

# Water Industry Commission for Scotland

2016/17 Annual Audit Report



 AUDIT SCOTLAND

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

26 October 2017

## Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



## About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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# Key messages

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## Audit of the 2016/17 financial statements

- 1 The financial statements of the Water Industry Commission for Scotland (WICS) give a true and fair view of the financial position and its expenditure and income.
- 2 The expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance.
- 3 The other information in the annual report and accounts was consistent with the financial statements and prepared in accordance with legal requirements.

## Financial management

- 4 We concluded that WICS has effective arrangements in place for financial management.

## Financial sustainability

- 5 We concluded that WICS has adequate financial planning arrangements in place.

## Governance and transparency

- 6 We concluded that WICS has effective governance arrangements in place.

## Value for money

- 7 We concluded that WICS may wish to review and develop its approach to performance management.
- 8 WICS's finance department prepares detailed financial reports on a regular basis. These are subject to scrutiny by senior management and those charged with governance.

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# Introduction

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1. This report is a summary of our findings arising from the 2016/17 audit of the Water Industry Commission for Scotland (WICS).

2. The scope of our audit was set out in our Annual Audit Plan presented to the Audit Committee on 14 March 2017. This report comprises:

- an audit of the annual report and accounts
- consideration of the wider dimensions set out in the [Code of Audit Practice 2016](#) as illustrated in [Exhibit 1](#).

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## Exhibit 1

### Audit dimensions



Source: Code of Audit Practice 2016

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3. The main elements of our audit work in 2016/17 have been:

- an audit of WICS's 2016/17 annual report and accounts including the issue of an independent auditor's report setting out our opinions.

4. WICS is responsible for preparing financial statements that give a true and fair view, for the accuracy of the other information in the annual report and accounts, and for establishing effective arrangements for governance, propriety and regularity that enable the Commission to successfully deliver its objectives.

5. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice](#)

[2016](#), supplementary guidance and are guided by the auditing profession's ethical guidance.

**6.** These responsibilities include giving independent opinions on the financial statements, regularity, the remuneration and staff report, the performance report and the governance statement. We also review and report on the arrangements within WICS to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

**7.** Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#) and supplementary guidance.

**8.** The weaknesses or risks identified in this report are only those that have come to our attention during our normal audit work, and may not be all that exist. Also, our annual audit report contains an action plan at [Appendix 1 \(page 17\)](#). It sets out specific recommendations, responsible officers and dates for implementation.

**9.** Communication in this report of matters arising from the audit of the annual report and accounts or of risks or of weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

**10.** As part of the requirement to provide fair and full disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2016/17 audit fee for the audit was set out in our Annual Audit Plan and as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.

**11.** This report is addressed to both the Commission and the Auditor General for Scotland and will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

**12.** We would like to thank all management and staff who have been involved in our work for their cooperation and assistance during the audit.

# Part 1

## Audit of 2016/17 financial statements



### Main judgements

**The financial statements of WICS for 2016/17 give a true and fair view of the state of the body's affairs and of its net expenditure for the year.**

**The other information in the annual report and accounts was consistent with the financial statements and prepared in accordance with legal requirements.**

**The expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance.**

### Unqualified audit opinions

**13.** The annual report and accounts for the year ended 31 March 2017 were approved by WICS on **3 August 2017**. We reported, within our independent auditor's report:

- an unqualified opinion on the financial statements;
- an unqualified opinion on regularity of expenditure and income; and
- an unqualified audit opinion on the remuneration and staff report, performance report and governance statement.

**14.** Additionally, we are satisfied that there are no matters which we are required by the Auditor General to report by exception.

### Submission of annual report and accounts for audit

**15.** We received the unaudited financial statements on 26 May 2017, in line with our agreed audit timetable.

**16.** The working papers provided with the unaudited financial statements were of a good standard and finance staff provided support to the audit team which helped ensure the final accounts audit process ran smoothly.

### Risk of material misstatement

**17.** [Appendix 2 \(page 18\)](#) provides a description of those assessed risks of material misstatement that were identified during the planning process which had the greatest effect on the overall audit strategy, the allocation of resources to the audit and directing the efforts of the audit team.

