Scott-Moncrieff
business advisers and accountants

Mental Welfare Commission for Scotland

2017/18 Annual Audit Report to the Board of the Mental Welfare Commission for Scotland and the Auditor General for Scotland

June 2018

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Key messages

Annual report and accounts

The Mental Welfare Commission for Scotland's annual report and accounts for the year ended 31 March 2018 are due to be approved by the Board on 25 June 2018.

We are due to report within our independent auditor's report, unqualified opinions on the annual accounts, the regularity of transactions and on other prescribed matters. There were no matters which we are required to report by exception.

The annual report and accounts and supporting schedules were of an acceptable standard. Our thanks go to management and staff at the Commission for their assistance with our work.

Wider scope

As outlined in our External Audit Plan, our annual audit work in respect of our wider scope audit responsibilities was restricted to:

- Audit work to allow conclusions to be made on the appropriateness of the disclosures in the Annual Governance Statement; and
- Consideration of the financial sustainability of the organisation and the services that it delivers over the medium and longer term.

Our conclusions are set out below:

Key facts

- The Commission has reported a saving of £18,000 against its revenue resource allocation of £3.6million.
- The National Confidential Forum (NCF) has reported a saving of £494,000 against a revenue resource allocation of £985,000.
- No capital expenditure has been incurred during the year.
- Indicative funding for 2018/19 has been confirmed at £3.655million for the Commission's core activities, £95,000 for its server upgrade and £202,000 for a review of Learning Disability and Autism.
- Indicative funding for 2018/19 has been confirmed at £883,000 for the operation of NCF.
- Both the Commission and NCF are forecasting a breakeven position in 2018/19. NCF had originally forecast an underspend, and has agreed a reduced funding allocation with Scottish Government in order to achieve a breakeven position for 2018/19.
- The Commission met three of its six key performance indicators in 2017/18. For two of the remaining key performance indicators, the Commission published agreed reports within one month of the target date.

Governance statement

- We have reviewed the Annual Governance Statement and have found that it is consistent with the financial statements and has been prepared in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers.
- The Commission has appropriate systems in place to record, process, summarise and report financial and other relevant data. We have not identified any significant weaknesses or governance issues in the Commission's accounting and internal control systems.

Financial sustainability	• The Commission does not currently have a formal medium to long term financial plan in place, although consideration has been given to longer term expenditure profiles. This is partly due to uncertainties over further increases to the pay bill in future years. • The Commission and NCF have drafted budgets for 2018/19. The draft budgets have been considered by the Board, and the finalised budgets are due to be reviewed by the Board over the summer. • The 2018/19 pay remit was agreed by the Board in May 2018, and additional funding of £50,000 has been confirmed from the Scottish Government to cover increases in pay costs for 2018/19 as well as increases to rent and rates costs. • The Commission is reviewing accommodation costs to ensure the financial sustainability of the organisation going forward.

Conclusion

This report concludes our audit for 2017/18. Our work has been performed in accordance with the Audit Scotland Code of Audit Practice, International Standards on Auditing (UK) and Ethical Standards.

Scott-Moncrieff
June 2018

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Introduction

This report is presented to those charged with governance and the Auditor General for Scotland and concludes our audit of the Mental Welfare Commission for Scotland for 2017/18.

We carry out our audit in accordance with Audit Scotland's Code of Audit Practice (May 2016). This report also fulfils the requirements of International Standards on Auditing (UK) 260: Communication with those charged with governance.

At the Mental Welfare Commission for Scotland, we have designated the Audit, Risk and Information Governance Committee as "those charged with governance".

Introduction

1. This report summarises the findings from our 2017/18 audit of the Mental Welfare Commission for Scotland ("the Commission").

2. We outlined the scope of our audit in our External Audit Plan, which we presented to the Audit Committee[1] at the outset of our audit. The core elements of our work include:

   - an audit of the 2017/18 financial statements and related matters;
   - consideration of the Commission's arrangements for securing financial sustainability;
   - any other work requested by Audit Scotland, for example, input into performance audit work.

3. The Commission's Board is responsible for preparing an annual report and accounts that show a true and fair view and for implementing appropriate internal control systems. The weaknesses or risks identified are only those that have come to our attention during our normal audit work, and may not be all that exist. Communication in this report of matters arising from the audit of the annual report and accounts or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

4. The report contains an action plan with specific recommendations, responsible officers and dates for implementation. Senior management should assess these recommendations and consider their wider implications before deciding appropriate actions. We give each recommendation a grading to help the Commission's Board assess their significance and prioritise the actions required.

