

# **Mental Welfare Commission for Scotland Annual Audit Report**

Financial year ending 31 March 2025

Prepared for those Charged with Governance and the  
Auditor General for Scotland

24 June 2025



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our external audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular, we cannot be held responsible to you for reporting all of the risks which may affect the Mental Welfare Commission for Scotland or all weaknesses in your internal controls. This report has been prepared solely for your benefit and Audit Scotland (under the Audit Scotland Code of Audit Practice 2021). We do not accept any responsibility for any loss occasioned to any third part 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.

# **01 Executive summary**

# Executive summary (1)

This table summarises the key findings and other matters arising from the external audit of the Mental Welfare Commission for Scotland and the preparation of the financial statements for the year ended 31 March 2025 for those charged with governance (Audit, Performance and Risk Committee) and the Auditor General for Scotland.

## Financial statements

Under International Standards of Audit (UK) (ISAs) and Audit Scotland's Code of Audit Practice ('the Code') we are required to report whether, in our opinion:

- the Commission's financial statements give a true and fair view of the financial position of the Mental Welfare Commission for Scotland at 31 March 2025, and of the net expenditure of the Commission for the year then ended;
- the Commission's financial statements have been properly prepared in accordance with UK adopted international accounting standards, as interpreted and adapted by the 2024/25 Government Financial Reporting Manual (FReM);
- the Commission's financial statements and audited parts of the Remuneration Report and Staff Report have been prepared in accordance with the requirements of the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers; and
- the Governance Statement is prepared in accordance with the FReM and NHS Scotland Manual for Accounts

We are required to report whether other information published together with the audited financial statements in the Annual Report and Accounts is consistent with the financial statements and has been prepared in accordance with the requirements.

We are required to express an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

Our audit work on the Remuneration and Staff Report, subject to audit, has been prepared in accordance with requirements. We have concluded the work on the Governance Statement has been prepared in accordance with the relevant legislation and directions made by Scottish Ministers. The Annual Report and Accounts presented for audit had minor areas not complete and some consistency and formatting changes that were required. Further improving quality assurance processes on the statements presented for audit should reduce the number of minor audit queries.

Mental Welfare Commission uses the Scottish Government ledger. This was replaced on 1 October 2024 to Oracle. Therefore, we agreed that the financial statements would be received one week later than usual, by 16 May, to allow the finance team more time for compilation in the first year of using the new system. The Annual Report and Accounts were presented for audit on 19 May.

Most working papers were provided by the due date, but some important working papers were received into week two of the audit. Receiving all working papers at the start of the audit ensures the audit samples and queries are contained to the expected audit timelines. There was difficulty reconciling the operating expenses classification in the financial statements, as the functionality of the new accounting system is not being used due to miscoding within the ledger. There should be a mapping document available at the start of the audit which reconciles the ledger to the financial statements. Leases did not have any working papers provided, and the discounted interest charge had not been calculated.

# Executive summary (2)

## Financial statements

The trial balance presented for audit was not fully complete. There were adjustment journals (considered Period 13 journals) which Mental Welfare Commission had not posted prior to the start of our audit. The accounts presented for audit showed the position as if these journals had been posted. However, the fact these journals had not been posted added additional complexity to some of our audit procedures, particularly the timeliness of our agreement of balances and samples selection.

### Adjustments

There was one amendment identified to the primary statements as noted at Appendix A for £0.082 million where trade payables incorrectly included an item that had been paid, so expenditure was overstated. This has been amended by management. Additionally, there was a classification adjustment within the Statement of Cash Flows, removing £0.179 million from cash flows from operating activities and investing activities. This also had an impact on the prior year figures.

We also identified three misstatements during the audit with an overall overstatement of £0.013 million. Management have decided not to adjust the financial statements for these misstatements, as it had no material impact on the financial statements. Further details are set out in Appendix A.

**We have issued an unmodified opinion on the financial statements on 24 June 2025.**

### Recommendations

We have raised two financial statements recommendations for management as a result of our audit work on the financial statements. These are set out in Appendix B.

Our follow up of the eight recommendations made as part of our 2023/24 audit are detailed in Appendix C. Progress towards these recommendations is as follows:

- One recommendation is in progress
- Six recommendations remain open, and need to be actioned in 2025/26
- One recommendations has been closed.

Following up all outstanding recommendations will aid the accounts closedown and audit process.

### Audit fee

The Audit fee in our Audit Plan noted the work for the data migration to the new ledger would be additional fee, but at the audit planning stage the extent of the work was not yet known. The fee for this significant risk work is £3,500. In addition, we are also levying £1,750 due to the duplication of work required, and additional time incurred from the ledger reconciliation, operating expenses and leases work required. Therefore, the total audit fee for 2024/25 is £28,580.

We appreciate the supportive nature of the finance team during the audit process whilst completing other duties. We acknowledge the size of the Commission's finance department with only two team members. A mix of on site and remote working by the audit team was undertaken.

# Executive summary (3)

## Wider scope and Best Value

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Under the Audit Scotland Code of Audit Practice ('the Code'), the scope of public audit extends beyond the audit of the financial statements. In accordance with "supplementary guidance – wider scope audit, lest complex bodies and best value" we have concluded that the Mental Welfare Commission for Scotland meets the criteria of a "less complex body", and as such have limited the scope of our wider scope assessment.

As required by the Code, and aforementioned supporting guidance, we have assessed both the quantitative and qualitative risk factors related to the Mental Welfare Commission for Scotland and concluded that the Commission qualifies for the "less complex" exemption for 2024/25. On this basis, our wider scope assessment has been limited to the following:

- A review of the Annual Governance Statement
- Concluding on the financial sustainability of the body and the services that it delivers over the medium to long term.

We did not raise any significant issues in relation to the disclosure within the Annual Governance Statement.

With regard to financial sustainability, Mental Welfare Commission received letters of intent in May 2025 about specific projects, which meant recruitment could be undertaken for the approved projects into 2025/26. The core funding letter has not yet been received, and is expected later in June.

The late confirmation of this funding has presented some difficulties with forward financial planning. Our recommendation around longer-term financial planning that was raised in 2023/24 remains extant, although we appreciate the difficulty with one-year financial settlements (see wider scope conclusions and Appendix C).

Special Health Boards in Scotland have a legal duty to deliver "Best Value" in their services. This means they must make arrangements to ensure continuous improvement in their performance, while maintaining a balance between quality and cost, and consider economy, efficiency, effectiveness, equal opportunities, and sustainable development. The Code of Audit practice requires auditors to consider the arrangements put in place by Accountable Officers to meet their Best Value obligations. There are adequate arrangements in place to meet the Best Value obligations.

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## **02 Introduction**



# Introduction

## Scope of our audit work

Our work has been undertaken in accordance with International Standards of Auditing (ISAs) (UK) and the Code.

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

- Annual Audit Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code. Its contents have been discussed with management and will be presented to the Audit, Performance and Risk Committee on 16 June 2025 and the Board on 24 June 2025.
- As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

## Responsibilities

Mental Welfare Commission for Scotland has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts in accordance with proper accounting practices. The Commission is also responsible for compliance with legislation, and establishing arrangements over governance, propriety and regularity that enable it to successfully deliver its objectives.

Our responsibilities as independent auditors, appointed by the Auditor General for Scotland, are set out in the Public Finance and Accountability (Scotland) Act 2000, the Code and supplementary guidance, and International Standards on Auditing in the UK.

The recommendations or risks identified in this respect 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 officers from their responsibility to address the issues raised and to maintain an adequate system of control.

