Grant Thornton

Annual Audit Report for Mental Welfare Commission for Scotland

Financial year ended 31 March 2023

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

28 July 2023

Contents

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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 Practice 2021). We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Executive Summary (1)

This table summarises the key findings and other matters arising from the external audit of Mental Welfare Commission for Scotland and the preparation of the financial statements for the year ended 31 March 2023 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 Commission at 31 March 2023, 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 2022/23 Government Financial Reporting Manual (FReM);
- the Commission's financial statements and the 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.

We issued an unmodified opinion on 28 July 2023. . We have concluded that the other information to be published alongside the financial statements is consistent with our knowledge of the Commission.

Our audit work on the Remuneration Report 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 Commission experienced an unexpected sudden loss of a key member of the finance team, who was integral to the financial statements' compilation process. This led to capacity issues as the finance team is small, and the Commission needed to secure additional accounting resource. A later timeline for the preparation of draft accounts, as well as a later audit was agreed. The delays to the timeline were notified to Scottish Government and to us as the external auditors in March 2023.

The draft accounts received for audit had many areas still to be completed or updated, and this has led to additional work required due to the number of versions of the accounts we have needed to check. This has resulted in a number of adjustments recorded within Appendix 1 however, these were identified by the client. In addition, there were difficulties experienced in obtaining the final financial trial balance that reconciled to the financial statements. Additional audit work was needed on the number of iterations of the trial balance we needed to work through. These issues have led to additional audit fee due to the extra time required by the audit team which is over and above the expected norm.

It is anticipated that these issues are due to the unexpected circumstances the Commission experienced with the sudden unexpected loss of their finance officer. As a result, the Commission needed to move at pace to assess the immediate impact, and to address urgent resourcing requirements to achieve closedown deadlines and other financial duties.

The finance team have been very helpful in supporting the audit process, and in the timeliness in answering queries and providing evidence to samples and working papers.

Executive Summary (2)

Financial Statements

There were 13 adjustments to the primary financial statements of Mental Welfare Commission for Scotland which were identified by the finance team directly.

The main adjustments related to:

- The recording of the right of use asset and lease liability within the Statement of Financial Position and corresponding depreciation and interest charges which has arisen due to the transition to IFRS 16
- Additional accrual in relation to second opinion doctor fees.

Further detail is set out in Appendix 1 including disclosure adjustments also.

We also identified 4 potential misstatements during the audit from our testing. They are individually and cumulatively not material. Management have decided not to adjust the financial statements for these misstatements as they have no material impact on the financial statements. Further detail is set out in Appendix 1.

We have raised 6 financial statements recommendations for management as a result of our audit work on the financial statements. These are set out in Appendix 2 and will aid the future closedown process.

Our follow up of the recommendations made by the predecessor auditor last year are detailed in Appendix 4.

We have completed our work and we presented the Annual Audit Report to the Audit, Performance and Risk Committee on 17 July 2023. Any outstanding work noted in the Annual Audit Report at that date is now cleared.

The target submission dates have moved back to pre-Covid timetables with 30 June 2023 as the target date. As noted, the Commission agreed with Scottish Government an extension to this deadline in March 2023 with the Board meeting to be held to authorise a final version of the financial statements on 28 July 2023. This was agreed due to the pressures on the closedown timetable due to the sudden unexpected loss of the finance officer.

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team. The amount of work by both the Commission and the audit team has been significant, particularly in the first year of our audit, combined with the shorter target timelines.

Executive Summary (3)

Wider Scope

In accordance with Code and supporting guidance: "Supplementary guidance -wider scope audit, less complex bodies and Best Value", we have concluded that Mental Welfare Commission for Scotland is a 'less complex body' and therefore, carried out more limited wider scope work.

As required by the Code and this supporting guidance. we have assessed both the quantitative and qualitative risk factors related to Mental Welfare Commission for Scotland and concluded that Mental Welfare Commission for Scotland qualifies for this exemption for 2022/23.

A review of the Annual Governance Statement and concluding on financial sustainability are the areas of scope for the wider scope work.

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

With regard to financial sustainability, the funding for 2023/24 is not yet fully confirmed, and this leads to some difficulties with forward financial planning and have raised 1 recommendation (see Appendix 3).

Introduction

Scope of our audit work

This report is a summary of our findings from our external audit work for the financial year at Mental Welfare Commission for Scotland. The scope of our audit was set out in our External Audit Plan.

The core elements of our audit work in 2022/23 have been:

- An audit of the Commission's annual report and accounts for the financial year ended 31 March 2023 [findings reported within this report];
- Consideration of the wider scope work and the exemption applied, as set out in Audit Scotland's Code of Audit Practice 2021 ('the Code') [within this report];
- Any other work requested by Audit Scotland.

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

This report is addressed to the Commission and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

Responsibilities

The Commission 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 Accounts Commission, are set out in the Local Government in Scotland Act 1973, the Code and supplementary guidance, and International Standards on Auditing in the UK.

The recommendations or risks identified in this report are only those that have come to our attention during our normal audit work and may not be all that exist. Communication in this report of matters arising from the audit or of risks or weaknesses does not absolve officers from their responsibility to address the issues raised and to maintain an adequate system of control.

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 and 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.

Audit of the annual report and accounts

Our approach to the audit of the financial statements

Overall materiality

Commission: £87,000, which represents 1.75% of the Commission's gross expenditure.

This has increased from the Audit Plan value of £79,000 due to the update of the materiality based upon the values within the 2022/23 draft financial statements.

Key audit matters

We did not identify any key audit matters at the planning stage or during the audit.

Significant and other risks

We identified the following significant risks:

- Management override of controls (ISA (UK) 240); and
- Risk of fraud in expenditure recognition – non payroll expenditure (cut-off) (PN10).

We identified the following other risk:

- Implementation of IFRS16.

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 changed our anticipated audit approach from our Audit Plan.

Status of Audit Work

Our audit team and the Commission finance team continue to work together to complete the audit. We have a tracker of outstanding items and captures those matters where the Commission need to respond to our follow up queries, and the audit work we have yet to complete.

As an audit team we have focused on concluding our work on the significant audit risks and the significant classes of transactions. These are the areas of the accounts that are, in our view, at greater risk of material misstatements, with a potential to impact our auditor's opinion.

We have completed our work and we presented the Annual Audit Report to the Audit, Performance and Risk Committee on 17 July 2023. Any outstanding work noted in the Annual Audit Report at that date is now cleared.

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.

Our audit opinion

Auditor's report on the financial statements

We issued an unmodified opinion on 28 July 2023.

