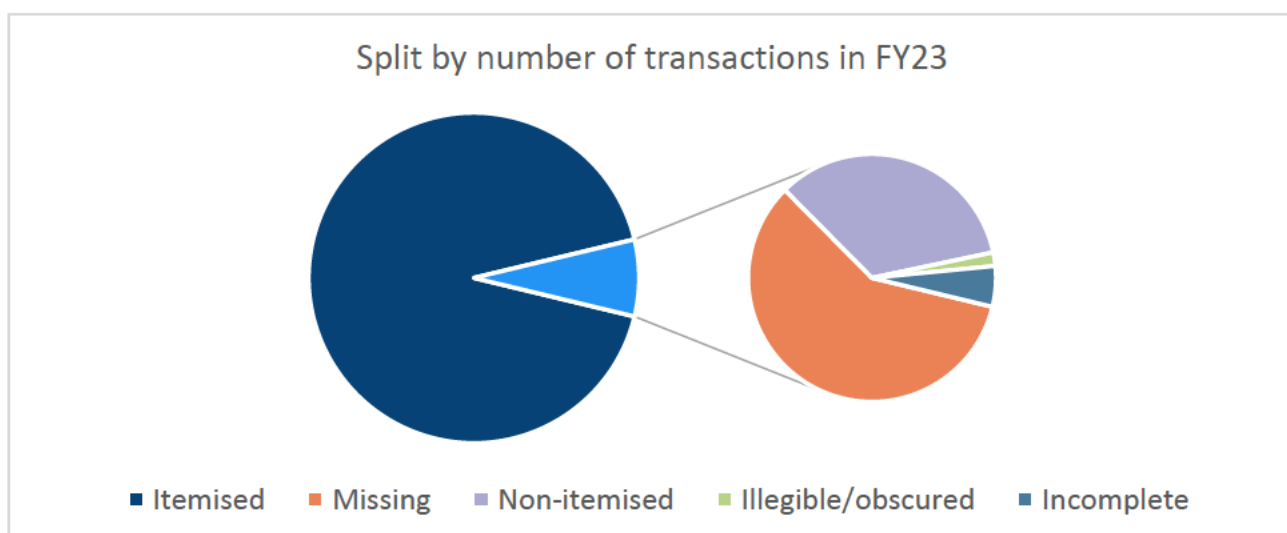
¹ The "Directors" group includes the following roles: Director of Corporate and International Affairs, Director of Price Review, Director of Analysis, and Director of Strategy and Governance.

The tables below show a summary of the findings. The full analysis is available in the workbook “Transaction listing 22-24”.

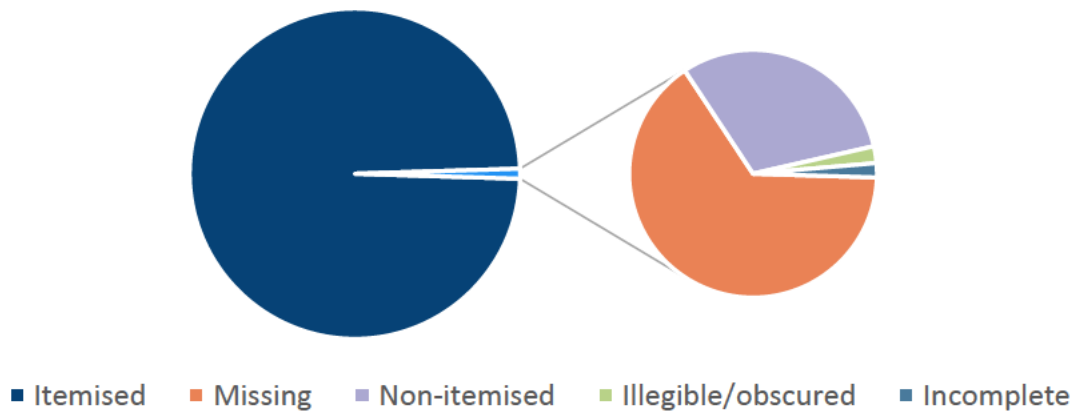
Table 1: Statistics on non-compliant proof of purchase for the financial year 2022-23

Transactions with a receipt or invoice which is:	Quantity	%	Value (£)	%	Credits (£)	%
Itemised	2,097	92.5%	£1,269,572	99.0%	£69,810	86.0%
Non-itemised	58	2.6%	£3,817	0.3%	£-	0.0%
Missing	100	4.4%	£8,100	0.6%	£8,461	10.4%
Illegible/obscured	3	0.1%	£272	0.0%	£452	0.6%
Incomplete	9	0.4%	£230	0.0%	£2,462	3.0%
Total	2,267	100.0%	£1,281,991	100.0%	£81,184	100.0%
Total non-compliant (all but itemised)	170	7.5%	£12,419	0.97%	£11,375	14.0%

It is worth noting that of the £8,461 refunded without an itemised receipt, £7,980 (or 94%) can be matched against the original booking with an itemised proof of purchase. The total value paid in those original transactions was £8,588.