## Audit approach

Our audit approach was based on a thorough understanding of the Commission and is risk based, and in particular included:

- An evaluation of Mental Welfare Commission for Scotland's internal control environment, including its IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

## Adding value through our audit work

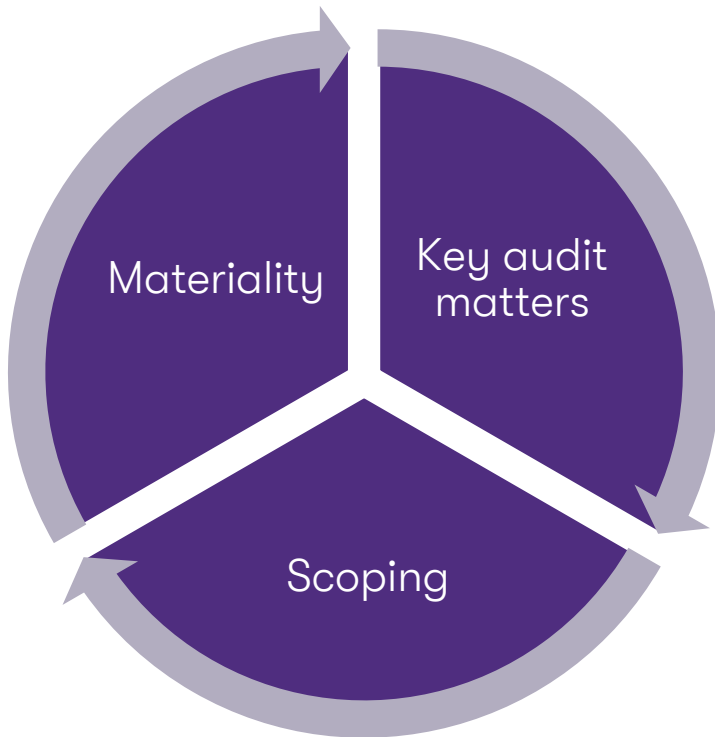
We aim to add value to the Commission throughout our audit work. We do this through using our wider public sector knowledge and expertise to provide constructive, forward-looking recommendations where we identify areas for improvement and encourage good practice around financial management, financial sustainability, risk management and performance monitoring. In so doing, we aim to help the Commission promote improved standards of governance, better management and decision making, and more effective use of resources.



# **03 Audit of the annual report and accounts**

# Audit of the annual report and accounts

## Approach to the audit of financial statements



### Key audit matters and significant risks

The following significant risks/ key audit matters have been identified:

- Management override of controls (ISA (UK) 240); and
- Risk of fraud in expenditure recognition – non-payroll (cut-off) (PN10)
- Data migration to the new finance system is not accurate or complete

### Internal control environment

In accordance with ISA requirements, we have developed an understanding of the Commission's control environment. Our audit is not controls based and we have not placed reliance on controls operating effectively as our audit is substantive in nature. In accordance with ISAs, over those areas of significant risk of material misstatement we consider the design of controls in place.

However, we do not place reliance on the design of controls when undertaking our substantive testing. We identified no material weaknesses or areas of concern from this work which would have caused us to alter the planned approach as documented in our plan.

### Recap of our audit approach and key changes in our audit strategy

We have not identified any changes in our approach since our Audit Plan was presented to you on 3 February 2025. The risks identified remain the same.

### Audit Status

Audit quality is important to us, and it is important as auditors that we take a step back to consider all our audit evidence and the quality of our audit work on file on completion. This includes sufficient documentation of our key auditor judgements and conclusions. **We have completed our external audit for 2024/25 and have issued an unmodified opinion on 24 June 2025.**

# Our application of materiality

We apply the concept of materiality both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report. The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Our audit approach was set out in our audit plan.

- We reviewed and updated our assessment of materiality from planning based upon your 2024/25 draft financial statements and concluded that materiality is £154,000 (PY £116,960), which equates to approximately 2.3% of gross expenditure (PY 2%).
- Performance materiality was set at £107,900 (PY £87,720) representing 70% of our calculated materiality (PY 75%).
- We report to Officers (Management) any difference identified over £7,700 representing 5% of our calculated materiality (PY £5,800 and 5% respectively).
- Due to the public interest in senior officer remuneration disclosures, we apply specific audit procedures to this work and set a lower materiality level for this area of £25,000 (PY £25,000). At the final accounts stage, we have also extended this lower materiality level to the exit packages disclosure. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be applicable for senior officer remuneration disclosures. We evaluate errors in the remuneration report for both quantitative and qualitative factors against this lower level of materiality. We will apply heightened auditor focus on the completeness and clarity of disclosures in this area and will request amendments to be made if any errors exceed the threshold we have set or would alter the bandings reported for any individual.

The change in materiality values since our final audit plan was communicated to you on 3 February 2025 is due to final expenditure for 2024/25 used as the basis of the calculation. The percentage chosen for higher materiality, performance materiality and triviality remains unchanged.

# Overview of the scope of our audit

We performed a risk-based audit that requires an understanding of the Mental Welfare Commission for Scotland in particular matters related to:

## Understanding the Commission, their environment and controls

The engagement team obtained an understanding of the Commission and its environment, including controls, and assessed the risks of material misstatement.

## Work to be performed on financial information of the Commission (including how it addressed the key audit matters)

A full scope audit was performed on the Commission. This included substantive testing of material balances and transactions.

## Performance of our audit

The full scope audit was conducted on the Commission. Our work has covered all material balances and transactions in expenditure, income, assets, liabilities and reserves as well as other primary statements and disclosure notes.

# Detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Commission and determined that the most significant which are directly relevant to specific assertions in the financial statements are those related to the reporting frameworks; International Financial Reporting Standards and the 2024/25 HM Treasury Financial Reporting Manual (FReM).
- We enquired of Senior Officers and the Chair of the Audit, Performance and Risk Committee, concerning the Commission's policies and procedures relating to the identification, evaluation and compliance with laws and regulations; the detection and response to the risks of fraud; and the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of Senior Officers and the Chair of the Audit, Performance and Risk Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Commission's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks to journal entries that altered the Commission's financial performance for the year and potential management bias in determining accounting estimates in relation to the valuation of land and the risk of fraud in income and expenditure recognition. Our audit procedures were in relation are documented within our response to the significant risk of management override of controls.

These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

The team communications in respect of potential non-compliance with relevant laws and regulations, included the potential for fraud in in certain account balances and significant accounting estimates.

In assessing the potential risks of material misstatement, we obtained an understanding of:

- The Commission's operations, including the nature of its operating revenue and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
- The Commission's control environment, including the policies and procedures implemented by the Commission to ensure compliance with the requirements of the financial reporting framework.

# Overview of audit risks

The table below summarises the key audit matters, significant and other risks discussed in more detail on the subsequent pages

Risk title	Risk level	Change in risk since audit plan	Fraud risk	Key audit matter	Level of judgment or estimation uncertainty	Testing approach	Status of work to date
Management override of controls	Significant	↔	✓	✖	Low	Substantive	<div></div> Green
Risk of fraud in expenditure	Significant	↔	✓	✖	Medium	Substantive	<div></div> Green
Data migration to the new finance system is not accurate or complete	Significant	↔	✖	✓	Low	Substantive	<div></div> Green

- ↑

Assessed risk increased since Audit Plan
- ↔

Assessed risk consistent with Audit Plan
- ↓

Assessed risk decreased since Audit Plan
- Not considered likely to result in material adjustment or change to disclosures within the financial statements
- Potential to result in material adjustment or significant change to disclosures within the financial statements
- Likely to result in material adjustment or significant change to disclosures within the financial statements.

# Significant risks and key audit matters (1)

## Responding to significant financial statement risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams 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. This section provides commentary on the significant audit risks communicated in the external audit plan.

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the group and Board's financial statements for the current year and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we have identified.

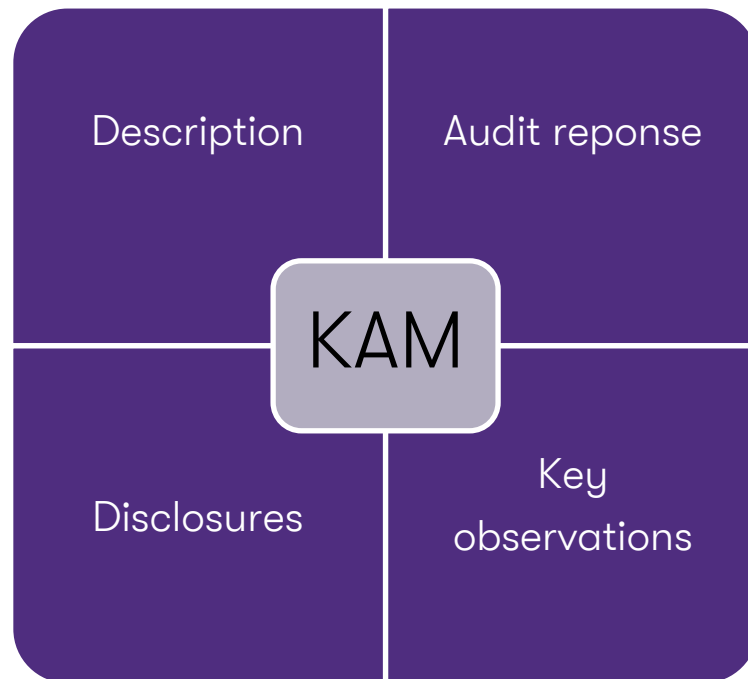
These matters include those that had the greatest effect on:

- the overall audit strategy;
- the allocation of resources in the audit; and
- directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## Other risks

Other risks are, in the auditor's judgement, those where the risk of material misstatement is lower than that for a significant risk, but they are nonetheless an area of focus for our audit.





