June 2008

Annual Report to Commissioners
Mental Welfare Commission for Scotland

PricewaterhouseCoopers

Government and Public Sector Assurance

Contents

1. Introduction

To the Commissioners of the Mental Welfare Commission and the Auditor General for Scotland

1.01 We have completed our audit of the Mental Welfare Commission for Scotland for the year ended 31 March 2008.

1.02 The Annual Report which follows is primarily designed to direct your attention to matters of significance that have arisen out of the 2007/08 audit process and to confirm what action is planned by management to address the more significant matters identified for improvement.

1.03 Our overall responsibility as external auditor of the Mental Welfare Commission for Scotland is to undertake our audit in accordance with the principles contained in the Code of Audit Practice issued by Audit Scotland in March 2007.

1.04 In this regard, the Code sets out the need for public sector audits to be planned and undertaken from a wider perspective than in the private sector involving not only assurance on the financial statements but also consideration of areas such as regularity, propriety, performance and the use of resources.

1.05 It also sets out the need to recognise that the overall audit process is a co-ordinated approach involving not only the "appointed auditor", but also the Auditor General for Scotland and other auditors such as Audit Scotland's Health Performance and Public Reporting Group.

1.06 Our audit has been planned and conducted to take account of these wider perspectives.

1.07 Under the requirements of International Standard on Auditing (UK and Ireland) ('ISA') 260: "*Communication of audit matters to those charged with governance*", we are required to communicate audit matters of governance interest arising from the audit of financial statements to those charged with governance of an entity.

1.08 This Annual Report to Members, together with previous reports to the Audit Committee throughout the year, discharges the requirements of ISA 260.

1.09 We would like to thank all Mental Welfare Commission for Scotland managers and staff for their assistance throughout the audit process

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6 June 2008

2. Executive Commentary

The Audit Process and Accounting Issues

2.01 The financial statements and supporting schedules were presented to us for audit within the agreed timetable. The quality of working papers provided and internal review process undertaken by management were of a good standard.

2.02 We are required to report any unadjusted errors to those charged with governance. All adjustments identified from the audit process have been agreed and adjusted by management.

Our Audit Opinion

2.03 Our audit opinion concerns both the true and fair statement of the Mental Welfare Commission for Scotland's ("the Commission") financial results for the year ended 31 March 2008 (2007/08) and the regularity of its income and expenditure in the year.

2.04 We are pleased to report that our opinion on the true and fair view on the financial statements is unqualified.

2.05 Our regularity opinion on income and expenditure is also unqualified.

2.06 We also provide a view as to whether those parts of the Remuneration Report subject to audit have been properly prepared. Our opinion on the Remuneration Report is unqualified. Our audit opinion does not extend to any other part of the Directors' Report.

Governance Arrangements

2.07 A summary of the work we have performed in the year in relation to the Commission's Governance Arrangements was set out in our 2007/08 Interim Management Letter. The Commission has in place reasonable arrangements albeit these are continuing to develop, partly in response to the 2006/07 Performance and Financial Management Review.

Financial Performance and Forecast

2.08 The Commission achieved a £107,000 surplus for the year, compared to the predicted break-even position reported in the financial plan at the beginning of the year. This surplus includes the carry forward of £40,000 that was approved by the Scottish Government at the end of 2006/07.

2.09 The Commission is projecting a recurring balance in 2008/09, with a predicted breakeven for the financial year. This is dependent on sound management of recurring and non-recurring income and expenditure.

Systems of Internal Control

2.10 The Code of Audit Practice requires us to review and report on the Commission's Statement of Internal Control. Based on our normal audit procedures, we do not disagree with the disclosures contained within the Statement of Internal Control.

- A number of minor control matters requiring corrective action have been reported previously to Commission's Audit Committee.

Other Matters

2.11 During the course of our final audit visit we identified two further control issues. Each issue has been discussed in Section 7 of this report.

