

Richard Leonard MSP

19 December 2024

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

Your Ref:
191224-DSRL

Dear Convener

Update to the Committee on the Water Industry Commission for Scotland (WICS)

As we approach the end of the year, I would like to provide the Committee with an update on recent developments and the progress WICS is making to embed meaningful and transformative change within the organisation.

Independent review of WICS

You will be aware that the Scottish Government has published its independent review of WICS. The findings reflect our own recognition of past weaknesses in governance and financial management, as highlighted in the Auditor General's Section 22 report published in December 2023.

We have accepted the review's recommendations in full and outlined our actions to address them. I attach at **Appendix 1** a response from our Interim Chair to the Cabinet Secretary, detailing how WICS intends to take action on the findings.

Delivering organisational change

Since the publication of the Section 22 report last year, WICS has completed a 21-point work plan agreed with the Scottish Government. We welcome recognition from both the Scottish Government and Audit Scotland of the swift action we have taken to address these issues.

The appointment of an Interim CEO and Chair has strengthened the leadership of the organisation and established the foundation to embed meaningful change. A review of WICS' leadership structure is now complete, with the recruitment of a permanent CEO planned for early 2025. These changes will ensure that WICS' organisational structure is best placed to deliver transformational and cultural change.

We have already begun a comprehensive organisational change programme designed to effect meaningful change across the organisation and embed a culture of value for money. This programme of 55 planned actions includes clarifying roles and responsibilities, strengthening risk and assurance functions as well as improving communications and hybrid working practices.

As a critical first step, we have initiated a reset within the Leadership Team to ensure that each Director operates with clear roles and responsibilities, fosters a culture of transparency and maintains rigorous oversight of processes. This first phase is now complete following a consultation on a new structure of the leadership team and a competitive selection process.

In light of the Scottish Government's Independent review, we have identified 10 additional actions that will further strengthen our organisational change. These new actions include building greater openness and trust within the organisation and ensuring that the Board receive regular reports on staffing issues and well-being.

The Board has also agreed to establish a dedicated sub-committee to oversee the organisational change programme to ensure that change is delivered effectively, and progress is reported to governance bodies including the sponsor team within the Scottish Government.

These initiatives will continue into 2025, with the leadership team and all staff playing a central role embedding these changes.

2023/24 Audit

The Committee will also be aware that Audit Scotland has published its 2023/24 audit opinion of WICS, accompanied by a further Section 22 report.

Audit Scotland's report acknowledges the progress made by WICS since the Auditor General's 2022/23 audit was published last year. Importantly, the report also confirms that there were no instances of non-compliant expenditure in the period since last year's Section 22 report.

This reflects the significant steps we have taken to strengthen governance and financial controls, and we remain committed to embedding these improvements as part of our broader organisational transformation.

Looking ahead to next year

It has been a challenging year for WICS, and the pressure on our staff has been considerable. However, we remain determined to build on the progress made, reset the organisation, and maintain focus on our critical role as the economic regulator of Scottish Water.

The recent publication of our methodology for the Strategic Review of Charges demonstrates our ongoing commitment to ensuring that our regulation of Scottish Water continues to deliver value for the people of Scotland. We are committed to regaining trust and reaffirming our role as an economic regulator that upholds the highest standards, both in our regulatory approach and in how we manage our resources.

I hope this update proves helpful to the Committee and highlights the progress WICS has made. I look forward to keeping the Committee informed with further updates in the coming year. In the meantime, I wish you a restful and enjoyable festive break.

Yours sincerely

David Satti
Interim Chief Executive

Gillian Martin

28 November 2024

Acting Cabinet Secretary for Net Zero & Energy
Scottish Government

Your Ref:
RH-GM-281124

Emailed to: cabsecfornze@gov.scot

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Dear Gillian

RESPONSE TO INDEPENDENT REVIEW OF WICS

Thank you for your letter dated 7 November 2024 following the publication of the Independent Review of the Water Industry Commission for Scotland (WICS).

