

# Water Industry Commission for Scotland

## 2024/25 Annual Audit Report



Prepared for the Water Industry Commission for Scotland  
and the Auditor General for Scotland  
December 2025

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# Key messages

## Audit of the annual report and accounts

- 1 The issues that resulted in a qualified regularity opinion on the prior year accounts have been addressed, and our regularity opinion on the Commission's 2024/25 annual report and accounts is unmodified. Our other audit opinions are also unmodified.
- 2 The accounts and working papers presented for audit were of a good standard and management and finance staff provided excellent support to the team during the audit process. This helped ensure that the final accounts audit was completed in line with the audit timetable, with the 2024/25 annual report and accounts certified on 12 December 2025.
- 3 Progress has been made against all our prior year recommendations, with the remaining actions being taken forward as part of the wider activity for the 2027-33 corporate planning period.

## Financial management and sustainability

- 4 The Commission reported an operating surplus of £1.2 million for 2024/25. This was partly attributable to in-year vacancies in senior posts which have now been filled, and therefore staff costs will increase during 2025/26.
- 5 The 2024/25 surplus resulted in cash reserves increasing to £6.0 million at 31 March 2025. A decision on an appropriate reserves level will not be taken until the levy levels are determined for the 2027-2033 corporate planning period. We do not currently have any concerns about the financial sustainability of the Commission.
- 6 Internal audit provided reasonable assurance on the Commission's system of internal control for 2024/25, the highest level of assurance they can provide.
- 7 Arrangements for the prevention and detection of fraud and error have been strengthened to address areas for improvement identified by internal audit.

## Vision, Leadership and Governance

- 8** The Public Audit Committee's report on the 2022/23 and 2023/24 audits included a range of recommendations for the Commission. Good progress has been made in these areas through the organisational change programme activity, including actions taken to strengthen the leadership, governance and financial management of the organisation.
- 9** Governance arrangements operated satisfactorily during 2024/25 and have been further strengthened by the actions taken following the Board's review of the Commission's governance framework in May 2025. An Organisational Change Assurance Group was established to oversee the delivery of the organisational change programme.
- 10** The Board approved four new HR policies to address gaps in the Commission's people management practices. Management has also taken action to improve the Commission's whistleblowing arrangements. The Commission is due to complete its annual staff survey in November 2025. Management should give careful consideration to the responses on the culture of the organisation, and bullying and harassment, and the need for any further action in these areas.
- 11** The Commission has revised its organisational structure to better reflect its operational requirements, and support staff development and career progression. The Commission published the final methodology for the Strategic Review of Charges 2027-33 in December 2024 and the process is progressing in line with the programme timetable.
- 12** Three permanent non-executive board members were appointed in August 2025. However, a permanent Chair has still to be appointed, and the Board is exploring its options to ensure the Audit and Risk Committee has appropriate Public Sector finance experience.
- 13** Management should continue to work with its Scottish Government sponsor team to establish a sponsorship relationship that strikes the right balance between oversight and assurance, and the responsibilities of the appointed Accountable Officer.

## Use of resources to improve outcomes

- 14** We are content that there is now an appropriate focus on Best Value, and management are continuing to embed this across the organisation.
- 15** The appointments of consultants during 2024/25 were supported by appropriate business cases and value for money assessments, and we did not identify any inappropriate travel and subsistence expenditure during the year.
- 16** Management has committed to develop a new suite of metrics and KPIs for the 2027-33 corporate planning period that will enable the Commission to clearly measure and report its annual performance.

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# Introduction

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## Purpose of the Annual Audit Report

1. This report sets out the findings from the 2024/25 audit of the annual report and accounts of the Water Industry Commission for Scotland (the Commission) and the wider scope areas specified in the [Code of Audit Practice](#).
2. The report is addressed to the Commission and the Auditor General for Scotland, and will be published on the [Audit Scotland website](#) once the audited accounts have been laid at the Scottish Parliament.

## Scope of the audit

3. The audit was performed in accordance with the Code of Audit Practice, including supplementary guidance, International Standards on Auditing (ISA) (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, including the Performance Report and the Governance Statement, and an opinion on the audited part of the Remuneration and Staff Report.
- Conclusions on the arrangements in relation to the wider scope areas: Financial Management and Financial Sustainability; Vision, Leadership and Governance; and Use of Resources to Improve Outcomes.
- Reporting on the arrangements for securing Best Value.

## Appointed auditor and independence

4. Richard Smith, Senior Audit Manager, has been appointed by the Auditor General for Scotland as the external auditor of the Commission. As reported in the Annual Audit Plan, Richard and the audit team are independent of the Commission in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. There have been no developments since the issue of the Annual Audit Plan that impact on the continued independence of the engagement

lead or the rest of the audit team, including the provision of non-audit services.

## Responsibilities and reporting

**5.** 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

**6.** 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 the arrangements in place for the wider scope areas and Best Value.

**7.** This report includes an agreed action plan at [Appendix 1](#). This sets out specific recommendations to address matters identified and includes details of the agreed action, responsible officer, and dates for implementation.

**8.** Weakness or risks identified in this report are only those that have been identified by the audit team during normal audit work and may not be all that exist. Communicating these does not absolve management or the Audit and Risk Committee, as those charged with governance, of the responsibilities outlined below.

### 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 the annual report and accounts, comprising financial statements and other specified information that give 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.

## National and performance audit reporting

**10.** The Auditor General for Scotland and the Accounts Commission regularly publish national and performance audit reports. These cover a range of matters, many of which may be of interest to the Commission. Details of national and performance audit reports published over the last year can be seen in [Appendix 2](#).

## Acknowledgements

**11.** We would like to thank all management and staff, particularly those involved in the preparation of the annual report and accounts, for their cooperation and assistance during the audit. We look forward to continuing to work together constructively over the remainder of the five-year audit appointment.

# 1. Audit of the annual report and accounts

## Main judgements

The issues that resulted in a qualified regularity opinion on the prior year accounts have been addressed, and our regularity opinion on the Commission's 2024/25 annual report and accounts is unmodified. Our other audit opinions are also unmodified.

The accounts and working papers presented for audit were of a good standard and management and finance staff provided excellent support to the team during the audit process. This helped ensure that the final accounts audit was completed in line with the audit timetable, with the 2024/25 annual report and accounts certified on 12 December 2025.

Progress has been made against all our prior year recommendations, with the remaining actions being taken forward as part of the wider activity for the 2027-33 corporate planning period.

## **The issues that resulted in a qualified regularity opinion on the prior year accounts have been addressed, and our regularity opinion on the Commission's 2024/25 annual report and accounts is unmodified**

**12.** The regularity opinion on the Commission's 2023/24 annual report and accounts was qualified as our prior year 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.

**13.** During our 2024/25 audit we undertook substantive testing of expenditure transactions across the full financial year, and targeted testing of potentially contentious expenditure to support our regularity opinion. This included focussed testing of travel and subsistence costs, and consultancy expenditure.

**14.** Our testing confirmed that the issues that resulted in a qualified regularity opinion on the prior year accounts have been addressed, and we were able to conclude that 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. Therefore, our regularity opinion on the Commission's 2024/25 annual report and accounts is unmodified.

## **Audit opinions on the annual report and accounts were unmodified**

**15.** The Board approved the annual report and accounts for the Commission for the year ended 31 March 2025 on 12 December 2025. The independent auditor's report included the following unmodified audit opinions on the annual report and accounts:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- expenditure and income were in accordance with applicable enactments and guidance
- the audited part of the remuneration and staff report was prepared in accordance with the financial reporting framework
- the performance report and governance statement were consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

## **The 2024/25 annual report and accounts were certified on 12 December 2025, in line with the agreed audit timetable**

**16.** We received the unaudited annual report and accounts on 15 September 2025, in line with the agreed audit timetable. The accounts and working papers presented for audit were of a good standard and management and finance staff provided excellent support to the team during the audit process. This helped ensure that the final accounts audit was completed in line with the audit timetable, with the 2024/25 annual report and accounts certified on 12 December 2025.

## **The fee charged for the 2024/25 external audit was £22,963**

**17.** The fee for the 2024/25 audit was reported in our annual audit plan and was set at £22,963. There have been no developments that have significantly impacted on the planned audit work required, therefore the audit fee reported in the annual audit plan remains unchanged.

## **Our audit approach and testing was informed by the overall materiality level of £30,000**

**18.** 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.

**19.** The concept of materiality is to determine whether misstatements identified during the audit could reasonably be expected to influence the decisions of users of the annual report and accounts. 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.

**20.** Our initial assessment of materiality was carried out during the planning phase of the audit and was based on the financial results reported in the audited 2023/24 annual report and accounts. These materiality levels were reported in our annual audit plan to the May 2025 meeting of the Audit and Risk Committee.