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The annual report and accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources.

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## Materiality

**18.** Materiality defines the maximum error that we are prepared to accept and still conclude that our audit objective has been achieved. The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement.

**19.** Our initial assessment of materiality for the annual report and financial statements was undertaken during the planning phase of the audit and reviewed on receipt of the annual report and financial statements. The overall materiality and performance materiality remained at 1% of gross expenditure and 40% of overall materiality, respectively. Materiality values are summarised in [Exhibit 2](#). Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.

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### Exhibit 2 Materiality values

Materiality level	Amount
<b>Overall materiality</b> – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It was set at 1% of gross expenditure for the year ended 31 March 2017.	£40,000
<b>Performance materiality</b> – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at 40% of overall materiality.	£16,000
<b>Reporting threshold</b> – We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at £1,000.	£1,000

Source: Audit Scotland

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## Evaluation of misstatements

**20.** There were no material adjustments to the unaudited financial statements arising from our audit.

**21.** One misstatement which exceeded our reporting threshold was identified during the course of the audit. This related to the staff holiday pay accrual which was not reflected in the unaudited financial statements as 2016/17 expenditure and a year end liability. This has not been adjusted for in the audited financial statements and is included in the schedule of unadjusted errors at [Appendix 3](#).

**22.** If adjusted for the accrual would have the effect of reducing WICS's net assets by £9,519 and increasing WICS's 2016/17 expenditure, and consequently net deficit for the year, by the same amount.

**23.** It is our responsibility to request that all misstatements are corrected although the final decision on this lies with those charged with governance taking into account advice from senior officer and materiality levels. Management do not propose to adjust for the item above as the amount is not considered material in the context of the financial statements. This amount is below our performance materiality level.

## Significant findings from the audit

**24.** International Standard on Auditing (UK and Ireland) 260 requires us to communicate significant findings from the audit to you. These are summarised in [Exhibit 3](#). Where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in [Appendix 1 \(page 17\)](#) has been included.

### Exhibit 3 Significant findings

Issue	Resolution
<p><b>1. Unadjusted Error</b></p> <p>As outlined in paragraph 21, we identified one misstatement of £9,519. This related to the calculation of the holiday pay accrual.</p>	<p>As this misstatement is below our performance materiality level, it does not affect our opinion on the financial statements. No adjustment has been made in WICS's financial statements and the misstatement is included in the schedule of unadjusted errors at <a href="#">Appendix 3</a>.</p>
<p><b>2. Parliamentary Accountability Report</b></p> <p>The Financial Reporting Manual (FReM) requires bodies to include a Parliamentary Accountability Report as part of their annual report. This must consider the following disclosures:</p> <ul style="list-style-type: none"> <li>• Regularity of expenditure / losses and special payments (as per the Scottish Public Finance Manual (SPFM))</li> <li>• Fees and charges</li> <li>• Remote contingent liabilities</li> </ul> <p>WICS did not include a Parliamentary Accountability Report in its annual report. However, we are content that these disclosures are included in other parts of the annual report and that there is no issue of non compliance.</p>	<p>WICS agreed that they would consider amending the annual report to include a Parliamentary Accountability Report in 2017/18.</p>

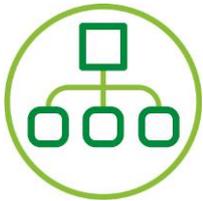
Source: Audit Scotland

### Other findings

**25.** Our audit identified a number of presentational and disclosure issues which were discussed with management. These were adjusted and reflected in the audited financial statements.

# Part 2

## Financial management



### Main judgements

WICS had effective overall management of the 2016/17 budget.

Finance team members have appropriate skills, capacity and capability to support WICS.

### Financial performance in 2016/17

26. The main financial objective for WICS is to ensure that the financial outturn for the year is within the budget allocated by Scottish Ministers.

27. WICS has reported an outturn of £3,662,768, remaining within its overall expenditure budget for 2016/17. The overall outturn for the year was a deficit of £157,544 against a budgeted deficit of £533,970. The financial performance against budget is shown in [Exhibit 4](#).