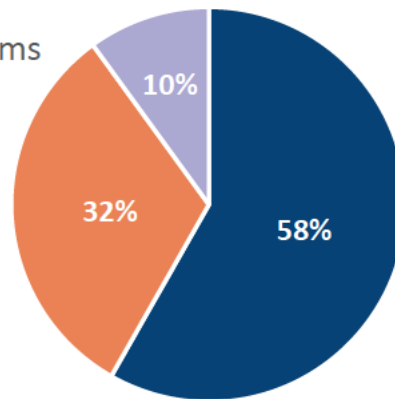


Split by value (amount paid in GBP) of transactions in FY23



Number of non-compliant items by account type in FY23

- Subsistence
- Travel
- All other accounts

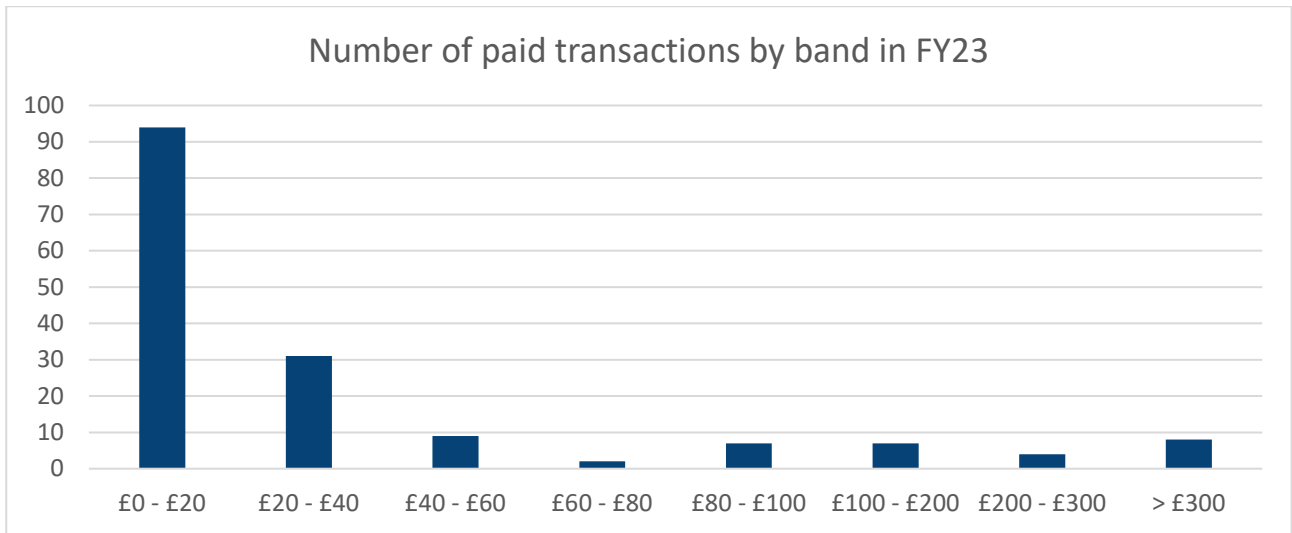


The average value of purchase expenditure with non-compliant proof of purchase is under £12. This is illustrated in the table opposite and by the graph below, which shows the distribution of transactions by amount paid.

Table 2: Average value of expenditure with non-compliant proof for the financial year 2022-23²

Transactions with a receipt or invoice which is:	Quantity	Median average value (£)
Non-itemised	58	31.4
Missing	94	5.8
Illegible/obscured	2	136.0
Incomplete	8	10.9
Total non-compliant (all but itemised ones)	162	11.6

² This table includes statistics relating only to purchase transactions, i.e. it excludes refund or credit transactions.



The 9 highest value transactions with non-compliant proof of purchase comprise 5% of the total of all expenditure and account for 64% of the total amount of expenditure identified as having non-compliant proof of purchase (totalling £7,980 out of £12,419).

The reason for non-compliance of these particular transactions is largely not having a receipt and relate to dinners with international partners or for international flight change fees.

The table below provides a complete summary of transactions with non-compliant proof of purchase for the financial year 2022-23.

Table 3: Expenditure with non-compliant proof of purchase for 2022-23

Employee group	Quantity	%	Value (£)	%	Credit (£)	%
<i>Non-itemised receipts or invoices</i>						
CEO	27	46.6%	£1,172	30.7%	£-	0%
Directors	23	39.7%	£1,536	40.2%	£-	0%
Non-directors	8	13.8%	£1,110	29.1%	£-	0%
Total non-itemised	58	100.0%	£3,817	100.0%	£-	0%
<i>Missing receipts or invoices</i>						
CEO	53	53.0%	£6,686	82.5%	£-945	11.2%
Directors	32	32.0%	£1,261	15.6%	£-7,408	87.6%
Non-directors	15	15.0%	£152	1.9%	£-107	1.3%
Total missing	100	100.0%	£8,100	100.0%	£-8,461	100.0
<i>Illegible/obscured receipts or invoices</i>						
CEO	1	33.3%	£-	0.0%	£-452	100.0%
Directors	1	33.3%	£2	0.9%	£-	0.0%
Non-directors	1	33.3%	£270	99.1%	£-	0.0%
Total illegible/obscured	3	100.0%	£272	100.0%	£-452	100.0%
<i>Incomplete receipts or invoices</i>						
CEO	1	11.1%	£11	4.9%	£-	0.0%
Directors	5	55.6%	£200	86.7%	£-	0.0%
Non-directors	3	33.3%	£19	8.4%	£-2,462	100.0%
Total incomplete	9	100.0%	£230	100.0%	£-2,462	100.0%
<i>Non-compliant receipts or invoices</i>						
CEO	82	48.2%	£7,869	63.4%	£-1,397	12.3%
Directors	61	35.9%	£2,999	24.1%	£-7,408	65.1%
Non-directors	27	15.9%	£1,552	12.5%	£-2,569	22.6%
Total non-compliant	170	100.0%	£12,419	100.0%	£-11,375	100.0%

5. Review of transactions: 9 months to 31/12/23

5.1 Scope

In addition to the same analysis that was carried out for 2022-23 transactions, the review of the financial year 2023-24 (9 months to 31/12/23) sought to identify wider compliance issues in advance of the year-end and prior to the annual audit.

If it was possible and appropriate, the aim was to address issues and to ensure policies and procedures are amended to avoid further issues arising.

Some of the issues this part of the review looked to address for each item of expenditure were if:

- there is an appropriate itemised receipt or invoice;
- the correct approval documentation is in place for the full amount of the expenditure;
- the expenditure is befitting of a public sector organisation;
- codes, departments and descriptions are complete and accurate; and
- the payments could be considered taxable benefits.

Any transactions that did not meet the criteria outlined above would be reviewed by the finance team to consider whether further action is appropriate. This could include, for example:

- updating codes, departments and descriptions;
- investigating whether it would be worthwhile and/or appropriate to contact the supplier to ask for the receipt in the event the receipt is missing or the receipt is not itemised;
- seeking retrospective approval, if appropriate to do so; and
- ensuring expenditure that is considered a taxable benefit is reviewed as part of preparing P11D returns for employees.