We draw your attention to 13 adjusted misstatements to primary statements, with all of these identified by management due to the information being updated since the draft financial statements were received.

The impact upon the financial statements is £0.080m and the adjustments are noted at Appendix 1.

There are 4 unadjusted misstatements at Appendix 1. There is no impact upon the proposed opinion for the unadjusted misstatements identified. These are set out at Appendix 1.

As reported in the independent auditor's report, our opinion covers:

- The Commission's financial statements give a true and fair view of the financial position of the Commission at 31 March 2023, 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 2022/23 Government Financial Reporting Manual (FReM);
- expenditure and income were in accordance with applicable enactments and guidance (regularity);
- the Commission's financial statements and the audited parts of the Remuneration 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.

Our work relating to the review of the Annual Report and Annual Governance Statement is complete and we have no significant or material matters to report to you.

We issued an unmodified opinion on 28 July 2023.

Receipt of the draft financial statements

We received the first draft of the financial statements on 17 May 2023. The first draft of the financial statements did not include all entries and disclosures. In addition, there has been difficulties in reconciling the draft financial statements to the trial balance. This has led to additional audit work needing to be performed on multiple reiterations of the financial statements.

The target submission dates have moved back to pre-Covid timetables with 30 June 2023 as the target date. As noted, the Commission agreed with Scottish Government an extension to this deadline in March 2023 with the Board meeting to be held to authorise a final version of the financial statements on 28 July 2023. This was agreed due to the pressures on the closedown timetable due to the sudden unexpected loss of the finance officer.

Financial performance during 2022/23

The Scottish Government requires Mental Welfare Commission to meet one key financial target:
- a Revenue resource limit;

Mental Welfare Commission for Scotland did not get a capital resource limit or funding in year which was required to be met.

	Resource Limit £'000	Outturn Expenditure £'000	Variance (over) / under £'000
Core Revenue Resource Limit	5,116	4,926	190
Non-core Revenue Resource Limit	58	58	-
Total	**5,174**	**4,984**	**190**
Core Capital Resource Limit	-	-	-
Total	**5,174**	**4,984**	**190**

Mental Welfare Commission for Scotland delivered a break-even position in 2022/23, achieving a surplus of £0.190million against its Revenue Resource Limit.

The original budget presented in June 2022, detailed a core budget allocation of £4.221 million. On receipt of the final budget letter, the core funding allocation was actually £4.992 million which included 50% of additional business case funding, £0.172 million in relation to the replacement of the Information Management System (IMS) and £0.286 million in relation to the Death in Detention Review (DIDR). Additional funding was received of £0.124 million in relation to the joint project which Mental Welfare Commission for Scotland are partaking in alongside NHS Education for Scotland to allow a Practitioner from the Commission to develop masterclasses to provide multidisciplinary learning opportunities. A non-core revenue resource limit was provided of £0.058 million.

Due the late changes in funding awarded, this has added complexity around the Commission's ability to forward plan.

Our application of materiality (1)

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.

Basis for our determination of materiality

- **Materiality for financial statements as a whole -** We define materiality as the magnitude of misstatement in the financial statements that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of these financial statements. We use materiality in determining the nature, timing and extent of our audit work.
- **Performance materiality used to drive the extent of our testing -** We set performance materiality at an amount less than materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.
- We have determined planning materiality in the context of our knowledge of the business, including consideration of factors such as key stakeholder expectations, sector developments, financial stability and reporting requirements for the financial statements.
- We have used gross expenditure as the basis for determining materiality. Our materiality set was £87,000 representing 1.75% of gross expenditure.

Specific materiality

- We determine specific materiality for one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.
- Lower materiality of £5,000 was determined for the auditable elements of the Remuneration and Staff Report.

Reporting threshold

- We determine a threshold for reporting unadjusted differences to the Audit, Performance and Risk Committee.
- We will report to you all misstatements identified in excess of £4,400, in addition to any matters considered to be qualitatively material.

Our application of materiality (2)

As communicated in our Audit Plan dated 14 April 2023, we determined our materiality at the planning stage as £79,000 based on 1.75% of gross expenditure. At year-end, we have reconsidered planning materiality based on the draft financial statements for 2022/23.

Materiality was determined as follows:

~~Materiality for financial statements as a whole~~

	Commission
Materiality threshold	Overall materiality has been set at £87,000 which represents 1.75% of the Commission's gross expenditure. Overall materiality is £20,935 higher than the materiality level set by the predecessor auditor last year.
Significant judgements made by auditor in determining the materiality	The determination of materiality involves the exercise of professional judgement. In determining materiality, we made the significant judgements in selecting the appropriate benchmark of expenditure and the appropriate percentage to apply to the benchmark.
Significant revision of materiality threshold that was made as the audit progressed	We calculated materiality during the planning stage of the audit and then during the course of our audit, we re-assessed initial materiality based on actual expenditure for the year ended 31 March 2023 and adjusted our audit procedures accordingly.

Our application of materiality (3)

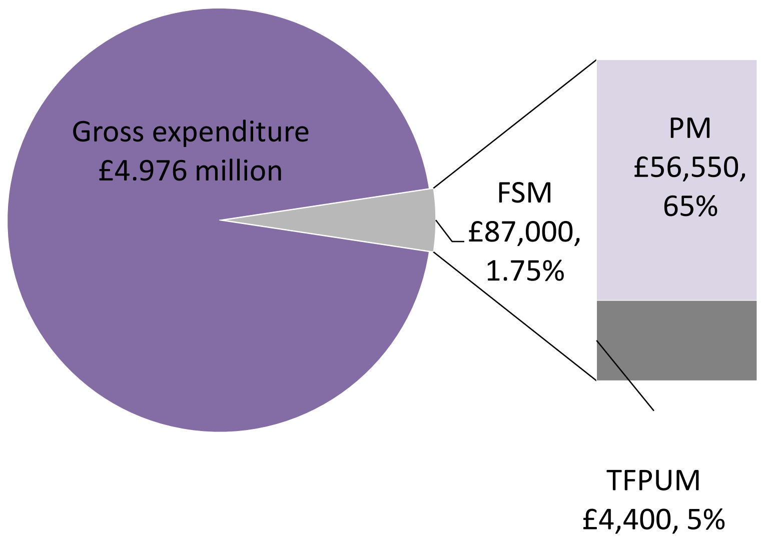
Performance materiality used to drive the extent of our testing

	Commission
Materiality threshold	Performance materiality for the year has been set at £56,550 which represents 65% of financial statement materiality. Performance materiality is £5,600 higher than the materiality level set by the predecessor auditor last year.
Significant judgements made by auditor in determining the performance materiality	The determination of performance materiality involves the exercise of professional judgement. In determining performance materiality, we made the significant judgement in selecting a lower level of performance materiality as first year auditors.
Significant revision of performance materiality threshold that was made as the audit progressed	We calculated performance materiality during the planning stage of the audit and then during the course of our audit, we re-assessed initial performance materiality based on actual expenditure for the year ended 31 March and adjusted our audit procedures accordingly.

