

Richard Leonard MSP

31 July 2024

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

Your Ref:
310724-DSRL

Dear Convener

Further information relating to the 2022/23 audit of the Water Industry Commission for Scotland

On 21 June, you wrote to me requesting further information on several areas relating to the 2022/23 audit and WICS' ongoing correspondence with the committee. I have reviewed the historical information available and respond to each request in turn below:

1. Departure arrangements for the former Chief Executive

The Committee has requested the following further information in relation to the departure of the former Chief Executive:

- **A copy of the approval provided by the Scottish Government sponsor team**
- **Minutes or notes of the discussion that took place between WICS and the Scottish Government on 19 December 2023**

The overall approach for the former Chief Executive's departure was discussed on a call with the Deputy Director of the Scottish Government's sponsorship team on 19 December. During this meeting, there was a verbal agreement on the Board's approach to accepting the CEO's resignation and agreeing to pay six months' salary, as contractually required, in lieu of notice.

I attach in Appendix 1 an email which summarises the discussion during the meeting.

- **A copy of the authorisation of the payment to the former Chief Executive that was made on 20 March 2024.**

WICS sought approval from the sponsorship team to make the payment to the former CEO initially on 12 January 2024. This led to email exchanges with the sponsorship team to clarify whether the way in which the departure was achieved should be defined as settlement

agreement as described in the SPFM to ensure that the requisite process was followed prior to making payment.

I attach in Appendix 3, the email exchanges relevant to authorisation of payment to the former Chief Executive.

- **The detail of discussions held with the Scottish Government sponsorship team in relation to the requirements of the Scottish Public Finance Manual and any minutes, emails or other communications relating to this.**

Appendix 3 also contains email exchanges with the Scottish Government in relation to the requirements of the Scottish Public Finance Manual.

- **The business case that was submitted to the Scottish Government**

I attach in Appendix 4, the business case and supporting information submitted to the Scottish Government which demonstrates the value for money achieved by the former CEO's contractual entitlement (six months' salary) in lieu of notice.

On 4 March 2024, WICS submitted the final version of the Settlement Agreement Business Case to the sponsorship team for approval. The Settlement Agreement Business Case included a comprehensive explanation of the background and circumstances of this particular case.

The approach to accepting the former CEO's resignation and making a payment in lieu of notice was considered alongside alternative options highlighted in the Business Case. A value for money assessment was undertaken for each of these options and was provided in addition to the Business Case demonstrating that the approach taken by the Board achieved the greatest value for money.

- **A copy of the legal advice that was provided to WICS in respect of the former Chief Executive's departure**

WICS took legal advice from Shepherd and Wedderburn LLP on a range of possible options relating to the departure of the former Chief Executive. I attach in Appendix 2, a copy of this legal advice. The options considered are also explained in detail within the Settlement Agreement Business Case (Appendix 4).

- **The detail and costs associated with legal advice in relation to the departure of the former Chief Executive**

The Board sought legal advice to assist them throughout the process of the former CEO's departure and to ensure that the agreement was properly drawn up. This legal support was

essential in navigating the complexities of the departure, and ensuring all legal requirements were met. The cost of this legal advice was £4,473 and was provided through an existing legal services contract. Additionally, there was a separate contribution of £800 towards the legal fees of the former CEO.

In the two months following the Settlement Agreement, an additional £4,191 was spent on legal advice and support before making the payment to the former CEO. This was a separate expense necessary to ensure WICS followed the process outlined in the Scottish Public Finance Manual, to ensure that the legal advice provided was accurately reflected during the drafting of the Settlement Agreement Business Case, and to ensure that WICS continued to abide by the terms agreed in the Settlement Agreement. These costs were drawn from an existing legal services contract in the absence of WICS having internal legal expertise to provide such assistance.

- **An outline of the contractual obligations as referred to in your letter of 10 June 2024.**

The Settlement Agreement Business Case includes an outline of the contractual obligations which the Committee has requested. Specifically, the CEO's Terms and Conditions highlight:

"The length of notice that you are required to give the Commission to terminate your employment is 6 months"

- **Confirmation of the nature of the services provided by both the King's Counsel and the law firm**

Arrangements were in place at WICS to draw on the services of a King's Counsel who had specific knowledge of the legislative frameworks within the UK water industry. These services have been utilised throughout the tenure of the former CEO and include a project last summer relating to the upcoming Strategic Review of Charges. These services are not related to the departure arrangements of the former CEO.

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

I have attached in Appendix 4 to this letter the Cabinet Secretary's letter of 15 March 2024.

2. Review of internal financial transactions

The Committee has requested the following further information in relation to WICS' internal review of financial transactions:

- **A copy of the internal audit team's report on its review of financial transactions, considered by WICS' Audit and Risk Committee on 11 June 2024.**

I committed to providing the Committee with a copy of the Internal Audit report once it was finalised and approved by the Audit and Risk Committee. This report was presented at the WICS' Audit and Risk Committee on 11 June 2024 and was approved subject to final checks and a comprehensive management response to the report. The report was finalised on 29 July 2024 which I attach in Appendix 6.

I will present to the Board at its 1 August meeting the full extent of the actions that WICS have committed to in the year ahead which includes the annual work plan for 2024/25, the internal audit management responses, and the organisational change initiatives which I highlighted in my letter to you on 10 June.

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

Retrospective approval has not been sought from Scottish Government on these items of expenditure. It is my understanding that retrospective approval is not required, I outline each instance below:

King's Counsel retainer

A retainer has been in place to secure the services of a member of the King's Counsel with specialist regulatory knowledge for more than a decade. If these services were required then they would be charged for via our legal representatives, which are competitively tendered every six years. 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.

Saxton Bamfylde

This expenditure is below £20k and therefore does not require Scottish Government approval.

Gifts

These gifts were purchased for a delegation of 5 people visiting Scotland from Barbados. They relate to £54.50 spent on Scottish sweets and confectionary and 3 items totalling £120 from Glenkeir Whisky. All of these items individually were below the £75 threshold for Scottish Government approval.

We understand that Audit Scotland have interpreted the £75 gift threshold in the WICS Governance Framework as total value of gifts incurred during any given purchase rather than the total value of gifts provided to any one individual. WICS, under the former CEO, has historically

taken the latter view. We will seek to clarify this point to remove any potential ambiguity relating to this threshold.

- **Confirmation of whether it is standard practice for WICS to use a recruitment agency to fill vacancies**

WICS has historically used a combination of graduate recruitment, recruitment agencies, and executive search firms to fill vacant positions. Since April 2019, 80% of positions have been filled through our internal recruitment process, 5% have been filled through recruitment agencies and 15% by executive search firms.

- **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.**

Table 1 below provides a summary of both WICS’ use of recruitment agencies and executive search firms over the past five years and the costs incurred:

Table 1. – break out table of executive search and agency costs

Date	Description	Type	Cost
2019	Munro Search and Selection – Board Members	Executive search	£12,000
2019	Allan Appoint– Senior Business Support Officer	Executive search	£8,914.5
2020	Saxton Bampfylde – market assessment of Director roles	Executive search	£16,800
2023	Saxton Bampfylde – Head of Corporate Services	Executive search	£19,484.04
2022	ASA Recruitment – maternity leave cover	Recruitment agency	£3,472

We highlighted in our internal transaction report the expenditure in 2023 relating recruitment agencies that did not follow the appropriate procurement procedures and approvals routes and highlight below similar instances prior to the 2022/23 financial year:

Saxton Bamfylde expenditure

In 2020 and 2023, the former CEO led two initiatives which sought the services of Saxton Bamfylde with the intention in both instances to spend more than the single tender purchase threshold of £20,000. The internal approval documentation notes the decision to procure directly from Saxton Bamfylde rather than competitively tender on the basis their Crown Commercial Services contract and the fact that they specialise in regulatory recruitment.

Multiple quotes should have been sought for this expenditure as part of a competitive tendering exercise prior to engaging with the provider.

While the actual expenditure on both instances was at or below the £20,000 threshold, the intention was for expenditure to be higher, therefore both Board and Scottish Government approval should have been sought at this stage. The actual expenditures did not exceed £20,000 and therefore, do not require Scottish Government approval at this stage.

In both instances, future expenditure would be classed either as a single tender contract or subject to a competitive tender exercise. Both routes, given their value, would also require Board and Scottish Government approval. We have made the necessary changes to our governance and controls to ensure that we demonstrate value for money in future expenditures and obtain all requisite approvals.

Munro Search and Selection

The Scottish Government (a former Deputy Director) requested that WICS cover the cost of recruitment for non-executive Board Members (£12,000). The Scottish Government appoint WICS Board Members and ordinarily procure and cover the cost of this exercise. However, on this occasion WICS agreed to cover this cost. Thereafter, an invoice was sent to WICS from the Scottish Government's recruitment department to the WICS Chair requesting payment. Our records show that this payment was approved by the WICS Chair and Deputy CEO.

- **The Committee asks for information on what the purpose of a Scottish Government official attending meals which exceeded the £50 per head limit**

As part of the internal transaction review for 22-23 and the first nine months of 23-24, we highlighted meals that exceeded £50 per head. I can confirm that this type of expenditure is no longer occurring at WICS.

The two meals highlighted with a Scottish Government official are related to the upcoming Strategic Review of Charges. One followed directly on from a strategy day in relation to the upcoming Strategic Review of Charges 2027-33. The other related to a lessons-learned exercise for the Strategic Review of Charges 2021-27.

3. Staff training

The Committee has requested the following further information in relation to staff training, I outline my response to each in the sections below:

- **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.**

I can confirm that internal approvals were sought and received in line with the interpretation of the relevant policies and procedures that were in place at the time.

However, given the issues raised by Audit Scotland in the 2022/23 audit, it is now clear that each of these purchases between £20,000 and £88,000 should have been classified as a single tender contract. As a result, the lowest threshold for both Board and Scottish Government approval should have applied.

As outlined in my letter of 10 June, WICS recognises the need to demonstrate value for money and that this was not demonstrated sufficiently in the past. We have made the necessary changes to our governance and controls to ensure that all requisite approvals are obtained, and that expenditure is not approved unless a value for money case has been demonstrated robustly.

- **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.**

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. The cost of the programme was £84,620 with £10,856 in associated travel and accommodation costs over the two-year period. Our response to a recent [FOI request](#) provides data on all training including two funded MBA costs since 2017. Costs incurred during 2016 were also added for completeness.

- **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.**

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.

- **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.**

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. We understand that assessments of the MBA policy were completed in 2004 and 2016 during discussion and agreement with Scottish Government. WICS does not have record of these assessments. Since WICS was established in 2004, the average tenure of analysts who have not undertaken an MBA has been 2.4 years, compared to 8.7 years for those who have undertaken an MBA.

4. Remote working

The Committee has requested the following further information in relation to remote working, I outline my response to each in the sections below:

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

Since July 2021, WICS has sublet its offices to another public body, saving an approximately £600k on rent, service charges, utility bills, and other costs. These savings combined with greater than anticipated revenue from international consulting activity mean that WICS has a higher cash balance than was originally projected at this point in our six-year corporate planning period. As is typical during each corporate planning period, we will review the income, expenditure and cash position of the organisation to help inform discussions on the levy requirement for the next corporate planning period and the extent to which any cash should be returned to Scottish Water and thus customers.

- **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?**

I do not believe that the issues raised by Audit Scotland have been a result of WICS' remote working model. However, it is becoming clear that certain meetings, whether internal all staff meeting or engagements with stakeholders, are much more effective in person, especially during times of change. I believe that adopting a hybrid working model will strengthen the positive changes already taking place within our organisation following the section 22 report and departure of the former CEO.

Since my appointment as interim CEO, I have been listening to our employees on how we can work together to establish our future working arrangements. I am pleased that we are engaging positively as a team on this matter. This is progress and speaks to the work we are doing internally around WICS' culture.

We will continue to engage with the Committee and Audit Scotland providing any further information that may be required. We are committed to positive change and have made significant progress over the last six months, including strengthening our governance and controls to better demonstrate value for money. We recognise that change takes time and that all our employees have an important role to play. WICS will continue this journey in the months to come, reporting on our action plan and holding ourselves accountable for delivering these changes.

Yours sincerely



David Satti
Interim Chief Executive

Appendices

Appendix 1 – Email summarising meeting of 19 December 2023

Appendix 2 – Extract of Legal advice

Appendix 3 – Email exchanges regarding authorisation of payment to former CEO and submission of Business Case

Appendix 4 - Business Case and supporting information

- Business Case
- Settlement Agreement VFM assessment
- SPFM Settlement Agreement Supporting Information

Appendix 5 - Cabinet Secretary's letter of 15 March 2024

Appendix 6 - Internal Audit Report and WICS management response

Appendices

Appendix 1 – Email summarising meeting of 19 December 2023

From: Donald MacRae

To: [REDACTED] Deputy Director Scottish Government

Subject: The resignation of Alan Sutherland

Date: 22 December 2023 14:04:00

Dear [REDACTED],

Thank you for taking time this week to discuss the resignation of Alan Sutherland both on the call with Ann Allen and myself on Tuesday and the subsequent call with myself on Wednesday. Alan did send in his resignation notice on Tuesday, which we as a Board have accepted. However we asked him to step down as CEO and accountable officer with immediate effect [REDACTED] Under his contract he had to provide six months notice and as confirmed by the Scottish Government Public Pay Policy Unit to you he is entitled to his salary for the period of his notice; in paying this WICS is meeting it's contractual obligation and not making any change to his contract. WICS had received legal advice confirming our contractual obligation in respect to Alan's notice period.

[REDACTED] In considering these options we needed to balance three things, firstly capacity of the organisation, as a small organisation we wanted the focus for staff to be on implementation of the Sc 22 action plan and the pending price review. We also considered the welfare of the staff. As a small organisation the Sc 22 had impacted a large number of people who had worked with focus and intensity to develop the action plan and wanted to have the capacity to deliver on it.[REDACTED]

The senior team within WICS have agreed to act collectively for the next few weeks to ensure that the Sc 22 action plan is taken forward promptly. With this and the important work of the price review we will need to look at capacity and leadership within the organisation. Upon return from the festive break the Board will focus on the open selection and appointment of a new CEO. However, to ensure that we have capacity to work well during this process we will look at the possible need for additional interim leadership support. I look forward to working with you and Kersti Berge on moving the organisation forward.

Festive greetings,

Donald

Appendix 2 – Extract of Legal advice



FILE ENTRY

Client Ref No.	W2737.68	Date	19 December
Client / Matter	Water Industry Commission for Scotland - General Employment	Ref	2023 W2737.68/

[REDACTED]

It was unclear whether SG approval was needed but they will have to be consulted at least. NB: Donald did consult SG and they confirmed they did not need to approve the termination arrangements and were comfortable with the approach WICS were planning to take (i.e. AS resigns on 6 months and is paid in lieu).

[Partner, S+W] advised on making the payment in lieu subject to a settlement agreement. [Partner, S+W] explaining that if AS resisted this, WICS had no grounds to insist on a settlement agreement as they didn't want AS to work his notice period.

[REDACTED]

Accordingly, the risk of spending time and money investigating a case against AS, only to find that WICS had to pay him in lieu of 12 months notice and carry exposure to a potential unfair dismissal claim was a reasonable risk for the Board to have cognisance of when negotiating an exit for AS.

In the course of the day, AA and DM managed to agree with AS that he would step down immediately (as of 31 December in legal terms but immediately in practical terms) and that he would be paid his salary in lieu of 6 months notice and would sign a settlement agreement. [Partner, S+W] was asked to draft a settlement agreement to record this. [Partner, S+W] being content this was a pragmatic and reasonable deal in the circumstances.

There was an issue over the amount of accrued holiday due to AS that would need to be investigated and resolved. This would be picked up as part of the settlement agreement process.

Appendix 3 – Correspondence regarding authorisation of payment to former CEO and submission of Business Case

From: David Satti
To: [REDACTED@wics.scot; REDACTED@wics.scot]
Cc: Donald MacRae
Subject: FW: Former CEO Payment
Date: 20 March 2024 14:01:00
Attachments: EXT RE EXT Update on WICS Action Plan.msg
WICs Letter - Cab Sec WENZE - 15 March 2024.pdf
RE Confirmation and approval of CEO final pay.msg

[REDACTED, REDACTED]

Please see attached correspondence from the Chair, the Cabinet Secretary and the Sponsor Division which combined authorises the payment to the former CEO ahead of the payroll instruction today. This authorisation is for a total payment by WICS of [REDACTED] [REDACTED] will be received by the former CEO (as is his contractual entitlement).

As Donald highlighted in his email, we will engage with Audit Scotland on the payment and the process undertaken over the last three months to have complete transparency ahead of the forthcoming audit.

Please let me know if there is anything further required ahead of payment.

Best regards
David

From: Donald MacRae
Sent: Wednesday, March 20, 2024 12:59 PM
To: David Satti
Subject: Former CEO Payment

David,
As you are aware, the CEO tendered his resignation in December following the pending Section 22 report from the Auditor General.

During December, I and another NXD took legal advice from Shepherd and Wedderburn LLP and discussed the proposal to agree an exit with the CEO in return for a payment in lieu of 6 months'

notice with [NAME REDACTED – ██████████] of SG, who in turn discussed the proposed terms and approach with the SG Pay Policy Unit. [NAME REDACTED – ██████████] approved of the approach WICS was taking.

In circumstances where only contractual entitlements were being paid, this agreement could have been implemented without a settlement agreement. However, in the circumstances, WICS sought and achieved a settlement agreement with the CEO to guarantee his departure date of 31st December 2023 ██████████. We later learned that a business case for the settlement agreement was arguably required to comply with the SPFM. A final version of the business case was submitted on 4th March which outlined that the approach taken not only met our contractual obligations but achieved the greatest value for money for WICS.

Following a letter from the Cabinet Secretary on 15th March and a subsequent email from the Sponsor Team I now authorise the payment to the former CEO of 6 months' salary in lieu of notice and ██████████ unused annual leave. This is calculated as ██████████. For the former CEO to receive this contractual entitlement, I understand that employer NI of ██████████ requires to be paid. ██████████. This results in a total payment by WICS of ██████████ of which ██████████ will be received by the former CEO.

I suggest that we engage with Audit Scotland on the terms and process underlying this payment ahead of the external audit for the 23-24 Annual Report and Accounts.

Regards
Donald MacRae

From: David Satti
Sent: 19 March 2024 07:57
To: [REDACTED@gov.scot] [REDACTED@gov.scot]; Michelle Ashford; Donna Very
Cc: [REDACTED@gov.scot]; [REDACTED@gov.scot]
Subject: RE: [EXT] RE: [EXT] Update on WICS Action Plan

Hi [REDACTED]

Of course. On the three points raised:

- 1) Donald called me on Friday night to discuss the letter so I can confirm that it has been received.
- 2) The finance team will instruct our payroll provider tomorrow to pay staff for this month. Making all payments at the same time will save on costs, so the plan is to instruct payment tomorrow. I am discussing with Donald what I need from him to authorise the payment to ensure we have the requisite documentation in place.
- 3) Donald has raised what he can say at PAC regarding the settlement with [NAME REDACTED] at S&W and has indicated that he will be transparent about the terms of the departure. There is an appreciation that the PAC have expressed its dislike of NDAs and that this is an area that will likely get questioned.

