**SE/2004/301**

A REPORT BY THE AUDITOR GENERAL FOR SCOTLAND UNDER SECTION 22(3) OF THE PUBLIC FINANCE AND ACCOUNTABILITY (SCOTLAND) ACT 2000

## THE 2003/04 AUDIT OF THE WATER INDUSTRY COMMISSIONER FOR SCOTLAND

1. I have received the audited accounts of the Water Industry Commissioner for Scotland for the year ended 31 March 2004. The auditor's report on the accounts is not qualified but I have prepared this report to bring to Parliament's attention issues concerning the Commissioner's office's financial management and internal control which arose during the year.

2. I submit these accounts and the auditor's report in terms of sub-section 22(4) of the Public Finance and Accountability (Scotland) Act 2000, together with this report which I have prepared under section 22(3) of the Act.

3. The Water Industry Commissioner for Scotland is responsible for the economic regulation of Scottish Water and for promoting the interests of Scottish Water's customers. In 2003/04, the Commissioner's office generated income of £1.595 million of which £1.432 million was from statutory contributions provided by Scottish Water.

4. In March 2004, the Commissioner's office indicated to its sponsor department, the Scottish Executive Environment and Rural Affairs Department (SEERAD) that its expenditure for 2003/04 was forecast to exceed its agreed budget. SEERAD's subsequent investigation found that there had been a breakdown in financial controls in the Commissioner's office leading to expenditure which was not being properly recorded. It also noted scope for better financial monitoring, and that the Commissioner's office had no internal audit function or audit committee. SEERAD agreed that it would consider the Commissioner's office's request for additional funding providing it was given details of how the overspend occurred and what action the Commissioner's office would take to improve its financial management.

5. As indicated in the Foreword to the accounts, the Commissioner's office identified five main reasons for the overspend which, after taking account of underspends elsewhere in the budget, totalled £141,000. The Commissioner's office has also taken action to strengthen procedures for authorising and controlling expenditure, and monthly financial management reports are now issued to the management team and to its sponsor branch. Formal management committee meetings now take place on a regular basis. An audit committee will now meet quarterly and, in June 2004, an internal audit service was appointed. The Commissioner's office has also identified a series of financial management training courses for key staff. SEERAD was content with the action being taken and provided the Commissioner's office with a grant of £141,000 on 31 March 2004.

6. I am pleased to report that action is being taken to address the shortcomings identified but I shall expect the appointed auditor to keep these matters under close attention as part of the 2004/05 audit.

**ROBERT W BLACK**
**Auditor General for Scotland**
**20 December 2004**