

Water Industry Commission for Scotland

Report on the 2008/09 audit

November 2009



AUDIT SCOTLAND

Water Industry Commission for Scotland

Report on the 2008/09 Audit

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Key messages

In 2008/09 we looked at the key strategic and financial risks being faced by the Water Industry Commission for Scotland (“the Commission”). We audited the financial statements and we also reviewed the use of resources and aspects of governance and performance. This report sets out our key findings.

Financial statements

We have given an unqualified opinion on the financial statements of the Commission for 2008/09. We have also concluded that, in all material respects, the expenditure and receipts shown in the financial statements were incurred or applied in accordance with applicable enactments, and relevant guidance, issued by Scottish Ministers.

Financial position and use of resources

The Commission’s net surplus for the year was £0.95 million (2007/08: net deficit £1.74 million). Income was £5.19 million (2007/08: £3.61 million), while expenditure was £4.24 million (2007/08: £5.35 million). Capital expenditure was £60 thousand.

The net assets, excluding pension assets and liabilities, increased by £0.93 million from £0.29 million at 31 March 2008 to £1.22 million at 31 March 2009, represented in the main by an increase in the balance with the bank. Pension assets and liabilities reduced by a net £0.12 million over the year.

Scottish Ministers have agreed a budget for the Commission of £4.23 million for 2009/10, a 3.4% decrease in budget. The Commission will face challenges to meet this reduced budget while absorbing pay inflation and other cost pressures.

Governance and accountability

Corporate Governance is concerned with the structures and process for decision making, accountability, control and behaviour at the upper levels of an organisation. Overall the corporate governance and control arrangements for the Commission operated satisfactorily during the year, as reflected in the Statement on Internal Control.

Performance

The Commission’s Corporate Plan 2006-10 set out 3 broad areas of work in the current regulatory control period, each supported by a set of objectives and targets or milestones. The Commission has made satisfactory progress towards achievement of those objectives.

Looking forward

The final part of our report notes some key risk areas for the Commission going forward, including finalising its Determination for the 2010-15 regulatory control period; and agreeing a new corporate plan with



Scottish Ministers. We also highlight a number of national issues which affect all public sector bodies, such as the impact of International Financial Reporting Standards; and the review of data handling arrangements in public bodies across Scotland.

The assistance and co-operation given to us by the Commission during our audit is gratefully acknowledged.

Audit Scotland
November 2009



Introduction

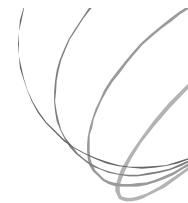
1. This report summarises the findings from our 2008/09 audit of the Water Industry Commission for Scotland (the Commission). The scope of the audit was set out in our Audit Plan, which was presented to the Audit Committee on 19 March 2009. The plan set out our views on the key business risks facing the organisation and described the work we planned to carry out on financial statements, performance and governance.
2. Appendix A of this report sets out the key issues identified from our audit of the financial statements and the action planned by management to address them.
3. Best value duties apply across the public sector and, in central government, best value is a formal duty on all accountable officers. Audit Scotland has adopted a generic framework for the audit of best value across the public sector and throughout this report we comment on aspects of the Commission's arrangements.

Exhibit 1: Framework for a best value audit of a public body





4. Our comments are made on the basis of information made available in the course of the annual audit. We do not make an overall best value judgement because we do not have enough evidence to conclude on all relevant areas. Our intention is to build up the corporate assessment over time. This report is the first step towards that goal.
5. Another building block for our assessment of best value is the national study programme carried out by Audit Scotland on behalf of both the Auditor General for Scotland and the Accounts Commission. We mention the key findings from all relevant reports, and the implications for the Water Industry Commission for Scotland as appropriate, throughout this report. Full copies of the study reports can be obtained from Audit Scotland's website, www.audit-scotland.gov.uk.
6. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by the staff and management of the Commission during the course of our audit. This report will be submitted to the Auditor General for Scotland and will be published on our website.



Financial Statements

7. In this section we summarise key outcomes from our audit of the Commission's financial statements for 2008/09 and the accounting issues faced. The financial statements are an essential means by which the organisation accounts for its stewardship of the resources available to it and its financial performance in the use of those resources.

