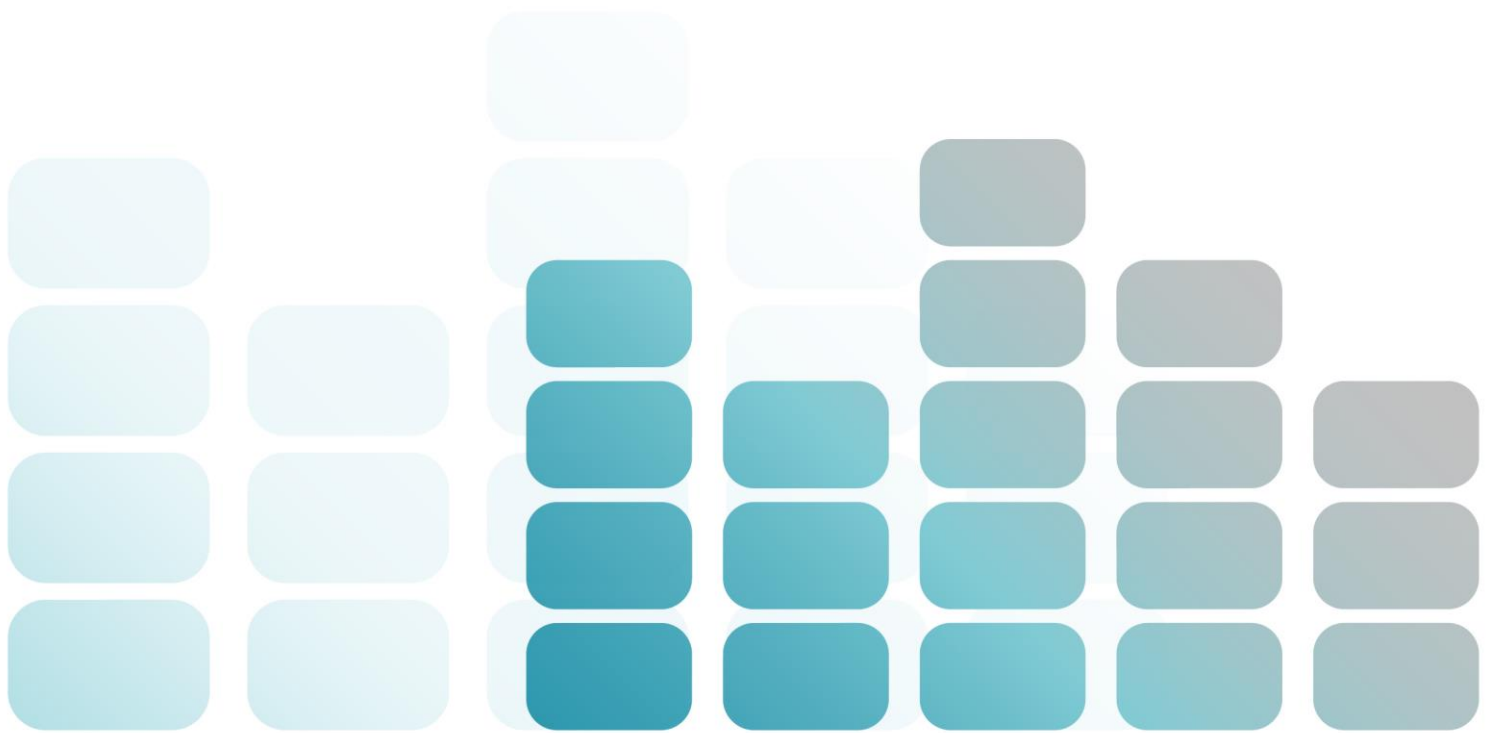


Water Industry Commission for Scotland

Annual Audit Plan 2024/25



Prepared for the Water Industry Commission for Scotland
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Contents

Introduction	3
Audit scope and responsibilities	4
Audit of the annual report and accounts	6
Wider scope and Best Value	9
Reporting arrangements, timetable and audit fee	11
Other matters	14

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Introduction

Purpose of the Annual Audit Plan

1. The purpose of this Annual Audit Plan is to provide an overview of the planned scope and timing of the 2024/25 audit of the Water Industry Commission for Scotland's annual report and accounts. It outlines the audit work planned to meet the audit requirements set out in [auditing standards](#) and the [Code of Audit Practice](#), including supplementary guidance.