5. We discussed and agreed the content of this report with the Head of Corporate Services. We would like to thank all management and staff for their co-operation and assistance during our audit.

Confirmation of independence

6. International Standards on Auditing in the UK (ISAs (UK)) require us to communicate on a timely basis all facts and matters that may have a bearing on our independence.

7. We confirm that we have complied with Financial Reporting Council's (FRC) Revised Ethical Standard (June 2016). In our professional judgement, the audit process is independent and our objectivity has not been compromised in any way.

8. We set out in Appendix 1 our assessment and confirmation of independence. Our assessment includes consideration of:

   - Provision of non-audit services to the Commission; and
   - Relationships between Scott-Moncrieff and the Commission, its Board members and senior management that may reasonably be thought to bear on our objectivity and independence.

Adding value through the audit

9. All of our clients quite rightly demand of us a positive contribution to meeting their ever-changing business needs. Our aim is to add value to the Commission's Board through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way, we aim to help the Commission's Board promote improved standards of governance, better management and decision making and more effective use of resources.

Feedback

10. Any comments you may have on the service we provide, the quality of our work and our reports would be greatly appreciated at any time. Comments can be reported directly to the audit team or through our online survey: www.surveymonkey.co.uk/r/S2SPZBX

11. While this plan is addressed to the Commission's Board, it will be published on Audit Scotland's website www.audit-scotland.gov.uk.

[1] Now named the Audit, Risk and Information Governance Committee

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Annual report and accounts

The Commission's 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.

In this section we summarise the findings from our audit of the 2017/18 annual report and accounts.

Annual report and accounts

The annual report and accounts for the year ended 31 March 2018 are due to be approved by the Commission's Board on 25 June 2018. We intend to report unqualified opinions within our independent auditor's report. We did not identify any significant adjustments to the unaudited annual report and accounts.

The Commission has appropriate administrative processes in place to prepare the annual report and accounts and the required supporting working papers.

Overall conclusion

An unqualified audit opinion on the annual report and accounts

12. The annual report and accounts for the year ended 31 March 2018 were considered by the Audit, Risk and Information Governance Committee on 15 June 2018 and are due to be approved by the Commission's Board on 25 June 2018. We intend to report within our independent auditor's report:

- An unqualified opinion on the financial statements
- An unqualified opinion on regularity; and
- An unqualified opinion on other prescribed matters.

13. We are also satisfied that there are no matters which we are required to report to you by exception.

Appropriate administrative processes were in place

14. We received the draft annual accounts and supporting papers of an acceptable standard. The performance report and accountability report was however made available to us after our onsite audit was finished. Our thanks go to management and staff for their assistance with our work.

15. The annual report and accounts will be submitted to the Scottish Government and Auditor General for Scotland by the 30 June 2018 deadline.

Our assessment of risks of material misstatement

16. The assessed risks of material misstatement described in Exhibit 1 are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the audit team. Our audit procedures relating to these matters were designed in the context of our audit of the annual report and accounts as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the annual report and accounts is not modified with respect to any of the risks described in Exhibit 1.

Exhibit 1: Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

1. Management override

In any organisation, there exists a risk that management have the ability to process transactions or make adjustments to the financial records outside the normal financial control processes. Such issues could lead to a material misstatement in the financial statements. This is treated as a presumed risk area in accordance with ISA (UK) 240 - *The auditor's responsibilities relating to fraud in an audit of financial statements*.

Excerpt from the 2017/18 External Audit Plan

Exhibit 1: Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

17. We have not identified any indications of management override in the year. We have reviewed the Commission's accounting records and obtained evidence to ensure that transactions outside the normal course of business were valid and accounted for correctly. We have also reviewed management estimates and the journal entries processed in the period and around the year end. We did not identify any areas of bias in key judgements made by management and judgements were consistent with prior years.

18. During the interim audit, we identified a control weakness regarding the secondary review of journals. Testing of journals during our final audit provided assurance that this weakness had been addressed, as journals tested had been appropriately authorised by a second member of the finance team.

2. Revenue recognition

Under ISA (UK) 240 - *The auditor's responsibilities relating to fraud in an audit of financial* statements there is a presumed risk of fraud in relation to revenue recognition. The presumption is that the Commission could adopt accounting policies or recognise income and expenditure transactions in such a way as to lead to a material misstatement in the reported financial position.

