

Water Industry Commission for Scotland

2021/22 Annual Audit Report



 AUDIT SCOTLAND

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

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Key messages

Audit of 2021/22 annual report and accounts

- 1** The Water Industry Commission for Scotland's (WICS') financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework.
- 2** Expenditure and income were incurred in accordance with applicable enactments and guidance.
- 3** WICS moved to working remotely at the beginning of the COVID-19 pandemic and have continued to be fully operational. The impact on the accounting timetable for the 2021/22 annual report and accounts was minimal, however, Audit Scotland resourcing priorities have resulted in the audit being carried out later than normal.

Financial sustainability

- 4** WICS has appropriate financial planning and monitoring arrangements in place.
- 5** The Covid-19 outbreak has not had a significant impact on the short-term finances of WICS, or on its medium to long term financial plans.

Governance and transparency

- 6** Disclosures in the Governance Statement are consistent with the financial statements and the statement has been prepared in accordance with the relevant statutory guidance.
- 7** WICS' governance and transparency arrangements are appropriate.
- 8** The Board and the Audit and Risk Committee continued to meet on a remote basis throughout 2021/22.

Introduction

1. This report summarises the findings from our 2021/22 audit of the Water Industry Commission for Scotland (WICS).
2. The scope of our audit was set out in our 2021/22 Annual Audit Plan presented to the 3 May 2022 meeting of the Audit and Risk Committee. This report comprises the findings from:
 - an audit of WICS' annual report and accounts
 - our consideration of financial sustainability and the appropriateness of the governance statement.
3. We noted in our Annual Audit Plan that the ongoing impact of Covid-19 could result in changes in our approach and that revisions to our plan might be required, however, as was the case in the prior year, no changes in our audit approach or overall audit plan proved necessary.

Adding value through the audit

4. We add value to WICS through the audit by:
 - identifying and providing insight on significant risks, and making clear and relevant recommendations
 - sharing intelligence and good practice through our national reports and good practice guides
 - providing clear conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.
5. We aim to help WICS promote improved standards of governance, better management and decision making and more effective use of resources.

Responsibilities and reporting

6. WICS has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and accounts that are in accordance with the accounts direction from Scottish Ministers.
7. WICS is also responsible for compliance with legislation putting arrangements in place for governance, propriety and regularity that enable it to successfully deliver its objectives.
8. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2016](#) and supplementary guidance and International Standards on Auditing in the

UK. As public sector auditors we give independent opinions on the annual report and accounts. Additionally, we conclude on the suitability and effectiveness of corporate governance arrangements, the financial position, and arrangements for securing financial sustainability. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#) and supplementary guidance.

9. The [Code of Audit Practice 2016](#) (the Code) includes provisions relating to the audit of small bodies. Where the application of the full wider audit scope is judged by auditors not to be appropriate to an audited body then the annual audit work can focus on the appropriateness of the disclosures in the governance statement and the financial sustainability of the body and its services. As highlighted in our 2021/22 Annual Audit Plan, due to the low volume and less complex nature of the financial transactions, we applied the small body provisions of the Code to the 2021/22 audit.

10. This report raises matters from our audit. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

Auditor Independence

11. Auditors appointed by the Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies.

12. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We have not undertaken any non-audit related services and therefore the 2021/22 audit fee of £13,940 as set out in our 2021/22 Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

13. This report is addressed to both WICS and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

Audit appointment from 2022/23

14. The Auditor General for Scotland is responsible for the appointment of external auditors to central government bodies. External auditors are usually appointed for a five-year term either from Audit Scotland's Audit Services Group or a private firm of accountants. The current appointment round was due to end in 2020/21 but this was extended for a year so that 2021/22 is the last year of the current appointment round.

15. The procurement process for the new round of audit appointments was completed in May 2022. From financial year 2022/23 Audit Scotland will continue as the appointed auditor for WICS, but with new engagement team. We are working closely with the new team to ensure a well-managed transition.

16. A new [Code of Audit Practice](#) applies to public sector audits for financial years starting on or after 1 April 2022. It replaces the Code issued in May 2016.