### Exhibit 4

#### Performance against budget in 2016/17

	Budget	Actual	Variance
	£	£	£
Income (including interest receivable)	3,491,967	3,505,224	13,257
Expenditure	4,025,937	3,662,768	363,169
<b>Retained (Deficit)/Surplus</b>	<b>(533,970)</b>	<b>(157,544)</b>	<b>376,426</b>

Source: Water Industry Commission for Scotland

### Budgetary processes

28. We considered WICS's budgetary processes and budget monitoring arrangements by reviewing budget monitoring reports and committee papers and attending audit committees. We confirmed that senior management and members receive regular, timely and up to date financial information on the financial position.

29. We concluded that WICS has strong budgetary monitoring and control arrangements that allow both members and officers to carry out effective scrutiny of its finances.

## **Prevention and detection of fraud and irregularity**

**30.** We assessed WICS's arrangements for the prevention and detection of fraud and have concluded that there were appropriate and adequate arrangements in place during 2016/17.

## **Standards of conduct and arrangements for the prevention and detection of bribery and corruption**

**31.** We have reviewed the arrangements in place to maintain standards of conduct including the Staff Handbook and Members' Codes of Conduct and have concluded that WICS has appropriate arrangements in place for the prevention and detection of bribery and corruption.

# Part 3

## Financial sustainability



### Main judgements

**WICS has adequate financial planning arrangements to support the delivery of its six year Corporate Plan.**

**There are no significant concerns about the overall financial position of WICS.**

### Financial planning

**32.** The Commission approved the 2017/18 budget in February 2017 with funding from Scottish Water and licensed providers of £3,560,979. This is £69,012 (2 %) more than the initial 2016/17 budget allocation.

**33.** The 2016/17 Statement of Comprehensive Net Income / (Expenditure) shows operating costs of £3,662,768, of which 39% are staff costs. WICS receives its income through statutory Scottish Water contributions and levies from licensed providers. The budgets are agreed with the Scottish Government on an annual basis, in line with the Strategic Review of Charges for 2015-2021. Therefore, WICS has limited scope for reducing expenditure or increasing income.

### 2016/17 financial position

**34.** The Statement of Financial Position summarises what is owned and owed by WICS. This shows equity – an accounting measurement of the amount invested that has continuing public benefit. It shows how much of this has arisen from the application of revenues and that which has resulted through changes over time in the value of physical assets.

**35.** The financial statements show that WICS has net assets of £10,493, a decrease of £1,215,544 from the net asset position as at 31 March 2016 of £1,226,037. This decrease is predominantly due to a £1,077,000 increase in WICS's pension liability valuation.

### Medium to long term financial planning

**36.** We considered the financial planning systems and how WICS identify and address risks to financial sustainability across the medium and long term.

**37.** We recognise that WICS is funded from statutory contributions from Scottish Water (58%) and levies on licensed providers (42%). It is also recognised that WICS, as at 31 March 2017, has a cash balance of £1.6m of which approximately £1.0m is internally earmarked for the Organisation for Economic Co-operation and Development's (OECD) review of the Strategic Review of Charges and for the audit of the market. This reduces the risk of unforeseen financial pressures affecting the delivery of WICSs' core objectives.

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

# Part 4

## Governance and transparency



### Main judgements

**WICS has effective governance arrangements in place.**

**WICS is open and transparent in the way it conducts its business.**

**Internal Audit operates in accordance with the Public Sector Internal Audit Standards.**

**WICS should continue to ensure that adequate support is provided to Commission members and the Interim Chair.**

### Governance arrangements

**38.** The Code of Audit Practice requires auditors to provide conclusions on the four dimensions of wider-scope public audit, one of which is governance and transparency. In September 2010, the Auditor General published a report on the role of boards which highlighted a number of key messages on the role of boards, and their accountability to the Scottish Government and the Scottish Parliament. It also looked at members' skills and expertise and how boards operate.