Excerpt from the 2017/18 External Audit Plan

19. At the planning stage of our audit we considered that the risk of fraud in relation to revenue recognition was material to the annual accounts and therefore rebutted this risk. This view was based on the fact that the Commission's only material source of income is its revenue resource limit as determined by the Scottish Government. This position has been reviewed throughout the audit and this conclusion has remained appropriate.

3. Risk of fraud in the recognition of expenditure

In 2016, the Public Audit Forum issued Practice Note 10 "The Audit of Public Sector Financial Statements" which applies to the audit of public sector financial statements for periods commencing after June 2016. This Practice Note recognises that most public sector bodies are net spending bodies and notes that there is an increased risk of material misstatement due to improper recognition of expenditure.

Excerpt from the 2017/18 External Audit Plan

20. While we did not suspect incidences of material fraud and error, we evaluated each type of expenditure transaction and documented our conclusions. We have gained reasonable assurance on the completeness and occurrence of expenditure and are satisfied that expenditure is fairly stated in the annual accounts. To inform our conclusion we carried out testing to confirm that the Commission's policy for recognising expenditure is appropriate and has been applied consistently throughout the year.

Exhibit 1: Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

4. Going concern – National Confidential Forum
The National Confidential Forum (NCF) was originally established in 2014/15 for a three to five year period under the provisions of the Victims and Witnesses (Scotland) Act. The Commission presented an options appraisal paper to the Scottish Government in 2017 outlining the possibilities for the future of the NCF, however this remains uncertain. There is a risk that the NCF is no longer classified as a going concern and that this is not accurately reflected within the annual report and accounts.
Excerpt from the 2017/18 External Audit Plan

21. During our audit, we have gained assurance that the NCF will continue to be a going concern for at least 12 months from the date of signing the 2017/18 annual report and accounts. The Scottish Government has confirmed funding for 2018/19 for the NCF. Scottish Government officials met with the Board in February 2018 to discuss the future of the Forum. In addition, the lease agreement for the NCF runs until June 2019, and discussions with staff indicate that the full length of the lease will be utilised.

Our application of materiality

22. The assessment of what is material is a matter of professional judgement and involves considering both the amount and the nature of the misstatement. This means that different materiality levels will be applied to different elements of the annual accounts.

23. Our initial assessment of materiality for the annual accounts was £70,000 and was adjusted to £65,000 following receipt of the unaudited annual accounts. This equates to approximately 1.4% of the Commission's Revenue Resource Limit (RRL). Achieving a breakeven position against RRL is a key target for the Commission and one of the principal considerations for the users of the accounts when assessing financial performance.

Performance materiality

24. Performance materiality is the amount set by the auditor at less than overall materiality for the annual accounts as a whole to reduce to an appropriately low level the probability that the aggregate of the uncorrected and undetected misstatements exceed materiality for the annual accounts as a whole.

25. We set a performance (testing) materiality for each area of work which was based on a risk assessment for the area. We perform audit procedures on all transactions and balances that exceed our performance materiality. This means that we are performing a greater level of testing on the areas deemed to be of significant risk of material misstatement. Performance testing thresholds used are set out in the table below:

Area risk assessment	Weighting	Performance materiality
High	45%	£29,250
Medium	55%	£35,750
Low	70%	£45,500

26. We agreed with the Audit, Risk and Information Governance Committee that we would report all material corrected misstatements, uncorrected misstatements with a value in excess of £1,300, as well as other misstatements below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit, Risk and Information Governance Committee on disclosure matters that we identified when assessing the overall presentation of the annual accounts.

Audit differences

27. We are pleased to report that there were no material adjustments to the unaudited annual accounts. We identified some disclosure and presentational adjustments during our audit, which have been reflected in the final set of annual accounts.

28. We also identified two unadjusted errors which are not considered material to the annual accounts, either individually or in aggregate. These have been reported to the Head of Corporate Services and are included at Appendix 3.

29. These unadjusted errors are also included in the letter of representation. The letter covers a number of issues and we have requested that it be presented to us at the date of signing the annual report and accounts.

An overview of the scope of our audit

30. The scope of our audit was detailed in our External Audit Plan, which was presented to the Audit Committee[2] at the outset of our audit. The plan explained that we follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to the Commission. This ensures that our audit focuses on the areas of highest risk. Planning is a continuous process and our audit plan is subject to review during the course of the audit to take account of developments that arise.

31. At the planning stage we identified the significant risks that had the greatest effect on our audit. Audit procedures were then designed to mitigate these risks.

