



# Mental Welfare Commission for Scotland

2020/21 Annual Audit Report to the Board and the Auditor General for Scotland

August 2021



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# Key messages

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This report concludes our audit of the Mental Welfare Commission for Scotland (the “Commission”) for 2020/21.

This section summarises the key findings and conclusions from our audit.

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## Financial statements audit

<p><b>Audit opinion</b></p>	<p>Our independent auditor’s report includes:</p> <ul style="list-style-type: none"> <li>• An unqualified opinion on the financial statements;</li> <li>• An unqualified opinion on regularity; and</li> <li>• An unqualified opinion on other prescribed matters.</li> </ul> <p>We are also satisfied that there were no matters which we are required to report by exception.</p>
<p><b>Key findings on audit risks and other matters</b></p>	<p>COVID-19 continues to present unprecedented challenges to the operation, financial management and governance of organisations, including public sector bodies. In response to the pandemic we identified potential areas of increased risk of material misstatement to the financial statements and/or our audit opinion. We are pleased to report those risks did not materialise.</p> <p>The National Confidential Forum (NCF) was informed by Scottish Government in January 2020 that it would close by 31 March 2021. The closure was dependent on legislation to provide a means to end the work of the Forum and this was included in the Redress for Survivors (Historical Child Abuse in Care) (Scotland) Bill 2020. The Bill received Royal Assent in May 2021. Once the regulations were enacted the Forum and the members finished on 28 June 2021. All staff left the Forum, and the office was closed, by 31 March 2021.</p> <p>The Commission had appropriate administrative processes in place to prepare the annual report and accounts and the required supporting working papers.</p>
<p><b>Audit adjustments</b></p>	<p>A disclosure amendment was made in respect of writing down assets no longer in use.</p> <p>We are required to communicate all potential adjustments, other than those considered to be clearly trivial. There were four unadjusted differences identified. All unadjusted differences are collectively and individually immaterial.</p>
<p><b>Accounting systems and internal controls</b></p>	<p>We have applied our risk based methodology to the audit. This approach requires us to document, evaluate and assess the Commission’s processes and internal controls relating to the financial reporting process.</p> <p>Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we have included these in this report. No material weaknesses or significant deficiencies were noted.</p>

## Wider scope audit

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 and key observations are set out below:



### 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 throughout the period or as a result of remote working during the COVID-19 pandemic.

The Commission adapted its governance arrangements in response to the pandemic. Board and other committee meetings have been able to continue without significant disruption. We are satisfied that the Board received sufficient and timely information throughout the period to support effective scrutiny, challenge and decision making.

### Financial sustainability



#### Auditor judgement

The Commission has adequate arrangements in place for medium term financial planning. A three-year budget forecast has been prepared. The financial plan assumes a pay remit equivalent to 2021/22 and an annual increase in funding to cover those pay increases. Based on these assumptions, the Commission has forecast a project breakeven position / slight underspend across the three years. However, should there be a pay increase but no increase in funding, a deficit position is forecast. The



Commission is unable to utilise former surpluses to achieve a breakeven position.

The COVID-19 pandemic has minimal impact on the financial forecasts for the Commission. The Commission's business plans however reflect the current constraints within which it is operating in and continue to be reviewed.

### Definition

Our wider scope audit involves consideration of the Commission's arrangements as they relate to financial sustainability; financial management, governance and transparency and value for money. We have used the following grading to provide an overall assessment of the arrangements in place as they relate to the four dimensions.



# Introduction



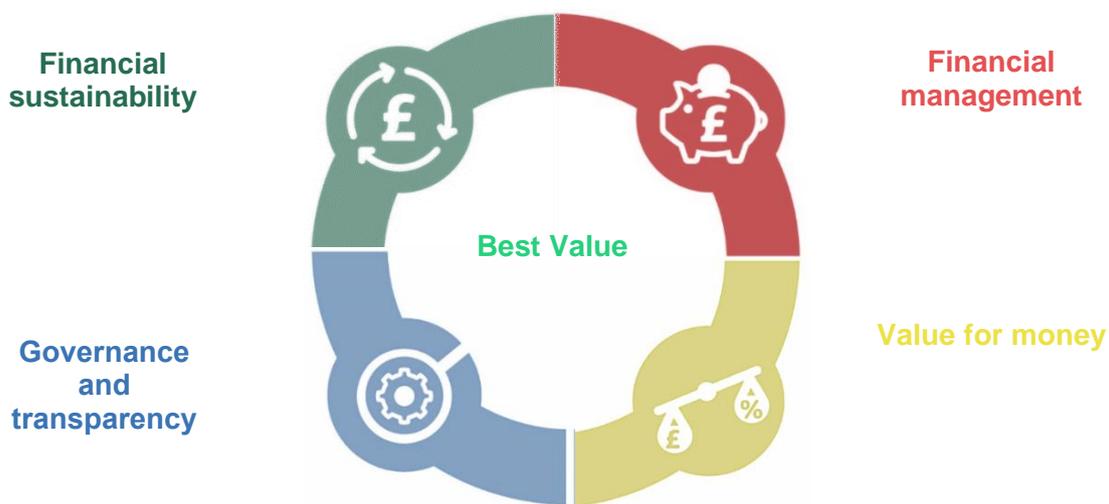
We carried out our audit in accordance with Audit Scotland's Code of Audit Practice and maintained auditor independence