3. The Audit Process, our Audit Opinion and Accounting Issues

Audit Process

3.01 The financial statements and supporting schedules were presented to us for audit within the agreed timetable. The quality of working papers provided and internal review process undertaken by management were of a good standard. Overall, we believe an efficient audit process was achieved and an effective working relationship exists with your staff.

Preparation and Approval of Financial Statements

3.02 The Financial Statements were prepared in accordance with the accounting requirements contained in the NHS Accounts Manual for the Annual Report and Accounts of Unified NHS Boards, and supplementary guidance, as issued by the Scottish Government Health Department (SGHD) and approved by the Scottish Ministers.

3.03 The Financial Statements were submitted to the Commission's Audit Committee on 13 June 2008 and approved and adopted at the Full Commission meeting on 30 June 2008.

Our Audit Opinion

3.04 Our audit opinion concerns both the true and fair statement of the Mental Welfare Commission's financial results for the year ended 31 March 2008 (2007/08) and the regularity of its income and expenditure in the year.

3.05 We are pleased to report that our opinion is unqualified.

3.06 We also provide a view as to whether those parts of the Remuneration Report subject to audit have been prepared properly. Our opinion on the Remuneration Report is unqualified. Our audit opinion does not extend to any other part of the Directors' Report.

Key Financial Targets

3.07 The Commission achieved its key financial targets for the year, as follows:

Financial Targets	Achievement
Revenue Resource Limit ("RRL")	The Commission spent £3.933 million against its RRL of £4.040 million, resulting in a surplus of £107,000. Of this underspend, £40,000 has been approved for carry forward to 2008/09.
Capital Resource Limit ("CRL")	Total capital spend was £172,000 against a CRL of £177,000.
Cash Requirement Target	The Commission spend during 2007/08 was £3.823 million; remaining within the cash requirement target of £3.935 million.

Accounting Issues

VAT Debtor

3.08 The Commission has previously disclosed a year end balance in respect of VAT. However, given the fact that the Commission's VAT is accounted for in the consolidated VAT return completed by the Scottish Government, it was determined that it would be more appropriate to include any VAT related balance within its overall General Fund balance. This change is disclosure has been highlighted within the financial statements.

Misstatements and Significant Audit Adjustments

3.09 Misstatements represent audit findings where we do not agree with the amount, classification, presentation or disclosure of items in the financial statements.

3.10 In conducting our audit procedures, we may identify misstatements that require adjustments to the recorded amounts. These audit adjustments are discussed with management who, in consultation with us, determine if an adjustment should be processed. Our expectation is that all non trivial misstatements are adjusted.

3.11 As a result of our work, we proposed a number of audit adjustments and all of these have been processed by management in the finalised version of the 2007/08 financial statements.

4. Governance and Business Risk Areas

Introduction

4.01 We comment on the following areas throughout this section of the report:

- Overall Governance
- Financial management
- People management
- Performance management
- Partnership working
- Information management

4.02 We have reported in greater detail on a number of these areas in our Interim Management Letter for 2007/08 submitted to the Audit Committee on 29 February 2008.

Overall Governance Arrangements

4.03 The Commission is managed through Full Commission, Management Group, Audit Committee and other standing committees.

4.04 During 2006/07 the Commission was subject to a Performance and Financial Management Review (PFMR) by KPMG. A number of recommendations were raised in relation to including aspects of governance, performance management and financial management. An action plan was developed in response to this report and progress against recommendations is being monitored by the Full Commission on a regular basis.

Financial Management

4.05 The Scottish Government has confirmed an allocation of £4 million per annum for 2008/09 for the Commission. In addition, for 2008/09 the Scottish Government has authorised the Commission to carry forward £40,000 of the surplus reported in the current year.

4.06 In order to ensure that the Commission’s budget is fully aligned with its strategic plan, the Commission is working towards analysing the allocation of its budget against each of its key strategic aims.

4.07 As part of this process, management has identified a need to understand how staff spends their time. As a result, a pilot scheme was set up for a small number of Commission staff to record their time according to the strategic objectives of the Commission over a four-week period during 2006/07. The Commission has reviewed the results of this pilot and has decided to progress further work in this area. It is anticipated that during the financial period 2008/09, all staff will be required to record their time spent against strategic objectives for two separate calendar months with a view to determining where resource is being expended and whether appropriate resource is being allocated to the strategic objectives of the organisation.

