

# Public Audit Committee

**10th Meeting, 2024 (Session 6), Thursday,  
21 March 2024**

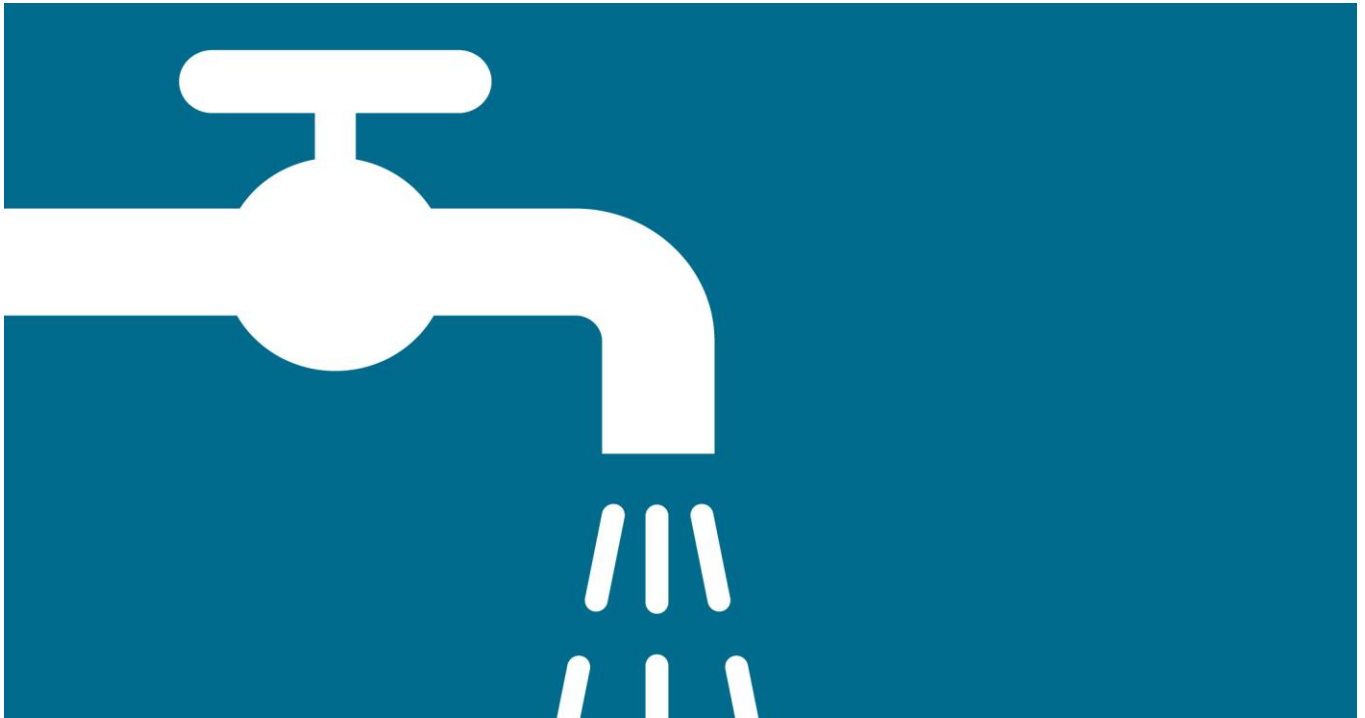
## **The 2022/23 audit of the Water Industry Commission for Scotland**

### **Introduction**

1. At its meeting today, the Public Audit Committee will take evidence from the Scottish Government and the Water Industry Commission for Scotland on the Auditor General for Scotland's (AGS) section 22 report, [The 2022/23 audit of the Water Industry Commission for Scotland](#), which was published on 20 December 2023. A copy of the report can be found at **Annexe A**.
2. The Committee previously took evidence from the AGS on the section 22 report on [8 February 2024](#). The AGS has provided follow up information from this evidence session, which can be found at **Annexe B**.
3. The Committee will decide any further action it wishes to take following the evidence session today.

**Clerks to the Committee,  
18 March 2024**

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



AUDITOR GENERAL 

Prepared for the Public Audit Committee by the Auditor General for Scotland  
Made under section 22 of the Public Finance and Accountability (Scotland) Act 2000

December 2023

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

---

## Introduction

1. I have received the audited annual report and accounts and the independent auditor's report for the Water Industry Commission for Scotland (the Commission) for 2022/23. I am submitting these financial statements and the auditor's report under section 22(4) of the Public Finance and Accountability (Scotland) Act 2000, together with this report that I have prepared under section 22(3) of the Act.