If you have any further questions, please let me know.

Kind regards
David

From: [REDACTED]@gov.scot <REDACTED@gov.scot>
Sent: Monday, March 18, 2024 10:10 PM
To: David Satti <REDACTED@wics.scot>; REDACTED <REDACTED@gov.scot>; Michelle Ashford <REDACTED@wics.scot>; Donna Very <REDACTED@wics.scot>
Cc: REDACTED@gov.scot; REDACTED@gov.scot
Subject: [EXT] RE: [EXT] Update on WICS Action Plan

Hi David

Thanks for the update on the Action plan.

As you may be aware, the Cabinet Secretary has written to Donald regarding the Settlement Agreement. Please could you confirm to me:

1. The letter has been received;
2. When the Settlement payment will be/was made (just so we understand the position before PAC)
3. What details we can give at PAC if asked – we're unclear as to what the Non-Disclosure Agreement covers. We may get challenged on the NDA aspect, if raised, as PAC has made clear its dislike of these.

With thanks

REDACTED

From: [REDACTED] <[REDACTED]@wics.scot>
Sent: 19 March 2024 17:13
To: David Satti
Cc: [REDACTED]@wics.scot
Subject: RE: Confirmation and approval of CEO final pay

Hi David,

To confirm below is the breakdown for Alan`s settlement payment which we require approval for before any payment can be made.

6-months pay

[REDACTED]

Holiday pay [REDACTED]

[REDACTED]

Employer`s NI @ [REDACTED]

[REDACTED]

Total

[REDACTED]

As per [REDACTED] previous email, [REDACTED]

[REDACTED]

This would bring the total payment to be made to

[REDACTED]

Kind regards,
[REDACTED]

From: [REDACTED]@gov.scot
Sent: 17 January 2024 17:16
To: [REDACTED]@wics.scot
Cc: [REDACTED]@gov.scot; [REDACTED]@gov.scot; Donald MacRae; David Satti
Subject: [EXT] RE: [EXT] RE: Confirmation and approval of CEO final pay

Hi [REDACTED]

Thanks for the discussion just now. As I mentioned on the phone, in order to determine the process for approving this final payment could WICS please clarify whether this is actually a 'Settlement Agreement' as defined in the SPFM or not. (Rather than just the contractual notice period settlement).

Settlement agreements, severance, early retirement and redundancy terms - Scottish Public Finance Manual - gov.scot (www.gov.scot)

If it is indeed a Settlement Agreement, then the process set out in the SPFM has to be followed and WICS will need to submit a business case and info note to the Sponsorship team – see below.

- * Business case – June 2021 version
- * Supporting documentation – Information schedule – June 2021 version

I'm happy to help facilitate the process within SG one you've established whether or not this is indeed a Settlement Agreement.

Thanks

REDACTED | [REDACTED]

Water Industry Unit
Water Policy and DECC Operations
Directorate of Energy & Climate Change

From: [REDACTED] <[REDACTED]@wics.scot>
Sent: Monday, January 15, 2024 12:51 PM
To: REDACTED <[REDACTED]@gov.scot>
Cc: REDACTED <[REDACTED]@gov.scot>; REDACTED <[REDACTED]@gov.scot>; Donald MacRae <[REDACTED]@wics.scot>; David Satti <[REDACTED]@wics.scot>
Subject: RE: [EXT] RE: Confirmation and approval of CEO final pay

Hi [REDACTED],

Thank you very much for your response. It is nice to meet you (virtually) too.

I will hold off on any payment for the moment. I have copied WICS' Chair and my colleague, David, and would appreciate it they could be included when you get back to me.

If there is anything else you need from us in the meantime, just let me know.

Kind regards

[REDACTED]

From: [REDACTED]@gov.scot <[REDACTED]@gov.scot>
Sent: Monday, January 15, 2024 10:55 AM
To: REDACTED <[REDACTED]@wics.scot>
Cc: REDACTED@gov.scot; REDACTED@gov.scot
Subject: [EXT] RE: Confirmation and approval of CEO final pay

Good morning [REDACTED]

I have started in [REDACTED] team working on Sponsorship and Charging matters – nice to virtually meet you.

[REDACTED] passed on your below email regarding Alan Sutherland's final settlement. We aren't in a position to approve the payment yet – so please hold off on processing it. This is regarding process.

The Public Pay Policy have already informed us that the settlement payment cannot be approved until the process set out in the SPFM has been followed. Namely WICS must complete a business case.

Settlement agreements, severance, early retirement and redundancy terms - Scottish Public Finance Manual - gov.scot (www.gov.scot)

We are speaking with these colleagues later this week to find out more, and will get back to you once we have more information on what is required from WICS.

However in the meantime, please don't go ahead and process this payment.

Kind regards

[REDACTED]

From: REDACTED <REDACTED@wics.scot>

Sent: Friday, January 12, 2024 3:40:38 PM

To: REDACTED <REDACTED@gov.scot>

Cc: David Satti <REDACTED@wics.scot>; Donald MacRae <REDACTED@wics.scot>

Subject: Confirmation and approval of CEO final pay

Hi [REDACTED],

I am writing for formal confirmation and approval (if required) of Alan Sutherland's final payment from WICS.

The final settlement is:

- * Final date of employment: 31 December 2023
- * Payment of salary and all contractual benefits up until final day of employment [REDACTED]
[REDACTED]
- * 6 months' notice: [REDACTED] (2023-24 salary, as agreed per pay policy settlement: [REDACTED])
- * [REDACTED] of untaken leave: [REDACTED] (holidays accrued can be evidenced using our internal HR system)
- * Contribution towards legal fees: [REDACTED] [*please see note below*](#)

Therefore, I intend to pay Alan [REDACTED] in January. I believe this is in line with the discussions you had with WICS' Chair, Donald MacRae, and Board Member, Ann Allen.

It is also in line with Scottish Government's Pay Policy. Per the approved pay policy CEO remit for 23-24 (see attached) – the salary used to calculate Alan's payment is in line with the approved salary for 2023-24 and the notice period is within the agreed understanding of Alan's contractual notice period.

WICS has a copy of the settlement agreement, signed by Alan, Donald MacRae and Alan's legal representative.

If you require any further information, or have any queries, please let me know. Otherwise, if you could reply to confirm you are content with this final payment, that would be appreciated.

Kind regards
[REDACTED]

[REDACTED]

****NOTE FOR PAC 31/07/24: The correct value is [REDACTED]**

From: David Satti
Sent: 04 March 2024 10:52
To: [REDACTED]@gov.scot
Cc: [REDACTED]@gov.scot; [REDACTED]@gov.scot; Donald MacRae
Subject: RE: [EXT] WICS/SG February meeting
Attachments:
2024.0219 - Governance and Compliance - Settlement Agreements - WICS .docx;
Note of Advice to Ann and Donald re AS(1007736515.1).docx;
Settlement Agreement VFM Assessment.docx;
SPFM Settlement Agreement Supporting Information - Feb 2024.docx

[REDACTED]

I hope that you had a good weekend.

Attached is the Settlement Agreement Business Case and supporting documentation as discussed on Thursday for action number 3.

Please let me know if there is anything else required at this stage.

Kind regards
David

Appendix 4

OFFICIAL-SENSITIVE



BUSINESS CASE FOR SETTLEMENT AGREEMENT

Please note all text boxes automatically expand as necessary when they are being completed. Once complete this Business Case should be sent to the Scottish Government relevant SG Sponsor Director or SG Lead Contact, copied to [People Directorate](#).

Name of organisation

Senior manager to be contacted

Name	David Satti
Job Title	Director of Strategy and Governance
Email	[REDACTED]@wics.scot
Phone number	[REDACTED]

SG Contact or equivalent

Name	[REDACTED]
Job Title	[REDACTED]
Email	[REDACTED]@gov.scot
Phone number	[REDACTED]

SG Sponsor Directorate

SG Sponsor Directorate-General
(for data collection purposes)

Background and circumstances of the case

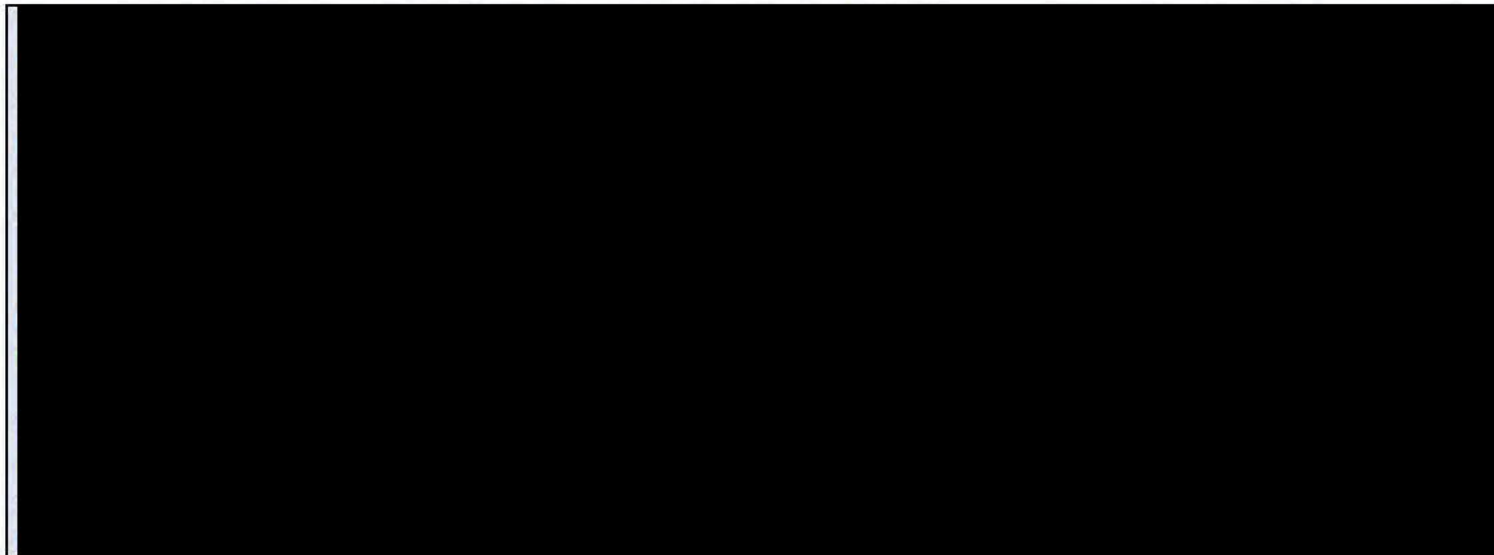
In the wake of a pending section 22 report from the Auditor General, [REDACTED] the Board's confidence in the CEO's ability to lead WICS was ebbing away.

[REDACTED] the CEO offered to resign [REDACTED]

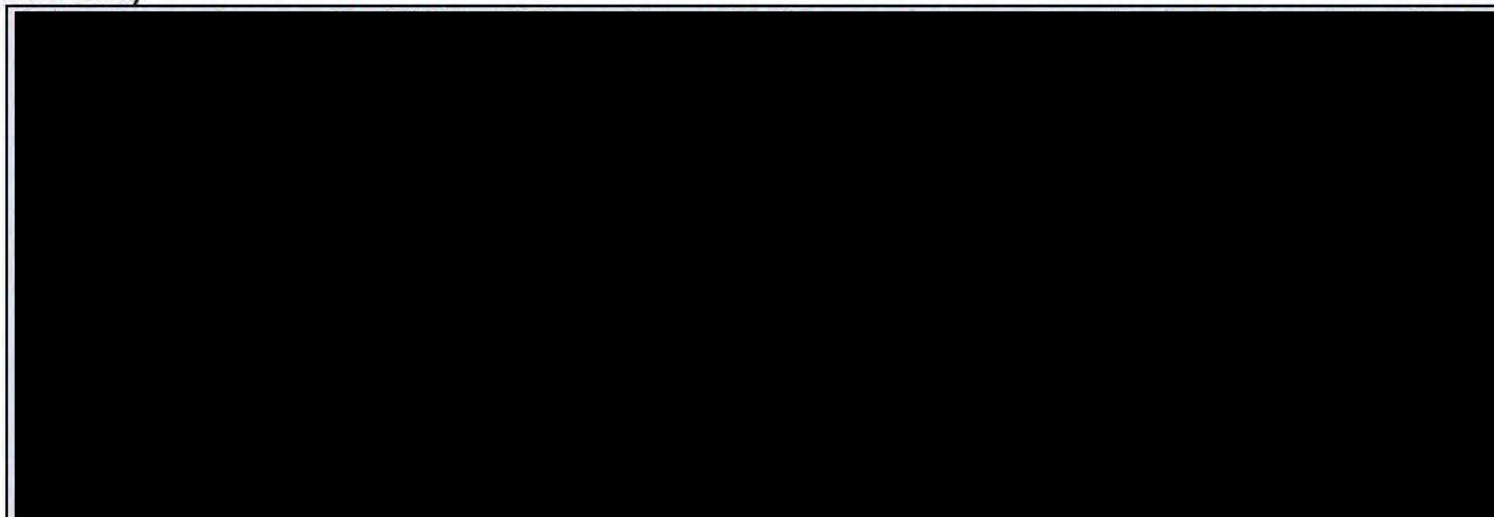
The Chair and another NXD met with the CEO on 19 December to discuss the situation with him. In essence, the Board wanted to accept his resignation [REDACTED]

[REDACTED]

[REDACTED]



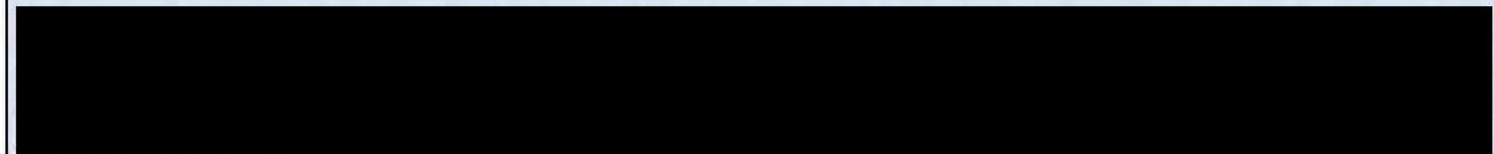
Risks arising (including legal advice on risk of legal challenge by employee and prospects of success)



Confirmation that the relevant management procedures have been followed

This is a unique situation involving, as it does, the CEO.

The Chair and NXD took legal advice from Shepherd and Wedderburn LLP and discussed the proposal to agree an exit with the CEO in return for a payment in lieu of 6 months' notice with [REDACTED] of SG, who in turn discussed the proposed terms and approach with the SG Pay Policy Unit. [REDACTED] approved of the approach WICS were taking.



An assessment of the value for money offered by the proposal by reference to the completed (attached) Employment Information Schedule

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED] In the circumstances, paying in lieu of 6 months' notice to secure an immediate and amicable departure is value for money.

Any non-financial considerations, e.g. where it is desirable to end a person's employment but dismissal is not warranted

Yes. See comments above. [REDACTED]

[REDACTED]

Options

[REDACTED]

Recommendation

Option 4 above is the only credible option in the circumstances. This was supported by our legal advice summarised in this recommendation. [REDACTED]

[REDACTED]

Handling / Communications

OFFICIAL-SENSITIVE

A settlement agreement was concluded in early January. The termination took effect on 31 December 2023.

Signed

David Satti

Date

04/03/24

Attached completed employment information schedule

ACCOUNTABLE OFFICER

Confirmation that this business case is appropriate and complies with the SPFM guidance

Signed

Roy Brannen

Date

04/03/24

Send the completed form to your SG Sponsor Team

If you do not have a Sponsor Team, send the completed form to your DG Office, copied to

[SG People Directorate](#) /Finance Business Partner / [Severance Policy Team](#)

OFFICIAL-SENSITIVE

Scottish Government Sponsor Director or Lead Contact Comments:

Name:	Job Title:	Ext No :

FOR MINISTERIAL USE - if appropriate		
Approved:	Date:	
Conditions attached to approval or reasons for refusal:		
Cabinet Secretary [insert portfolio]		
Name:	Name of Ministerial Private Office :	Ext no:

To be returned to the public body by the SG Sponsor Team within a target of 5 working days if the SG does not find the case to be contentious or unusual. Or within 15 working days if there may be elements which are contentious or unusual, or if the case is being referred to Scottish Ministers.

Appendix 4

Value for money assessment

Cost/benefits of terminating the CEO's contract and enabling leadership change

Option	Financial Costs	Non-Financial Costs	Non-Financial Benefits
1.	[Redacted]	[Redacted]	[Redacted]
2.	[Redacted]	[Redacted]	[Redacted]
3.	[Redacted]	[Redacted]	[Redacted]
4a.	[Redacted]	[Redacted]	[Redacted]

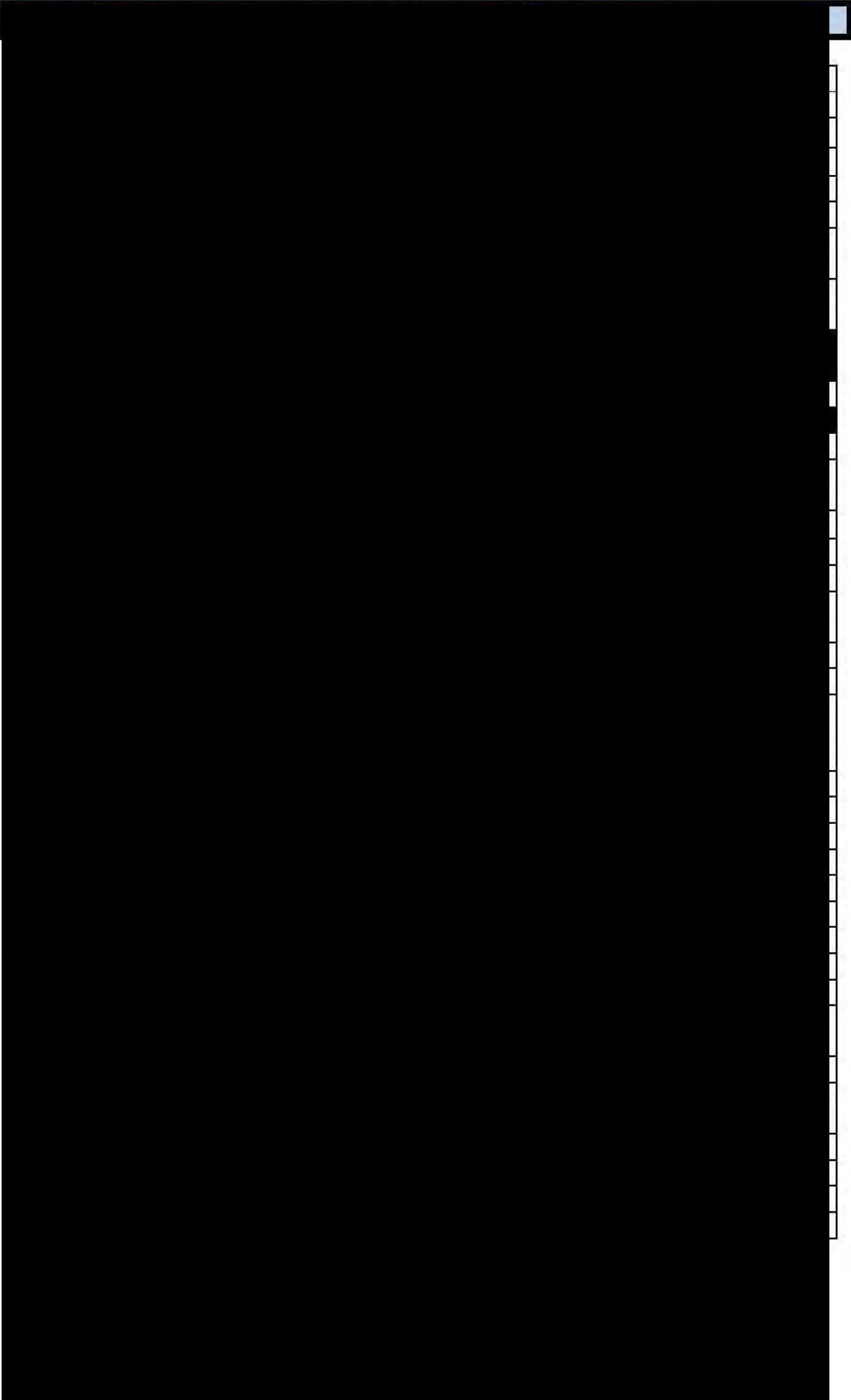
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Conclusion

- The lowest financial cost options are 4a and 4b.
- Option 4b offers the optimal combination of the lowest financial and non-financial costs and the greatest non-financial benefits.
- Therefore, Option 4b maximises value for money.