5.2 Process

The same process was taken to review back-up documentation, such as receipts and invoices, that is outlined in the previous section, but for the financial year 2023-24. In addition to this review, the following action was taken:

5.2.1 REVIEW OF APPROVAL FOR ITEMS VALUED OVER £1,000

A review of all expenditure greater than £1,000 was carried out to ensure it was in line with the financial policies and guidelines document. In addition, any gifts purchased by WICS were reviewed to ensure any valued over £75 had received appropriate Scottish Government approval.

The review of the approval process included looking at the ApprovalMax³ audit report attached to each transaction and associated purchase order (PO) on Xero and checking whether:

³ ApprovalMax is the software used by WICS to obtain electronic evidence of approval. It is linked to Dext Prepare and Xero

- the transaction had the required approvals;
- the transaction was matched against a purchase order in Xero – when that was not the case, identification of the appropriate purchase order using the workbook named “Supplier schedule.xlsx”;
- the purchase order(s) to which the transaction was allocated to had the required approval;
- the purchase order(s) had the necessary documents attached on Xero; and
- the expenditure appraisal form was fully completed and had a sound justification for the proposed expense.

Any issues with transactions or POs which did not comply with all of the above were noted for the finance team to review and action if deemed necessary.

5.2.2 REVIEW OF INAPPROPRIATE EXPENDITURE

A review was carried out of expenditure incurred in restaurants to identify any meals purchased that had high “per head” values or included significant costs relating to alcohol.

5.2.3 REVIEW OF RECORD KEEPING OF TRANSACTIONS AND APPROVAL DOCUMENTATION

Transactions were reviewed to evaluate whether they had been allocated to the correct accounting code and/or cost activity. In addition, expenditure descriptions were reviewed to highlight where important pieces of information were missing, such as who made the expense, when, why, and how.

5.2.4 REVIEW OF POTENTIAL TAXABLE EMPLOYEE BENEFITS

The process included reviewing expenditure that could fall in to one of the categories outlined in appendix 2⁴.

5.2.5 GENERAL REVIEW

General notes have been provided to the finance team with suggestions as to improvements that could be made, including updating descriptions, coding and further work to improve the filing of proof of purchase in the accounting system.⁵

5.3 Findings on non-compliant proof of purchase

The tables below show a summary of the findings following the same analysis as the review of financial year 2022-23 transactions. The full analysis is available in the workbook “Transaction listing 22-24”.

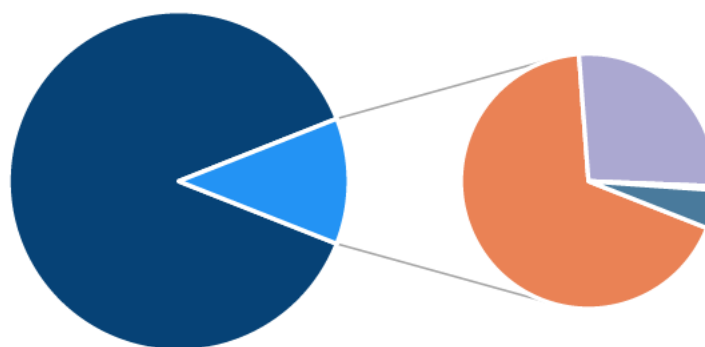
⁴ Source: slide pack “[240130 Finance Refresher Training.pptx](#)” from 30 January 2024

⁵ These are found in column named “Reviewer’s notes”. The following colour-coding is in place: **No highlight or grey highlight** – no further action required; **Yellow highlight**: suggested changes to coding and descriptions; **Red highlight**: suggestion to improve back-up documentation in Xero; **Green highlight**: suggestion for improvement which has already been actioned by the finance team.

Table 4: Statistics on non-compliant proof of purchase for the financial year 2023-24

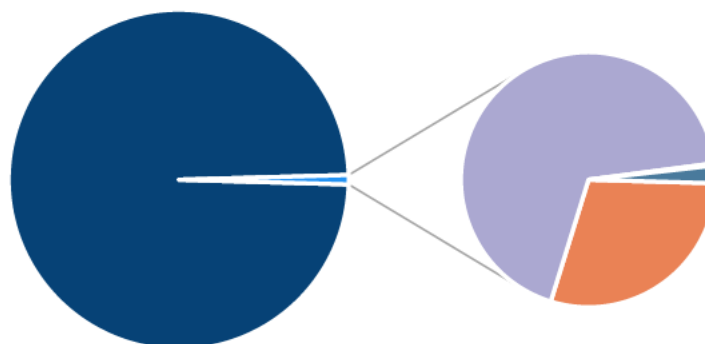
Transactions with a receipt or invoice which is:	Quantity	%	Value (£)	%	Credits (£)	%
Itemised	1,504	88.0%	£823,787	99.1%	-£95,596	96.6%
Non-itemised	55	3.2%	£4,984	0.60%	£-	0.0%
Missing	139	8.1%	£2,147	0.26%	-£2,543	2.6%
Illegible/obscured	1	0.1%	£20	0.00%	£-	0.0%
Incomplete	10	0.6%	£163	0.02%	-£873	0.9%
Total	1,709	100.0%	£831,102	100.0%	-£99,012	100.0%
Total non-compliant (all but itemised ones)	205	12.0%	£7,314	0.88%	-£3,416	3.4%