17. There are a number of significant changes introduced by the new Code, namely the integration of Best Value work into wider scope audit work and the audit of Best Value across the Integration Joint Boards.

18. We would like to thank Board members, Audit and Risk Committee members, the accountable officer and other staff, particularly those in finance, for their co-operation and assistance over the last six years.

Part 1. Audit of 2021/22 annual report and accounts

The principal means of accounting for the stewardship of resources and performance

Main judgements

The Water Industry Commission for Scotland's (WICS') financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework.

Expenditure and income were incurred in accordance with applicable enactments and guidance.

WICS moved to working remotely at the beginning of the COVID-19 pandemic and have continued to be fully operational. The impact on the accounting timetable for the 2021/22 annual report and accounts was minimal, however, Audit Scotland resourcing priorities have resulted in the audit being carried out later than normal.

Our audit opinions on the annual report and accounts are unmodified

19. The annual report and accounts for the year ended 31 March 2022 were approved by the board on 09 December 2022. As reported in the independent auditor's report:

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

The Covid-19 pandemic had a minimal impact on audit evidence

20. The unaudited annual report and accounts were made available to us in September 2022. The working papers provided to support the accounts were of a good standard and the audit team received support from finance staff which helped ensure the final accounts process ran smoothly.

There were delays in auditing the annual report and accounts due to audit resourcing priorities

21. As highlighted in our Annual Audit Plan, due to pressures associated with the Covid-19 pandemic, we considered it unlikely that we would meet the audit planning guidance deadline of 31 October 2022 for submission of the audited annual report and accounts. However, we were able to complete our audit work in time for our proposed Independent Auditor's Report, and draft Annual Audit Report, to be presented to the 1 November ARC.

22. On the ARC's recommendation, the Annual Report and Accounts 2021-22 were approved and signed at the 9 December Board meeting. Our Annual Audit Report and the audited accounts were subsequently submitted to Audit Scotland by the statutory deadline of 31 December 2022.

Overall materiality is £80,000

23. Our initial assessment of materiality was carried out during the planning phase of the audit. This was reviewed on receipt of the unaudited annual report and accounts and is summarised in [Exhibit 1](#). No change to the planned levels was required based on the unaudited figures.

Exhibit 1 Materiality values

Materiality level	Amount
Overall materiality	£80,000
Performance materiality	£60,000
Reporting threshold	£4,000

Source: Annual Audit Plan 2021/22

24. The overall scope of the audit was adapted to incorporate the significant assessed risk of material misstatement included within [Exhibit 2](#) and to ensure the risk was addressed.

We have no significant findings to report on the annual report and accounts

25. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices. We have no issues to report from the audit.

We have obtained audit assurances over the identified significant risk of material misstatement to the financial statements.

26. [Exhibit 2](#) sets out the significant risk of material misstatement to the financial statements we identified in our 2021/22 Annual Audit Plan. It summarises the further audit procedures we performed during the year to obtain assurances over the risk and the conclusions from the work completed.

Exhibit 2 Significant risk from the audit of the financial statements

Audit risk	Assurance procedure	Results and conclusions
<p>1. Risk of material misstatement due to fraud caused by the management override of controls</p> <p>As stated in International Standard on Auditing (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"> • Assess 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 and other adjustments. • Test journals at the year-end and post-closing entries and focus on significant risk areas. • Consider the need to test journal entries and other adjustments during the period. • Evaluate significant transactions outside the normal course of business. • Assess the adequacy of controls in place for identifying and disclosing related party relationship and transactions in the financial statements. • Assess any changes to the methods and underlying assumptions used to prepare 	<p>We did not identify any issues relating to management override of controls from our audit testing of journal entries, accounting estimates, accruals and prepayments.</p> <p>No significant transactions outside the normal course of business were identified.</p> <p>No issues were identified in relation to transactions with related parties.</p> <p>Income and expenditure transactions were accounted for in the correct financial year.</p>

Audit risk	Assurance procedure	Results and conclusions
	<p>accounting estimates compared to the prior year.</p> <ul style="list-style-type: none"> • Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. • Focussed testing of accounting accruals and prepayments. 	