2. The auditor issued an unqualified opinion on the Commission's financial statements for 2022/23. I have prepared this report to draw the Scottish Parliament's attention to significant weaknesses in the governance and financial management arrangements identified by the auditor. I am concerned that the current culture within the Commission does not have sufficient focus on ensuring the achievement of value for money in the use of public funds.

---

## Key messages

- The Commission incurred two items of expenditure during 2022/23 that required Scottish Government approval. This was only received from the sponsor team retrospectively following audit intervention.
- This included retrospective approval of expenditure for the Chief Operating Officer's participation in an advanced management course, over a number of months, at Harvard Business School in Boston at a total cost of £77,350.
- The auditor identified widespread issues with the expenses reimbursement process; including claims not supported by itemised receipts, exceeding the approved subsistence rates, and, on occasion, the reimbursement of the purchase of alcohol.

- The financial management and governance issues found at the Commission fall far short of what is expected of a public body. Immediate action is required to address the issues and promote a culture of Best Value across the organisation.
- 

## Background

3. The Commission is the economic regulator of Scottish Water. It is a non-departmental public body with a statutory duty to promote the interests of Scottish Water's customers to ensure long-term value and excellent levels of service for customers and communities. It also works to ensure that the industry is internationally recognised and sustainable through its role in supporting the Scottish Government's Hydro Nation ambition.

4. The Commission employs 26 staff and incurred expenditure of £4.036 million during 2022/23 (with 67 per cent relating to staff costs). It received income of £5.288 million during the year, including levy income of £2.279 million from Scottish Water and £1.718 million from licensed providers, and £1.185 million from international work related to the Scottish Government's Hydro Nation strategy. This resulted in the Commission reporting an operating surplus of £1.251 million for the year ended 31 March 2023.

5. As a non-departmental public body, the Commission is supported by a sponsor team in the Water Policy Division of the Scottish Government.

### **The Commission demonstrated poor governance over the approval of expenditure, including insufficient engagement with its Scottish Government sponsor division**

6. In 2022/23, the Chief Operating Officer attended a training course at Harvard Business School in Boston at a total cost, including flights, of £77,350. Scottish Government approval is required for any service above £20,000 that has not been awarded via a competitive tender exercise.

7. Further, the Commission purchased a £100 gift voucher for each member of staff as a Christmas gift at a total cost of £2,600 (a similar arrangement was in place in 2021/22 when the total cost was £2,900). This exceeded the Commission's delegated limit of £75 for gifts and should have been approved by the Scottish Government. Due to the nature of this payment to each member of staff, it also represented a non-salary reward and should have been treated as a taxable benefit. This was not the case and the associated £1,133 of tax and national insurance payments were paid by the Commission to His Majesty's Revenue and Customs (HMRC).

8. No approval was sought from the Scottish Government, or the Board, prior to the above payments being made. It was only once the issues were identified and reported by the auditor that retrospective approval was sought and received from the sponsor team within the Scottish Government, and the Board were advised that retrospective approval had been given.

**9.** I am concerned that this amount of public money was spent without due process being followed or a clear assessment being undertaken to demonstrate that this expenditure represented value for money. All expenditure should be incurred in accordance with the requirements of the Commission's Finance Policies and Guidelines, and the rules and guidance set out in the Scottish Public Finance Manual. If there is any doubt as to whether planned expenditure is permissible, approval should be sought from the sponsor division prior to the expenditure being incurred.

### **There were weaknesses in the financial control arrangements for the approval of expense claims**

**10.** The Commission's Finance Policies and Guidelines outline the expectations and approved rates for expense claims. The auditor identified widespread issues with expense claims being submitted and approved without supporting itemised receipts, including items submitted by the Chief Executive, and exceeding the approved rates.

**11.** In their annual audit report, the auditor highlights a specific example where the cost per head claimed for a dinner, attended by the Chief Executive, exceeded £200 per person despite the approved non-city limit being £25. This, and other claims, also included the purchase of alcohol. Unusually for a public body, the Commission's existing policies do not explicitly prohibit the purchase of alcohol as a business expense. The Commission should introduce clear guidance on what is deemed to be acceptable in this regard.

**12.** Management should ensure that all expense claims are supported by itemised receipts and staff are only reimbursed at the approved subsistence rates set out in the Commission's Finance Policies and Guidelines. The use of approved rates ensures that value for money has been considered when incurring such expenditure.