**21.** On receipt of the unaudited 2024/25 annual report and accounts we revised our materiality levels to reflect the financial results for the year ended 31 March 2025. These are detailed in [Exhibit 1](#).

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### Exhibit 1

#### Materiality levels set for the 2024/25 audit

Materiality	Amount
<b>Overall materiality:</b> This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements and is set based on our assessment of the needs of the users of the financial statements and the nature of the Commission's operations. Materiality was set at 1 per cent of gross expenditure.	£30,000
<b>Performance materiality:</b> 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 was set at 50 per cent of overall materiality.	£15,000
<b>Reporting threshold:</b> We are required to report to those charged with governance on all unadjusted misstatements greater than the 'reporting threshold' amount.	£2,000

Source: Audit Scotland

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### Our audit work identified and responded to the significant risks of material misstatement

**22.** [Exhibit 2](#) sets out the significant risks of material misstatement we identified for the Commission's 2024/25 annual report and accounts. It also summarises the further audit procedures we performed during the year to obtain assurances over these risks and the outcome of this work.

**Exhibit 2****Significant risks of material misstatement and opinion risks for the financial statements**

Risk of material misstatement	Audit response	Outcome of audit work
<p><b>1. Risk of material misstatement caused by management override of controls</b></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"> <li>• Detailed testing of transactions and journals with a focus on significant risk areas, including year-end and post-close down entries.</li> <li>• Focussed testing of accruals and prepayments.</li> <li>• Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year.</li> <li>• Review of significant accounting estimates.</li> <li>• Evaluation of significant transactions outside the normal course of business.</li> </ul>	<p><b>Our audit procedures did not identify any instances of management override of controls to manipulate the financial position reported in the 2024/25 financial statements</b></p>

Risk of material misstatement	Audit response	Outcome of audit work
<p><b>2. Risk to regularity opinion</b></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> <p>There is a risk that expenditure for the year ended 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>	<ul style="list-style-type: none"> <li>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.</li> <li>Targeted testing of potentially contentious expenditure to support our regularity opinion, including focussed testing of travel and subsistence costs, and consultancy expenditure.</li> </ul>	<p><b>We obtained sufficient assurance from the audit procedures performed to support our regularity opinion on the 2024/25 accounts.</b></p>

Source: Audit Scotland

**We reported the significant findings from the audit to those charged with governance prior to the annual report and accounts being approved and certified**

**23.** International Standard on Auditing (UK) 260 requires auditors to communicate significant findings from the audit to those charged with governance, which for the Commission is the Audit and Risk Committee, prior to the audited annual report and accounts being approved and certified.

**24.** The Code of Audit Practice also requires public sector auditors to communicate key audit matters. These are the matters that, in the auditor's professional judgement, are of most significance to the audit of the financial statements.

**25.** The significant findings are detailed in [Exhibit 3](#). Our audit also identified other presentational and disclosure issues which were discussed with management. These were adjusted in the audited annual report and

accounts, and none of these were significant enough to require to be separately reported under ISA260.

### Exhibit 3

#### Significant findings and key audit matters

Issue	Resolution
<p><b>1. Pension adjustment errors</b></p> <p>Under IAS 19, entities are permitted to recognise employee pension contributions as a reduction of the current service cost during the year.</p> <p>We identified that the Commission has been recognising the employer, rather than employee, contributions as a reduction.</p> <p>This resulted in staff cost expenditure being understated and the actuarial loss through other comprehensive income being overstated by £248k in 2024/25 and £336k in 2023/24.</p>	<p>Both the 2024/25 error, and the prior year error have been amended in the audited 2024/25 Annual Report and Accounts, and a disclosure note has been included to explain the prior period adjustment.</p>
<p><b>2. IFRS16 lease accounting</b></p> <p>As detailed at paragraphs <a href="#">68.</a> to <a href="#">73.</a>, on 1 January 2025 Zero Waste Scotland renounced the sub-lease agreement and the lease of Moray House in Stirling reverted back to the Commission.</p> <p>To ensure that the renunciation of the sub-lease agreement between the Commission and Zero Waste Scotland had been correctly accounted for in the 2024/25 accounts we reviewed the relevant accounting entries against the requirements of <i>IFRS16. Leases</i>.</p>	<p>We are content that the change in leasing arrangements has been accounted for in line with the requirements of IFRS16 in the audited 2024/25 Annual Report and Accounts.</p> <p>We are also satisfied that the shared space arrangement between the Commission and Zero Waste Scotland does not represent a lease agreement within the scope of IFRS16.</p> <p>This has been reported for member information as it is considered a key audit matter under ISA260.</p>

Issue	Resolution
<p><b>3. Under-accrual of 2023/24 travel costs</b></p> <p>Our expenditure testing identified a payment of £2,460 for a flight that occurred in October 2023 but was not billed to the Commission by Corporate Travel Management until October 2024. Management advised that no accrual had been reflected in the prior year accounts for this item as they were unaware that this amount had still to be invoiced for.</p> <p>This resulted in expenditure in the 2023/24 accounts being understated by £2,460 and expenditure in the 2024/25 accounts being overstated by £2,460.</p>	<p>Both the 2024/25 error, and the prior year error have been amended in the audited 2024/25 Annual Report and Accounts, and a disclosure note has been included to explain the prior period adjustment.</p>
<p><b>4. Performance Report – Sustainability disclosures</b></p> <p>In line with the requirements of the 2024/25 Government Financial Reporting Manual (FReM), Non-Departmental Public Bodies should disclose and describe the organisation's oversight of climate related issues. In addition, the FReM sets out a series of enhanced sustainability disclosures required as part of the 2024/25 Performance Report:</p> <ul style="list-style-type: none"> <li>• The metrics used to measure and manage climate related issues in line with the body's strategy and risk management process. This should include trend analysis.</li> <li>• The targets used by the body to manage climate-related issues and details of performance against those targets.</li> <li>• The process for identifying, assessing and managing climate-related risks and how this is incorporated within the body's overall risk management framework.</li> </ul> <p>We noted that the '<i>Our Sustainability Performance</i>' section of the Performance Report presented for audit included some greenhouse gas emissions data for transport and travel, but did not fully comply with the new enhanced sustainability disclosure reporting requirements set out above.</p>	<p>As the omission of this information is not considered a material departure from the Performance Report reporting requirements, it has not impacted upon our opinion on the report.</p> <p><b>Recommendation 1</b></p> <p>Management should consider the applicability of the enhanced sustainability disclosure reporting requirements, and the additional disclosures that will be required in 2025/26, and apply these proportionately to enable relevant information to be reported in the Performance Report in the Commission's annual report and accounts from 2025/26 onwards.</p>

**All misstatements identified during the 2024/25 audit were corrected in the audited annual report and accounts**

**26.** It is our responsibility to request that all misstatements, other than those below our reporting threshold, are corrected but the final decision on making the correction lies with those charged with governance, considering advice from senior staff and materiality.

**27.** Two misstatements were identified during the audit which exceeded our reporting threshold (issues 1 and 3 in [Exhibit 3](#)). These were both corrected in the audited annual report and accounts and so we have no unadjusted errors to report.

**Progress has been made against all our prior year recommendations, with the remaining actions being taken forward as part of the wider activity for the 2027-33 corporate planning period**

**28.** Our 2023/24 annual audit reported included six recommendations for improvement. The Commission has taken action in response to these as detailed in [Appendix 1](#). Four recommendations are now fully completed, and two are being taken forward as part of the wider activity for the 2027-33 corporate planning period.

## 2. Financial management and sustainability

### Conclusions and judgements

The Commission reported an operating surplus of £1.2 million for 2024/25. This was partly attributable to in-year vacancies in senior posts which have now been filled and therefore staff costs will increase during 2025/26.

The 2024/25 surplus resulted in cash reserves increasing to £6.0 million at 31 March 2025. A decision on an appropriate reserves level will not be taken until the levy levels are determined for the 2027-2033 corporate planning period. We do not currently have any concerns about the financial sustainability of the Commission.

Internal audit provided reasonable assurance on the Commission's system of internal control for 2024/25, the highest level of assurance they can provide.

Arrangements for the prevention and detection of fraud and error have been strengthened to address areas for improvement identified by internal audit.

**The Commission reported an operating surplus of £1.2 million for 2024/25. This was partly attributable to in-year vacancies in senior posts which have now been filled and therefore staff costs will increase during 2025/26.**

**29.** The Commission is funded by a levy paid by Scottish Water and Licensed Providers of retail services in the non-household market. For 2021-2027 the Scottish Government approved levies totalling £24.67 million, [Exhibit 4](#), to fund the Commission's activities over the six-year regulatory control period.