**39.** A follow up of this work was carried out on all bodies during 2016/17 to gain an understanding of Scotland's public sector governance arrangements and in particular the extent to which public bodies have implemented the recommendations in the 2010 report. This involved review of documentation, and discussions with key officers. From this work we concluded that:

- The Commission is well established with Members demonstrating a strong level of commitment to their roles and responsibilities and to improvement and personal development. There is clear evidence that the Commission effectively scrutinises policy decisions.
- WICS's Rules of Procedure, setting out the responsibilities and structure of the Commission, were last reviewed in June 2014. In February 2016 the Audit Committee requested that the Commission confirm compliance with the procedures. As of March 2017 no confirmation has been made and management have confirmed that the Rules of Procedure are to be updated.
- The Chair of the Commission resigned with effect from 31 March 2017 and Scottish Ministers appointed an Interim Chair for a period of one year ending 1 April 2018. The recruitment process for a permanent Chair is to commence by the end of 2017. WICS should ensure that adequate support is provided to the Interim Chair to ensure effective management of affairs and scrutiny of WICS's operations.

**40.** The Interim Chair has appointed an external consultant to perform board effectiveness. The aim of this review is to improve the way the Board operates. We will consider the conclusions of this review as part of our 2017/18 audit work.

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

**41.** As part of the annual audit, we reviewed the register of interests of WICS's Commission members. It was identified that this is reviewed and updated by WICS on an annual basis. WICS may wish to consider updating the register as and when changes arise rather than as an annual exercise.

## The Annual Governance Statement

**42.** Under the FReM, WICS must prepare an annual governance statement within the Annual Report and Accounts. Guidance is set out within the SPFM for the content of the statement and provides assurances around the achievement of the organisation's strategic objectives.

**43.** The SPFM does not prescribe a format for the annual governance statement, but sets out minimum requirements for central government bodies. We concluded that the annual governance statement for 2016/17 complies with the guidance issued by the Scottish Ministers and, based on our knowledge and work performed, presents a comprehensive picture of governance arrangements and matters.

## Internal audit

**44.** Internal audit provides WICS and the Accountable Officer with independent assurance on WICS's overall risk management, internal control and corporate governance processes.

**45.** The internal audit function is carried out by BDO. We carried out a review of the adequacy of the internal audit function and concluded that it operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.

**46.** We did not place any formal reliance on internal audit reviews for the purpose of obtaining direct assurance for our financial statements work. However, as per our annual audit plan, in respect of our wider dimension audit responsibilities, we planned to place reliance on the following internal audit work:

- Risk management
- Staff policies and recruitment process.

**47.** The work on 'Staff policies and recruitment process' was not carried out in 2016/17 and has been carried forward into 2017/18. We will review the conclusions from this work as part our 2017/18 audit.

## Risk management

**48.** WICS has a risk management strategy in place which is supported by procedural guidance to provide staff with advice on the operation of the risk management process. Given the size of the organisation, the risk management arrangements appear reasonable. We further note that WICS took the opportunity to strengthen its approach to risk management in 2017/18 to reflect the findings of Internal Audit's review of risk management.

## Transparency

**49.** Transparency means that the public have access to understandable, relevant and timely information about how the Commission is making decisions and how it is using resources.

**50.** While Commission meetings are held in private, the minutes of these meetings are publicly available on the WICS website. Members of the public are free to request Commission papers from WICS and these requests are complied with so

long as the information required is not sensitive. WICS acknowledges that making the papers publicly available would increase transparency but considers the cost and resource required to facilitate this could be prohibitive. In the interests of transparency, WICS recognises the need to keep this policy under review.

**51.** The level of transparency around WICS's business is considered to be appropriate and adequate.

## **Travel allowance**

**52.** WICS currently pay all staff a monthly travel allowance of £68.50 (net of tax). This is a historic arrangement which was designed to compensate staff for the use of their own car. Prior to this arrangement being established there were two types of compensation in place:

- one where employees registered themselves as business users and would receive a fixed payment and;
- one where employees would claim reimbursement based on mileage incurred.

**53.** The current fixed rate was introduced to simplify arrangements. Section 2 of the WICS 'Travel, subsistence and expenses policy' states "The Commission will reimburse for all necessary travel expenses, with the exception of those incurred by the employee from home to the employee's usual place of work." There is no reference to the travel allowance in this policy.