Our responsibilities

8. We audit the financial statements and give an opinion on:
 - whether they give a true and fair view of the financial position of the Commission and its expenditure and income for the period in question;
 - whether they were prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements;
 - whether the information which comprises the Directors' Report and Management Commentary is consistent with the financial statements;
 - the regularity of the expenditure and receipts.
9. We also review the statement on internal control by:
 - considering the adequacy of the process put in place by the Chief Executive as Accountable Officer to obtain assurances on systems of internal control;
 - assessing whether disclosures in the statement are consistent with our knowledge of the Commission.

Overall conclusion

10. We have given an unqualified opinion on the financial statements of the Commission for 2008/09.
11. The unaudited financial statements were provided to us in line with the agreed timetable, supported by a comprehensive working paper package. The good standard of the supporting papers and the timely responses from the Commission's staff allowed us to conclude our audit within the agreed timetable and provide our opinion to the Audit Committee on 7 October 2009.

Issues arising from the audit

12. As required by auditing standards we reported to the audit committee on 7 October 2009 the main issues arising from our audit. In line with our normal practice, we have also discussed with



management the less significant matters arising from the audit of the financial statements, which do not require to be reported here. Overall, the Commission continues to make progress through consolidating the experience gained from the increased in-house financial expertise, including in the preparation of accounts; and is benefiting from the operation of the new internal audit arrangements.

Qualitative aspects of accounting practice and financial reporting

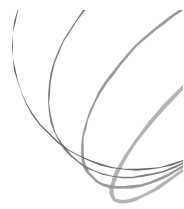
13. There are no matters of accounting practice or financial reporting that required to be drawn to attention in the audit opinion. However, below we comment on some qualitative matters in relation to the final accounts.

Matters arising on qualitative aspects of accounting and financial reporting

14. **Restatement of prior year accounts** - The 2007/08 accounts of the Water Industry Commission for Scotland included the results of the Central Market Agency for the period to 26 September 2007. In line with good practice, this year's comparative figures exclude the Central Market Agency. Also, in 2007/08 the activities, assets and liabilities of WaterWatch Scotland were consolidated with those of the Commission within the accounts. WaterWatch Scotland was established as a Company Limited by Guarantee from 1 January 2008 and as a result it is now appropriate for the Commission's accounts to record only the funding income and expenditure relevant to WaterWatch Scotland. The 2007/08 figures have been restated accordingly, with a net reduction of the £1.057 million in the operating deficit for 2007/08 and, after taking account of related funding, a net reduction in reserves of £6 thousand.
15. **Segmental reporting and disclosure of fees and charges information** – Guidance suggests that WICS should be providing an analysis of its activity to demonstrate, inter alia, that fees are being levied at an appropriate rate – in the simplest case, that income and expenditure break even over time or that any policy for a subsidy or surplus is properly approved. While such analysis is not disclosed within the financial statements for 2008/09, the Commission has confirmed that it is considering the apportionment and allocation of overheads and other shared costs in order to properly inform an analysis for disclosure in the 2009/10 accounts. That work will also help the Commission meet segmental reporting requirements under International Financial Reporting Standards for the 2009/10 accounts.

Action plan point 1

16. **Other disclosure requirements for Central Government accounts** – The Commission's statutory accounts for 2008/09 do not fully reflect a number of Central Government disclosure requirements, including the recently introduced requirements to report sickness absence information and performance on a revised supplier payment performance target of 10 days. Audit Scotland and the



Commission agree that the absence of such information is not considered as material to the Commission's accounts, but that improved compliance with requirements should be discussed as part of the 2009/10 accounts and audit process.

Action plan point 2

Regularity

17. The Public Finance and Accountability (Scotland) Act 2000 imposes a responsibility on auditors that requires us to certify that, in all material respects, the expenditure and receipts shown in the accounts were incurred or applied in accordance with applicable enactments and guidance issued by the Scottish Ministers. We have been able to address the requirements of the regularity assertion through a range of procedures, including written assurances from the Accountable Officer as to his view on adherence to enactments and guidance. No significant issues were identified for disclosure.