# Significant risks and key audit matters (2)

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams 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.

Significant risk	Description	Key aspects of our proposed response to the risk
<b>Fraud in Revenue Recognition</b>	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> <p><b>(rebutted)</b></p>	<p>Having considered the risk factors set out in ISA 240 and the nature of the revenue streams at the Mental Welfare Commission for Scotland, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition;</li> <li>• opportunities to manipulate revenue recognition are very limited; and</li> <li>• the only material revenue stream is revenue received through Revenue Resource Allocations directly from the Scottish Government and as such, the inherent risk of material misstatement is low.</li> </ul> <p><b>Therefore, we do not consider this to be a significant risk for the Mental Welfare Commission for Scotland.</b></p>



“In determining significant risks, the auditor may first identify those assessed risks of material misstatement that have been assessed higher on the spectrum of inherent risk to form the basis for considering which risks may be close to the upper end. Being close to the upper end of the spectrum of inherent risk will differ from entity to entity and will not necessarily be the same for an entity period on period. It may depend on the nature and circumstances of the entity for which the risk is being assessed. The determination of which of the assessed risks of material misstatement are close to the upper end of the spectrum of inherent risk, and are therefore significant risks, is a matter of professional judgment, unless the risk is of a type specified to be treated as a significant risk in accordance with the requirements of another ISA (UK).” (ISA (UK) 315).

In making the review of unusual significant transactions “the auditor shall treat identified significant related party transactions outside the entity’s normal course of business as giving rise to significant risks.” (ISA (UK) 550).



Management should expect engagement teams to challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates, going concern, related parties and similar areas. Management should also expect to provide to engagement teams with sufficient evidence to support their judgments and the approach they have adopted for key accounting policies referenced to accounting standards or changes thereto.

Where estimates are used in the preparation of the financial statements management should expect teams to challenge management’s assumptions and request evidence to support those assumptions.

# Significant risks and key audit matters (3)

Significant risks identified in our Audit Plan	Commentary
<p><b>Management override of controls</b></p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities.</p> <p>Our risk focuses on the areas of the financial statements where there is potential for management to use their judgement to influence the financial statements alongside the potential to override the entity's internal controls, related to individual transactions.</p> <p>We have therefore identified management override of controls, in particular journals, management estimates and transactions outside the course of business as a significant risk of material misstatement.</p> <p>Most journals are posted by Scottish Government into the centralised SEAS accounting system. Therefore, the risk of management override is lower if management do not have an ability to override journals. Our testing approach therefore covered any journals that were posted internally by Mental Welfare Commission for Scotland officers.</p>	<p>In response to the risk highlighted in the audit plan we carried out the following work:</p> <ul style="list-style-type: none"> <li>• Documented our understanding of and evaluated the design effectiveness of management's key controls over journals;</li> <li>• Analysed your full journal listing for the year and used this to determine our criteria for selecting high risk journals;</li> <li>• Tested the high-risk journals we have identified;</li> <li>• Gained an understanding of the critical judgements applied by management in the preparation of the financial statements and considered their reasonableness;</li> <li>• Gained an understanding of the key accounting estimates made by management and carried out substantive testing on in scope estimates.; and</li> <li>• Evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul> <p><b>Conclusion</b></p> <p>Our testing of journals has not identified any issues to bring to your attention regarding any indication of management override of controls. The Oracle system requires a separate poster and authoriser of journals, thus ensuring separation of duties.</p> <p>We did note that the trial balance presented for audit was not fully complete. There were journals (considered Period 13 journals) which Mental Welfare Commission had not posted prior to the start of our audit. The accounts presented for audit showed the position as if these journals had been posted and we confirmed further into our audit procedures that this process had subsequently been carried out correctly.</p> <p>This is the same issue identified during the 2022/23 and 2023/24 audit, and our recommendation is carried forward again to ensure that the ledger is complete for the start of the audit. This allows timely reconciliations and sample selection processes for the audit. This will reduce the duplicated work currently required to balance the ledger to the financial statements more than once.</p>

# Significant risks and key audit matters (4)

Significant risks identified in our Audit Plan	Commentary
<p><b>Fraud in expenditure recognition</b></p> <p>As set out in Practice Note 10 (Revised 2020) ‘The Audit of Public Sector Financial Statements’, issued by the Public Audit Forum, we consider there to be an inherent risk of fraud in expenditure recognition.</p> <p>Mental Welfare Commission for Scotland’s expenditure includes both payroll and non-payroll costs.</p> <p>We consider payroll costs to be well forecast and are able to agree these costs to underlying payroll data. As such, we believe there is less opportunity for a material misstatement as a result of fraud in this area.</p> <p>We therefore focus our risk on the following non-payroll expenditure streams: other operating expenditure. Our testing will include a specific focus on year-end cut-off arrangements, including consideration of the existence of accruals and provisions in relation to non-payroll expenditure.</p>	<p>In response to the risk highlighted in the audit plan we carried out the following work:</p> <ul style="list-style-type: none"> <li>• Evaluated your accounting policy for recognition of expenditure for appropriateness and compliance with the NHS Accounting Manual and FReM;</li> <li>• Performed detail testing of expenditure transactions at and around year end to verify the accounting period transactions relate to and confirm that transactions have been recognised in the correct accounting period; and</li> <li>• Reviewed the judgements and estimates made by management when recognising accruals and provisions at year end within the financial statements and where appropriate challenge management accordingly</li> <li>• Our testing included a specific focus on year-end cut-off arrangements, including consideration of the existence of accruals in relation to non-payroll expenditure.</li> </ul> <p><b>Conclusion</b></p> <p>Our testing of the risk of fraud in expenditure did not identify any material issues in relation to expenditure recognition.</p>

# Significant risks and key audit matters (5)

Significant risks identified in our Audit Plan	Commentary
<p><b>Migration of data to the new finance system is not accurate and complete.</b></p> <p>As part of its corporate transformation, the Scottish Government Shared Services Programme (SSP) delivered a new HR and Finance system (Oracle Cloud), which replaced decades-old systems and provides shared services to the Scottish Government core and over 30 other public bodies including Mental Welfare Commission for Scotland.</p> <p>The go-live date for the project was originally April 2024 however, this was delayed due to several issues and the new implementation date was 1 October 2024.</p>	<p>In response to the risk highlighted in the audit plan we carried out the following work:</p> <ul style="list-style-type: none"> <li>• Obtained an understanding of the implementation position and updates in terms of the go-live date;</li> <li>• Undertook a review of the implementation process for the new ledger;</li> <li>• Obtained an understanding of the new system including the IT general controls in place and controls in relation to journals including processing and authorisation;</li> <li>• Reviewed the organisation's process for ensuring the data migration was complete and accurate;</li> <li>• Completed a reconciliation of the opening balances in SEAS to the opening balances in Oracle Cloud to ensure the transfer of balances at the date of implementation was accurate and complete.</li> </ul> <p><b>Conclusion</b></p> <p>There were no significant issues to note to you regarding the data migration to the new ledger. One opening balance within the new ledger required amendment, but this was in classification only and was corrected as part of the final accounts process.</p> <p>We have raised a recommendation at Appendix B regarding the Mental Welfare Commission's use of the new ledger system, as manual processes are being used to compile the figures in the financial statements to get the correct expenditure classification. This is due to some source coding errors within the financial ledger. This should be addressed as a priority, as manual work arounds should not be required, the coding should be correct at the point of input for each order / invoice. Introducing manual procedures adds further time into the accounts compilation process and increases the risk of error.</p>

# Financial statements – key judgements and estimates (1)

As required in Mental Welfare Commission for Scotland's accounting policies, officers outline critical judgements in applying accounting policies and in addition, assumptions about the future and other sources of estimation uncertainty. In particular, where estimates and judgements are identified, these should be quantified.