Our application of materiality (4)

The graph below illustrates how performance materiality interacts with our overall materiality and the tolerance for potential uncorrected misstatements.

Overall materiality – Commission



FSM: Financial statements materiality, PM: Performance materiality, TFPUM: Tolerance for potential uncorrected misstatements

An overview of the scope of our audit

We performed a risk-based audit that requires an understanding of the Commission's business and in particular matters related to:

Understanding the Commission and the 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

The engagement team carried out testing on material balances and transactions.

Changes in approach from the Plan

There are no changes in audit approach from that noted in the Audit Plan from 14 April 2023.

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 Mental Welfare Commission for Scotland 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 2022/23 Local Government Accounting Code of Practice.
- 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 were in relation to journal entries that altered the Commission's financial performance for the year and the risk of fraud in expenditure recognition. Our audit procedures are documented within our response to the significant risk of management override of controls below.
- 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:
  - Mental Welfare Commission for Scotland, 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 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 judgement or estimation uncertainty	Testing approach	Status of work
Management override of controls	Significant	↔	✓	×	Low	Substantive	●
Risk of fraud in expenditure	Significant	↔	✓	×	Medium	Substantive	●
Implementation of IFRS16	Other	↔	×	×	Low	Substantive	●

↑ Assessed risk increase since Audit Plan

↔ Assessed risk consistent with Audit Plan

↓ Assessed risk decrease since Audit Plan

Green - Not considered likely to result in material adjustment or change to disclosures within the financial statements

Amber - Potential to result in material adjustment or significant change to disclosures within the financial statements

Red - 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

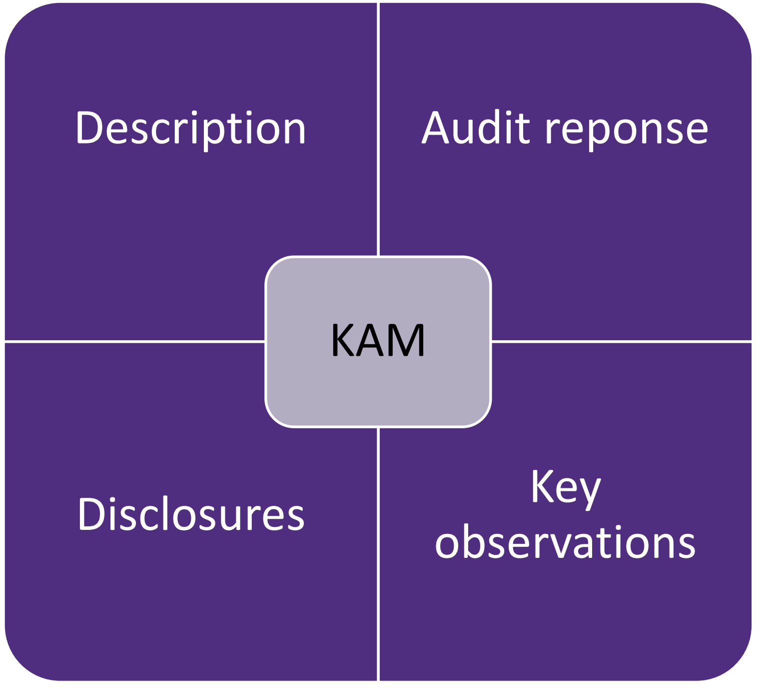
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Commission's financial statements of the current year and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified.

These matters included 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.

We have not identified any key audit matters.



Other risks

Other risks are, in the auditor's judgment, 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 risk in our Audit Plan	How our scope addressed the matter
Risk 1: Management Override of Controls (as required by Auditing Standards – ISA (UK) 240) As set out in ISA (UK) 240 (Revised May 2021) 'The Auditor's **Re**sponsibilities Relating to Fraud in an Audit of Financial Statements' there is a presumed risk that management override of controls is present in all entities. 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. Our work focuses on journals, critical estimates and judgements, including accounting policies, and unusual transactions. 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 and those that were requested to be posted by officers to Scottish Government.	In response to the risk highlighted in the audit plan we carried out the following work: • Documented our understanding of and evaluated the design effectiveness of management's key controls over journals; • Analysed your full journal listing for the year and used this to determine our criteria for selecting high risk journals; • Tested the high-risk journals we have identified; • Gained an understanding of the critical judgements applied by management in the preparation of the financial statements and considered their reasonableness; • Gained an understanding of the key accounting estimates made by management and carried out substantive testing on in scope estimates.; and • Evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. **Our results** Our testing of journals has identified one control weakness: • For journals which Mental Welfare Commission for Scotland request to be posted by the Scottish Government, there is no formal journals request log which requested journals can be seen. This may cause difficulties if a key member of the finance team is not available and may result in duplication. We have raised an associated recommendation to address this control weaknesses within our action plan at Appendix 2. Our work has not identified any other issues to bring to your attention and we have not identified any indication of management override of controls.

Significant risks and Key Audit Matters (3)

Other significant risks identified in our Audit Plan	Commentary
Risk 2: **Risk of fraud in expenditure** As set out in practice note 10 (Revised 2022) 'The Audit of Public sector Financial Statements', issued by the Public Audit Forum, which applies to all public sector entities, we consider there to be an inherent risk of fraud in expenditure recognition. Mental Welfare Commission for Scotland's expenditure includes both payroll and non-payroll costs. We consider payroll costs to be well forecast and are able to agree these costs to underlying payroll systems. As such we believe there is less opportunity for a material misstatement as a result of fraud to occur in this area. We therefore focussed our risk on the non-payroll expenditure streams. 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.	In response to the risk highlighted in the audit plan we carried out the following work: • Evaluated your accounting policy for recognition of expenditure for appropriateness and compliance with the NHS Accounting Manual and FReM; • 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 • 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 • 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. **Our results** Our testing of the risk of fraud in expenditure has identified the following issue: For expenditure items which covered two financial periods (e.g. 2022/23 and 2023/24), for the majority of items, expenditure was recognised fully within 2022/23 and no corresponding prepayment was recorded to recognise the element relating to future financial years. A review was completed of these items and an unadjusted misstatement was recorded (see Appendix 1) however, should this figure increase in future years, this could result in a material misstatement. We have raised an associated control recommendation with Appendix 2. Other than the matters reported above, we have not identified any material issues in relation to expenditure recognition.