Recommendation:

Agree Option 4b: The CEO leaves on 6 months' notice and receives a payment in lieu of 6 months' contractual notice



Appendix 5

Cabinet Secretary for Wellbeing Economy, Net Zero and Energy
Mairi McAllan MSP



T: 0300 244 4000
E: scottish.ministers@gov.scot

Donald Macrae
Chair
Water Industry Commission for Scotland
Emailed to: [REDACTED]@wics.scot

15 March 2024

Dear Donald,

I was extremely concerned and disappointed to learn that the Auditor General for Scotland had been required to issue a Section 22 report in relation to the audit of the Water Industry Commission for Scotland 2022-23 accounts.

I am pleased that you reached a swift resolution with the Chief Executive Officer that ensured he ceased to be the CEO with immediate effect, given the nature of the serious failings that were identified, and I am reassured that you have committed to addressing all of the failings that were identified. I am pleased to note that you have developed an action plan which you are sharing with my officials.

However, it has been brought to my attention that the manner in which the removal was achieved was not in accordance with Scottish Government requirements as set out in the Scottish Public Finance Manual. In particular, 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.

I will be seeking further updates from my officials on progress to address all failings and a summary of the PAC evidence session on 21st March.

MÀIRI MCALLAN

Scottish Ministers, special advisers and the Permanent Secretary are covered by the terms of the Lobbying (Scotland) Act 2016. See www.lobbying.scot

St Andrew's House, Regent Road, Edinburgh EH1 3DG
www.gov.scot

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Water Industry Commission for Scotland (WICS)

Internal Audit 2023/24

Governance and Financial Management
Arrangements – Part 1

June 2024

FINAL REPORT

[Redacted]

Partner

[Redacted]

[Redacted]

Audit Manager

[Redacted]

Contents



This report is confidential and is intended for use by the management and directors of Water Industry Commission for Scotland. It forms part of our continuing dialogue with you. It should not be made available, in whole or in part, to any third party without our prior written consent. We do not accept responsibility for any reliance that third parties may place upon this report. Any third party relying on this report does so entirely at its own risk. We accept no liability to any third party for any loss or damage suffered or costs incurred, arising out of or in connection with the use of this report, however such loss or damage is caused.

It is the responsibility solely of Water Industry Commission for Scotland management and directors to ensure there are adequate arrangements in place in relation to risk management, governance, control and value for money.



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Report Distribution

For action:

- [REDACTED] Head of Finance
- David Satti, Chief Executive

For Information:

- Audit and Risk Committee

Executive Summary

Objective

The objective of the audit was to evaluate the adequacy of internal controls in place around Governance and Financial management arrangements.

Background

In December 2023, Audit Scotland issued a Section 22 report on the 2022/23 audit of WICS. Audit Scotland issued an unqualified opinion on the financial statements however, the Section 22 report highlighted weaknesses in the governance and financial management arrangements.

WICS incurred two items of expenditure during 2022/23 that breached the threshold for Scottish Government approval however, no approval was sought from the Scottish Government or the Board prior to the payments being made. It was only once the issues were identified by the auditor that retrospective approval was sought and received from the sponsor team.

Additionally, issues were identified with the expenses reimbursement process including claims not being supported by itemised receipts and claims exceeding the approved subsistence rates. Audit Scotland also highlighted that the WICS policy, unlike others in the Public Sector, did not clarify the expensing of alcohol. This has now been updated for, in the revised WICs policy, to be clear this is not an allowable expense.

It was concluded by Audit Scotland that WIC is not currently demonstrating the highest standards of financial management and propriety in its business activities. Value for money should be a key consideration for all expenditure incurred by public bodies and the findings of the auditor highlighted unacceptable behaviour by senior officials within WICS, in the use of public funds.

Scope

The objective of the audit was to evaluate the adequacy of internal controls in relation to the governance and financial management arrangements with the review being undertaken in three phases:

1. To support management in strengthening the current arrangements by reviewing the design and operational effectiveness of the controls, the audit must:
 - a) Observe the current controls in place around key financial transactions ensuring these are designed effectively.
 - b) Test a sample of transactions from the 2023/24 to ensure financial controls are operating as expected and appropriate approvals (where appropriate) have been sought and received in advance of payment in line with the policy. This included a sample of transactions pre December 2023 and then a subsequent sample in the final quarter of the 2023/24 financial year.
 - c) Review the arrangements in place in relation to the Harvard transaction.
 - d) Validate those financial transactions requiring approval by the Board has been received, in line with the underlying Scheme of Delegation and Standard Financial Instructions.
 - e) Review the revised policies being developed to ensure they are fit for purpose, clear and are designed as expected.
 - f) Assess WICS' core business and international projects to determine if areas of non-compliance relates to the day-to-day running of the organisation or relates to international projects.

Executive Summary

Scope (continued)

2. To provide assurance that the action plan is complete and will lead to improvements across the organisation, the audit should:
 - a) Validate the programme of work developed for completeness.
 - b) Assess whether sufficient governance arrangements are in place around the completion of actions and subsequent reporting arrangements.
3. To provide assurance that reporting made to the Senior Management Team, Audit and Risk Committee and Board is sufficient, the audit should:
 - a) Evaluate the effectiveness of the compliance reporting in place to the Audit and Risk Committee to ensure those charged with governance have oversight of any identified exceptions.
 - b) Assess if the reporting arrangements in place are adequate and whether routine management reporting needs to be expanded.

We have opted to provide two reports to management given the level of the review undertaken. The first part covers our sample testing from 1 April 2023 to December 2023 and the issues which were identified. The second part covers additional testing which was undertaken following the change in Policy (covering the period from 1 January 2024 to 31 March 2024), review of the Harvard transaction, review of internal reporting and matters identified for WICS to consideration.

Approach

Our audit approach was as follows:

- We obtained an understanding of the key areas as outlined in the scope section, through discussions with key personnel, review of management information and walkthrough test, where appropriate.
- We evaluated the design of the controls in place to address the key risks.
- We tested the operating effectiveness of the controls in place.

Approach (continued)

It is Management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit should not be seen as a substitute for Management's responsibilities for the design and operation of these systems.

Limitations in Scope

Please note that our conclusion is limited by scope. It is limited to the risks outlined within the scope section. Other risks that exist in this process are out with the scope of this review and therefore, our conclusion has not considered these risks.

The audit approach included the use of sample testing to assess compliance with policies and procedures, and our findings and conclusions are limited to the items selected for testing and the supporting evidence which was available for review, which required judgements to be applied.

Based on the provided data, further discussions were held and corroborated with interviews of key members of management and the finance team. Fundamentally, the use of interviews have limitations, as interviews rely on perceptions, opinions and are influenced by various factors including biases and personal experiences which can be subjective.

Whilst sample testing and interviews undertaken throughout this audit have provided valuable information, their limitations should be considered when interpreting the findings of this report.

This report does not constitute an assurance engagement as set out under ISAE 3000.

Acknowledgements

We wish to thank management and the finance team for their support during our review.

Testing Approach and Findings from Sample Testing

Overview of Testing Approach and Findings

As part of our review undertaken, we observed the policies in place between 1 April 2023 to 31 December 2023 around key financial transactions and tested a sample of transactions to ensure controls were operating effectively. This sought to ensure appropriate approvals had been sought and expenditure had occurred in line with version 2 of the 'Finance Policies and Guidelines' document. We tested a sample of expenditure transactions from both credit card statements and the expenditure transaction listing covering the period from 1st April 2023 to 31st December 2023 (Appendix 1) covering both day-to-day expenditure relating to the running of the organisation and expenditure relating to international projects.

For each sampled item, the audit team obtained supporting documentation including receipts or invoices, evidence of approvals and reviewed to ensure compliance with version 2 of the policy (which was the policy in place for the period our sample covered). The audit team sampled a total of 68 items, of which 36 were in line with policy following the appropriate procedures and 32 items were non-compliant, representing a 53% compliance rate. The breaches were also identified across both the day-to-day operational expenditure and international project expenditure.

For the remaining sampled items, there was numerous areas of non-compliance which fell into the following categories:

- Travel bookings booked by staff themselves instead of using the travel provider, with no rationale as to why (breach of section 4.9.1).
- Expenditure items had purchase orders approved after the payment had been made (Appendix 2).
- Scottish Government approval not sought for expenditure over £20,000.
- Gifts over £75 purchased with no approval.
- Meeting room booked at a hotel costing over £1,000 without a pre-approval form filled out.
- Missing or no itemized receipts (Appendix 3).

The audit team also found the following:

- Potentially Inappropriate use of credit cards, or examples, where the value for money and compliance could not be assessed, for example using to withdraw cash, purchasing IT equipment and yearly Amex subscriptions costing £2,250.
- No gift and hospitality register in existence.
- High spend per head on entertainment and hospitality, without a clearly documented rationale and/or assessment of business need and value for money.
- No purchase orders for project expenditure which was originally approved by Board as part of original project budget.
- No clear rationale or consistent process for documenting and assessing whether the spend was demonstrating value for money.

As noted, our testing referred to version 2 of the Finance Policies and Guidelines, as this was the appropriate Policy in place for the period where our review was taking place. During 2024, changes have been made to this document, and version 3 was circulated to Audit and Risk Committee members in March. Our detailed findings will note the changes which have occurred between both versions in relation to our findings and further recommendations will be made as appropriate.

Management Action Plan

Risk Area – Testing Approach and Findings from Sample Testing

Travel

Section 4.9.1 of the Finance Policies and Guidelines states that “if the travel provider cannot be used, or offer best value, another provider can be used provided the justification for the method can be demonstrated.” Our testing found that where travel bookings were booked by staff themselves instead of using the travel provider, there was no evidence as to why this had occurred. This therefore is a clear breach of the policy and can lead to the risk of travel not being properly approved and value for money not being obtained.

Version 3 of policy now states “WICS’ preferred method of booking travel and accommodation is through approved travel providers and employees are asked to use a WICS approved travel provider in the first instance.” Additionally, under section 4.10.1, it suggests that “if the travel provider cannot be used, or cannot offer best value, another provider can be used, provided the justification for the method of purchase can be demonstrated. If best value relates to price only, then a screenshot of other quotes can be used to demonstrate best value. However, best value might relate to time savings or practicality and any rationale in relation to this can be documented on the purchase order.”

Recommendation:

It is recommended that all staff should use the Scottish Government travel provider for all travel and the Finance Policies and Guidelines should be updated to remove the alternative option. If, in exceptional circumstances the use of the travel provider is not appropriate, this should be approved by the Accountable Officer in advance of any purchase and with a completed business case documenting the rationale behind the decision.

Purchase Orders

Our testing found that for some expenditure items, purchase orders had been approved after the payment had been made. For the items within our sample that this relates to, we have included details within Appendix 2. Section 3.7.2 of the Finance Policies and Guidelines states that “before a purchase or order for a purchase is made, a purchase order form must be completed by the employee making the purchase. This will be authorised by the appropriate agreed budget holder. Purchase orders with a value of more than £1,000 will also require secondary approval by an employee at the Head of Function grade or above.”

Recommendation:

A clear process was in place, using the Approval Max system. However, this was in effect circumvented and not followed. The procedure is PO approved, invoice received and then paid, and no items should be paid without appropriate POs being matched directly to invoices within Xero. ApprovalMax allows budget holders to be allocated and as such, appropriate authorisations to be received, and if the delegations are set up correctly, this will support the recommended action. Budget holders should be provided with further training of the system to ensure they understand the authorisation process.

Management Action Plan

Risk Area – Testing Approach and Findings from Sample Testing

Project Expenditure

We noted expenditure for projects that had initial approvals e.g. from Board, where spend had taken place, no valid purchase orders had been raised. Examples of this from our sample includes an extension to accommodation costs in New Zealand totaling NZ\$10,920 and consultancy costs relating to the New Zealand project of £3,000. These transactions had no valid purchase orders raised and were classed 'as approved by the Board' as expenditure fell within the initial project budget.

Without appropriate approved purchase orders being in place, there is a risk that budget holders/approvers are not aware of the full expenditure and appropriate approvals are not sought in line with the Finance Policies and Guidelines. Notably, the finance team uses department and sub-department tracking in Xero to identify project spend and this is reported monthly via a management report. There is also a risk that this is incorrectly labeled as approved by the Board, when it has not.

Recommendation:

All project expenditure should follow the procedure identified in the recommendation above and where purchase orders are not completed, expenditure should be rejected. When approving project budgets, these should be significantly detailed (on a line by line basis) to enable allow proper budget management to be undertaken and monitored. If expenditure will result in the approved budget being breached, additional approvals should be sought in line with the Finance Policies and Guidelines.

Receipts

Our testing revealed that five sample items were missing or had no itemised receipts, which creates a risk of spending not in line with the Policy (refer to Appendix 3). We note that the policy recognises that all expenditure must have itemised receipts, and the updated policy notes that failure to provide adequate documentation may result in the expense being deemed unauthorised, and the employee will become liable for the expenditure.

Recommendation:

We agree with this new policy recommendation, as it is an effective measure to ensure that employees are accountable for their expenses and it also encourages employees to be diligent in retaining and submitting itemised receipts, which helps to prevent non-compliant spending. If itemised receipts cannot be provided, WICS should not authorise the expense. These guidelines should be communicated to all employees, and training should be provided to ensure that employees understand their responsibilities.

Management Action Plan

Risk Area – Testing Approach and Findings from Sample Testing

Approvals

Our testing found that for two items of expenditure, appropriate approvals were not sought in line with the delegated limits within the Finance Policies and Guidelines document. These transactions were also noted within the internal review which was undertaken by WICS. The first transaction, related to support in relation to the recruitment of the Senior Operations Director and a purchase order was raised on 1 September 2023 for a value of £28,000 to be paid in two equal instalments. These services had not been competitively tendered, with the justification being the supplier had a “crown commercial service contracts and they specialised in regulatory recruitment”. This breached the single tender contract approval limit requiring Board and Scottish Government approval however, no evidence could be seen this was obtained or received. To note, the total expenditure for the services rendered totaled £19,484, which is under the delegated limit, however, this was not known at the outset, and only arose due to the recruitment search being unsuccessful.

The second item related to legal advice, of which there were three transactions (one each quarter) with the supplier between 1st April 2023 and 31st December 2023 which totaled £27,240. In totality, this breached the single tender contract approval limit requiring Board and Scottish Government approval however, no evidence could be seen this was obtained or received. WICS have noted that this supplier contract was for services between 1 April 2021 and 31 March 2024, with a total value of £120,000. The supplier has worked in this capacity for almost 20 years, and it is possible that approval was received at the inceptions of the agreement.

The Finance Policies and Guidelines is not clear in terms of what a single tender contract is, what this constitutes and there is a risk that expenditure is broken down into smaller spend to avoid Board and Scottish Government approval.

Furthermore, version 2 of the delegated authority was not effective with board approvals not required until a single tender expenditure over £100k, however, Scottish Government approval was required for single tender expenditure after £20k. We would expect all expenditure requiring Scottish Government approval to be approved in advance by the Board. We have reviewed version 3 of the Finance Policies and Guidelines and note that the delegated limited have been updated and all expenditure requiring Scottish Government approval is approved in advance by the board.

Recommendation:

The Finance Policies and Guidelines document should be updated to ensure the delegated limits are explicit and there is no ambiguity in terms of the wording, which allow expenditure to be split across numerous smaller transactions to avoid appropriate approvals. Training should be provided to relevant budget holders who are responsible for approving expenditure and other relevant members of staff (including the finance team), to ensure the approval process is clearly understood and evidence of the appropriate approvals should be attached on Approvals Max for evidence. This will aid the budget holders decision making when approving all expenditure transactions.

Management Action Plan

Risk Area – Testing Approach and Findings from Sample Testing

Gifts

Our sample revealed that items which appeared to be gifts were purchased above £75 without pre-approval (e.g. whisky which was purchased for the Barbados delegation), which is a breach of delegated limits and should have been approved by Scottish Government prior to purchase. Additionally, we note that WICS are solely reliant on employees informing the finance team if gifts are purchased or received, which creates a risk that these are not reported, WICS does not know the full value of gifts issued or received. We recommend that the organisation establish clear guidelines and procedures for the reporting of gifts and hospitality, including the requirement to report all gifts and hospitality received or given.

From review of version 3 of the Finance Policies and Guidelines, there are different sections relating to gifts that set out different approval limits, which creates a risk that appropriate approvals are not sought, and employees do not understand their responsibilities.

Recommendation:

We recommend that the organisation develop a Gifts and Hospitality Register to ensure that gifts and hospitality are properly recorded and that there is transparency in the organisation's dealings (this is in line with the SPFM). This register should include details of the value, recipient and reason for the gift or hospitality. We recommend that the Finance Policies and Guidelines document is reviewed and updated for consistency and clarity to ensure that all employees understand their responsibilities.

Entertainment:

Due to WICS operations and activities including Hydro Nation, there are occasions where WICS will undertake business entertaining and hospitality to individuals including Scottish Government officials and officials who are part of visiting delegations. Our sample identified the following spending on entertainment, which we would consider to be out with the expectations, of a public sector entity:

- Gaucho - £1,001.63 (dinner for nine people including £359 of alcohol)
- La Garrigue Edinburgh - £566.72 (dinner for six people, no itemised receipt)
- Malmaison Edinburgh - £461.95 (dinner for six people)
- RHR St Andrews - £370.00 (no itemised receipt)

As part of a transaction review completed by WICS, further expenditure on meals greater than £50 per head were identified albeit, this review was restricted to expenditure where itemised receipts were provided. An extract of the findings have been included within Appendix 4.