This section provides commentary on key estimates and judgments in line with the enhanced requirements for auditors.

## Assessment

- - We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated.
- - We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic.
- - We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious.
- - We consider management's process is appropriate and key assumptions are neither optimistic or cautious.

# Financial statements – key judgements and estimates (2)

Significant judgement or estimate	Summary of management's approach	Audit comments	Assessment
<p><b>Accruals - £0.576 million (PY £0.244 million)</b></p> <p>Note 10 Trade and other payables</p>	<p>Mental Welfare Commission for Scotland accrues for expenditure to ensure that all expenditure that is incurred during the financial year, but has not yet been billed, invoiced or paid for, is recording in the year to which it relates. Mental Welfare Commission for Scotland has one main type of accruals:</p> <p><b>Manual accruals</b></p> <p>These are largely based on non-purchase order-based accruals. Examples include second opinion doctor fees accruals and agency cost accruals. These are often based on best available information.</p>	<p>We have performed substantive testing on a sample of accruals.</p> <p>We identified one error for £0.082 million that management has amended as a trade payable within the ledger upon transition to Oracle was still reflected in the closing balance when it had been paid. This is set out at Appendix A.</p> <p>Our work also identified one error relating to an overstatement of the annual leave accrual of £0.013 million. This has not been adjusted by management as it is not material and is set out at Appendix A.</p> <p><b>Conclusion</b></p> <p>Our work is concluded in this area, and we have noted two amendments, as set out at Appendix A.</p>	<p>We consider management's process is appropriate and key assumptions are neither optimistic or cautious</p>

# Financial statements – key judgements and estimates (3)

Significant judgement or estimate	Summary of management's approach	Audit comments	Assessment
<p><b>Assessment of leases</b></p> <p>– £0.639 million</p> <p><i>Net book value of right of use assets (Note 7a)</i></p>	<p>Mental Welfare Commission for Scotland determines the amounts to be recognised as the lease liability as the present value of the payments for the remaining lease term, net of irrecoverable value added tax, discounted either by the rate implicit in the lease, or, where this cannot be determined, the rate advised by HM Treasury for that calendar year.</p> <p>The liability includes payments that are fixed or in-substance fixed, excluding, for example, changes arising from future rent reviews or changes in an index. The right-of-use asset is measured at the value of the liability, adjusted for any payments made or amounts accrued before the commencement date; lease incentives received; incremental costs of obtaining the lease; and any disposal costs at the end of the lease.</p> <p>Right-of-use assets held under “peppercorn” leases are measured at existing use value.</p>	<p>We reviewed your assessment of the estimate considering the requirements of ISA (UK) 540 requirements.</p> <p>The lease was extended for 5 years during 2024/25.</p> <p><b>Conclusion</b></p> <p>Our work is concluded in this area. The right of use asset and lease liability are reflected in the accounts. and we can confirm the disclosure is appropriate.</p> <p>We identified one amendment for £0.08 million for the overstatement of the lease liability. This is minor and has not been adjusted by management, as set out at Appendix A.</p> <p>The working papers for leases were not provided during the audit and we had to perform our own tests around the expectations for the lease liability value.</p> <p>All material balances and transactions require working papers to evidence judgements made. A recommendation is added at Appendix B.</p>	<p>We consider management's process is appropriate and key assumptions are neither optimistic or cautious.</p>



# Other key elements of the financial statements (1)

There were other key areas of focus during our audit. Whilst not considered a significant risk, these are areas of focus either in accordance with the Audit Scotland Code of Audit Practice (2021) or ISAs or due to their complexity or importance to the user of the accounts:

Issue	Commentary
<b>Matters in relation to fraud and irregularity</b>	It is the Commission's responsibility to establish arrangements to prevent and detect fraud and other irregularity. As auditors, we obtain reasonable assurance that the financial statements as a whole are free from material misstatement, whether due to fraud or error. We obtain annual representations from officers and those charged with governance regarding the Commission's assessment of fraud risk, including internal controls, and any known or suspected fraud or misstatement. We have also made inquiries of internal audit around internal control, fraud risk and any known or suspected frauds in the year. We have not been made aware of any incidents in the period and no issues in relation to these areas have been identified during the course of our audit procedures.
<b>Accounting practices</b>	We have evaluated the appropriateness of the Commission's accounting policies, accounting estimates and financial statement disclosures. We have identified minor disclosure adjustments required to the financial statements which have been detailed in Appendix A. A review of any policies that are not material could be undertaken as they are not required to be disclosed.
<b>Matters in relation to related parties</b>	We are not aware of any related parties or related party transactions which have not been disclosed.
<b>Matters in relation to laws and regulations</b>	We have not been made aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work. We have not identified any cases of money laundering or fraud at the Mental Welfare Commission for Scotland.
<b>Other information</b>	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. Minor amendments have been made to the Annual Report and we are satisfied that there are no unadjusted material inconsistencies to report.

# Other key elements of the financial statements (2)

Issue	Commentary
<b>Governance statement</b>	We are required to report on whether the information given in the Governance Statement is consistent with the financial statements and prepared in accordance with the requirements of the Government Financial Reporting Manual (FReM) and NHS Scotland Manual for Accounts. No inconsistencies have been identified and we plan to issue an unmodified opinion in this respect.
<b>Matters on which we report by exception</b>	We are required by the Auditor General for Scotland to report to you if, in our opinion: adequate accounting records have not been kept; or the financial statements and the audited part of the Remuneration Report 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. Minor changes were made to enhance disclosure. We have nothing to report in respect of these matters.
<b>Review of accounts consolidation schedules and specified procedures on behalf of the group auditor</b>	<p>In line with ISA (UK) 600, the Scottish Government audit team are required to evaluate and review the work performed by component auditors in relation to the significant risks of material misstatement for the purposes of their group audit. The Commission falls within the Scottish Government consolidation boundary, and they must submit an audited consolidation pack to the Scottish Government once the annual accounts have been audited.</p> <p>We are required to give a separate audit opinion on the Mental Welfare Commission for Scotland's consolidation schedules and carry our specified procedures on these schedule under group audit instructions. We have nothing to report on these matters as they are conducted after the conclusion of the financial statements audit as the deadline is later than the audit deadline.</p>
<b>Opinion on other aspects of the annual report and accounts</b>	We are required to give an opinion on whether the parts of the Remuneration Report and Staff Report subject to audit have been properly prepared in accordance with the requirements of the National Health Service (Scotland) Act 1978, and directions thereunder. We have identified minor changes to the disclosures which are reported fully in Appendix A.
<b>Regularity</b>	The Accountable Officer is responsible for ensuring the regularity of expenditure and income. We are responsible for expressing an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000. In our opinion in all material aspects 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.
<b>Written representations</b>	A letter of representation has been requested from Mental Welfare Commission for Scotland as required by the auditing standards. This can be found as a separate agenda item to this report. We have not requested any additional representations from management.

# Other key elements of the financial statements (3)

Issue	Commentary
<b>Going concern</b>	<p>In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2022). The Financial Reporting Board recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.</p> <p>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Commission meets this criteria, and so we have applied the continued provision of service approach.</p> <p>In accordance with Audit Scotland guidance: Going concern in the public sector, we have therefore considered management’s (senior officer’s) assessment of the appropriateness of the going concern basis of accounting and conclude that:</p> <ul style="list-style-type: none"> <li>• a material uncertainty related to going concern has not been identified; and</li> <li>• management’s (senior officer’s) use of the going concern basis of accounting in the preparation of the financial statements is appropriate.</li> </ul>
<b>National fraud initiative</b>	<p>The National Fraud Initiative (NFI) in Scotland is a biennial counter-fraud exercise led by Audit Scotland, and overseen by the Cabinet Office for the UK as a whole. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems that might suggest the existence of fraud or error. Participating bodies, including the Mental Welfare Commission for Scotland, receive matches for investigation.</p> <p>No issues were identified to highlight to the Committee and the Commission continue to be committed to the NFI exercise. The recommendation from 2023/24 about reporting NFI progress to the Audit, Performance and Risk Committee has not been actioned, and is noted at Appendix C.</p>

# Other key elements of the financial statements (4)

Issue	Commentary
<b>Cash and cash equivalents</b>	In 2023/24, our work on the bank balance as at 31 March 2024 identified three reconciling differences between the ledger and the bank letter. Two related to items from the 2022/23 year that should have been journalled in 2022/23, whilst the other related to a small cash balance which had yet to be processed. The adjustments have not been undertaken in 2024/25, and the recommendation remains outstanding. The value is below trivial at £0.004 million, but the issue is reported to you appreciating it is cash.
<b>Timeliness of all working papers</b>	We received the breakdown of accounts payable during week two of the audit, and we received no working papers for the calculations for the lease disclosures. It also took until the end of week two to receive the breakdown of how the operating expenses note reconciled to the ledger. This meant some samples went out later than anticipated. Ensuring all working papers are provided by the start of the audit means that the samples can be issued on time in week one and avoids abortive time in chasing working papers and sending late samples. This has led to additional audit fee due to the increased level of audit resource required when information is not readily available and extra testing required. A recommendation has been raised at Appendix B.
<b>Follow up of previous audit recommendations</b>	Appendix C gives the update on the eight 2023/24 and prior year recommendations. Six were raised in 2023/24 and two were carried forward from the 2022/23 audit. Of the eight reported recommendations from 2023/24, six have not been actioned. The follow up of recommendations by management, and the scrutiny by the Audit and Performance Committee are important processes to ensure ongoing action and closure.