Split by number of transactions in FY24



■ Itemised ■ Missing ■ Non-itemised ■ Illegible/obscured ■ Incomplete

Split by value (amount paid in GBP) of transactions in FY24

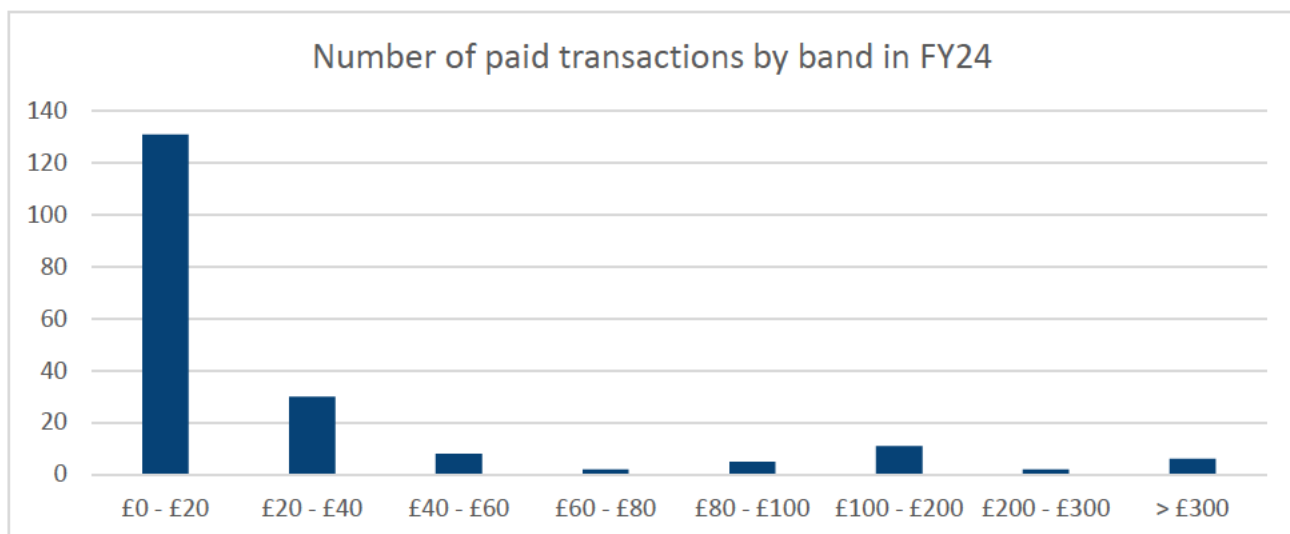
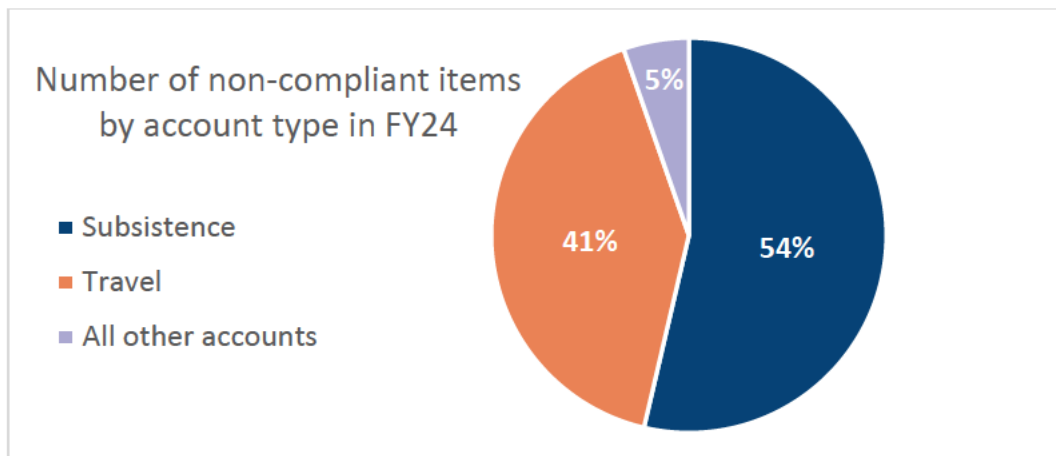


■ Itemised ■ Missing ■ Non-itemised ■ Illegible/obscured ■ Incomplete

Analysis shows most items of purchase expenditure with non-compliant proof of purchase is under £9. This is further illustrated by the graph below which shows the distribution of transactions by amount paid.

Table 5: Average value of expenditure with non-compliant proof for the period from 1 April 2023 to 31 December 2023⁶

Transactions with a receipt or invoice which is:	Quantity	Median average value (£)
Non-itemised	54	30.3
Missing	131	6.2
Illegible/obscured	1	20.4
Incomplete	8	20.7
Total non-compliant (all but itemised ones)	194	8.5



⁶ This table includes statistics relating only to purchase transactions, i.e. it excludes refund or credit transactions.

The 10 highest value transactions with non-compliant proof of purchase comprise 5% of the total of all expenditure and account for 49% of the total amount of expenditure identified as having non-compliant proof of purchase (totalling £3,566 out of £7,314).

The reason for non-compliance of these particular transactions is largely not having an itemised receipt and relate to dinners with hired consultant, UK and international partners.

Table 6: Expenditure with non-compliant proof of purchase for the 9 months to 31/12/23, split by reason for non-compliance and employee grouping

Employee group	Quantity	%	Value (£)	%	Credit (£)	%
<i>Non-itemised receipts or invoices</i>						
CEO	22	40.0%	£2,732	54.8%	£-	0%
Directors	18	32.7%	£1,438	28.8%	£-	0%
Non-directors	15	27.3%	£815	16.4%	£-	0%
Total	55	100.0%	£4,984	100.0%	£-	0%
<i>Missing receipts or invoices</i>						
CEO	57	41.0%	£1,442	67.2%	£-166	6.5%
Directors	64	46.0%	£464	21.6%	£-2,356	92.7%
Non-directors	18	12.9%	£241	11.2%	£-20	0.8%
Total	139	100.0%	£2,147	100.0%	£-2,543	100.0%
<i>Illegible/obscured receipts or invoices</i>						
CEO	1	100.0%	£20	100.0%	£-	0%
Directors	-	0.0%	£-	0.0%	£-	0%
Non-directors	-	0.0%	£-	0.0%	£-	0%
Total	1	100.0%	£20	100.0%	£-	0%
<i>Incomplete receipts or invoices</i>						
CEO	3	30.0%	£4	2.5%	£-873	100.0%
Directors	5	50.0%	£94	57.5%	£-	0.0%
Non-directors	2	20.0%	£65	40.0%	£-	0.0%
Total	10	100.0%	£163	100.0%	£-873	100.0%

Employee group	Quantity	%	Value (£)	%	Credit (£)	%
<i>Non-compliant receipts or invoices</i>						
CEO	83	40.5%	£4,198	57.4%	-£1,039	30.4%
Directors	87	42.4%	£1,995	27.3%	-£2,356	69.0%
Non-directors	35	17.1%	£1,121	15.3%	-£20	0.6%
Total	205	100.0%	£7,314	100.0%	-£3,416	100.0%

5.4 Comparison: FY 22-23 v 9 months to 31/12/23

The analysis relating to non-compliant proof of purchase demonstrates a slightly worsening picture between the financial year 2022-23 and the 9 months to 31 December 2023. The main reason for this is the number of items of expenditure without any proof of purchase – an increase from 4.32% of the total in 2022-23 to 7.98% for the 9 months to 31/12/23. However, the total value and the average value of missing receipts has decreased.