32. Our standard audit approach is based on performing a review of the key financial systems in place, substantive tests and detailed analytical review. Tailored audit procedures, including those designed to address significant risks, were completed by the audit fieldwork team and the results were reviewed by the audit manager and audit partner. In performing our work we have applied the concept of materiality, which is explained earlier in this report.

Other matters identified during our audit

33. During the course of our audit we noted the following:

Revised financial statement format

34. In 2017/18, the presentation of the statement of comprehensive net expenditure (SoCNE) was amended, in line with the NHS Accounts Manual, to improve clarity for the user of the accounts and ensure compliance with the HM Treasury Government Financial Reporting Manual (the FReM) and accounting standards. The comparative information in respect of 2016-17 is presented in the new format in the SoCNE. No further retrospective restatements were required.

Property Plant and Equipment (PPE)

35. In 2016/17, we noted that the Commission's property, plant and equipment (non-current assets) had all been fully depreciated leaving a nil balance on the balance sheet. This is also the position as at 31 March 2018.

36. As these assets are still in use it would appear unreasonable for them to be fully depreciated and would suggest that the estimated useful life applied is inaccurate.

37. We would encourage the Commission to review its asset register and write off any assets no longer in use and re-assess the useful life of those assets still in use but fully depreciated.

Action plan point 1

Related party transactions

38. The Commission discloses within its annual accounts, where applicable, material transactions with related parties. These can be defined as bodies or individuals that have the potential to control or influence the Commission or to be controlled or influenced by the Commission.

[2] Now named the Audit, Risk and Information Governance Committee

39. The Board member and senior management register of interests is one way that the Commission can identify its related parties. On review of the register of interests we noted that the registers do not specifically ask for consideration of close family members' interests[3]. There is a risk, should the registers not be updated, that the Commission does not identify and report all related party transactions in its annual accounts.

Action plan point 2

Other information in the annual report and accounts

40. "Other information" in the annual report and accounts comprises any information other than the financial statements and our independent auditor's report thereon. We do not express any form of assurance conclusion on the "other information" except as specifically stated below.

The performance report

41. The performance report provides information on the entity, its main objectives and strategies and the principal risks that it faces. It comprises an overview of the organisation and a detailed summary of how the entity measures performance.

42. We have concluded that the performance report has been prepared in accordance with directions from Scottish Ministers and is consistent with the financial statements.

The accountability report

43. The accountability report is required in order to meet key parliamentary accountability requirements and comprises three sections: a corporate governance report (including the governance statement), a remuneration and staff report; and a parliamentary accountability report.

44. We have obtained adequate evidence that the information provided in the remuneration and staff report is in agreement with accounting records and has been prepared in line with ministerial guidance.

45. We have reviewed the Annual Governance Statement and have found that it is consistent with the financial statements and has been prepared in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers.

46. The accountable officer did not disclose any significant issues in the governance statement and internal audit did not identify any high-risk recommendations in the year. An assurance statement was provided by the Head of the NCF in which no significant concerns were raised. The disclosures in the Governance Statement are consistent with this and internal audit's conclusion for 2017/18.

Internal audit

47. The Commission's internal audit function is provided by KPMG. We have taken cognisance of the work of internal audit in forming our opinion on the appropriateness of the disclosures in the annual governance statement.

Accounting and internal control systems

48. The Commission has appropriate systems in place to record, process, summarise and report financial and other relevant data. While we have not identified any significant weaknesses or governance issues in the accounting and internal control systems, we did identify two areas for improvement during our final audit. We outline the issues identified and our recommendations at Appendix 2.

Action plan points 3 & 4

Regularity

49. We have planned and performed our audit recognising that non-compliance with statute or regulations may materially impact on the annual report and accounts. We did not identify any instances of irregular activity.

Information Governance

Cyber Security

50. In May 2017, a number of health boards across NHS Scotland were impacted by the Wannacry global ransomware attack. In response to this

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[3] The Accounts Manual identifies certain parties that are always treated as related parties under International Accounting Standard (IAS) 24. This includes close members of the family of a board member or key management personnel. The definition of a close member of family of a person is 'close relatives of the individual or members of the individual's immediate family who can be expected to influence or be influenced by that individual in their dealings with the Board'. This includes spouse, domestic partner, dependent child or relative living in a common household, a grandparent, parent, non-dependent child, grandchild, brother or sister, the spouse or domestic partner of a child, a parent in law, a brother in law or sister in law.

the Scottish Government launched ‘A Cyber Resilience Strategy for Scotland: Public Sector Action Plan, 2017/18’.