Other areas of audit focus

27. We identified in our 2021/22 Annual Audit Plan one area where we considered there to be a risk of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of the risk, however, we did not consider it to represent a significant risk. The area of specific audit focus was:

- **Measurement and judgements applied to the valuation of pension liabilities:** As at 31 March 2021, WICS recognised a net liability of £3.921million relating to its share of the Falkirk Pension Fund liability. There is a significant degree of subjectivity in the measurement and valuation of the pension fund liability. The valuation is based on specialist assumptions and estimates.

28. Our audit work included an overall assessment of the professional competence of the actuary, a reasonableness review of the key assumptions agreed between WICS and the actuary and agreement of the accounts disclosures to the actuarial valuation as at 31 March 2022.

29. We have kept this area under review throughout our audit and there are no matters which we need to bring to your attention.

There were no identified misstatements

30. There were no misstatements identified that exceeded our reporting threshold.

Good progress was made on prior year recommendations

31. Performance management and reporting: We recommended that WICS should put in place a performance management and reporting framework which would ensure that future annual performance reporting demonstrated delivery of Corporate Plan objectives and complied with FReM requirements.

32. We have observed that there has been regular reporting to the Board of progress against KPIs linked to the outcomes which support delivery of strategic objectives. The monitoring in detail of progress is the principal responsibility of an Operational Board, which meets weekly and is made up of the Chief Executive,

Directors and senior officers. A summary of progress reported over the year has been included in the Performance Report for 2021-22.

33. In our judgement, the performance management and reporting framework implemented for 2021/22 provides the information required by the FReM.

Part 2. Financial sustainability

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services.

Main judgements

WICS has appropriate financial planning and monitoring arrangements in place.

The Covid-19 outbreak has not had a significant impact on the short-term finances of WICS, or on its medium to long term financial plans.

Financial performance 2021/22

34. The main financial objective for WICS is to ensure that the financial outturn for the year is within the budget approved by the Scottish Government.

35. Total income from activities for the year 2021/22 was £4.486million (2020/21 £3.423million). Income in previous year was lower due to refunds of £1million to Scottish Water and £0.300million to licensed providers. Including actuarial adjustment for pension costs, gross operating expenditure was £0.167million over budget at £3.870million.

36. Net operating surplus for the year was £0.615million. Significant actuarial adjustments deriving from higher than expected investment returns, in conjunction with increased corporate bond yields over the period, resulted in a reduction of £2.185million in the year end pension liability. Including actuarial adjustments, net income was £2.800million.

Short term financial planning

37. WICS is funded directly by a statutory contribution paid by Scottish Water, as directed by Scottish Ministers, and by a levy charged to licensed providers to cover its licensing activity, also agreed in total by Scottish Government.

38. WICS approved the 2021/22 budget in March 2021 with budgeted income, including funding from Scottish Water and levies on licensed providers, totalling £4.330million.

39. Total income from activities per the 2021/22 accounts was £4.486million, with additional Hydro Nation income of c £75,000 and unbudgeted office rental income of £78,000 accounting for the variance from budget.

40. Total operating expenditure for 2021/22 was £3.870million, compared with the budgeted amount of £3.703million. The resulting operating surplus for year was £0.616million compared to the budgeted operating surplus of £0.627million.

Medium to long term financial planning

41. We reviewed the financial planning systems and assessed how effective they are in identifying and addressing risks to financial sustainability across the medium and long term.

42. WICS' budget requirements for six years are outlined in the Corporate Plan 2021-2027, which was approved by Scottish Ministers in December 2020. The budget forecasts are based on expected levy income and high-level estimates for expenditure and include cash flow forecasts. A conservative estimate is also included for net contribution from international activities.

43. We have concluded that WICS has adequate medium to longer term financial planning arrangements in place.

National performance audit reports

44. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. [Appendix 1](#) highlights a number of the reports published in 2021/22.

Part 3. Governance and Transparency

Governance and transparency are concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information.