**54.** WICS should review this arrangement to determine whether the award of a flat travel allowance to all staff complies with their Travel, subsistence and expenses policy. If a decision is taken to maintain the policy this should be agreed by the Commission and formalised in the policy.

## **Appendix 1 (Action Point 1)**

# Part 5

## Value for money



### Main judgements

WICS may wish to consider reviewing its approach to performance management.

#### Performance management

**55.** Accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. The Auditor General may require that we consider whether accountable officers have put in place appropriate arrangements to satisfy their corresponding duty of Best Value. Where such requirements are not specified we may, in conjunction with WICS, agree to undertake local work in this area.

**56.** In accordance with financial reporting requirements, the Performance Report must include information on how WICS measures its performance, for example, what WICS sees as key performance measures and how performance is monitored against these.

**57.** Whilst our audit of the Performance Report did not highlight any material errors we concluded that WICS's approach to performance management, and the disclosures in the Performance Report, could be further strengthened. In particular, consideration should be given to how WICS monitors and reports performance and progress against delivering WICS's core functions as established in the Corporate Plan.

**58.** As part of its three year plan, internal audit are scheduled to perform a review of business performance management in 2018/19. Consideration could be given to rescheduling that review to 2017/18 so that any conclusions can be considered when further developing WICS's approach to performance management.

**[Appendix 1 \(Action Point 2\)](#)**

#### Good practice

**59.** WICS's finance department prepares detailed monthly reports which outline the financial circumstances of the organisation. These reports are subject to review and scrutiny by senior management, with quarterly finance reports presented to those charged with governance.

**60.** WICS has robust procurement procedures in place. All expenditure over £5,000 is subject to approval by an approvals panel.

Value for money is concerned with using resources effectively and continually improving services.

# Appendix 1

## Action plan 2016/17

### 2016/17 recommendations for improvement



Page  
no.

Issue/risk

Recommendation

Agreed management  
action/timing

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#### 1. Travel allowance

WICS currently pay all staff a monthly travel allowance of £68.50 (net of tax). Section 2 of the WICS 'Travel, subsistence and expenses policy' states "The Commission will reimburse for all necessary travel expenses, with the exception of those incurred by the employee from home to the employee's usual place of work." There is no reference to the travel allowance in this policy.

#### Risk

Travel allowance payments may not comply with the Travel, subsistence and expenses policy.

WICS should review this arrangement to determine whether the award of a flat travel allowance to all staff complies with their Travel, subsistence and expenses policy. If a decision is taken to maintain the policy this should be agreed by the Commission and formalised in the policy.

This will be picked up as part of a review of our financial procedures and travel policy by the end of 2017. The revised documents will be submitted to the Board and Audit and Risk Committee for approval.

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#### 2. Performance management

In the Performance Report, WICS is required to include analysis on how they measure performance. It is not currently clear how WICS monitors and reports performance and progress against delivering WICS's core functions as established in the Corporate Plan.

#### Risk

WICS may not be able to sufficiently monitor performance and identify areas for improvement.

The Performance Report should be updated in 2017/18 to consider how WICS monitors and reports performance and delivery of its core functions. This could involve consideration of findings of Internal Audit's review of business performance management.

WICS will consider appropriate measures upon which to measure the performance of the organisation. Once agreed, these can be reported on as part of the Performance Report of the financial statements.

# Appendix 2

## Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual report and accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

