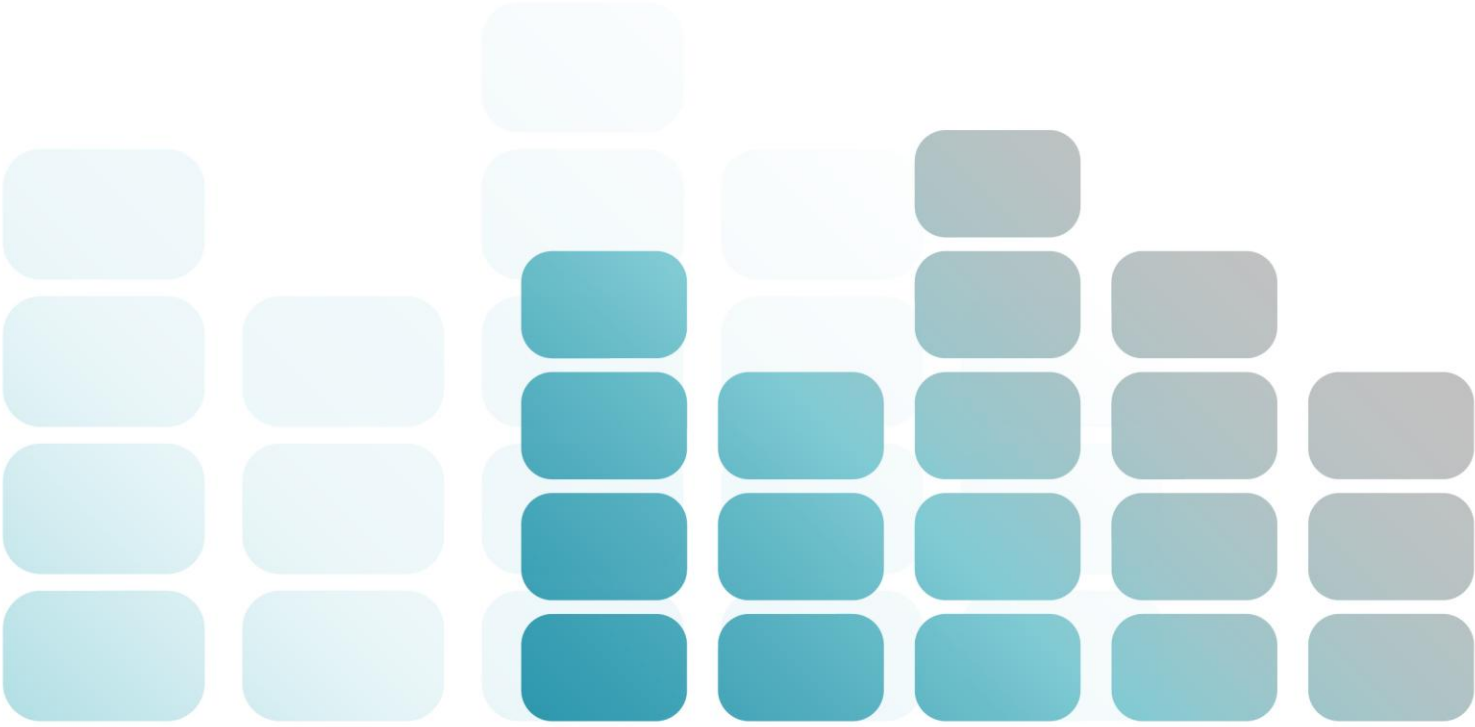


Water Industry Commission for Scotland

Annual Audit Plan 2025/26



Contents

Introduction	3
Audit scope and responsibilities	4
Audit of the annual report and accounts	6
Wider scope and Best Value	10
Reporting arrangements, timetable and audit fee	12
Other matters	15

Accessibility

You can find out more and read this report using assistive technology on our website www.audit.scot/accessibility.

Introduction

Purpose of the Annual Audit Plan

1. The purpose of this Annual Audit Plan is to provide an overview of the planned scope and timing of the 2025/26 audit of the Water Industry Commission for Scotland's annual report and accounts. It outlines the audit work planned to meet the audit requirements set out in [auditing standards](#) and the [Code of Audit Practice](#), including supplementary guidance.