## Scope

1. We outlined the scope of our audit in our External Audit Plan, which we presented to the Audit, Risk and Information Governance Committee at the outset of our audit. The core elements of our work include:
  - an audit of the 2020/21 annual report and accounts and related matters;
  - consideration of the wider dimensions of public audit work, as set out in Exhibit 1 and guidance from Audit Scotland on smaller bodies; and
  - any other work requested by Audit Scotland.

### Exhibit 1: Audit dimensions within the Code of Audit Practice



## Responsibilities

2. The Commission is responsible for preparing an annual report and accounts which show a true and fair view and for implementing appropriate internal control systems. 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. Communication in this report of matters arising from the audit 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.
3. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.
4. We would like to thank all management and staff for their co-operation and assistance during our audit.

## Auditor independence

5. 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.
6. We confirm that we complied with the Financial Reporting Council's (FRC) Ethical Standard. In our professional judgement, we remained independent and our objectivity has not been compromised in any way.
7. We set out in Appendix 1 our assessment and confirmation of independence.

## Openness and transparency

10. This report will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

## Adding value through the audit

8. All of our clients demand of us a positive contribution to meeting their ever-changing business needs. Our aim is to add value to the Commission 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 promote improved standards of governance, better management and decision making and more effective use of resources.

## Feedback

9. 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 any member of your audit team.

# Financial statements audit

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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.

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## Overall conclusion

11. The annual report and accounts are due to be considered by the Audit, Risk and Information Governance Committee on 3 August 2021 and approved by the Board on 30 August 2021. Our independent auditor's report is unqualified.

### Timescales / Administrative processes

12. In Scotland, the administrative deadline for the submission of the audited accounts of health boards is usually 30 June but, as was the position in 2019/20, this has been

extended by three months to 30 September. The legislative deadline for laying accounts in the Scottish Parliament remains 31 December.

13. The annual report and accounts will be submitted by the deadlines noted above.

14. Our thanks go to staff at the Commission for their assistance with our work, particularly given the current environment we are working in.

## Our audit opinion

Opinion	Basis for opinion	Conclusions
Financial statements	<p>We conduct our in accordance with applicable law and International Standards on Auditing.</p> <p>Our findings / conclusion to inform our opinion are set out in this section of our annual report.</p>	We have issued unqualified audit opinions.
Going concern basis of accounting	<p>In the public sector when assessing whether the going concern basis of accounting is appropriate, the anticipated provision of the services is more relevant to the assessment than the continued existence of a particular public body.</p> <p>We assess whether there are plans to discontinue or privatise the Commission's functions.</p>	<p>We reviewed the financial forecasts for 2021/22. Our understanding of the legislative framework and activities undertaken provides us with sufficient assurance that the Commission will continue to operate for at least 12 months from the signing date.</p> <p>Our audit opinion is unqualified in this respect.</p>

Opinion	Basis for opinion	Conclusions
	<p>Our wider scope audit work considers the financial sustainability of the Commission</p>	
<p>Regularity</p>	<p>We plan and perform our audit recognising that non-compliance with statute or regulations may materially impact on the annual report and accounts.</p>	<p>We did not identify any instances of irregular activity.</p> <p>In our opinion in all material respects the expenditure in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.</p>
<p>Matters prescribed by the Auditor General for Scotland:</p> <ul style="list-style-type: none"> <li>• Remuneration and Staff Report</li> <li>• Performance Report</li> <li>• Governance Statement</li> </ul>	<p>We read all the financial and non-financial information in the annual report and accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit.</p> <p>We plan and perform audit procedures to gain assurance that the statutory other information has been prepared in accordance with directions from Scottish Ministers.</p>	<p>The annual report contains no material misstatements or inconsistencies with the financial statements.</p> <p>We have concluded that:</p> <ul style="list-style-type: none"> <li>• the audited part of the remuneration and staff report has been prepared in accordance with the National Health Service (Scotland) Act 1978 and directions from Scottish Ministers.</li> <li>• the information given in the performance report has been prepared in accordance with directions from Scottish Ministers and is consistent with the financial statements.</li> <li>• the information given in the Governance Statement has been prepared in accordance with the National Health Service (Scotland) Act 1978 and directions from Scottish Ministers and is consistent with the financial statements.</li> </ul>

Opinion	Basis for opinion	Conclusions
Matters reported by exception	<p>We are required to report on whether:</p> <ul style="list-style-type: none"> <li>adequate accounting records have not been kept; or</li> <li>the financial statements and the audited part of the Remuneration and Staff Report are not in agreement with the accounting records; or</li> <li>we have not received all the information and explanations we require for our audit; or</li> <li>there has been a failure to achieve a prescribed financial objective.</li> </ul>	We have no matters to report.