Audit Risk	Assurance procedure	Results and conclusions
<b>Risks of material misstatement in the financial statements</b>		
<p><b>1 Management override of controls</b></p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>	<p>No issues identified.</p>
<p><b>2 Risk of fraud over income and expenditure</b></p> <p>WICS receives the majority of its income from two sources. These are the statutory contributions from Scottish Water and the levies from licensed providers. However, in accordance with ISA240, the extent of the income means that there is an inherent risk of fraud.</p> <p>The revised version of Practice Note 10, Audit of Financial Statements of Public Sector Bodies in the UK, states that there is a risk that misstatements may arise from fraudulent reporting where the audited body may manipulate its results to meet externally set targets. Therefore there is a risk of material misstatement due to fraud related to expenditure.</p>	<p>Analytical procedures on income streams.</p> <p>Detailed testing of revenue transactions focusing on the areas of greatest risk.</p>	<p>No issues identified.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p><b>3 Cash balances</b></p> <p>WICS held a cash balance of £1,990,308 at 31 March 2016.</p> <p>There is a risk that WICS is not complying with the requirements of its Financial Memorandum set out in WICS's Rules of Procedure. This requires that WICS should not aim to build up cash balances or net assets in excess of what is required for operational purposes.</p>	<p>We will review the year end cash position during the 2016/17 financial statement audit to assess its appropriateness and any restrictions on its application.</p>	<p>At 31 March 2017, the cash position of WICS has been reduced by £376,847 to £1,613,461. This is a reduction of 18.9% from the prior year. Senior Management is provided with monthly reports which document the financial position and income/expenditure of WICS. Of this cash balance, around £780,000 has been internally earmarked for the OECD's review of the Strategic Review of Charges. In addition, a further £240,000 is earmarked for the audit of the market.</p> <p>We are satisfied that WICS have specific plans in place to reduce the cash balance over the life cycle of the Corporate Plan and that appropriate procedures are in place to monitor the cash position.</p>

### Risks identified from the auditor's wider responsibility under the Code of Audit Practice

<p><b>4 Skills and capacity</b></p> <p>In the past there has been a relatively high turnover of staff. We are aware that, due to the specialist skills required by WICS and previous limitations on progression opportunities, recruitment had been considered difficult.</p> <p>WICS has recently re-organised its workforce streams and, in relation to entry level recruitment, anticipates fewer challenges going forward. There is a residual risk that recruitment for senior roles may still prove challenging due to restrictions imposed by the Scottish Government Pay Policy.</p>	<p>We will monitor the governance and transparency arrangements in place, considering the workforce management procedures at WICS. We will review the work of Internal Audit to obtain assurance that arrangements are appropriate and operating effectively.</p>	<p>WICS has recruited a number of staff in 2016/17, with their Full Time Equivalent staff numbers increasing to 20 from 18 in 2015/16. Internal Audit's review of workforce management has been delayed until 2017/18. Therefore we have been unable to gain assurance from Internal Audit that workforce arrangements are appropriate and effective. As part of the 2017/18 audit, we will review the work of Internal Audit on WICS's workforce management procedures.</p>
<p><b>5 IT Strategy</b></p> <p>At present, WICS has no formal IT strategy. There is a risk that WICS is not complying with the Scottish Government's Digital Future policy, in particular the guidance and principles on cloud computing in the Scottish public sector.</p>	<p>WICS is in the process of implementing a new IT strategy which will include a roadmap considering the delivery of services and efficiencies that cloud technology can offer.</p>	<p>We reviewed the draft IT Strategy which was presented to the Audit and Risk Committee in June 2017. This sets out how WICS intends to develop its IT systems between 2017 and 2020. The draft includes how WICS will support the wider aims of the Scottish Government including data hosting and its plans to</p>

Audit Risk	Assurance procedure	Results and conclusions
		move to cloud services. We will monitor the implementation of this in 2017/18.

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# Appendix 3

## Summary of unadjusted errors

**We report all uncorrected misstatements that are individually greater than our reporting threshold of £1,000.**

A misstatement was noted during our audit testing which were not corrected in the financial statements. This error was below our performance materiality level as explained in [Exhibit 2 \(page 8\)](#). We are satisfied that this error did not have a material impact on the financial statements.

No.	Account areas	Statement of income/ (expenditure)		Statement of Financial Position	
		Dr £	Cr £	Dr £	Cr £
1	Expenditure	9,519			
	Accruals				(9,519)
	<b>Net impact</b>	<b>9,519</b>			<b>(9,519)</b>

Notes:

Entry 1 relates to the calculation of the staff holiday pay accrual liability which was not recognised in the 2016/17 accounts.

# Water Industry Commission for Scotland

## 2016/17 Annual Audit Report

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)

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