**13.** The governance statement in the Commission's 2022/23 annual report and accounts includes the following disclosure: 'There have been no governance issues identified during the year that are significant in relation to WICS' overall governance framework. However, during the year, some weaknesses were identified in relation to WICS' travel and expenses policy. Following a revision of the policy in January 2023, the Accountable Officer is committed to building on the changes made to the policy and strengthening further our expenditure in this area. There were two items of expenditure identified that required retrospective approval by the Scottish Government. Again, the Accountable Officer is taking action to address the weaknesses that led to the oversight of appropriate approval.'

### **Lack of adequate arrangements resulted in public funds being used to settle personal tax costs**

**14.** A PAYE settlement agreement (PSA) with HMRC allows an organisation to make one annual payment to cover all the tax and national insurance due on minor, irregular or impracticable expenses or benefits for its employees.

**15.** Following a review by management, payments dating back to 2018/19 were identified that should have been treated as taxable benefits to staff. The Commission made a payment of £3,384 in October 2023 to settle its 2022/23 obligation (this included the £1,133 detailed at [paragraph 7](#) above). The Commission has submitted a voluntary disclosure for the period 2018/19 to 2021/22 but has estimated that a further payment of £5,435 will be required for those years.

**16.** The Commission needs to ensure that adequate arrangements are in place to attribute taxable benefits to relevant staff so that they incur the related income tax and national insurance contributions.

## Conclusions

**17.** The auditor concluded that the Commission is not currently demonstrating the highest standards of financial management and propriety in its business activities. Value for money should be a key consideration for all expenditure incurred by public bodies and the findings of the auditor highlight unacceptable behaviour, by senior officials within the Commission, in the use of public funds.

**18.** I recognise that management has accepted the findings and recommendations from the auditor and has committed to specific actions to address them as a matter of urgency.

**19.** I will continue to monitor progress on these matters and report further in public as necessary.

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



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

27 February 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**

At the Committee's meeting on 8 February 2024, when colleagues and I briefed the Committee on my report *The 2022/23 audit of the Water Industry Commission Scotland*, I agreed to share the retrospective approval correspondence received by the auditor. The email trail between the Water Industry Commission Scotland and the Scottish Government sponsor team is shown in [Appendix 1](#).

As part of the discussions there were occasions where committee members were looking for specific details, for example who attended the reimbursed dinners and whether there was reimbursement for first class flights for international work. Following the meeting the audit team reviewed the information held on file but, due to the lack of a comprehensive audit trail from the Commission, we are not able to confirm who was in attendance. As I advised during the evidence session it would be best to request this information from the Commission directly.

During the evidence session the auditor advised that it was the Chair who approved the Chief Executive's expense claims. The Commission has clarified that it was actually the Chair of the Audit and Risk Committee who approved those claims rather than the Chair of the Board. Apologies for this inaccuracy in our evidence.

Yours sincerely

**Stephen Boyle**  
Auditor General for Scotland



## Appendix 1

**From:** [REDACTED] <[REDACTED]>  
**Sent:** Friday, November 3, 2023 9:05 AM  
**To:** Richard Smith <[REDACTED]>; [REDACTED] <[REDACTED]>  
**Cc:** [REDACTED] <[REDACTED]>  
**Subject:** FW: [EXT] RE: Approval sought

EXTERNAL: THIS EMAIL ORIGINATED OUTWITH AUDIT SCOTLAND

Do not click links, open attachments or reply before asking yourself:

- Is the senders email address right? (click the senders Name to see their email address)
- Are you expecting this email?
- Does it make sense? Would this person really ask this?
- Have you ever had an email like this before?
- Is the email written in good English or in the style you would expect from that person?

Hi Richard [REDACTED]

Following communication with Alan yesterday, we have received retrospective comment from Jon Rathjen (from SG) on the two items of expenditure you highlighted.

Let me know if you need anything else or require further discussion.

Kind regards

[REDACTED]

[REDACTED]

Head of Finance

[REDACTED]

[REDACTED]



---

**From:** Donna Very <[REDACTED]>  
**Sent:** Friday, November 3, 2023 8:49 AM  
**To:** [REDACTED] <[REDACTED]>  
**Subject:** Fwd: [EXT] RE: Approval sought

Hi [REDACTED]

We got this back from Jon.