Although the quantity of items with non-compliant proof of expenditure has increased 20% from the previous year, the overall value and average has decreased by 41% and 27% respectively.

A full comparison can be found in the table below.

Table 7: Comparison of statistics relating to non-compliant proof of purchase⁷

Statistic	9 months to 31 December 2023		Full year 2022-23	
	Quantity or value	% of total	Quantity or value	% of total
Total number of items	1,641	100.0%	2,174	100.0%
Total value of items	£831,102	100.0%	£1,281,991	100.0%
Total no. of items:				
With non-compliant proof of purchase	195	11.88%	162	7.45%
With non-itemised proof of purchase	55	3.35%	58	2.67%
With missing proof of purchase	131	7.98%	94	4.32%
With illegible/obscured proof of purchase	1	0.06%	2	0.09%
With incomplete proof of purchase	8	0.49%	8	0.37%
Total value of items:				
With non-compliant proof of purchase	£7,314	0.88%	£12,419	0.97%
With non-itemised proof of purchase	£4,984	0.60%	£3,817	0.30%
With missing proof of purchase	£2,147	0.26%	£8,100	0.63%
With illegible/obscured proof of purchase	£20	0.00%	£272	0.02%
With incomplete proof of purchase	£163	0.02%	£230	0.02%

⁷ This table includes statistics relating only to purchase transactions, i.e. it excludes refund or credit transactions.

Statistic	9 months to 31 December 2023		Full year 2022-23	
Median average value of items:				
With non-compliant proof of purchase	£8.5		£11.6	
With non-itemised proof of purchase	£31.0		£31.4	
With missing proof of purchase	£6.2		£5.8	
With illegible/obscured proof of purchase	£20.4		£136.0	
With incomplete proof of purchase	£20.7		£10.9	

Following the implementation of the agreed actions resulting from the section 22 report, this exercise should be repeated to ensure improvements are being made.

5.5 Other findings

5.5.1 APPROVAL OF EXPENDITURE

The review looked at transactions for expenditure incurred over the 9-month period from 1 April 2023 to 31 December 2023.

EXCLUSIONS

Items of expenditure that were not included as part of the review related to rent and service charge payments. These are contractual payment made in line with the lease agreement signed by Scottish Ministers.

In addition, travel and related expenditure is monitored by the finance team separately. A workbook is maintained by the team that documents all travel forms completed by employees, matched to a detailed transaction listing of expenditure allocated to travel, accommodation and subsistence codes. This exercise is carried out monthly as part of the regular management reporting process.

The finance team noted that there is a significant issue of non-compliance with the policy of completing and receiving approval of travel forms prior to booking. In these instances, a member of the finance team, or administration team complete the forms and seek retrospective approval.

Recommendation

Training should be provided to all employees to emphasise the importance of completion and approval of travel forms prior to making any arrangements for travelling on WICS business.

RESULTS OF REVIEW

During the review period of FY24, there were 120 transactions above £1,000. Of those, 24 were not reviewed as they were related to travel or rent. Three significant areas of non-compliance were identified:

(i) Saxton Bamfylde

PO-1698 “Recruitment search” relates to the search for suitable candidates for the role of ‘Senior Operations Director’ who have expertise in human resources. The PO was raised on 1 September 2023 for a value of £28,000 to be paid to Saxton Bamfylde in two equal instalments, with estimated timing of 6 to 10 weeks. The purchase order erroneously omitted VAT.

The purchase order was approved by the CEO and two Directors (one of which being the budget holder), as required.

These services had not been competitively tendered, with the cited justification being that Saxton Bamfylde has a “crown commercial service contract and that they specialise in regulatory recruitment”.

WICS’ delegated limit for single-tender contracts is £20,000. Amounts over that value require the approval of the Scottish Government. There is email evidence from 6 September 2023 that the Head of Finance informed the CEO this is a non-competitive tender over £20K which should have the approval of the Scottish Government. However, the CEO decided not to seek such approval.

Interviews for the role took place on 8 November 2023, with the search being paused shortly afterwards. There were two payments made to Saxton Bamfylde in 2023-24:

- £18,480 (invoice dated 30 August 2023) for the first instalment of the approved £28,000 (pre-VAT) payment for the commencement of work. As per the approval form, the second instalment was to be paid upon the acceptance of offer by a successful candidate; and
- £1,004 (invoice dated 29 September 2023) for “advertising and production costs” which are not included in the approved £28,000.

While the total amount paid (£19,484) is under the delegated limit of £20,000, it was not known at the time that the recruitment search would be unsuccessful and no further payments would be made, so proper approval should have been acquired prior to hiring the services of Saxton Bamfylde.

In addition, the expenditure appraisal form for this purchase order is not complete as the sections for “sustainability assessment” and “contract Management” have not been completed.

Given the expenditure has been made, there is little that can be done for this specific example. Staff training and the formalisation of the role of the approval panel should prevent a recurrence of this type.

Recommendation

Disclosure of this expenditure to Saxton Bamfylde should be made to the Board and Scottish Government as soon as possible.

(ii) Legal advice: Thomas Sharpe KC

PO-0908 “Provision of legal advice” is for hiring the services of Thomas Sharpe KC, including advanced reservation and commitment of diary time each quarter, from 1 April 2021 to 31 March 2024. The total value approved was £120,000 and evidence of the appropriate internal approval was sufficient and properly documented.

However, WICS’ delegated limits require the approval of the Board and the Scottish Government for this level of expenditure. There is no evidence documented in Xero of these approvals being received.