51. The action plan outlines a number of requirements that public bodies should be taking forward. This includes an action for public bodies to achieve Cyber Essentials Plus certification by the end of October 2018.

52. The Commission has presented regular updates to the Audit, Risk and Information Governance Committee and Board. A detailed Cyber Security and Penetration Testing report was presented to the Board in December 2017, which highlighted that the Commission will be creating an action plan based on all of the recommendations contained in the full Scottish Government ‘implementation toolkit.’ Mandatory cyber security training was held for all staff during early 2018.

General Data Protection Regulations

53. The General Data Protection Regulations (the Regulations) came into force in the UK on 25 May 2018. The Regulations replaces the Data Protection Act 1998 and as well as strengthening existing regulations the Act has brought in new legislative duties for the Commission. The Regulations bring significant potential penalties for non-compliance therefore increasing the importance of compliance.

54. The Commission used guidance issued by the Information Commissioner’s Office to develop an action plan to ensure compliance with the new regulations. The Commission’s revised privacy statement was published on their website on 23 May 2018.

55. Compliance with the Regulations is an ongoing process, which we will monitor as part of our annual audit procedures. We have not identified any significant risks to compliance with the Regulations at this stage.

Qualitative aspects of accounting practices and financial reporting

56. During the course of our audit, we consider the qualitative aspects of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the annual accounts. The following observations have been made:

Qualitative aspect considered	Audit conclusion
The appropriateness of the accounting policies used.	The accounting policies, which are disclosed in the annual accounts, are in line with the NHS Accounts Manual. During the audit, we identified a number of accounting policies included in the annual accounts which are not applicable to the Commission (Refer to action plan point 4).
The timing of the transactions and the period in which they are recorded.	We did not identify any concerns over the timing of transactions or the period in which they were recognised.
The appropriateness of the accounting estimates and judgements used.	We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the annual accounts. Significant estimates have been made in relation to the valuation of liabilities related to the Commission’s membership of the Clinical Negligence and Other Risks Indemnity Scheme (CNORIS). These estimates have been informed by advice from qualified, independent experts. We evaluated the competence, objectivity and capability of managements’ experts in line with the requirements of ISA (UK) 500.
The appropriateness of the going concern assumption	We have reviewed the detailed financial forecasts for 2018/19. Our understanding of the legislative framework and activities undertaken

Qualitative aspect considered	Audit conclusion
	provides us with sufficient assurance that the Commission and NCF will continue to operate for at least 12 months from the signing date.
The potential effect on the annual accounts of any uncertainties, including significant risks and related disclosures that are required.	We have not identified any uncertainties, including any significant risk or required disclosures, which should be included in the annual accounts.
The extent to which the annual accounts have been affected by unusual transactions during the period and the extent that these transactions are separately disclosed.	From the testing performed, we identified no significant unusual transactions in the period.
Apparent misstatements in the annual report or material inconsistencies with the financial statements.	The annual report contains no material misstatements or inconsistencies with the financial statements.
Any significant annual accounts disclosures to bring to your attention.	There are no significant annual accounts disclosures that we consider should be brought to your attention. All the disclosures required by relevant legislation and applicable accounting standards have been made appropriately.
Disagreement over any accounting treatment or annual accounts disclosure.	While disclosure and presentational adjustments were made during the audit process there was no material disagreement during the course of the audit over any accounting treatment or disclosure.
Difficulties encountered in the audit.	There were no significant difficulties encountered during the audit.

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Financial sustainability

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

Financial sustainability

The Commission does not currently have a formal medium to long term financial plan in place, however informal consideration has been given to longer term expenditure profiles. This is partly due to uncertainties over further increases to the pay bill in future years.

The Commission and NCF have drafted budgets for 2018/19. The draft budgets have been considered by the Board, and the finalised budgets are due to be reviewed by the Board over the summer.

The pay remit was agreed by the Board in May 2018, and additional funding of £50,000 has been confirmed from the Scottish Government to cover increases in the pay bill for 2018/19 as well as increases to rent and rates costs.

The Commission is reviewing accommodation costs to ensure the financial sustainability of the organisation going forward.

