



The Scottish Parliament
Pàrlamaid na h-Alba

David Satti
Interim Chief Executive
Water Industry Commission for
Scotland

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

Direct Tel: (0131) 348 5186

Email:

publicaudit.committee@parliament.scot

21 June 2024

Dear Mr Satti,

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

Thank you for your [letter of 10 June 2024](#). As part of its scrutiny of the above section 22 report, the Committee considered the letter alongside correspondence from the [Scottish Government](#) and the [Auditor General for Scotland](#) (AGS) at its meeting on 13 June 2024. The Committee also considered the contents of a [Freedom of Information \(FOI\) request](#) published by the Water Industry Commission for Scotland (WICS) on 11 June 2024 in relation to staff training costs, as referred to by the Scottish Government in its correspondence.

The Committee has agreed to seek further information in a number of areas, as outlined below.

Departure arrangements for the former Chief Executive

In its letter of [26 April 2024](#), the Committee asked for a copy of the approval WICS received from the Scottish Government sponsor team with regard to the arrangements for the departure of the former Chief Executive, as referred to by Professor MacRae in his evidence on [21 March 2024](#). While your letter of 10 June

2024 contains further information on these arrangements, a copy of the approval from the Scottish Government sponsor team remains outstanding.

The Committee repeats its request for a copy of the approval provided by the Scottish Government sponsor team.

Your letter of 10 June 2024 states that—

“the WICS Chair and Board member discussed and agreed the Board’s proposed approach to accepting the CEO’s resignation with the Deputy Director (DD) of the SG Sponsor team on 19 December 2023. The DD noted that it was for the WICS Board to decide whether to accept the CEO’s resignation (under the Water Services etc (Scotland) Act 2005), that contractual obligations would have to be met as a consequence, and that WICS should continue to seek legal advice”.

Your letter also confirms that payment to the former Chief Executive was authorised on 20 March 2024.

The letter further states that prior to making the payment to the former Chief Executive, a business case was produced demonstrating the “value for money achieved by the former CEO’s contractual entitlement (six months’ salary) in lieu of notice and submitted to the Scottish Government”.

The Committee asks for a copy of the—

- **minutes or notes of the discussion that took place between WICS and the Scottish Government on 19 December 2023.**
- **authorisation of the payment to the former Chief Executive that was made on 20 March 2024.**
- **business case that was submitted to the Scottish Government.**

Your letter also states that the Board took “extensive legal advice” in respect of the arrangements for the departure of the former Chief Executive. The Committee further notes that WICS’s internal review of financial transactions shows that WICS has contracts in place with a King’s Counsel in addition to a law firm for the provision of legal advice.

The Committee seeks to establish whether the legal advice sought in respect of the arrangements for the departure of the former Chief Executive was drawn from existing legal contracts, or whether this was procured separately, at an additional cost to WICS. If separate legal advice was procured, the Committee asks to be provided with a full breakdown of these costs.

The Committee also requests—

- **a copy of the legal advice that was provided to WICS in respect of the former Chief Executive’s departure.**
- **confirmation of the nature of the services provided by both the King’s Counsel and the law firm.**
- **an outline of the contractual obligations as referred to in your letter of 10 June 2024.**

In your letter, reference is made to correspondence received from the Cabinet Secretary on 15 March 2024, which noted WICS’s “swift resolution” of the departure of the former Chief Executive and that the process carried out by the Board did not follow the requirements outlined in the Scottish Public Finance Manual.

The Committee asks for a copy of the Cabinet Secretary’s letter of 15 March 2024.

The Committee also asks what discussion took place with the Scottish Government sponsorship team in relation to the requirements of the Scottish Public Finance Manual to inform the approach to accepting the former Chief Executive’s resignation. The Committee would appreciate sight of minutes, emails, messages or other communications relating to this.

Review of internal financial transactions

The Committee notes that WICS’s Audit and Risk Committee Chair instructed the internal audit team to scrutinise the internal review of financial transactions independently. The Committee further notes that the Audit and Risk Committee intended to consider the internal audit team’s report on 11 June 2024, and that it would be shared with the Committee once finalised.

The Committee requests a copy of the internal audit team’s report on its review of financial transactions, considered by WICS’s Audit and Risk Committee on 11 June 2024.

The Committee also notes that the internal review identified expenditure relating to the use of a recruitment agency to undertake a recruitment search for a Senior Operations Director. The internal review also identified expenditure relating to the provision of legal advice by a King’s Counsel and for gifts purchased for a delegation from Barbados on 12 October 2023.

The Committee asks—

- **if retrospective approval from the Scottish Government either has been or will be required for these items of expenditure.**

- **for confirmation of whether it is standard practice for WICS to use a recruitment agency to fill vacancies.**
- **for details and associated costs of any other posts that have been filled using a recruitment agency over the last five years and confirmation that the appropriate procurement procedures and approvals processes for these costs were adhered to.**

Appendix 1 of the internal review of financial transactions lists seven instances where the costs of meals was greater than the £50 per head limit. The Committee notes that on two of these occasions, 16 June and 25 July 2023, a Scottish Government official was present at the meals with senior WICS staff.

The Committee asks for information on what the purpose of a Scottish Government official attending each of these meals was.

Staff training

The response to the FOI request published by WICS on 11 June 2024 lists several training courses where the total costs fall between £20,000 and £88,000. In its letter of 10 June 2024, the Scottish Government confirms that no approval was sought from WICS for the MBA courses.

The Committee asks what assessment WICS has made to determine if the courses referred to in the response to the FOI request, which cost between £20,000 and £88,000, followed the appropriate procurement and approvals processes.

In your letter you state that WICS finds it difficult to retain high performing analysts, with the average tenure of a graduate analyst being less than two years, with many leaving for positions paying 30-50% more. Your letter explains that WICS has a longstanding policy of funding MBA programmes for analysts provided they demonstrate consistent high performance over several years. Your letter goes on to explain that once the training is complete, WICS would “subject two thirds of the total costs of the MBA programme to a two-year lock-in which was then amortised, or paid back, over the following two years”.

The Scottish Government’s letter of 10 June 2024, states that it is aware that—

“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”.

The Committee seeks clarification as to whether the Revised Grading Structure in 2017 required an individual to hold an MBA in order for them to be

appointed, or if training would be provided if a preferred candidate did not hold an MBA.

The Committee also asks for—

- **information on the number of analysts that have been supported to gain an MBA under its recruitment policy, and the costs associated with this over the last five years.**
- **what work WICS has undertaken to measure the impact of its policy of funding MBA programmes, including the extent to which it is improving staff retention and delivering value for money. The Committee also asks for a copy of the most recent impact assessment undertaken by WICS.**

Remote working

In your letter of 10 June 2024, you explain that WICS has been operating remotely since subleasing its office during the Covid-19 pandemic. The Committee notes that moving towards a hybrid working model is part of WICS's organisational change programme to address the cultural issues that have arisen in the organisation.

The Committee asks to what extent you consider the decision to operate fully remotely since the Covid-19 pandemic may have contributed to WICS's lack of compliance with proper procedures and enabled a culture of inappropriate expenditure and a lack of proper approval processes?

The Committee also wishes to establish what savings have been achieved by WICS subletting its offices, and how those savings have been used.

I would be grateful for a response by **31 July 2024**.

I would also add that following consideration of your response, it remains open to the Committee to invite you to provide further oral evidence at a future meeting.

Yours sincerely

**Richard Leonard MSP,
Convener**