D

Begin forwarded message:

**From:** [REDACTED]  
**Date:** 3 November 2023 at 08:02:00 GMT  
**To:** Alan Sutherland <[REDACTED]>  
**Cc:** Donna Very <[REDACTED]>  
**Subject:** [EXT] RE: Approval sought

**CAUTION:** This email originated from outside the organisation. Do not click links or open attachments unless you recognise the sender and know the content is safe.

Alan,

Thank you for bringing these two expenditures to my attention. As you note seeking retrospective approval is not ideal but I am grateful for the opportunity to comment.

On the Christmas gifts I accept this was an oversight and do not think it is proportionate to try and recover the balance but would highlight that any such gift going forward must be contained within then agreed threshold.

On the training costs, I rather agree that this is a unique training offering and can see why single tender was your approach and as such despite board being aware it would have been appropriate to inform the Scottish Government. As I imply had I been informed I would have agreed with the approach as I think this is not something where open tender would have returned better value given the very specific nature of courses in this field. Due diligence had been carried out and the most suitable product selected and as such, given the board was content with the appropriateness of the nature of the spend, I am content to agree retrospectively the procurement approach.

Jon

Jon Rathjen  
Deputy Director  
Water Policy & DECC Operations  
Scottish Government

[REDACTED]  
[REDACTED]

---

**From:** Donna Very <[REDACTED]> **On Behalf Of** Alan Sutherland  
**Sent:** Thursday, November 2, 2023 6:17 PM  
**To:** Jon Rathjen <[REDACTED]>  
**Cc:** Donna Very <[REDACTED]>  
**Subject:** Approval sought

Hi Jon

Audit Scotland has recently concluded the substantive work on the audit of our accounts. As we discussed, they have highlighted to me two areas where we should have obtained approval from Scottish Government. The first of these was an oversight on our part. The second reflects a different interpretation of appropriate rules – but, on reflection, we should have alerted you to the expenditure. These oversights are, of course, not ideal and I apologise for turning to you for this retrospective approval.

The first relates to a £100 gift voucher that we made to all staff last Christmas in recognition for their hard work given the efforts in delivering the consulting activities (well over £500K of revenue). This should have had SG approval as it exceeded the £75 gift threshold that we can authorise. The total cost of these vouchers was £2,500 (25 x £100 Amazon gift vouchers).

As you know, WICS puts a lot of investment into the training and development of our staff and as an organisation, we want to ensure that our office has the right skillsets and people to carry out their functions to a high standard. We want staff to feel valued and need to future-proof the office. Following a one-to-one with the Chief Operating Officer (COO) in autumn 2022, our COO sought approval to attend a Harvard Business School Advanced Management Programme. The COO researched a number of universities and this course was her preferred option and met the needs identified. The programme builds on leadership skills and business competencies with a strong focus on team building and collaboration. The total cost of this course \$84,000 (approx. £63,000). The programme fee included tuition, books, case materials, accommodation and most meals for Campus modules. Travel – flights from Scotland to Boston for Harvard x 2 - £5,000. The total costs are comparable to other business schools. An internal approvals process was completed and the course was approved. The Board were aware of the COO's training.

Our procurement policy requires expenditure over £100k to be approved by the Scottish Government, and over £20k if it is a single supplier purchase. We did not seek approval for this purchase since it was below £100k and it wasn't the type of purchase that could be competitively tendered. Audit Scotland believe we should have sought approval. I now seek this retrospective approval from you.

I am, of course sorry for these oversights and will endeavour to ensure that going forward we ensure all necessary Scottish Government approvals are obtained in advance of the expenditure being incurred.

I am happy to provide further information or discuss if helpful.

Alan

\*\*\*\*\*

This email and any files transmitted with it are confidential and intended solely for the use of the individual or entity to whom they are addressed. Any views or opinions expressed in this e-mail are those of the sender and do not necessarily coincide with those of the Water Industry Commission for Scotland. If you have received this e-mail in error please remove from your computer and contact the sender. Liability cannot be accepted for statements made which are clearly the senders own and not made on behalf of the Water Industry Commission For Scotland.

\*\*\*\*\*

This e-mail (and any files or other attachments transmitted with it) is intended solely for the attention of the addressee(s). Unauthorised use, disclosure, storage, copying or distribution of any part of this e-mail is not permitted. If you are not the intended recipient please destroy the email, remove any copies from your system and inform the sender immediately by return.

Communications with the Scottish Government may be monitored or recorded in order to secure the effective operation of the system and for other lawful purposes. The views or opinions contained within this e-mail may not necessarily reflect those of the Scottish Government.

\*\*\*\*\*