### Exhibit 4

#### Levy income set for 2021-2027 regulatory control period

	21/22 £m	22/23 £m	23/24 £m	24/25 £m	25/26 £m	26/27 £m	Total £m
Scottish Water levy	2.26	2.28	2.30	2.32	2.35	2.37	13.88
Licensed Provider's levy	1.67	1.72	1.77	1.82	1.88	1.93	10.79
<b>Total levy income</b>	<b>3.93</b>	<b>4.00</b>	<b>4.07</b>	<b>4.14</b>	<b>4.23</b>	<b>4.30</b>	<b>24.67</b>

Source: [Water Industry Commission for Scotland Corporate Plan 2021-2027](#)

**30.** For 2024/25 the Commission reported an operating surplus of £1.216 million (£1.142 million in 2023/24), as shown in [Exhibit 5](#). This reflected annual income of £4.134 million (including actual levy income of £4.043 million) and expenditure of £2.918 million (with 72 per cent relating to staff costs). The increased surplus reported for the year was mainly attributable to:

- a £0.274 million (13 per cent) decrease in staff costs due to changes in senior staff and other vacancies,
- travel and subsistence costs reducing from £0.148 million in 2023/24 to £0.025 million in 2024/25 due to international work being paused and a reduction in domestic travel, and
- consultancy expenditure being £0.475 million less than budgeted as a result of a more disciplined approach to the use of external consultants and a greater focus on value for money than in prior years.

### Exhibit 5

#### Operating surpluses reported over the 2021-2027 control period

	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	Cumulative position for 2021-2027 control period £m
Income	4.481	5.288	4.519	4.134	14.288
Expenditure	(3.871)	(4.037)	(3.378)	(2.918)	(11.285)
<b>Operating surplus / (deficit)</b>	<b>0.610</b>	<b>1.251</b>	<b>1.142</b>	<b>1.216</b>	<b>4.219</b>

Source: Water Industry Commission for Scotland 2024/25 Annual Report and Accounts

**Cash reserves increased to £6.0 million at 31 March 2025. A decision on an appropriate reserves level will not be taken until the levy levels are determined for the 2027-2033 corporate planning period**

**31.** At the end of the previous six-year regulatory period the Commission held a cash and cash equivalents balance of £2.452 million. This has now increased to £5.956 million at 31 March 2025 as a result of the operating surpluses achieved in the first four years of the 2021-2027 regulatory period, [Exhibit 5](#).

**32.** The level of the cash reserves held at 31 March 2025 represented 204 per cent of the Commission's 2024/25 expenditure, and current liabilities at the year-end totalled only £0.197 million.

**33.** We recommended in our 2023/24 annual audit report that management review the level of cash reserves needed to be retained to cover the Commission's future costs, so that any excess funds can be returned to Scottish Water and Licensed Providers.

**34.** Our prior year recommendation will be addressed by the development of the Commission's reserves policy which will be delivered as part of the financial sustainability review, discussed at paragraphs [94.](#) to [97.](#) However, as this is linked to the 2027-33 review of charges, a decision on an appropriate reserves level will not be taken until this work is concluded and the levy levels are determined for the next corporate planning period.

### **We do not currently have any concerns about the financial sustainability of the Commission**

**35.** As shown in [Exhibit 5](#), the Commission has reported an operating surplus in each year of the current regulatory control period and has achieved a cumulative surplus of £4.219 million over that period.

**36.** In 2024/25, the Commission's expenditure totalled £2.918 million which was £1.125 million less than the levy income of £4.043 million received during the year, and it held cash reserves of £5.956 million at 31 March 2025.

**37.** We are aware that the Commission operated with a number of vacancies in senior posts, and other roles, during 2024/25 and therefore staff costs will increase as these posts are filled and the new structure continues to be implemented (discussed at paragraphs [53.](#) to [59.](#)). However, based on the financial position at 31 March 2025 we do not currently have any concerns about the financial sustainability of the Commission.

### **Internal audit's review of Financial Procedures confirmed that these have been revised to a high standard and action to address the recommendations for further improvement were completed by August 2025**

**38.** Azets were appointed as the Commission's new internal auditors for the period 2024-27 in October 2024. The 2024/25 Internal Audit Plan included a review of the Commission's financial procedures to ensure they were robust, appropriate and proportionate. This also considered the Commission's arrangements for consultancy spend and anti-fraud arrangements.

**39.** Azets presented the Financial Procedures report to the February 2025 meeting of the Audit and Risk Committee. The conclusion stated:

- In light of the Section 22 and associated audit recommendations, we have confirmed that the Water Industry Commission for Scotland has revised their financial procedures to a high standard. We have identified several areas where the organisation has made improvements, primarily driven by the implementation of audit recommendations and their associated actions. We also found*

*there is a high degree of detailed reporting on consultancy spending with clear oversight and monitoring over the purpose and costs associated.*

- *We also identified several areas where further improvements should be made. A key area is the creation of anti-fraud controls including the development of a counter-fraud policy, carrying out regular fraud risk assessments and providing counter-fraud training to staff.*

**40.** Management accepted the recommendations in the report and agreed actions to address these. Azets reported to the August 2025 meeting of the Audit and Risk Committee that all these actions had been completed.

### **Internal audit provided reasonable assurance on the Commission's system of internal control for 2024/25, the highest level of assurance they can provide**

**41.** The Chief Internal Auditor is required to provide the Commission with an annual opinion on the overall adequacy and effectiveness of the risk management, control and governance processes (known as the system of internal control). The purpose of the Chief Internal Auditor's Opinion is to contribute to the assurances available to the Accountable Officer and the Board, for their assessment of the effectiveness of internal control.

**42.** Azets issued the 2024/25 Internal Audit Annual Report and Opinion in May 2025. This stated that: *"In our opinion, WICS has a framework of governance, risk management and controls that provides reasonable assurance regarding the effective and efficient achievement of objectives."*

**43.** The report also noted that: *"In giving our opinion it should be noted that assurance can never be absolute. The most that the internal audit service can provide is reasonable assurance that there are no major weaknesses in the whole system of internal control."*

### **Arrangements for the prevention and detection of fraud and error have been strengthened to address areas for improvement identified by internal audit**

**44.** The Commission is responsible for implementing effective systems of internal control which safeguard public assets and prevent and detect fraud, error and irregularities, bribery and corruption. It is also responsible for ensuring that its affairs are managed in accordance with proper standards of conduct by putting effective arrangements in place.

**45.** As discussed at paragraphs [38.](#) to [40.](#), internal audit's review of Financial Procedures identified the creation of anti-fraud controls including the development of a counter-fraud policy, carrying out regular fraud risk assessments and providing counter-fraud training to staff, as key areas for improvement. Azets reported to the August 2025 meeting of the Audit and Risk Committee that the management actions to address these weaknesses had been completed.

# 3. Vision, Leadership and Governance

## Conclusions and judgements

The Public Audit Committee's report on the 2022/23 and 2023/24 audits included a range of recommendations for the Commission. Good progress has been made in these areas through the organisational change programme activity, including actions taken to strengthen the leadership, governance and financial management of the organisation.

Governance arrangements operated satisfactorily during 2024/25 and have been further strengthened by the actions taken following the Board's review of the Commission's governance framework in May 2025. An Organisational Change Assurance Group was established to oversee the delivery of the organisational change programme.

The Board approved four new HR policies to address gaps in the Commission's people management practices. Management has also taken action to improve the Commission's whistleblowing arrangements. The Commission is due to complete a staff survey in November 2025. Management should give careful consideration to the responses on the culture of the organisation, and bullying and harassment, and the need for any further action in these areas.

The Commission has revised its organisational structure to better reflect its operational requirements, and support staff development and career progression. The Commission published the final methodology for the Strategic Review of Charges 2027-33 in December 2024 and the process is progressing in line with the programme timetable.

Three permanent non-executive board members were appointed in August 2025. However, a permanent Chair has still to be appointed, and the Board is exploring its options to ensure the Audit and Risk Committee has appropriate Public Sector finance experience.

Management should continue to work with its Scottish Government sponsor team to establish a sponsorship relationship that strikes the right balance between oversight and assurance, and the responsibilities of the appointed Accountable Officer.

## The Public Audit Committee's report on the 2022/23 and 2023/24 audits included a range of recommendations for the Commission to address weaknesses in governance and financial management arrangements

**46.** In May 2025 the Public Audit Committee published its report on [The 2022/23 and 2023/24 audits of the Water Industry Commission for Scotland](#). This report sets out the Committee's key observations and conclusions based on the evidence it considered through its scrutiny of the Auditor General for Scotland's Section 22 reports on the 2022/23 and 2023/24 audits of the Commission. The report concluded that:

- *As a public body and economic regulator of Scottish Water, the Committee considers that WICS has failed to lead by example in respect of ensuring value for money, as evidenced by the significant weaknesses in its governance and financial management arrangements highlighted by the Auditor General for Scotland in his section 22 reports.*
- *On the basis of the evidence it received, the Committee considers that not one individual or body is responsible for the catalogue of failures that occurred at WICS. It is clear that the WICS Board and Audit and Risk Committee, along with the Scottish Government and the former Chief Executive all failed to meet the standards required of them and contributed to an unacceptable use of public funds.*

**47.** The report also contained a range of recommendations for both the Commission and the Scottish Government covering areas including leadership, governance, scrutiny, financial management and controls, and sponsorship arrangements. Our judgements and conclusions on the progress made in these areas are provided within the relevant sections of this report.

