

**Richard Leonard MSP**

1 July 2025

Convener  
Public Audit Committee  
Room T3.60  
The Scottish Parliament  
Edinburgh  
EH99 1SP

**Your Ref:**  
010725-DSRL

Dear Convener

## **WICS Response to Public Audit Committee Report on the 2022/23 and 2023/24 audits**

### **1. Introduction**

I am writing to formally respond to the Public Audit Committee's report on the Water Industry Commission for Scotland (WICS), published on 16 May 2025. I welcome the Committee's scrutiny and would like to set out the actions WICS has taken to address the findings and recommendations in full.

The report reflects concerns that had already been identified, and since December 2023 we have taken forward a structured programme of reform to address them. The Committee's conclusions have reinforced that work and helped to sharpen our focus. We are grateful for that.

This response sets out the actions taken to date and provides further assurance on the arrangements now in place. It also outlines how WICS has adapted its internal processes, leadership structures, and operating model to ensure that these improvements are being embedded across the organisation and maintained over time.

The remainder of this letter is structured as follows:

- **Section 2** summarises the improvements made to financial controls, risk and assurance arrangements;
- **Section 3** sets out the changes in Board governance, role clarity and training;
- **Section 4** explains how the relationship with the Scottish Government has been reset through clearer roles and expectations, including the changes made to the sponsorship arrangements between WICS and the Scottish Government;

WICS, First Floor, Moray House, Forthside Way, Stirling FK8 1QZ

Interim Chair: Ronnie Hinds

01786 430 200 | enquiries@wics.scot | wics.scot | scotlandontap.gov.uk

- **Section 5** outlines how WICS now operates in practice, with greater financial discipline, clearer accountability, and a stronger focus on efficiency and public value; and
- **Section 6** reflects on how this provides a platform for WICS to demonstrate its value as a public body.

A summary of WICS's response to the Committee's recommendations is provided at **Annex A**.

We hope this provides the Committee with assurance that WICS has responded seriously and substantively, and that the changes made are both embedded and enduring.

## 2. Financial controls, risk and assurance reforms

As the Committee will be aware from our previous written and oral evidence, WICS has undertaken a substantial programme of work since December 2023 to strengthen internal governance, improve financial controls and ensure greater transparency and accountability in the way the organisation operates. These actions reflect not only the findings of the external audit process, but also areas identified through internal assurance and engagement with the Committee.

This section summarises the improvements made across three key areas: internal audit, delivery of actions from the 2022/23 audit, and progress against the 2023/24 audit findings.

Key improvements include:

- A substantially revised Scheme of Delegation, clearly setting out the respective roles of the Commission Board Members and the Executive;
- Strengthened financial policies and procedures, including travel, subsistence, training approvals, procurement and fraud prevention;
- Reinstated cross-functional approvals for all significant expenditure; and
- Alignment of internal processes with the Scottish Public Finance Manual (SPFM) and wider expectations of public bodies.

### **Internal Audit programme and assurance**

To provide assurance that these changes are robust and embedded, WICS has commissioned a structured programme of work from Azets, our newly appointed internal auditors. This work has scrutinised the organisation's financial controls, governance, and risk management arrangements, and has included the following reviews:

- Governance and Financial Management;

- Financial Procedures; and
- Risk Management

Azets concluded that reasonable assurance could be given across the areas reviewed to date (their highest available rating) indicating that key controls are in place and operating effectively. These findings have been reported to the Audit and Risk Committee and support the view that WICS has materially improved its internal control environment.

We are encouraged that two audit opinions from different internal audit providers now acknowledge the progress WICS has made since December 2023. Further audit work is planned during 2025 to review:

- The implementation and operation of the revised Scheme of Delegation;
- Training approvals and value-for-money processes; and
- The organisation's whistleblowing arrangements.

This ongoing scrutiny will help ensure that recent improvements are sustained over time and that the organisation continues to operate with integrity and accountability at its core.

### **External Audit recommendations**

WICS has taken full account of the recommendations arising from the 2022/23 and 2023/24 audits, and we have made substantial progress in addressing them.

All 2022/23 recommendations have been implemented. These included actions to strengthen financial policies, clarify governance roles and improve training approvals—each now embedded within our updated internal frameworks.

For 2023/24, most recommendations are complete or nearing completion. Highlights include:

- An initial financial sustainability review has been completed, with a formal reserves policy due later this year.
- Recruitment of new directors is underway, which will support long-term capacity planning.
- Updated financial policies and training have been rolled out to embed good practice and SPFM compliance.
- A dedicated change governance subcommittee oversees delivery of reforms, with external support where needed.
- Work is underway to enhance performance reporting and clarify strategic outcomes.
- The role of consultants is being reviewed, with new guidance to ensure value-for-money.