Appointed auditor and independence

2. Richard Smith, of Audit Scotland, has been appointed by the Auditor General for Scotland as external auditor of the Water Industry Commission for Scotland (the Commission) for the period from 2022/23 until 2026/27. The 2024/25 financial year is the third year of the five year audit appointment.

3. Richard and the audit team are independent of the Commission in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. This standard imposes stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has robust arrangements in place to ensure compliance with ethical standards. The arrangements are overseen by the Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

4. The Ethical Standard requires auditors to communicate any relationships that may affect the independence and objectivity of the audit team. There are no such relationships pertaining to the audit of the Commission to communicate.

Communication of fraud or suspected fraud

5. In line with ISA 240, in presenting this plan to the Audit and Risk Committee we seek confirmation from those charged with governance of any instances of actual, suspected or alleged fraud that should be brought to our attention. Should members of the committee or board have any such knowledge or concerns relating to the risk of fraud, we invite them to communicate this to the appointed auditor for consideration. Similar assurances will be sought as part of the audit completion process.

Audit scope and responsibilities

Scope of the audit

6. The audit is performed in accordance with the [Code of Audit Practice](#), including supplementary guidance, International Standards on Auditing (UK), and relevant legislation. These set out the requirements for the scope of the audit which includes:

- An audit of the financial statements and an opinion on whether they give a true and fair view and are free from material misstatement, including the regularity of income and expenditure.
- An opinion on statutory other information published with the financial statements in the annual report and accounts, the Performance Report, and the Governance Statement, and an opinion on the audited part of the Remuneration and Staff Report.
- Conclusions on the Commission's arrangements in relation to the wider scope areas: Financial Management; Financial Sustainability; Vision, Leadership, and Governance; and Use of Resources to Improve Outcomes.
- Reporting on the Commission's arrangements for securing Best Value.
- Provision of an Annual Audit Report setting out significant matters identified from the audit of the annual report and accounts and the wider scope areas specified in the Code of Audit Practice.

Responsibilities

7. The Code of Audit Practice sets out the respective responsibilities of the auditor and the Commission. A summary of the key responsibilities is outlined below.

Auditor's responsibilities

8. The responsibilities of auditors in the public sector are established in the Public Finance and Accountability (Scotland) Act 2000. These include providing an independent opinion on the financial statements and other information reported within the annual report and accounts, and concluding on arrangements in place for the wider scope areas.

The Commission's responsibilities

9. The Commission has responsibility for ensuring proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and

regularity that enables it to successfully deliver its objectives. The features of proper financial stewardship include:

- Establishing arrangements to ensure the proper conduct of its affairs.
- Preparation of an annual report and accounts, comprising financial statements and other information that gives a true and fair view.
- Establishing arrangements for the prevention and detection of fraud, error and irregularities, and bribery and corruption.
- Implementing arrangements to ensure its financial position is soundly based.
- Making arrangements to secure Best Value.
- Establishing an internal audit function.

10. The audit of the annual report and accounts does not relieve management or the Audit and Risk Committee, as those charged with governance, of their responsibilities.

Audit of the annual report and accounts

11. The audit of the annual report and accounts is driven by materiality and the risks of material misstatement in the financial statements, with greater attention being given to the significant risks of material misstatement. This section outlines materiality, the significant risks of material misstatement that have been identified, and the impact these have on the planned audit procedures.

Materiality

12. The concept of materiality is applied by auditors in planning and performing an audit, and in evaluating the effect of any uncorrected misstatements on the financial statements or other information reported in the annual report and accounts.

13. Broadly, the concept of materiality is to determine whether matters identified during the audit could reasonably be expected to influence the decisions of users of the financial statements. Auditors set a monetary threshold when determining materiality, although some issues may be considered material by their nature. Therefore, materiality is ultimately a matter of the auditor's professional judgement.

14. The materiality levels determined for the audit of the Commission are outlined in [Exhibit 1](#).

Exhibit 1

Materiality levels for the 2024/25 audit

Materiality	Amount
Planning materiality: Based on an assessment of the needs of users of the financial statements and the nature of the Commission's operations, gross expenditure has been used to determine materiality based on the audited 2023/24 financial statements. Materiality has been set at 1 per cent of gross expenditure.	£34,000
Performance materiality: This acts as a trigger point. If the aggregate of misstatements identified during the audit exceeds performance materiality, this could indicate that further audit procedures are required. Using professional judgement, performance materiality has been set at 50 per cent of planning materiality. This reflects our planned level of testing for the 2024/25 audit.	£17,000
Reporting threshold: We are required to report to those charged with governance on all unadjusted misstatements greater than this amount.	£2,000

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

15. The risk assessment process draws on the audit team's cumulative knowledge of the Commission, including the nature of its operations and its significant transaction streams, the system of internal control, governance arrangements and processes, and developments that could impact on its financial reporting.