## An Organisational Change Assurance Group was established to oversee the delivery of the Organisational Change programme

**48.** 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 the lack of clear lines of responsibility and accountability within the previous 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. The review and overhaul of the scheme of delegation to ensure the Board's role and responsibilities reflect those of Commissioners set out in the [Water Services \(Scotland\) Act 2005](#), that created the Water Industry Commission for Scotland in 2005, was critical

to the organisational change programme. The programme also reflected the need to strengthen key function areas such as human resources, risk, assurance and communications.

**49.** In early 2025, an external project management specialist was engaged by the Commission to assist in pulling together the various strands of the organisational change programme, and other improvement actions and activity, into a cohesive project plan with a clear timeline and key milestones towards the delivery of the programme objectives. This included identifying leads for each workstream and ensuring that realistic and achievable dates were set for the delivery of these. An Organisational Change Project Dashboard was created to track and report progress, and the Commission also identified the key internal and external risk factors that could impact upon the delivery of the programme, and captured these in a project risk register.

**50.** Alongside the preparation of the Organisational Change programme project plan, an Organisational Change Assurance Group (OCAG) was established. The terms of reference of the OCAG set out that: *"The Group has been established to oversee the progress of the Organisational Change programme on behalf of the Board. This programme aims to enhance WICS' business performance by implementing practical changes that address both audit findings and WICS' delivery model. The programme consists of 52 activities covering Governance, Human resources, Future working arrangements, and Finance initiatives."*

**51.** The OCAG included board member representation and operated as a sub-committee reporting progress on the programme to each meeting of the Board.

**52.** Management has advised that once the deliverables of the Organisational Change Programme are complete, this group will be disbanded and the People Committee (discussed at paragraph [62.](#)) will take on responsibility for monitoring the longer-term impact of these actions.

## **The Commission has revised its organisational structure to better reflect its operational requirements, and support staff development and career progression**

**53.** A key element of the Organisational Change programme is the Commission's review of its existing organisational structure to clarify roles and responsibilities of all staff, and ensure these reflect the current and future operational requirements of the organisation.

**54.** The first phase of this process was reviewing the leadership team structure to support the Chief Executive Officer. The previous leadership team comprised 5 posts: Director of Strategy and Governance, Director of Corporate and International Affairs, Director of Analysis, Director of Price Review, and a Chief Operating Officer. However, there was a lack of clarity

over the remit and responsibilities of these roles, including overlapping responsibilities between roles, and no clear line of accountability for some areas of the Commission's operations.

**55.** The Commission's review of the leadership team roles identified the need for four director posts, [Exhibit 6](#). These are intended to create a more decentralised model, enabling clearer delegation of responsibilities, stronger collective decision-making, and improved accountability. The review also considered the remuneration package of the CEO and directors posts and benchmarked these against market comparators. This exercise resulted in reductions in the salary ranges of each of these posts. This will deliver recurring savings to the Commission that can be reinvested to address gaps in the structure elsewhere, to support and enhance the operational activity of the organisation.

## Exhibit 6

### Water Industry Commission for Scotland revised Senior Management Team structure



Source: Water Industry Commission for Scotland 2024/25 Annual Report and Accounts

**56.** In June 2025, David Satti was appointed as the permanent Chief Executive of the Commission, following a competitive recruitment process. Prior to this, he had served as the interim CEO since March 2024. During 2025 the Commission also made appointments to three of the new director posts with two of these posts filled with external appointments. The Director of Performance and Reporting post has still to be filled, due to the impact of the appointment of the interim Chief Executive as the permanent CEO which created an additional vacancy at director level, but recruitment

for this post is currently being undertaken and management expect an appointment to be made by the end of 2025.

**57.** The Commission has also reviewed and revised the organisational structure within the performance and reporting, pricing, and markets directorates to reflect the operational requirements of these areas of the business, and to create a structure that supports the development of staff. It is hoped this will also assist the Commission in retaining staff going forward as there will be greater opportunity for career progression within the organisation than was available under the previous structure.

**58.** A review of the organisational structure of the finance and corporate services directorate has still to be completed as this was delayed until the new Director of Finance and Corporate Services took up their post in October 2025, to ensure they could have input to this process. However, a Head of Human Resources has already been appointed as the lack of an HR function had been identified as a gap in the organisational structure that needed to be filled as a matter of priority to support the activity within the organisational change programme. The Commission expects the review of the finance and corporate services directorate to be completed, and the new structure implemented during 2026.

**59.** We will monitor the implementation and operation of the new organisational structure during the remainder of our audit appointment to assess whether it is delivering the intended operational improvements and wider business benefits.

### **Governance arrangements operated satisfactorily during 2024/25 and have been further strengthened by the actions taken following the Board's review of the Commission's governance framework in May 2025**

**60.** The Public Audit Committee's report on [The 2022/23 and 2023/24 audits of the Water Industry Commission for Scotland](#) (May 2025) highlighted failings in the scrutiny and challenge provided by the Board: *"The Committee is of the view that the Board failed in its responsibilities to ensure that effective arrangements were in place to provide assurance on risk management, governance and internal control and to demonstrate high standards of corporate governance at all times."*

**61.** During our prior year audit we considered the completeness and transparency of reporting to the Board and Audit and Risk Committee (ARC), and the level of scrutiny and challenge of officers by non-executive members, since January 2024 and concluded that improvements had been made in the level of reporting and scrutiny at the Board and ARC. This has continued during 2024/25 and we have no issues to raise with the level of scrutiny and challenge by non-executive members, or the quality of papers and responses provided by officers.

**62.** Improvements have been made to the reporting of people management issues to the Board with the development of a People Dashboard to monitor staffing issues such as vacancies by directorate, staff absence levels, completion of mandatory training, and health and safety incidents. The Board is now establishing a People Committee to drive continuous improvement in matters such as staff engagement and wellbeing. This will operate as a sub-committee to the Board to ensure sufficient focus is given to these areas with any relevant issues escalated to the Board for their consideration.

**63.** We are content that governance arrangements continued to operate satisfactorily during 2024/25. We also note that the Board reviewed the Commission's [Governance Framework](#) in May 2025 and revisions were made to a number of areas to further strengthen the governance arrangements in place. These included changes to the rules of procedure, scheme of delegation and code of conduct to ensure that these align with the [Water Services \(Scotland\) Act 2005](#) that created the Water Industry Commission for Scotland in 2005. The revised framework was approved by the Board at its meeting on 26 June 2025.

**Three permanent non-executive board members were appointed in August 2025. However, a permanent Chair has still to be appointed, and the Board is exploring its options to ensure the Audit and Risk Committee has appropriate Public Sector finance experience.**

**64.** Between April and August 2025 the Board operated with only three non-executive members, two of these being interim appointments. The Public Audit Committee's report on [The 2022/23 and 2023/24 audits of the Water Industry Commission for Scotland](#) (May 2025) recommended that: "...Scottish Ministers give consideration to ensuring the maximum number of Board members, with the required financial and governance skills, are appointed."

**65.** On 28 August 2025 the Cabinet Secretary for Climate Action and Energy announced the appointment of three members to the board of the Commission, one of whom had been an interim board member since July 2024. These new appointments have increased the board membership to five non-executive members and will provide additional capacity to support and scrutinise the activity of the Commission. However, as none of the new board members have a finance background, the Board is exploring its options to ensure the Audit and Risk Committee has appropriate Public Sector finance experience.

**66.** All board members have attended the Scottish Government's 'on board' training and also completed the Commission's revised induction process. We noted that the Commission's mandatory training for board members includes training on fraud awareness and public ethics, and guidance on disclosing and managing conflicts of interest.

**67.** The interim Chair's appointment ends on 31 December 2025 and an announcement on the appointment of a new permanent Chair is expected towards the end of the year.

### **The Board approved a new Hybrid Working Policy in August 2025, and the Commission is in negotiations to extend its lease of Moray House beyond March 2026**

**68.** Prior to the Covid-19 pandemic the Commission was based at offices at Moray House in Stirling, which it leased from Stirling Council. However, following the pandemic the former Chief Executive decided that the Commission did not need a physical office as all staff could work from home. The Commission therefore entered into an agreement to sub-lease Moray House to Zero Waste Scotland (ZWS) from 1 July 2021.