Version 3 of the Finance Policies and Guidance notes any expenditure relating to business entertainment and hospitality which exceeds £1,000 should be pre-approved by the Chair following submission and approval by the Approval Panel and that credits cards can be utilised for client or stakeholder entertainment within reasonable and approved limits.

Recommendation:

We recommend that WICS review their business entertainment and hospitality policy, and at minimum, tighten this up to avoid ambiguity including being explicit in terms of allowable spend per head. WICS should consider removing the ability to use credit cards for client entertainment until agreement and clarity is reached with other stakeholders around Hydro Nation and if the threshold for Chair approval is appropriate given the transactions highlighted above which were charged to the credit cards.

Management Action Plan

Risk Area – Testing Approach and Findings from Sample Testing

Meeting Rooms/Overnight Accommodation:

In July 2021, due to the continued working from home arrangements, WICS previously held office at Moray House was sub-let to Zero Waste Scotland Limited. WICS never sought to exit the lease as the break point in the lease had been passed, and the sub-lease was an effort to recoup the cost of the office during COVID when it wasn't being utilised.

Due to WICS currently having no office space, meeting rooms are hired to hold operational Board meetings, assessment centres etc. Section 4.8.5 of the Finance Policies and Guidance notes that approval should be sought using an events and meeting form for any business-related events or meetings attended by both internal and external persons that are estimated to cost more than £1,000. This has not been routinely followed and for items selected, this form could not be viewed. In addition to hire of meetings room, there was also overnight accommodation following at least one of the operational board meetings, despite this taken place in Edinburgh at a cost of £387.00. Version 3 of the Finance Policies and Guidance add to the current requirement noting the form should be pre-approved by a director or the CEO.

Within Appendix 5, we have detailed the costs of meeting room hire between our sample period (1st April 2023 to 31st December 2023). Additionally, we have obtained a breakdown of internal and external meeting room costs from 1st July 2021 (when the lease was sub-let) to 31st March 2024 which totalled £54,970 over the three-year period, which averages at £18,323 annually.

Recommendation:

WICS should review their current working arrangements. Full consideration should be given to all the options available to WICS including Scottish Government premises, long-term office spaces, hybrid working and remote working. This should also acknowledge the value of staff cohesion and non-financial benefits from working together alongside the financial cost of office space and costs saved from meeting room hire. It is important to note that the costs of an office space is likely to be higher than the current costs however, when considering staff collaboration, utilisation and workplace culture, may provide greater value for money to the organisation.

Nature of Expenditure:

From our review of expenditure, there were numerous occasions whereby the description had been completed by the finance team rather than the individual responsible for the spend and there is a risk that the description of expenditure is therefore not accurate. It was noted that the finance team sought proper descriptions however, these were not always provided. In addition to this, it was noted where an individual utilised their corporate card to purchase for a group of people (for example, at a restaurant) there was no narrative or detail on who these individuals were that the spend encompassed and it was typically the most junior member of staff who would pay.

Recommendation:

We recommend that where all relevant steps (including full details of expenditure) have not been completed by the budget holder/credit card holder, that these are sent back to the relevant individual to be updated. No information with regards to the expenditure should be left to the finance team to document. Additionally, the most senior member of the team should be responsible for settling the bill and reclaiming the expenditure (where appropriate) in line with the Finance Policies and Procedures document with a full narrative provided of the spend.

Management Action Plan

Risk Area – Testing Approach and Findings from Sample Testing

Value For Money

There is no consistent or applied methodology for assessing and then evidencing whether WICS achieve VFM in its arrangements and spending. Securing best value, is a duty of a public sector organisation, as noted by Audit Scotland in their reporting.

Recommendation:

WICS should ensure within their documented procedures, it is clear at which point in the process value for money is considered and by whom (e.g. the approver in Approvals Max) to ensure the organisation are achieving best value.

Other Expenditure

We found that there were many transactions which we would deem questionable with regards to appropriability in terms of spending for a public sector body. These transactions included excessive spend on entertainment, hotel, meetings and subscriptions and there is a risk that expenditure is not appropriate. From review of version 3 of the Finance Policies and Guidelines, it was noted that the Approvals Panel will be utilised to ensure that all business entertaining and hospitality expenditure is approved in advance.

In terms of subscriptions, within our sample of credit card expenditure, we noted subscriptions for Harvard Business Review (£195.00) and The Financial Times (£525.00). From review of the 2023/2024 ledger, we noted £6,410,06 was spent on books and subscriptions. On the face of these transactions, it is difficult to determine whether these are office subscriptions or subscriptions for individuals which in turn would be a taxable benefit. Additionally, our sample identified expenditure relating to the cost of eyewear for an employee. This is not a taxable benefit if the eyewear is exclusively used for work, and not outside of work. In each of these cases, there is a possibility that taxable benefits exist which would require WICS to process correctly through the Pay As You Earn (PAYE) system.

Recommendation:

In terms of taxable benefits, a full review should be undertaken for the 2023/24 financial year to understand the value of any taxable benefits which have arisen and the resultant implications with regards to HMRC and WICS' liability. We note that this is carried out routinely by WICS with specialist tax support.

Management Action Plan

Risk Area – Testing Approach and Findings from Sample Testing

Credit Cards

Out of 24 employees, there are currently 16 individuals with access to a credit card which ranges across several levels at WICS including analysts to Directors. This leaves the organisation open to a risk that the corporate cards are used for expenditure which is not compliant with the Policy. Throughout the period of our review, it was noted that WICS have credit cards with two providers; Royal Bank of Scotland and American Express, with the later costing £2,250 in annual subscription fees.

On our review of credit cards transactions, there were items which we would not expect to be on a credit card for an organisation such as WICS (and out with the findings already raised within this section of our report). This included but not limited to:

- **Cash Withdrawals:** due to the nature of cash withdrawals, these can be difficult to track and there is a risk that the expenditure is used for personal purposes. It is important to note that the finance team have followed up on any withdrawals to receive itemised receipts.
- **Purchasing IT Equipment:** we noted significant IT purchases including laptops through the corporate card that were then delivered to home addresses (on investigation, it was noted as staff are working remotely, IT equipment has to be delivered to the IT Manager to install appropriate software). We would expect IT purchases to be made via the purchase order and supplier invoicing route.
- **IT Repairs:** we noted an IT repair at a computer shop and there is a risk around value for money of using vendors such as these however, more importantly, there is a risk that these individuals have access to private WICS data.
- **Subscriptions:** we noted subscriptions purchased (e.g. the Financial Times) and challenged management as the receipt suggested a personal subscription. It was noted that this was an office wide subscription however, there is a risk that subscriptions are being paid for using the corporate card and WICS are not aware, and therefore, do not treat any taxable benefits correctly.

Following the 2022/23 external audit process, the Head of Finance has reduced all credit cards (with the exception of IT who has provided a business case) to a £1,000 credit limit. If anyone requires an increase to their limit, this must be requested through the Head of Finance and will be evaluated based upon business needs. Additionally, all American Express credit cards have been closed.

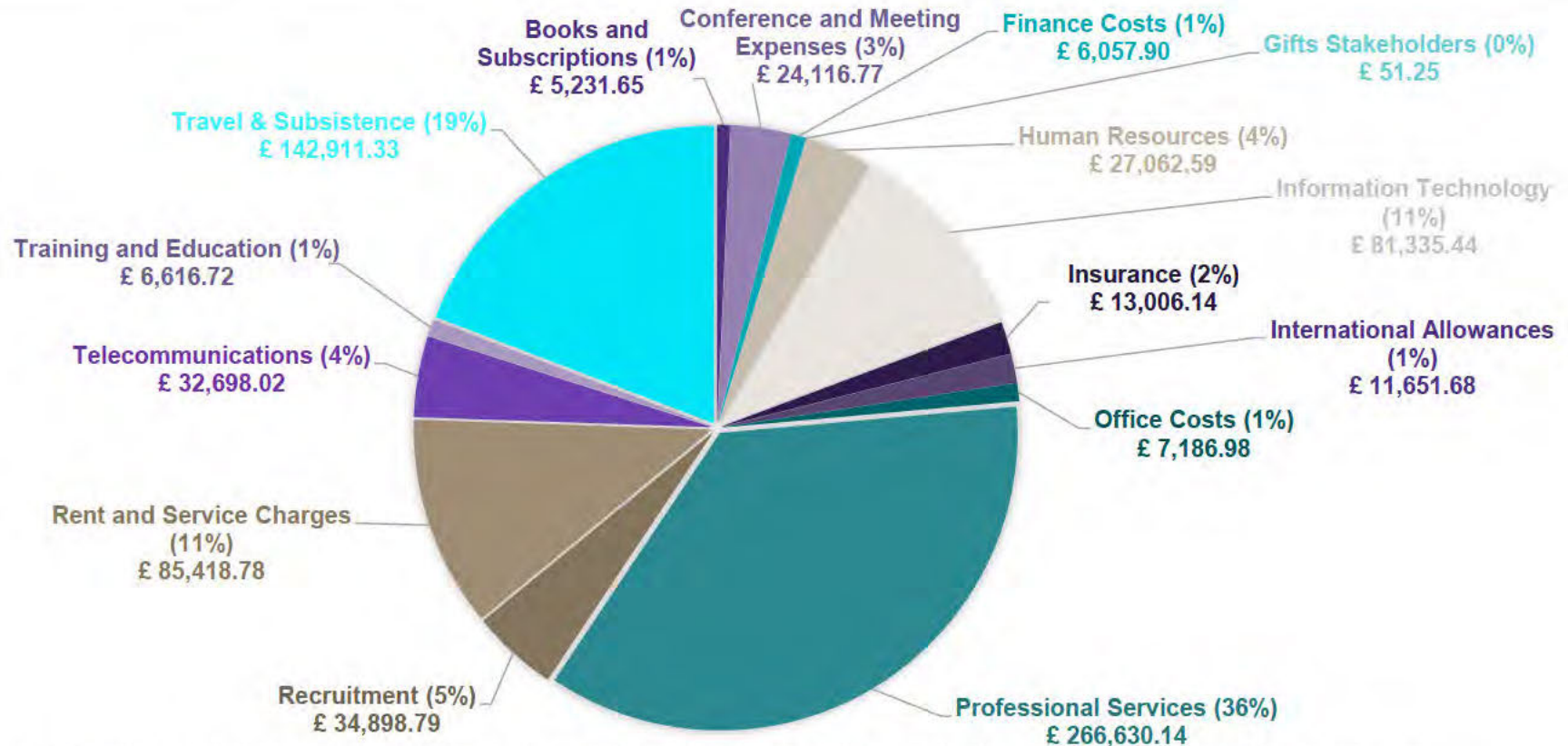
Additionally, within version 3 of the Finance Policies and Guidance, it states “any employee of WICS can request the issuance of a corporate credit card.”

Recommendation:

We recommend that management review the use of credit cards across the organisation and consider the business need for these. We recommended to remove these from use or limit to a senior management level (e.g. Head of Services, Directors).

Appendices

Appendix 1: 2023/24 Expenditure (1st April 2023 – 31 December 2023) (general ledger spend)



Notes:

1. Conference and Meeting Expenses: includes external stakeholder meetings, conference costs and internal meeting expenses.
2. Finance Costs: includes bank interest, bank revaluations, depreciation, finance charges and realised and unrealised currency gains.
3. Office Costs: includes facilities & utilities, office sundries, postal charges and printing costs.
4. Professional Services: includes legal services (including legal advice and support, economic consultancy costs, audit fees and other consultants).
5. Rent and Service Charges: note that rent and service charges are offset by income received from the sub-lease.

Appendix 2: Sampled expenditure with POs approved after payment (credit card testing)

Of our sampled items from the transaction ledger, we identified 9 items whereby the purchase orders for the expenditure were approved after payment had been made. We have included a table below which details these items, and the key payment and approval dates.

Supplier	Description	Amount	Payment Date	PO Approved Date
British Airways	Return flights from Edinburgh to Brasilia (travel provider not used for booking)	6,753.25	10/07/2023	11/07/2023
British Airways	Return flights from Edinburgh to Kigali (travel provider not used for booking)	4,600.15	01/11/2023	02/11/2023
Stata	5 stat software licenses and training licenses for analysts	4,153.15	24/08/2023	25/08/2023
Hotels.com	The Marmorosch Bucharest (5 nights for 3 rooms)	2,849.25	23/08/2023	04/09/2023
Microsoft	Surface Pro 9, keyboard and pen	1,458.98	02/11/2023	03/11/2023
The Financial Times Limited	Financial Times Subscription	525.00	14/10/2023	17/10/2023
Harvard Business School	Frame and shipping	309.93	28/04/2023	01/05/2023
Harvard Business School	Harvard Business Review yearly subscription	195.00	13/08/2023	01/09/2023
Specsavers	Glasses	130.00	02/04/2023	03/04/2023
	Total	20,974.71		

Appendix 3: Sampled expenditure with no itemised receipts

Within our sampled item, we identified five transactions whereby there was no itemised receipt. These are detailed within the table below:

Description	Amount	Comment
Laptops Direct	4,105.87	Only evidence available was a despatch note – no clear evidence of the value. After audit request, invoice was subsequently added to Xero.
Laptops Direct	2,057.93	Only evidence available was a despatch note – no clear evidence of the value. After audit request, invoice was subsequently added to Xero.
RHR St Andrews	370.00	No itemised receipt – credit card receipt. Dinner for three people.
La Garrigue Edinburgh	566.72	No itemised receipt – credit card receipt. Dinner for four people.
Repair St Andrews	31.00	No itemised receipt – credit card receipt.
Total	7,131.52	

Appendix 4: Note of expenditure on meals greater than £50 per head

WICS have completed their own transaction review of itemised receipts and have identified the following transactions whereby expenditure exceeds £50 per head:

Venue	Date	No. of People	Purpose	Total (£)	Total per Head (£)	Total on Alcohol (£)
Gaicho, Edinburgh	09/10/2023	9	Barbados Study Tour	1,123	125	359
L'Escargot Blanc, Edinburgh	16/06/2023	4	Meal and Drinks – Former CEO, 2 Directors and Scottish Government Official	562	140	315
Oak Bar, Auckland	30/05/2023	3	Former CEO, Director and New Zealand Official	261	87	104
Noble Rot, Wellington	01/06/2023	3	Former CEO, Director and New Zealand Official	261	87	95
Mimino Restaurant, London	18/07/2023	4	Former CEO and 3 Others	204	51	98
Zaika, London	10/07/2023	2	Former CEO and 1 Other	130	65	13
Witchery	25/07/2023	2	Director and Scottish Government Official	128	64	12
Total				2,669		986

Note: WICS Policy on whether alcohol was an allowable expense was not clear and did not clarify the expensing of alcohol, unlike other Public Sector bodies. This has now been updated for, in the revised policy, to be clear this is not an allowable expense.

Appendix 5: Expenditure relating to internal and external meetings

From a review of the ledger between 1 April 2023 and 31 December 2023, numerous transactions relating to spend on external meetings were identified. These are detailed within the table below:

Meeting Date	Location	Description	Amount
12/05/2023	Apex Hotels	Meeting room hire including refreshments for Oxera meeting	422.00
19/07/2023	InterContinental Edinburgh The George	Meeting room hire including refreshments	227.20
01/08/2023	Norton House Hotel	Meeting room hire including lunch and refreshments for Oxera meeting	550.00
01/09/2023	Thistle Hotel	Half day meeting room hire in London	424.00
22/09/2023	InterContinental Edinburgh The George	Meeting room hire including lunch and refreshments for New Zealand Study Tour	862.40
Total			2,485.60

Appendix 5: Expenditure relating to internal and external meetings (continued)

From a review of the ledger between 1 April 2023 and 31 December 2023, numerous transactions relating to spend on internal meetings were identified. These are detailed within the table below:

Meeting Date	Location	Description	Amount
19/04/2023	The Robertson Trust	Meeting room hire including catering for corporate day	330.96
31/05/2023	Apex Waterloo Place Hotel	Half day meeting room hie including refreshments	224.00
05/06/2023	The Robertson Trust	Meeting room hire including catering for corporate day	345.36
15/06/2023 and 16/06/2023	Apex Hotels	2 day meeting room hire for in-person Ops Board and Scottish Government meeting including refreshments	520.00
06/07/2023	Kimpton Charlotte Square	Meeting room hire including lunch and refreshments	1,055.00
20/07/2023	Waldorf Astoria Edinburgh	Meeting room hire including lunch and refreshments for Ops Board	934.00
03/08/2023	InterContinental Edinburgh The George	Meeting room hire including lunch and refreshments	990.00
21/08/2023	The Robertson Trust	Meeting room hire including catering for corporate day	345.36
05/10/2023	InterContinental Edinburgh The George	Meeting room hire including lunch and refreshments for Board meeting	1,082.40
23/10/2023	Volunteer Scotland	Meeting room hire including refreshments	66.00
26/10/2023	DoubleTree by Hilton	Meeting room hire including refreshments	239.80
02/11/2023	InterContinental Edinburgh The George	Meeting room hire including lunch and refreshments for Board meeting	982.00

Appendix 5: Expenditure relating to internal and external meetings (continued)

Meeting Date	Location	Description	Amount
08/11/2023	Scotsman Hotel & Grand Café	Meeting room hire including refreshments for Head of Corporate Interviews	671.50
13/11/2023	The Robertson Trust	Meeting room hire including catering for corporate day	325.68
15/11/2023	Hilton	Meeting room hire including refreshments for Recruitment Day	824.75
29/11/2023	Stirling Enterprise Park Ltd	Meeting rooms hire including refreshments for Central Office Team Meeting	201.60
30/11/2023, 01/12/2023, 04/12/2023, 05/12/2023	DoubleTree by Hilton	Meeting room hire including lunch and refreshments for Senior Leadership Team Meeting	1,238.00
07/12/2023	InterContinental Edinburgh The George	Meeting room hire for Board Meeting	913.00
08/12/2023	Hilton Edinburgh Airport	Meeting room hire including lunch and refreshments for Senior Leadership Team Meeting	309.50
14/12/2023	Stirling Enterprise Park Ltd	Meeting rooms hire including catering and refreshments for all staff meeting	339.60
19/12/2023	Scotsman Hotel & Grand Café	Meeting room hire including refreshments	160.50
		Total	12,099.01

Additionally, there was £6,206.96 spent on membership fees to WeWork All Access which provides hot desks, lounges and meeting rooms across locations for flexible working.