International financial reporting standards (IFRS)

18. As announced by the Chancellor in the 2008 Budget report on 12 March 2008 (Budget report paragraph C103), Government departments and other public sector bodies will report using International Financial Reporting Standards (IFRS) from 2009/10. The Scottish Government announced on 25 April 2008 that all Scottish Government Departments, Executive Agencies, Health Bodies and Non-Departmental Public Bodies would be required to produce shadow IFRS based accounts for financial year 2008/09. This was to include a restated balance sheet as at 1 April 2008.
19. In terms of the audit of the IFRS opening balance sheet at 1 April 2008, there were two key dates to achieve as outlined below:
 - **28 November 2008** – opening 2008 IFRS-based balance sheet were to be presented to auditors for dry-run audit
 - **28 February 2009** – dry-run audit of opening balances was to be completed, resulting in a letter to management highlighting the work done, auditors' findings and areas for further work.
20. The opening balance sheet and supporting documentation were submitted by the Commission for audit for review on Monday 1 December 2008. The restated balance sheet and supporting working papers were comprehensive and the Commission identified issues that required further consideration. We carried out a review of the restated balance sheet and reported at 27 February 2009.



21. The timetable for production and audit of dry run IFRS accounts for 2008/09 is now: the Commission to produce by 30 November 2009 and Audit Scotland to audit and report by 28 February 2010. We will therefore report formally on the outcome of this exercise as part of the 2009/10 audit.



Use of Resources

22. Sound management and use of resources (people, money and assets) to deliver strategic objectives is a key feature of best value. This section sets out our main findings from a review of the Commission's financial position.

Financial Position

2008/09 outturn

23. As recorded in paragraph 16, the 2007/08 figures have been restated, with a net reduction of the £1.06 million in the operating deficit for 2007/08 and, after taking account of related funding of £1.05 million, a net reduction in reserves of £0.01 million. For consistency and comparability the 2007/08 comparative figures quoted below are the restated figures recorded in the accounts.
24. The Commission's net surplus for the year was £0.95 million (2007/08: net deficit £1.74 million). Total income was £5.19 million (2007/08: £3.61 million), while expenditure was £4.24 million (2007/08: £5.35 million). Income and expenditure both include £0.72 million (2007/08: £0.73 million) funding for WaterWatch Scotland.
25. The majority of the Commission's income comes from the statutory contribution by Scottish Water, set by Scottish Ministers, of £3.95 million (2007/08: £3.55 million). Additionally, 2008/09 saw a significant increase in income from the Commission's levy on licensed providers from £25 thousand in 2007/08 to £1.20 million in 2008/09, reflecting the market for non-domestic customers being opened-up on 1 April 2008.
26. Operating costs of £4.24 million (2007/08: £5.34 million) show a reduction of £1.10 million compared to the previous year. This largely reflects a reduction in Regulation and Licensing costs as the work to set-up a competitive market for the supply of water and sewerage services to business customers reached completion. Capital expenditure in the year was £60 thousand (2007/08: £189 thousand), and taxation was £5 thousand (2007/08: £3 thousand).
27. The net assets, excluding pension assets and liabilities, increased by £0.93 million from £0.29 million at 31 March 2008 to £1.22 million at 31 March 2009. The net position on pension assets reduced from £0.12 million at 31 March 2008 to nil at 31 March 2009. Overall, therefore the Reserves increased by £0.82 million, representing in the main an increase in the balance with the bank. There is further comment on bank balances and pension assets and liabilities in the paragraphs below.



28. **Year end bank balance** - The Commission's balance sheet at 31 March 2009 shows bank balances of £1.28 million (2007/08: £0.27 million), which is unusually high for a public sector body with the turnover of the Commission. We note that the reasons for this have been considered and discussed; that it is anticipated that this high cash-holding will be substantially utilised by normal activities in 2009/10; and, if it is not, that there is likely to be a subsequent reduction in the statutory levy paid to the Commission by Scottish Water from 2010/11.

Action plan point 3

29. **Movement in the net surplus/ (deficit) in the Falkirk Pension Fund** – There have been quite significant changes in the net position on pension assets and liabilities over recent years. It is noted that most of the volatility is through the calculation of actuarial gains and losses, which are reflected in the Statement of Recognised Gains and Losses rather than the Operating Cost Statement.

	2005/06 £k	2006/07 £k	2007/08 £k	2008/09 £k
Pension assets	863	1,045	1,206	1,464
Pension liabilities	(858)	(1,240)	(1,089)	(1,462)
Net	5	(195)	117	2

Financial sustainability and budgets for 2009-2011

30. The Commission's budget for 2009/10 is £3.03 million, as per the Commission's Corporate Plan 2006-10. The Corporate Plan is the method by which the Scottish Ministers approved the Commission's budget for each financial year within the 2006-10 regulatory control period. The £3.03 million will be raised through the statutory levy to be paid by Scottish Water. In addition, the Commission has been permitted by the Scottish Ministers to raise £1.20 million from the fee scheme for retail licensing. This means that the Commission has an overall budget of £4.23 million for 2009/10, a reduction of 3.4% from the £4.38 million available for 2008/09.

National Studies

31. During the 2008/09 audit, Audit Scotland published three national studies relevant to the Commission's use of resources. These were Use of consultancy services; Improving energy efficiency; and Improving public sector purchasing in Scotland.

Use of consultancy services

32. The overall aim of the study was to review central government's use consultancy services and to make recommendations to improve the public sector's use consultants' knowledge, skills and resources to help deliver new services and initiatives quickly and expertly. The Commission was not selected for the case studies examined. The key findings of the report were as follows:



- The public sector is strengthening the way it buys goods and services.
- Central government does not have a clear strategy for its use of consultants or for linking use to its priorities or financial and workforce plans.
- In most cases, central government buys consultancy services well but some improvements can be made.
- Central government could improve how it manages consultancy projects through more consistent and formal evaluation of consultants' work and learning more from them.
- Central government could make savings of up to £13 million a year through better planning and buying of consultancy services.

33. The report made specific recommendations for public bodies:

- confirm they have clear processes for approving and recording the use of consultants and monitoring progress, and reinforce these as required
- plan their use of consultancy services when developing their forward work programme to ensure that consultants are used where their knowledge and skills bring greatest value for money
- always evaluate the option to use consultants against the option to use their own staff
- gather and share consistent information on the consultancy skills bought and why consultants are used
- improve the quality of their invitations to tender through better and earlier discussion with consultants about their consultancy needs
- increase the use of framework agreements where possible by ensuring that existing agreements are used and new ones developed as appropriate
- select and use the most economical competition routes by using framework agreements, restricted competitions and closed tendering approaches when appropriate
- evaluate the work of consultants more systematically and share findings from these reviews
- work closely with consultants to increase assurance on quality and make use of opportunities to learn from consultants and ensure knowledge transfer, where appropriate.

34. In relation to the use of consultants WICS have:

- framework agreements in place for main areas of consultancy expenditure
- an approvals panel, consisting of a minimum of 3 Directors/Chief Executive to approve any expenditure greater than £5,000, with justification for spend and choice of contractor. In addition,



at the meeting of the approvals panel it is always considered whether the work can be carried out in-house

- monthly reporting to the Commission on progress of delivery of each consultant and actual expenditure against budget
- a review on the value for money of use of consultants being carried out by internal audit as part of the 2009/10 programme (in recent years internal audit has examined the framework agreement/ tendering arrangements for use of consultants).

Improving energy efficiency

35. Audit Scotland assessed how councils, NHS bodies and central government bodies were improving energy efficiency in relation to buildings and transport use. The Commission was not directly part of the study programme. The study included examination of a range of issues including whether public bodies demonstrate commitment to improving energy efficiency; how public bodies are performing against their objectives and targets for improving energy efficiency; and if public bodies are delivering continuous improvement in this area. The key findings of the report were as follows:

- Funding has been made available by the Scottish Government and public bodies to improve energy efficiency. While energy consumption in buildings has fallen, spending on energy increased in the three years to 2006/07.
- There is a need for stronger leadership by the Scottish Government and within public bodies to improve energy efficiency and ensure that the necessary cultural and behavioural changes are made.
- A robust strategy is central to the coordination of activities to improve energy efficiency, however, there are inconsistencies in the quality of strategies being implemented
- There is a lack of formal monitoring and reporting of progress in improving energy efficiency by public bodies and the Scottish Government.