- All actions are being tracked through the Audit and Risk Committee with Board approval where appropriate and are supported by regular reporting and scrutiny.

Taken together, these actions go beyond the immediate concerns raised through the Section 22 report. They align with the wider organisational change programme already underway and reflect our ambition for WICS to operate at the forefront of what is expected of a modern, accountable public body.

### 3. Governance, role clarity and training

Once WICS had strengthened its financial policies, internal controls and governance framework, the next step was to address the way leadership operates across the organisation, ensuring not only that responsibilities are clear, but that they are exercised effectively and consistently at every level.

This led to the adoption of a distributed leadership model, reinforcing accountability from the Chief Executive through to directors, and between the Executive and the Board. At the heart of this model is a reversion to a more traditional Commission structure, restoring the clear separation of governance and operational responsibilities as originally envisaged when the organisation was established in 2005.

The first step in this transition was a comprehensive review of Board reporting, which, as the Committee has heard, has returned to the structured and transparent arrangements that characterised executive reporting in the early years of the Commission. These practices have informed and shaped the wider reforms that followed.

This redefinition of roles has since been formalised through a revised Framework Document, developed in collaboration with the Scottish Government. It provides a clearer articulation of the respective responsibilities of the Commission Board, the Executive, and the sponsor team, consistent with the principles set out in the Scottish Public Finance Manual and the model of accountability expected of non-departmental public bodies.

We are now in the final stages of revising the Scheme of Delegation, which sets out in more detail how statutory functions and operational responsibilities are distributed between the Board and the Executive. This will ensure greater transparency and consistency in how decisions are taken and reinforce the governance boundary between oversight and delivery.

To support the effectiveness of this structure, we have taken steps to strengthen the capacity and capability of the Board itself. A recruitment process to appoint new Board Members is

substantially complete and will bring the Board back to its full complement. Alongside this, we have overhauled the induction programme, ensuring that all new and existing Board Members are fully equipped to discharge their responsibilities. The updated programme includes core training in areas such as public body governance, regulatory accountability and strategic oversight.

In parallel, Board Members are being integrated into the organisation's wider mandatory training framework, which is being developed for all WICS staff. Recent modules, such as cyber security and fraud awareness, have already been delivered to both Board and colleagues, and future training will include procurement, whistleblowing and value-for-money responsibilities.

Recognising the need to clarify roles and responsibilities as part of fostering a culture of transparency and accountability, we are undertaking a full review of our organisational structure. This reset marks a significant step towards ensuring our structure supports effective delivery of our statutory functions.

We completed the first phase of this work in December 2024, which introduced a revised leadership structure of four directorates and a competitive selection process to appoint into these roles. We have just completed the second phase of this work which defined roles in each regulatory directorate. The final phase is clarifying roles within our finance and corporate services directorate which will begin once we have a director appointed.

These steps reflect a deliberate and systematic effort to re-anchor the organisation in clear lines of authority and accountability, while also investing in the capability of its leadership at every level.

#### 4. Resetting the sponsorship relationship

Alongside internal reform, WICS has taken deliberate steps to reset and strengthen its relationship with the Scottish Government as sponsor. The goal has been to establish a more transparent, proportionate and accountable governance framework—one that supports effective oversight while preserving WICS's independence as a non-departmental public body.

As noted earlier, a revised Framework Document has been developed in collaboration with the sponsor team, with a clear articulation of the respective roles and expectations of both WICS and the Scottish Government. This includes agreement on the process for strategic planning, financial approvals and reporting. Our revised internal Scheme of Delegation further reinforces these arrangements, ensuring that accountability and statutory authority are clearly located and consistently applied.

To support ongoing transparency and alignment, we have extended an open invitation to the Scottish Government to attend WICS Board and Audit and Risk Committee meetings as observers. We believe this reflects our commitment to operate as a modern, transparent, and accountable public body, in line with the highest standards of public sector governance.

More broadly, we recognise the potential to go further. The Ryan Review sets out a compelling case for modernising public body sponsorship across Scotland; emphasising trust, clarity, mutual respect, and a shift towards a proportionate, outcome-focused model. WICS is fully aligned with these principles. Our recent changes have created a strong foundation for deeper collaboration and shared learning, and we are open to further discussion about how WICS can exemplify best practice in public body governance and accountability.

The reset of the sponsorship relationship is not simply procedural. It is evidence of a wider cultural shift within WICS: one that places transparency, stewardship and value for money at the core of how we operate and how we engage. It reflects a more open and systematic approach to governance, with clearer expectations on both sides and a shared focus on accountability and improvement. We believe this creates a strong foundation for continued engagement and future collaboration.

## 5. Demonstrating a change in operating practice

WICS has implemented a wide-ranging organisational change programme aimed at ensuring greater efficiency, clearer accountability and improved value for money. This programme began with a restructuring of the Leadership Team, followed by a detailed review of all roles across the newly established three regulatory directorates. These changes were designed to support a more coherent and agile structure, aligned with our long-term strategy and core regulatory functions.

A key enabler of this reform has been the decision to make Human Resources a permanent in-house function, recognising the importance of consistent people management and organisational development. We have revised our HR policies to reflect current best practice and are in the process of implementing a revised performance appraisal system that better links individual objectives to organisational goals.

In addition, we are finalising a new training policy that distinguishes between mandatory training and professional development. This policy includes strengthened value-for-money principles, with training above a certain financial threshold or duration subject to a retention mechanism or cost-recovery clause, to ensure that WICS benefits directly from the investment in staff development.

To further enhance operational efficiency, WICS has taken steps to make greater use of shared services. The first stage of this approach has involved the use of Scottish Government procurement frameworks to reduce overheads across a range of functions, including interim professional services, IT and other support areas.

As part of this change, WICS has returned to Moray House, where a shared services agreement with another non-departmental public body will allow for more effective use of physical and support resources. To ensure business continuity in the interim, we intend to extend our lease with Stirling Council, providing the necessary time to engage meaningfully in the Single Scottish Estate programme and assess our longer-term accommodation needs.

These organisational changes are being overseen by a sub-committee of the Board, ensuring appropriate scrutiny and alignment with our wider governance model.

To help support staff through this period of transition, we are continuing to promote engagement through regular internal communications and staff surveys, ensuring that feedback actively informs our ongoing organisational development.

Looking ahead, we have initiated a financial sustainability review to project our cost base and operational needs over the medium term. This work will inform the development of our next Corporate Plan for the 2027–33 regulatory period, helping us to plan with greater certainty and transparency.

In the meantime, WICS has already delivered a markedly improved financial performance. Since December 2023, we have taken decisive steps to increase efficiency and reduce expenditure across the organisation. I am pleased to report a strong year-end financial position in 2024–25, reflecting sustained efforts to improve financial management.

A major area of focus has been the reduction in external consultancy spend, with key deliverables, such as the development of our methodology for the Strategic Review of Charges 2027-33 which was completed internally. This shift has strengthened internal capability and ensured continuity, while generating substantial savings. In 2024–25, professional services expenditure was £486k (63%) below budget.

IT costs were also reduced significantly following a strategic review of infrastructure and licensing. Moving to a single-device model, consolidating software licences and streamlining systems resulted in an underspend of nearly £98k, while maintaining effective support for our staff.

Other areas of reduced spend include staff costs, due in part to vacancies, with further savings expected from the implementation of a revised leadership structure that is forecast to reduce the cost of senior management by approximately 10%. Travel and subsistence expenditure has also decreased, supported by a shift to virtual engagement and more disciplined travel practices. The pause on international consultancy activity has contributed further to these reductions.

Together, these changes demonstrate a clear shift in the way WICS operates: prioritising long-term sustainability, internal capability and disciplined stewardship of public funds.

## 6. A platform for public value and continued accountability

The reforms outlined in this response represent a deliberate shift towards a more transparent, accountable and resilient organisation. We have embedded these changes in our governance structures, internal processes and leadership expectations to ensure they are sustained over time and not dependent on individual roles.

In many ways, the scrutiny and reflection prompted by this process have acted as a catalyst, reinforcing areas already under review and helping to prioritise and accelerate change. That has been valuable, and we are committed to maintaining this forward momentum.

Our focus remains on ensuring WICS delivers value in its regulatory role and meets the standards expected of a public body. This includes strengthening financial stewardship, increasing organisational capability and improving the way we demonstrate impact.

We have enhanced our internal reporting to the Commission Board and Audit and Risk Committee, ensuring more consistent oversight of financial performance, internal audit findings, risk management and delivery against priorities. These arrangements are already supporting more informed decision-making and ongoing improvement.

Alongside delivering organisational change, we have remained firmly focused on our core role as Scotland's independent economic regulator for the water industry. During this period, we have advanced the Strategic Review of Charges for 2027–33, publishing our final methodology and beginning our analysis of Scottish Water's draft business plan in preparation for the draft and final determinations. This work is essential to ensuring that customers pay no more than is necessary for the long-term investment required to maintain and improve Scotland's water infrastructure.



We have also delivered key improvements in the non-household market, including the publication of a Code of Practice and a Market Health Check, both designed to drive up service standards and deliver better outcomes for business customers.

We remain committed to fulfilling our statutory role efficiently and effectively, and to working with stakeholders to support a resilient and sustainable water industry that reflects the needs and aspirations of the people we serve.

I trust this letter provides further assurance of the action WICS has taken to fully address the Committee's findings and recommendations. With the majority of changes now implemented, we are committed to building on this progress and continuing to strengthen how we deliver our vital role as Scotland's independent water industry economic regulator.

Yours sincerely

**David Satti**  
**Chief Executive**

## Annex A

### Recommendations for WICS

#	Page	Recommendation	Status / Update
1	7	Recommendations made by the auditor in the annual audit reports for 2022/23 and 2023/24 should be fully implemented to improve governance and financial controls.	Actions for 2022/23 complete. Actions for 2023/24 substantially complete.
2	12	The CEO interpreted the rules suggesting that he did not need to refer to anyone or seek additional advice. This process should be reviewed to ensure proper oversight and checks.	Framework Document and Scheme of Delegation substantially revised with regular review and compliance actively monitored by the Board.
3	13	WICS should ensure that staff leave the organisation within the agreed lock-in period if they do not fulfil their obligations related to training costs.	Lock-in periods are explicit in the revised training policy (based on duration of training and cost and applicable to all training).
4	14	Procurement should follow competitive tendering processes, and WICS should have sought approval from the Sponsorship Team in advance.	Financial policies and Framework document revised to include this.
5	22	WICS should improve its financial controls, particularly around expenses reimbursement and adherence to approved subsistence rates.	WICS's financial policies and procedures have been revised to reflect public sector best practice and alignment with the SPFM.
6	32	WICS should establish stronger governance controls to prevent a repeat of the issues identified in the 2022/23 and 2023/24 reports.	Revised financial controls and governance. Internal audit has reviewed the financial controls and is

			due to review governance following changes to the Framework Document and wider governance structure, including Scheme of Delegation.
7	10	The Committee notes that WICS is undertaking a review of its training policy and trusts that this will include a preference for courses based in the UK and that value for money is clearly demonstrated in each case. The Committee requests a copy of the new policy when it is available.	Training policy has been revised and WICS is engaging with staff on this and other policy changes ahead of review by the Audit and Risk Committee and Board approval.
8	31	The Committee also recommends that current Board Members undertake refresher training on their roles and responsibilities and the financial management and reporting requirements of public bodies.	The recruitment of new Board Members is materially complete with appointments expected during summer 2025.  WICS is revising its induction process and mandatory training, which will include Board training.
9	31	To ensure that staff can raise legitimate concerns without fear of repercussion, the Committee recommends that a robust whistleblowing policy for staff is put in place. This should also include a clear reporting route for concerns and situations within WICS which would not meet statutory whistleblowing thresholds.	Internal audit has reviewed both internal and external whistleblowing processes, including a staff survey. Fieldwork is complete, and the report is substantially complete, scheduled for review at

			the August Audit and Risk Committee.
10	39	The Committee welcomes the Auditor General for Scotland's reassurance on progress to improve the culture and behaviours at WICS and requests an update from WICS on the outcomes of the staff survey to be undertaken in 2025.	We are scheduling a programme of surveys to engage with staff which the organisational change sub-committee and Board are fully engaged with and have a workshop with staff on 7 July. We are happy to provide an update on the outcomes and actions taken following the update to the Board in August.
11	42	As part of this process the Committee recommends that the Scottish Government and WICS seeks feedback on all aspects of the work WICS has provided to international clients to help determine the value of its work. The Scottish Government and WICS should also consider the most appropriate model or organisation to take this work forward were it to be resumed.	We agree and will work with the Scottish Government on this area should there be an appetite to engage in such activities going forward.
12	43	The Committee recommends that as part of its organisational transformation, WICS gives consideration to where it can most usefully share services with the Scottish Government or other public bodies in order to optimise its resources.	The first step is to explore the Single Scottish Estate for shared office. Additionally, WICS is engaging with another non-departmental public body on a shared services agreement for facilities management. A cost review and benchmarking with other public bodies will be

			undertaken to explore further shared service opportunities.
--	--	--	---