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

Key audit risk

58. As outlined in our audit plan, we considered there to be a significant risk to the wider scope of our audit in relation to financial sustainability:

Exhibit 2: Key audit risk: financial sustainability

Financial sustainability
The Commission has a three year financial plan in place which has been approved by the Operational Management Group (OMG). The Commission forecasts a breakeven position against a flat budget for each of these years. Public sector budgets are however coming under strain due to the end of the pay cap and the increasing uncertainty and complexity of the Scottish Government budgeting process. It is forecast that changes to the process will be implemented from 2019/20. In addition to this the rising costs of second opinion doctors' fees continue to present a financial challenge to the Commission. The Scottish Government have agreed to any payments above 11% of the Commission's budget which has helped the budgeting process significantly.
Excerpt from the 2017/18 External Audit Plan

59. The Commission does not currently have a formal medium to long term financial plan in place. However, informal work has been undertaken including consideration of longer term expenditure profiles. This is partly due to uncertainties surrounding further increases to the pay bill in future years. We would recommend that the Commission undertakes more formalised financial scenario planning for the medium to long term.

Action plan point 5

60. Budgets have been produced for both the Commission and the NCF for 2018/19. The draft budget for the Commission was presented to the Board in February 2018, and the draft budget for the NCF was presented to the Board in May 2018. Final versions of the budgets are due to be reported to the Board in the summer.

61. Funding for the Commission's core activities has been increased from £3.6 million in 2017/18 to £3.655 million in 2018/19, and £50,000 of this increase is to cover the increase in pay costs due to the pay remit as well as increases to rent and rates costs.

Indicative 2018/19 budgets

62. The Scottish Government has indicated that the Commission's resource budget for 2018/19 will be set at £3.655 million for the Commission's core activities, £95k for the server upgrade and £202k for the Learning Disabilities and Autism review activities. The Scottish Government has indicated that the NCF's resource budget for 2018/19 will be and £0.883million for the operation of the NCF. No capital allocation has been awarded at this time and is not anticipated.

63. The Scottish Government has agreed that any expenditure on second opinions over 11% of the Commission's core budget will be separately funded by them. This should assist the Commission with their longer term budget planning; however, there is still significant pressure to achieve balanced budgets.

64. The Commission are also reviewing their accommodation costs to assist with long term financial sustainability. The Commission has started to consider an accommodation reduction plan to reduce costs. The Commission has conducted scenario planning to assess how much office space is required and is in discussions with the Scottish Legal Aid Board (SLAB) as its landlord and another public body about sharing the third floor in Thistle House. A high level business case for spend to save funding is being prepared for the sponsor department. Any reduction to accommodation is dependent on funding to make the changes required.

65. The pay remit has been approved by the Board in May 2018, and the Commission is waiting for final approval from the Scottish Government. The Scottish Government has confirmed that the Commission's core funding for 2018/19 will be increased by £50,000 to cover the increases in pay costs for 2018/19 and increases to rent and rates costs.

66. Both the Commission and the NCF are forecasting a breakeven position in 2018/19. The NCF had originally forecast an underspend, and have agreed a reduced funding allocation with Scottish Government in order to achieve a breakeven position for 2018/19.

Future planning for the NCF

67. The NCF was originally established in 2014/15 for a three to five year period. The Commission presented an options appraisal paper to the Scottish Government in March 2017 outlining the possibilities for the future of the NCF, and Scottish Government officials met with the Board in February 2018 to discuss the future of the NCF. Funding has been agreed from the Scottish Government for 2018/19.

68. Two new members (public appointments) will be starting at the Forum in the summer of 2018, and the Forum are currently recruiting for additional vacant posts.

The Commission's performance in 2017/18

69. Both the Commission and the NCF met all of their financial targets in 2017/18. Both reported an underspend against RRL as detailed in Exhibit 3.

70. The Commission monitors its performance against six key performance indicators (KPIs) agreed with the Scottish Government. These targets are outlined in the annual business plan and progress against the plan is reported to the board on a quarterly basis.

71. The Commission has met three of its six key performance indicators in 2017/18. For two of the remaining key performance indicators, the Commission published agreed reports within one month of the target date.

Exhibit 3: Performance against resource limits

Performance against budget limits	Original budget £million	Revised budget £million	Actual £million	Savings/(excess) £million	Target achieved?
Core revenue resource limit					
Mental Welfare Commission	3.600	3.600	3.582	0.018	Yes
National Confidential Forum	0.985	0.985	0.491	0.494	Yes
Non-core revenue resource limit					
Mental Welfare Commission	0	0	0	0	N/A
National Confidential Forum	0	0	0	0	N/A
Revenue resource limit	**4.585**	**4.585**	**4.073**	**0.512**	**Yes**

Source: *Annual accounts for the year ended 31 March 2018*

72. The Commission underspent by £18,000 against its allocation of £3.6million. This was mainly due to delays with the server upgrades which are planned to take place in early 2018/19.