36. WICS have established an Environmental Group to look at the practices of the Commission staff and to encourage behavior which will reduce the carbon footprint of the Commission.

Improving public sector purchasing in Scotland

37. Audit Scotland provided a position statement on progress made by the Procurement Reform Programme in implementing the 2006 McClelland report recommendations. The report considered the progress and impact of the Programme, and identified risks to its successful implementation. The key findings of the report were as follows:



- The Programme, which is ambitious and challenging, has made significant progress introducing important changes to improve public sector purchasing. But some changes are taking longer than first planned to implement and performance measures are largely incomplete.
 - Around £327 million efficiency savings may be attributed to the Programme for the two years to 2007/08. This is broadly in line with the Programme target. But some savings have been delayed and, because of limited data, it is unclear how progress towards the third year target of £400 million will be monitored.
 - Overall, the impact of the Programme appears positive. But the scale of improvement is difficult to quantify and there are variable levels of engagement by public bodies.
 - Key risks to the Programme include maintaining momentum, programme management, availability of information and shortages of skilled staff. These need to be addressed to help accelerate the Programme.
38. The report made specific recommendations for the Scottish Government and for centres of expertise. The report also recommended that, in order to demonstrate Best Value when purchasing goods and services, public bodies should:
- have high-quality purchasing strategies and plans in place, including a plan to meet future workforce needs
 - have up-to-date information on their purchasing activities, such as supplier details, volume of transactions, value and type of spend
 - ensure all purchasing practices, including control of spending, comply with good practice as set out in national and centres of expertise guidance
 - work with the Scottish Government and centres of expertise to identify and develop opportunities for collaboration and for improved purchasing practice
 - use BPIs to assess performance and to continually improve how they buy goods and services
 - report savings and other benefits on a regular and consistent basis.
39. WICS keep their procurement policies under review to ensure best value, including budgeting, planning and regular management reporting.

Future studies

40. Later in 2009, Audit Scotland will be publishing *Financial management in the Scottish Government*, which will examine financial management and budgeting within the Scottish Government focusing on budget assumptions, financial outturn compared to budget and financial management



arrangements. Feedback from this study relevant to the Commission will be provided as appropriate in due course.



Governance and Accountability

41. High standards of governance and accountability, with effective structures and processes to govern decision-making and balanced reporting of performance to the public, are fundamental features of best value. This section sets out our findings arising from a review of the Commission's arrangements.

Overview of arrangements

42. This year we reviewed:
- key systems of internal control
 - internal audit
 - arrangements for the prevention and detection of fraud and irregularity, including standards of conduct.
43. Our overall conclusion is that arrangements within the Commission are sound and have operated through 2008/09.

Systems of internal control

44. Key controls within systems should operate effectively and efficiently to accurately record financial transactions and prevent and detect fraud or error. This supports a robust internal control environment and the effective production of financial statements.
45. In 2007/08, we reported the further development and recording of financial and other procedures over the latter part of the audit, following the appointment of a Financial Controller. We note that these improvements were consolidated during 2008/09, with no significant instances of non-compliance with controls being identified during our audit work.
46. **Expenditure on hospitality and travel and subsistence** – As part of our 2007/08 audit we welcomed the improvement in procedures and documentation relating to expenditure on hospitality and travel and subsistence. Internal audit reviewed the operation of these arrangements and reported the outcome in September 2009, making recommendations for further the development of procedures, which we support. We note that the Commission has been the subject of a number of Freedom of Information requests on this topic during 2009; and that the Commission remains conscious of the potential reputational risk in this area.