Other risks

Other risks identified in our Audit Plan	Commentary
Implementation of IFRS16 – the revised accounting standard for leases IFRS 16 was implemented by central government bodies under the FReM from 1 April 2022. Under IFRS 16 a lessee is required to recognise right-of-use assets and associated lease liabilities in its Statement of Financial Position. This will result in significant changes to the accounting for leased assets and the associated disclosures in the financial statements in the year ended 31 March 2023. IFRS 16 updates the definition of a lease to: "a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration." In the public sector the definition of a lease is expanded to include arrangements with nil consideration. IFRS 16 requires all leases to be accounted for 'on balance sheet' by the lessee (subject to the exemptions below), a major departure from the requirements of IAS 17 in respect of operating leases. IFRS 16 requires a lessee to recognise assets and liabilities for leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. There is a single accounting model for all leases (similar to that of finance leases under IAS 17), with the following exceptions: • leases of low value assets • short-term leases (less than 12 months). Lessor accounting is substantially unchanged leading to asymmetry of approach for some leases (operating).	In response to the risk highlighted in the audit plan we carried out the following work: • evaluated the reasonableness and appropriateness of the inputs and assumptions used, especially the discount rate applied in determining the lease liability; • agreed on a sample basis, the accuracy of the data used by tracing them to the original contracts; • checked the mathematical accuracy of the calculations undertaken by management to determine the amounts to be recognised in the Statement of Financial Position; and • assessed the completeness of disclosures within the financial statements in accordance with the applicable standards. **Our results** The initial draft set of financial statements did not include any IFRS16 disclosures. These were provided during the audit and are included in the final set of financial statements. Right of use assets of £0.154 million and £0.156 million in relation to the lease liability were added to the Statement of Financial Position. As part of our audit work, we have reviewed the leases in place at the Board. This included considering the arrangements used by management to identify potential lease arrangements. Our audit work has not identified any weaknesses in the processes used by management to identify contracts containing a lease. Substantive audit procedures have also been performed to confirm the accuracy of the lease calculations and disclosures in the financial statements including lease start and dates, annual payments and application of an appropriate discount rate. Our audit work identified no issues on the addition of right of use assets and liability to the Statement of Financial. We reviewed the disclosures made within the accounting policies and Note 15 Leases and noted enhancements could be made to the information provided on the impact of implementation of IFRS 16 to meet the requirements of the FReM and these have been included within Appendix 1.

Financial Statements – key judgements and estimates (1)

As required in the Commission's Accounting Polices note, 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 judgements in line with the enhanced requirements for auditors.

Assessment

- [Red] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Orange] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Yellow] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Green] 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
Property, Plant and Equipment: depreciation including useful economic lives (UELs). **– £0.058m**	Mental Welfare Commission for Scotland's approach to depreciation is set out in accounting policies: **Note 1e – Property, plant and equipment - depreciation** Items of property, plant and equipment are depreciated over their remaining useful economic lives in a manner consistent with the consumption of economic or service delivery benefits.. Property assets lives are provided by the appointed valuer. Assets which are held in the course of construction are not depreciated until the asset is brought into use by the Commission.	Our testing of both property, plant and equipment included reviewing the useful lives. Our work identified the following issue: • Assets which were fully depreciated with a nil net book value held in the fixed asset register. **Conclusion** Although there is no impact to the Statement of Financial Position, the gross cost and gross depreciation in the property, plant and equipment disclosure note may be inflated. We have raised recommendations within Appendix 2 in relation to this matters.	We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious.

Financial Statements – key judgements and estimates (3)

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Accruals - £0.446 million Note 10 Trade and other payables	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 types of accruals: **Manual accruals** **T**hese 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.	We have performed substantive testing on a sample of accruals. Our work has not identified any errors. **Conclusion** Our work is concluded in this area, and we have no matters to raise.	We consider management's process is appropriate and key assumptions are neither optimistic or cautious
Participation in CNORIS – £0.034 million Note 11 Provisions	Mental Welfare Commission for Scotland is a participant in the CNORIS scheme and is therefore liable to meet the cost of contributions to the scheme in future years and is required, additionally, to provide for Mental Welfare Commission for Scotland's share of the total CNORIS liability of NHS Scotland as advised by the Scottish Government.	We have agreed Mental Welfare Commission for Scotland's share of the CNORIS as advised by Scottish Government. We have received assurance from Audit Scotland on the methodology used by the Scottish Government to estimate the total value of the CNORIS national obligation at 31 March 2023 and how the total value is apportioned to each health board. **Conclusion** Our work is concluded in this area, and we have no matters to raise.	We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Financial Statements – key judgements and estimates (4)

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Assessment of leases – £0.154 million Net book value of right of use assets (Note 7a)	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. 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.. Right-of-use assets held under "peppercorn" leases are measured at existing use value.	We reviewed your assessment of the estimate considering the requirements of ISA (UK) 540 requirements. Further detail of our audit procedures is included on page 20. **Conclusion** Our work is concluded in this area, and we have no matters to raise.	We consider management's process is appropriate and key assumptions are neither optimistic or cautious.

Other key elements of the financial statements (1)

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

Issue	Commentary
Matters in relation to fraud and irregularity	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 representation 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 inquires of internal audit around internal control, fraud risk and any known or suspected frauds in 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.
Accounting practices	We have evaluated the appropriateness of Mental Welfare for Scotland's accounting policies, accounting estimates and financial statement disclosures. We have identified disclosure adjustments required to the financial statements which have been detailed in Appendix 1.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us 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 Commission.
Other information	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. No inconsistencies have been identified from work performed.

Other key elements of the financial statements (2)

Issue	Commentary
Governance statement	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 NHS Scotland Manual for Accounts and the FReM. The Governance Statement is included within the Accountability Report and sets out how the Commission has been governed during 2022/23 and would reference any significant issues to the date of the audit opinion. The report sets out how Mental Welfare Commission for Scotland has been governed during 2022/23, including membership and organisation of its governance structures and how they support the achievement of the Board's objectives. The report includes the Directors' Report, the Statement of Board Members' Responsibilities and the Governance Statement and has been prepared in accordance with the FReM and NHS Scotland Manual for Accounts. Wider assurances through financial and non-financial performance and internal controls and governance arrangements, provide assurances to the Chief Executive to express an opinion on the status of governance arrangements during the year for the purposes of updating the governance statement in the annual report. No inconsistencies have been identified and we plan to issue an unmodified opinion in this respect.
Matters on which we report by exception	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. We have nothing to report in respect of these matters.
Opinion on other aspects of the annual report and accounts	We are required to given an opinion on whether the parts of the Remuneration Report and Staff Report subject to audit have been properly 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 1.
Regularity	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 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.

Other key elements of the financial statements (3)

Issue	Commentary
Written representations	A letter of representation has been received from the Commission as required by auditing standards. We have not requested any specific representations in this letter.
Going concern	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 Commission 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. 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 Mental Welfare Commission for Scotland meets this criteria, and so we have applied the continued provision of service approach. 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: • a material uncertainty related to going concern has not been identified • management's (senior officer's) use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
National Fraud Initiative	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 Commission, receive matches for investigation. No issues were identified to highlight to the Committee and the Commission continue to be committed to the NFI exercise.

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	Overall ITGC rating	Security management	Technology acquisition, development and maintenance	Technology infrastructure	Related significant risks/other risks
SEAS	ITGC assessment (design, implementation and operating effectiveness)	● Green	● Green	● Green	● Green	Fraud in expenditure recognition
PECOS	ITGC assessment (design and implementation effectiveness only)	● Green	● Green	● Green	● Green	Fraud in expenditure recognition

Assessment

- ● Significant deficiencies identified in IT controls relevant to the audit of financial statements
- ● Non-significant deficiencies identified in IT controls relevant to the audit of financial statements/significant deficiencies identified but with sufficient mitigation of relevant risk
- ● IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
- ● Not in scope for testing

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 Scottish Government. Assurance reports are prepared by service auditors under ISA (UK) 402 covering the national systems/ arrangements.

During 2022/23 the service audit reports relevant were:

- Audit Scotland provide a management report with regards to Scottish Government systems

We adopt a fully substantive audit approach and therefore while we consider the findings from the Service Auditor reports and the impact on our audit procedures, we do not place reliance on their work. From consideration of the report, we are therefore satisfied that the unqualified opinion do not impact on our audit work.

Wider scope conclusions

Wider scope audit (1)

This section of our report sets out our conclusions from our audit work on the wider scope area of financial sustainability.

Wider scope dimension	Plan risk	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.**	**Significant**	**2022/23 Plan and Outturn** In June 2022, Mental Welfare Commission for Scotland approved their budget for the 2022/23 financial year, however, this was without the confirmation in writing from Scottish Government around the level of funding which would be received. This was also without any of the additional funding requested in the Commission's three-year business case presented to Scottish Government in January 2022. The original budget presented in June 2022, detailed a core budget allocation of £4.221 million. On receipt of the budget letter, the core funding allocation had increased to £4.992 million which included 50% of the year 1 business case additional funding (excluding DIDR), funding of £0.172 million in relation to the replacement of the Information Management System (IMS) and £0.286 million in relation to the Death in Detention Review (DIDR). Additional funding was received of £0.124 million in relation to a joint project which Mental Welfare Commission for Scotland are partaking in alongside NHS Education for Scotland to allow a Practitioner from the Commission to develop masterclasses to provide multidisciplinary learning opportunities. A non-core revenue resource limit was provided of £0.058 million. Mental Welfare for Scotland's actual outturn in 22/23 was £4.984 million which resulted in a surplus of £0.19 million. **2023/24 Financial Planning and Beyond** The Scottish Government has yet to confirm the Commission's resource budget allocation for 2023/24 and the Commission remains in close contact with the Scottish Government over its budget allocation. 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.

Wider scope audit (2)

Wider scope dimension	Plan risk	Wider scope audit response and findings
Financial Sustainability (continued)		The current three-year plan in place covers the periods from 2022/23 to 2025/26, however, the assumed budget allocation included within these calculations assumed a static budget allocation of £4.221 million (2022/23 core budget). This produced overspends each year of £0.057 million (2023/24), £0.114 million (2024/25) and £0.172 million (2025/26). From review of the plan, it was noted that the predicted increase in both people costs and other expenditure year on year would be 1%, and travel and subsistence costs would remain static. This plan was however, based on a scenario which excluded any additional business case funding. Staff costs make up around 85-90% of MWC's total budget expenditure and across the public sector environment, organisations are facing increasing pay pressures. The three-year plan has assumed that the 2022/23 pay policy remains constant for the next three years. The 2023/24 has been announced by the Scottish Government which details a suggested cash underpin of £1,500 for public sector workers who earn £25,000 or less (up from £775 in 2022/23), setting a pay award floor of 2% and recommending a central metric of 3.5% which has changed from an uplift of specified amounts in the prior year. Prior to the receipt of the additional business case funding, the assumed application in the medium term of a pay award consistent with 2022/23 would not have been affordable in the long-term, however assurances received from Scottish Government around 2023/24 funding indicate that confidence that pay award affordability will be met. Separate 2023/24 funding has been confirmed for the IMS and DIDR projects. **Second Opinion Doctor Fees** Funding was secured for a 3-year period on 29 June 2021 from the Scottish Government to provide additional funding where necessary to specifically address the rising demand for second opinion fees and any related shortfall in the Commission's budget. This was also based on the Commission raising its cap for second opinion fees, within its core budget to £0.418 million. For 2022/23, this is the last year of this agreement with the Scottish Government providing up to £0.162 million should there be a shortfall which cannot be met through any underspend identified by the Commission.

Wider scope audit (3)

Wider scope dimension	Plan risk	Wider scope audit response and findings
Financial Sustainability (continued)		In 2022/23, fees have been significantly higher than budget and are £0.188 million above the agreed cap figure for 2022/23. Although the agreed cap with Scottish Government is still in place, the Commission have been able to absorb the overspend again this year, but the high value and unpredictability of this number demonstrates the need for the cap to remain in place. The Commission are reviewing their internal processes for paying second opinion fees in order to ensure all visits are paid as soon as possible and Scottish Government have confirmed the continuation of the cap figure. **Information Management System** In relation to funding approval from the Scottish Government, the Deputy Director of Digital health and Care advised of the need for the project to revise projected spending through aligning the project with wider Scottish Government Health and Care initiatives and as part of this, a technical working group was formed. Capital Funding of £4.226 million (inc. 25% contingency and VAT) and an increase to the revenue budget of £0.676 million (over 7 years) was requested from Scottish Government. Following discussions with Scottish Government, the project funding was revised to comprise mainly revenue funding and the project has now received approval to proceed. In May 2023, the Project Board reviewed the outcome of the Single Procurement Document assessment where 16 submissions in responses to the Mental Welfare Commission for Scotland tender advert were evaluated alongside support of NSS procurement. Following the consensus meeting, the recommendation of the scoring panel was to proceed with eight bids. An Invitation to Negotiate (ITN) has now been issued to the eight suppliers. The Commission aims to complete the procurement and have a new supplier appointed by the end of March 2024, with a further year available to allow the development of the new system.

Appendices

1. 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

All adjusted misstatements made during the course of the audit are set out in the table below, together with their impact on the Comprehensive Income and Expenditure Statement, the Statement of Financial Position, and the reported net expenditure of the Commission for the year ending 31 March 2023. The adjustments set out were identified by Officers within the Commission and were not identified from audit procedures.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
NHS Scotland Payable			6
Dr Operating Expenditure	6		
Cr NHS Scotland Payables		(6)	
Being the increase in the NHS Scotland payable balance			
National Confidential Forum Write-Off			-
Dr PPE Accumulated Depreciation	-	74	
Cr Property, Plant and Equipment		(74)	
Being office assets related to the National Confidential Forum (NCF)			
Recognition of Right of Use Asset and Lease Liability			-
Dr Right of Use Asset	-	308	
Cr Lease Liability		(308)	
Being the initial recognition of right of use asset and lease liability per IFRS 16			
Recognition of Right of Use Asset Depreciate Expense			154
Dr Operating Expenditure - Depreciation	154		
Cr Right of Use Accumulated Depreciation		(154)	
Being recognition of the depreciation expense			

1. Audit Adjustments (2)

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Interest Charge			2
Dr Operating Expenditure - Interest	2		
Cr Lease Liability		(2)	
Being the interest charged for the lease liability per IFRS 16			
Lease Liability			(154)
Dr Lease Liability		154	
Cr Operating Expenditure - Rent	(154)		
Being reversal of rent paid during the year			
Prepayments Reversal			7
Dr Operating Expenditure – Computer Equipment & Supplies	7		
Cr Prepayments		(7)	
Being the reversal of prior year-end prepayments			
DMP Accrual			64
Dr Staff Costs	57		
Dr Operating Expenditure – Travel	7		
Cr Trade Payables (Accruals)		(64)	
Being the DMP accrual relating to second opinion doctor fees			
Operating Expenditure Reclassification			-
Dr Operating Expenditure – Office Expenses	11	-	
Cr Operating Expenditure – Computer Equipment	(11)		
Being the reclassification of shared service charges			

1. Audit Adjustments (3)

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Accruals			8
Dr Trade Payables - Accruals		8	
Cr Operating Expenditure – Good Practice Projects	(9)		
Cr Operating Expenditure – Staff Costs	1		
Being adjustment to accruals			
Operating Expenditure Correction			9
Dr Operating Expenditure	9		
Cr Trade Payables		(9)	
Being the correction of balances to align with the TB			
Prepayments Opening Balance			-
Dr Prepayments	-	18	
Cr General Fun		(18)	
Being adjustment to opening balance of prepayments			
Expenditure Reclassification			-
Dr Operating Expenditure – Travel	18	-	
Cr Operating Expenditure – Staff Costs	(18)		
Being reclassification of expenditure			
Overall impact	**80**	**(-80)**	**80**

1. Audit Adjustments (4)

Impact of unadjusted misstatements

The table below provides details of all non-trivial errors which we identified during the course of our 2022/23 audit which management decided not to amend within the final set of financial statements.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Holiday Pay Accrual Dr Holiday Pay Accrual Cr Operating Expenditure *Being the reduction in the holiday pay accrual*	(7)	7	(7)
NHS Scotland Payable Dr Operating Expenditure Cr NHS Scotland Payables *Being the expenditure in relation to a NHS Scotland payable disputed balance*	5	(5)	5
Prepayments Dr Prepayment Cr Operating Expenditure *Being expenditure relating to 23/24 which should be recorded as a prepayment*	(12)	12	(12)
Prepayments Incorrectly Classified Dr Operating Expenditure Cr Prepayments *Being the write off of outstanding balances which have been incorrectly classified*	18	(18)	18
Overall impact	4	(4)	4

1. Audit Adjustments (5)

Impact of unadjusted misstatements in the prior year

The table below provides details of all unadjusted misstatements brought forward from the 2021/22 audit carried out by your predecessor auditor.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Being the reversal of historic accruals	(20)	20	(20)
Being the non-recoverable trade receivables balance	5	(5)	5
Being the reallocation of payables balances (reclassification adjustment within payables and no net impact)		83 (83)	
Being the reversal of NCF holiday pay accruals	(1)	1	(1)
Overall impact	**(16)**	**16**	**(16)**

1. Audit Adjustments (6)

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 is not a complete list, as this does not include minor changes requested by the audit team, including typos and formatting requests.

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 recommendations	Adjusted?
Review of Annual Report and Accounts (General)	We identified a number of minor casting errors, figures had not yet been included, formatting issues, page referencing and linking errors were identified as part of our review of the Annual Report and Accounts. These were raised and processed by management where necessary.	Yes
Remuneration and staff report	We identified the following issues within the Remuneration and Staff Report which were subsequently amended: **Formatting:** Changes were made to improve the presentation of the information in the Remuneration and staff report and to the clarity of which elements are subject to audit. **Fair Pay Disclosure:** The method behind the calculation of the fair pay disclosure was not in line with the FReM and this has been subsequently updated. **Pension Benefits:** The prior year comparative disclosure note for the pension benefits was not included. International Accounting Standard 1 requires the disclosure of all comparative information for all primary statements and notes the accounts. Additionally, further disclosure was added to confirm why one Officer chose not to be covered by the pension arrangements during the year. **Subject to Audit:** The disclosures which are subject to audit where not clearly identifiable in line the FReM and disclosures have been updated to make this clear.	Yes

1. Audit Adjustments (7)

Disclosure	Auditor recommendations	Adjusted?
Statement of Cash Flows	The following amendments were made to the cashflow statement which arose due to the Commission's IFRS 16 adjustments noted within adjusted misstatements: • Repayment of borrowings and leasing liabilities of £0.154 million and interest paid of £0.002 million in relation to right of use assets and lease liabilities has been added. • Depreciation has changed from £0.058 million to £0.212 million as a result of depreciation charged in relation to the right of use asset.	Yes
Note 1h Leasing	The following amendments were made to the lease disclosure: • A disclosure to confirm that the short term/low value exemption has been applied • Nature of the Commissions' leasing activities including disclosures around variable lease payments, extension option We also identified the following which has not been adjusted for within note 1h or in Note 15: • Reconciliation between operating lease commitments disclosed applying IAS 17 at the 31 March 2022 and lease liabilities recognised within the Statement of Financial Position at 31 March 2023. • A description of how the entity manages the liquidity risk inherent in the maturity analysis.	Partially