# Other findings – information technology (1)

This section provides an overview of results from our assessment of Information Technology (IT) environment and controls which included identifying risks from the use of IT related to business process controls relevant to the financial audit. This includes an overall IT General Control (ITGC) rating per IT system and details of the ratings assigned to individual control areas.

IT application	Level of assessment performed	Related significant risks / other risks
SEAS (to 30 September 2024)	ITCG design and implementation effectiveness only.	Fraud in expenditure recognition, Management override of control
PECOS	ITCG design and implementation effectiveness only.	Fraud in expenditure recognition
Oracle Cloud	ITCG design and implementation effectiveness only.	Fraud in expenditure recognition, Management override of control

# Other findings – information technology (2)

## Service auditors reports

Mental Welfare Commission for Scotland utilise a number of shared IT systems, IT applications and processes with the Scottish Government. Assurance reports are prepared by service auditors under ISA (UK) 402 covering the national systems/ arrangements. During 2024/25, the relevant audit reports were:

- Audit Scotland management report with regards to Scottish Government systems. This covers work on the SEAS and Oracle systems covering the general ledger which incorporates receivables, payables, banking and payroll.

**We adopt a fully substantive audit approach and therefore have considered the findings from the Auditor reports and the impact on our audit procedures, however, we do not place reliance on their work.**

From consideration of the report, there is an action plan produced with eleven recommendations for Scottish Government. A number of control weaknesses were identified from the review of the key controls within Oracle Fusion across all main areas except for payables.

It was noted that there were improved authorisation procedures for journals within Oracle, compared to SEAS, due to the authorisation hierarchy. The control recommendations made in the management report from 2023/24 were not implemented as SEAS was replaced on 1 October 2024, so the focus was on the new system.

## **04 Wider scope and best value conclusions**



# Wider scope and best value conclusions (1)

This section of our report documents our conclusions from audit work on the wider scope and best value areas set out in the Code.

Our responsibilities under the Code extend beyond the audit of the financial statements. Under the Code and supporting guidance: “Supplementary guidance - wider scope audit, less complex bodies and Best Value” issued by Audit Scotland, there is an exemption in relation to the normal wider scope audit requirements of the Code for public bodies which are smaller and have limited financial activity (referred to as “Less Complex Bodies”).

As required by the Code and this supporting guidance, and as reported in our Audit Plan, we have assessed both the quantitative and qualitative risk factors related to Mental Welfare Commission for Scotland and concluded that the Commission qualifies for this exemption for 2024/25.

From a quantitative perspective the gross revenue, gross assets and gross liabilities of the Commission have not exceeded the £10.2 million limit set out in Audit Scotland’s guidance, and from a qualitative perspective we have not identified any wider scope risks beyond financial sustainability that would require further consideration during the audit.

Our wider scope work at the Commission is limited to the following areas specified for Less Complex Bodies in the Code:



## Financial Sustainability

Concluding on the financial sustainability of the body and the services that it delivers over the medium to longer term.



## Annual Governance Statement

A review of the Annual Governance Statement

# Wider scope and best value conclusions (2)

The Scottish Public Finance Manual (SPFM) explains that Accountable Officers have a specific responsibility to ensure that arrangements have been made to secure Best Value.

The duty of Best Value, as set out in the SPFM, is:

- to make arrangements to secure continuous improvement in performance whilst maintaining an appropriate balance between quality and cost; and, in making those arrangements and securing that balance,
- to have regard to economy, efficiency, effectiveness, the equal opportunities requirements and to contribute to the achievement of sustainable development.

Guidance for Accountable Officers is structured around the nine characteristics for Best Value in the SPFM, grouping into five themes and two cross-cutting themes as follows:

Guidance for Accountable Officers	Scottish Public Finance Manual themes
Vision and Leadership	Commitment and leadership, responsiveness and consultation and sound governance at a strategic and operational level
Effective Partnerships	Joint working, responsiveness and consultation
Governance and Accountability	Responsiveness and consultation, commitment and leadership and accountability
Use of resources	Sound management of resources and use of review and options appraisal
Performance Management	Sound governance at a strategic and operational level, responsiveness and consultation
Equality	Equal opportunities arrangements
Sustainability	A contribution to sustainable development

The Code of Audit Practice requires that auditors assess and report on audited bodies' performance in meeting their Best Value duties as part of the annual audit. We are required to consider the arrangements put in place by Accountable Officers to meet their Best Value obligations as part of our wider scope audit work.

# Wider scope audit (1)

## Wider scope area    Wider scope audit response and findings

### Financial Sustainability

We are required to look ahead to the medium and longer term to consider whether the Commission is planning effectively so that it can continue to deliver services.

### 2024/25 Plan & Outturn

The Scottish Government requires Mental Welfare Commission to meet two financial targets to stay within the Revenue resource limit (RRL) and the Capital resource limit (CRL). Mental Welfare Commission achieved an underspend in RRL of £1.032 million and an overspend on CRL of £0.028 million. Overall, the underspend was £1.004 million. Mental Welfare Commission agreed with Scottish Government that the deficit on the CRL could be offset against the RRL surplus.

Delays in budget letters affects the Commission's ability to plan and staff specific projects. Any delays in funding confirmations impacts the ability to deliver projects to budget, due to the lead time recruitment requires. This reason as well as some re-profiling of the IMS project timelines for implementation are the main factors for the underspend in 2024/25. Budget letters in recent years have been received after the start of the financial year.

Mental Welfare Commission's funding allocation for 2024/25 was not confirmed until June 2024, with letters of comfort received in May 2024 noting indicative budgets. The budget included the following:

- a core budget allocation of £5.013 million (PY £4.900 million)
- funding of £2.294 million in relation to the replacement of the Information Management System (IMS) (PY £0.836 million)
- £0.245 million (PY £0.155 million) for a joint project with Education for Scotland to allow a Practitioner from the Commission to develop masterclasses to provide multidisciplinary learning opportunities
- Non-core revenue resource limit was provided of £nil (PY £0.058 million)
- Copre capital resource funding was provided of £0.151 million (PY £0.151 million)

The Commission experiences particular financial pressures around Designated Medical Practitioners (DMPs) who provide second opinions under the relevant mental health legislation. The core budget included a funding cap of £0.418 million for second opinions, with actual outturn at £0.780 million. This is a demand led service, with the NHS Consultants pay award of 10.5% included in the DMP costs in 2024/25. There is a reciprocal agreement with Scottish Government to fund the additional cost of second doctor fees over and above the cap, but as the Commission were in an overall underspend position, then further funding was not required.