Statement on Internal Control

47. The Statement on Internal Control provided by the Commission's Accountable Officer recorded management's responsibility for maintaining a sound system of internal control and set out the Commission's approach to this. The Statement reflected the main findings from both internal and external audit work.
48. Under the terms of its internal audit engagement Pricewaterhouse Coopers is required to provide the Accountable Officer with an overall opinion on the adequacy and effectiveness of the Commission's system of internal control (the system comprising the Commission's risk management, control, and governance processes). In the Annual Internal Audit Report for 2008/09, PricewaterhouseCoopers concluded that they had completed the programme of internal audit work for the year and that their work did not identify any significant control weaknesses that they considered pervasive in their effects on the system of internal control. Furthermore, they did not identify any weaknesses from their audit work during the year that they considered should be included as 'Significant Internal Control Issues' in the Statement on Internal Control.
49. No material weaknesses in the accounting and internal control systems were identified during the external audit of the Commission that could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the accounts. Also, we are satisfied that the Statement complies with the relevant guidance in the Scottish Public Finance Manual; that the process put in place by the Accountable Officer to obtain assurances on systems of internal control is adequate; and, that the contents of the Statement are not inconsistent with the information arising from our normal audit work. We are content, therefore, that the Statement on Internal Control discloses the Commission's position appropriately.

Internal Audit

50. The establishment and operation of an effective internal audit function forms a key element of effective governance and stewardship. We therefore seek to rely on the work of internal audit wherever possible and as part of our risk assessment and planning process for the 2008/09 audit we assessed whether we could place reliance on the Commission's internal audit function. We concluded that PricewaterhouseCoopers operates in accordance with the expected internal audit standards and we therefore placed reliance on their work in number of areas during 2008/09, as we anticipated in our annual audit plan. This included reliance on aspects of internal audit's systems work to avoid duplication of effort.
51. We are placing formal reliance on the reviews of Payroll and Expenditure on hospitality and travel and subsistence.



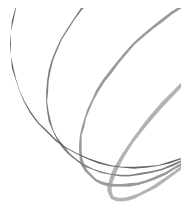
52. We also reviewed and considered other areas of internal audit work that contribute assurance to our broader responsibilities under the Code of Audit Practice. For 2008-09 this includes internal audit's reviews of Procurement and Business Continuity, together with their work on corporate governance, including audit committee arrangements.

Arrangements for the prevention and detection of fraud and irregularity, including standards of conduct

53. We have discharged our responsibilities as they relate to the prevention and detection of fraud and irregularity, standards of conduct and the Commission's financial position. Overall, we have concluded that arrangements within the Commission are satisfactory.

National Studies

54. In 2010, Audit Scotland will be publishing a national study on the role of Boards which will be relevant to the governance of the Commission.
55. Boards play a crucial role in ensuring that governance standards are maintained in public sector organisations. There are recent examples of the failure of public sector organisations to establish an adequate Board. We will assess how Board members are selected and whether the membership of Boards is appropriate. In this study we will also review how the performance of Boards is measured and the arrangements for induction and training for non-executive members.
56. Feedback relevant to the Commission will be provided in due course.



Performance

57. Public audit is more wide-ranging than in the private sector and covers the examination of, and reporting on, performance and value for money issues. Key features of best value include:
- setting a clear vision of what the organisation wants to achieve, backed up by plans and strategies to secure improvement, with resources aligned to support their delivery;
 - a performance management culture which is embedded throughout the organisation and a performance management framework which is comprehensive and supports the delivery of improved outcomes.
58. In this section we comment on:
- the Commission's corporate plan
 - performance against targets
 - arrangements for risk management
 - relevant National studies.