Appendix 6: Staff involved and documents reviewed



Staff involved

- Interim Chief Executive
- Director of Corporate and International Affairs
- Director of Analysis
- Director of Price Review
- Chief Operating Officer
- Head of Finance



Documents reviewed

- Finance Policies and Guidelines V2
- Finance Policies and Guidelines V3
- Audit and Risk Committee Minutes [2023/24 Financial Year]
- Board Minutes [2023/24 Financial Year]
- Documentation relating to the Harvard Business School Transaction
- General Ledger [1st April 2023 to 31st December 2023]
- RBS Credit Card Expenditure [1st April 2023 to 31st December 2023]
- American Express Credit Card Expenditure [1st April 2023 to 31st December 2023]
- Sub-lease including arrangements in relation to Moray House
- Workplan in response to Audit Scotland report
- Internal Review of Transactions Report



Appendix 7: Action plan

The internal audit report was presented to the Audit Committee in June and the findings discussed. The internal audit report has been discussed and the findings, and accuracy of the report agreed with the Accountable Officer and the Chair of Audit Committee with input from other stakeholders, within WICs.

The internal audit actions, form a wider action plan that WICS have developed following the Audit Scotland report and the Scottish Parliament Audit Committee (PAC) sessions. We have reviewed that action plan and confirmed the recommendations we have identified are reflected in the WICS action plan and there is no omissions, from our internal audit findings.

It is recommended that internal audit going forward monitor the actions in the WICS action plan, which is tracked and reported to the WICS Board.



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Water Industry Commission for Scotland (WICS)

Internal Audit 2023/24

Governance and Financial Management
Arrangements – Part 2

June 2024

FINAL REPORT

[REDACTED]
Partner

[REDACTED]
Audit Manager

Contents



This report is confidential and is intended for use by the management and directors of Water Industry Commission for Scotland. It forms part of our continuing dialogue with you. It should not be made available, in whole or in part, to any third party without our prior written consent. We do not accept responsibility for any reliance that third parties may place upon this report. Any third party relying on this report does so entirely at its own risk. We accept no liability to any third party for any loss or damage suffered or costs incurred, arising out of or in connection with the use of this report, however such loss or damage is caused.

It is the responsibility solely of Water Industry Commission for Scotland management and directors to ensure there are adequate arrangements in place in relation to risk management, governance, control and value for money.



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Report Distribution

For action:

- [REDACTED] Head of Finance
- David Satti, Chief Executive

For Information:

- Audit and Risk Committee

Executive Summary

Objective

The objective of the audit was to evaluate the adequacy of internal controls in place around Governance and Financial management arrangements.

Background

In December 2023, Audit Scotland issued a Section 22 report on the 2022/23 audit of WICS. Audit Scotland issued an unqualified opinion on the financial statements however, the Section 22 report highlighted weaknesses in the governance and financial management arrangements.

WICS incurred two items of expenditure during 2022/23 that breached the threshold for Scottish Government approval however, no approval was sought from the Scottish Government or the Board prior to the payments being made. It was only once the issues were identified by the auditor that retrospective approval was sought and received from the sponsor team.

Additionally, issues were identified with the expenses reimbursement process including claims not being supported by itemised receipts and claims exceeding the approved subsistence rates. Audit Scotland also highlighted that the WICS policy, unlike others in the Public Sector, did not clarify the expensing of alcohol. This has now been updated for, in the revised WICs policy, to be clear this is not an allowable expense.

It was concluded by Audit Scotland that WIC is not currently demonstrating the highest standards of financial management and propriety in its business activities. Value for money should be a key consideration for all expenditure incurred by public bodies and the findings of the auditor highlighted unacceptable behaviour by senior officials within WICS, in the use of public funds.

Scope

The objective of the audit was to evaluate the adequacy of internal controls in relation to the governance and financial management arrangements with the review being undertaken in three phases:

1. To support management in strengthening the current arrangements by reviewing the design and operational effectiveness of the controls, the audit must:
 - a) Observe the current controls in place around key financial transactions ensuring these are designed effectively.
 - b) Test a sample of transactions from the 2023/24 to ensure financial controls are operating as expected and appropriate approvals (where appropriate) have been sought and received in advance of payment in line with the policy. This included a sample of transactions pre December 2023 and then a subsequent sample in the final quarter of the 2023/24 financial year.
 - c) Review the arrangements in place in relation to the Harvard transaction.
 - d) Validate those financial transactions requiring approval by the Board has been received, in line with the underlying Scheme of Delegation and Standard Financial Instructions.
 - e) Review the revised policies being developed to ensure they are fit for purpose, clear and are designed as expected.
 - f) Assess WICS' core business and international projects to determine if areas of non-compliance relates to the day-to-day running of the organisation or relates to international projects.

Executive Summary

Scope (continued)

2. To provide assurance that the action plan is complete and will lead to improvements across the organisation, the audit should:
 - a) Validate the programme of work developed for completeness.
 - b) Assess whether sufficient governance arrangements are in place around the completion of actions and subsequent reporting arrangements.
3. To provide assurance that reporting made to the Senior Management Team, Audit and Risk Committee and Board is sufficient, the audit should:
 - a) Evaluate the effectiveness of the compliance reporting in place to the Audit and Risk Committee to ensure those charged with governance have oversight of any identified exceptions.
 - b) Assess if the reporting arrangements in place are adequate and whether routine management reporting needs to be expanded.

We have opted to provide two reports to management given the level of the review undertaken. The first part covers our sample testing from 1 April 2023 to December 2023 and the issues which were identified. The second part covers additional testing which was undertaken following the change in Policy (covering the period from 1 January 2024 to 31 March 2024), review of the Harvard transaction, review of internal reporting and matters identified for WICS to consideration.

Approach

Our audit approach was as follows:

- We obtained an understanding of the key areas as outlined in the scope section, through discussions with key personnel, review of management information and walkthrough test, where appropriate.
- We evaluated the design of the controls in place to address the key risks.
- We tested the operating effectiveness of the controls in place.

Approach (continued)

It is Management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit should not be seen as a substitute for Management's responsibilities for the design and operation of these systems.

Limitations in Scope

Please note that our conclusion is limited by scope. It is limited to the risks outlined within the scope section. Other risks that exist in this process are out with the scope of this review and therefore, our conclusion has not considered these risks.

The audit approach included the use of sample testing to assess compliance with policies and procedures, and our findings and conclusions are limited to the items selected for testing and the supporting evidence which was available for review, which required judgements to be applied.

Based on the provided data, further discussions were held and corroborated with interviews of key members of management and the finance team. Fundamentally, the use of interviews have limitations, as interviews rely on perceptions, opinions and are influenced by various factors including biases and personal experiences which can be subjective.

Whilst sample testing and interviews undertaken throughout this audit have provided valuable information, their limitations should be considered when interpreting the findings of this report.

This report does not constitute an assurance engagement as set out under ISAE 3000.

Acknowledgements

We wish to thank management and the finance team for their support during our review.

Management Action Plan

Risk Area - Testing Approach and Findings from Sample Testing

Expenditure across January to March 2024

In April, at the end of the financial year, it was determined that a further sample of expenditure items would be selected for testing, given the internal changes made by WICS since the turn of the year. As such, a sample of 25 items were selected for testing covering the period from 1st January 2024 to 31st March 2024. This covered 15 ledger transactions and 10 credit card transactions. We observed the policies in place during this period around the key financial transactions. This sought to ensure appropriate approvals had been sought and expenditure had occurred in line with version 3 of the 'Finance Policies and Guidelines' document.

Of the 25 items selected for testing, 19 items of expenditure were deemed to be fully in line with the Policy, which represents a 76% compliance rate. Of the remainder of the sample, the following issues were noted:

- **Purchase order approved after invoice authorised for payment:** for one sample item, the purchase order had been approved after the invoice had been authorised for payment.
- **No purchase order:** for one item within our sample, there was no purchase order raised for the expenditure which related to the payment of an advisory member.
- **Fully matched purchase order:** for one item within our sample, the invoice which totalled £1,529 was matched against a PO that had already had expenditure fully allocated to it. On further review, it was noted that a further invoice was also allocated which totalled £1,600.
- **Budget:** for one item in our sample, per the expenditure appraisal form and purchase order, the value for the contract period (1 June 2023 to 31 March 2026) was £56,000 with a budget of £14,000 per year. The total spend in the period between 1 June 2023 to 31 March 2024 totalled £13,835 and there is a risk that the annual budget will be breached.
- **Events and Meeting Form:** for one item, an Events and Meeting Form was completed as the expenditure related to meeting space greater than £1,000 however, per the Policy, WICS must demonstrate that best value was achieved with screenshots of other quotes although these were not included within the Form.
- **Corporate Uber Account:** for one item, it was noted that an employee had used WICS's corporate Uber accounts for a personal journey. This was identified by WICS and the individual repaid the expenditure to WICS.

We noted that for all expenditure items selected for testing, itemised receipts were included and there was a significant reduction in the use of credit cards in the period.

Recommendation:

For the majority of issues noted above, we note that these follow on from our initial findings within the previous section of this report however, we recommend that management review the need for a corporate Uber account and if this is required moving forward. We recommend this is closed to eliminate the risk of spend on the account which is not in line with the underlying Policy. Additionally, we recommend that WICS should consider if it is more affordable that advisory members are paid via payroll rather invoice and what the implications for the organisation are, if any, in the way that payment is made.

Harvard Transaction



Harvard Transaction

We conducted a review of the Harvard transaction to assess the adequacy and effectiveness of the controls in place and to identify any areas of improvement. Our review identified the following:

- Roles and Responsibilities:** we found that the roles and responsibilities relating to the approval process for the Harvard transaction were not clear in Approvals Max. It was noted that Board approvals were sought, and the approvers in Approvals Max assumed this was accurate without confirming. However, there was no evidence or minutes of Board approval for this expenditure. Additionally, approval from Scottish Government should have been sought in advance of the expenditure being spent however, this was received subsequently after the expenditure had occurred.
- Business Case:** we found that an options appraisal form was completed with five courses considered, all of which were American universities, and the most expensive course was selected. No business case was undertaken and there was no consideration of universities within the UK to ensure value for money was being received. The option appraisal completed fell significantly below the expectations and we do not consider it to be appropriate or sufficient. We recommend that the organisation establish clear guidelines and procedures for the development of business cases, to ensure that they are completed for all significant expenditures.
- Approvals:** we found that the invoice for the Harvard transaction was approved by the participant on the course and there is a risk around a 'perceived benefit'. We recommend that the organisation establish clear policies and procedures for the approval of expenditure where there is a perceived personal benefit. This should include the expenditure in question being approved by an individual who is more senior than anyone who may be perceived to be benefitting from the expenditure.
- Value for Money:** we found no documented evidence of value for money considerations in the Harvard transaction. We recommend that the organisation establish clear procedures for the consideration of value for money in all significant expenditures and clearly outline at what stage of the process this should be considered at.

Based on our review, we recommend that the organisation establish clear guidelines and procedures for the approval process including defined roles and responsibilities which are clearly set out and understood across the organisation. These should detail the requirements for full business case developments and who is responsible for considering value for money with regards to the expenditure. These recommendations are intended to improve the effectiveness and efficiency of the organisation's expenditure controls. Additionally, to note, in April 23, there was further spend of £310 on a certificate frame and postage at Harvard Business School.

Other Points for Consideration

Other Points for Consideration

We recognise the amount of work the finance team have put in to develop new Finance Policies and Guidelines and staff training. We have scrutinised the new Finance Policies and Guidelines and have the following points to ensure that the policy is tightened and there are no ambiguity including:

- **High-Risk/Novel or Contentious Expenditure:** we found that the definition of high-risk expenditure and novel or contentious expenditure is still open to a degree of interpretation, and we recommend that the organisation provide clear guidance on what constitutes these types expenditure to ensure transparency in the organisation's dealings.
- **Value for Money Consideration:** we found that there is a lack of clarity regarding the roles and responsibilities of the individuals involved in the approval process. We recommend that the organisation establish clear guidelines and procedures for the approval process, including a value for money consideration at every stage and recommend that all staff involved in the approval process receive training on the Finance Policies and Guidelines. This will help to ensure individuals have the appropriate skills and experiences to make informed decisions with regards to value for money consideration.
- **Approval Process:** we found that the approval process can be overly complex, particularly for expense claims (for example, requiring line managers' approval for smaller expenditures may be over-prudent given the size of the organisation). We recommend that the organisation review its approval process and streamline it where possible to reduce the burden on staff while ensuring appropriate oversight.
- **Subsistence:** updates have been made to the policy which lists what WICS will cover in terms of subsistence including the introduction of specified subsistence limits and restrictions prohibiting the purchase of alcohol. This is applicable for individuals who are working outside their normal work location, and the limits are dependent on location (e.g city or non-city) and the amount of time the claimant is away from their regular place of work. We note in supplementary note 5, the limits have been defined however, we would recommend WICS simplify this and have one rate which is applicable to both city and non-city as this makes it explicitly clear to employees and leaves no room for interpretation. We would recommend if for example, accommodation would breach the nightly limit, this to be approved in advance by the Accountable Officer.
- **Training and CPD:** given WICS' commitment to training and continuing professional development, various members of staff have been involved in business courses and MBAs (Master of Business Administration). Given this is an area of significant spend for WICS, there is a need in the broader context to articulate the wider organisational benefit including reference to value for money consideration of these types of course being completed and at present, there is nothing within Policy detailing entitlement. In recent years, alongside the Harvard Business School course for the COO, analysts within WICS have undertaken MBAs and the Director of Corporate and International Affairs attended a two-week Executive Development Program in Business at the Columbia Business School with the course fee costing £20,404. It is typical for clauses to be included within a training agreement to safeguard an organisation should the individual leave following the completion of their course which allows the organisation to reclaim any costs and WICS should determine if a similar policy should be implemented to safeguard themselves.

We have completed a review of training undertaken over the last three financial years, and this has been documented at Appendix 6. Typically, there was no business case for the identified training or documented business rationale for attendance and often the request to attend the training came from the individual staff member themselves. WICS should identify the training requirements for their staff and procure training through the appropriate mechanisms having considered value for money both before and after the completion of the course. We recommend a training policy is developed and approved to ensure a consistent approach across the organisation.

Other Points for Consideration

Other Points for Consideration (continued)

- **Hydro Nation:** the updated Finance Policies and Guideline, it is noted that “WICS must strike a balance between engaging in valuable business entertaining activities and ensuring responsible use of resources”. Given the nature of WICS activities, this area is subject to complexity, challenge around value for money and reputational risk. Until agreement and clarity is reached with the Scottish Government around Hydro Nation, the Policy around hospitality needs to be tightened up and potentially removed.
- **Scheme of Delegation:** the scheme of delegation sets out at what expenditure levels, what approvals are required. We have noted the following from our review:
 - For single tender contracts, Scottish Government are required for expenditure greater than £20k however, for single-tender contractors where the contractor has already been awarded contracts by competitive tender, approval is required for expenditure greater than £100k and this is open to misuse and staff training is pivotal.
 - There is a line within the Scheme of Delegation noting additional senior authorisation is required however, it is not clear what is meant by this or when this is required.
- **Approvals Panel:** the Approval Panel has been set up as a control in terms of managing the business and to support decision making. Per the Terms of Reference for the Approvals Panel, the Panel consists of the Chief Executive Officer and Directors and is chaired by the Head of Finance. The following points should be considered in relation to the Approvals Panel:
 - There needs to be clear delegated authorities and the role of each individual in the decision-making process should be clear (e.g. what are the roles of each Director on the Panel, do they all need to attend and what for purpose)?
 - WICS should consider if the Head of Finance should Chair the Panel or if this should be an individual separate from the finance function and be a more senior, independent figure. In making this decision, one point for consideration is if finance should have more input in the decision-making process bringing knowledge of the procurement process including the appropriate procurement approaches and the Finance Policies and Guidelines. This would also allow the finance team to present historic information and highlight exceptions to prevent procedures being circumvented.
 - It is noted that any expenditure should be sponsored by a Director, but this is vague, and it is not clear whose budget this comes from.
 - The Board is to be presented with the minutes of the Panel meetings however, it needs to be made clear that this is for information or approval. If approval, any expenditure cannot be committed to until Board approval has been given.
 - Regular reviews of transactions should be undertaken to ensure the expenditure being presented to the Panel is complete and no expenditure has bypassed the Panel without the appropriate approvals.

We recommend that the organisation establish clear guidelines and procedures for the approval process, including a review of the roles and responsibilities of the individuals involved.

Action Plan:

The current action plan that has been prepared following the 2022/23 external audit and in agreement with the Sponsor department is at a transactional level (e.g. reinstate the Approvals Panel, train all staff on the financial rules and expectations etc.) and should be reconsidered at a more granular level given our recommendations within this report and to reflect the work which WICS will have to undertake (e.g. ensure the Approvals Panel is operating as intended, the Finance Policies and Guidelines are abided by and embedded throughout the organisation). The progress against the completion of these actions should be reported regularly to the ARC and Board to ensure sufficient oversight and each action should include a RAG rating to determine if implementation is on track alongside being assigned a relevant action owner and date for implementation. This will allow the relevant members to scrutinise the work and progress being made by management.

Other Points for Consideration

Other Points for Consideration (continued)

During our review, we have met with senior members of the management team and reviewed key documentation including policies and meeting minutes. From our work undertaking, several points of note were raised which should be considered:

- **Departure of Previous Chief Executive:** The Chief Executive tendered his resignation for personal reasons at the end of 2023 and had a six month notice period. Following discussions internally and with their sponsor team, WICS agreed that the Chief Executive was able to leave with immediate effect however, legally WICS was required to pay any payment in lieu of notice which in this case, totalled £98,172 (note this includes employers' national insurance). As part of this review, we have not tested the approval or decision making behind this decision including Scottish Government sponsorship.
- **Finance Policies and Procedures:** Across WICS, we observed that historically, the Finance Policies and Guidelines which were in place were not followed despite the finance team's continuous promotion of its requirements. There is a risk that this culture within WICS continues despite the change in Chief Executive and change in mindset across the organisation is required to ensure this does not continue to occur. Staff training will be required to ensure these are successfully implemented moving forward and individuals who continuously do not comply with the Finance Policies and Guidelines need to be held to account. A further point for consideration is that the name of this policy include the word guidelines, which suggests these are a guide and staff are not required to be followed.
- **Roles and Responsibilities:** historically, Directors within the organisation have overseen their areas rather than having responsibility which has resulted in a lack of clarity for individuals with regards to their delegated responsibilities and direct reports. Each Director should have a clear set of responsibilities and be accountable to the Chief Executive. From review of the current structure of the organisation and given WICS are a small organisation with around 26 employees, we observe that there is potentially a top-heavy structure compared to other similar sized, public sector organisations, with the level of Scottish Government funding the body receives, with four Directors and a Chief Operating Officer reporting into the Chief Executive. The organisation re-structure in 2019 was unclear in terms of benefit to WICS of the revised structure, the level of approval and whether it was approved by the Board and the resultant budget lines and lines of accountability not clear. There is an opportunity to review this, in light of the wider changes across the organisation.
- **Budgets:** From discussions held, it was noted that individual Directors are not allocated annual budgets which they are responsible for and these are allocated horizontally across cost centres (for example, a training budget). As such, Directors are not responsible for their areas and there is a risk that both income and expenditure is not being appropriate monitored at the budget holder level. This also links into our finding above with regards to roles and responsibilities.
- **Hydro Nation:** there is a question around the operations of WICS and Hydro Nation and how these align to the expectations of a Scottish public sector body. This needs to be agreed with Scottish Government for WICS to fully understand their role moving forward.

Review of Reporting

Review of Reporting

- **Compliance Reporting:** the Audit and Risk Committee are provided with a compliance report for information at each meeting which details any areas of non-compliance within the following areas:
 - Freedom of Information Requests
 - Complaints
 - Data Protection Impact Assessment Completed
 - Whistleblowing Incidents
 - Financial Compliance
 - Open Internal Audit Recommendations
 - Environmental Information Requests
 - Subject Access Requests
 - Data Breaches
 - Parliamentary Questions
 - Media Enquiries

Each of the areas of the compliance report cover the main areas expected which should be raised to the Audit and Risk Committee. A summary under each area is provided detailing the request/assessment/issue and WICS' response. These could be more detailed to provide the Committee with a better understanding and to allow for proper scrutiny of management. Where applicable in terms of issues arising, a summary update should be provided to the Board (this could be via an ARC Chairs' update).

Additionally, the Audit and Risk Committee are provided with the minutes of the Approval Panel meeting and as noted in the previous slide, the Board is to be presented with the minutes from these meetings as well. These are extremely detailed and include all underlying papers and reports prepared for the Panel.

Recommendation:

We recommend that a summary paper is prepared for ARC and Board members providing a summary of decision made at the Approvals Panel, which is user-friendly and provides members with oversight of all significant decisions/approvals.

We note that this is a retrospective control and review undertaken by Members and WICS should look to implement proactive measures (e.g. ARC approve tender waivers before any a decision is made). There is a risk that if the wrong decision is taken by management, it may be too late for the ARC and Board to reverse any decisions.

Appendices

Appendix 1: Action plan

The internal audit report was presented to the Audit Committee in June and the findings discussed. The internal audit report has been discussed and the findings, and accuracy of the report agreed with the Accountable Officer and the Chair of Audit Committee with input from other stakeholders, within WICs.

The internal audit actions, form a wider action plan that WICS have developed following the Audit Scotland report and the Scottish Parliament Audit Committee (PAC) sessions. We have reviewed that action plan and confirmed the recommendations we have identified are reflected in the WICS action plan and there is no omissions, from our internal audit findings.

It is recommended that internal audit going forward monitor the actions in the WICS action plan, which is tracked and reported to the WICS Board.

Appendix 1: Expenditure relating to internal and external meetings

From a review of the ledger between 1 April 2023 and 31 December 2023, numerous transactions relating to spend on external meetings were identified. These are detailed within the table below:

Meeting Date	Location	Description	Amount
12/05/2023	Apex Hotels	Meeting room hire including refreshments for Oxera meeting	422.00
19/07/2023	InterContinental Edinburgh The George	Meeting room hire including refreshments	227.20
01/08/2023	Norton House Hotel	Meeting room hire including lunch and refreshments for Oxera meeting	550.00
01/09/2023	Thistle Hotel	Half day meeting room hire in London	424.00
22/09/2023	InterContinental Edinburgh The George	Meeting room hire including lunch and refreshments for New Zealand Study Tour	862.40
Total			2,485.60

Appendix 1: Expenditure relating to internal and external meetings (continued)

From a review of the ledger between 1 April 2023 and 31 December 2023, numerous transactions relating to spend on internal meetings were identified. These are detailed within the table below:

Meeting Date	Location	Description	Amount
19/04/2023	The Robertson Trust	Meeting room hire including catering for corporate day	330.96
31/05/2023	Apex Waterloo Place Hotel	Half day meeting room hie including refreshments	224.00
05/06/2023	The Robertson Trust	Meeting room hire including catering for corporate day	345.36
15/06/2023 and 16/06/2023	Apex Hotels	2 day meeting room hire for in-person Ops Board and Scottish Government meeting including refreshments	520.00
06/07/2023	Kimpton Charlotte Square	Meeting room hire including lunch and refreshments	1,055.00
20/07/2023	Waldorf Astoria Edinburgh	Meeting room hire including lunch and refreshments for Ops Board	934.00
03/08/2023	InterContinental Edinburgh The George	Meeting room hire including lunch and refreshments	990.00
21/08/2023	The Robertson Trust	Meeting room hire including catering for corporate day	345.36
05/10/2023	InterContinental Edinburgh The George	Meeting room hire including lunch and refreshments for Board meeting	1,082.40
23/10/2023	Volunteer Scotland	Meeting room hire including refreshments	66.00
26/10/2023	DoubleTree by Hilton	Meeting room hire including refreshments	239.80
02/11/2023	InterContinental Edinburgh The George	Meeting room hire including lunch and refreshments for Board meeting	982.00

Appendix 1: Expenditure relating to internal and external meetings (continued)

Meeting Date	Location	Description	Amount
08/11/2023	Scotsman Hotel & Grand Café	Meeting room hire including refreshments for Head of Corporate Interviews	671.50
13/11/2023	The Robertson Trust	Meeting room hire including catering for corporate day	325.68
15/11/2023	Hilton	Meeting room hire including refreshments for Recruitment Day	824.75
29/11/2023	Stirling Enterprise Park Ltd	Meeting rooms hire including refreshments for Central Office Team Meeting	201.60
30/11/2023, 01/12/2023, 04/12/2023, 05/12/2023	DoubleTree by Hilton	Meeting room hire including lunch and refreshments for Senior Leadership Team Meeting	1,238.00
07/12/2023	InterContinental Edinburgh The George	Meeting room hire for Board Meeting	913.00
08/12/2023	Hilton Edinburgh Airport	Meeting room hire including lunch and refreshments for Senior Leadership Team Meeting	309.50
14/12/2023	Stirling Enterprise Park Ltd	Meeting rooms hire including catering and refreshments for all staff meeting	339.60
19/12/2023	Scotsman Hotel & Grand Café	Meeting room hire including refreshments	160.50
Total			12,099.01

Additionally, there was £6,206.96 spent on membership fees to WeWork All Access which provides hot desks, lounges and meeting rooms across locations for flexible working.

Appendix 1: Details of training costs within the last three financial years

In order to identify the training and CPD costs spent by WICS, we have completed a review of training and CPD costs over the last three financial years (2021/22, 2022/23 and 2023/24). Note that the training costs below does not include MBA programme costs and the job titles of parties involved were at the point when training was undertaken.

2021/22		
Training	Parties Involved	Cost
ExCo2 – Coaching January to March 2021	Chief Operating Officer and Director of Strategy and Governance	3,113.99
Association for Project Management	Senior Business Support Officer	183.60
GovPD – Preventing and handling data breaches	Participant not detailed within Xero	475.20
Using social media in a public sector setting	Senior Manager of Central Office	360.00
The Web Design Academy	Former Assistant Director	450.00
ExCo2 Coaching	Chief Operating Officer and Director of Strategy and Governance	3,957.06
PayPro Europe – Water Climate Discussion	Chief Operating Officer	49.00
Improving Water Quality	Chief Operating Officer	213.60
Future Water Association	Chief Operating Officer	66.00
The Financial Times – NED Diploma Cohort 49	Chief Operating Officer	7,500.00
Government Events – Copywriting and Writing Skills	WICS Staff	7,200.00
ITrain Scotland – Microsoft Training Courses	Analysts	2,226.00
ITrain Scotland – Training Courses	Analysts	240.00
ExCo2 – Coaching September 2021 to February 2022	Chief Executive, Director of Strategy and Governance, Director of Price Review and Former Deputy Chief Executive	6,260.69
ExCo2 – Coaching	Director of Strategy and Governance	1,095.56
	Total:	33,290.70

Appendix 1: Details of training costs within the last three financial years (continued)

2022/23

Training	Parties Involved	Cost
Government Events – The Inclusion, Diversity and Equality in the Workplace Conference	Former Assistant Director	383.04
ITrain Scotland – Excel Training	Analysts	2,076.00
International Centre for Parliamentary Studies - Essential Writing Skills Workshop	Experienced Analyst	684.00
Mental Health First Aid Course	Finance Officer	240.00
ITrain Scotland – Excel Training	Analyst	246.00
Harvard Business School – Advanced Management Programme	Chief Operating Officer	76,543.10
French Duncan – HR Training	Participant not detailed within Xero	540.00
Mental Health First Aid Course	Senior Manager of Central Office	240.00
Mental Health First Aid Course	Chief Operating Officer and Finance Officer & PA	480.00
Mental Health First Aid Course	Director of Strategy and Governance	300.00
Public Policy Exchange – Webinar on Improving Water Quality	Director of Strategy and Governance, Chief Operating Officer and Analyst	320.40
ITrain Scotland – Excel Training	Analyst	276.00
Moody's Analytics – E-Learning Financial Accounting for Business Leaders	Analyst and Senior Analyst	666.37
ExCo2 – Coaching	Director of Strategy and Governance	5,098.33
The Scottish Government – Civil Services Learning Contribution 2022/23	Participant not detailed within Xero	277.02
ExCo2 – Coaching	Director of Strategy and Governance	1,070.87
	Total:	89,441.13

Appendix 1: Details of training costs within the last three financial years (continued)

2023/24

Training	Parties Involved	Cost
Young Scotland Programme	2 x Analysts	3,264.000
ExCo2 - Coaching	Director of Strategy and Governance	3,202.73
Bridgeall - - Awareness Training - Email Security and Continuity	Participant not detailed within Xero	675.79
Civil Service College - Value for Money Course	12 Participants	3,528.00
Mental Health First Aid Course	Director of Analysis	246.00
Breaking into Wall Street - Core Financial Modelling Training	Analyst	400.76
Breaking into Wall Street - Core Financial Modelling Training	Experienced Analyst	400.76
Breaking into Wall Street - Core Financial Modelling Training	Experienced Analyst	244.60
Breaking into Wall Street - Core Financial Modelling Training	Senior Analyst	236.92
Mental Health First Aid Course	Director of Corporate and International Affairs	246.00
SPSO - Good Complaints Handling	5 Participants	200.00
TalkAction - Social Media Training	Senior Manager of Central Office	299.00
	Total:	12,944.56

Appendix 2: Staff involved and documents reviewed



Staff involved

- Director of Strategy and Governance
- Director of Corporate and International Affairs
- Director of Analysis
- Director of Price Review
- Chief Operating Officer
- Head of Finance



Documents reviewed

- Finance Policies and Guidelines V2
- Finance Policies and Guidelines V3
- Audit and Risk Committee Minutes (2023/24 Financial Year)
- Board Minutes (2023/24 Financial Year)
- Documentation relating to the Harvard Business School Transaction
- General Ledger (1st January 2024 to 31st March 2024)
- RBS Credit Card Expenditure (1st January 2024 to 31st March 2024)
- American Express Credit Card Expenditure (1st January 2024 to 31st March 2024)
- Compliance Reports 2023/24
- Approval Panel Minutes (December 2023 to February 2024)
- Workplan in response to Audit Scotland report
- Internal Review of Transactions Report





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GOVERNANCE AND FINANCIAL MANAGEMENT

Summary of internal audit recommendations and action plan

June 2024

Introduction

In response to the Section 22 issued by Audit Scotland in December 2023, the Audit and Risk Committee of WICS (“the ARC”) asked the internal audit (IA) team to evaluate the adequacy of internal controls in relation to the governance and financial management arrangements of WICS. The IA team presented two reports to the ARC at its meeting on 11 June 2024. The recommendations presented in the reports were the result of detailed testing of all aspects of the control environment and included points for WICS to consider in relation to the broader governance, such as the structure and culture of the organisation¹.

At the same time that IA conducted its work, WICS performed an internal review and implemented changes. Therefore, this report seeks to review each recommendation made by the IA team and provide additional context and commentary on the progress made. Any recommendations that have not been considered as part of the early work by WICS to improve governance and financial arrangements will be incorporated into an action plan. This action plan will feed into the overall initiative for organisational change at WICS. For some of the recommendations made, the associated actions will feed directly into the wider organisational change work programme, falling out of the scope of this action plan. However, the actions will remain in this plan to ensure they have been considered and addressed.

WICS will work with the IA team to ensure the action plan covers all recommendations presented in the reports and that the proposed actions are appropriate to deliver a stronger governance and financial control system at WICS. This report has been divided into three parts:

Part 1: High-level action plan for the leadership team, Board and ARC

This section groups the agreed actions into five workstreams. At its regular meetings, the leadership team will discuss progress on delivering the actions of each workstream.

Part 2: Detailed action plan

This action plan will be used at an operational level to address all recommendations. Each action feeds into at least one workstream.

Part 3: Summary of internal audit recommendations and WICS’ response

WICS has summarised the recommendations from the IA report, provided additional context to the issues raised, and outlined any action that has already been taken and changes that have been implemented to date. Any further action required is linked to the actions in part 2.

In addition, there is an appendix of considerations that the leadership team discussed as a result of this review. These will be referred to as the organisational change plans are implemented.

¹ Full scope of work is provided in Grant Thornton’s reports

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Part 1: High-level action plan for the leadership team and reporting to the Board and ARC

Ref	Workflow action plan	Deliverable(s) and date(s) of delivery	Link to detailed actions
W1	<p>Development of approval panel terms of reference</p> <p>Review the scope of the approval panel and update the terms of reference to provide the following:</p> <ul style="list-style-type: none"> clarity around roles, responsibilities and definitions; guidance on valuing proposed expenditure and how this impacts the procurement route, including the use of service contracts already in place; <p>Review reporting to the panel to ensure completeness of approval.</p>	<ul style="list-style-type: none"> Revised approval panel terms of reference approved by leadership team by <u>30/09/24</u> Review by ARC: <u>12/11/24</u> Approval by Board: <u>21/11/24</u> Financial reporting to be developed to report non-compliance and “near misses” to the approval panel. First draft to the panel: by <u>30/09/24</u> 	A5; A13; A17; A18; A19
W2	<p>HR review</p> <p>A wider review of HR within WICS is underway. The following IA recommendations will be covered as part of this review:</p> <ul style="list-style-type: none"> Value for money should be considered at each stage of delivering training to employees as part of the work in developing a new performance management framework. Revised role profiles should cover employee’s responsibility towards procurement and budgeting. 	<ul style="list-style-type: none"> Agreed deliverables to be incorporated into the HR review scope of work: <ul style="list-style-type: none"> A revised performance management framework considering value for money at each stage, from identifying suitable training solutions to sharing knowledge once the training is completed: <u>31/01/25</u> Revised role profiles that include each role’s responsibility in relation to procurement and budgeting, where applicable: <u>31/12/24</u> 	A11; A12; A20

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Ref	Workflow action plan	Deliverable(s) and date(s) of delivery	Link to detailed actions
W3	<p>Review of financial policies and guidelines (“the Policy”) and financial procedures</p> <p>The IA report recommended several areas where definitions could be improved, ambiguity removed and additional guidance on achieving value for money included. The Policy should be reviewed and updated. The revised version should be reviewed by the ARC and submitted to the Board for final approval.</p>	<ul style="list-style-type: none"> • Revised Policy approved by leadership team by <u>31/10/24</u> Review by ARC: <u>12/11/24</u> Formal approval by Board: <u>21/11/24</u> 	<p>A1; A3; A4; A6; A8; A9; A10; A13; A14; A16; A24</p>
W4	<p>Staff training</p> <p>Future training requirements relevant to all employees should be considered and (pertinent to this review) include training on:</p> <ul style="list-style-type: none"> • changes to the Policy; • achieving value for money when travelling and expenditure on training; • performance management framework. 	<ul style="list-style-type: none"> • Training session for all employees on revised policy by <u>31/01/25</u> • Training all employees on achieving value for money when travelling by <u>30/11/24</u>. • Staff training on performance management system 31/01/2025 	<p>A2; A15</p>
W5	<p>Reporting</p> <p>Internal reporting should be reviewed to ensure the earliest possible identification of non-compliance by the leadership team, ARC, and Board. This includes using the agreed-upon definition of non-compliance to review the existing compliance report and consider additional information that would allow proactive measures to be taken.</p>	<ul style="list-style-type: none"> • A revised compliance report format. This will be populated using the reporting developed for presentation to the approval panel. The first revised draft should be presented to the ARC on <u>12/11/24</u>. The ARC should include any issues in the regular update from the ARC to the Board. 	<p>A10; A22; A23</p>

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Part 2: Detailed action plan

Ref	Agreed action	Category	Due date	Link to workflow
A1	Travel Review the policy regarding how employees should book travel to ensure the best value is achieved, particularly when using a method other than the travel provider.	Policy/ process revision	31/10/24	W3
A2	Travel Provide employees with training on achieving the best value when booking travel and demonstrating that the best value has been achieved.	Staff training	30/11/24	W4
A3	Project expenditure Review Policy wording on the process for approving project expenditure, ensuring the Finance team is involved from the initial stages and that detailed budgets are produced and presented when the project is being approved at Board level. Ensure a process is in place for changing budgets mid-way through a project.	Policy/ process revision	31/10/24	W3
A4	Single tender contracts Review the Policy definition of a single tender contract, particularly in relation to training expenditure. Amend Policy as required.	Policy/ process revision	31/10/24	W3
A5	Valuing expenditure The approval panel terms of reference should include a specific duty to review how expenditure has been valued and how this impacts the procurement route taken.	Approval panel	30/09/24	W1
A6	Business entertaining Remove the section relating to business entertaining and hospitality from the Policy until an agreement has been reached with the SG on international activities.	Policy/ process revision	31/10/24	W3
A7	Future working practices There is a separate project looking at future working practices at WICS. The Finance team should be involved in costing any future considerations, as outlined in A3 , for any projects in general.	Policy/ process revision	31/01/25	W3

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Ref	Agreed action	Category	Due date	Link to workflow
A8	Value for money The Policy should be reviewed to include a process for assessing value for money at all stages of the procurement journey, including assessing value received against the initial proposal and implementing lessons learned from this exercise.	Policy/ process revision	31/10/24	W3
A9	Budgeting Value for money should be considered as part of the budgeting process. Consider updating supplementary note 2 to include more detail on how value for money is considered at the budgeting stage of the procurement life cycle.	Policy/ process revision	31/10/24	W3
A10	Non-compliance Agree on the definition of “non-compliance” regarding reporting issues whereby policies and processes are not followed.	Policy/ process revision Reporting	31/10/24	W3; W5
A11	Training Include the following action in the scope of work for the HR review: A review of the performance appraisal system should include a process for determining the most economically advantageous solution to any training requirements, including an assessment of the value to WICS.	HR review	31/01/25	W2
A12	Training Include the following action in the scope of work for the HR review: As well as assessing value for money as part of identifying suitable training requirements, the VFM ethos should be embedded in the full performance appraisal process, including assessing the value to the individual and the organisation once the training is complete.	HR review	31/01/25	W2
A13	Expenditure approval Agree on a clear definition of novel and contentious expenditure, with input from IA and SG.	Approval panel	30/09/24	W1; W3
A14	Roles and responsibilities The Policy and/or the appropriate supplementary note should be reviewed and updated accordingly to provide clear guidance to individuals on what is expected of them at each stage in the purchasing life cycle.	Policy/ process revision	30/11/24	W3