Tom Sharpe has worked with WICS in this capacity for almost 20 years. Therefore, it is possible the Board and Scottish Government approval was received at the inception of the agreement. In addition, invoices are addressed to WICS’ solicitor, Mr. Gordon Downie, who is employed at Shepherd and Wedderburn. WICS has had competitively tendered contracts in place with Shepherd and Wedderburn for the same period that this arrangement has been in place.

Recommendation

The benefit of the arrangement with Tom Sharpe KC should be reviewed by the approval panel and if still required, explicit approval should be requested and documented.

(iii) Gifts

There was a purchase categorised as “gifts” made on 12 October 2023. The purchase was made to The Whisky Shop for 5 items that were gifted to a delegation from Barbados, who were being hosted by WICS as part of the Hydro Nation business development work. At £120, the purchase was over the £75 delegated authority that would require to be approved by the Scottish Government.

Again, there is little that can be done to rectify this oversight at this stage. Therefore, rules around gifts should be highlighted in staff training.

Recommendation

Disclosure of purchase of a gift of £120 (over WICS' delegated limit) should be made to the Board and Scottish Government as soon as possible.

5.5.2 EXPENDITURE ON MEALS GREATER THAN £50 PER HEAD AND FLIGHTS

MEALS > £50 PER HEAD

Transactions which related to expenditure in restaurants were identified. The review was limited to transactions where an itemised receipt had been provided. Without an itemised receipt, it cannot be determined whether expenditure is appropriate and befitting of a public sector organisation.

A “per head” calculation was carried out and any expenditure where the “per head” calculation was above £50 was noted and reviewed.

In total, 7 items were identified at a total cost of £2,669, including expenditure on alcohol of £996 (see Appendix 1).

In light of similar items being identified in the section 22 report, work is underway on reviewing the expenses policy to address this type of expenditure. Changes to the policy include:

- Prohibition of purchase of alcohol, unless pre-approved by an approval panel and the Chair of the Board;
- Provision of guidance to employees of acceptable subsistence rates; and
- The removal of use of corporate credit cards for subsistence expenditure, to be replaced with reimbursement of appropriate costs only.

The introduction of these changes should prevent further inappropriate expenditure and classification of expenditure on business entertaining.

Recommendation

Disclosure of any inappropriate expenditure should be made to the Board and Scottish Government as soon as possible.

FLIGHTS

Travel expenditure, particularly that relating to flights taken by employees of WICS, may be of interest to the Public Audit Committee. Therefore, the tables below provide analysis of flight costs for the period 1 April 2023 to 31 December 2023.

This analysis shows that 44% of flights taken related to business class, with a further 9% relating to amendment costs such as flight changes and additional luggage. Therefore, 47% of flight costs related to economy travel.

The CEO accounted for 31% of flight costs, of which 78% were business class flights and 18% spent on booking amendments. Directors accounted for 53% of flights taken, of which 38% were business class flights and 5% on booking amendments. All other employees accounted for 17% of flight costs, of which 6% related to business class flights and 2% on booking amendments.

For the purpose of this analysis, a return flight has been considered as 2 flights. The CEO took 34% of the total flights of which 90% were domestic. The average cost of a return flight for the CEO was £324 for domestic and £860 for international. The directors of the organisation took 52% of the flights, of which 83% were domestic. The average cost of a return flight for the directors was £278 for a domestic flight and £1,636 for international flights. Other employees took 14% of the flights, with the cost of an average return flight being £187 for domestic flights and £1,086 for international flights.

During 2023-24, the directors and analytical employees made more trips in relation to the project with the Department of Internal Affairs in New Zealand. This resulted in a higher average cost of international trips. The CEO's destinations included 3 trips to European cities.

Table 8: Total expenditure on flights by employee category and class of flight

Employee category	Business class flights (£)	Economy class flights (£)	Other flight costs (£)*	Total (£)
CEO	9,396	473	2,210	12,079
Director	7,906	11,617	1,060	20,584
Non-director	384	5,981	159	6,525
Total	17,686	18,071	3,430	39,188

*Including change fees, luggage/seat fees

Table 9: Total number of flights by employee category and class of flight**

Employee category	Business class flights	Economy class flights	Total
CEO	46	5	51
Director	3	74	77
Non-director	2	18	20
Total	51	97	148

**Where a return is 2 flights and single is 1 flight

Table 10: Total expenditure on flights by employee category and class of flight

Employee category	Domestic flights (£)	No. of domestic flights	International flights	No. of international flights
CEO	7,290	45	2,579	6
Director	8,887	64	10,637	13
Non-director	934	10	5,432	10
Total	17,110	119	18,647	29

The revised expenses policy will ensure that any travel plans that are being upgraded from economy receive the appropriate approval before the booking is made. This should result in lower travel costs going forward.

5.5.3 DOCUMENTATION OF APPROVALS AND EXPENDITURE

EVIDENCE RETAINED

The review identified several areas where improvements could be made when documenting the approval of expenditure as noted below.

- Evidence of who has approved the expenditure;
- Evidence that best value is being achieved; and
- Clarity over matching invoices to purchase orders.

In addition, there should be clear guidance on how many approvers are required. The financial policies and guidelines stipulate that purchase orders between £10,000 and £100,000 need 4 approvals: one from the budget holder, one from a senior employee graded Head of Function or above, and two from the Approval Panel consisting of the CEO and the Deputy CEO (or a Director/Assistant Director). However, it is not clear how many separate individuals are required to approve any one item of expenditure.

Recommendations

- Employee training should include the requirement to retain evidence that best value has been achieved.
- The minimum number of people involved in approving expenditure should be stipulated in the financial procedures.

COMPLETENESS OF DESCRIPTIONS

The review identified that improvements could be made to the descriptions attached to items of expenditure. The descriptions often lack information such as the date the expense was incurred, who made the expense or placed the order, how it was paid (missing less often), and what the occasion or place was for ensuring that the correct account/department/sub-department was selected.

Recommendations

- In addition to the guidance in the financial policies and procedures, employees could be provided with a template outlining the type of information required when receipts and invoices are submitted to Dext.
- A review of descriptions for the financial year 2023-24 should be carried out and descriptions amended as appropriate.