## An overview of the scope of our audit

- The scope of our audit was detailed in our External Audit Plan, which was presented to Audit, Risk and Information Governance Committee in February 2021. 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.
- 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.

- In our audit, we test and examine information using sampling and other audit techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain evidence through performing a review of the significant accounting systems, substantive testing procedures and detailed analytical review procedures.

## Significant risk areas

- Significant risks are defined by professional standards as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, we consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

19. The significant risk areas described in the table below 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 below.

## Significant risk areas

### 1. Management override

#### Significant risk description

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*.

**Risk assessment: High**

#### How the scope of our audit responded to the significant risk

##### Key judgement

There is the potential for management to use their judgement to influence the financial statements as well as the potential to override the Commission's controls for specific transactions.

##### Audit procedures

- Review of the Commission's accounting records and audit testing on transactions.
- Adoption of data analytics techniques in carrying out testing.
- Review of judgements and assumptions made in determining accounting estimates as set out in the financial statements to determine whether they are indicative of potential bias. This included a retrospective review of the prior year estimates against the current year estimates.

#### Key observations

We have not identified any indication of management override in the year. We did not identify any areas of bias in key judgements made by management and judgements were consistent with prior years.

## 2. Revenue recognition

### Significant risk description

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 transactions in such a way as to lead to a material misstatement in the reported financial position.

**Risk assessment: High**

### How the scope of our audit responded to the significant risk

#### Key judgements

Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of income around the year end. However, we do not deem this risk to be present for funding received from Scottish Government due to a lack of incentive and opportunity to manipulate transactions.

#### Audit procedures

- As the Commission does not undertake any income generating activity and funding from the Scottish Government is its only source of income, no further audit procedures deemed necessary.

### Key observations

At the planning stage of our audit we concluded that the risk of fraud in revenue recognition was not present in the annual accounts and we therefore rebutted this risk. The Commission does not undertake any income generating activities; funding from the Scottish Government is its only source of income. This position has been reviewed throughout the audit and our conclusion has remained appropriate.

### 3. Expenditure recognition

**Significant risk description** As most public sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. There is a risk that expenditure may be misstated resulting in a material misstatement in the financial statements.

**Risk assessment: High**

**How the scope of our audit responded to the significant risk**

#### Key judgements

Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of accruals around the year end.

#### Audit procedures

- Evaluate the significant non-pay expenditure streams and review the controls in place over accounting for expenditure. (Payroll is subject to separate tailored testing).
- Consideration of the Commission's key areas of expenditure and obtain evidence that expenditure is recorded in line with appropriate accounting policies and the policies have been applied consistently across the year.
- Review of accruals around the year end to consider if there is any indication of understatement of balances held through consideration of accounting estimates.

**Key observations**

We gained reasonable assurance over the completeness and occurrence of expenditure and are satisfied that expenditure is fairly stated in the financial statements.

#### 4. National Confidential Forum (NCF) cessation

##### Significant risk description

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. The Scottish Government has confirmed that the Forum would cease in March 2021 though this deadline may now be extended due to the delay in the Redress Bill progressing through Parliament.

In the 2019/20 annual report and accounts, a provision was created for the cessation of NCF.

There is a risk that the cessation of NCF is not accounted for and correctly disclosed in the 2020/21 annual report and accounts.

**Risk assessment: High**

##### How the scope of our audit responded to the significant risk

##### Audit procedures

- Review of the Commission's accounting treatment and disclosures in the annual report and accounts to ensure these are in accordance with accounting standards, the accounts manual and Government Financial Reporting Manual.

##### Key observations

The Forum was informed by the Scottish Government in January 2020 that it would close by 31 March 2021. The work of the Forum over the year was targeted to this deadline. The closure was dependent on legislation to provide a means to end the work of the Forum and this was included in the Redress for Survivors (Historical Child Abuse in Care) (Scotland) Bill 2020. The Bill completed stage 3 in March 2021 but did not receive Royal Assent until May 2021. To ensure the statutory functions of the Forum continued to be in place until the legal closure, Scottish Ministers extended the Forum Head and two member appointments initially to 30 September 2021 but once the regulations were enacted the Forum and the members finished on 28 June 2021. All staff left the Forum, and the office was closed, by 31 March 2021.

In the 2020/21 annual report and accounts, a provision continues to exist relating to the cessation of NCF. We have evaluated the value of the provision and our findings are reported under "Estimates and Judgements".