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Summary of internal audit recommendations and action plan

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Ref	Agreed action	Category	Due date	Link to workflow
A15	Policies and procedures Staff are to be provided with training once any changes to the financial policies have been agreed upon and implemented.	Staff training	31/01/25	W4
A16	Travel and expense rates The rates in supplementary note 5 will be reviewed, and a single rate will be provided for employees to follow for each expenditure category.	Policy/ process revision	30/11/24	W3
A17	Service contracts Update the approval panel's scope for reviewing expenditure proposals using existing service contracts to ensure the arrangements are used effectively.	Approval Panel	30/09/24	W1
A18	Roles and responsibilities Review the roles and responsibilities of each member of the approval panel and ensure these are documented clearly in the terms of reference.	Approval Panel	30/09/24	W1
A19	Reporting The Finance team should review what reporting could be provided to the approval panel to ensure that all expenditures have received the correct authorisation level.	Approval Panel	30/09/24	W1
A20	Budgets Ensure the review of roles and responsibilities incorporates an action to consider how director sponsorship of expenditures at the approval panel links to budgets and how budgeting and procurement integrate with roles within the office as a whole.	HR review	31/12/24	W2
A21	International work Ensure IA's comments are considered in discussions with the Scottish Government on WICS's future role in the Hydro Nation arena.	Not in the scope of this action plan		

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Ref	Agreed action	Category	Due date	Link to workflow
A22	Compliance report Discuss the compliance report format with ARC members to ensure sufficient detail is provided, including any non-compliance or potential non-compliance.	Reporting	30/09/24	W5
A23	Proactive review of non-compliance Discuss ways of integrating a proactive review of areas of non-compliance by the ARC and Board. This might include refining the budgeting process and monitoring future expenditures against the budget.	Reporting	30/09/24	W5
A24	Confirmation of Scottish Government delegations around gifts and hospitality Giving gifts worth over £75 requires approval from the Scottish Government. However, WICS would like the Framework Document to be updated to clarify the grouping of gifts.	Policy/ process revision	31/10/24	W3

GOVERNANCE AND FINANCIAL MANAGEMENT

Summary of internal audit recommendations and action plan

June 2024

Part 3: Summary of internal audit recommendations and WICS' response

Ref	Context	Recommendation(s)	WICS' response	Ref to agreed action(s)
R1	<p>Travel (Part 1)</p> <p>IA testing found that where employees booked their travel arrangements instead of using the travel provider, there was no evidence of why this occurred. This is a breach of the Policy and could lead to travel not being properly approved and/or value for money not being obtained.</p>	<p>It is recommended that all staff should use the approved travel provider for all travel and the Policy should be updated to remove the alternative option. If, in exceptional circumstances, the use of the travel provider is not appropriate, there could be the option for approval to be obtained from the Accountable Officer in advance of any purchase and with a completed business case documenting the rationale behind the decision.</p>	<p>There have been occurrences where the travel provider has not been able to offer the travel required or the most competitive rate for a journey provided. In addition, some journeys would not be practical or could be more expensive to use the travel provider. For example, booking a local train journey for a regular meeting would require more administration, incur a booking fee, and not likely result in the fare being cheaper. Therefore, completely removing the option of using other suppliers would be problematic.</p> <p>However, the recommendation made by IA has validity, given there has been a historic lack of evidence provided to demonstrate that not using the travel agent has resulted in greater value to WICS. WICS will review this policy area to tighten the process, clarify instances where the non-use of the travel provider is permitted, and provide further training to employees. Employees can book standard class local train and bus journeys and claim through the expense claim system. When employees use the travel agent and the travel and accommodation available do not represent value for money, bookings may be made using an alternative provider. However, details of the travel agent rates must be saved with the purchase order.</p>	A1; A2

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Summary of internal audit recommendations and action plan

June 2024

Ref	Context	Recommendation(s)	WICS' response	Ref to agreed action(s)
R2	<p><u>Purchase orders (Part 1)</u></p> <p>IA testing found purchase orders had been approved after a purchase had been made.</p>	<p>Ensure ApprovalMax delegations are set up correctly and provide budget holders with further training in the system to ensure they understand the authorisation process.</p>	<p>By using corporate credit cards, employees could circumvent financial processes by making purchases without appropriate prior approval. The restrictions on credit card use within WICS will prevent this from happening, with full approval required before credit cards are unlocked. Limits have been reduced to £1,000 and cards will only be unlocked if expenditure approval is provided to the finance team and authorised by the employee's line manager. The finance team will maintain a register of locked and unlocked cards and retain authorisation.</p> <p>ApprovalMax requires purchase orders to be matched before invoices are processed. However, the Finance team would insist on retrospective action if payment were made on a corporate credit card without approval. The corporate credit card use restrictions within WICS will prevent this, with full approval required before credit cards are unlocked.</p> <p>ApprovalMax delegations were reviewed and amended by the Head of Finance in April 2024, with additional steps to check that expenditure at certain levels received appropriate approval. Training has been provided to employees on the purchasing process and additional guidance to ApprovalMax users was supplied in the new workflows of the system on 26 April.</p>	<p>No further action is required.</p>

GOVERNANCE AND FINANCIAL MANAGEMENT

Summary of internal audit recommendations and action plan

June 2024

Ref	Context	Recommendation(s)	WICS' response	Ref to agreed action(s)
			<p>Supporting documentation: ApprovalMax workflows, central training log, finance training material.</p>	
R3	<p><u>Project expenditure (Part 1)</u> IA noted expenditure for projects with initial approvals, e.g., from the Board, where spending had taken place, and no valid purchase orders had been raised. Without appropriate approved purchase orders in place, there is a risk that budget holders/ approvers are unaware of the full expenditure and appropriate approvals are not sought in line with the Policy.</p>	<p>When approving project budgets, these should be significantly detailed (on a line-by-line basis) to allow proper budget management to be undertaken and monitored, with purchase orders put in place, as per the procedure in the Policy. If expenditure will result in the approved budget being breached, additional approvals should be sought in line with the Policy.</p>	<p>The project tested by IA was the work with the Department of Internal Affairs in New Zealand. A detailed, line-by-line budget was in place for this project and was used by the Finance team to monitor expenditure incurred on the project. The Finance team assumed this is what was used for approval purposes, having received notification that the Board approved the project. Therefore the team did not ask for additional purchase orders for project expenditure.</p> <p>WICS will review project management procedures to ensure arrangements are in place for change management, specifically changes to the budget and required approval.</p> <p>Supporting documentation: detailed budget for the DIA project, travel expenditure spreadsheet, project appraisal form, and monthly management reporting of project expenditures.</p>	A3

GOVERNANCE AND FINANCIAL MANAGEMENT

Summary of internal audit recommendations and action plan

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Ref	Context	Recommendation(s)	WICS' response	Ref to agreed action(s)
R4	<p>Receipts (Part 1)</p> <p>IA testing revealed that 5 sample items either had no itemised receipts or the receipts were missing. This does not allow the approvers and Finance team to assess the legitimacy of the expenditure. The Policy (V2) recognises that all expenditure must have itemised receipts.</p>	<p>IA noted that the updated Policy extends to employee liability if expenditure is not approved in line with the Policy and noted this as an effective measure to ensure that employees are accountable for their expenses and to encourage employees to be diligent in retaining and submitting itemised receipts, which helps to prevent non-compliant spending. IA recommended these guidelines should be communicated to all employees, and training should be provided to ensure that employees understand their responsibilities.</p>	<p>This was a critical element of the initial work plan to address the external audit's findings. A review of expenditures during the first three months of 2024 demonstrates that all receipts were provided for expense claims and credit card purchases.</p> <p>Training was provided to employees on 01/03 and 20/03, and the requirement for itemised receipts was emphasised heavily.</p> <p>With these actions, WICS is optimistic that this will no longer be an issue for the organisation.</p> <p>Supporting documentation: Central training log; finance training material.</p>	<p>No further action is required.</p>
R5	<p>Approvals (Part 1)</p> <p>IA found that for two items of expenditure, appropriate approvals were not sought in line with the delegated limits within the Policy. These transactions were also noted within the internal review undertaken by WICS. IA found that it is not clear in terms of what a single tender contract is, what this constitutes and that there is a risk</p>	<p>The Policy should be updated to ensure delegated limits are explicit and there is no ambiguity in terms of the wording, which allows expenditure to be split across multiple smaller transactions to avoid appropriate approvals. Training should be provided to relevant budget holders responsible for approving expenditure and other relevant staff members (including the Finance team) to ensure the approval process is clearly understood, and evidence</p>	<p>Both V2 and V3 of the Policy (section 3.2) state that "the contract value is the total value of the contract, including VAT, over the entire lifetime of the contract. Requirements must not be 'split' into contracts of lower value, or contracts reduced in duration, to avoid the need to advertise/conduct a full tender exercise". The Finance team was aware of this requirement and how important the expenditure valuation was and is.</p> <p>V2 of the Policy was clear that single tender contracts over £20k required Scottish Government approval.</p>	<p>A4; A5</p>

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	that expenditure is broken down into smaller spend to avoid Board and Scottish Government approval.	of the appropriate approvals should be attached on ApprovalMax for evidence. This will aid the budget holder's decision making when approving expenditure.	<p>However, steps were taken to ensure delegated limits were outlined clearly in V3 of the Policy, with the additional requirement that any expenditure that requires SG approval will require Board approval. The current delegated limit for single tender purchases is £10k for Board approval. For gifts, the Board is required to approve expenditure over £50, with SG approval required for over £75.</p> <p>There is scope to update the wording in the Policy around the definition of "single tender" to ensure there is no dubiety in the future, particularly around training.</p> <p>WICS will also consider reviewing the approval panel terms of reference in relation to reviewing the valuation of proposed expenditure and how this impacts the procurement journey.</p>	
R6	<u>Gifts (Part 1)</u> IA's sample revealed that items which appeared to be gifts were purchased above £75 without pre-approval, which is a breach of delegated limits and should have been approved by Scottish Government prior to purchase. Additionally, IA noted that WICS are solely reliant on employees	IA recommends the organisation establish clear guidelines and procedures for the reporting of gifts and hospitality, including the requirement to report all gifts and hospitality received or given. Furthermore, a "gifts and hospitality" register should be established to ensure that these are properly recorded and that there is transparency in the organisation's dealings (this is in line with the SPFM). This	<p>There is clear guidance in section 8 of the employee handbook on the offer of gifts and hospitality and a process for employees to follow should the situation arise.</p> <p>Any gifts and hospitality accepted by employees are noted in a register.</p> <p>The purchase of gifts by WICS employees is covered in section 4.2.1 of V3 of the Policy. There are also</p>	A24

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	informing the Finance team if gifts are purchased or received, which creates a risk that these are not reported, WICS does not know the full value of gifts issued or received.	register should include details of the value, recipient and reason for the gift or hospitality. We recommend that the Policy document is reviewed and updated for consistency and clarity to ensure that all employees understand their responsibilities.	delegated limits for Board and Scottish Government approval documented, as well as any taxation implication of purchasing gifts for employees. It would be useful for Scottish Government's guidance to clarify the delegated authority; e.g. if the gift limit per person, per year, etc. Supporting documentation: WICS employee handbook; Gifts and hospitality register.	
R7	<u>Entertainment (Part 1)</u> Due to WICS' international activities, there are occasions where WICS will undertake business entertaining and hospitality to individuals, including Scottish Government officials and officials who are part of visiting delegations. The IA sample identified spending on entertainment, which could be considered to be outwith the expectations of a public sector entity.	IA recommends that WICS review its business entertainment and hospitality policy and, at minimum, tighten this up to avoid ambiguity, including being explicit in terms of allowable spending per head. WICS should consider removing the ability to use credit cards for client entertainment until agreement and clarity are reached with other stakeholders around Hydro Nation and if the threshold for Chair approval is appropriate given the transactions highlighted above, which were charged to the credit cards.	WICS has updated the Policy with tighter controls over credit card use. Credit cards have been locked and limits reduced to £1,000. For limits to be changed or credit cards to be unlocked, business justification is required, including evidence of the appropriate approval for the expenditure. Any employee with a credit card must sign a declaration agreeing to WICS' credit card terms of use, which includes personal liability for expenditure that has not been approved. The Policy has been updated to include specific guidance on business entertaining and hospitality. This includes classifying such expenditure as "novel and contentious" deeming approval panel review and Board approval. This policy will be reviewed in line with any updates to WICS' international activities. In the meantime, no expenditure of this nature is anticipated in the near future.	A6

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R8	<p><u>Meeting rooms/overnight accommodation (Part 1)</u></p> <p>In July 2021, due to the continued working from home arrangements, WICS' previously held office at Moray House was sub-let to Zero Waste Scotland Limited. Due to WICS currently having no office space, meeting rooms are hired to hold in-person meetings. Section 4.8.5 of the Finance Policies and Guidance notes that approval should be sought using an events and meeting form for any business-related events or meetings attended by both internal and external persons that are estimated to cost more than £1,000. This has not been routinely followed and for items selected, this form could not be viewed. In addition to hire of meetings room, there was also overnight accommodation following at least one of the operational board meetings, despite this taken place in Edinburgh at a cost of £387. Version 3 of the Finance Policies and Guidance add to the current requirement noting the form should</p>	<p>WICS should review their current working arrangements. Full consideration should be given to all the options available to WICS including Scottish Government premises, long-term office spaces, hybrid working and remote working. This should also acknowledge the value of staff cohesion and non-financial benefits from working together alongside the financial cost of office space and costs saved from meeting room hire. It is important to note that the costs of an office space is likely to be higher than the current costs however, when considering staff collaboration, utilisation and workplace culture, may provide greater value for money to the organisation.</p>	<p>During the financial year 2023-24, WICS spent £21,206 on facilities to hold employee meetings. This accounted for 48 full day meetings, averaging less than £450 per day. In comparison, the annual cost of running Moray House is in the region of £200k. Therefore, significant savings continue to be made from sub-letting Moray House.</p> <p>Of all the meetings booked for the year, only two were priced in the region of £1,000, with the final costs being over this threshold due to VAT and additional tea and coffee. There were no events and meeting forms completed for these. However, purchase orders were raised prior to the events and were appropriately authorised. The events and meetings form was developed to provide purchasers with a template for assessing value for money of the booking. The requirement for this form was included in the staff training in March 2024.</p> <p>The overnight accommodation related to one night's stay in Edinburgh for 3 employees who were attending a two-day senior leadership meeting and worked until after midnight on the first day, at short notice. The booking was made by the CEO on his personal credit card and reclaimed. This should have been approved via a purchase order. Again, the accommodation booking</p>	A7

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	be pre-approved by a director or the CEO.		<p>was covered in the training provided to employees in March 2024.</p> <p>As part of the current organisational change work, there will be a review of the options for future WICS premises and ways of working.</p>	
R9	<p><u>Nature of expenditure (Part 1)</u></p> <p>IA noted that the descriptions provided for expenditure had been completed by the Finance team rather than the individual responsible for the spend increasing the risk that the description is not accurate. It was noted that the Finance team sought proper descriptions; however, these were not always provided. In addition to this, it was noted where an individual utilised their corporate card to purchase for a group of people (for example, at a restaurant) there was no narrative or detail on who these individuals were that the spend encompassed and it was typically the most junior member of staff who would pay.</p>	<p>IA recommends that where all relevant steps (including full details of expenditure) have not been completed by the budget holder/credit card holder, that these are sent back to the appropriate individual to be updated. No information with regard to the expenditure should be left to the Finance team to document. Additionally, the most senior member of the team should be responsible for settling the bill and reclaiming the expenditure (where appropriate) in line with the Policy with a full narrative provided of the spend.</p>	<p>All WICS invoices and receipts are collected in Dext. Dext is an application to store receipts and allows the Finance team to check the documentation received and gather any missing information. Dext is where the initial data is collected prior to publishing to the accounting ledger and the data held includes supplier, coding and department allocation, total spent and a description of what the expenditure relates to.</p> <p>It is accurate that there have been issues collating the necessary data to properly process expenditure. This was particularly the case for receipts received in relation to credit card expenditure. The Finance team made a great effort to obtain itemised receipts that were missing. Credit card expenditure is now rare and controlled, and it is unlikely that there will be issues of this nature under the new Policy.</p> <p>The Finance team still relies on employees providing a full description of expenditure claimed by employees using the expense claim process. Employees have been provided with a guide and training on what the</p>	<p>No further action required.</p>

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			<p>expectations are when submitting an expense claim. In addition, prior to employees being able to claim an expense using Dext, they must sign a declaration agreeing to terms of use. If descriptions are not found to be satisfactory then employees are aware that payment will not be made.</p> <p>V3 of the Policy has been updated to stipulate that the most senior employee should pay for a meal when a group of employees are eating together.</p> <p>Supporting documentation: Finance supplementary note 6 and 6A.</p>	
R10	<p><u>Value For Money (Part 1)</u> There is no consistent or applied methodology for assessing and then evidencing whether WICS achieve VFM in its arrangements and spending. Securing best value is a duty of a public sector organisation, as noted by Audit Scotland in their reporting.</p>	<p>WICS should ensure within their documented procedures, it is clear at which point in the process value for money is considered and by whom (e.g. the approver in Approvals Max) to ensure the organisation is achieving the best value.</p>	<p>The Policy aligns with the Scottish Government's procurement journey to ensure value for money is achieved. For expenditure greater than £10k, the approval form is where the purchaser should demonstrate that value for money will be achieved by the proposed expenditure, with the procurement route explained and justified.</p> <p>WICS agrees that there is scope to improve the documentation and evaluation of value for money after purchases are complete. This would allow for the processes to evolve as lessons are learned from past procurement exercises.</p> <p>Supporting documentation: Template approval forms</p>	A8

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R11	<p><u>Other Expenditure (Part 1)</u> We found that there were many transactions which we would deem questionable with regard to appropriability in terms of spending for a public sector body. These transactions included excessive spending on entertainment, hotel, meetings and subscriptions, and there is a risk that expenditure is not appropriate</p>	<p>In terms of taxable benefits, a full review should be undertaken for the 2023/24 financial year to understand the value of any taxable benefits that have arisen and the resultant implications regarding HMRC and WICS' liability. IA noted that this is carried out routinely by WICS with specialist tax support.</p>	<p>The Policy (V3) revisions have clarified what expenditure is and isn't befitting of a public sector body. The revisions to the policy have been supported by staff training. The formal establishment of the approval panel will also support the Policy to ensure expenditure is assessed for appropriateness.</p> <p>WICS will also consider this review at the early stages of the expenditure lifecycle as part of the budgeting process.</p> <p>All taxable benefits have been declared to HMRC up to 31 March 2023. The Finance team has been working with tax specialists to prepare the 23-24 return. The revised expenses policy does not allow taxable benefits to be provided to employees. However, if this were to occur, the Policy clarifies that it will be the employee's responsibility to pay tax and national insurance on any benefits received.</p> <p>Supporting documentation: PSA voluntary disclosure 2018-22 and PSA return 2022-23.</p>	A9
R12	<p><u>Credit cards (Part 1)</u> IA noted that out of 24 employees, 16 individuals were provided with access to a credit card, which ranged across several levels at WICS, including analysts to Directors. This</p>	<p>IA noted that following the 2022/23 external audit process, the Head of Finance reduced credit card limits to £1,000. If anyone requires an increase to their limit, this must be requested through the Head of Finance and will be evaluated based on</p>	<p>RBS credit cards are provided through the Scottish Government banking framework. It is common for cards to be provided to employees responsible for purchasing on behalf of WICS.</p>	No further action is required.