**69.** A key strand of the Organisational Change Programme was to revise the Commission's hybrid working arrangements and to re-establish a physical office presence. This is intended to provide staff with greater opportunities for in-person interaction with colleagues, while still retaining the flexibility and benefits of remote working.

**70.** From October 2024, the Commission began using Moray House alongside ZWS under a shared space arrangement. This was initially on an informal trial basis, and the arrangement allowed the Commission to host meetings and provide staff with a more stable base which reduced its reliance on external venues. On 1 January 2025 ZWS renounced the sub-lease agreement and the lease reverted back to the Commission. Since then, the Commission and ZWS have continued to operate a shared space arrangement. Under this arrangement, the Commission continue to share occupancy of the premises but no longer charge rent and service charges to ZWS. However, ZWS remained responsible for the ongoing management of facilities and associated costs until the end of the original sub-lease agreement on 31 August 2025. From 1 September 2025, ZWS have recharged the Commission for its share of facility costs, and this arrangement will continue until the end of the Commission's current lease agreement with Stirling Council in March 2026.

**71.** To facilitate the move back to office working across the Commission, the Board approved a new Hybrid Working Policy in August 2025. This requires staff to have a minimum office presence of two days per week, on average, every quarter. The policy was informed by an employee engagement exercise which highlighted that many staff valued flexibility, but also recognised the opportunities for collaboration, and the real-time support that an office environment provides.

**72.** To support the application of the new Hybrid Working Policy, the Commission required to revise the employment contracts of staff to specify Moray House as the normal place of work under a hybrid work pattern. Staff were consulted on this change prior to the new contracts being issued.

**73.** The Commission's current lease agreement with Stirling Council for the offices at Moray House is due to end on 13 March 2026. The Scottish Government has granted the Commission permission to negotiate on a two-year extension to the lease agreement with Stirling Council, but approval of any extension to the lease is conditional on the Commission securing a reduction in the current rental costs. Alongside this, the Commission is also in discussion with other public sector bodies on the potential to share the office space at Moray House.

### **Recommendation 2 – Moray House lease negotiations**

The Commission should look to conclude its negotiations with Stirling Council over an extension to the lease at Moray House as a matter of priority, to ensure there is sufficient time to obtain approval from the Scottish Government for any extension to the lease, or to address the operational implications of the failure to secure an extension to the lease, by March 2026.

### **The Board approved four new HR policies to address gaps in the Commission's people management practices**

**74.** To ensure that HR policies covered the Commission's statutory duties, and reflected its current operational arrangements, a review of the full suite of policies was undertaken as part of the Organisational Change Programme.

**75.** All policies were reviewed by the Leadership Team, Audit and Risk Committee and the Organisational Change Assurance Group. This resulted in a number of revisions to existing policies, and the creation of four new employment policies:

- Recruitment and Selection Policy
- Performance Management and Career Development Framework
- Employee Training and Development Policy, and
- Hybrid Working Policy (discussed at paragraphs [71.](#) and [72.](#)).

**76.** The new HR policies were considered and approved by the Board at its meeting on 14 August 2025.

### **Management has taken action to improve the Commission's whistleblowing arrangements**

**77.** The Public Audit Committee's report on [The 2022/23 and 2023/24 audits of the Water Industry Commission for Scotland](#) (May 2025) recommended that: *"To ensure that staff can raise legitimate concerns without fear of repercussion, the Committee recommends that a robust*

*whistleblowing policy for staff is put in place. This should also include a clear reporting route for concerns and situations within WICS which would not meet statutory whistleblowing thresholds.”*

**78.** As part of the 2024/25 Internal Audit Plan Azets undertook a review of whistleblowing to assess whether the arrangements in place were sufficient and appropriate to enable internal and external reports to be made and dealt with appropriately. As part of this they also conducted an anonymous staff survey to gather insight on the whistleblowing arrangements at the Commission.

**79.** Azets presented the Whistleblowing report to the August meeting of the Audit and Risk Committee. The conclusions confirmed that: *“The Employee Handbook includes the internal whistleblowing policy and this is readily available to all staff. The external whistleblowing policy is also readily available to external parties via the WICS website. Both policies make clear reference to the Public Interest Disclosure Act and show a willingness and openness to whistleblowing. The results of our staff survey showed that the majority of staff have confidence that they would be reasonably comfortable raising a whistleblowing concern and are confident that it would be taken seriously. We also reviewed a sample of external whistleblowing cases received by WICS and confirmed those had been appropriately dealt with.”* However, it also highlighted a number of areas for improvement:

- *There remains a proportion of respondents who lack confidence in the whistleblowing processes, who are unsure if they would be appropriately protected when raising a concern and who don't believe the organisation promotes a culture where employees can speak up without fear. We also found that whilst there are some positive practices, the policies in place lack clarity, detail and key components such as defined roles and responsibilities, investigation procedures and communication protocols. This may contribute to staff's lack of confidence in raising a concern or in the process overall.*
- *There is currently no training in place for staff or management and we found awareness of whistleblowing processes to be low. Notably, there is widespread confusion across the organisation about what constitutes as whistleblowing, which has contributed to concerns raised not being appropriately addressed. Reporting channels are also relatively limited which is problematic given the small size of WICS.*
- *Additionally, the absence of formal internal reporting and oversight, outdated policies and a lack of clear ownership further weaken the overall control framework.*

**80.** The report contained 17 recommendations (including 1 red and 9 amber rated recommendations) to strengthen these areas and highlighted

that the implementation of these recommendations was critical to embedding a 'speak up' culture to ensure that staff feel confident and protected in raising concerns and that the Commission can respond appropriately and consistently. The red rated recommendation related to the need for management to ensure that all concerns raised either internally or externally are formally recorded, whether ultimately progressed as a whistleblowing matter or through an alternative route.

**81.** We note that management accepted all the recommendations within the internal report and has taken action to strengthen the Commission's processes and engagement in this area. A revised Whistleblowing Policy was approved by the Board in October 2025 and a non-executive Board member has been appointed as a Whistleblowing Champion.

**82.** The comments from the staff survey on a lack of confidence in the previous whistleblowing processes amongst some employees highlight the importance of the new Leadership Team continuing to build trust with staff and a positive culture across the organisation.

**The Commission is due to complete a staff survey in November 2025. Management should give careful consideration to the responses on the culture of the organisation, and bullying and harassment, and the need for any further action in these areas**

**83.** The Public Audit Committee's report on [The 2022/23 and 2023/24 audits of the Water Industry Commission for Scotland](#) (May 2025) noted that: "*The Committee welcomes the Auditor General for Scotland's reassurance on progress to improve the culture and behaviours at WICS and requests an update from WICS on the outcomes of the staff survey to be undertaken in 2025.*"

**84.** We reported in our 2023/24 annual audit report that in February 2024 staff at the Commission were asked to complete a Health and Safety Executive (HSE) Stress Survey. This survey was designed by HSE to help organisations identify and manage work-related stress among employees and includes questions across six key areas: Demands, Control, Support, Relationships, Role and Change. The results of the survey highlighted a number of respondents had experienced bullying and harassment in the workplace, and management took action to send a clear message that bullying and harassment will not be tolerated and any instances reported will be dealt with appropriately.

**85.** The Commission asked staff to complete the HSE Stress Survey again in March 2025 to enable management to assess the extent to which the actions taken in response to the 2024 survey results were having a positive impact. The results of the survey suggest that there have been some improvements in the Commission's results from the prior year. However, the nature of the HSE survey means that it is not the best tool for assessing the impact of management's actions following the 2024

survey as the bullying and harassment questions ask “*Have you ever experienced bullying or harassment in the workplace*”, which means respondents answer based on their whole time working at the Commission rather than just the last 12 months, or recent experience.

**86.** The activity within the Organisational Change Programme includes the development and completion of regular staff surveys, with the intention to undertake full staff surveys twice a year with the option for pulse surveys in between. These surveys will enable management to tailor the questions to focus on areas of specific interest, including the recent experience of bullying and harassment amongst staff. However, the first staff survey has not yet been completed. Management has advised that the survey has now been approved and is expected to be issued to staff in November 2025, with the results reported to the Board in December 2025.

### **Recommendation 3 – Staff survey results**

Management should give careful consideration to the responses on the culture of the organisation, and bullying and harassment, and the need for any further action in these areas.

### **The Board approved a revised Risk Management Strategy in May 2025 and further action is planned to ensure that key risks are being identified and managed effectively**

**87.** Another key element of the Organisational Change Programme is revising and embedding a new risk management framework across the Commission to ensure that key risks are being identified and managed effectively.

**88.** During 2024/25 internal audit carried out a review of risk management arrangements, assessing the extent to which appropriate risk identification, measurement, monitoring and reporting arrangements were in place. The review also considered the extent to which arrangements aligned with public sector best practice.