Overall based on audit work performed we have concluded that the cessation of NCF has been correctly accounted for and appropriately disclosed in the annual report and accounts.

## Other risk factors

### Impact of COVID-19 on the annual accounts

20. COVID-19 continues to present unprecedented challenges to the operation, financial management and governance of organisations, including public sector bodies. In response to the pandemic we identified potential

areas of increased risk of material misstatement to the financial statements and/or our audit opinion. Our conclusions are set out in the table below.

Area considered	Description	Conclusion
Content of the annual report and accounts	<p>In response to the continuing impact of COVID-19; HM Treasury issued an addendum to the Government Financial Reporting Manual 2020-21 which sets out the minimum reporting requirements in respect of the performance report and accountability report.</p> <ul style="list-style-type: none"> <li>The addendum permits, but does not require, bodies to omit the performance analysis section from the Performance Report. Where relevant performance information has already been published elsewhere, bodies are encouraged to refer to the relevant publication.</li> <li>Where unaudited information otherwise required to be included in the Accountability Report is already published elsewhere, bodies are permitted to refer to the relevant publication rather than including the information in their Accountability Report.</li> </ul>	<p>The Commission took the decision to apply the addendum to the FReM and includes links to its key performance indicators as published on its website in the performance analysis section of the Performance Report.</p>

Area considered	Description	Conclusion
Access to audit evidence	Our audit this year has been carried out remotely. As a consequence, we identified a risk that access to and provision of sufficient, appropriate audit evidence in support of our audit opinion may be impacted by the inherent nature of carrying out our audit remotely.	We have employed a greater use of technology to examine evidence, but only where we have assessed both the sufficiency and appropriateness of the audit evidence produced.  We stayed in close contact with Commission colleagues to ensure all relevant issues were satisfactorily addressed.

## Estimates and judgements

21. We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the financial statements.
22. As part of the planning and fieldwork stages of the audit we identified all accounting estimates made by management and determined which of those are key to the overall financial statements. Consideration was given to provisions for clinical and medical negligence claims, depreciation rates, provisions for the cessation of NCF
23. Our audit work consisted of reviewing these key areas for any indication of bias and assessing whether the judgements used by management are reasonable. We have summarised our assessment of this below, categorised between Prudent, Balanced and Optimistic.
- and accruals. Other than the provision for the cessation of NCF we have not determined the accounting estimates to be key. We revisited our assessment during the completion stages of our audit and concluded that our assessment remained appropriate.

### Estimates and judgements

#### Provision for the cessation of NCF

Prudent

A provision was created in 2019/20 and reviewed in 2020/21. The provision in 2020/21 comprises amounts for rent and dilapidation obligations. There are ongoing negotiations over the dilapidation obligations. The Commission has engaged experts to provide an assessment of the estimated dilapidation costs. We noted during our audit that the Commission has not updated its provision to reflect the estimation provided by its expert. This is on the basis that the negotiations are ongoing. We have noted this as an uncorrected misstatement (Appendix 2).

## Materiality

24. Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor's report. The assessment of what is material is a matter of professional judgement and is affected by our assessment of the risk profile of the organisation and the needs of users. We review our assessment of materiality throughout the audit.

25. Whilst our audit procedures are designed to identify misstatements

which are material to our audit opinion, we also report to the Commission and management any uncorrected misstatements of lower value errors to the extent that our audit identifies these.

26. Our initial assessment of materiality for Commission's financial statements was £72,600. On receipt of the unaudited annual accounts, we reassessed materiality and revised materiality to £73,500. We consider that this figure has remained appropriate throughout our audit.

### Materiality

#### Overall materiality

£73,500



100%

Accounts materially misstated where total errors exceed this value

#### Performance materiality

£55,125



75%

Work performed to capture individual errors at this level

#### Trivial threshold

£3,675



5%

All errors greater than this level are reported

<b>Materiality</b>	<p>Our assessment is made with reference to the Board'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 financial statements when assessing financial performance .</p> <p>Our assessment of materiality equates to approximately 1.5% of Commission's RRL as disclosed in the 2020/21 unaudited annual accounts.</p> <p>In performing our audit we apply a lower level of materiality to the audit of the Remuneration and Staff Report. Our materiality is set at £5,000.</p>
<b>Performance materiality</b>	<p>Performance materiality is the working level of materiality used throughout the audit. We use performance materiality to determine the nature, timing and extent of audit procedures carried out. We perform audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we perform a greater level of testing on the areas deemed to be at significant risk of material misstatement.</p> <p>Performance materiality is set at a value less than overall materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of the uncorrected and undetected misstatements exceed overall materiality.</p>
<b>Trivial misstatements</b>	<p>Clearly trivial' are matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.</p>

## Audit differences

27. No material audit adjustments were identified during our audit.
28. We identified four unadjusted audit differences which are not considered material to the financial statements and are disclosed at Appendix 2.
29. We also identified disclosure and presentational adjustments during our audit, which have been reflected in the final set of annual accounts.