16. Based on the risk assessment process, two significant risks of material misstatement to the financial statements have been identified. [Exhibit 2](#) summarises these risks and the audit procedures we plan to perform to gain assurance over them.

Exhibit 2

Significant risks of material misstatement and opinion risks for the financial statements

Nature of risk	Planned audit response
<p>1. Risk of material misstatement caused by management override of controls</p> <p>As stated in ISA (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> • Detailed testing of transactions and journals with a focus on significant risk areas, including year-end and post-close down entries. • Focussed testing of accruals and prepayments. • Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. • Review of significant accounting estimates. • Evaluation of significant transactions outside the normal course of business.
<p>2. Risk to regularity opinion</p> <p>Auditors are required by the Public Finance and Accountability (Scotland) Act 2000 to report on whether expenditure and income were incurred or applied, in all material respects, in accordance with applicable enactments and guidance issued by Scottish Ministers (generally referred to as the regularity opinion).</p> <p>The regularity opinion on the Commission's 2023/24 accounts was qualified as our audit identified material expenditure for the year ended 31 March 2024 that was not incurred in accordance with applicable enactments and guidance issued by Scottish Ministers.</p>	<ul style="list-style-type: none"> • Substantive testing of expenditure transactions across the full financial year against the requirements of the Commission's Financial Policies and Guidelines and the requirements of the Scottish Public Finance Manual. • Targeted testing of potentially contentious expenditure to support our regularity opinion, including focussed testing of travel and subsistence costs, and consultancy expenditure.

Nature of risk	Planned audit response
<p>There is a risk that expenditure for the year end 31 March 2025 will also not be incurred in accordance with applicable enactments and guidance issued by Scottish Ministers and result in a qualified regularity opinion on the Commission's 2024/25 accounts.</p>	

Source: Audit Scotland

Audit of Performance Report, Governance Statement, and audited part of the Remuneration and Staff Report

17. In addition to the appointed auditor's opinion of the financial statements, the Auditor General for Scotland prescribes that the appointed auditor should provide opinions as to whether the Performance Report, Governance Statement, and the audited part of the Remuneration and Staff Report, have been compiled in accordance with the appropriate regulations and frameworks and are consistent with the financial statements.

18. To inform these opinions we will consider whether the disclosures within each statement comply with the requirements of the applicable guidance, and confirm that relevant information reflects the contents of the financial statements and other supporting documentation.

19. Based on our knowledge of the audit, and the established procedures in place to produce these statements, we have not identified any disclosure risks for these statements for the 2024/25 Annual Report and Accounts.

Key audit matters

20. The risk assessment process is an iterative and dynamic process. The assessment of risks set out in this Annual Audit Plan may change as more information and evidence is obtained over the course of the audit. Where such changes occur, these will be reported to the Commission and those charged with governance.

21. The Code of Audit Practice also requires public sector auditors to communicate key audit matters. Key audit matters are those matters, that in the auditor's professional judgement, are of most significance to the audit of the financial statements and require most attention when performing the audit. The matters determined to be key audit matters from the 2024/25 audit will be communicated in the Annual Audit Report.

Wider scope and Best Value

22. Reflecting the fact that public money is involved, the Code of Audit Practice requires that public audit is planned and undertaken from a wider perspective than in the private sector. The wider scope audit set out by the Code of Audit Practice broadens the audit of the annual report and accounts to include consideration of additional aspects or risks in four wider scope areas, which are summarised below:

- **Financial Management** – This means having sound budgetary processes. We will consider the arrangements to secure sound financial management, including the strength of the financial management culture, accountability, and arrangements to prevent and detect fraud, error, and other irregularities.
- **Financial Sustainability** – We will look ahead to consider whether the body is planning effectively to continue to deliver services and comment on financial sustainability in the medium (two to five years) to longer term (longer than five years) in our Annual Audit Report.
- **Vision, Leadership and Governance** – We will conclude on the clarity of plans in place to deliver the vision, strategy, and priorities adopted by the Commission. We also consider the effectiveness of the governance arrangements to support delivery.
- **Use of Resources to Improve Outcomes** – We will consider how the Commission demonstrates economy, efficiency, and effectiveness through the use of financial and other resources.