4.08 The financial position of the Commission is monitored throughout the year primarily by the Management Group, which receives detailed budgetary reports on a monthly basis. These reports include information on actual performance against budget, any areas of potential under / overspends and provide management with revised forecasts.

4.09 The Audit Committee also receives a summarised report at each of its three annual meetings and the Full Commission reviews the financial position through verbal reports from the Head of Corporate Services on a quarterly basis.

People Management

Equal Pay

4.10 The Commission has received no claims relating to equal pay and therefore has not disclosed any potential contingent liability in this years financial statements

Overseas Recruitment

4.11 Audit Scotland has requested that auditors perform additional work at the year end to confirm that all NHS Boards are compliant with the new Partnership Information Network (PIN) publication *Safer pre and post employment checks – policy for NHS Scotland.* Specifically, Audit Scotland requested that we validate that appropriate documentation was being evidenced by the Boards when recruiting overseas employees. We can confirm that Commission staff are aware of the new PIN guidance. However, no further work was required in this area as the Commission has no overseas employees who would be subject to this specific recruitment guidance.

Performance Management

4.12 The Performance and Financial Management Review (PFMR) by KPMG raised a number of recommendations regarding performance management. In particular, the report highlighted the need for KPIs to be SMART and to ensure that there are appropriate mechanisms in place for reporting on progress against KPIs.

4.13 Following recent discussions between the Commission and the Scottish Government, the Key Performance Indicators (KPIs) previously agreed as part of the approval of the Commission's Strategic Plan have been amended and reduced to five key KPIs which the Commission has reported on in its Annual Report.

4.14 An Organisational Development Review has been commissioned, partially in response to the KPMG report, and was undertaken by the consultants Frontline. This review examined key business processes to understand how these could be made more efficient using the Commission's current resources. The detailed findings of this review were presented to the Full Commission in December 2007 and progress continues to be monitored by the Full Commission.

Partnership Working

4.15 In our 2007/08 Interim Management Letter we reported on the progress made by the Commission in establishing appropriate structures and processes to help deliver its partnership working with the Care Commission, with whom it works closely around joint inspection work, and the Mental Health Tribunal. The Commission continues to enjoy a good working relationship with the Scottish Government and communicates with it on a regular basis around operational, performance and governance aspects of the organisation.

Information Management

4.16 The Commission's accounting system and payroll functions are outsourced to the Scottish Government.

4.17 The Commission has upgraded their Integrated Information Management System to accommodate the new Mental Health Act forms. The upgrade went live on 1 February 2008 and has improved the overall functionality of the system.

5. Financial Targets and Performance 2007/08

Revenue Out-turn

5.01 The Commission reported a surplus out-turn for the year of £107,000. This includes funding of £40,000 carried forward funding from 2006/07 meaning expenditure incurred during the year was £67,000 less than the in year allocation.

5.02 It is emphasised that we do not express a specific audit opinion on the figures on the following pages – these have been extracted in agreement with management from various reports, supporting papers and detailed discussions with management.

5.03 **The Commission's Reported Financial Out-turn for 2007/08.**

	£'m Actual	£'m Actual
Recurring income	4.0	
Recurring expenditure (before savings)	(3.9)	
Recurring savings	0	
Underlying recurring surplus / (deficit)		**0.1**
Non-recurring income	0.1	
Non-recurring expenditure (before savings)	(0.1)	
Non-recurring savings	0	
Non-recurring surplus/(deficit)		**0**
Financial surplus/(deficit) for the year		**0.1**
Figures confirmed by Donald Lyons, Commission Director		

5.04 **Actual Out-turn versus Original Plan**

	£000	£000
Projected Break Even (1 April 2007)		**0**
Overspends:		
2nd Opinion Doctor Fees	(40)	
		(40)
Underspends:		
Performance Management	69	
Good Practice	31	
Rent	40	
Other	7	
		147
Actual surplus reported (31 March 2008)		**107**

Overspends

5.05 Salary costs during 2007/08 were £40,000 overspent. This was predominantly due to increased activity of second opinion doctors.