## Internal controls

30. As part of our work we considered internal controls relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Commission. These matters are limited to those which we have concluded are of sufficient importance to merit being reported.

Area	Assessment	Comment
Control and process environment	<b>Satisfactory</b>	We consider the control environment within the entity to be satisfactory.
Quality of supporting schedules	<b>Satisfactory</b>	The supporting schedules received during the course of the fieldwork were sufficient for our audit purposes.
Responses to audit queries	<b>Satisfactory</b>	Management's responses to our audit queries were appropriate and received on a timely basis.

## Shared systems and functions

31. The Commission uses the Scottish Government payroll services and accounting systems (SEAS). On an annual basis, Audit Scotland, the appointed auditor to the Scottish Government shares with us their findings on work carried out on those systems. The overall conclusion as that, other than for Payroll, the Scottish Government's systems of internal control operate effectively. We have completed sufficient substantive testing to gain assurance that the Commission's payroll costs are free from material misstatement in the financial statements.

## Follow up of prior year recommendations

32. We followed up on progress in implementing actions raised in the prior year as they relate to the audit of the financial statements. Full details of our findings are included in Appendix 4.

## Other communications

### Accounting policies, presentation and disclosures

33. Our work included a review of the adequacy of disclosures in the financial statements and consideration of the appropriateness of the accounting policies adopted by the Commission.
34. The accounting policies, which are disclosed in the annual accounts, are in line with the NHS Accounts Manual and are considered appropriate.
35. There are no significant financial statements 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.
36. Overall we found the disclosed accounting policies, and the overall disclosures and presentation to be appropriate.

### Fraud and suspected fraud

37. We have previously discussed the risk of fraud with management. We have not been made aware of any incidents in the period nor have any incidents

come to our attention as a result of our audit testing.

38. Our work as auditor is not intended to identify any instances of fraud of a non-material nature and should not be relied upon for this purpose.

### Non-compliance with laws and regulations

39. As part of our standard audit testing, we have reviewed the laws and regulations impacting the Commission. There are no indications from this work of any significant incidences of non-compliance or material breaches of laws and regulations that would necessitate a provision or contingent liability.

### Written representations

40. We will present the final letter of representation to the Chief Executive to sign at the same time as the financial statements are approved.

### Related parties

41. We are not aware of any related party transactions which have not been disclosed.

### Confirmations from third parties

42. All requested third party confirmations in respect of bank and legal confirmations have been received.

## Wider scope

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Following consideration of the size, nature and risks of the Commission, the application of the full wider scope audit is judged by us not to be appropriate. Our annual audit work on the wider scope has therefore been restricted to:

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

## Wider scope conclusions



### 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 throughout the period or as a result of remote working during the COVID-19 pandemic.

The Commission adapted its governance arrangements in response to the pandemic. Board and other committee meetings have been able to continue without significant disruption. We are satisfied that the Board received sufficient and timely information throughout the period to support effective scrutiny, challenge and decision making.



### Financial sustainability

#### Auditor judgement

The Commission has adequate arrangements in place for medium term financial planning. A three-year budget forecast has been prepared. The financial plan assumes a pay remit equivalent to 2021/22 and an annual increase in funding to cover those pay increases. Based on these assumptions, the Commission has forecast a project breakeven position / slight underspend across the three years. However, should there be a pay increase but not increase in funding, a deficit position is forecast. The Commission is unable to utilise former surpluses to achieve a breakeven position.

The COVID-19 pandemic has minimal impact on the financial forecasts for the Commission. The Commission's business plans however reflect the current constraints within which it is operating in and continue to be reviewed.

## Our approach to the wider scope audit

43. Our approach to the wider scope audit (as set out in our 2020/21 External Audit Plan) builds on our understanding of the Commission which we developed from previous years, along with discussions with management and review of minutes and key strategy documents.
- Changes in governance arrangements in response to the pandemic; and
  - Counter-fraud arrangements, including the risk of fraud and corruption in relation to the procurement function.
44. During our audit we also considered the following risk areas as they relate to the Commission:
- Impact of COVID-19 on financial sustainability;
45. Overall we concluded that the Commission has appropriate arrangements in place in respect of these areas as noted below

### Impact of COVID-19 on financial sustainability

The COVID-19 pandemic has minimal impact on the financial forecasts for the Commission. The Commission's business plans however reflect the current constraints within which it is operating in and continue to be reviewed.

### Changes in governance arrangements in response to the pandemic

The Commission adapted its governance arrangements in response to the pandemic. Board and other committee meetings have been able to continue without significant disruption. We are satisfied that the Board received sufficient and timely information throughout the period to support effective scrutiny, challenge and decision making.