WICS accepts in full the findings of this review, which highlight weaknesses in critical areas of governance and financial management within the Water Industry Commission for Scotland (WICS) in the past. This review reflects our own recognition of weaknesses within the organisation following the Auditor General for Scotland's Section 22 report which was published in December last year.

As you are aware, management agreed a 21-point work plan with the Scottish Government to respond to the issues reported in the Section 22 report. We welcome the acknowledgement of the swift action WICS has taken to address those issues. Completing this work plan has also been acknowledged by Audit Scotland in its annual audit report for 2023/24.

WICS is now embarking on a comprehensive organisational change programme designed to effect meaningful change across the organisation and embed a culture of value for money. This programme is driven by our commitment to enhancing public trust in our work and aligning our operations with best practices in public service. The planned actions seek to deliver a reset within the organisation and to ensure that WICS operates with clear roles and responsibilities, fosters a culture of transparency and maintains rigorous oversight of its processes.

Our programme includes 55 planned actions, including our annual work plan commitments, structured around the following key themes:

1. Clarifying roles and responsibilities
2. Establishing directorate budget centres

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3. Introducing hybrid working arrangements
4. Strengthening risk and assurance functions
5. Improving internal and external communication
6. Further revising financial policies
7. Revising approval processes
8. Refreshing the governance framework
9. Enhancing compliance reporting

Additional actions

Following our review of the independent review's findings, we have identified 10 additional actions that will further strengthen our organisational change.

These new actions include building greater openness and trust within the organisation and ensuring that the Board receive regular reports on staffing issues and well-being. The Board has also agreed to establish a sub-committee focusing specifically on the delivery of the organisational change programme to ensure that that the change is delivered effectively, and progress is reported to governance bodies including the sponsor team within the Scottish Government.

Full details of these new actions and revisions are provided in an appendix to this letter.

Financial processes and controls including anti-fraud controls

Following your letter, we have received our draft external audit report from Audit Scotland, and we will prepare a management response which will take account of recommendations relating to embedding financial management across the organisation which includes the prevention and detection of fraud.

We have also accelerated our internal audit work programme to ensure that we are providing a further independent check on our financial processes and controls with a particular focus on anti-fraud controls and alignment with the Scottish Public Finance Manual (SPFM). This work is substantially complete, and the organisation has begun initiating emerging recommendations as a sign of the commitment to further improving in this area.

Commitment to comprehensive change

WICS is fully committed to implementing these changes and maintaining an open dialogue with the Scottish Government and stakeholders as we make progress. Our goal is to reset and

strengthen WICS to meet and exceed expectations for public service governance, building an organisation that is effective and accountable.

Thank you for your ongoing support during this transformative period.

Yours sincerely,

Ronnie Hinds

Interim Chair

Appendix – Additional actions arising from the independent review of WICS

	Indicative timescales	Priority	Status
1. Conduct a lessons learned exercise to conclude phase 2 of the organisational change to assess the fitness and direction of the WICS	Sep 2025	High	New action
2. Document an escalation route for Internal Audit if issues arise.	Dec 2024	High	New action
3. Complete a Board self-effectiveness review	Mar 2025	High	New action
4. Schedule periodic staff surveys and document actions taken as a result of findings	Mar 2025	High	New action
5. Produce a Board report on staffing issues and well-being at least twice yearly.	Jun 2025	High	New action
6. Set up a formal mentoring programme for senior leadership to support ongoing development	Dec 2024	Medium	New action
7. Draft and formalise a recruitment policy to ensure true and fair competition for roles	Mar 2025	High	New action
8. Reinforce training on Accountable Officer duties for the Chief Executive	Jun 2025	Medium	New action
9. Ensure that ARC is presented with a list of WICS policies and a plan for when each policy will be reviewed	Jun 2025	Medium	New action
10. Complete a detailed review and update of the Framework Document and Board and committee Terms of References.	Mar 2025	Medium	New action