73. The Commission's Core Revenue Actual Outturn for 2017/18 included £34,000 for the costs to date of the Review of the Mental Health (Care and Treatment) (Scotland) Act 2003 for people with Learning Disability and Autism. As outlined above, the Scottish Government has included funding for the Learning Disability and Autism review in the 2018/19 indicative allocation communication.

74. The NCF underspent by £494,000, against a revenue resource allocation of £985,000 . This was mainly due to the uncertainty around the future of the Forum. This resulted in promotional and other activities being put on hold during 2017/18. However, as the operation of the Forum is more certain for 2018/19, the NCF are not anticipating the same levels of underspend.

75. No capital allocation was awarded to the Commission during the year. This is in line with our expectations and, through our audit work, we have gained assurance that no capital spend has been incurred.

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Appendices

Appendix 1: Respective responsibilities of the Commissioner and the Auditor

Responsibility for the preparation of the annual accounts

It is the responsibility of the Commission and the Chief Executive, as Accountable Officer, to prepare financial statements in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder.

In preparing the annual report and accounts, the Commission and the Chief Executive, as Accountable Officer are required to:

- apply on a consistent basis the accounting policies and standards approved for the NHS Scotland by Scottish Ministers;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the Financial Reporting Manual have not been followed where the effect of the departure is material;
- prepare the accounts on a going concern basis unless it is inappropriate to presume that the Commission will continue to operate; and
- ensure the regularity of expenditure and income.

Board members are also responsible for;

- keeping proper accounting records which are up to date; and
- taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditor responsibilities

We audit the annual report and accounts and give an opinion on whether:

- they give a true and fair view in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers of the state of the board’s affairs as at 31 March 2018 and of its net expenditure for the year then ended;
- they have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2017/18 FReM ;
- they have been prepared in accordance with the requirements of the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers;
- in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers;
- the auditable part of the Remuneration and Staff Report has been properly prepared in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers; and
- the information given in the Performance Report for the financial year for which the financial statements are

We audit the annual report and accounts and give an opinion on whether:
prepared is consistent with the financial statements and that report has been prepared in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers; and • the information given in the Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers.
We are also required to report by exception if, in our opinion:
• adequate accounting records have not been kept; or • the annual accounts and the part of the Remuneration and Staff Report to be audited are not in agreement with the accounting records; or • we have not received all the information and explanations we require for our audit; or • there has been a failure to achieve a prescribed financial objective.

Wider scope of audit

The special accountabilities that attach to the conduct of public business, and the use of public money, mean that public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance, not only on the financial statements, but providing audit judgements and conclusions on the appropriateness, effectiveness and impact of corporate governance and performance management arrangements and financial sustainability.

The Code frames a significant part of our wider scope responsibilities in terms of four audit dimensions: financial sustainability; financial management; governance and transparency; and value for money. The Code recognises that full application of its requirements may be impractical or inappropriate due to the nature or size of the audited body.

We have concluded that the full application is not appropriate due to the size of the organisation. As part of our annual audit we consider and report against:

- appropriateness of the disclosures in the governance statement; and
- financial sustainability of the body and the services that it delivers over the medium to longer term.

Independence

International Standard on Auditing (UK) 260, “Communication with those charged with governance” requires us to communicate on a timely basis all facts and matters that may have a bearing on our independence.

During 2017/18, Scott-Moncrieff has provided employment tax advice to the Commission. This advice is provided by staff with no involvement in the audit of the annual report and accounts.

We confirm that we comply with FRC’s Revised Ethical Standard (June 2016). In our professional judgement, the audit process is independent and our objectivity has not been compromised in any way. In particular there are and have been no relationships between Scott-Moncrieff and the Commission, its Commission members and senior management that may reasonably be thought to bear on our objectivity and independence.

With regard to our appointment for a second term, we can confirm that we comply with FRC’s Revised Ethical Standard which states that careful consideration must be given once an audit engagement partner has held the role for a continuous period of ten years. Therefore, the new appointment for a second five year term does not contradict the requirement of the Revised Ethical Standards. This is in line with guidance from Audit Scotland which states that there is no expectation for the rotation of audit partners for special health board audits.

Appendix 2: Action plan

Our action plan details the weaknesses and opportunities for improvement that we have identified during our audit.