Main judgements

Disclosures in the Governance Statement are consistent with the financial statements and the statement has been prepared in accordance with the relevant statutory guidance.

WICS' governance and transparency arrangements are appropriate.

The Board and the Audit and Risk Committee continued to meet on a remote basis throughout 2021/22.

Disclosures in the Governance Statement are consistent with the financial statements and the statement has been prepared in accordance with the relevant statutory guidance

45. Our review of the governance statement assessed the assurances obtained by the Chief Executive as Accountable Officer regarding the adequacy and effectiveness of the Commission's system of internal control which operated in the financial year.

46. These assurances are obtained through the reporting of any weaknesses discovered in internal control systems from the work during the year of the ARC, and through the weekly Operational Board meetings between the Chief Executive, Directors and Assistant Directors which provides a forum for any controls issues to be raised.

47. We concluded that the information in the governance statement is consistent with the annual accounts and complies with the guidance issued by the Scottish Ministers.

WICS' governance and transparency arrangements are appropriate

48. The WICS Board is made up of members who are appointed by, and accountable to, the Scottish Government and have corporate responsibility for ensuring that WICS fulfils its aims and objectives, including delivery of its

strategic objectives. The Board is supported in its responsibilities by the Audit and Risk Committee.

49. We have reviewed the minutes and papers submitted to the Audit and Risk Committee throughout the year. The papers are detailed and comprehensive to allow for effective decision making and scrutiny of performance. The Board papers are readily accessible on WICS website.

50. We attend the Audit and Risk Committee meetings and papers are circulated to members in a timely manner in advance of meetings for review. Also, from our attendance at Committee we observed and concluded that members are engaged during meetings and provide effective scrutiny and challenge.

51. Additionally, the Chair of the Audit and Risk Committee provides a verbal update on key issues discussed at each meeting of the Board and these updates are recorded as part of the Board minutes.

Board and Committee meetings continued to be held remotely via Microsoft Teams throughout 2021/22

52. From reviewing the minutes of Board meetings and attendance at Audit and Risk Committee we concluded that these arrangements are operating satisfactorily.

53. WICS extended the lease on its office premises for a further five years from March 2021, however, from July 2021 those premises were sublet, and there are no plans currently for staff to return to office working or for Board and committee meetings to be held in person.

Performance management and reporting

54. Within the Corporate Plan 2021-27, published in December 2020, the Commission has identified a suite of 11 Key Performance Indicators (KPIs) to be used in measuring performance against a set of 9 outcomes supporting the 3 Strategic Objectives;

- To support the sector to achieve its long-term vision and the Scottish Ministers' Objectives for the regulatory control period.
- To challenge Scottish Water to achieve best in class levels of service for its customers and communities.
- To become an international leader in the field of economic regulation.

55. For 2021/22 an Operational Board has met weekly to review progress against each KPI. Based on their discussions, the Chief Executive has presented a performance report at each formal Board meeting. A summary of performance reported against key outcomes has been included in the Annual Report 2021/22.

56. We noted that further development of performance reporting has been requested by the ARC, such as the inclusion of red/amber/green assessments on progress.

57. In our judgement, the performance overview included within the Annual Report and Accounts meets the necessary FReM requirements;

- a summary performance appraisal and a synopsis of the performance analysis section.
- a performance analysis which provides details of objectives and progress made against them.
- the potential for trend analysis to be provided in future periods.

Appendix 1. Summary of 2021/22 national performance reports and briefing papers

May

[Local government in Scotland Overview 2021](#)

June

[Covid 19: Personal protective equipment](#)

July

[Community justice: Sustainable alternatives to custody](#)

September

[Covid 19: Vaccination programme](#)

January

[Planning for skills](#)

[Social care briefing](#)

February

[NHS in Scotland 2021](#)

March

[Local government in Scotland: Financial Overview 20/21](#)

[Drug and alcohol: An update](#)

[Scotland's economy: Supporting businesses through the Covid 19 pandemic](#)

Water Industry Commission for Scotland

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Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

www.audit-scotland.gov.uk/accessibility



Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
T: 0131 625 1500 E: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk