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Public Audit Committee

The 2022/23 and 2023/24 audits of the Water Industry Commission for Scotland



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Public Audit Committee

To consider and report on the following (and any additional matter added under Rule 6.1.5A)—

- (a) any accounts laid before the Parliament;
- (b) any report laid before or made to the Parliament by the Auditor General for Scotland; and
- (c) any other document laid before the Parliament, or referred to it by the Parliamentary Bureau or by the Auditor General for Scotland, concerning financial control, accounting and auditing in relation to public expenditure.

2. No member of the Scottish Government or junior Scottish Minister may be a member of the Committee and no member who represents a political party which is represented in the Scottish Government may be convener of the Committee.



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Committee Membership



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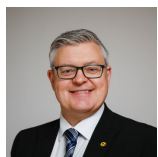
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Colin Beattie
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Stuart McMillan
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Membership changes

1. Membership changes of the Public Audit Committee during the reporting period are:

- Willie Coffey MSP (from 23 June 2021 - 17 June 2024)
- Fulton MacGregor MSP (from 18 June 2024 - 11 September 2024)
- James Dornan MSP (from 11 September 2024 - 7 January 2025)
- Stuart McMillan MSP (from 7 January 2025 - present)
- Jamie Greene MSP (Con) (from 8 February 2024 - 3 April 2025)
- Jamie Greene MSP (Ind) (from 3 April 2025 - April 2025)
- Jamie Greene MSP (LD) (from 4 April 2025 - present)

Introduction

2. Through its scrutiny of reports prepared by the Auditor General for Scotland (AGS) and Audit Scotland, the Public Audit Committee (the Committee) examines whether public funds are being spent wisely and holds to account those who are charged with spending public money. In all its work, the Committee aims to make a difference to the quality of public services in Scotland.
3. The AGS laid his section 22 report, The 2022/23 audit of the Water Industry Commission for Scotland ¹ (the 2022/23 report), in Parliament on 20 December 2023. The AGS states in the report that it was prepared to draw the Scottish Parliament's attention to—
 - ” ...significant weaknesses in the governance and financial management arrangements identified by the auditor. I am concerned that the current culture within the Commission does not have sufficient focus on ensuring the achievement of value for money in the use of public funds. ¹
4. The 2022/23 report describes the governance and financial management issues found at the Water Industry Commission for Scotland (WICS) as "falling far short of what is expected of a public body" ¹
5. In addition, the 2022/23 report also concluded that the findings of the auditor—
 - ” ...highlight unacceptable behaviour, by senior officials within the Commission, in the use of public funds. ¹
6. The AGS's subsequent section 22 report, the 2023/24 audit of the Water Industry Commission for Scotland ² (the 2023/24 report) was laid in Parliament on 10 December 2024. In it the AGS states that he prepared this report to provide an update on the significant issues highlighted in his 2022/23 report. The 2023/24 report also focuses on the financial settlement for the departure of the former Chief Executive.
7. As part of its scrutiny of these two reports, the Committee also considered the recommendations made by the auditor in the annual audit reports for [2022/23](#) and [2023/24](#).
8. The Committee took evidence from the AGS on the 2022/23 report on [8 February 2024](#) and from WICS and the Scottish Government on [21 March 2024](#) and [19 September 2024](#). It then took evidence from the AGS on his 2023/24 report on [9 January 2025](#) and from WICS and the Scottish Government on [19 February 2025](#).
9. We received written evidence from the former Chief Executive of WICS on 4 November 2024. ³
10. All written evidence received by the Committee in relation to both reports can be found on its webpage. ^{4 5}
11. This report sets out the Committee's key observations, recommendations and

conclusions based on the evidence it considered through its scrutiny of both section 22 reports.

Background

12. WICS is the economic regulator of Scottish Water. The 2022/23 report states that as a non-departmental public body (NDPB), WICS has "a statutory duty to promote the interests of Scottish Water's customers to ensure long-term value and excellent levels of service for customers and communities" ⁴ .
13. WICS also works to ensure that the industry is "internationally recognised and sustainable" through its role in supporting the [Scottish Government's Hydro Nation](#) ambition. ⁴ The 2022/23 report confirms that international consultancy work undertaken by WICS in relation to the Hydro Nation Strategy generated £1.185 million of income in 2022/23.

Leadership changes since December 2023

14. There have been several changes to leadership roles in WICS and the Scottish Government since the publication of the 2022/23 report in December 2023, these changes have been summarised below.
 - WICS's Chief Executive and Accountable Officer resigned following the publication of the 2022/23 report, effective from 31 December 2023. An Interim Chief Executive and Accountable Officer was appointed on 20 March 2024, who at the time of writing this report, remains in place.
 - A Member of WICS's Board and Audit and Risk Committee who had been in post since 2016 left in February 2024. ⁶
 - Scottish Ministers reappointed two Board Members on 21 May 2024 ⁷ and then appointed a further two interim Board Members on 16 July 2024. ⁸
 - An Interim Director-General Net Zero at the Scottish Government was appointed in September 2024, to cover a leave of absence. The substantive post holder resumed his position in early 2025.
 - At the meeting on 19 September 2024, the Interim Director-General Net Zero confirmed that an Interim Deputy Director for Water Policy had been appointed in June 2024 to replace the Deputy Director for Water Policy & Directorate for Energy and Climate Change Operations who had left the employment of the Scottish Government. A permanent Deputy Director for Water Industry has since been appointed and attended the evidence session on 19 February 2025. The Committee understands that while the title of the post has changed, the post holder is the Scottish Government's lead contact for the Sponsorship Team.
 - On 7 October 2024, the Chair of the Board resigned, effective from 21 October 2024. ⁹ Scottish Ministers appointed an Interim Chair with the appointment running from 21 October 2024 to 15 July 2025. ¹⁰ On 11 March 2025, Scottish Ministers extended this appointment until the end of 2025. ¹¹

Scottish Government reviews

15. During evidence on 21 March 2024, the Committee asked the Scottish Government what steps it was taking to ensure that lessons will be learned, and future recurrences of the issues raised by the AGS in his 2022/23 report prevented. The Director-General Net Zero responded—

” First, I agree that it is unacceptable to be sitting here with a public body that has not complied with the policies set down in the framework document...in the discussion that I had with Donald MacRae [former Chair of the Board] in November [2023], I said to him that I would undertake an independent review of governance.¹²
16. The Scottish Government also asked Ernst and Young (EY) to assess WICS’s internal review of financial transactions as well as the review of WICS’s Governance and Financial Management arrangements undertaken by its Internal Auditors, Grant Thornton.¹³
17. In June 2024, the Cabinet Secretary for Net Zero and Energy announced there would be a further internal review to consider the Scottish Government’s own sponsorship oversight and governance controls in relation to WICS. The reviews were published on 7 November 2024 and are listed below.
 - [Water Industry Commission for Scotland - independent review: governance arrangements](#)
 - [Water Industry Commission for Scotland - independent review: financial transactions](#)
 - [Water Industry Commission for Scotland - independent review: sponsorship oversight and governance](#)
18. WICS has confirmed that it fully accepts the findings of the Scottish Government’s independent review of its governance arrangements.¹⁴

Poor governance regarding approval of expenditure

19. The 2022/23 report states that WICS demonstrated “poor governance” regarding its approval of expenditure, including insufficient engagement with its Scottish Government sponsor division, the Water Policy Division.¹
20. One of the key messages in the report is that WICS—
 - ” ...incurred two items of expenditure during 2022/23 that required Scottish Government approval. This was only received from the sponsor team retrospectively following audit intervention.¹
21. These items of expenditure are in relation to a training course at Harvard Business School and the purchase of gift vouchers for staff and are explored in further detail below.

Senior staff training

Approvals process

22. The report states that in 2022/23, WICS’s Chief Operating Officer (COO), attended a training course at Harvard Business School in Boston, the cost of which, including flights, was £77,350.
23. During evidence, Audit Scotland clarified that WICS’s financial guidelines clearly state that—
 - ” ...if expenditure is above £20,000 and does not go through a competitive tendering process, it requires Scottish Government approval; if it goes through a competitive tendering process, the threshold is £100,000.¹⁵
24. In an email to the Scottish Government seeking retrospective approval for the training course, the former Chief Executive stated—
 - ” An internal approvals process was completed and the course was approved. The Board were aware of the COO’s training.¹⁶
25. The Committee asked WICS to clarify the extent to which the Board was aware of the COO’s training course and the related costs. Also, whether the Board was aware that Scottish Government approval was required and that it had not been sought.
26. The former Chair of the Board confirmed that the Board was not asked to approve the COO’s attendance at the Harvard Business School training course.
27. WICS’s Interim Chief Executive explained that—

” In April 2022, the CEO prepared an approval form for the course...It was approved by the CEO...there was no group conversation...during which the value-for-money case or the route to market were challenged, or in which the subsequent approvals were discussed and agreed among the decision makers in the organisation. ¹²

28. The Chair of WICS’s Audit and Risk Committee went on to add—

” The challenge there is that the CEO had chosen to interpret the rules in a way that suggested that he did not need to refer the matter to anyone, to take anyone’s advice or to run it by anyone...The proposal was put in, and the chief executive officer and accountable officer deemed it appropriate for him to just say yes and put the expense through. ¹²

29. During evidence, Audit Scotland further stated that there were “severe limitations in the business case ¹³ and the options appraisal that the Commission did” ¹⁵ regarding the costs associated with the training course.

30. The AGS told the Committee that from the business case, it was “not clear from the list of potential providers...whether any other sources could have provided leadership, management and development training”. He added—

” To be frank, we know that there are other sources. There is a multitude of options available in Scotland, and elsewhere in the UK, that could have provided such training. ¹⁵

31. When the former Chair of the Board was asked by the Committee how robust the business case was, he stated—

” We recognise that our staff are our most important asset, and we take the view that we have to invest in them by offering advanced management training. In the case that you refer to—the Harvard Business School training—we accept completely that value for money was not fully demonstrated and that the business case was inadequate. ¹²

Management training policy for senior staff

32. However, further evidence presented to the Committee revealed it was common practice for senior staff at WICS to attend expensive management training courses in locations including London, Argentina and New York. During oral evidence on 21 March 2024, the former Chair of the Board told us that WICS had—

” ...a policy of offering advanced management training to senior members of staff at WICS, for staff retention reasons and to ensure that we offer an attractive package at all times. ¹²

33. In his letter of 31 July 2025, the Interim Chief Executive confirmed that—

” The policy of offering analysts MBA training was agreed in 2004 with the Scottish Government and then again in 2016 as part of a pay and grading restructuring. In the 20 years that this policy has been in place, four analysts have been given this opportunity. One member of staff has been supported to gain an MBA over the last five years, and

An MBA qualification was not a pre-requisite for individuals to be considered for senior positions, but it was seen as desirable, particularly for more technical roles. Of the eight individuals who have held Director positions at WICS since its inception, three including the former CEO held an MBA qualification.¹³

34. In a subsequent written response, the Interim Chief Executive went on to say—

” WICS developed performance and career management guidance to support the 2017 revised grading structure. This guidance specified that senior roles—such as Head of Function, Assistant Director, and Director—would require an MBA or equivalent qualification.¹⁷

35. During evidence on 19 September 2024, the Interim Chief Executive confirmed that the policy that was in place at the time provided that two thirds of the cost of the course was subject to a ‘lock-in-period’ which the staff member would be liable for, should they leave the organisation within a two-year period. This conflicts with evidence provided to the Committee on 21 March 2024, where we enquired about the lock-in period applied to the attendance at the course at Harvard Business School and heard from the former Chair of the Board that—

” We normally have such conditions...However, in that case, no conditions were applied that I am aware of.¹²

36. Evidence received by the Committee also revealed that the Scottish Government was aware that WICS provided this type of training to its senior staff. In his written submission to the Committee of 10 June 2024, the Director-General Net Zero stated that—

” ...the Scottish Government was aware from 2006, when it approved a restructuring and pay agreement, that WICS had a policy of funding MBAs for senior staff. In 2014 the Scottish Government approved a WICS Pay and Grading Restructure through its Remuneration Committee which included reference to a fully funded MBA, available after 4 years’ service, being a significant element of the retention strategy for the organisation. Through the Remuneration Committee, the Scottish Government also approved a Revised Grading Structure in 2017 which referred to senior members of staff being required to hold an MBA.¹⁸

37. The Director-General Net Zero’s written submission also confirmed that—

” ...the Sponsorship Team were aware through their general day to day interactions with senior WICS staff that they were attending MBA courses. The [former] Deputy Director and the Sponsorship Team have confirmed they were not aware of the cost of these courses at the time and that no approval from the Sponsorship Team was sought for these courses.¹⁸

38. The Committee found the arrangements to be extraordinary. In his written submission to the Committee of 31 July 2024, the Director-General Net Zero confirmed that he was “not aware of any other public bodies in Scotland that require senior staff to hold MBAs.”¹⁹
39. The Committee also considered the contents of two Freedom of Information (FOI) requests on staff training published by WICS on 11 June 2024²⁰ and 10 July 2024.²¹ . We were concerned to learn that the FOI responses identified several additional instances where WICS staff had attended training courses where the total cost for each exceeded £70,000.
40. It also became clear to the Committee that, while the Scottish Government was aware that staff at WICS were attending such training courses, it appeared to be unaware that proper approval procedures were not being complied with. In his written submission of 31 July 2024, the Director-General Net Zero confirmed the action taken by the Scottish Government following the FOI release on 10 July—
- ” Following the FOI release, the Sponsorship Team asked WICS to provide information on the procurement approach for the training courses listed in that release. WICS confirmed that these were not subject to competitive procurement. As a result, WICS should have sought approval for these courses in line with the governance framework in place and sought approval from the Sponsorship Team for these in advance. Retrospective approval was only sought for one course at Harvard Business School.”¹⁹
41. In his correspondence of 26 July 2024, the AGS shared his view that in respect of the training that had taken place in prior years—
- ” high-cost training and education was paid by WICS in a series of payments, spanning across financial year ends, aggregating to the total cost. This reduced the likelihood of selection by the auditor who would have applied professional judgement and materiality to target their audit testing. I am satisfied this was not an attempt to hide the payments.”²²
42. The former Chief Executive, in his written submission, commented that as far as he was aware—
- ” ...the Office followed the same approvals process for the training programme of the COO as the Office had done previously. These training programmes would have been reviewed as part of previous audits and, as such, I had thought that we were acting appropriately...Obviously, if I had understood that the office had not followed proper procedures previously, I would have acted differently.”³
43. The former Chief Executive also stated that—
- ” It was well known both among stakeholders and in the Sponsor Team that WICS invested in such courses.”³
44. The former Chair of the Board, confirmed that going forward, WICS will—

” ...still adhere to the policy of investing in our staff, but we will ask that a much more robust business case be given for any such proposal in future, and we will almost certainly ask to procure the training internally, either within Scotland or the United Kingdom, at much lower cost and with, frankly, better value for money.¹²

45. With regards to staff training opportunities and value for money the Interim Chief Executive of WICS, in his letter of 31 July 2024, stated—

” WICS has committed to undertake a HR review of its policies and procedures which will include a review of staff training and the policy of funding MBA programmes. Future training opportunities at WICS will be assessed in line with the organisation’s needs and with value for money appropriately demonstrated.

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46. **The Committee is concerned that WICS did not follow the proper approvals process for the Chief Operating Officer’s attendance at a training course at Harvard Business School. We are also concerned by the poor quality of the business case and options appraisal produced by WICS when seeking retrospective approval from the Scottish Government.**

47. **The Committee recognises the importance of training and development to support an organisation’s recruitment and retention of staff. However, we believe that the costs associated with the training course at Harvard Business School was an inappropriate and unacceptable use of public money.**

48. **However, it has also become clear from the evidence that has emerged since the 2022/23 report that WICS’s funding of the Chief Operating Officer’s attendance at the Harvard Business School course was not an isolated incident and was part of a long-standing practice by WICS of offering such training to its senior staff.**

49. **Whilst we did not scrutinise the detail of the other senior staff training that was brought to our attention, significant sums of public money were involved when much better value for money alternatives were available. The Committee notes the Scottish Government’s confirmation that its approval should also have been sought for these courses due to their costs.**

50. **The Committee is concerned that despite the Scottish Government being aware of the high-cost training policy that WICS had in place for senior staff, it did not reassure itself that the appropriate procurement processes were in place or whether its approval was required. We seek assurances that lessons have been learned from this failing.**

51. **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 notes that certain technical or specialist courses may not always be available in the UK. The Committee requests a copy of the new**

policy when it is available.

Taxable benefits to staff

52. The second item of expenditure identified by the auditor in the 2022/23 audit was the purchase of gift vouchers for staff at Christmas. The 2022/23 report states—
- ” ...the Commission purchased a £100 gift voucher for each member of staff as a Christmas gift at a total cost of £2,600 (a similar arrangement was in place in 2021/22 when the total cost was £2,900). This exceeded the Commission’s delegated limit of £75 for gifts and should have been approved by the Scottish Government.¹
53. The 2022/23 report highlighted that a lack of adequate arrangements to attribute taxable benefits to relevant staff had resulted in public funds being used to settle personal tax costs. In the 2022/23 Annual Audit Report (AAR), the auditor states that while the purchase of gift vouchers should be treated as a taxable benefit, it was not and as a result—
- ” £1,133 of tax and national insurance payments due on these payments has been paid by the organisation.²³
54. The 2022/23 report states that a management review identified payments dating back to 2018/19 that should also have been treated as taxable benefits to staff. The report further states that in respect of these payments—
- ” The Commission made a payment of £3,384 in October 2023 to settle its 2022/23 obligation...The Commission has submitted a voluntary disclosure for the period 2018/19 to 2021/22 but has estimated that a further payment of £5,435 will be required for those years.¹
55. We heard from the AGS that it was “quite unusual for the organisation, or for any public body, to award Christmas gift vouchers or bonuses to members of staff. We do not routinely see that type of public expenditure.”¹⁵
56. Audit Scotland further clarified that—
- ” The Scottish public finance manual covers the fact that, if the value of an expense exceeds £75, Scottish Government approval is required. In this instance, because the commission gave a £100 voucher to 26 members of staff, we would consider that to be a gift of £2,600 in total. Therefore, we do not see that as the organisation slightly exceeding the limit; we see it as exceeding the limit by £2,525 rather than by £25. Again, I am not sure how sighted the board was on that.¹⁵
57. The Committee sought clarity from WICS on its decision making and approval processes for the gift vouchers. The Interim Chief Executive responded—

- ” At the time when the decision was taken to give staff £100 vouchers, the total amount was less than the £10,000 threshold that is in place for an approval form. A purchase order was put in place, and it was signed off by the budget holder and the CEO at the time. ¹²
58. In his written submission to the Committee, the former Chief Executive, however, stated that—
- ” The issuing of Christmas vouchers to staff above the appropriate limit was a genuine oversight. WICS did not have any form of funded Christmas party or lunch and had developed a custom of providing a modest gift, in line with the rules, to staff at Christmas...I recognise that I should probably have been aware that there was a limit but the total cost of this Christmas gesture was, I think, less than 2% of the external revenue earned in that year. ³
59. The Committee was concerned to learn from the Interim Chief Executive during oral evidence that—
- ” Given the point that Audit Scotland made when it presented evidence, the £75 limit for the gift threshold would have required both board and Government approval. The vouchers were not subjected to an approval panel process that was similar to that which took place in relation to the Harvard course but, in future, such expenditure will be subjected to an approval-panel process. ¹²
60. The Interim Chief Executive also confirmed to the Committee that WICS will “not give staff any vouchers at Christmas from now on”. ¹²
61. Given the AGS’s view that it is unusual for a public body to give Christmas gift vouchers to members of staff, the Committee asked the Scottish Government of any precedent for public bodies to do this. In his written submission, the Director-General Net Zero stated that in respect of the 26 public bodies within his portfolio—
- ” As a rule, public bodies within the DG remit do not give out gift vouchers. I have received assurance, via Scottish Government sponsor teams, that 24 of the bodies have not given out any vouchers to staff in the past 12 months. ²⁴
62. The Director-General Net Zero also stated that the Crown Estate Scotland (CES) has a policy in place for gifts and gift vouchers and that during 2023/24, £900 was spent on vouchers. The Director-General Net Zero added—
- ” CES has confirmed it treats these payments as taxable and CES pays the relevant amount to HMRC as part of their HMRC/PAYE annual return. The sponsor team has asked CES to review its relevant policies in line with the considerations within the Non-Salary Rewards section of the Scottish Public Finance Manual. ²⁴
63. The Committee is aware that the Scottish Public Finance Manual (SPFM) refers to gift vouchers as a non-salary benefit and states that—
- ” When introducing non-salary reward schemes active consideration should be given as to whether they represent an appropriate use of public funds. ²⁵

64. The Director-General Net Zero’s written submission to the Committee of 3 May 2024, also confirmed that Scottish Government staff do not receive gift vouchers or any other form of non-consolidated performance payment such as bonuses.
65. **The Committee is concerned that the correct processes for approval of expenditure and reporting of taxable benefits were not followed when WICS rewarded its staff with gift vouchers. The tax implications going back to 2018/19 have added an additional cost to the public purse.**
66. **We recommend that the Scottish Government ensures that all public bodies review their relevant policies to ensure that they are in line with the Non-Salary Rewards section of the Scottish Public Finance Manual.**
67. **The Committee also notes WICS’s confirmation that it will no longer be issuing gift vouchers to staff at Christmas.**

Retrospective approval of expenditure

68. The 2022/23 report highlights that WICS only sought retrospective approval for the training course and gift vouchers from the Scottish Government sponsor team once these issues had been identified and reported by the auditor. The report also states that the Board were only advised once retrospective approval had been given.
69. The AGS provided the Committee with a copy of the retrospective approval correspondence between the former Chief Executive and the Scottish Government. In response to WICS’s request for retrospective approval of the training course, the former Deputy Director for Water Policy & Directorate for Energy and Climate Change Operations (the former Deputy Director), stated—
- ” I rather agree that this is a unique training offering and can see why single tender was your approach and as such despite board being aware it would have been appropriate to inform the Scottish Government...had I been informed I would have agreed with the approach as I think that this is not something where open tender would have returned better value given the very specific nature of the courses in this field. Due diligence had been carried out and the most suitable product selected and as such, given the board was content with the appropriateness of the nature of the spend, I am content to agree retrospectively the procurement approach. ¹⁶
70. Regarding the retrospective approval for the expenditure relating to the Christmas gift vouchers, the former Deputy Director responded—
- ” On the Christmas gifts I accept this was an oversight and do not think it is proportionate to try and recover the balance but would highlight that any such gift going forward must be contained within the agreed threshold. ¹⁶
71. The Committee sought the AGS’s views on the approach the Scottish Government had taken to providing the retrospective approval, his response was—

- ” We are unclear as to how the Government’s sponsor team arrived at the position that that was appropriate expenditure, based on the material that we have seen. What we have seen looks to be fairly standard emails backwards and forwards that do not go into the detail that you would expect for that level of public expenditure. ¹⁵
72. The Committee asked the Scottish Government why it did not challenge the expenditure relating to the training course, the former Deputy Director responded—
- ” I was assured by the [former] CEO that the course best met the needs of the individual. He also assured me that the costs were comparable with those of other providers. In retrospect, it was an error of judgment not to have pressed for more information on those points. ¹²
73. The former Deputy Director later added—
- ” I was then given assurance by the [former] CEO that all the due diligence had been done. It was the right thing to do. I am saying that I made an error of judgment: it was an error of judgment to have relied on that assurance at the point when he gave it to me. ¹²
74. Regarding the lack of challenge by the Scottish Government in relation to the expenditure of the Director-General Net Zero stated—
- ” The framework was pretty clear about the responsibilities of the board, the chair, the chief executive and the sponsor team. In this case, the delegated authorities were breached and the proper process was not followed. ¹²
75. We also sought clarity from the Scottish Government as to when it first became aware of the COO’s training course at Harvard Business School. During evidence, the Director-General Net Zero stated—
- ” The course happened at the start of the year, and the first that [the former Deputy Director] was made aware of it was when the matter came forward in the section 22 report. ¹²
76. In his written submission of 10 June 2024, the Director-General Net Zero clarified that the Sponsorship Team was aware of the COO attending the course and that during the evidence session on 21 March 2024—
- ” ...the point I was trying to make was in relation to the [former] Sponsorship Deputy Director for WICS being made aware of the irregularity of the expenditure for the Harvard training course in the section 22 report work. ¹⁸
77. The Director-General Net Zero’s written submission went on to add—

- ” The [former] Deputy Director and the Sponsorship Team have clarified that the Chief Operating Officer had made them aware of her participation in the Harvard course as part of her development plan agreed by WICS... The Sponsorship Team expected that WICS would have followed the appropriate procurement and business case requirements as per their Governance Framework, and that WICS would have complied with wider duties as a public body – which unfortunately was discovered not to be the case during the audit.

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Impact of refusal of retrospective approval

78. During evidence, the Scottish Government stated that the decision to provide retrospective approval of the expenditure was—
- ” ...essentially based on the fact that the money had been spent, so there was no material benefit, at that point, in challenging it. ¹²
79. When asked if the Scottish Government had the option to refuse to authorise the expenditure, the former Deputy Director confirmed—
- ” I could have rejected the expenditure but, again, it would have made no material difference to have done so. It had already been incurred months beforehand. ¹²
80. Concerned to hear of the Scottish Government’s approach to providing retrospective approval, the Committee wrote to the AGS seeking clarity on the potential consequences, had the Scottish Government refused to provide retrospective approval requested by WICS. In his response, the AGS confirmed that this would have led to a “regularity qualification” ²⁶ on WICS’s annual report and accounts as the auditor would have been unable to conclude that—
- ” ...in all material respects, the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers ²⁶
81. The AGS also highlighted that a “regularity qualification is unusual in the Scottish public sector and is something I would also have drawn to the Committee’s attention in my section 22 report”. ²⁶
82. The AGS’s correspondence further highlighted his concerns in relation to the Scottish Government’s position that there was no material benefit in challenging the expenditure, as the money had already been spent, stating —
- ” In expressing such a view, the Scottish Government official risks indicating that approval will always be granted when the expenditure has already been incurred. Such an approach would undermine the operation of the sponsorship model, could discourage bodies from seeking prospective approval for potentially contentious expenditure and would unlikely meet the requirements of the Scottish Public Finance Manual. ²⁶

83. **The Committee is unclear how the Scottish Government was able to conclude that it was appropriate to provide retrospective approval for expenditure relating to the training course at Harvard Business School and gift vouchers, given the lack of supporting detail provided by WICS.**
84. **The Committee considers that the Scottish Government should have challenged WICS appropriately and carried out its own due diligence before considering retrospective approval.**
85. **The Committee is seriously concerned at the Scottish Government’s response of there being ‘no material benefit’ in challenging the expenditure relating to the training course and gift vouchers that it was asked to approve retrospectively and shares the Auditor General for Scotland’s view of the potential impacts of taking such an approach.**

Request for retrospective approval of further non-compliant expenditure

86. Correspondence received from the AGS on 14 May 2024, highlighted that WICS’s internal review of financial transactions had identified “further instances of inappropriate use of public funds”²⁶ which would be considered by the auditor as part of the 2023/24 audit.
87. The AGS’s 2023/24 report identified three further items of expenditure that did not meet the requirements of the SPFM and which required Scottish Government approval.
88. These relate to:
- £19,484 with a recruitment consultancy which required Scottish Government approval as the contract was not awarded via a competitive tender exercise and the expected costs of £28,000 exceeded the £20,000 threshold
 - a gift bought for a visiting international delegation which cost £120, exceeding the Commission’s delegated limit of £75
 - £24,000 paid as a retainer for the use of a King’s Counsel for ‘advanced reservation and commitment of diary time each quarter’, which should have been approved by the Scottish Government due to the value and unusual nature of this expenditure.
89. These items of expenditure were also identified in WICS’s own internal review of financial transactions. The Committee previously heard from WICS that the retainer for the King’s Counsel (KC) had been in place for over a decade. In his written submission of 31 July 2024, the Interim Chief Executive confirmed that—
- ” We do not intend to seek approval from the Scottish Government for this expenditure. In the months following my appointment I have since removed the retainer for the services of this KC.¹³

90. In respect of the recruitment search costs, the Committee was concerned to learn that WICS's internal review of financial transactions had found email evidence from September 2023 showing that WICS's Head of Finance had informed the former Chief Executive that "this is a non-competitive tender over £20K which should have the approval of the Scottish Government" and that the former Chief Executive had decided not to seek such approval.
91. In the 2023/24 AAR, the auditor confirms that WICS sought retrospective approval from the Scottish Government for the costs of the recruitment search and the gift for the visiting international delegation and had been informed by the Scottish Government that this would not be provided.
92. We sought the AGS's views on the Scottish Government's decision not to provide retrospective approval for these two expenditures. He responded to say—

” It is quite a contrast that, this year, it chose not to grant retrospective approval. The committee probably heard the rationale for that in the various evidence-taking meetings that it held in 2024, in that the retrospective approval that was given in 2022-23 was probably given without sufficient rigour being applied by the Government. When the Government was faced with a similar request during 2023-24, it declined to grant retrospective approval. That probably relates to the point that we have just talked about in relation to the Government's awareness, understanding and insight concerning WICS...It declined to grant retrospective approval and declined to align itself with that level of poor public spending, which flowed through to the resultant audit qualification. I am sure that it is not lost on the Government that an audit qualification is a very serious matter. To give the Government its due, it takes that as seriously as we do. A qualification is a very important thing, and it is not something that the Government wants for any of its public bodies, but it was not prepared to sacrifice its integrity by offering a rushed retrospective approval. ²⁷

93. We note that these non-compliant expenditures, along with others relating to travel and subsistence and staff expenses, led to the auditor issuing a qualified regularity opinion on the 2023/24 audit.
94. The 2023/24 AAR confirmed that WICS's internal review of transactions identified a total expenditure of £51,068 that was non-compliant with its Financial Policies and Guidelines. In addition to the expenditure listed at paragraph 88 above, this included:

- ”
- £17,686 for business class flights. This expenditure was in line with the Commission's Financial Policies and Guidelines at the time but we noted that these did not set clear criteria for when business class flights could be used, and
 - £7,314 of expenditure that was not supported by appropriate receipts or other proof of purchase. ²⁸

- 95. The Committee notes the Scottish Government's decision not to provide retrospective approval for two further expenditures that WICS should have**

obtained its approval for. It is reassuring that lessons appear to have been learned by the Scottish Government with regard to providing retrospective approval. The Committee seeks assurance that the lessons learned on seeking and providing retrospective approval have been shared across all Director-General portfolio areas in the Scottish Government and with public bodies.

Weaknesses in financial controls

96. The weaknesses in WICS's financial controls was another area considered by the Committee. One of the key messages in the 2022/23 report was—
- ” The auditor identified widespread issues with the expenses reimbursement process; including claims not supported by itemised receipts, exceeding the approved subsistence rates, and, on occasion, the reimbursement of the purchase of alcohol. ¹
97. During evidence on 8 February 2024, the AGS told the Committee that—
- ” There were a range of deficiencies in internal control. The culture lacked the rigour to require someone claiming back expenses to have receipts, and claims were processed without those being in place. ¹⁵

Non-itemised and missing receipts

98. When asked by the Committee if the majority of claims without itemised receipts identified by Audit Scotland related solely to the former Chief Executive, Audit Scotland responded—
- ” We identified a total of 84 items in the 19-month period from 1 April 2022 to 18 October 2023... Claims for those 84 items totalled £9,660, 47 of which related to claims made by the chief executive totalling £4,351. The majority therefore related to the chief executive but, to pick up your point, some were made by other people. ¹⁵
99. The Committee explored the issue of non-itemised receipts in further detail with WICS. During evidence, the Chair of the Audit and Risk Committee confirmed WICS has since scrutinised “thousands and thousands of transactions” ¹² and found that “92.5 per cent were itemised and fully compliant” ¹² .
100. The Chair of the Audit and Risk Committee went on to say that—
- ” A lot of people at Water Industry Commission for Scotland were doing the right thing in going about their business, and that only a few people were not doing the right thing. I think that that context might be helpful for the committee. ¹²
101. When pressed by the Committee for further information on the number of people “not doing the right thing”, the Chair of the Audit and Risk Committee confirmed that—
- ” There were senior directors who presented expense claim forms without receipts, and we are following those up. However, it is still a very small number. I think that the CEO was accountable for nearly half. ¹²
102. As part of its scrutiny, the Committee sought to establish why there appeared to be a lack of challenge regarding expense claims that exceeded limits and were without receipts. During evidence, the Chair of the Audit and Risk Committee told the

Committee that, in relation to the former Chief Executive's claim for a £200 per head dinner—

” I assure you that I challenged it at the time. I did so in the first instance because it came through coded as subsistence. I said that that was ridiculous and sent it back and refused to sign it off. I then had a discussion with the CEO about the nature of the meeting and what it was supporting, and I took the view that, in the context of a lucrative business development, although the amount was eye watering, it was a legitimate expense. ¹²

103. The Chair of the Audit and Risk Committee also stated that he “took every opportunity to speak to the CEO every time anything like that happened, in order to reinforce the need for itemised receipts”. ¹²

104. In correspondence to the former Chief Executive, the Committee asked for his recollection of the discussions and the challenge by the Chair of the Audit and Risk Committee in relation to expenditure. In his written submission, the former Chief Executive told the Committee that—

” My only recollection of interactions on expenditure with the Chair of the ARC (outside of the regular ARC meetings) before the results of the 2022/23 Audit were being finalised was my use of flexible plane tickets. My domestic situation required this flexibility, and I had thought that I had the agreement of the [former] Chair for what I was doing. ³

105. In respect of WICS's internal review of financial transactions, the Committee received further assurances from the Chair of the Audit and Risk Committee on 21 March 2024 that—

” I am pleased to say that, in January and February, we had zero non-compliance on expenses in the reports, so I think that the organisation has made a real shift. ¹²

106. In his written submission to the Committee of 10 June 2024, the Interim Chief Executive explained that the time period of the internal review of financial transactions had been expanded to include 9 months of the 2023/24 reporting year. The written submission also explained that WICS had—

” ...expanded the definition of a non-compliant expense to include missing and illegible receipts, and retrospectively labelled any subsistence expenditure over £50 per person as inappropriate and reported them separately. ²⁹

107. Further details of the findings are set out in WICS's internal review of financial transactions, a copy of which can be found in the Annexe to the Interim Chief Executive's written submission of 10 June. It contains an example of inappropriate expenditure in relation to “seven items of expenditure totalling £2,669 on meals that exceeded £50 per head and included significant expenditure on alcohol.” ²⁹

Expenditure on meals

108. The AGS raised concerns during evidence in February 2024 that WICS—
- ” ...has also drifted into spending public money in ways that are contrary to the requirements of the Scottish public finance manual and some of the wider foundations of financial control. ¹⁵
109. One example referred to above in paragraph 96, highlighted in the 2022/23 report, was a dinner exceeding £200 per person. This amount significantly exceeded WICS’s policy, which was a non-city limit of £25, and it also included the purchase of alcohol. Audit Scotland confirmed that the total bill for the dinner was £402.41 ¹⁵
110. WICS’s internal review of financial transactions further identified seven meals where expenditure was significantly more than £50 per head. The total cost of these seven meals was £2,669 this also included £996 which was spent on alcohol.
111. The Committee asked the former Chief Executive if he considered the significant expenditure occurred in relation to meals, identified in WICS’s internal review of financial transactions, as excessive spend for a public body. In his written submission to the Committee, the former Chief Executive stated:
- ” As I recall, the WICS Corporate Plan in 2021 explicitly allowed for expenditure to develop the Office’s international footprint and increase its international revenue. To my mind, this specific line item agreed in the Corporate Plan formalised an understanding that had been in place for several years, dating back to the EU funded assistance to the Romanian regulator of public services. Hospitality is an element of consultancy life...
- At the time, I considered that this event [dinner at L’Escargot Blanc] was covered by the agreed allowance for the development of WICS’ international activity. No one at the time, or afterwards during my tenure, suggested otherwise. ³
112. The Committee’s concern deepened when it learned from the 2023/24 report that WICS’s £50 per head limit for meals had been removed by the Board in January 2023. During evidence, Audit Scotland told the Committee that—
- ” At the start of 2023, following discussions with the [former] chief executive, whose view was that the subsistence levels were not sufficient to cover the costs of meals, including business entertaining costs, WICS completely removed the limit, which was highly unusual and something that we have not seen before. ²⁷
113. The Scottish Government confirmed during evidence that it had not been made aware that the limit had been removed and agreed with Audit Scotland that it was “highly unusual”. The Director of Energy and Climate Change went on to add that—
- ” If such a limit were to be removed and there was a reason for that, one would expect the Sponsorship Team to be informed. None of that happened. The bottom line is that the Sponsorship Team was not aware of the change. ³⁰

114. The auditor confirmed that WICS has now reinstated expenditure limits on meals, and these are currently set at £15 in a non-city centre location, £20 in the city centre and £30 per head for business entertaining.

Steps taken to improve financial control

115. The Committee sought assurances on the steps that WICS had taken to improve its financial controls since the publication of the 2022/23 report in December 2023.
116. The 2022/23 AAR states that WICS recognised that some of its processes that worked well previously, had lapsed when it started working remotely. In respect of WICS's processes for approving expenditure, the 2022/23 AAR explained that—
- ” They have relied on the new Approvals Max system for review of expenditures and there was insufficient discussion of these expenditures. They acknowledge that this was clearly an oversight on their part. Previously, an approvals panel met regularly to discuss all significant expenditures. This always involved active debate.²³
117. During evidence on 21 March 2024, the former Chair of the Board confirmed to the Committee that—
- ” We have reinstated our approvals panel to ensure that all significant expenditure has the required approvals in place. We have also revised our policies on travel and expenses, with the focus on compliant expenses claims, to move towards the target of 0 per cent expenses claims with no receipt.¹²
118. The Committee also heard from WICS that it had “frozen”¹² its credit cards and that members of staff would now incur expenses, which would be reimbursed if compliant. The Director-General Net Zero also stated that there was an opportunity for WICS to learn lessons from the Scottish Government's policy on expenses, including the “clear exclusion”¹² of claiming for alcohol. The Director-General also stated that this learning will—
- ” ...ensure that the policies are as up to date as possible and in alignment with both the SPFM and Government policy.¹²
119. During evidence in February 2024, Audit Scotland set out the action WICS has taken to improve its financial controls. This included a training course in January 2024 covering “what appropriate expenditure is, the processes that are in place to get that expenditure approved and how staff should take forward anything that requires board or Scottish Government approval.”¹⁵ Audit Scotland also highlighted that guidance has been provided to staff on what constitutes taxable benefits.
120. In his 2023/24 report the AGS commented that—

” While it is disappointing that further inappropriate expenditure has been identified, it is reassuring that this occurred prior to my December 2023 report. The auditor has confirmed that the action taken by management to address the financial management weaknesses identified has improved compliance. The auditor’s testing did not identify any instances of non-compliant expenditure between January and March 2024.²

121. The role of the Scottish Government’s Sponsorship Team in ensuring WICS had appropriate financial and management controls in place is explored in the next section of this report.

122. **The Committee shares the Auditor General for Scotland’s concerns that WICS’s approach to spending public money was contrary to the requirements of the Scottish Public Finance Manual and did not always represent value for money.**

123. **The Committee has further concerns around the lack of financial control arrangements that WICS had in place prior to the 2022/23 audit and is of the opinion that this contributed to the inappropriate use of public funds identified by the auditor.**

124. **However, the Committee notes the work that has been undertaken by WICS and the Scottish Government to review historical financial transactions and the subsequent steps that have been taken to address the financial control weaknesses that were identified.**

125. **The Committee also welcomes confirmation from the Auditor General for Scotland that no further non-compliant expenditure was found between January and March 2024, but this must be kept under close scrutiny.**

Role of the Scottish Government Sponsorship Team

126. WICS's governance framework sets out the responsibilities that have been delegated from the Scottish Government's Portfolio Accountable Officer to the Scottish Government's senior sponsor. One of those responsibilities is—
- ” Ensuring that the financial and other management controls being applied by WICS are appropriate and sufficient to safeguard public funds and conform to the requirements both of propriety and of good financial management. ³¹
127. During evidence, Audit Scotland shared its view on the sponsorship arrangements that were in place between WICS and the Scottish Government, stating—
- ” I saw that there was a lot of engagement but that it was very much in the policy space. It was very much about the regulator role and how the commission was fulfilling that role. ¹⁵
128. The AGS also shared his perspective on the sponsorship arrangements between WICS and the Scottish Government and told the Committee that—
- ” Although the Scottish Government was engaging on policy progress, it was perhaps less concerned about the overall internal arrangements of the organisation. I do not think that it is an unreasonable leap to say that, because the organisation was generating significant revenue from its role as part of the hydro nation strategy, that resulted in less focus from the sponsor team on other parts of its activity. ¹⁵
129. When asked by the Committee for his view on the sponsorship arrangements that had been in place, the Director-General Net Zero responded—
- ” On looking back at what more could have been done through the sponsor relationship, I would have thought that the commission would have been, out of all my bodies, the one to operate in a highly efficient way. Clearly, however, that was not the case. ¹²
130. The Director-General Net Zero stated that sponsorship arrangements included regular engagement from the former Deputy Director, supported by the director responsible for the body, on the policy regulation element of the work of the board. However, he accepted that there has been “more attention on the commission's operation as a technical and efficient regulator, rather than on its inner workings” ¹²
131. The Committee sought the former Chief Executive's views on WICS relationship with the Scottish Government team. In his response he told the Committee that—

” I talked very regularly with the [former] Deputy Director – probably of the order of four to five times a week, as a minimum. I consider that I shared all material issues with him. For example, I discussed the staffing constraints faced by WICS on a regular basis. I discussed how WICS used training as a retention tool. I discussed my concerns about the salary pressure on the base budget of WICS in the absence of international income. I was not aware of any material concerns of the Sponsor Team as to how the office was being administered...I met the Director only once that I can recall and this was shortly after the Director took up the post.³

132. The Director-General Net Zero also stated during oral evidence on 21 March 2024, that the Scottish Government will work to strengthen the role of the Sponsorship Team and that the Public Bodies Support Unit will provide dedicated support to the Interim Chief Executive to improve governance.

133. Audit Scotland confirmed during oral evidence on 8 February 2024, that “engagement has now been accelerated into much more formal, regular meetings between the chair and the sponsor team”¹⁵.

134. The AGS went on to say—

” I am initially assured on how seriously the Scottish Government is taking the matter from the remarks of the director general for net zero, under whom the sponsorship responsibilities reside.¹⁵

135. The Scottish Government’s review into the Sponsorship oversight and Governance at WICS referenced the “Ryan Review” which considered the Scottish Government’s relationship with public bodies. The Scottish Government’s review stated—

” The Ryan Review made a recommendation: “Portfolio Accountable Officers should ensure that there is regular contact between NDPB Boards and both Ministers and SG Officials. This is likely to include attendance at Board meetings for discussion of relevant topics, to ensure a good understanding of strategic priorities and issues”. It also states: “regular attendance may undermine accountabilities so should only be approved where it is justified as an escalation beyond normal governance arrangement”. Since the publication of the s22, SG sponsors have not attended Board meetings. DG NZ [Director-General Net Zero] as Portfolio Accountable Officer responsible for approving sponsor attendance at Board meetings, should consider whether sponsor attendance is required moving forward during the period where recommendations arising from the s22 and subsequent reviews are being implemented.³²

136. The Committee asked the Scottish Government why the Sponsorship Team did not attend WICS Board meetings following the publication of the 2022/23 report and if it had considered whether the issues arising from the report required an “escalation beyond normal governance arrangements”. The response from the Director of Energy and Climate Change confirmed that—

” The Scottish Government recognised immediately that the issues arising from the initial section 22 report on WICS called for escalation beyond normal governance arrangements. As part of that, monthly assurance meetings were established from January 2024 attended by the Chair and Chief Executive Officer of WICS and myself, with the Director General attending whenever available.

This does not preclude officials attending WICS Board meetings and I have agreed with the WICS Interim Chair that a Sponsorship Team representative will attend Board meetings regularly as an observer. This will help to ensure the continuity of Board engagement as the monthly assurance meetings reduce in frequency.³³

137. In his 2023/24 report, the AGS states—

” I note the report published by the Scottish Government on 7 November 2024, Water Industry Commission for Scotland – independent review: sponsorship oversight and governance, which acknowledges weaknesses in the sponsorship arrangements at that time. Steps have been taken to strengthen the sponsorship oversight for the Commission and I have asked the Scottish Government auditor to monitor the implementation of the recommendations.²

138. Correspondence from WICS, 2 April 2025, also confirmed that there has been a “redefinition of the relationship” with the Scottish Government’s Sponsorship Team and “more structured engagement”.³⁴

139. The Governance Framework also specifies that one of the sponsor teams responsibilities, delegated from the Portfolio Accountable Officer, is that they should ensure that—

” there is effective, continuous assessment and appraisal of the performance of the chair of WICS, in line with the requirements of the Code of Practice for Ministerial Public Appointments in Scotland.³¹

140. The Scottish Government’s independent review of WICS’s governance arrangements found that “the requirements of the Framework Document in relation to the appraisal of the performance of the Board, Chair of the Board and Chief Executive were not fully complied with”.³⁵

141. The Committee sought clarity on the extent to which these requirements had not been complied with and heard from the Director of Energy and Climate Change that—

” As part of the independent review into WICS’s governance arrangements, the reviewers were unable to establish evidence that annual appraisals of the WICS Chair or Chief Executive Officer had been undertaken during 2023, or that the WICS Board had conducted regular self-assessment.³³

142. WICS’s letter of 2 April 2025 confirms that regular appraisals for the Board Chair and Chief Executive are now in place to improve transparency and accountability and that going forward, performance reviews will be embedded in WICS’s annual

governance cycle.

143. **It is clear to the Committee that there have been significant weaknesses and failings in the Scottish Government’s sponsorship of WICS. These have led to a failure to ensure appropriate safeguarding of public funds. The Committee would have expected the Scottish Government to fully comply with the requirements of the Governance Framework.**

Wider sponsorship arrangements

144. The Committee also considered the Scottish Government’s sponsorship arrangements more broadly, Audit Scotland commented during oral evidence on the 2022/23 report that—

” There has undoubtedly been some reflection on the issues that have been identified...that reflection should take place not just in that sponsor team but across all portfolios, with regard to all sponsor arrangements, to ensure that there is a deep dive, periodically, to get a deeper understanding of what is happening in a body. ¹⁵

145. During evidence, the AGS also expressed his concerns in relation to the “wide variation in the quality of sponsorship of public bodies” ¹⁵. We heard from Audit Scotland during evidence on 8 February 2024 of the steps the Scottish Government is taking to ensure similar issues are not occurring in other public bodies—

” ...the Scottish Government has just started the quarterly assurance boards. We are attending each of the boards with the lessons from the section 22 report, to ensure that they are all considering the sponsor arrangements for all public bodies and that the same thing is not happening elsewhere. ¹⁵

146. The Committee also heard from Audit Scotland of the impact that the situation with WICS has had on sponsorship arrangements throughout the Scottish Government—

” You will have heard me talk about the impact of the situation on sponsorship across the Scottish Government. All Director-Generals have done deep dives into their sponsor arrangements, and the Government is preparing plans to strengthen them. Specifically, that is about providing a network so that there is peer support, because it is quite challenging to strike the right balance with regard to supporting bodies, knowing the line in relation to the accountable officer’s responsibilities and providing the right guidance, scrutiny, structure and challenge. We are seeing changes in that regard. ²⁷

147. At its meeting on 30 April 2025 the Committee considered a draft work programme put forward by the AGS for the period of 2025-2027. The Committee heard that the AGS has plans report on the Scottish Government’s sponsorship arrangements for public bodies through his 2024/25 report on the Scottish Government’s Consolidated Accounts.

- 148. The Committee welcomes the Auditor General for Scotland’s confirmation that he will be undertaking work on the sponsorship support the Scottish Government provides for public bodies.**

Assurance and the RAG rating system

149. The Director-General Net Zero explained during oral evidence on 21 March 2024, that his portfolio area was one of two Director-General areas within the Scottish Government trialling a Red, Amber, Green “RAG” rating system to provide assurance on public bodies. In a written submission to the Committee, the Director-General Net Zero describes the RAG rating system as “an assurance tool which is embedded within the government’s governance architecture”¹².
150. Through its scrutiny of the Scottish Government’s relationships with public bodies, the Committee is aware that the RAG rating system is used by Scottish Government sponsorship teams to identify areas of potential risk with a public body. During evidence, Audit Scotland stated that—
- ” To be honest, the sponsor team did not view the commission as a high-risk body in relation to the reporting that was being done, because the work that it was undertaking was felt to be relatively routine.¹⁵
151. During evidence, the Director-General Net Zero, commented that—
- ” Previous accounts had not indicated any issues with the board—that is not a defence, but a matter of fact.¹²

- 152. The Committee recommends that the Scottish Government reviews whether improvements can be made to its RAG rating system that would help it identify emerging issues of concern within public bodies at an early stage, such as those uncovered in the recent annual audits of WICS.**

Role of the Board

153. The Water Services etc. (Scotland) Act 2005, which established and makes provision for WICS, states that the Board is to consist of “not fewer than 3, nor more than 5, ordinary members”.³⁶ WICS’s Board currently has 4 members, including its Interim Chair.
154. WICS’s Governance Framework establishes the policies and procedures that WICS should follow in the delivery of its statutory functions. In the introduction to the Framework, it states—
- ” Governance is the over - arching structure and strategy that provides accountability and direction, and that influences the behaviours and culture within Water Industry Commission for Scotland. ³¹
155. The 2022/23 report draws attention to WICS’s governance statement in its 2022/23 Annual Report and Accounts which states—
- ” There have been no governance issues identified during the year that are significant in relation to our overall governance framework. However, during the year, some weaknesses were identified in relation to our travel and expenses policy. Following a revision of the policy in January 2023, the Accountable Officer is committed to building on the changes made to the policy and strengthening further our expenditure in this area. There were two items of expenditure identified that required retrospective approval by the Scottish Government. Again, the Accountable Officer is taking action to address the weaknesses that led to the oversight of appropriate approval. ³⁷
156. We were concerned to learn that Audit Scotland had to ask WICS to add additional disclosures in its original governance statement, “particularly on non-salary rewards, including the gift vouchers, and the expenses issue.”¹⁵
157. The AGS explained during evidence, that the governance statement is the organisation’s own assessment of the adequacy of its governance. We heard from the AGS that in the auditor’s view, what they received from WICS in relation to its assessment of its governance did not “sufficiently cover the extent of the issues that are set out in our report”.¹⁵
158. Given that the 2022/23 report identified ‘significant weaknesses’¹ in WICS’s governance and financial arrangements, the Committee sought to establish why WICS had initially failed to identify these issues in its annual report. The response from both the former Chair of the Board and the Chair of the Audit and Risk Committee did not fully address why, despite acknowledging that “issues with compliance with policies”¹² existed, these were not included in the annual report.
159. The Governance Framework also sets out the responsibilities of the Board, which includes the requirement to—

- ” • ensure that effective arrangements are in place to provide assurance on risk management, governance and internal control, and
- demonstrate high standards of corporate governance at all times, including openness and transparency in its decision making.³¹

160. The Interim Director-General Net Zero referred to these requirements and commented that—

- ” Clearly, that did not happen. Over and above that, the chair has responsibility for the performance of individual board members, including the chief executive. The [Framework] document states: “Individual Board members should act in accordance with the responsibilities of the Board ... and comply at all times with the code of conduct adopted by WICS and with the rules relating to the use of public funds.”³⁸

161. The Scottish Government’s independent review of WICS’s governance arrangements identified failings in the level of challenge provided by the Board and the Audit and Risk Committee and found that “...there was inconsistent evidence of follow up actions taken, including in relation to policies and decisions on value for money.”³⁵

162. The independent review also found that while there was evidence of challenge by WICS employees regarding non-compliance with financial processes, including those relating to expenses—

- ” The Review Team was also provided with documented evidence of the Chair of the Board challenging the behaviour of the former Chief Executive in 2022. There is limited evidence of the action that was taken as a result of that challenge.³⁵

163. The Review Team also recommended that—

- ” WICS, with Scottish Government sponsors, should consider any further training and support that Board and ARC members require to ensure that they can discharge their roles effectively moving forward.³⁵

164. Further issues arose during the Committee’s scrutiny in relation to the Board’s handling of the arrangements for the departure of the former Chief Executive and on its handling of issues around the culture of the organisation. These are explored in the next section of this report.

165. The Committee is of the view that the Board failed in its responsibilities to ensure that effective arrangements were in place to provide assurance on risk management, governance and internal control and to demonstrate high standards of corporate governance at all times.

166. The Committee notes the changes that have been made in Board membership since the publication of the 2022/23 report. Given the challenges that WICS faces in rebuilding the trust and confidence of

stakeholders and the public as a regulator, we recommend that Scottish Ministers give consideration to ensuring the maximum number of Board members, with the required financial and governance skills, are appointed.

- 167. 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 Committee welcomes the recommendation in the independent review of WICS's governance arrangements that WICS and the Scottish Government give consideration to any further training and support required by the Board and the Audit and Risk Committee.**
- 168. 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.**

Former Chief Executive's departure

169. Prior to the publication of the 2022/23 report on 20 December 2023, the former Chief Executive advised the Board on 19 December 2023 that he would resign, effective from 31 December 2023. The Committee therefore sought to understand the detail around the arrangements that were made to facilitate his departure. In doing so, we considered matters relating to the former Chief Executive's contract, the use of a settlement agreement, other options considered, and the overall cost to the public purse.
170. The written submission from the former Chief Executive states that he initially proposed a retirement date of 31 October 2024. He also went on to say—
- ” I also discussed with him [the Chair] the likelihood of a PAC hearing if a Section 22 Report was issued. The Deputy Director had explained this process to me in increasing detail over the preceding weeks. I accepted the shortfalls identified in the audit but considered that my efforts to increase revenue were a mitigation...In conversation a day or two later, the Deputy Director questioned me as to whether my approach was the right one. He reiterated the likelihood of PAC inquiry and that I should perhaps negotiate an earlier exit. At this point, I had no intention of taking that suggestion. ³
171. The Scottish Public Finance Manual states that Accountable Officers are "personally answerable" ³⁹ to the Parliament for the exercise of their functions and the Committee was concerned to hear that the former Chief Executive may have been encouraged to negotiate an earlier exit date to avoid appearing before the Committee. The Committee raised this concern with the Scottish Government during the meeting on 19 February 2025. However, the Director-General Net Zero was unable to provide any additional insight having not been party to the conversations.

Departure arrangements

172. During evidence on 21 March 2024, the Committee sought clarity from WICS on the terms of the former Chief Executive's departure. The Chair of the Board confirmed that—
- ” The CEO's contract required him to give six months' notice. That would have had him working as CEO for six months until June of this year and being paid for six months, and he was legally due that. Instead, the board agreed to pay him six months' salary in lieu of notice, provided that he departed at the end of December. We took extensive legal advice and gained approval from the sponsor team for that approach. ¹²
173. When asked why the former Chief Executive was not required to work for the six months' notice period required by his contract, the former Chair of the Board told the Committee that—

” We wanted him to depart at the end of December to allow the board and Water Industry Commission for Scotland to quickly refocus on value for money; to produce an action plan, which has been referred to, in response to the section 22 report; to start the process of appointing both an interim and a permanent CEO; and to change the culture. ¹²

174. During the 2023/24 audit the auditor confirmed that a contract issued to the former Chief Executive in 2005 required him to give 6 months’ notice to terminate his employment and required WICS to give 12 months’ notice on termination of the contract. However, the auditor also identified that a further unsigned contract had been issued to the former Chief Executive in 2007 which, had it been signed, would have changed the notice period given by WICS to 3 months instead of 12. In his 2023/24 report, the AGS states—

” The auditor discussed this issue with the former Chair of the Board who advised that, based on the legal advice received, the Board was uncertain about the Commission’s ability to enforce the terms of the former Chief Executive’s later contract as he had not signed it. ²

175. The 2023/24 report provides a timeline for the financial settlement paid to the former Chief Executive. It shows that on the 19 December 2024, the former Chief Executive emailed the Board to advise them of his resignation and on the same day the Board instructed its legal advisers to prepare a settlement agreement to cover the period.

176. The 2023/24 report confirms that WICS applied the conditions in the former Chief Executive’s initial contract when preparing a value for money assessment to support its decision and not the conditions in the 2007 contract. The report went on to set out the following options that WICS considered as part of its the value for money assessment on the options for the former Chief Executive’s departure:

- ”
- accepting the offer from the former Chief Executive to work until November 2024
 - suspending the former Chief Executive to allow an investigation/hearing to take place
 - dismissing the former Chief Executive (and incurring 12 months contractual severance)
 - allowing the former Chief Executive to work his six-month notice period, or
 - making a payment in lieu of the six-month contractual notice period. ²

177. The timeline in the 2023/24 report shows that the settlement agreement was signed by the former Chief Executive and the former Chair of the Board on the 4 and 5 of January 2024 respectively. In the report the AGS concludes that—

” The Commission should have taken more time to consider the wider options available, before offering a settlement agreement to the former Chief Executive. The use of a settlement agreement removed the possibility for disciplinary procedures to be taken. ²

178. At the Committee meeting on 9 January 2025, the AGS told the Committee that in respect of deciding which option to take—
- ” It is—or should be—a matter of regret for WICS and the Scottish Government that that was the decision that was taken quite hastily.²⁷

Settlement agreement

179. The 2023/24 report provides a definition of a settlement agreement—
- ” A settlement agreement is a legally binding contract between an employer and an employee whereby the employee agrees to waive their rights to bring any claims against the employer, and vice versa, often in exchange for compensation.²
180. In his written submission of 31 July 2024, the Interim Chief Executive provided a copy of a letter from the Cabinet Secretary for Wellbeing Economy, Net Zero and Energy to the former Chair of WICS. In her letter the Cabinet Secretary stated—
- ” I note that in choosing a Settlement Agreement to conclude the departure of the former CEO, the Board failed to follow due process. This is extremely concerning given the nature of the failings identified by the Auditor General. Furthermore, it did not offer an opportunity to the Scottish Government to offer a wider steer on the use of Settlement Agreements and in particular the concerns that the Public Audit Committee (PAC) has expressed in respect of the use of such agreements.
- While I am advised that the payment reflects contractual terms this recurrent breach of process is unacceptable.¹³
181. At the meeting on 19 September 2024, the Committee questioned WICS on the Cabinet Secretary’s remarks in her letter and the former Chair of WICS responded to say that—
- ” ...we had firm legal opinion, from both our legal advisers and the Scottish Government, that, even if the business case had not been approved, the public body could go ahead and make the settlement agreement and make the payment.³⁸
182. The former Chair then went on to add—
- ” I got permission from the [former] deputy director on 19 December and 20 December, and I followed up with the settlement agreement.³⁸
183. In response to the former Chair’s comments, the Interim Director-General Net Zero told the Committee on 19 September 2024—

” That is not my understanding. My understanding is that what was discussed at that point was that the contractual terms would require six months’ salary to be paid. I was not privy to the conversation, but my understanding is that “a settlement agreement”—that phrase and the methodology of that terminology—was not discussed or presented to us until January.³⁸

184. The timeline for the financial settlement paid to the former Chief Executive set out in the 2023/24 report shows that the Scottish Government first became aware that a settlement agreement had been used when WICS provided the former Deputy Director with the value of the payment on 12 January 2024. Previous emails from WICS to the Scottish Government referred to the payment as WICS meeting its contractual obligation.

185. This was also confirmed by the Director-General Net Zero on 19 February 2025, where he explained to the Committee that—

” The timeline was very clear. The individual had resigned. It was communicated to the deputy director. The question was asked: is it possible to pay the individual severance in lieu? That was checked internally with the Government, and that was communicated back. As far as I am aware, there was no communication around the settlement agreement until an email came in on 12 January that stipulated that a settlement agreement had been used. Immediately at that point, the payment was halted, and then we went back to communicating what the process should have been before a settlement agreement had been entered—the need to provide a business case, for views to be sought on that business case internally and for that to be communicated back to the board of WICS.³⁰

186. WICS were advised by the Scottish Government on 15 January 2024 that the settlement agreement could not be approved until a business case had been completed in accordance with the requirements of the SPFM. The AGS confirmed that the required steps were taken, and the financial settlement was approved by the Director-General Net Zero on 11 March 2024, with the payment made to the former Chief Executive on 27 March 2024.

187. WICS’s Governance Framework sets out that the Chief Executive is the principal adviser to the Board on the discharge of its functions. The Chief Executive in his role as Accountable Officer is also responsible for ensuring that the public body complies with the requirements of the SPFM. In his 2023/24 report, the AGS highlights that as of January 2024, when the settlement agreement was signed, the relevant section of the SPFM was written based on the final decision to enter into a settlement agreement resting with the Accountable Officer for the public body. Therefore, at the time of the former Chief Executive’s resignation, there was no clear procedure in place for the Board to follow.

188. The Committee was reassured by the AGS’s confirmation in his 2023/24 report that the relevant section of the SPFM⁴⁰ was revised in March 2024 to include an additional clause to provide clarity on the approach to be taken where the Accountable Officer is the subject of a settlement agreement. In his report, the AGS expressed the view that—

- ” Given that the departure related to the Accountable Officer of the Commission, the specifications of the SPFM, as written at the time, could not be fully followed. I agree with the auditor that the Commission’s sponsor division should have been more proactive in providing clear guidance and support.²

Cost to the public purse

189. The auditor considered the financial settlement for the former Chief Executive as part of the 2023/24 audit and issues arising from the settlement were included in the 2023/24 report. The 2023/24 report confirmed that the total cost to the public purse for the departure of the former Chief Executive was £105,488. This included his salary, accrued annual leave, legal costs and HMRC employer national insurance contributions.
190. The 2023/24 report confirms that the Director-General Net Zero approved the payment to the former Chief Executive on 11 March 2024 and that the auditor concluded that the payment did not impact on his regularity opinion.
191. As discussed earlier in this report, the AGS confirmed that WICS applied the terms of the former Chief Executive’s 2005 contract to its value for money assessment on options for his departure. We heard from the AGS that the difference of the former Chief Executive leaving under the terms of the 2005 contract and not the 2007 contract was financially “quite significant”²⁷
- 192. The Committee shares the view of the Auditor General for Scotland that WICS should have taken more time to consider the wider options available before offering a settlement agreement to the former Chief Executive.**
- 193. The Committee notes that the WICS Board entered into a settlement agreement with the former Chief Executive in order to fulfil its contractual obligations. However, in doing so, it failed to have regard to the requirements of the Scottish Public Finance Manual.**
- 194. It is the Committee’s view that the Scottish Government failed to recognise the unusual circumstances faced by the Board when managing the departure of the former Chief Executive and that they should have been more proactive in providing the Board with advice.**
- 195. The Committee found the former Chief Executive’s contractual terms to be unusual and somewhat baffling, but notes that the payment to the former Chief Executive was his contractual entitlement and did not include any compensation.**
- 196. The Committee has significant concerns that the former Chief Executive appears to have been encouraged to negotiate an early exit date by the Scottish Government sponsor team. The early exit secured by the Board has hampered the Committee’s ability to hear the former Chief Executive’s full account of the failings at WICS during his tenure and its subsequent**

scrutiny of the issues arising from the audit reports. For any similar situations in the future, we expect Accountable Officers to remain in post, wherever possible, in order to be held accountable by Parliament.

Other significant issues

Organisational culture

197. One of the key messages in the 2022/23 report states that—
- ” Immediate action is required to address the issues and promote a culture of Best Value across the organisation. ¹
198. In the 2022/23 report, the AGS highlights that the current culture within WICS does not have sufficient focus on ensuring the achievement of value for money in the use of public funds. Referring to the example of the £200 per head dinner attended by the former Chief Executive, the AGS stated—
- ” Although, in the greater scheme of things, it does not involve a significant amount of public money, it perhaps illustrates some aspects of the organisation’s culture and the lack of focus on what it was actually spending. ¹
199. The former Chair of the Board also recognised that WICS’s culture needed to change stating —
- ” Having rules is very useful, but having a culture of knowing when to obey the rules is more important. That is where I want to see major change. ¹²
200. The Committee sought further information from the Interim Chief Executive on the steps WICS is taking to address the issues relating to the culture within the organisation. In his written submission of 10 June 2024, the Interim Chief Executive set out the changes that have been made to date, along with planned future changes to address “a culture lacking in value for money”. ²⁹
201. These changes include holding in-person all staff and leadership team meetings in person, moving away from operating remotely to hybrid working. The Interim Chief Executive also explains that since his appointment he has—
- ” ... met with employees, the Leadership Team, the WICS Board and stakeholders to discuss the challenges facing WICS and develop an organisational change programme. ²⁹
202. The Interim Chief Executive’s written submission also states that it has been identified that there is a “need to strengthen certain functional areas of WICS such as Human Resources, Risk, Assurance and Communications. We will begin strengthening these functional areas as part of this organisational change programme” ²⁹ .
203. The Committee received written evidence from WICS’s COO that described a “toxic environment” where there was a reluctance to challenge the former Chief Executive “through fear of the potential repercussions” ⁴¹ .
204. In his 2023/24 report, the AGS provided details of a staff survey undertaken by WICS in February 2024. The report confirmed that the results of the survey

“indicated staff who had experienced bullying and harassment within the workplace”
2 .

205. The Scottish Government’s independent review into WICS’s governance also reported on the culture of the organisation—

” In its totality, the accounts and sources of evidence provided to the Review Team, noting that this includes verbal accounts and analysis of staff survey results, suggest some senior officials and the Chair of the ARC and Board were aware of issues relating to behaviour and culture over a period of time, and there was a lack of evidence to demonstrate action taken as a result. ³⁵

206. The former Chief Executive told the Committee that—

” I find the comments on culture to be disappointing. Staff retention (with the exception of analysts that moved on for salary reasons) was generally very high. ³

207. The 2023/24 report confirms that staff will be given the opportunity to complete the survey again during 2025 to enable WICS to assess how its response is addressing the issues that were identified. We asked the AGS if he felt that WICS was taking sufficient action to address the issues relating to staff welfare. The AGS responded—

” I think that it is on the right path. There has been appropriate recognition of the cultural issues in the organisation. In fact, the committee has received correspondence from members of staff who have set out some of their concerns. Employee surveys have taken place, there have been appropriate diversity, equality and inclusion workshops, and human resources consultants have been used to tease out underlying issues in the organisation. ²⁷

208. We also heard from the Interim Chair of the Board of the impact that WICS’s international consultancy work had on the behaviours and culture within the organisation. In his view the international work—

” “...changed the culture and weakened some of the governance that you would expect...I think that the organisation was unduly influenced by the significant amounts of income that were being brought in from international consultancy work. That contaminated the culture of the organisation and its processes. For me, that goes a long way to explain what happened. ³⁰

209. The Committee is disappointed that the independent review of WICS’s governance arrangements found that some senior officials and the Chair of the Board and the Audit and Risk Committee were aware of culture and behaviour issues at WICS, yet there was a lack of evidence to demonstrate action had been taken to address these issues.

210. 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.

Remit of WICS

211. As part of its scrutiny, the Committee sought to establish further information about the international consultancy work that WICS undertakes to support the Scottish Government's Hydro Nation Strategy. The AGS explained that—
- ” ...there is an income stream associated with that and, looking at some of the more recent activity, it more than breaks even. It is generating income for Scottish public services. ¹⁵
212. We heard from the former Chair of Board who stated that while WICS is a public body, it is “quite different from other public bodies in that it generates 22 per cent of its income from international consultancy.” ¹² He went on to add—
- ” ...I am going to ask for further clarification from the Scottish Government on what is appropriate for a public body that is tasked with developing external income. On one day, staff are asked to behave in a certain way with a potential customer with a lucrative contract that might lead to extensive income, and the next day they are asked to adopt a very low-cost event on domestic regulation. Frankly, that is not easy to do. ¹²
213. The Chair of the Audit and Risk Committee also highlighted the challenges associated with WICS's remit, stating—
- ” There is a lot of tension in terms of approach between running a domestic regulator—a small body—and an international consultancy. We have been trying to fit those into one policy, and it is very hard. Going forward, we will take advice from the support group on how we can do that. Those tensions will continue as we continue to pursue business, so we need clear guidance. ¹²
214. In respect of WICS's remit as a public body and an income generator, Audit Scotland told the Committee that—
- ” The Scottish Government is now reflecting on whether it needs to be clearer in terms of governance, policies and expectations so that there is not a drift in culture towards more of a private sector mentality with regard to revenue raising and a focus on being successful and winning business. ¹⁵
215. We heard from the Interim Director-General Net Zero in September 2024 that WICS's international work was now on pause. She went on to say—
- ” Over the coming months, we will take a view on whether that work will proceed and, if so, how it will be best delivered. That will be considered in the round alongside all the other activity that is being undertaken. However, as I said, at present, our firm priority is stabilising the organisation and bringing the best-value approach to the stewardship of public funds. ³⁸
216. The Committee also sought the views of the former Chief Executive on the challenges and difficulties he may have faced in leading an organisation with a dual role as a public body regulator and an income stream generator. The former Chief Executive responded that he felt a “consistent pressure from Government to identify

and pursue opportunities”³ and that—

” ...there was discussion as to whether there should be a separate legal entity established to ring fence the costs and resources of the revenue generating activity. A registration of a company name ‘WICS International’ was completed, but never activated.³

217. The former Chief Executive went on to add that a legal separation of WICS was discussed frequently with the Scottish Government who—

” ...tended to be more supportive of a separation in discussions about how this might be pursued when revenue was being earned at the time.³

218. The Committee also considered WICS’s Corporate Plan 2021-2027 which states that one of the control measures that will be used to negate the risk of the costs incurred in undertaking international activities not being recovered is—

” Governance and assurance arrangements to ensure full recovery of costs incurred in Hydro Nation activities, including overheads and business development costs.⁴²

219. However as there appears to have been no separate way, such as distinct budget lines, to identify the costs incurred by WICS, it is unclear to the Committee how it would be possible to accurately track the extent to which the costs related to its international consultancy work were fully recovered and ultimately the true total of revenue earned.

220. In February 2025, the Director-General Net Zero confirmed to the Committee that the international consultancy work would remain on pause until the end of the current regulatory review period in 2027. We explored what assessment would be undertaken on WICS resuming its international consultancy work after this time, and heard from the Scottish Government’s Deputy Director for the Water Industry that—

” Effectively, we need a business case, and if international work turns out to be one of the areas that we want to continue to focus on, we will need to work with WICS on what that business case is, whether it could be resourced and what the commercial model around it is. A full assessment piece would need to be done there.³⁰

221. We also asked the Scottish Government why plans for a separate entity to undertake the international consultancy work had not been taken forward. The Scottish Government’s Director of Energy and Climate Change stated—

” It is not clear to us why that did not happen. That is exactly the kind of thing that we are looking at in the work that we are doing in reviewing hydro nation, and, were WICS to resume the international activity, we would look to it taking exactly that approach.³⁰

222. In his letter of 2 April 2025, the Interim Chief Executive stated that—

” The revised Framework Document makes clear that any future revenue generating activity would require the Scottish Government to issue specific Directions to WICS. ¹⁴

223. During the evidence session on 19 February 2025, the Committee questioned the need for WICS as a regulator, asking if it would be possible for Scottish Water to be regulated directly by the Scottish Government instead. In response, the Director-General Net Zero stated—

” If we did not have WICS then potentially we would not have the impetus to deliver on efficiency saving, reduced taxpayer bills and the improvement of the asset over the period that we are considering. In a regulated market, whether that is rail or water, it is important to be able to push the individual organisations responsible for delivering the service at hand...

You set up bodies that are under statute with a clear direction of activity and put the governance structure in around it. To subsume that entirely within Government would be a big mistake. ³⁰

224. The Director of Energy and Climate Change added that—

” Most regulators sit at arm’s length from Government; it is quite a technical job so they have to have that expertise and they are also arm’s length. For energy, Ofgem is the energy regulator and there will be similar arrangements in other areas. ³⁰

225. The Chair of the Board also expressed the view that—

” It is not unreasonable to ask questions about whether an organisation such as WICS is needed when it has not proven its ability to govern its own arrangements satisfactorily. The baby and the bathwater syndrome would be part of my answer; we need to be careful what would be lost without WICS and anything that replaced it would have to be as effective as WICS has been in its regulatory role. That is important for me as we go forward. ³⁰

226. It is clear to the Committee that tensions exist between WICS’s role as an economic regulator and its international consultancy work, which generated substantial funds for the public purse. Given this unique position, it is even more surprising that robust arrangements were not in place to ensure financial propriety and effective governance by WICS, its Board and the Scottish Government.

227. We note that the international consultancy work is paused until at least 2027 and note the Scottish Government’s assurances that a full assessment and business case would be required before any decision is made on resumption.

228. As part of this process the Committee recommends that the Scottish Government and WICS seek 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. The Committee is clear that should international work resume, there should be no return to the culture and behaviours identified in the audit reports.

Shared services

229. The Committee is aware that WICS is currently undergoing organisational transformation and restructuring. We heard from WICS, during evidence on 19 February 2025, that as part of this it now has in house Human Resources support for the first time since 2009. Through our scrutiny we also learned that WICS relied on external legal services and a public relations consultancy service.
230. The Scottish Government has identified its Shared Services Programme as one of the key efficiencies programmes that makes up its wider plans for public sector reform.
231. The Committee is aware of other bodies who ‘share services’ with other public bodies or the Scottish Government in order to reduce costs. Examples of this include:
- Disclosure Scotland which currently has a number of shared service agreements in place including the Procurement, HR and finance functions with Scottish Government⁴³, and
 - The Scottish Social Services Council which shares several services with the Care Inspectorate, including financial, human resources and information and communications technology (ICT). There are also joint posts across the two organisations, including the director of corporate services and the head of finance and shared services⁴⁴.