### Counter-fraud arrangements, included the risk of fraud and corruption in the procurement function

Since the start of the pandemic, there has been potential for the risk of fraud and error to increase as the control environment and internal controls have changed.

We found the Commission's arrangements for the prevention and detection of fraud and other irregularities to be adequate. We reviewed Audit Scotland's report on COVID-19 Emerging Fraud Risks and satisfied ourselves that where there have been changes in the control environment, appropriate mitigating controls have been implemented.

We reflected on the risk of fraud and corruption in respect of the procurement function as part of our 2019/20 Annual Audit Report and deemed the level of risk to be low. We have revisited this assessment during our audit fieldwork and have not identified any changes to our assessment.



## Governance statement

**Our audit work includes consideration of the appropriateness of the disclosures in the governance statement.**

46. We have concluded that the governance statement has been prepared in accordance with the National Health Service (Scotland) Act 1978 and directions from Scottish Ministers and is consistent with the financial statements.
47. From our audit work performed we concluded that 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.
48. In August 2020, Julie Paterson took up the post of Chief Executive (and Accountable Officer). Assurances were received from the Interim Chief Executive via handover meetings in August 2020. The Accountable Officer has confirmed that in her opinion, the control arrangements are appropriate and effective and no significant issues have been identified.

### Responding to the COVID-19 pandemic

49. The Commission adapted its governance arrangements in response to the pandemic. Board and other committee meetings continued without significant disruption. The Board met formally seven times during the year. To keep the Board up to date on current issues throughout the pandemic there were also five question and answer sessions with the

Chief Executive and relevant executive members during the year.

50. We are satisfied that the Board received sufficient and timely information throughout the period to support effective scrutiny, challenge and decision making.
51. The Commission's strategic risk register was updated substantially in June 2020 and again in February 2021 reflecting the new and then ongoing risks from the pandemic.

### System of internal control

52. We have evaluated the Commission's key financial systems and internal control to determine whether they are adequate to safeguard public assets, and prevent and detect fraud, error and irregularity. Our approach has included documenting the key internal financial controls and performing walkthroughs to confirm that they are operating as intended. We also considered any changes to procedures and controls over the key financial systems as a result of the pandemic.
53. All Commission staff are working from home. Staff have access to appropriate equipment for working from home and home workplace assessments were carried out.
54. We did not identify any significant weaknesses in the Commission's accounting and internal control systems during our audit.

### Internal audit

55. An effective internal audit service is an important element of an entity's overall governance arrangements. The Commission's internal audit service is provided by TIAA. During our audit we considered the work of internal audit

wherever possible to avoid duplication of effort and to make the most efficient use of the Commission's total audit resource.



## 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.**

## Significant audit risk

56. Our audit plan identified a significant risk in relation to financial sustainability under our wider scope responsibilities

### Financial sustainability

The Commission prepares a three year financial plan which is updated on an annual basis. It is assumed within the financial plan that the Commission's core revenue resource allocation will remain at £4million until 2022/23. However, the Commission's financial plans note that there is some uncertainty due to political and economic conditions. The Commission has assumed a repeat of the previous, one-year Scottish Government pay policy in 2021/22 and this will now be updated following the Scottish Budget in January. Based on these assumptions, the Commission forecast financial breakeven in 2020/21 and 2021/22 before a budget deficit in 2022/23.

The Business Plan for 2020/21 has been updated to reflect the impact of Covid-19 on the organisation's activities. These changes have been considered to have little effect on the financial position of the Commission in 2020/21.

The achievement of future financial targets will depend on continuing tight control of expenditure. There is a risk that delivery of the Commission's financial plans are at the detriment of services and/or ongoing financial health.

*Noted in the 2020/21 External Audit Plan*

57. Our detailed findings on the Commission's financial framework for achieving long term financial sustainability are set out below.

## Indicative 2021/22 budgets

58. The Scottish Government confirmed the Commission's resource budget for 2021/22 in June 2021. The resource

budget for 2021/22 is £4.529million which comprises the following:

- £4.056million in respect of the Commission's core operating costs

- £256,000 in respect of the Deaths in Detention Review and Mental Health Homicide Review
  - £50,000 contingency funding in respect of the National Confidential Forum
  - £167,000 in respect of the salary costs related to the replacement of the Information Management Portal (IMP)
59. Second opinion costs over the budgeted costs (£418,000) will be met by the Scottish Government. No capital allocation has been awarded at this time.
60. The Commission has budgeted for a breakeven position in 2021/22.

former surpluses to achieve a breakeven position.

## The Commission's performance in 2020/21

63. The Commission's core revenue resource allocation from the Scottish Government for 2020/21 was £4.842million. The Commission received £nil capital allocation in 2020/21.
64. The revenue resource allocation includes funding for Commission 'core activities', funding for the operation of the National Confidential Forum and for the Reviews of Deaths in Detention and Homicide.