# Wider scope audit (2)

Wider scope area	Wider scope audit response and findings
<b>Financial sustainability (continued)</b>	<p><b><u>2025/26 Financial Planning &amp; Beyond</u></b></p> <p>As was the case in 2024/25, there has been a delay in agreeing Mental Welfare Commission’s 2025/26 budget, with the budget not being approved prior to the start of the financial year. In May 2025, the Scottish Government provided Mental Welfare Commission with a Letter of Comfort which confirmed the indicative budgets for projects for 2025/26 as follows:</p> <ul style="list-style-type: none"> <li>• Funding in relation to the replacement of the Information Management System (IMS) - £3.088 million</li> <li>• £0.223 million for a joint project with Education for Scotland to allow a Practitioner from the Commission to develop masterclasses to provide multidisciplinary learning opportunities</li> <li>• £0.44 million for three other projects</li> </ul> <p>In addition, in advance of the final budget letter being received, which is expected later in June, the indicative core budget is £5.647 million which includes £0.17 million capital core budget.</p> <p>The Commission prepares a three-year financial plan which is updated on an annual basis. As such, until this formal notification is received, the three-year plan cannot be updated which adds difficulty to the forecasting and planning process.</p> <p>Due to the late agreement of the 2024/25 budget and the resultant uncertainty in the timeline for the agreement of the 2025/26 budget, Mental Welfare Commission have not updated the three-year financial plan. The current version of the three-year plan covers the period 2023/24 to 2025/26 however this iteration of the plan was last reviewed in June 2022 and is out of date. The Commission should refresh their forward planning and review the underlying assumptions within their plans to ensure these are realistic and in line with inflationary changes and public sector pay awards. Regular updates around the current financial position should be evidenced in reporting to the Board. A recommendation for this issue was raised previously at Appendix C.</p>

# Wider scope audit (3)

## Wider scope area

## Wider scope audit response and findings

### Financial sustainability (continued)

#### Scottish Government Pay

The Scottish Government pay deal agreed in 2023 included a commitment to deliver a 35-hour working week by 1st October 2024. This was implemented at the Commission on 1 October 2024.

The public sector pay policy for 2025/26 was published alongside the Scottish budget in December 2024. The pay policy sets out forecast levels for 2025/26 to 2027/28, with the key feature being a 9% increase on pay total for the three years, with flexibility to configure the proposal over the three-year term. Increased national insurance costs also impact from 1 April 2025.

#### Information Management System

The 2025/26 indicative funding letter of intent confirmed that Mental Welfare Commission have secured the total requested for the remainder of the funding it required to deliver the IMS project. Funding to be received in 2025/26 totals £3.088 million.

Mental Welfare Commission have been successful in selecting the new IMS supplier. Corporate Document Services Ltd (CDS) was the winning bidder following a competitive and lengthy procurement process. Delays in recruitment impacted the timing to be able to test and deliver the new system to the original timeline, with project roles within Mental Welfare Commission now filled and working to capacity to deliver the project to revised timelines.

We will review the delivery of the new system as part out 2025/26 Audit Plan, as significant expenditure and project outputs are expected in 2025/26.

#### Conclusion

The financial sustainability over the medium to longer term is dependent on stable funding streams, the ability to effectively financially manage the organisation and deliver project streams. Risks include rising employer costs and the ability to fund rising demand led services. Longer term projections in a one-year funding environment are difficult but encouraged.

# Best value

Best value area	Best value audit response and findings
Best value	<p>Special Health Boards in Scotland have a legal duty to deliver "Best Value" in their services. This means they must make arrangements to ensure continuous improvement in their performance, while maintaining a balance between quality and cost, and consider economy, efficiency, effectiveness, equal opportunities, and sustainable development. The Code of Audit practice requires auditors to consider the arrangements put in place by Accountable Officers to meet their Best Value obligations. There are adequate arrangements in place to meet the Best Value obligations.</p> <p>From our review of the Commission in the work required for wider scope, and the consideration of the themes in the Scottish Public Finance Manual there are no further issues to note within our report. Additional narrative was added to the Annual Report on Best Value.</p> <p><u>Conclusion</u></p> <p>There are adequate arrangements in place to meet the Best Value obligations.</p>

# Appendices



# A. Audit adjustments (1)

We are required to report all non-trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

## Impact of adjusted misstatements in 2024/25

We have identified one adjustment that management has amended as set out below. The impact of this adjustment will also alter the disclosure within the Annual Report as well as other primary statement of cash flow and Statement of Changes in Taxpayers Equity, as well as disclosure notes including accruals, segmental analysis and financial instruments.

Detail	Statement of Changes in Net Expenditure £'000	Statement of Financial Position £'000	Impact on total net expenditure £'000	Impact
<b>Trade payables overstated</b>				
Dr Trade payables		82		This has been adjusted, and the offset will be that the Scottish Government funding value will also change by £0.082 million.
Cr Operating expenditure	(82)		82	
Being the overstatement of trade payables as an item included in the opening balance transfer to Oracle for £0.082 million for superannuation in September had been paid but was still recorded in				
Overall impact	(82)	82	82	

# A. Audit adjustments (2)

## Impact of unadjusted misstatements in 2024/25

The table below provides details of all non-trivial errors which we identified during the course of our 2024/25 audit which management decided not to amend within the final set of financial statements.

Detail	Statement of Changes in Net Expenditure £'000	Statement of Financial Position £'000	Impact on total net expenditure £'000	Reason for not adjusting
<b>Right of use Assets finance charge</b>				
Dr Lease liability		8		The value is not material
Cr Operating expenditure	(8)		8	
Being the overstatement of the lease liability				
<b>Annual Leave Accrual</b>				
Dr Accruals		13		The value is not material
Cr Operating expenditure	(13)		13	
Being the overstatement of the annual leave accrual				
<b>Trade receivables</b>				
Dr Operating expenditure	8		(8)	The value is not material
Cr Prepayments		(8)		
Being the overstatement of prepayments				
<b>Overall impact</b>	(13)	13	13	

# A. Audit adjustments (3)

## Impact of unadjusted misstatements in the prior year

The table below provides details of all unadjusted misstatements brought forward from the 2023/24 audit. Management did not amend the financial statements for these errors, as they were not material. The impact for 2024/25 is not material and therefore management did not amend the current financial statements for these prior period unadjusted errors.

Detail	Statement of Changes in Net Expenditure £'000	Statement of Financial Position £'000	Impact on total net expenditure £'000	Reason for not adjusting
Although one error was noted in 2023/24 that was not adjusted for £0.03 million, the impact for 2023/24 was the expenditure should have been in 2022/23 and not in 2023/24. Therefore, this issue would not impact the 2024/25 financial statements.	0	0	0	No impact on 2024/25 for this error unadjusted in 2023/24

# A. Audit adjustments (4)

## Misclassification and disclosure changes

The table below provides details of substantive misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements. This list of misclassification and disclosure changes reflects presentational adjustments to the financial statements which have no impact on the Commission's reported financial position.

Disclosure	Auditor comments	Adjusted?
Annual Report	We identified a number of minor casting errors, figures that had not been included, and linking/formatting minor issues. These were raised with management and amended where necessary and do not warrant further disclosure within this report due to their minor nature.	Yes
Remuneration and staff report	Disclosure was added to the include an exit packages note	Yes
	Staff composition headcount for 2024 was update from 95 to 93	Yes
	Addition calculations in the Pension Benefits table were not feeding correctly to the final figures	Yes
	CETV calculations were amended to ensure the correct choice of figure was used from the calculator	Yes
	CETV calculations were amended to remove the employees' superannuation contributions	Yes
	The fair pay disclosure highest earnings was £140-£145k. This was amended to £145-£150k	Yes
	Fair pay disclosure range noted 0-1%, whereas it should have been 0-7%	Yes
Statement of Cash Flows	There was a classification adjustment within the Statement of Cash Flows to remove £0.179 million of lease liabilities arising within cash flows from operating activities and investing activities. A similar adjustment of £0.167 million was also made to 2023/24 figures. Consequently, Note 3b (Notes to the Cash Flow Statement) was amended to reflect this adjustment.	Yes
Note 1 – Accounting Policies	Accounting policies are required for material items within the financial statements. Material policies are included. There are a number of accounting policies that are included that are not material and could be removed. It is not incorrect to include these policies.	No

# A. Audit adjustments (5)

## Misclassification and disclosure changes continued

Disclosure	Auditor comments	Adjusted?
Note 3a – Summary of Resource Outturn	The summary disclosure was referencing the 2023/24 depreciation and not the 2024/25 depreciation, so this was amended so the correct figures were noted.	Yes
Note 6 - Segmental information	The comparator figures had some different segment headings, so the comparators were changed in the analysis to match the current year segment headings.	Yes
	An additional table of disclosure was not required and removed.	Yes
Note 14 – Capital Commitments	As this note has no commitments in either 2023/24 or 2024/25, this note could be removed. Management have opted to retain for completeness.	No
Note 17 - Financial instruments	The narrative disclosure had not included the liability and liquidity risk figures, but they were included in the main table.	Yes
	The holiday leave accrual has been incorrectly included for both 2023/24 and 2024/25 for £0.051 million, so that was removed from the note	Yes