23. A conclusion on the effectiveness and appropriateness of arrangements the Commission has in place for each of the wider scope areas will be reported in the Annual Audit Report.

Wider scope risks

24. Our planned work on our wider scope responsibilities is risk based and proportionate. We have identified two areas for specific focus as part of the 2024/25 audit of the Commission.

Strategic direction and culture of the organisation

25. As reported in our 2023/24 Annual Audit Report, the Commission is implementing an organisational change programme to address the issues reported in the Section 22 reports on the 2022/23 and 2023/24 audits, and deal with wider issues across the organisation, including a lack of clear lines of responsibility and accountability within the current organisational structure. The programme is centred on clarifying roles and responsibilities, aligning budgets effectively, and strengthening the

Commission's risk and assurance functions, communication strategies, and hybrid working practices. It also reflects the need to strengthen key function areas such as human resources, risk, assurance and communications.

26. The actions in the organisational change programme commenced in 2024/25 but are expected to continue in 2025/26. This includes the appointment of a permanent Chief Executive, and two new directors as part of the Commission's restructuring.

27. As part of our 2024/25 audit we will consider the progress made with the implementation of the organisational change programme, and the impact of these actions on the strategic direction and culture of the organisation.

Value for money in the use of public funds

28. In addition to the non-compliant expenditure identified as part of our 2023/24 audit, we also identified expenditure during the year which complied with the Commission's Financial Policies and Guidelines but which may not have represented the best value for money for the public purse. This included items claimed via staff expenses and significant expenditure on consultancy and legal advice during the year.

29. Given the nature of the Commission's regulatory role, and the size of the organisation, it is unavoidable that it will require to engage external experts as it is not practical for it to have, for example, its own legal team or to employ a specialist engineer on a permanent basis. Therefore, it is vital that staff across the organisation understand the importance of demonstrating value for money when engaging external experts and are confident in assessing the value for money of different options.

30. As part of our 2024/25 audit we will review the Commission's use of consultants and external experts and obtain evidence that management can demonstrate this expenditure represented value for money. We will also consider the value for money of other expenditure incurred by the Commission during the year, including staff expense claims.

Duty of Best Value

31. The [Scottish Public Finance Manual](#) (SPFM) explains that Accountable Officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. [Best Value in public services: guidance for Accountable Officers](#) is issued by Scottish Ministers and sets out their duty to ensure that arrangements are in place to secure Best Value in public services.

32. Consideration of the arrangements the Commission has in place to secure Best Value will be carried out alongside the wider scope audit, and a conclusion on the arrangements the Commission has in place will be reported in the Annual Audit Report.

Reporting arrangements, timetable and audit fee

Audit outputs

33. The outputs from the 2024/25 audit include:



- This Annual Audit Plan.
- An Independent Auditor's Report to the Commission, the Auditor General for Scotland, and the Scottish Parliament setting out opinions on the annual report and accounts.
- An Annual Audit Report to the Commission and the Auditor General for Scotland setting out significant matters identified from the audit of the annual report and accounts, conclusions from the wider scope and Best Value audit, and recommendations for improvement, where required.

34. The matters to be reported in the outputs will be discussed with the Commission to confirm their factual accuracy before they are issued. All outputs from the audit will be published on Audit Scotland's website, apart from the Independent Auditor's Report (commonly known as the audit certificate) which will be included in the audited annual report and accounts and signed by the appointed auditor.

Audit timetable

35. Achieving the timetable for production of the annual report and accounts, supported by complete and accurate working papers, is critical to delivery of the audit to agreed target dates. [Exhibit 3](#) includes a proposed timetable for the audit, which has been agreed with management. Agreed target dates will be kept under review as the audit progresses, and any changes required, and their potential impact, will be discussed with the Commission and reported to those charged with governance, where required.