## Future financial plans

61. The Commission has prepared a three year budget forecast for the period 2022/23 to 2024/25. This is in line with the Commission's strategic business planning cycle. The annual business plan reflects the impact of COVID-19 on the organisation's activities. These changes are considered to have minimal impact on the financial position of the Commission.
62. The financial plan assumes a pay remit equivalent to 2021/22 and an annual increase in funding to cover those pay increases. Based on these assumptions, the Commission has forecast a project breakeven position / slight underspend across the three years. However, should there be a pay increase but no increase in funding, a deficit position is forecast. The Commission is unable to utilise

### Performance against resource limits

Financial target	Limit	Actual	Variance
	£000	£000	£000
<b>Core revenue resource limit</b>			
Mental Welfare Commission	4,000	3,788	212
National Confidential Forum	650	535	115
The Reviews of Deaths in Detention and Mental Health Homicide	192	191	1
<b>Non-core revenue resource</b>	<b>0</b>	<b>58</b>	<b>(58)</b>

# Appendices

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## Appendix 1: Respective responsibilities of the Commission and the Auditor

The Code of Audit Practice (2016) sets out the responsibilities of both the Commission and the auditor and are detailed below.

### Commission responsibilities

The Commission has primary responsibility for ensuring the proper financial stewardship of public funds, complying with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.

Area	Commission responsibilities
<b>Corporate governance</b>	<p>The Commission, through its Chief Executive (as accountable officer) is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Those charged with governance should be involved in monitoring these arrangements.</p>
<b>Financial statements.</b>	<p>The Commission has responsibility for:</p> <ul style="list-style-type: none"> <li>• preparing financial statements which give a true and fair view of its financial position and their expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation;</li> <li>• maintaining accounting records and working papers that have been prepared to an acceptable professional standard and that support its financial statements and related reports disclosures;</li> <li>• ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority;</li> <li>• maintaining proper accounting records; and</li> <li>• preparing and publishing, along with the financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that is consistent with the disclosures made in the financial statements. Management commentary should be fair, balanced and understandable and also address the longer term financial sustainability of the Commission.</li> </ul> <p>Management is responsible, with the oversight of those charged with governance, for communicating relevant information to users about the</p>

Area	Commission responsibilities
	<p>entity and its financial performance, including providing adequate disclosures in accordance with the applicable financial reporting framework. The relevant information should be communicated clearly and concisely.</p> <p>The Commission is responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of its objectives and safeguard and secure value for money from the public funds at its disposal. They are also responsible for establishing effective and appropriate internal audit and risk-management functions.</p>
<p><b>Standards of conduct for prevention and detection of fraud and error</b></p>	<p>The Commission is responsible for establishing arrangements to prevent and detect fraud, error and irregularities, bribery and corruption and also to ensure that its affairs are managed in accordance with proper standards of conduct.</p>
<p><b>Financial position</b></p>	<p>The Commission is responsible for putting in place proper arrangements to ensure the financial position is soundly based having regard to:</p> <ul style="list-style-type: none"> <li>• Such financial monitoring and reporting arrangements as may be specified;</li> <li>• Compliance with statutory financial requirements and achievement of financial targets;</li> <li>• Balances and reserves, including strategies about levels and their future use;</li> <li>• Plans to deal with uncertainty in the medium and long term; and</li> <li>• The impact of planned future policies and foreseeable developments on the financial position.</li> </ul>
<p><b>Best value</b></p>	<p>Accountable officers have a specific responsibility to ensure that arrangements have been made to secure best value.</p>

## Auditor responsibilities

Auditor responsibilities are derived from statute, the Code of Audit Practice, International Standards on Auditing (UK), professional requirements and best practice. These are to:

- undertake statutory duties, and comply with professional engagement and ethical standards;
- provide an opinion on the financial statements and the regularity of transactions;
- review and report on, as appropriate, other information such as annual governance statements, management commentaries and remuneration reports;
- notify the Auditor General when circumstances indicate that a statutory report may be required; and
- demonstrate compliance with the wider scope of public audit.

### 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 of Audit Practice 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.

## Independence

In accordance with our profession's ethical guidance and further to our External Audit Annual Plan issued confirming audit arrangements there are no further matters to bring to your attention in relation to our integrity, objectivity and independence.

We confirm that Azets Audit Services and the engagement team complied with the FRC's Ethical Standard. We confirm that all threats to our independence have been properly addressed through appropriate safeguards and that we are independent and able to express an objective opinion on the financial statements.

In October 2020, the Auditor General extended our audit appointment for one year through to the audit of the 2021/22 financial year to provide continuity and stability in the current challenging environment. The FRC's Ethical Standard states that careful consideration must be given once an audit engagement partner has held the role for a continuous period of ten years. Our period of total uninterrupted appointment as at the end of 31 March 2021 is 10 years. As such to mitigate the threat to auditor independence as result of long association, and in accordance with guidance from Audit Scotland, a new audit engagement partner will be appointed for the 2021/22 audit.