## B. Action plan and recommendations – financial statements audit (1)

We have identified two financial statement recommendations for the Commission during our audit of the financial statements for the year ended 31 March 2025. We have agreed our recommendations with management and will report on progress on these recommendations during our 2025/26 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being report to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
High	<p><b>Functionality of ledger is not being utilised</b></p> <p>The classification of operating expenses in the financial statements is being calculated manually by supplier code to establish the figures, rather than relying upon the coding structure within the financial ledger.</p> <p>This is due to source coding issues within the ledger that have not been rectified. This has also added more time to the audit to test operating expenses as the reconciliation and split of the balance is more complex, and the information not received until the end of week two of the audit.</p> <p>Having manual processes when the ledger should produce the information adds further risk of error. Coding errors are still occurring in 2025/26 in the source coding of invoices.</p>	<p>Ensure the financial ledger is accurate for coding in 2025/26. Review the reasons for the source coding not being correct on invoices, and correct them, so the full functionality of the ledger is able to be used for the year end processes and internal management reporting.</p> <p>Owner: Finance and IT Manager</p> <p>Date of implementation: May 2026</p>

- High – significant effect on the financial statements.
- Medium – limited effect on the financial statements.
- Best practice

## B. Action plan and recommendations – financial statements audit (2)

Assessment	Issue and risk	Recommendations
High	<p><b>Working papers availability</b></p> <p>Working papers were not all available at the start of the audit, with some received later in the audit. Examples include the agreement of the ledger, the split of operating expenses, and the split of trade payables. All of these have sample testing and led to delays in sending out samples.</p> <p>For some balances there were no working papers, one example being leases which is a material figure in assets and liabilities in the statement of financial position. This led to delays in auditing the balance and the Commission could not evidence how they had calculated and applied any discount factors to the financial statements.</p>	<p>Working papers should be available at the start of the audit fully reconciling to the figures within the financial statements. This should include working papers to support all material transactions in the financial statements.</p> <p>Owner: Finance and IT Manager</p> <p>Date of implementation: May 2026</p>

- High – significant effect on the financial statements.
- Medium – limited effect on the financial statements.
- Best practice

# C. Follow up of prior year recommendations (1)

We identified the following issues in the audit of the Commission’s 2023/24 financial statements, which resulted in eight recommendations being reporting in our 2023/24 Audit Findings Report because they were either new in 2023/24 or still open from 2022/23. We have performed additional work in year to obtain assurance whether the recommendations from prior years have been closed and resolved in the current year or whether the issue still exists and the recommendation remains open and/or in progress. Of the eight recommendations, six are not yet implemented and are carried forward into 2025/26 for action.

## Recommendations from the financial statements audit

Assessment	Issue and risk previously communication	Management update on actions taken to address the issue	Auditor conclusion
Open – first raised in 2022/23	<p><b>Financial statements preparation</b></p> <p>The trial balance presented for audit was not fully complete. There were adjustment journals (considered Period 13 journals) which Mental Welfare Commission had not sent to Scottish Government to be posted prior to the start of our audit. The accounts presented for audit showed the position as if these journals had been posted and we confirmed as part of our audit procedures that this process had been carried out correctly.</p> <p>However, the fact these journals had not been posted added additional complexity to some of our audit procedures, particularly our agreement of balances and sample selection, as we needed to consider the impact of the Period 13 journals when carrying out our audit work.</p> <p><b>Recommendation</b></p> <p>Review accounts preparation procedures and ensure all journals have been sent to Scottish Government and posted into the ledger so that a finalised trial balance can be presented for audit.</p> <div><div>● [Red]</div> Recommendation is open</div> <div><div>● [Amber]</div> Recommendation is in progress</div> <div><div>● [Green]</div> Recommendation is closed</div>	Every effort is made to deliver all of the required working papers for the start of the audit. However, the scale of the task and the timescales involved for a small organisation with a very small Finance team is extremely challenging. A decision had to be taken therefore on what could practically be delivered to allow the audit to begin on time with any outstanding items to be completed as soon as possible. We will continue to strive to comply with all annual audit requirements.	<p>The same issue has occurred again in 2024/25, therefore this recommendation is carried forward into 2025/26.</p> <p>Additional audit time is added when the ledger does not agree to the entries in the financial statements, as samples are not able to be sent in a timely manner for some transactions.</p> <p>Finance staff can post their own journals, and this should be a priority for the 2025/26 audit that the ledger is balanced to the financial statements prior to the start of the audit.</p> <p>We have charged additional audit fee due to duplicated work required in this area.</p>



# C. Follow up of prior year recommendations (2)

## Recommendations from the financial statements audit

Assessment	Issue and risk previously communication	Management update on actions taken to address the issue	Auditor conclusion
In progress – first raised in 2022/23	<p><b>Quality control checks</b></p> <p>The annual accounts presented for audit contained several disclosure issues which required to be updated. This included:</p> <ul style="list-style-type: none"> <li>• Prior year narrative not being updated to reflect the current year</li> <li>• Formatting issues in the presentation of disclosures and figures in the accounts</li> <li>• Addition and casting issues in the accounts whereby figures did not total correctly</li> </ul> <p>This required additional audit time as the audit team had to check each of the identified issues were corrected in the finalised version of the accounts.</p> <p><b>Recommendation</b></p> <p>Management should ensure that relevant quality control checks are carried out prior to the annual accounts being presented for audit.</p>	<p>The value of completing these checks on a draft set of accounts is questionable in my opinion. Completing these checks at a later stage of the audit would minimise the risk of errors in the final set of accounts.</p>	<p>Some issues with additions, formatting and presentation issues re-occurred in 2024/25, therefore this recommendation is carried forward into 2025/26.</p> <p>The recommendation has been categorised as 'in progress', as the position has improved from the previous year, as noted in the lower number of amendments to report to management in Appendix A.</p> <p>We acknowledge the improvements, but further QA processes can be undertaken in the draft version of the financial statements received for audit to avoid the need for as many minor formatting and presentation queries and amendments.</p>

# C. Follow up of prior year recommendations (3)

## Recommendations from the financial statements audit

Assessment	Issue and risk previously communication	Management update on actions taken to address the issue	Auditor conclusion
Open – first raised in 2023/24	<p><b>NFI progress updates</b></p> <p>Audit, Performance and Risk Committee updates do not include any narrative on the NFI progress of the Commission</p> <p><b>Recommendation</b></p> <p>Report NFI progress updates to the Audit and Risk Committee. Consider completing the self-appraisal checklist referred to in the NFI Report.</p>	<p>We looked into this requirement during 2024/25 and realised that the Commission had participated in previous NFI exercise via Scottish Government. Given that Scottish Government make most of our payments on our behalf, we are not sure if a separate action to report to our own A,P&amp;R committee is required.</p>	<p>This recommendation is not yet complete; this recommendation is carried forward into 2025/26.</p> <p>Discussion is welcome at Committee as to whether this is a recommendation that can be closed if the Committee do not want any updates during the year, and we can update accordingly.</p>
Open – first raised in 2023/24	<p><b>Fully depreciated assets in the asset register</b></p> <p>Some assets within the asset register are fully depreciated and shown at nil, but an exercise not undertaken to assess whether they are still held.</p> <p><b>Recommendation</b></p> <p>Perform a detailed review of the economic lives policy and update where appropriate.</p> <p>Embed a formal process for reviewing assets which have outlived their useful economic lives on an annual basis, to ensure the assets are still in existence.</p>	<p>I agree that there are a number of items in the ledger that need to be tidied up. The volume of work generated however by the introduction of Oracle during the year unfortunately prevented this exercise from being completed as planned prior to this year's audit but we will complete this in 25/26.</p>	<p>This recommendation is not yet complete; this recommendation is carried forward into 2025/26. Three have been no disposals within the financial statements, but the balance is nil within the financial statements, this would be a disclosure issue only within the property, plant and equipment note. We are satisfied there is no material overstatement in the disclosure of gross cost and gross depreciation of property, plant and equipment.</p>

