

14 May 2024

Richard Leonard MSP  
Convener  
Public Audit Committee  
Scottish Parliament  
Edinburgh  
EH99 1SP

Dear Convener

## The 2022/23 audit of the Water Industry Commission Scotland

In your letter of 26 April 2024 you requested clarification on the potential consequences for the auditor's opinion on the Water Industry Commission for Scotland's 2022/23 financial statements had the Scottish Government refused to provide retrospective approval.

I have discussed this with the auditor who has advised that failure to obtain retrospective Scottish Government approval for this expenditure would have resulted in a regularity qualification on the Water Industry Commission for Scotland's 2022/23 Annual Report and Accounts. He would have been unable to conclude that: "*In my opinion in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.*"

A regularity qualification is unusual in the Scottish public sector and is something I would also have drawn to the Committee's attention in my Section 22 report.

I believe there is a wider point for the Committee's consideration in relation to the view expressed by the Scottish Government official that: "*...approval was essentially based on the fact that the money had been spent, so there was no material benefit, at that point, in challenging it.*" A key aspect of the sponsorship model for NDPBs is that Scottish Government approval is sought in advance for any expenditure or activity that is beyond bodies' delegated powers or does not comply with the requirements of the Scottish Public Finance Manual. In expressing such a view the Scottish Government official risks indicating that approval will always be granted when the expenditure has already been incurred. Such an approach would undermine the operation of the sponsorship model, could discourage bodies from seeking prospective approval for potentially contentious expenditure and would unlikely meet the requirements of the Scottish Public Finance Manual.

During my discussions with the auditor he also advised that the Commission has now concluded its own review of financial transactions completing during the first 9 months of 2023/24. A report on this was taken to its Audit and Risk Committee on 12 March 2024. This has identified further instances of inappropriate use of public funds and the auditor is considering the implications for his 2023/24 audit. As I noted in my Section 22 report on the 2022/23 audit of WICS, I will give consideration to further public reporting upon completion of the 2023/24 audit.

Yours sincerely

**Stephen Boyle**  
**Auditor General for Scotland**