Vision and strategic direction

59. The Commission's Corporate Plan for the regulatory control period 2006-10, which was agreed with the Scottish Ministers, sets out the Commission's three main functions, which are as follows:
- to determine water and sewerage service charge caps
 - to monitor Scottish Water's performance
 - to establish and manage a framework that will allow potential competitors to access the markets for retail water services.
60. The Corporate Plan also sets out the following strategic aims for the Commission, encompassing its roles as water and sewerage industry regulator and in relation to the framework for competition in the retail water and sewerage markets:
- to promote the interests of customers of Scottish Water in relation to service provision in the exercise of its key functions
 - to encourage Scottish Water to become more efficient and sustainable through a clearer understanding of its costs
 - to adhere to the Better Regulation Task Force principles of transparency, accountability, proportionality, consistency and targeting



- to act transparently, fairly and proportionately in its role establishing and managing a framework for competition in the retail water and sewerage markets
- to exercise its licensing functions in a way that safeguards the interests of all customers who are served by the public networks
- to ensure that the markets develop in an orderly way.

61. The Corporate Plan sets out how each of the Commission's three main functions will be performed successfully during the current regulatory control period, in terms of key deliveries or actions along with timescales.

Performance overview

62. The Commission's Corporate Plan 2006-10 sets out key deliveries or actions along with timescales in order to fulfil its three main functions. Those deliveries or actions relevant to 2008/09 are set out in the table below, together with information on related performance. The table illustrates that the Commission has substantially met the key milestones relevant to 2008/09. Additionally, by publishing the draft Determination for the control period 2010-15 in June 2009, the Commission met a key milestone for the 2009/10 period.

Water Industry Commission for Scotland: Corporate Plan 2006-10 targets for 2008/09

Activity	Provisional date	Date achieved
<i>Function: the determination of charges</i>		
First draft business plan(s) to be submitted by Scottish Water (and any new entrants)	July 2008	May 2008
Commission issues guidance to Scottish Water (and any new entrants) for the second draft business plan(s)	November 2008	October 2008
Second draft business plan(s) to be submitted	March 2009	March 2009
<i>Function: monitoring Scottish Water's performance</i>		
Publication of annual Costs and Performance Report	November/ December 2008	February 2009
Publication of annual Investment and Asset Management Report	November/ December 2008	October 2008
Publication of annual Customer Service Report	November/ December 2008	October 2008
<i>Function: establishing and managing a licensing framework</i>		
The Corporate Plan specified granting of a license to operate in the retail markets and this was achieved early, being completed before 2008/09		
Regulation of retail charges throughout the 2006-10 regulatory control period through a license condition	Confirmed as Standard License Condition A8 (January 2008)	



Risk management

63. The Commission has continued to develop and consolidate a robust risk management framework, which is based upon a risk strategy makes clear the roles and responsibilities for achieving an effective control framework. The Commission's risk register and related action plans identify potential or actual risks to the achievement of the objectives set out in the Corporate Plan; and documents the controls in place to manage these risks and any action being taken to reduce the risk rating. The risk register is populated by the Commission and senior staff and is subject to continual review. It is monitored by staff internally and reviewed by the Chief Executive and the Audit Committee on a quarterly basis. The Commission members are informed of significant changes to the register or new risks every quarter.

National Studies

Protecting and improving Scotland's environment: an overview

64. Audit Scotland's Public Reporting Group is currently undertaking the above study by examining four themes: air quality, biodiversity, waste management and water quality. A report on the study is due for publication in January 2010.
65. While the performance of the Commission is not a subject of this study, the Commission is a key stakeholder and, as such, a copy of the draft Project Brief was provided for discussion at the Commission's meeting on 2 March 2009. Additionally, members of the project team have met with the Commission's Chief Executive to discuss aspects of the study. Audit Scotland welcomes the feedback and contributions from the Commission, and we will discuss the report's conclusions as appropriate.

Future studies

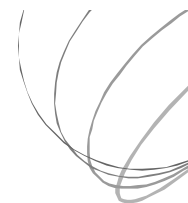
66. Later in 2009, Audit Scotland will be publishing *Delivering Efficiencies within the Public Sector*, which will provide an overview of the Scottish Government's 2005/06 - 2007/08 Efficient Government Initiative and will consider the extent to which public bodies are set up to deliver year on year efficiency savings. We will provide information on conclusions and recommendations that may be relevant to the Commission as appropriate in due course.