- 232. 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.**

Conclusion

233. **As a public body and economic regulator of Scottish Water, the Committee considers that WICS has failed to lead by example in respect of ensuring value for money, as evidenced by the significant weaknesses in its governance and financial management arrangements highlighted by the Auditor General for Scotland in his section 22 reports.**
234. **On the basis of the evidence it received, the Committee considers that not one individual or body is responsible for the catalogue of failures that occurred at WICS. It is clear that the WICS Board and Audit and Risk Committee, along with the Scottish Government and the former Chief Executive all failed to meet the standards required of them and contributed to an unacceptable use of public funds.**
235. **We welcome the Auditor General for Scotland's intention to track and monitor progress on the matters identified in his section 22 reports, with a view to further public reporting if necessary.**

Annexe: Extracts of minutes

Extracts from the meeting minutes of the Public Audit Committee

[5th meeting, Thursday 8 February 2024](#)

3. The 2022/23 audit of the Water Industry Commission for Scotland:

The Committee took evidence from— Stephen Boyle, Auditor General for Scotland; Carole Grant, Audit Director and Richard Smith, Senior Audit Manager, Audit Scotland.

4. The 2022/23 audit of the Water Industry Commission for Scotland (In Private):

The Committee considered the evidence heard at agenda item 3 and took further evidence from— Stephen Boyle, Auditor General for Scotland; Carole Grant, Audit Director and Richard Smith, Senior Audit Manager, Audit Scotland.

5. The 2022/23 audit of the Water Industry Commission for Scotland (In Private):

The Committee considered the evidence heard at agenda items 3 and 4 and agreed to invite the Scottish Government and the Water Industry Commission for Scotland to give oral evidence at a future meeting.

[10th Meeting, Thursday 21 March 2024](#)

2. The 2022/23 audit of the Water Industry Commission for Scotland:

The Committee took evidence from— Roy Brannen, Director-General Net Zero, Kersti Berge, Director, Energy and Climate Change and Jon Rathjen, Deputy Director for Water Policy & Directorate for Energy and Climate Change Operations, Scottish Government;

Donald MacRae, Chair of the Board, Robin McGill, Chair of the Audit and Risk Committee and David Satti, Director of Strategy and Governance, Water Industry Commission for Scotland.

5. The 2022/23 audit of the Water Industry Commission for Scotland (In Private):

The Committee considered the evidence heard at agenda item 2 and took further evidence from— Stephen Boyle, Auditor General for Scotland; Carole Grant, Audit Director, Richard Smith, Senior Audit Manager and Lauryn Graham, Senior Auditor, Audit Scotland.

6. The 2022/23 audit of the Water Industry Commission for Scotland (In Private):

The Committee considered the evidence heard at agenda items 2 and 5 and agreed to consider its next steps once follow-up written information from the Water Industry Commission for Scotland and the Scottish Government has been received.

[23rd meeting, Thursday 19 September 2024](#)

3. The 2022/23 audit of the Water Industry Commission for Scotland:

The Committee took evidence from— Michelle Quinn, Interim Director-General Net Zero, Kersti Berge, Director of Energy & Climate Change and Catherine Williams, Interim Deputy

Director of Water Policy, Scottish Government;

David Satti, Interim Chief Executive, Donald MacRae, Chair of the Board and Robin McGill, Chair of the Audit and Risk Committee, Water Industry Commission for Scotland.

4. The 2022/23 audit of the Water Industry Commission for Scotland (In Private):

The Committee considered the evidence heard at agenda item 3 and took further evidence from— Stephen Boyle, Auditor General for Scotland; Carole Grant, Audit Director, Richard Smith, Senior Audit Manager and Lauryn Graham, Senior Auditor, Audit Scotland.

5. The 2022/23 audit of the Water Industry Commission for Scotland (In Private):

The Committee agreed to defer consideration of the evidence heard at agenda items 3 and 4 to a future meeting.

The Committee discussed the 2022/23 audit of the Water Industry Commission for Scotland at the following meetings in relation to its work programme:

[Minutes of the meeting on 25 April 2024 \(Work Programme\):](#)

In relation to the 2022/23 audit of the Water Industry Commission for Scotland, the Committee agreed to write to the Auditor General for Scotland and the Water Industry Commission for Scotland. The Committee also agreed to draft a report on the 2022/23 audit of the Water Industry Commission for Scotland.

[Minutes of the meeting on 9 May 2024 \(Work Programme\):](#)

The Committee considered correspondence received in relation to its scrutiny of the Water Industry Commission for Scotland and agreed to write to the Water Industry Commission for Scotland and the Scottish Government.

[Minutes of the meeting on 13 June 2024 \(Work Programme\):](#)

The Committee considered correspondence received from the Auditor General for Scotland, the Water Industry Commission for Scotland and the Scottish Government in relation to the 2022/23 audit of the Water Industry for Scotland and agreed its future approach to scrutiny.

[Minutes of the meeting on 5 September 2024 \(Work Programme\):](#)

The Committee considered correspondence in relation to its scrutiny of the 2022/23 audit of the Water Industry Commission for Scotland and agreed to invite the Water Industry Commission for Scotland and the Scottish Government to give further oral evidence at a future meeting.

[Minutes of the meeting on 26 September 2024 \(Agenda Item 5\):](#)

The Committee considered the evidence heard at agenda items 3 and 4 on 19 September 2024 and agreed to write to the former Chief Executive of the Water Industry Commission for Scotland and the Scottish Government.

[Minutes of the meeting on the 14 November 2024 \(Work Programme\):](#)

The Committee considered correspondence from the Cabinet Secretary for Net Zero and

Energy, the Interim Director-General Net Zero, Scottish Government, the Interim Chief Executive of the Water Industry Commission for Scotland (WICS) and the former Chief Executive of WICS and agreed to write to the Scottish Government and WICS.

[1st meeting, Thursday 9 January 2025](#)

3. The 2023/24 audit of the Water Industry Commission for Scotland:

The Committee took evidence from— Stephen Boyle, Auditor General for Scotland; Carole Grant, Audit Director and Richard Smith, Senior Audit Manager, Audit Scotland.

4. The 2023/24 audit of the Water Industry Commission for Scotland (In Private):

The Committee considered the evidence heard at agenda item 3 and took further evidence from— Stephen Boyle, Auditor General for Scotland; Carole Grant, Audit Director and Richard Smith, Senior Audit Manager, Audit Scotland.

5. The 2023/24 audit of the Water Industry Commission for Scotland (In Private):

The Committee considered the evidence heard at agenda items 3 and 4 and agreed to invite the Water Industry Commission for Scotland and the Scottish Government to give oral evidence at a future meeting.

The Committee also agreed to incorporate scrutiny of the 2023/24 audit of the Water Industry Commission for Scotland into its draft report on the 2022/23 audit of the Water Industry Commission for Scotland.

[6th meeting Wednesday 19 February 2025](#)

3. The 2023/24 audit of the Water Industry Commission for Scotland:

The Committee took evidence from— David Satti, Interim Chief Executive and Ronnie Hinds, Interim Chair, Water Industry Commission for Scotland;

Roy Brannen, Director-General Net Zero, Michelle Quinn, Director of Offshore Wind, Kersti Berge, Director of Energy & Climate Change and Jo Blewett, Deputy Director for Water Industry, Scottish Government.

4. The 2023/24 audit of the Water Industry Commission for Scotland (In Private):

The Committee considered the evidence heard at agenda item 3 and took evidence from— Stephen Boyle, Auditor General for Scotland; Carole Grant, Audit Director, Richard Smith, Senior Audit Manager and Lauryn Graham, Senior Auditor, Audit Scotland.

7. The 2023/24 audit of the Water Industry Commission for Scotland (In Private):

The Committee considered the evidence heard at agenda items 3 and 4 and agreed to defer further consideration of its next steps to a future meeting.

The Committee discussed the 2023/24 audit of the Water Industry Commission for Scotland at the following Committee meetings in relation to its work programme:

[Minutes of the meeting on 5 March 2025 \(Work Programme\):](#)

The Committee considered its work programme and in relation to the 2023/24 audit of the

Water Industry Commission for Scotland, agreed to write to the Water Industry Commission for Scotland and the Scottish Government.

- [1] Audit Scotland. (2023, December 20). The 2022/23 audit of the Water Industry Commission for Scotland. Retrieved from https://audit.scot/uploads/docs/report/2023/s22_231220_water_industry_commission.pdf
- [2] Audit Scotland. (2024, December 10). The 2023/24 audit of the Water Industry Commission for Scotland. Retrieved from https://audit.scot/uploads/2024-12/s22_241210_water_industry_commission_for_scotland.pdf
- [3] The Scottish Parliament. (2024, November 4). Written submission from Alan Sutherland, former Chief Executive, Water Industry Commission for Scotland. Retrieved from <https://www.parliament.scot/chamber-and-committees/committees/current-and-previous-committees/session-6-public-audit-committee/correspondence/2024/the-202223-audit-of-the-water-industry-commission-for-scotland-former-ce-response-november-2024>
- [4] Public Audit Committee, Scottish Parliament. (2024). The 2022/23 audit of the Water Industry Commission for Scotland. Retrieved from <https://www.parliament.scot/chamber-and-committees/committees/current-and-previous-committees/session-6-public-audit-committee/business-items/the-202223-audit-of-the-water-industry-commission-for-scotland>
- [5] Public Audit Committee, Scottish Parliament. (2025). The 2023/24 audit of the Water Industry Commission for Scotland. Retrieved from <https://www.parliament.scot/chamber-and-committees/committees/current-and-previous-committees/session-6-public-audit-committee/business-items/the-202324-audit-of-the-water-industry-commission-for-scotland>
- [6] The Water Industry Commission for Scotland. (2024, September 13). Minutes of the 156th Board meeting of the Water Industry Commission for Scotland on 14 February 2024. Retrieved from <https://wics.scot/publications/transparency/board-governance/board-minutes-feb-2024-0>
- [7] The Scottish Government. (2024, May 21). Public appointment: Member reappointed to Water Industry Commission for Scotland Board. Retrieved from <https://www.gov.scot/publications/public-appointment-member-reappointed-to-water-industry-commission-for-scotland-board/>
- [8] The Scottish Government. (2024, July 16). Public appointment: Interim Members appointed to Water Industry Commission for Scotland Board. Retrieved from <https://www.gov.scot/publications/public-appointment-interim-members-appointed-to-water-industry-commission-for-scotland-board/>
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