UNIFORMITY OF CODING AND COST ALLOCATION

The review highlighted many cases where transactions of the same type are assigned to different nominal codes or activity “departments”. Examples of this have been provided to the finance team for review.

Recommendations

- The financial transactions in Xero for the financial year 2023-24 should be reviewed prior to the year-end to ensure:
 - Expenditure is allocated to the appropriate account code and cost activity.
 - Transactions of a similar nature are coded to uniformly to the relevant code or department.
- Guidance is provided to employees for allocating expenditure of a specific nature to certain codes and cost activities.

5.5.4 BENEFITS IN KIND

A review of transactions for the first 9 months of the financial year 2023-24 identified £840 paid in relation to potential taxable benefits, being £690 for reimbursement of eyecare costs, in line with the financial policies and procedures that were in place at the time and £150 relating to 3 gifts to staff members. As a result of the current policy for WICS to incur the taxation on the employee's behalf, this would result in a payment due by WICS of £506 as part of the 23-24 PAYE settlement agreement.

The revised policies do not permit reimbursement of expenditure of this type and any further benefits paid on behalf, or to, employees will be included in a P11D for the employee and the employee will be responsible for the taxation and national insurance due on the payments.

6. Conclusion

It is likely that the 2023-24 audit of WICS' financial statements will result in similar findings as those identified in the section 22 report. While best efforts have been made to rectify the issues identified as part of this review, limited action can be taken to rectify the culture that was in place prior to the exit of the CEO in December 2023 and associated issues. These issues include:

- Failure to provide receipts or itemised receipts for some expenditure made on corporate credit cards, particularly in relation to expenditure in restaurants.
- Expenditure on meals and alcohol that could be perceived as un-befitting of a public sector organisation.
- Expenditure incurred without proper authorisation from the Scottish Government.
- Approval process for travel arrangements not being adhered to.
- Insufficient descriptions provided to the finance team to enable proper coding and cost allocation.

The recommendations in this report are in line with the actions presented to Audit Scotland and the Scottish Government by WICS' senior leadership team, in response to the Section 22 report.

Revisions to the financial policies and guidelines, supported by staff training, will go some way towards preventing these types of issues from reoccurring.

However, efforts will be required by WICS' senior leadership, including the Board, in changing the culture of the organisation, leading by example and providing direction and guidance to employees. Openness, honesty and transparency will be the key to real change.

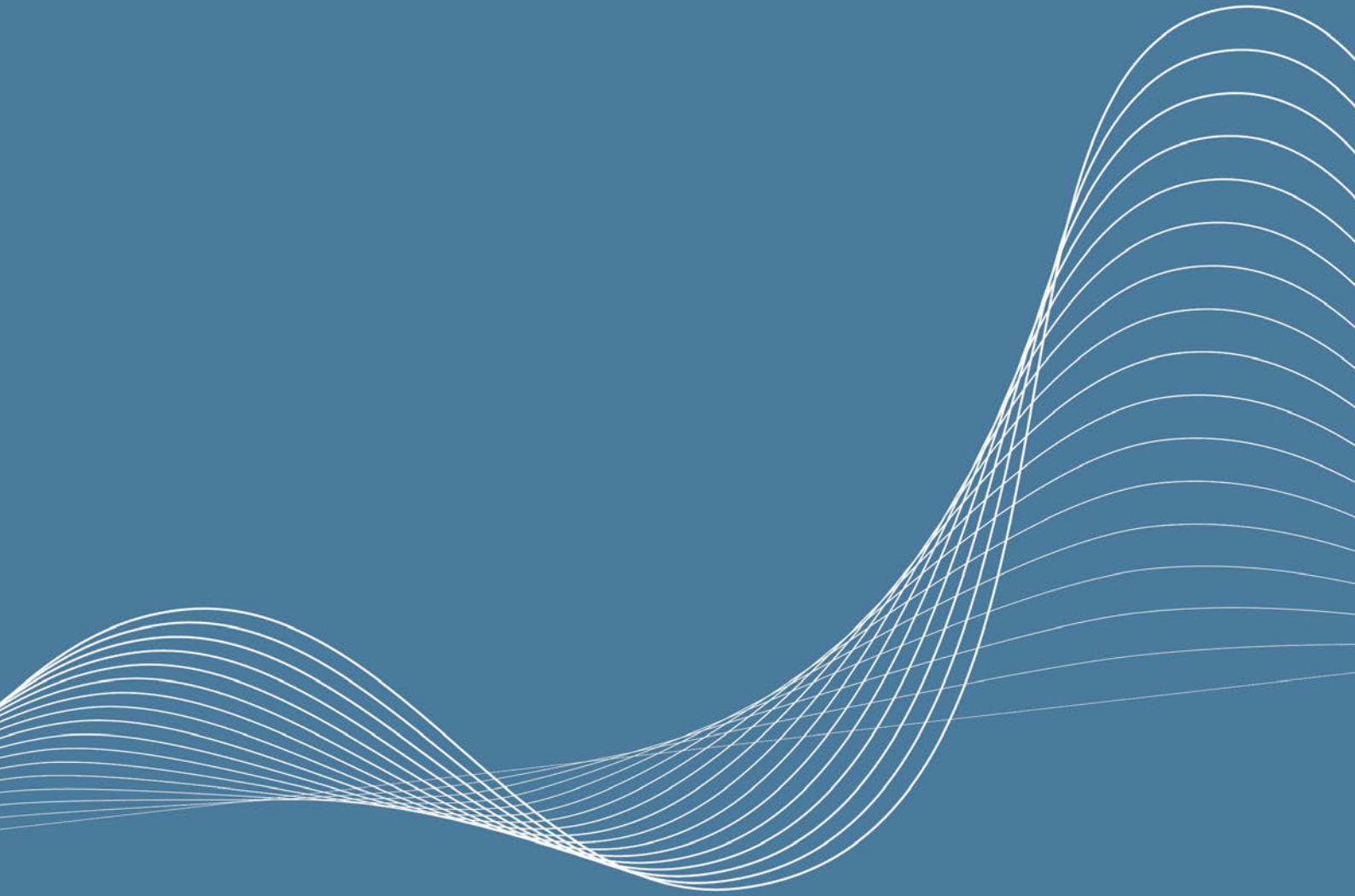
Appendix 1: Note of expenditure on meals greater than £50 per head

Please note that this information contains only expenditure on meals for which an itemised receipt has been provided. If an itemised receipt was not provided, no analysis on the expenditure is possible. Non-itemised receipts are discussed in sections 4.2 and 5.3.