Looking Forward

67. The Commission faces a number of challenges in 2009/10, which include:

- **2010-15 Determination and Regulatory Control Period** – The Commission is close to finalising its Determination for the 2010-15 regulatory control period. Strategic aims and objectives for that period, and associated resources, will be agreed with the Scottish Ministers in a Corporate Plan for the Commission. Both the Determination and the Corporate Plan will need to reflect the current financial constraints affecting all public sector bodies, including that, following discussions with HM Treasury, the Scottish Government has no scope for applying end of year flexibility until the next Spending Review, and no option to transfer funds from capital to revenue. This creates a challenging environment for establishing and monitoring the achievement of strategic aims and objectives within available resources.
- **IFRS** - The timetable for IFRS implementation requires central government accounts in Scotland to become IFRS-compliant with effect from the 2009/10 financial year. As part of the timetable for the implementation for IFRS, shadow accounts for 2008/09 are required for audit review by 30 November 2009; and it will be important that any issues arising are addressed early after the completion of the 2008/09 statutory accounts and audit process.
- **Data Handling** - The Scottish Government carried out a review of data handling arrangements in Scotland during 2007. The review considered current policies and procedures on data protection, consistency with government standards and local arrangements for implementation of procedures. A report published in June 2008 made recommendations for a higher level of oversight and guidance from the Scottish Government and improved security of sensitive information. The Commission has responded to these as set out in the Statement on Internal Control. We will monitor the Commission's continuing progress against recommendations due to be implemented during 2009/10.
- **National Performance Framework** - The Scottish Government is continuing to develop its approach to performance management based on the National Performance Framework and local authority single outcome agreements. The National Performance Framework is an outcome-based approach that is publically reported on the Scottish Government's web site in the 'Virginia-style' model of performance measurement and reporting. This will include progress on overall delivery of the administration's purpose for Government, the five strategic objectives for Scotland and other aspects of the outcomes based National Performance Framework. We will consider what implications, if any, these developments have for the Commission as part of the 2009/10 audit.



Appendix A: Action Plan

Key Risk Areas and Planned Management Action

Action Point	Issue Identified	Planned Action	Responsible Officer	Target Date
1	<p>Segmental reporting and disclosure of fees and charges information</p> <p>Guidance suggests that WICS should be providing an analysis of its activity to demonstrate, inter alia, that fees are being levied at an appropriate rate – in the simplest case, that income and expenditure break even over time or that any policy for a subsidy or surplus is properly approved. Similar information will also be required from 2009/10 to help the Commission meet segmental reporting requirements under International Financial Reporting Standards.</p>	<p>The Commission has confirmed that it has considered the apportionment and allocation of overheads and other shared costs in order to properly inform these analyses in the 2009/10 accounts.</p>	Financial Controller	March 2010
2	<p>Other disclosure requirements for Central Government accounts</p> <p>The Commission's statutory accounts for 2008/09 do not fully reflect a number of Central Government disclosure requirements, including the recently introduced requirements to report sickness absence information and performance on a revised supplier payment performance target of 10 days. Audit Scotland and the Commission agree that the absence of such information is not considered as material to the Commission's accounts, but that improved compliance with requirements should be discussed as part of the 2009/10 accounts and audit process</p>	<p>Audit Scotland will provide the Commission with a disclosure checklist to help guide the preparation and disclosure of information in the 2009/10 accounts.</p> <p>The information provided within the accounts will be updated so that the accounts for 2009/10 comply with the disclosure requirements set-out in the FReM for that year.</p>	<p>Audit Scotland</p> <p>Financial Controller</p>	<p>February 2010</p> <p>June 2010</p>
3	<p>Year end bank balance</p> <p>The Commission's balance sheet at 31 March 2009 shows bank balances of £1.28 million (2007/08: £0.27 million), which is unusually high for a public sector body with the turnover of the Commission. We note that the reasons for this have been considered and discussed; that it is anticipated that this high cash-holding will be substantially utilised by normal activities in 2009/10; and, if it is not, that there is likely to be a subsequent reduction in the statutory levy paid to the Commission by Scottish Water from 2010/11.</p>	<p>The Commission will continue to monitor its bank and cash position over 2009/10 and take appropriate action to manage balances.</p>	Financial Controller	Year to March 2010