Exhibit 3**Proposed 2024/25 audit timetable**

 Key stage	 Provisional Date
Latest submission date of the unaudited annual report and accounts with complete working papers package	15 September 2025
Latest date for final clearance meeting with Accountable Officer and Head of Finance	4 November 2025
Agreement of audited annual report and accounts for consideration by the Audit and Risk Committee	11 November 2025
Issue of Proposed Annual Audit Report to those charged with governance (along with template letter of representation and proposed independent auditor's report)	11 November 2025
Audit and Risk Committee meeting to consider proposed Annual Audit Report and audited annual report and accounts	18 November 2025
Board meeting to approve and sign audited annual report and accounts	11 December 2025
Independent auditor's report certified by appointed auditor and Annual Audit Report finalised and issued	11 December 2025

Source: Audit Scotland

Audit fee

36. Audit Scotland wrote to the Commission on 27 January 2025 with a breakdown of the total expected fees for the 2024/25 external audit. This showed an expected fee of £19,670 based on an assumption that WICS has effective governance arrangements, will prepare comprehensive and accurate accounts for audit, and that there will be no additional work required beyond the scope of a normal financial statements audit. More information on Audit Scotland's approach to setting audit fees and invoicing can be found [here](#).

37. Where additional audit work is required beyond the scope of a normal financial statements audit, the appointed auditor is permitted to adjust the audit fee to reflect the expected costs of this work. Due to the issues identified during 2023/24, and the work required to follow-up on the findings reported in the Section 22 report on the 2022/23 audit, additional resources were required to deliver the 2023/24 audit. The appointed auditor has taken account of this when setting the actual fee for the 2024/25 audit and also considered the further work that will be required by the local audit team to follow-up on the issues reported in the Section 22

report on the 2023/24 audit. Therefore, Audit Scotland has set an actual fee of £22,963 for the 2024/25 audit of the Commission. This represents an increase of 2.2 per cent compared to the prior year fee of £22,460.

38. We are aware that management has taken corrective action to address the financial management issues reported in 2022/23, which continued in 2023/24 up to December 2023. We will review the effectiveness of these actions during our 2024/25 audit and revisit the fee level for 2025/26.

39. In setting the audit fee, it is assumed that the Commission has effective governance arrangements in place and the complete annual report and accounts will be provided for audit in line with the agreed timetable. The audit fee assumes there will be no significant changes to the planned scope of the audit. Where the audit cannot proceed as planned, for example, due to incomplete or inadequate working papers, the audit fee may need to be increased.

Other matters

Internal audit

40. The Commission is responsible for establishing an internal audit function as part of an effective system of internal control. As part of the audit, the audit team will obtain an understanding of internal audit, including its nature, responsibilities, and activities. The Commission's internal audit function is provided by Azets.

41. While we are not planning to place reliance on the work of internal audit in 2024/25, we will review internal audit reports and assess the impact of the findings on our financial statements and wider scope audit responsibilities.

Audit quality

42. Audit Scotland is committed to the consistent delivery of high-quality audit. Audit quality requires ongoing attention and improvement to keep pace with external and internal changes. Details of the arrangements in place for the delivery of high-quality audits is available from the [Audit Scotland website](#).

43. The International Standards on Quality Management (ISQM) applicable to Audit Scotland for 2024/25 audits are:

- ISQM (UK) 1, which deals with an audit organisation's responsibilities to design, implement, and operate a system of quality management (SoQM) for audits. Audit Scotland's SoQM consists of a variety of components, such as: governance arrangements and culture to support audit quality, compliance with ethical requirements, ensuring Audit Scotland is dedicated to high-quality audit through engagement performance and resourcing arrangements, and ensuring there are robust quality monitoring arrangements in place. Audit Scotland carries out an annual evaluation of its SoQM and has concluded it complies with this standard.
- ISQM (UK) 2, which sets out arrangements for conducting engagement quality reviews, which are performed by senior management not involved in an audit. This includes a review of significant judgements and conclusions reached by the audit team, and the appropriateness of proposed audit opinions on high-risk audits.

44. To monitor quality at an individual audit level, Audit Scotland carries out internal quality reviews on a sample of audits. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) carries out independent quality reviews on a sample of audits.

45. Actions to address deficiencies identified by internal and external quality reviews are included in a rolling Quality Improvement Action Plan, which is used to support continuous improvement. Progress with implementing planned actions is monitored on a regular basis by Audit Scotland's Quality and Ethics Committee.

46. Audit Scotland may periodically seek the views of the Commission on the quality of audit services provided. The audit team would also welcome feedback at any time, and this should be directed to the appointed auditor.

Water Industry Commission for Scotland

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