**89.** Azets presented the Risk Management report to the February meeting of the Audit and Risk Committee. The conclusion stated:

- *The Water Industry Commission for Scotland is in the process of updating their risk management approach through the development of a Risk Management Framework and a new corporate risk register. Clear efforts have been taken to develop both aspects in line with best practice within the Scottish Public Finance Manual and Orange Book.*
- *We have identified a number of opportunities for improvement however, to further strengthen arrangements. Most notably, we found that work was required on risk appetite in order to create an*

*overarching risk appetite statement that articulates the tolerable level of risk for principal risk areas. This should then be used to inform the risk appetite for each identified category of risk.*

- *We have also recommended that management review the current risk register to ensure that each risk is clearly linked to their strategic objectives and that mitigating actions and current risk scores are accurate.*
- *We have also noted a number of less significant actions within our report. Implementation of these recommendations will aid WICS in the process of maturing their risk management arrangements into a best practice and effective approach.*

**90.** Management accepted the recommendations in the report and incorporated these within the risk management improvement actions being taken as part of the Organisational Change Programme.

**91.** The Commission has now established risk registers for the four new directorates and a separate cyber risk register due to the cross-cutting nature of these risks. A risk register is also being maintained for the Organisational Change Programme to ensure that the internal and external risks to the delivery of the project plan are being tracked and managed throughout the programme.

**92.** The Commission revised its Risk Management Strategy to reflect its new approach, and the revised strategy was approved by the Audit and Risk Committee in May 2025. Further activity during the year included mitigation and assurance mapping for each risk to link back to relevant sources of assurance and controls to mitigate each risk.

**93.** Management acknowledge that further action is still required to develop a more mature, embedded, and transparent approach to managing risk that reflects the Commission's risk appetite in different areas of the business. This will be taken forward as part of the ongoing Organisational Change Programme work during 2025/26.

**A Financial Sustainability Review Group has been established to progress this area of the organisational change programme, alongside the 2027-33 review of charges**

**94.** Our 2023/24 audit highlighted the level of cash reserves at 31 March 2024 and recommended that management review the level of cash reserves which needs to be retained to cover the Commission's future costs, so that any excess funds can be returned to Scottish Water and Licensed Providers, discussed at paragraphs [31.](#) to [34.](#). In response to our recommendation, management committed to complete a full financial sustainability review as part of the Organisational Change Programme which would include action on a cash reserves policy.

**95.** A Financial Sustainability Review report was presented to the March 2025 Board meeting. This review examined the Commission's financial position, including a detailed analysis of historical costs and cost allocation trends, a forward-looking 8-year forecast, and an options appraisal for future levy levels and the use of existing cash reserves. The report also included a proposed Financial Plan and Procurement Strategy 2027-33 and a number of recommendations for consideration by the Board relating to the future financial management of the Commission for the next two financial years and the next six-year regulatory period.

**96.** Following consideration of the Financial Sustainability Review report, the Commission established a Financial Sustainability Review Group (FSRG) to oversee this project on behalf of the Board and take forward the actions arising from the review. The FSRG's membership includes the Chair of the Board and the Head of Finance and it reports to the Board through the Organisational Change Assurance Group. It held its first meeting in July 2025, at which the terms of reference and the project's key deliverables were agreed upon. Three workstreams covering finance, IT, and HR will play a part in delivering the project's overall objectives.

**97.** The main deliverables of the finance workstream will be a decision on the cash balance, developing a reserves policy and agreeing on a structure for future levies. However, as these activities are all linked to the 2027-33 review of charges, they will not be concluded until this work is complete and the levy levels are determined for the next corporate planning period.

**The Corporate Plan provides a clear vision and strategic direction for the Commission over the 2021-27 regulatory period, highlighting the important role the organisation has in regulating the domestic and retail water market in Scotland**

**98.** The Commission's Corporate Plan 2021-27, published in December 2020, set out its three strategic objectives for the current regulatory period which are each underpinned by three outcomes, as shown in Exhibit 7.

**Exhibit 7****Commission's strategic objectives and outcomes for 2021-2027 control period**

Our strategic objectives		
<b>Strategic objective 1</b> To support the sector to achieve its long-term vision and the Scottish Ministers' Objectives for the regulatory period.	<b>Strategic objective 2</b> To challenge Scottish Water to achieve best in class levels of service for its customers and communities.	<b>Strategic objective 3</b> To become an international leader in the field of economic regulation.
The 9 outcomes we will deliver		
<b>1</b> Supporting Scottish Water to be sustainable over the long term.	<b>4</b> Supporting Scottish Water to become an analytically driven organisation that takes full account of benefits and costs in its option appraisals and decisions.	<b>7</b> Acting as a cutting edge regulator that contributes to developing Scotland as a Hydro Nation.
<b>2</b> Incentivising an efficient and effective Scottish water.	<b>5</b> Acting as a hub of information and expertise to support decision making.	<b>8</b> Ensuring that the office operates as efficiently and effectively as possible.
<b>3</b> Helping ensure that the retail market maximises benefits for customers.	<b>6</b> Promoting customer-centric decision making.	<b>9</b> Sustaining a high-performance team, with a focus on continuous improvement.

Source: Water Industry Commission for Scotland Corporate Plan 2021-27

**99.** The Corporate Plan provides a clear vision and strategic direction for the Commission over the 2021-27 control period which largely reflects its regulatory role over the domestic and retail water market in Scotland, with the main focus currently being the Strategic Review of Charges for the 2027-33 corporate planning period.

**Management should continue to work with its Scottish Government sponsor team to establish a sponsorship relationship that strikes the right balance between oversight and assurance, and the responsibilities of the appointed Accountable Officer**

**100.** The Public Audit Committee's report on [The 2022/23 and 2023/24 audits of the Water Industry Commission for Scotland](#) (May 2025) stated:

*“It is clear to the Committee that there have been significant weaknesses and failings in the Scottish Government’s sponsorship of WICS. These have led to a failure to ensure appropriate safeguarding of public funds.”*

**101.** Since the publication of the Section 22 report on the 2022/23 audit of the Water Industry Commission for Scotland in December 2023 there has been increased involvement of the Scottish Government sponsor team with the Commission through attendance at Board meetings, and regular discussions with the Chair and Chief Executive around the organisational change programme activity.

**102.** A revised Framework Document was agreed between the Commission and the Scottish Ministers during 2025. The document summarises how the Commission and Scottish Government will work together, and sets out the key roles and responsibilities of the Board, the Chief Executive and Accountable Officer of the Commission, the Scottish Ministers, and the Portfolio Accountable Officer within the Scottish Government whose remit includes the Water Industry Commission for Scotland.

**103.** As described above, the Scottish Government sponsor team has had increased involvement in the Commission’s operations over the last two years to ensure that appropriate action is being taken by management to address the issues reported in the Section 22 reports on the 2022/23 and 2023/24 audits. As the Commission emerges from this period it should work with its Scottish Government sponsor team to establish a more normal sponsorship relationship that strikes the right balance between oversight and assurance, and the responsibilities of the appointed Accountable Officer.

### **The Commission has made good progress with the delivery of the Organisational Change Programme, including actions taken to strengthen the leadership, governance and financial management of the organisation**

**104.** As detailed throughout this report, The Commission has made good progress with the delivery of the Organisational Change Programme, including actions taken to strengthen the leadership, governance and financial management of the organisation. As also noted in the report, there is still further activity to be completed as part of the organisational change programme which will continue into 2026, including:

- The review of the organisational structure of the finance and corporate services directorate (discussed at paragraphs [53.](#) to [59.](#))
- Completion of the annual staff survey (discussed at paragraphs [83.](#) to [86.](#))
- Confirmation of the Commission’s office location beyond March 2026 (discussed at paragraphs [68.](#) to [73.](#))

- Conclusion of the financial sustainability review (discussed at paragraphs [94.](#) to [97.](#))

**105.** Management also recognise that further work is required to refine assurance mapping, further strengthen procurement controls, and continue to embed cultural change across the organisation; and are committed to delivering these changes.

**The Commission published the final methodology for the Strategic Review of Charges 2027-33 in December 2024 and the process is progressing in line with the programme timetable**

**106.** The Strategic Review of Charges is a major regulatory process led by the Water Industry Commission for Scotland to determine water and sewerage charges for Scottish Water over a six-year period.

**107.** In March 2024 the Cabinet Secretary for Wellbeing Economy, Net Zero and Energy issued the [Strategic Review of Water Charges 2027-33 Commissioning Letter](#) to the previous Chair of the Water Industry Commission for Scotland. This set out: “*Scottish Ministers’ preferred approach to the review, building on the successes of previous reviews, which have ensured a financial and regulatory environment within which Scottish Water has significantly improved levels of efficiency and service delivery.*” The letter highlighted the challenges presented by climate change impacts, nature crises, ageing assets and economic circumstances, and noted that these should all be reflected in the approach taken. It also stated that: “*The Final Determination should be published by 31 October 2026 at the latest to ensure time for Scottish Water to prepare its charging schemes and submit them to the Commission for its approval, and then implement them in time for issuing via Council Tax bills in March 2027.*”

**108.** The Commission has approved a programme timetable to achieve publication of the Final Determination by the October 2026 deadline. This includes the Commission’s own activities, and the key dates for Scottish Water and the Scottish Government’s involvement in the process.