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	leaves the organisation open to a risk that the corporate cards are used for expenditure which is not compliant with the Policy. Throughout the period of our review, it was noted that WICS has credit cards with two providers; Royal Bank of Scotland and American Express, with the latter costing £2,250 in annual subscription fees.	business needs. Additionally, all American Express credit cards have been closed. IA recommends that management review the use of credit cards across the organisation and consider the business need for these, either remove them from use or limit them to a senior management level (e.g. Head of Services, Directors).	<p>Historically, the expectation was that credit cards should be available to senior employees and employees who were being asked to travel abroad. The business case for this was to ensure the safety of employees whilst travelling.</p> <p>The CEO did not find the RBS card to be flexible, often informing the Finance team that the card was being declined, causing embarrassment. For this reason, the Finance team was asked to open American Express accounts for senior managers. This increased the administrative burden significantly on the Finance team.</p> <p>Under the revised financial policies, credit card usage has been reduced as outlined in R7. As noted by IA, the American Express credit cards have been closed.</p> <p>Whilst credit card usage has reduced significantly since February 2024, WICS considers it worth keeping the option of credit card payment as some suppliers cannot offer invoicing. However, the controls outlined in R7 will negate the risk of credit card misuse.</p> <p>Supporting documentation: Credit card control schedule, credit card statements</p>	
R13	<u>Expenditure review January to March 2024 (Part 2)</u>	IA recommends that management review the need for a corporate Uber account and, if this is required moving forward, with	The definition of "compliant" expenditure within the IA report is vague and does not consider nuances around the operations at WICS or represent a true picture of	A10

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	<p>IA sampled 25 items that were selected for testing covering the first 3 months of 2024. Of the 25 items selected for testing, 19 items of expenditure were deemed to be fully in line with the Policy. Issues noted include: (i) PO approved after invoice authorised for payment; (ii) no purchase order for expenditure relating to the payment of an advisory member; (iii) Over expenditure on a PO; (iv) no evidence of quotes for an item over £1k; and (iv) an employee had used WICS's corporate Uber account for a personal journey. The Finance team identified this, and the individual repaid the expenditure to WICS. IA noted that for all expenditure items selected for testing, itemised receipts were included and there was a significant reduction in the use of credit cards in the period.</p>	<p>closure, eliminate the risk of spending on the account, which is not in line with the underlying policy. IA also recommends that WICS should consider if it is more affordable that advisory members be paid via payroll rather than invoice and what the implications for the organisation are, if any, in the way that payment is made.</p>	<p>each transaction noted as “non-compliant”. WICS will take action to agree on a definition of “non-compliance” to ensure reporting on compliance with the Policy is clear and understood by the recipients of any reports presented.</p> <p>WICS is satisfied that the controls in place identified the personal use of the corporate Uber account and rectified the issue quickly. However, the corporate Uber account is now closed.</p> <p>The item categorised under “budget” does not consider the phasing of a 4-year contract for which expenditure would be greater during the initial phases of the contract.</p> <p>All non-executive members of the Board and ARC are paid through payroll, with tax and national insurance deductions being made. Board Members who are also members of the ARC do not receive extra remuneration for the additional work performed in relation to ARC responsibilities.</p> <p>There was one exception of an external ARC member who invoiced the time charged. Historically external ARC Members are paid using a daily rate (as agreed in their contract) and were asked to provide evidence (usually via an invoice) of the time they were claiming. The</p>	

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			<p>contracts agreed with external members stipulate that all payments in connection to the role are taxable and that it is their responsibility to ensure tax obligations are fulfilled. The contracts are used to ensure payments made are in line with what has been agreed with the ARC Chair, and therefore, the finance team did not require additional paperwork in the form of a purchase order.</p> <p>All current WICS ARC members are also Board members and therefore are all paid through payroll. Consideration will be given to the method of remuneration of any future external members appointed.</p> <p>WICS notes that other findings of deviations from the Policy are valid and agrees that the recommendations made by IA and actions already taken by WICS are sufficient in preventing such occurrences in the future.</p>	
R14	<p>Harvard transaction (Part 2) IA reviewed the Harvard transaction to assess the adequacy and effectiveness of the controls in place and to identify any areas of improvement.</p>	<p>IA recommends that the organisation establish clear guidelines and procedures for the approval process including defined roles and responsibilities which are clearly set out and understood across the organisation. These should detail the requirements for full business case developments and who is responsible for considering value for money with regard to the expenditure. These recommendations</p>	<p>WICS has strengthened the guidelines and procedures within V3 of the Policy, which has been supported by staff training. As well as internal training specific to WICS' Policy, employees responsible for purchasing attended a course focussing on the achievement of value for money, delivered by the Civil Service College on 19 March 2024.</p>	A8; A11

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		are intended to improve the effectiveness and efficiency of the organisation's expenditure controls.	<p>As part of the response to R10, improvements could be made in the evaluation of value for money in general within WICS.</p> <p>However, WICS recognises that this particular recommendation relates to training. Any training expenditure is specific to individual employees and should be considered as part of the performance appraisal process. This process should allow for the most economically advantageous solutions to be chosen for any training requirements.</p>	
R15	<u>Review of revised financial policies and guidelines (Part 2)</u> IA reviewed the revised financial policies and guidelines (V3) to provide recommendations to ensure the policy is tight and contains no ambiguity.		(i) WICS will work with the IA team and the Scottish Government to agree on a clear definition of novel or contentious expenditure.	(i) A13
	(i) The definition of high-risk expenditure and novel or contentious expenditure is still open to a degree of interpretation - clear guidance should be provided on what constitutes "novel" and "contentious" expenditure to ensure transparency in the organisation's dealings.		(ii) The revised Policy contains clear delegated limits for the Board and Scottish Government. The approval panel terms of reference aims to provide guidance on the precise role of the panel. Supplementary note 2 of the Policy aims to summarise the role at each stage of the procurement process. However, WICS recognises that this could be developed to have clearer guidance on what each person is responsible for in the purchasing life cycle, focusing on achieving value for money. Initial training has been delivered, but staff will be	(ii) A8 A14 A15
	(ii) A lack of clarity regarding the roles and responsibilities of the individuals involved in the approval process. Clear guidelines and procedures for the approval process should be established, including a value for-money consideration at every stage and recommended that all staff involved in the approval process receive training on the Policy. This will help ensure individuals have the appropriate skills and experiences to make informed decisions regarding value for money consideration.			(iii) No further action required (iv) A16 (v) A6

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(iii)	The approval process can be overly complex, particularly for expense claims - the organisation should review its approval process and streamline it where possible to reduce the burden on staff while ensuring appropriate oversight.		provided with updated training as the policy develops.	
(iv)	Simplification of the accommodation/ subsistence rates - have one rate which is applicable to both city and non-city as this makes it explicitly clear to employees and leaves no room for interpretation. Expenditure in excess of the rates should be approved in advance by the Accountable Officer.		(iii) WICS considers the expense process to be as straightforward as it can be. Dext allows employees to upload receipts and provide information on expenditure being claimed. The receipts are automatically collated into an expense claim form, and employees can submit the claim form to their line manager for approval in Dext. Line managers can view all the details within Dext and can approve with a click of a button. Once approved, the Finance team can complete a final check of the form before publishing the claim form to the accounting system for payment.	
(v)	IA noted that V3 of the Policy states, "WICS must strike a balance between engaging in valuable business entertaining activities and ensuring responsible use of resources". Given the nature of WICS activities, this area is subject to complexity, challenges around value for money and reputational risk. Until agreement and clarity are reached with the Scottish Government around Hydro Nation, the Policy around hospitality needs to be tightened up and potentially removed.		Guidance on the process is available to employees in supplementary note 6 and all employees have been asked to sign a terms of use agreement for making claims (a template of this is available as supplementary note 6A).	
			(iv) WICS agrees that the two city/non-city rates could be open to interpretation but had this policy in place to ensure value for money in areas that weren't as expensive. Appropriate	

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			<p>rates for each item of expenditure will be agreed and the Policy will be updated.</p> <p>(v) WICS has paused all business entertainment and will review the need for such a policy once SG has agreed on how WICS should proceed with international activities. The current wording will be removed from the Policy during the next review.</p>	
R16	<p><u>Training (Part 2)</u> IA completed a review of training undertaken over the last three financial years, and typically, there was no business case for the identified or documented business rationale for attendance. Often, the request to attend the training came from the individual staff members themselves.</p>	<p>WICS should identify the training requirements for their staff and procure training through the appropriate mechanisms having considered value for money both before and after the completion of the course. We recommend a training policy is developed and approved to ensure a consistent approach across the organisation.</p>	<p>WICS' response to this recommendation is linked to the reaction to R14. As part of the performance appraisal process, consideration should be given to how training needs are met in a way that adds value to the organisation. The process should also consider the required steps once training is complete. This includes assessing whether the training was sufficient and whether other employees can share the knowledge. The final stage of the process would be a final assessment of value for money.</p>	A11; A12
R17	<p><u>Scheme of delegation (Part 2)</u> For single tender contracts, SG approval is required for expenditure greater than £20k; however, for single-tender contractors where the contractor has already been awarded contracts by competitive tender, approval is required for expenditure greater than £100k, and this is open to misuse and staff training is pivotal.</p>		<p>WICS has 2 service contracts in place that span the regulatory period. The largest contract was awarded (after a competitive tender exercise on PCS and Scottish Government approval) to the consortium of Shepherd and Wedderburn and Oxera to provide regulatory legal and economic advice. This contract offers WICS with access to the resources required and the length of the contract enables relationships to develop with the</p>	A17

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	There is a line within the Scheme of Delegation noting additional senior authorisation is required however, it is not clear what this means or when this is required.		<p>supplier and for shared knowledge and experience to be used to enhance the service provided.</p> <p>The internal process for using this contract is for the purchaser to scope and value any projects as would be required for any other purchase. The purchase would then follow the same approval route as any other expenditure (e.g. if over £10k, it would require approval from the approval panel). The main difference is that it is not considered a single tender contract, as the work has already been competitively tendered.</p> <p>This arrangement has worked well for over a decade at WICS and has no evidence of misuse. WICS agree to update the scope of the approval panel to determine whether a proposal of expenditure on these service contracts is abusing the arrangement in place.</p>	
R18	<p>Approval Panel (Part 2)</p> <p>The Approval Panel has been set up as a control in terms of managing the business and supporting decision-making. Per the Terms of Reference for the Approvals Panel, the Panel consists of the Chief Executive Officer and Directors and is chaired by the Head of Finance.</p>	<ul style="list-style-type: none"> ○ Clear delegated authorities and the role of each individual in the decision-making process should be clear (e.g. what are the roles of each Director on the Panel, do they all need to attend and what for purpose)? ○ WICS should consider if the Head of Finance should Chair the Panel or if this should be an individual separate from the finance function and be a more senior, independent figure. In making 	<p>WICS agreed that the terms of reference for the approval panel could be reviewed and amended accordingly, considering:</p> <ul style="list-style-type: none"> ● Explicit explanations of roles and responsibilities. ● A link to the budgeting process. ● Provision of reporting from the Finance team to the approval panel to ensure completeness. <p>In addition, when roles are being reviewed as part of the wider HR work, consideration should be given to how</p>	<p>A18</p> <p>A19</p> <p>A20</p>

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		<p>this decision, one point for consideration is whether finance should have more input in the decision-making process, bringing knowledge of the procurement process, including the appropriate procurement approaches and the Finance Policies and Guidelines. This would also allow the Finance team to present historical information and highlight exceptions to prevent procedures from being circumvented.</p> <ul style="list-style-type: none"> ○ It is noted that any expenditure should be sponsored by a director, but this is vague, and it is unclear whose budget this comes from. ○ The Board is to be presented with the minutes of the Panel meetings; however, it must be made clear that this is for information or approval. If approved, any expenditure cannot be committed until Board approval has been given. ○ Regular reviews of transactions should be undertaken to ensure the expenditure being presented to the Panel is complete and no expenditure 	<p>role responsibilities and business areas align with budgets.</p>	

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		has bypassed the Panel without the appropriate approvals.		
R19	Action plan (Part 2) An action plan was developed following the 2022-23 external audit and in agreement with the Sponsor department.	IA considered the action plan to be at a "transactional level" and recommends that this should be reconsidered at a granular level, taking into consideration the recommendations made by IA. The progress against the completion of these actions should be reported regularly to the ARC and Board to ensure sufficient oversight, and each action should include a RAG rating to determine if implementation is on track alongside being assigned a relevant action owner and date for implementation. This will allow the appropriate members to scrutinise the work and progress being made by management.	This document seeks to address this recommendation. The granular level action plan is outlined in part 2 of this document. This will be used to monitor progress against the plan at an organisational level. Part 1 of the document will be used to ensure the Scottish Government, Board and ARC are notified of the action being taken to address the recommendations in the IA report and progress being made.	No further action required
R20	Financial policies and procedures IA observed that financial policies were not followed historically despite the Finance team's continuous promotion of its requirements. There is a risk that this culture within WICS continues despite the change in Chief Executive.	IA recommends that a change in mindset across the organisation is required to ensure this does not continue to occur. Staff training will be required to ensure these are successfully implemented moving forward and individuals who continuously do not comply with the Finance Policies and Guidelines need to be held accountable.	Organisational change is underway at WICS. The initial work carried out relating to policy revisions and staff training is complete. The organisation is now focussed on improving all aspects of how WICS delivers its statutory duties, re-gaining trust and respect in the industry, and serving Scotland with value for money at the heart of everything the organisation does.	Links to all actions, specifically W3 and W4 .

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R21	<p><u>Roles and responsibilities</u></p> <p>Historically, Directors within the organisation have overseen their areas rather than having overall organisational responsibility which has resulted in a lack of clarity for individuals with regards to their delegated responsibilities and direct reports. From a review of the current structure of the organisation and given that WICS is a small organisation with around 26 employees, IA observed that there is potentially a top-heavy structure compared to other similar-sized, public-sector organisations, with the level of Scottish Government funding the body receives, with four Directors and a Chief Operating Officer reporting into the Chief Executive.</p>	<p>Each Director should have a clear set of responsibilities and be accountable to the Chief Executive. The organisation's re-structure in 2019 was unclear in terms of the benefit to WICS of the revised structure, the level of approval and whether it was approved by the Board and the resultant budget lines and lines of accountability were not clear. There is an opportunity to review this in light of the wider changes across the organisation.</p> <p>Additionally, IA noted that individual Directors are not allocated annual budgets, which they are responsible for, and these are allocated horizontally across cost centres (for example, a training budget). As such, Directors are not responsible for their areas, and there is a risk that both income and expenditure are not being appropriately monitored at the budget holder level.</p>	<p>WICS agrees that a review of the organisational structure is required, particularly in relation to the leadership team.</p> <p>WICS is in the process of obtaining specialist, external support in carrying out a review of the organisation. This will include the development of job profiles and should consider department, managerial and budgetary responsibilities.</p>	<p>W2</p> <p>A14</p> <p>A18</p> <p>A20</p>
R22	<p><u>Hydro Nation</u></p> <p>There is a question around the operations of WICS and Hydro Nation and how these align with the expectations of a Scottish public sector body.</p>	<p>This needs to be agreed with the Scottish Government for WICS to understand their role moving forward fully.</p>	<p>WICS will work closely with the Scottish Government sponsor team to determine the role WICS will play in this area in the future.</p>	<p>A21</p>

GOVERNANCE AND FINANCIAL MANAGEMENT

Summary of internal audit recommendations and action plan

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Ref	Context	Recommendation(s)	WICS' response	Ref to agreed action(s)
R23	<p><u>Reporting to Board/ARC</u></p> <p>The ARC is provided with a compliance report for information at each meeting detailing any non-compliance areas. Each of the areas of the compliance report covers the main areas expected, which should be raised to the ARC.</p> <p>IA noted that both the ARC and the Board is provided with the minutes of the Approval Panel meeting. These are extremely detailed and include all underlying papers and reports prepared for the Panel.</p>	<p>IA recommends that the compliance report contain more detail to allow for proper scrutiny of management. Where issues arise, a summary update should be presented to the Board.</p> <p>IA also recommends that a summary paper is prepared for ARC and Board members providing a summary of decision made at the Approvals Panel, which is user-friendly and provides members with oversight of all significant decisions/approvals.</p> <p>IA noted that this reporting represents a retrospective control and review undertaken by Members and WICS should look to implement proactive measures.</p>	<p>WICS has already implemented appropriate reporting to the ARC and Board of the work of the approval panel. As part of the Finance update, the Board is provided with a summary table of expenditure discussed at the meetings and a short note of what expenditure requires Board approval. The Board will be provided with the expenditure appraisal forms of any expenditure that requires Board approval. The Board will also be provided with minutes of approval meetings, for information only.</p> <p>The ARC is provided with a similar summary table of expenditure discussed by the panel and the provision of minutes for information.</p> <p>WICS will review the current format of the compliance report and will discuss the content with ARC members to ensure sufficient detail is provided.</p> <p>The Leadership team will take an action to discuss the most efficient way to provide the Board and ARC with the opportunity to proactively review expenditure. This is likely to be at the stage of approving the annual budget, with measures in place to identify variances against budget at the earliest opportunity.</p>	<p>A22</p> <p>A23</p>

GOVERNANCE AND FINANCIAL MANAGEMENT

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Appendix 1: Other areas of review identified by the leadership team

Context	Action(s) to consider
<p><u>Services contracts</u></p> <p>The current method of obtaining advice from consultants is by tendering a contract for economic and legal advice over the term of the regulatory period. This has worked over the years in terms of securing rates for a longer period and reducing the administrative burden on employees with time-consuming procurement exercises.</p> <p>WICS has identified that a cost benefit analysis of consultancy vs employees could be carried out to ensure the current operating model is the optimum solution.</p>	<ul style="list-style-type: none"> • Consider consultancy requirements for future regulatory periods versus developing skills and experience in-house. • Consider tendering a suite of service contracts to have consultants in place for any consultancy work required. Employees could then “call off” on one of these consultants following the development of a scope of work and full business case and value for money assessment.
<p><u>Budget management</u></p> <p>WICS has a range of nominal codes in place to record expenditure transactions. Each transaction is allocated to a department from network regulation, retail, international and operational support.</p> <p>WICS has identified the need for integrating operational control with budget control.</p>	<ul style="list-style-type: none"> • Review budget ownership as part of the review of roles and responsibilities to ensure there is sufficient accountability for budgets at the Director level. • Develop methods for allocating budgets by category and by Directorship. • Consider how budget management feeds into the role of other employees and how accountability and monitoring of budgets can be controlled.