Venue	Date	No of people	Purpose	Total (£)	Total per head (£)	Total on alcohol (£)
Gaicho, Edinburgh	09/10/23	9	Barbados study tour	1,123	125	359
L'escargot Blanc, Edinburgh	16/06/23	4	Meal and drinks, CEO, 2 Directors and SG official	562	140	315
Oak Bar, Auckland	30/05/23	3	CEO, Director and NZ official	261	87	104
Noble Rot, Wellington	01/06/23	3	CEO, Director and NZ official	261	87	95
Mimino Restaurant, London	18/07/23	4	CEO + 3 others	204	51	98
Zaika, London	10/07/23	2	CEO + 1 other	130	65	13
Witchery	25/07/23	2	Director + SG official	128	64	12

Appendix 2: Summary of taxable benefits

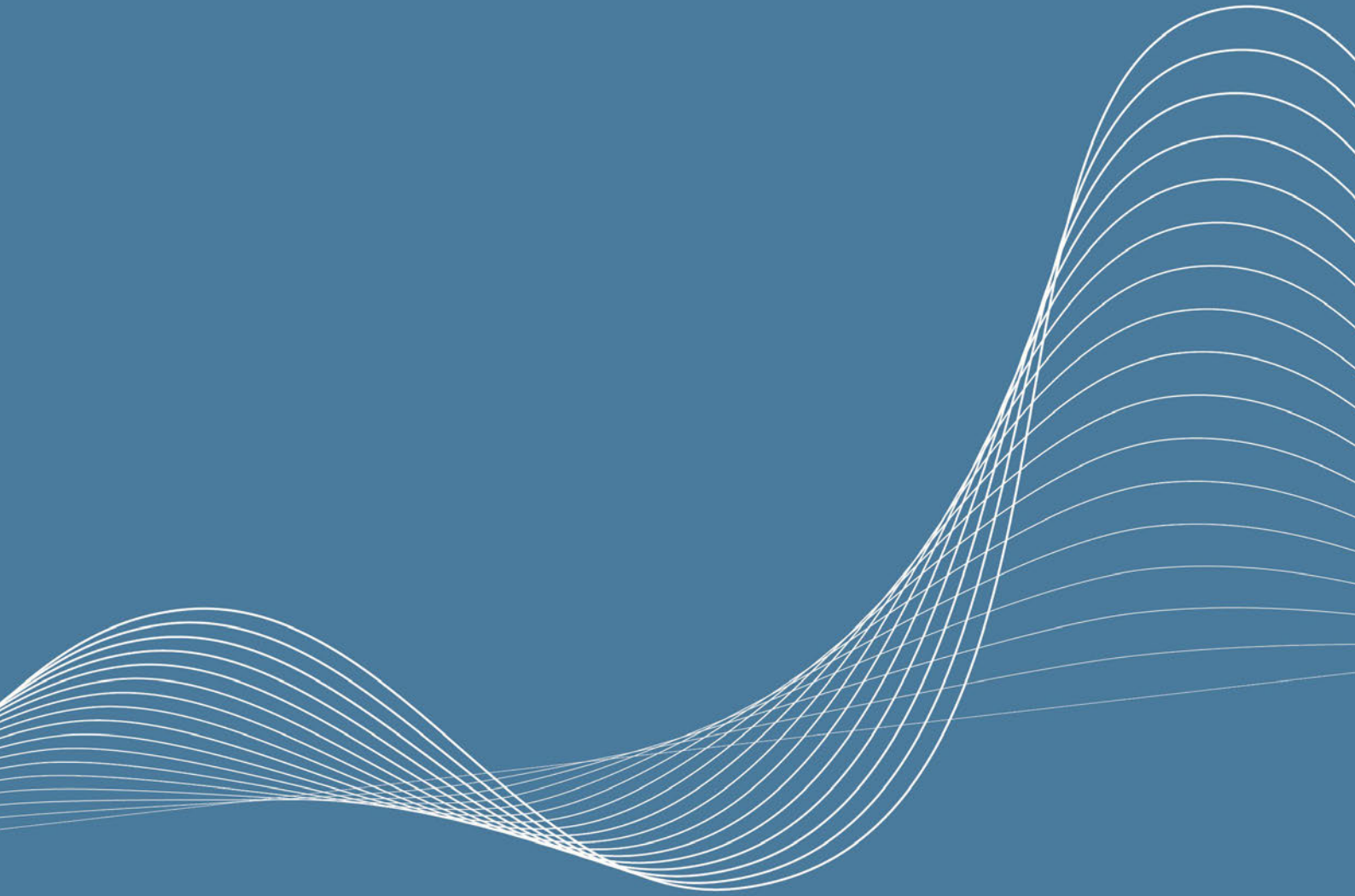
Benefit	Taxable	Non-taxable
Any expenditure incurred in the course of carrying out WICS business	May be taxable if proof of expenditure is not presented and if it cannot be demonstrated that expense is wholly and exclusively a business expense.	Receipts produced for expenditure, in line with WICS' financial policies and guidelines and it can be demonstrated that it is wholly and exclusively a business expense.
Gifts	Cash or cash-voucher Anything valued over £50 Anything that is part of an employee's contract Anything relating to a reward for an employee's work or performance	Non-cash gifts under £50
Eye care	The cost of glasses that you need for personal use, as well as business use.	The cost of eye tests required by employees who use display screen equipment will be covered by WICS. You can only claim the cost of eyewear that will be exclusively used for work and not outside of work.
Annual parties or functions	Cost per head is more than £150 (including VAT) per year	Cost per head is less than £150 (including VAT) per year



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Moray House
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