Appointed auditor and independence

2. Richard Smith, of Audit Scotland, has been appointed by the Auditor General for Scotland as external auditor of the Water Industry Commission for Scotland (the Commission) for the period from 2022/23 until 2026/27. The 2025/26 financial year is the fourth year of the five year audit appointment.

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

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

Audit scope and responsibilities

Scope of the audit

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

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

Responsibilities

6. 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

7. 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 Commission's arrangements in place for the wider scope areas.

The Commission's responsibilities

8. The Commission has responsibility for ensuring proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enables it to successfully deliver its objectives. The features of proper financial stewardship include:

- Establishing arrangements to ensure the proper conduct of its affairs.
- Preparation of an annual report and accounts, comprising financial statements that give a true and fair view and other information.
- 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.

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

Audit of the annual report and accounts

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

Materiality

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

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

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

Exhibit 1

Materiality levels for the 2025/26 audit

Materiality	Amount
Planning materiality: Based on an assessment of the needs of users of the financial statements and the nature of the Commission's operations, gross expenditure has been used to determine materiality. Planning materiality has been set at 2 per cent of gross expenditure in the audited 2024/25 financial statements.	£65,000
Performance materiality: This acts as a trigger point. If the aggregate of misstatements identified during the audit exceeds performance materiality, this could indicate that further audit procedures are required. Using professional judgement, performance materiality has been set at 65 per cent of planning materiality.	£40,000
Reporting threshold: We are required to report to those charged with governance on all unadjusted misstatements greater than this amount.	£3,000

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

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

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

Exhibit 2

Significant risks of material misstatement to the financial statements

Risk of material misstatement	Planned audit response
<p>1. Risk of material misstatement caused by management override of controls</p> <p>As set out in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to override controls that otherwise appear to be operating effectively.</p> <p>This is presumed to be a significant risk in all audits.</p>	<ul style="list-style-type: none"> • Evaluate the design and implementation of controls over journal entry processing. • Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries. • Test journals entries, focusing on those that are assessed as higher risk, including year-end and post-close down entries. • Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct year. • Focussed testing of accruals and prepayments. • Review of significant accounting estimates. • Evaluate significant transactions outside the normal course of business.
<p>2. Estimation of the pension balance</p> <p>The Commission is a member of the Local Government Pension Scheme (LGPS), administered by Falkirk Council, which is a defined benefit pension scheme.</p> <p>An estimation of the Commission's share of the overall pension balance at the year-end is prepared by Hymans Robertson.</p> <p>There is a significant degree of subjectivity in the estimation of the</p>	<ul style="list-style-type: none"> • Consider the accuracy and completeness of information provided to the actuary. • Evaluate the competence, capabilities, and objectivity of the actuary. • Review the appropriateness of the key data and assumptions used by the actuary for the estimation of the pension balance, and challenge these where required. • Review the information provided by the auditor's expert, PwC, in respect of the competence and objectivity of, and assumptions and approach adopted by the actuary.

Risk of material misstatement	Planned audit response
pension balance as the estimation is based on specialist assumptions, and changes in the assumptions can result in material changes to the estimation.	

Source: Audit Scotland

Other areas of audit focus

16. As part of our assessment of audit risks, we have identified one other area where we consider there is also a risk of material misstatement to the financial statements, in relation to the accuracy of the accounting treatment of the lease for Moray House under IFRS 16. The existing lease is due to expire on 13 March 2026 and negotiations for an extension are ongoing.

17. Based on our assessment of the likelihood and magnitude of the risk, we do not consider this to represent a significant risk of material misstatement but we will keep this area under review as our audit progresses, and review the lease accounting treatment as part of our financial statements audit work.

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

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

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

20. Based on our knowledge of the audit, and the established procedures in place to produce these statements, we have not identified any disclosure risks for these statements for the 2025/26 Annual Report and Accounts.

Key audit matters

21. The risk assessment process is an iterative and dynamic process. The assessment of risks set out in this Annual Audit Plan may change as more information and evidence is obtained over the course of the audit. Where

such changes occur, these will be reported to the Commission and those charged with governance.

22. The Code of Audit Practice also requires public sector auditors to communicate key audit matters. Key audit matters are those matters, that in the auditor's professional judgement, are of most significance to the audit of the financial statements and require most attention when performing the audit. The matters determined to be key audit matters from the 2025/26 audit will be communicated in the Annual Audit Report.