### Audit and non-audit services

The total fees charged to the Commission for the provision of services in 2020/21 (with prior year comparators) is as follows:

	Current year £	Prior year £
Audit of Mental Welfare Commission for Scotland (Auditor remuneration)	15,480	15,030
<b>Total audit</b>	<b>15,480</b>	<b>15,030</b>
Non-audit services	-	-
<b>Total fees</b>	<b>15,480</b>	<b>15,030</b>

FRC's Ethical Standard stipulates that where an auditor undertakes non audit work, appropriate safeguards must be applied to reduce or eliminate any threats to independence. No non-audit services were provided to Mental Welfare Commission for Scotland.

### Audit quality

The Auditor General and the Accounts Commission require assurance on the quality of public audit in Scotland through comprehensive audit quality arrangements that apply to all audit work and providers. The audit quality arrangements recognise the importance of audit quality to the Auditor General and the Accounts Commission and provide regular reporting on audit quality and performance.

Audit Scotland maintains and delivers an [Audit Quality Framework](#).

The most recent audit quality report which covers our work at the Commission since appointment can be found at <https://www.audit-scotland.gov.uk/report/quality-of-public-audit-in-scotland-annual-report-202021>

## Appendix 2: Adjusted and unadjusted errors identified during the audit

### Disclosure amendments

No	Detail
1	Write down of assets no longer in use (net impact on financial statements is nil; impacts on property, plant and equipment and intangible assets notes).

### Uncorrected misstatements

Our summary of unadjusted audit differences is presented below. We have discussed these with management and confirmed that all unadjusted differences are collectively and individually under materiality.

Details of unadjusted audit differences	Assets	Liabilities	Reserves	SoCNE
	Dr / (Cr)	Dr / (Cr)	Dr / (Cr)	Dr / (Cr)
	£	£	£	£
Provision for the cessation of NCF		21,747		(21,747)
Reversal of historic accruals		19,771		(19,771)
Adjustment to reconcile to trial balance		(5,000)	5,000	-
Recognition of rent free periods across lease term		(7,164)		7,164
<b>Total</b>				<b>(34,354)</b>

## Appendix 3: Action plan

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

The recommendations are categorised into three risk ratings:

**Key:**

**1. Significant deficiency**

**2. Other deficiency**

**3. Other observation**

1. Policies and procedures		Other observation
<b>Observation</b>	<p>A number of key policies and procedures such as the Conflict of Interest Policy, Board Members' Code of Conduct and Staff Code of Conduct are out of date.</p> <p>We understand that the Board Code of Conduct has not been updated as the Commission are waiting on the Ethical Standards Commission to review its version of the code of conduct which the Commission's policy is based upon.</p>	
<b>Implication</b>	<p>Without up to date policies, there is a risk that employees do not act appropriately, in line with the national approach or in the best interest of the Commission.</p>	
<b>Recommendation</b>	<p>The Commission should ensure out of date polices are reviewed and updated in a timely manner.</p>	
<b>Management response</b>	<p>We have a process in place to update policies throughout this year. The corporate performance framework has a target to have 50% of policies up to date.</p>	

## 2. VAT

### Other deficiency

<b>Observation</b>	All 4 VAT returns during the year have been submitted after the HMRC deadline per the VAT returns.
<b>Implication</b>	Late VAT returns may result in increased scrutiny if HMRC were to decide to visit and the Commission could incur a penalty on VAT returns with a liability and not in a repayment position.
<b>Recommendation</b>	Processes and procedures in place with Scottish Government in relation to VAT returns should be reviewed and strengthened to ensure VAT returns are submitted on time.
<b>Management response</b>	Agreed – we are at the end of this Scottish Government process but we have been in touch with SG Vat to improve the return timescales and arrange backup submission arrangements to cover any unplanned absences

## Appendix 4: Follow up of prior year recommendations

### Documentation of authorisation of journals

**Recommendation** As part of our journals testing, we have noted that the authorisation of journals has not been consistently documented in year.

We understand that the Finance Manager reviews journals as part of the month end reporting process. Through our testing we have gained reasonable assurance that no improper journals are being posted. Segregation of duties is in place and no journals have been posted by the Finance Manager.

The journals which are posted are routine in nature and low risk. However, ensuring documentation of review would provide a clear audit trail.

Rating	Other deficiency	Implementation date	With immediate effect
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<b>Closed</b>	Our audit testing in 2020/21 confirmed that journals are appropriately authorised and appropriate segregation of duties are in place.		
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## Asset register

**Recommendation** 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.

Rating	Other deficiency	Implementation date	October 2019
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<b>Closed</b>	An adjustment was made in the 2020/21 annual report and financial statements to write down the balances for those assets no longer in use.
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