It should be noted that the weaknesses identified in this report are only those that have come to our attention during the course of our normal audit work. The audit cannot be expected to detect all errors, weaknesses or opportunities for improvements in management arrangements that may exist. The weaknesses or risks identified are only those which have come to our attention during our normal audit work, and may not be all that exist. Communication of the matters arising from the audit of the annual accounts or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Action plan grading structure

To assist the Commission in assessing the significance of the issues raised and prioritising the action required to address them, the recommendations have been rated.

The rating structure is summarised as follows:

Grade	Explanation
Grade 5	Very high risk exposure - Major concerns requiring immediate attention.
Grade 4	High risk exposure - Material observations requiring management attention.
Grade 3	Moderate risk exposure - Significant observations requiring management attention.
Grade 2	Limited risk exposure - Minor observations requiring management attention
Grade 1	Efficiency / housekeeping point.

Action plan point	Issue & Recommendation	Management Comments
1. Asset register	In 2016/17, we noted that the Commission's property, plant and equipment (non-current assets) had all been fully depreciated leaving a nil balance on the balance sheet. This is also the position as at 31 March 2018. As these assets are still in use it would appear unreasonable for them to be fully depreciated and would suggest that the estimated useful life applied is inaccurate. We would encourage the Commission to review its asset register and write off any assets no longer in use and re-assess the useful life of those assets still in use but fully depreciated.	Agreed **Responsible officer:** Finance Manager **Implementation date:** 30 September 2018
Rating		
Grade 3		
Paragraph ref		
37		

Action plan point	Issue & Recommendation	Management Comments
2. Register of interests	The Board member and senior management register of interests is one way that the Commission can identify its related parties. On review of the register of interests we noted that the registers do not specifically ask for consideration of close family members' interests There is a risk, should the registers not be updated, that the Commission does not identify and report all related party transactions in its annual accounts.	Agreed **Responsible officer:** Head of Corporate Services **Implementation date:** 30 September 2018
Rating		
Grade 3		
Paragraph ref		
39		

Action plan point	Issue & Recommendation	Management Comments
3. Thistle House Draft Lease	The Thistle House lease ran until 31 March 2018, and the Commission are currently in discussions with the Scottish Legal Aid Board (SLAB) regarding drafting a new lease from 1 April 2018 to 31 March 2021. At the time of the audit, the lease had not been finalised. Management should ensure that this situation is monitored and that a new agreement is put in place as soon as possible.	Agreed **Responsible officer:** Head of Corporate Services **Implementation date:** June 2018
Rating		
Grade 3		
Paragraph ref		
48		

Action plan point	Issue & Recommendation	Management Comments
4. Review of Accounting Policies	During the audit, we identified a number of accounting policies included in the annual accounts which are not applicable to the Commission. Therefore, we recommend that the Commission complete a full review of the accounting policies to ensure that all policies included in the accounts are relevant and useful to the users of the accounts.	Agreed **Responsible officer:** Finance Manager **Implementation date:** 30 September 2018
Rating		
Grade 2		
Paragraph ref		
48		

Action plan point	Issue & Recommendation	Management Comments
5. Medium to long term financial planning **Rating** **Grade 3** **Paragraph ref** **59**	The Commission does not currently have a formal medium to long term financial plan forecast in place, which is not in line with standard practice. This is partly due to uncertainties surrounding further increases to the pay remit in future years, increasing the difficulty in financial forecasting. We would recommend that the Commission undertakes financial scenario planning for the medium to long term. This would help the Commission to demonstrate that it is identifying risks to the financial sustainability of the organisation. This will also allow the Commission to put in place steps to mitigate financial sustainability risks in a timely basis.	The Commission does have three year financial planning in place. It proved difficult to forward plan staffing costs when the outcome of the pay policy was unknown. This was approved by Board in May which will allow further scenario planning to be undertaken. **Responsible officer:** HOCS / Finance Manager **Implementation date**: October 2018

Appendix 3: Unadjusted differences

We identified the following differences during the audit. We have discussed these adjustments with management and have agreed that they would not be incorporated into the financial statements.

Difference	SoCNE		Balance Sheet	
	DR £	CR £	DR £	CR £
Holiday pay accrual			22,530	
SOCNE		22,530		
Being reduction of holiday pay accrual				
Accruals			2,988	
SOCNE		2,988		
Being reduction in accruals from accruals testing (projected error £4,039) and increase in accruals from cut off testing (projected error £1,056). Therefore, overall reduction in accruals of £2,988 (projected errors).				
Net increase / (decrease) in outturn (£)	**22,518**			

Scott-Moncrieff
business advisers and accountants