Wider scope and Best Value

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

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

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

Wider scope risks

25. Our wider scope work is risk based and proportionate, and reflects where we believe we should direct our audit resources in terms of the four wider code areas set out in the Code of Audit Practice.

26. The Public Audit Committee's report on the 2022/23 and 2023/24 audits included a range of recommendations for the Commission. We reported in our [2024/25 Annual Audit Report](#) that good progress had 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. Our report also highlighted

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

27. As part of our 2025/26 audit we will continue to monitor the impact of the organisational change programme, including the implementation of the new organisational structure. We will also consider the effectiveness of the leadership and governance of the Commission, including any developments in relation to the appointment of a permanent Chair of the Board.

28. The findings and conclusions of our wider scope work will be reported in our Annual Audit Report on the 2025/26 audit.

Duty of Best Value

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

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

Reporting arrangements, timetable and audit fee

Audit outputs

31. The outputs from the 2025/26 audit include:

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



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



Audit timetable

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

Exhibit 3

2025/26 audit timetable

 Key stage	 Agreed Date
Latest submission date of the unaudited annual report and accounts with complete working papers package	25 September 2026

 Key stage	 Agreed Date
Latest date for final clearance meeting with Director of Finance and Corporate Affairs	27 October 2026
Agreement of audited annual report and accounts for consideration by the Audit and Risk Committee	3 November 2026
Issue of Proposed Annual Audit Report to those charged with governance (along with template letter of representation and proposed independent auditor's report)	3 November 2026
Audit and Risk Committee meeting to consider Proposed Annual Audit report and audited annual report and accounts	10 November 2026
Board meeting to approve and sign audited annual report and accounts	19 November 2026
Independent auditor's report certified by appointed auditor and Annual Audit Report finalised and issued	19 November 2026

Source: Audit Scotland

34. There is currently no administrative date set by the Scottish Government for NDPBs and similar bodies outside the consolidation boundary to submit their audited accounts. The Auditor General has set a target sign-off date of 31 October to allow sufficient time to arrange for the accounts to be laid before Parliament and published by the statutory date of 31 December.

35. Due to the legacy of the late completion of prior year audits arising during the Covid-19 pandemic and ongoing resourcing challenges within Audit Scotland, we are unable to complete the Commission's 2025/26 audit by the 31 October target date. We acknowledge that this planned timetable is determined by the availability of the audit team and not by the Commission's ability to present unaudited accounts for audit.

Audit fee

36. Audit Scotland wrote to the Commission on 15 January 2026 with a breakdown of the total expected fees for the 2025/26 external audit. This showed an expected fee of £20,520 based on an assumption that the Commission has effective governance arrangements, will prepare comprehensive and accurate accounts for audit, and that there will be no additional work required beyond the scope of a normal financial statements audit. More information on Audit Scotland's approach to setting audit fees and invoicing can be found [here](#).

37. Due to the issues identified during our 2022/23 and 2023/24 audits, and the work required to follow-up on the findings reported in the Section 22 reports on those audits, we set the actual fee above the expected level in each of the last two years (£22,460 in 2023/24 and £22,963 in 2024/25). However, given that we did not identify similar issues during our 2024/25 audit, and were able to conclude in our 2024/25 Annual Audit Report that good progress has been made in strengthening the leadership, governance and financial management of the Commission, we anticipate delivering the 2025/26 audit at the expected fee level. We have therefore set the fee for the 2025/26 audit at the expected fee level of £20,520.

38. The audit fee assumes there will be no significant changes to the planned scope of the audit, including the extent of wider scope audit work required. Where the audit cannot proceed as planned, for example, due to incomplete or inadequate working papers, the audit fee may need to be increased.

Other matters

Internal audit

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

40. While we are not planning to place reliance on the work of internal audit in 2025/26, we will review internal audit reports and assess the impact of the findings on our financial statements and wider scope audit responsibilities.

Audit quality

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

42. The International Standards on Quality Management (ISQM) applicable to Audit Scotland for 2025/26 audits are:

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

43. To monitor quality at an individual audit level, Audit Scotland carries out internal quality reviews on a sample of audits. Additionally, the Institute

of Chartered Accountants of England and Wales (ICAEW) carries out independent quality reviews on a sample of audits.

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

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

Water Industry Commission for Scotland

Annual Audit Plan 2025/26



Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN

Phone: 0131 625 1500

www.audit.scot