**109.** The Commission published the draft methodology for the Strategic Review of Charges 2027-33 on its website on 14 August 2024 ahead of the consultation period which ran until 9 October 2024. Following the public consultation on the draft methodology, and other stakeholder engagement, the Commission published the [Strategic Review of Charges 2027-33: Final Methodology](#) on 12 December 2024. The methodology is designed to provide a clear basis for Scottish Water to deliver high-quality services and make the long-term investment needed to maintain Scotland’s water infrastructure.

**110.** Alongside the Strategic Review of Charges methodology, the Commission consulted on and published a set of detailed data tables,

guidance and definitions for Scottish Water to complete as part of its business plan. These requirements will strengthen the Commission's ability to monitor Scottish Water's performance, with an increased focus on data quality and assurance throughout the 2027-33 period.

**111.** Scottish Water submitted its draft Business Plan for 2027-33 to the Commission on 12 June 2025. The Commission has reviewed this and provided comments back to Scottish Water on 28 August 2025.

**112.** The Strategic Review of Charges process is progressing in line with the programme timetable, and the next key milestone is the submission of Scottish Water's final Business Plan for 2027-33 in February 2026. The Commission will then publish the draft determination for consultation in June 2026 following review of Scottish Water's business plan.

## 4. Use of Resources to Improve Outcomes

### Conclusions and judgements

We are content that there is now an appropriate focus on Best Value, and management are continuing to embed this across the organisation.

The appointments of consultants during 2024/25 were supported by appropriate business cases and value for money assessments, and we did not identify any inappropriate travel and subsistence expenditure during the year.

Management has committed to develop a new suite of metrics and KPIs for the 2027-33 corporate planning period that will enable the Commission to clearly measure and report its annual performance.

### We are content that there is now an appropriate focus on Best Value, and management are continuing to embed this across the organisation

**113.** Ministerial guidance to Accountable Officers for public bodies and the Scottish Public Finance Manual (SPFM) set out the accountable officer's duty to ensure that arrangements are in place to secure best value. The guidance sets out the key characteristics of best value and states that compliance with the duty of best value requires public bodies to take a systematic approach to self-evaluation and continuous improvement.

**114.** The Section 22 Report on the 2022/23 audit in December 2023 highlighted that: *"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."*

**115.** As detailed throughout this report, management has taken a range of actions since December 2023 to address the financial management and governance issues reported in previous years, and to promote a culture of Best Value. We are content that there is now an appropriate focus on Best Value, and management are focussed on continuing to embed this across the organisation.

**The appointments of consultants during 2024/25 were supported by appropriate business cases and value for money assessments, and we did not identify any inappropriate travel and subsistence expenditure during the year**

**116.** 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.

**117.** 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.

**118.** Management recognises the importance of demonstrating value for money when engaging external consultants. As part of the organisational change programme, it has committed to clarifying responsibilities for commissioning and managing consultancy work, including embedding budget responsibilities into relevant roles. The broader role review is supporting this, helping to define contract and consultancy management responsibilities more clearly across the organisation.

**119.** The financial sustainability review, discussed at paragraphs [94.](#) to [97.](#), allowed the Commission to assess the balance between in-house capacity and external consultancy support, where permanent staffing may offer better value and where external expertise remains appropriate.

**120.** The Commission also reviewed its contract management procedures and is developing updated guidance to consistently support staff in applying value for money principles. The updated Financial Policies and Procedures, and accompanying training for all staff and Board members, will further support this by reinforcing sound financial decision-making and governance. These combined actions aim to ensure a more transparent, accountable and effective approach to the use of consultancy services.

**121.** As part of our 2024/25 audit we reviewed the Commission's use of consultants and external experts and obtained evidence that management could demonstrate this expenditure represented value for money. We also considered the value for money of other expenditure incurred by the Commission during the year, including staff expense claims.

**122.** Based on the work undertaken we are content that the appointments of consultants were supported by appropriate business cases and value

for money assessments. We also noted that management's more disciplined approach to using external consultants, and increased focus on value for money in the engagement of consultants, resulted in expenditure on consultants of £0.348 million against a budget of £0.775 million during 2024/25.

**123.** Our review did identify a high level of recruitment costs during the year (£40,356) for external recruitment exercises linked to the implementation of the Commission's revised organisational structure, discussed at paragraphs [53.](#) to [59.](#) This included the recruitment consultants engaged to conduct the recruitment exercise for the new permanent Chief Executive who were appointed via a competitive tender exercise due to the anticipated value of the contract. We reviewed the supporting business case, including the benefit analysis and option appraisal, and the tender documentation for this appointment and are satisfied that the Commission demonstrated due consideration of value for money in making this appointment.

**124.** Travel and subsistence costs reduced from £147,903 in 2023/24 to only £25,253 in 2024/25. This was largely attributable to the lack of international work during 2024/25 but also reflected tighter controls over expense claims. Our review of travel and subsistence expenditure transactions during 2024/25 did not identify any inappropriate claims either in terms of the nature of the expenditure or the value of the claim.

### **Management has committed to develop a new suite of metrics and KPIs for the 2027-33 corporate planning period that will enable the Commission to clearly measure and report its annual performance**

**125.** Within the Corporate Plan 2021-27, the Commission identified a suite of 11 Key Performance Indicators (KPIs) to be used in measuring performance against the 9 outcomes supporting the 3 Strategic Objectives, shown in [Exhibit 7](#).

**126.** In our 2023/24 annual audit report we highlighted that although the Performance Report in the 2023/24 accounts detailed the Commission's progress against these 9 outcomes for the 2021-27 regulatory period, as there are no numeric performance measures it is difficult to ascertain whether the KPIs had or hadn't been achieved for the year. We therefore recommended that management review the KPIs used to measure performance against the Corporate Plan 2021-27 to ensure these provide a clear and objective framework to measure progress against the 9 outcomes identified to deliver the 3 strategic objectives.

**127.** Management determined that it was not practical to develop a new suite of KPIs for the 2021-27 Corporate Plan given the limited time remaining in the current regulatory period. However, in March 2025 the Commission reviewed the 11 KPIs in the Corporate Plan to reflect the changes made within the organisation following the Section 22 reports on

the 2022/23 and 2023/24 audits, particularly the decision to pause revenue generating international projects. Separately, management will work with the sponsor team to develop a new suite of metrics and KPIs for the 2027-33 corporate planning period that will enable the Commission to clearly measure and report its annual performance from 2027/28.

# Appendix 1 - Action plan

## 2024/25 recommendations

Issue / risk	Recommendation	Agreed action
<p><b>1. Performance Report – Sustainability disclosures</b></p> <p>The 'Our Sustainability Performance' section of the Performance Report presented for audit included some greenhouse gas emissions data for transport and travel, but did not fully comply with the new enhanced sustainability disclosure reporting requirements required by the 2024/25 Government Financial Reporting Manual.</p> <p><b>Risk:</b> The Commission is not reporting appropriate information on its sustainability approach and performance.</p>	<p>Management should consider the applicability of the enhanced sustainability disclosure reporting requirements, and the additional disclosures that will be required in 2025/26, and apply these proportionately to enable relevant information to be reported in the Performance Report in the Commission's annual report and accounts from 2025/26 onwards.</p> <p><a href="#">Point 4 in Exhibit 3</a></p>	<p>Management will review the new enhanced sustainability disclosure reporting in advance of the development of its 25/26 annual report and accounts and ensure that reporting in this area is in line with best practice.</p> <p><b>Responsible Officer:</b> Director of Finance and Corporate Services</p> <p><b>Completion date:</b> 31 March 2026</p>
<p><b>2. Moray House lease negotiations</b></p> <p>The Commission's current lease agreement with Stirling Council for the offices at Moray House is due to end on 13 March 2026.</p> <p><b>Risk:</b> The Commission cannot extend its lease on Moray House or secure appropriate alternative office accommodation.</p>	<p>The Commission should look to conclude its negotiations with Stirling Council over an extension to the lease at Moray House as a matter of priority, to ensure there is sufficient time to obtain approval from the Scottish Government for any extension to the lease, or to address the operational implications of the failure to secure an extension to the lease, by March 2026.</p> <p><a href="#">Paragraphs 68. to 73.</a></p>	<p>This action is a matter of priority and well advanced. We will conclude this matter and secure an extension in Q4 of the 25/26 financial year.</p> <p><b>Responsible Officer:</b> Director of Finance and Corporate Services</p> <p><b>Completion date:</b> 16 January 2026</p>