# C. Follow up of prior year recommendations (4)

## Recommendations from the financial statements audit

Assessment	Issue and risk previously communication	Management update on actions taken to address the issue	Auditor conclusion
Open – first raised in 2023/24	<p><b>Cash and cash equivalents reconciling items</b></p> <p>Our audit testing over the cash and cash equivalents balance identified three reconciling differences between the general ledger and the bank letter as at 31st March 2024.</p> <p>Two of the differences relate to unadjusted difference from a previous financial year, whilst the other related to a petty cash balance. Mental Welfare Commission no longer hold any petty cash balance on-site, but no journal has been posted to reflect this in the ledger.</p> <p><b>Recommendation</b></p> <p>Mental Welfare Commission should review the reconciling items identified in the bank reconciliation and ensure these are rectified before next year end.</p>	We agree that this should be included in general tidying up of Balance Sheet items referred to above.	<p>The items remain in the cash balance as at 31 March 2025, therefore this recommendation is carried forward into 2025/26.</p> <p>The Commission need to revisit the cash balance as the adjustments required are long standing and require amendment.</p>
Closed – first raised in 2023/24	<p><b>Bank reconciliation</b></p> <p>Mental Welfare Commission prepare a year-end bank reconciliation which reconciles the general ledger to the bank statement. Our audit work identified that the bank reconciliation is not dated when prepared. Furthermore, there is no evidence that the bank reconciliation has been subject to review by a senior member of the finance team.</p> <p><b>Recommendation</b></p> <p>The bank reconciliation should be signed and dated by both the individual who prepared the reconciliation and the individual who reviewed the reconciliation.</p>	Actioned.	This recommendation is closed. The bank reconciliation for March 2025 is dated and there is evidence of senior officer review.

# C. Follow up of prior year recommendations (5)

## Recommendations from the financial statements audit

Assessment	Issue and risk previously communication	Management update on actions taken to address the issue	Auditor conclusion
Closed – first raised in 2023/24	<p><b>External audit recommendations</b></p> <p>Progress towards the recommendation raised as part of the prior year audit has been mixed, with three recommendations carried forward into the 2024/25 audit, and another two recommendations superseded by recommendations made in our 2023/24 audit. Only two recommendations raised in the previous year have been closed.</p> <p>The status of external audit recommendation should be monitored at the Audit, Performance and Risk Committee to provide assurance over their completion.</p> <p><b>Recommendation</b></p> <p>The status of external audit recommendation should be monitored at the Audit, Performance and Risk Committee to provide assurance over their completion.</p>	Actioned.	<p>The recommendation has been categorised as complete as during 2024/25 Audit. Performance and Risk Committee has received an update on external audit recommendations.</p> <p>As noted within this report though, many recommendations have not been actioned, so that needs improved for the 2025/26 audit, as some are long standing recommendations and them not being actioned makes the audit process more difficult and requires additional audit resource as a result.</p>

# C. Follow up of prior year recommendations (6)

## Recommendations from the wider scope audit

Assessment	Issue and risk previously communication	Management update on actions taken to address the issue	Auditor conclusion
Open – first raised in 2023/24	<p><b>Financial sustainability</b></p> <p>Mental Welfare Commission’s 2024/25 budget was not approved prior to the start of the financial year. The Scottish Government have now issued a letter of comfort which confirmed the indicative budget for 2024/25.</p> <p>Due to the uncertainty in the timeline for the agreement of the 2024/25 budget, the Commission have not updated their three-year financial plan. The current version of the plan was last reviewed in June 2022 and is out of date.</p> <p><b>Recommendation</b></p> <p>The Commission should refresh their forward planning and review the underlying assumptions within their plans to ensure these are realistic and in line with inflationary changes and public sector pay awards. Regular updates around the current financial position should be evidenced in reporting to the Board.</p>	<p>The Commission continues to only receives funding for one year and once again for 25/26, confirmation of that funding has not yet been received. In addition, although a three year pay strategy has been published, we do not yet have enough information on funding to make an informed recommendation on the application of the pay strategy to Commission staff.</p> <p>Without confirmed funding beyond the current year ( or the ability to carry forward unused in year funding) combined with the current political landscape (there will be a Scottish election in 2026) we consider the value of undertaking a three-year planning exercise to be extremely limited.</p>	<p>This recommendation is not yet complete; this recommendation is carried forward into 2025/26.</p> <p>We appreciate the difficulty with one year funding. Longer-term forecast modelling appreciating the pay deal for 2025/26 for three years has been indicated by Scottish Government should allow some scenario planning and update to a longer-term financial plan.</p>

# D. Audit fees, ethics and independence (1)

## Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention and consider that an objective reasonable and informed third party would take the same view. We have complied with the Financial Reporting Board's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirement of the Financial Reporting Board's Ethical Standard.

As part of our assessment of our independence we note the following matters:

Matter	Conclusion
Relationship with Grant Thornton	We are not aware of any relationships between Grant Thornton and the Mental Welfare Commission for Scotland that may reasonably be thought to bear on our integrity, independence and objectivity
Relationships and investments held by individuals	We have not identified any potential issues in respect of personal relationships with the Commission or investments in the Commission held by individuals.
Employment of Grant Thornton staff	We are not aware of any former Grant Thornton partners or staff being employed, or holding discussions in respect of employment, by the Commission as a director or in a senior management role covering financial, accounting or control related areas.
Business relationships	We have not identified any business relationships between Grant Thornton and the Commission.
Contingent fees in relation to non-audit services	No contingent fee arrangements are in place, note that there are no non-audit services provided.
Gifts and hospitality	We have not identified any gifts or hospitality provided to, or received from, a member of the Commission's board, senior management or staff.

# D. Audit fees, ethics and independence (2)

## Fees and non-audit services

The tables below set out the total fees for audit and other services charged from the beginning of the financial year to the current date, as well as the threats to our independence and safeguards have been applied to mitigate these threats.

For the purposes of our audit we have made enquiries of all Grant Thornton teams within the Grant Thornton International Limited network member firms providing services to the Mental Welfare Commission for Scotland. The table summarises all non-audit services which were identified.

This Annual Audit Report is considered by the Audit, Performance and Risk Committee on 16 June 2025 and Board on 24 June 2025 including agreement of audit fees.

### External audit fee

Service	Planned Fees	Final Fees
External Auditor Remuneration (agreed)	£38,630	£44,880*
Audit Scotland Pooled Costs	£4,000	£4,000
Sectoral cap adjustment	£-19,300	£-19,300
2024/25 Audit Fee	£23,330	£29,580

- Additional auditor remuneration is levied in total for £6,250. £3,500 of this is for the significant risk area of the data migration to the new ledger and £2,750 for additional audit resource at final accounts due to the issues noted within this report.

The fees reconcile to the financial statements (round £'000 in the financial statements):

- Fees per financial statements £27
- Total fees as above £30

The difference is due to additional work only levied at the final accounts stage of £2,750. The Commission had accrued for the £3,500 data migration work.

### Fees for other non-audit services

Service	Fees £
We confirm that for 2024/25 we did not receive any fees for non-audit services	Nil

# D. Audit fees, ethics and independence (3)

## Client service

We take our client service seriously and continuously seek your feedback on our external audit service. Should you feel our service falls short of expected standards please contact Joanne Brown, Head of Public Sector Assurance Scotland in the first instance who oversees our portfolio of Audit Scotland work ([joanne.e.brown@uk.gt.com](mailto:joanne.e.brown@uk.gt.com)). Alternatively, should you wish to raise your concerns further please contact Mark Stocks, Partner, 8 Finsbury Circus, London, EC2M 7EA. If your feedback relates to audit quality and we have not successfully resolved your concerns, your concerns should be reported to John Gilchrist, Audit Scotland Quality and Appointments in accordance with the Audit Scotland audit quality complaints process.

## Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [transparency-report-2024-.pdf](#)



# E. Communication of audit matters

International Standard on Auditing ISA (UK) 260, as well as other ISAs, prescribe matters which we are required to communicate to those charged with governance. These are set out in the table below:

Our communication plan	Audit Plan	Annual Report (ISA 260 Report)
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, including planning assessment of audit risks and wider scope risks	•	
Confirmation of independence and objectivity	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant matters in relation to going concern	•	•
Matters in relation to the group audit, including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud	•	•
Views about the qualitative aspects of the Commission's accounting and financial reporting practices, including accounting policies, accounting estimates and financial statement disclosures		•
Significant findings from the audit		•
Significant matters and issues arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter.		•



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