1. Audit Adjustments (8)

Disclosure	Auditor recommendations	Adjusted?
Note 1u and 1v Key sources of judgement, estimation and uncertainty	International Financial Reporting standards prescribe the required disclosures in relation to critical judgements. It also requires separate consideration of accounting estimates. Significant estimates relate to assumptions and estimate at 31 March that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Judgements relates to areas that aren't significant estimates. In the draft accounts, management have combined critical estimate and judgements. These have been updated and separated into separate disclosures. We have identified that there is an opportunity to enhance the disclosure to focus on those key areas of estimation that may have a significant risk of material misstatement in the next 12 months. This should focus on those key areas of assumptions, include a sensitivity analysis and detail of what the carrying balance of the area is subject to the uncertainty.	Partially
Note 4 - Operating Income	Although operating income appeared in the SOCNE in the initial draft accounts, we identified that there was no corresponding note to support the breakdown of this balance - this was subsequently updated in version 2 of the annual accounts.	Yes
Note 5 – Segmental Analysis	The initial draft of the accounts did not include the figures reported to EMT. The Commission subsequently added in version 4 of the annual accounts. We also identified the following which has not been adjusted for within note 5: As per IFRS 8, If the necessary information about the geographical areas is not available and the cost to develop it would be excessive, that fact shall be disclosed.	Partially

1. Audit Adjustments (9)

Disclosure	Auditor recommendations	Adjusted?
Note 7 – Property, Plant and Equipment	The inclusion of the assets written off in relation to the National Confidential Forum asset or the right of use asset figures were not included in the disclosure until version 4 of the annual accounts which was identified and added by the Commission.	Yes
Note 11 - Provisions	The analysis of expected timing of discounted flows was missing from the annual accounts provided for audit. This was subsequently provided for audit within version 4 of the annual accounts and was added by the Commission.	Yes
Note 15 – Lease Commitments	In the original version of the accounts, we identified that IFRS figures or disclosures were not included. The updated figures at the note level were provided within version 3 of the annual accounts, and the primary statements were updated in version 5 of the accounts.	Yes
Note 16 – Pension Costs	In the original accounts provided for audit, this disclosure was not included as the wording was not yet available. This was subsequently provided for audit within version 2 of the annual accounts when the Commission added.	Yes
Note 17 - Financial instruments	The disclosure has been amended to update the disclosure for the issues we identified including: • Updated terminology in line with IFRS 9 as old terminology including 'loans and receivables' was being used. • Removal of statutory obligations including income tax and social security from the financial assets and liabilities disclosed as these do not meet the definition of a financial instrument We also identified the following which has not been adjusted for within note 17: • Disclosure of the fair value of financial assets and financial liabilities compared to the carry valuing including reference to the valuation technique and assumptions used.	Partially

2. Action plan and recommendations)1)

We have identified 6 recommendations for Mental Welfare Commission for Scotland during our audit of the financial statements for the year ended 31 March 2023. We have agreed our recommendations with management and will report on progress on these recommendations during our 2023/24 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 reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
High	**Financial Statements Preparation** On receipt of the draft financial statements, it was noted that the Commission had prepared their annual accounts based upon their budget statement and there were significant differences between these figures and the closing balances per the general ledger and trial balance. This resulted in numerous reiterations and reconciliations before the balances within the annual accounts could be sampled. Additionally, changes were made between different versions to notes within the accounts without notifying audit.	Review accounts preparation procedures and ensure the annual accounts are prepared with the closing trial balance figures to ensure the draft financial statements are in a position to audit and ensure all changes between versions can be easily tracked and are reported to audit. **Management response** The exceptional circumstances this year unfortunately did not allow for the normal procedures around the preparation of the accounts to be followed. We do not consider that any review of our procedures is necessary at this time.
Low	**NFI** The matches for the NFI exercise were released in January 2023. Processes and arrangements are in place for investigating the matches. All matches are required to be investigated by 30 September 2023 and the results recorded on the NFI system.	Report NFI progress updates the Audit and Risk Committee. Consider completing the self-appraisal checklist referred to in the 2021 NFI Report. **Management response** Noted, to be reviewed as to the level of reporting to include in any updates.

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

2. Action plan and recommendations – Financial statements audit (2)

Assessment	Issue and risk	Recommendations
Medium	**Journals** Our audit work identified in year that only three journals were posted by an officer within Mental Welfare Commission for Scotland, with the remainder posted directly by individuals within the Scottish Government. Additionally, officers within Mental Welfare Commission for Scotland prepared additional journals which were posted on their behalf. Testing of these journals found no instances of management over of controls. A journals log should be maintained on the journals requested to be posted on the Commission behalf with supporting workings and evidence of journal approval maintained.	Embed a journals log to ensure a record of journals posted on the Commissions behalf are maintained to avoid duplication and have been appropriately approved internally. **Management response** Again, due to exceptional circumstances, we engaged the assistance of Scottish Government finance colleagues to assist with some journal postings. We do not expect that this will continue beyond the current year end so do not feel that this recommendation is required.
High	**Finance Team** Mental Welfare Commission's finance team is small with one full-time individual who has a dual role and a temporary accountant who has been supporting the year-end accounts process and as such, the team has limited capacity. Due to the immediate impact of the sudden loss of the finance officer the Commission needed to move at pace to address urgent resourcing needs for the closedown process and other financial duties. As a result, the version of accounts received for audit was not complete and contained many missing disclosures including IFRS 16 figures, staff costs note and pension costs and understand that this was a unique year due the circumstances arising as outlined earlier in the report.	Management should ensure that sufficient time is allowed to produce a set of accounts for audit which are of a good quality and had sufficient time to be quality assured. The Commission should consider if a recruitment exercise needs to be undertaken at the end of the temporary accountants' contract to provide additional support in year within the finance team. **Management response** The Commission is of course intending to recruit a full-time replacement Finance Officer. It was previously decided that this should begin once the year-end work was concluded. Therefore, this process will commence shortly.