Issue / risk	Recommendation	Agreed action
<p><b>3. Staff survey results</b>  The Commission has not yet undertaken its 2025 staff survey.</p> <p><b>Risk:</b> Issues impacting on staff are not identified and addressed.</p>	<p>Management should give careful consideration to the responses on the culture of the organisation, and bullying and harassment, and the need for any further action in these areas.</p> <p><a href="#">Paragraphs 83. to 86.</a></p>	<p>Management are keen to ensure that we create the best possible environment for colleagues at WICS. Surveys is one tool, but not the only tool. Regardless, management, the People Committee, and the Board will all be considering ways in which the organisation can improve, and we will track progress against any commitments made beginning with the feedback from this upcoming survey in December.</p> <p><b>Responsible Officer:</b>  Director of Finance and Corporate Services</p> <p><b>Completion date:</b> 19 December 2025</p>

## Follow-up of prior year recommendations

Recommendation	Agreed action / timing	Progress
<b>PY1. Cash reserves balance</b>	<p>The Commission should review what level of cash reserves needs to be retained to cover the Commission's future costs, so that any excess funds can be returned to Scottish Water and Licensed Providers.</p> <p><b>Responsible officer:</b> Interim Chief Executive Officer</p> <p><b>Agreed date:</b> 30 June 2025</p>	<p><b>Recommendation being taken forward as part of the wider activity for the 2027-33 corporate planning period</b></p> <p>The development of the Commission's reserves policy will be delivered as part of the financial sustainability review. However, as this is linked to the 2027-33 review of charges, a decision on an appropriate reserves level will not be taken until this work is concluded and the levy levels are determined for the next regulatory period.</p>
<u><b>PY2. Finance and support services capacity</b></u>	<p>The Commission has committed to reviewing roles within directorates as part of phase two of its role review (action 3 of the organisational change programme). This will include finance and other support services staff on a temporary and permanent basis.</p> <p><b>Responsible officer:</b> Interim Chief Executive Officer</p> <p><b>Agreed date:</b> 31 March 2025</p>	<p><b>Complete</b></p> <p>The Commission has enhanced its finance and support services capacity with the appointment of the Director of Finance and Corporate Services, the Head of Human Resources, project management support, and administrative support.</p>

Recommendation	Agreed action / timing	Progress
<p><b>PY3. Need to embed financial management across the organisation</b></p> <p>Management should continue to focus on embedding financial management, and a focus on value for money, across the organisation to ensure all staff are aware of the requirements of the Commission's Finance Policies and Guidelines and the SPFM, and their role in ensuring that expenditure is incurred in compliance with these.</p>	<p>The Commission has committed to reviewing its training policy (action 33 of the organisational change programme). This will include mandatory training on a periodic basis for managers which finance policies will be an element of. The Commission has also committed to a staff training session on changes to policies and processes (action 49 of the organisational change programme). This training policy will be completed in 2024 with periodic training in 2025 and beyond.</p> <p><b>Responsible officer:</b> Interim Chief Executive Officer</p> <p><b>Agreed date:</b> 31 March 2025</p>	<p><b>Complete</b></p> <p>The revised Financial Policies and Procedures were approved by the Board in March 2025.</p> <p>In May 2025, all employees completed a fraud awareness training module via the Civil Service Learning platform.</p> <p>To further strengthen financial awareness, the Head of Finance developed a training module titled "An Introduction to Finance at WICS". This covers key financial principles, best value, and guidance on the Commission's internal financial policies and procedures. This training has been delivered to all staff and Board members and will form part of the induction programme for new employees going forward.</p>

Recommendation	Agreed action / timing	Progress
<p><b>PY4. Delivery of organisational change programme</b></p> <p>The Board should ensure that adequate resource is allocated to manage the delivery of the organisational change programme and realistic timescales are set for the delivery of each action. Professional advice and support should also be obtained at key stages in the programme to ensure that the Commission is complying with legal requirements when implementing changes to the organisational structure and staff roles.</p>	<p>The Commission acknowledges this risk. Management has an action plan in place (organisational change programme) and are working through the actions. The Board and management team are also in the process of establishing a sub-committee to focus on these initiatives and to ensure timescales are achievable and resources / expertise is in place to deliver this change programme.</p> <p><b>Responsible officer:</b> Interim Chief Executive Officer</p> <p><b>Agreed date:</b> 31 December 2024 to establish sub-committee</p>	<p><b>Complete</b></p> <p>An external project management specialist was engaged by the Commission to assist in pulling together the various strands of the organisational change programme, and other improvement actions and activity, into a cohesive project plan with a clear timeline and key milestones towards the delivery of the Organisational Change programme objectives.</p> <p>An Organisational Change Assurance Group has been established to oversee the delivery of the programme. This group will manage the associated risks of the programme and ensure legal and HR considerations are fully addressed.</p>

Recommendation	Agreed action / timing	Progress
<p><b>PY5. Performance reporting</b></p> <p>Management should review the KPIs used to measure performance against the Corporate Plan 2021-27 to ensure these provide a clear and objective framework to measure progress against the 9 outcomes identified to deliver the 3 strategic objectives.</p>	<p>The Commission has committed to a review of the Corporate Plan (action 2 of the organisational change programme).</p> <p><b>Responsible officer:</b> Interim Chief Executive</p> <p><b>Agreed date:</b> 30 June 2025</p>	<p><b>Recommendation being taken forward as part of the wider activity for the 2027-33 corporate planning period</b></p> <p>Management determined that it was not practical to develop a new suite of KPIs for the 2021-27 Corporate Plan given the limited time remaining in the current regulatory period. However, in March 2025 the Commission reviewed the 11 KPIs in the Corporate Plan to reflect the changes made within the organisation following the Section 22 reports on the 2022/23 and 2023/24 audits, particularly the decision to pause revenue generating international projects. Separately, management will work with the sponsor team to develop a new suite of metrics and KPIs for the 2027-33 regulatory period that will enable the Commission to clearly measure and report its annual performance from 2027/28.</p> <p>Paragraphs <a href="#">125.</a> to <a href="#">127.</a></p>

Recommendation	Agreed action / timing	Progress
<p><b>PY6. Demonstrating value for money in the use of consultants</b></p> <p>Management should identify which staff will be required to engage external consultants as part of their role, and ensure that they have adequate training and support to undertake a robust VFM assessment prior to appointments being made.</p>	<p>The Commission has committed to including budget responsibilities into roles. This action will include making clear who is responsible for requesting and managing the use of consultants (action 32 of the organisational change programme). We have also committed to an action to review the use of hiring staff versus procuring consultants to support any VFM assessment (action 35 of organisational change programme).</p> <p><b>Responsible officer:</b> Interim Chief Executive</p> <p><b>Agreed date:</b> 30 September 2025</p>	<p><b>Complete</b></p> <p>Based on the work undertaken we are content that the appointments of consultants were supported by appropriate business cases and value for money assessments.</p> <p><a href="#">Paragraphs 116. to 124.</a></p>

# Appendix 2 - National reports

Report name	Date published
<a href="#">Local government budgets 2024/25</a>	15 May 2024
<a href="#">Integration Joint Boards: Finance and performance 2024</a>	25 July 2024
<a href="#">The National Fraud Initiative in Scotland 2024</a>	15 August 2024
<a href="#">Scotland's colleges 2024</a>	19 September 2024
<a href="#">Transformation in councils</a>	1 October 2024
<a href="#">Alcohol and drug services</a>	31 October 2024
<a href="#">Fiscal sustainability and reform in Scotland</a>	21 November 2024
<a href="#">Public service reform in Scotland: how do we turn rhetoric into reality?</a>	26 November 2024
<a href="#">NHS in Scotland 2024: Finance and performance</a>	3 December 2024
<a href="#">Auditing climate change</a>	7 January 2025
<a href="#">Local government in Scotland: Financial bulletin 2023/24</a>	28 January 2025
<a href="#">Transparency, transformation and the sustainability of council services</a>	28 January 2025
<a href="#">Sustainable transport</a>	30 January 2025
<a href="#">A review of Housing Benefit overpayments 2018/19 to 2021/22: A thematic study</a>	20 February 2025
<a href="#">Additional support for learning</a>	27 February 2025
<a href="#">Integration Joint Boards: Finance bulletin 2023/24</a>	6 March 2025
<a href="#">Integration Joint Boards finances continue to be precarious</a>	6 March 2025
<a href="#">General practice: Progress since the 2018 General Medical Services contract</a>	27 March 2025
<a href="#">Council Tax rises in Scotland</a>	28 March 2025

# Water Industry Commission for Scotland

## 2024/25 Annual Audit Report



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