2. Action plan and recommendations – Financial statements audit (3)

Assessment	Issue and risk	Recommendations
High	**Nil net book value assets** The Commission's draft asset register included £0.288 million of assets (intangible assets) with a nil net book value and are fully depreciated in the asset register. There are two risks in relation to this issue: • if these assets are no longer operational, the gross cost and accumulated depreciation balance will be overstated; and • if these assets are operational, there is a risk that the Commission is not assigning appropriate asset lives to its intangible assets. The potential impact of these risks is that the gross cost and accumulated depreciation disclosed within Note 6a intangible assets is overstated. There is no impact on the primary financial statements , which comprise the Consolidated Statement of Comprehensive Net Expenditure, the Consolidated Statement of Financial Position, and the Consolidated Statement of Cash Flows and the Consolidated Statement Changes in Equity.	Perform a detailed review of their Useful Economic Lives policy and updated where appropriate. 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. **Management response** These assets relate to the National Confidential Forum and will be removed in 2023/24.

2. Action plan and recommendations – Financial statements audit (4)

Assessment	Issue and risk	Recommendations
Low	**Narrative Disclosures** There are currently no specific disclosure requirements on climate change, environmental matters and whistleblowing arrangements. However, public bodies should be including climate change in their consideration of principal risks and making disclosures accordingly. Narrative reporting requirements and expectations should relate to both the body's impact on the environment, and the impact climate change may have on the body's future. The Financial Reporting Council completed a thematic review of climate change-related considerations explaining the general requirements of IFRS providing a clear framework for incorporating the risks of climate change into financial reporting and although this review focused on companies, the principles can be applied to public sector bodies.	Mental Welfare Commission for Scotland should review their current disclosures to ensure that their narrative reporting adequately reflects their exposure to climate-related issues and how they are monitoring and managing these risks. **Management response** We have responded to Scottish Government on climate change issues in 2022/23. Although the Commission is not mandated to report on these issues, it is best practice for smaller organisations to voluntarily report on progress on areas where we do have influence and we will continue to adopt this approach.

3. Action plan and recommendations – Wider scope and Best Value

We have set out below, based on our audit work undertaken in 2022/23, the key recommendations arising from our wider scope and Best Value audit work:

Recommendation	Agreed management response
Financial Sustainability Mental Welfare Commission for Scotland have yet to receive confirmation of their 2023/24 funding allocation, which has resulted in added complexity to the forecasting and planning process. **Recommendation** On receipt of the 2023/24 funding allocation, 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.	**Management response:** This will be done as soon as confirmation of our 2023/24 funding is received.

4. Follow up of prior year recommendations

We have set out below, our follow up of the recommendations made by the predecessor auditor last year and management's progress in implementation:

Recommendations from financial statements audit

Recommendation	Agreed officer response
Allocation of Payables Balances The Commission utilises the Scottish Government accounting system 'SEAS'. The Commission and the Scottish Government work closely to ensure a prompt month end process. However, due to processing constraints in the system, the Commission's invoice processing is three days from receipt of an invoice. Due to the current processes, in the 2021/22 annual report and accounts, purchase invoices received at the end of March were misclassified as accruals. The annual report and accounts were adjusted to reflect these as trade payable balances.	This point related to invoices posted after the year-end but dated before the year-end which had been classified as accruals when Mental Welfare Commission for Scotland considered it to be a timing issue. This was not repeated as at March 2023. **Issue closed.**
Business Continuity Plan The existing database and casework system is out of support in 2023. The Commission recognises a risk to continued operations should the existing database and casework system cease to function before the project is completed. There is a risk that Mental Welfare Commission for Scotland are unable to carry out their statutory duties, specifically in relation to case monitoring.	Agreement has been reached with the company who support the existing database and an agreement has been signed. Ongoing support is to be agreed on an annual basis until the new system is in place. **Issue closed.**

4. Follow up of prior year recommendations (continued)

Recommendations from wider scope and best value audit

Recommendation	Agreed officer response
Accounts Preparation The Commission prepares accounts based on the final closing trial balance and supporting working papers. The reconciliation of the accounts to the trial balance identified a significant manual adjustment between accounts and trial balance for the utilisation of the NCF provision. Disclosure changes were also included in the final accounts to align with the closing trial balance. The most significant of these was in relation to the year-end bank balance subsequent impact on the other primary financial statements including the Cash Flow Statement. Adjustments outside the ledger operate outside the ledger controls and are higher risk for fraud or error.	Mental Welfare Commission for Scotland were aware of the closure of NCF and the resulting provision which was required to be made was going to be the subject of audit discussion, therefore, the journals for this were not put through the TB until that discussion had taken place. **This recommendation is superseded by a recommendation in relation to the 2022/23 closedown process on page 45.**
Trade Receivables Balance The Commission has a £5,019 balance in accounts receivables which relates to income from another public sector body in 2019/20. Accounts Receivable processes are undertaken with support from the Scottish Government. Recovery action has not been taken to resolve the balance. There is a risk that the trade receivables may be overstated.	The Commission does not have access to receivables in the ledger so if an invoice to be raised is required, this must be requested from Scottish Government colleagues to do this on the Commission's behalf. Resolving the allocation of receipt of funds to this invoice rests with Scottish Government and not the Commission. We will take this forward with Scottish Government before the next year end. **There is an unadjusted misstatement for this issue on page 40.**

5. 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
Relationships with Grant Thornton	We are not aware of any relationships between Grant Thornton and 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 entity 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 Mental Welfare Commission for Scotland.
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.

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. The firm and each covered person (and network firms) have complied with the Financial Reporting Board’s Ethical Standard and confirm that we are independent and are able to express an objective opinion on the financial statements.

5. 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 Mental Welfare Commission for Scotland. The table summarises all non-audit services which were identified.

The final audit fee includes additional audit fee of £2,100. This is relation to additional work during the audit in relation to the reconciliation between the general ledger, closing trial balance and financial statements which is above the usual level of work required in this area.

External Audit Fee

Service	Planned Fees £	Proposed Final Fees £
External Auditor Remuneration	£34,970	£37,070
Pooled Costs	£3,160	£3,160
Contribution to Audit Scotland support costs	£1,370	£1,370
Sectoral cap adjustment	-£17,920	-£17,920
2022/23 Audit Fee	**£21,580**	**£23,680**

Fees for other services

Service	Fees £
We confirm that for 2022/23 we did not receive any fees for non-audit services	Nil

5. Audit fees, ethics and independence (3)

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

- Fees per financial statements £22,000
- Additional audit fee £2,100
- Total fees per above £24,100

The additional audit fee of £2,100 has not been accrued.

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). Alternatively, should you wish to raise your concerns further please contact Jon Roberts, Partner and Head of Assurance, 30 Finsbury Square, London, EC2A 1AG. 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 2021 (grantthornton.co.uk)

6. Communication of audit matters

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

Our communication plan	Audit Plan	Annual Report (our 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	•	•
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.		•

Grant Thornton

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