Underspends

5.06 A key activity of the Commission is to inform, publish and promote good practice in relation to the rights and welfare of everyone with a mental illness, learning disability or other mental disorder. The main factors for the underspend against the RRL is the result of project slippage in this area due to the lack of project management resource to perform the work. The Commission also recorded underspends against its rent budget of £40,000.

5.07 **Capital Expenditure Out-turn**

Capital Expenditure 2007/08	£'000
Capital expenditure in year	172,000
Capital Grants given	0
	172,000
Capital Receipts	0
Capital Grants received	0
Capital Resource Limit out-turn	**172,000**
Capital Resource Limit	**177,000**

Capital Expenditure

5.08 The Commission's predominant area of capital expenditure in 2007/08 was in relation to the upgrade of the Commission's Integrated Information Management System (IIMS). The phase 2 upgrade by the system developers, designed to improve the system's functionality and to accommodate changes to the Mental Health Act forms, accounted for £170,000 of the Commission's capital spend in 2007/08. The upgraded system went live on 1 February 2008.

6. Financial Forecast 2008/09

Forecast for 2008/09

6.01 The table demonstrates that the Commission plans to return a breakeven position for 2008/09.

	£'m Forecast	£'m Forecast
Recurring income	4.0	
Recurring expenditure (before savings)	(4.0)	
Recurring savings	0	
Underlying recurring surplus / (deficit)		**0**
Non-recurring income	0.1	
Non-recurring expenditure (before savings)	(0.1)	
Non-recurring savings	0	
Non-recurring surplus/(deficit)		**0**
Financial surplus/(deficit) forecast for the year		**0**
Figures confirmed by Donald Lyons, Commission Director		

Cost Pressures

6.02 The table above sets out the budget for 2008/09. There has been no incremental increase in the Commission's RRL for 2008/09 meaning that it will have to remain within the £4,000,000 allocation it received during 2007/08. In addition to the £4,000,000 budgeted for above, a revenue carry forward of £40,000 has been approved by the Scottish Government.

6.03 The Commission's lease at Argyle House expires on 31 March 2009. The Commission requested permission to carry forward more than the 1% of RRL normally allowed. The Commission had hoped that any additional monies would help fund the move and any potential double accommodation costs that may be incurred during 2008/09. The Government has refused this request but has indicated that it may fund some office move costs. At present the Commission has identified £35,000 to fund office move costs and will need to make an "in year bid" for additional funding.

6.04 The Scotland-wide Efficient Government initiative is designed to deliver public sector savings of £500 million by 2007/08 and £1 billion by 2009/10. In common with other Health Bodies, the Commission has not been set any specific targets in relation to this.

7. Systems of Internal Control

Financial Systems

7.01 The Commission uses the Scottish Executive Accounting System (SEAS) and so does not maintain its own accounting system. We have not undertaken a review of SEAS, but have placed reliance upon the work of Audit Scotland in that regard.

Statement on Internal Control

7.02 The Code of Audit Practice requires us to review and report on the Commission's Statement on Internal Control.

7.03 The Commission has used the correct format for its Statement and has outlined the processes it has employed to identify and evaluate risks. In addition, key elements of the Commission's control framework have been highlighted.

7.04 The Statement also outlines areas where the Commission has initiated actions to improve internal control. These include:

- An organisational development review which focussed on reviewing seven of the key business processes and making recommendations for improvement;
- Implementation of a major upgrade to the patient record system (IMP) to accommodate changes to the Mental Health Act forms and improve the system's functionality and ease of use for staff;
- Contracted research to review the effectiveness of the Commission's recent investigation and inquiries;
- Consolidation of several systems to determine and improve the quality of advice given by the Commission; and
- Establishment of a staff consultative committee to ensure staff are involved in all decisions that affect them.

7.05 Based on our normal audit procedures, we do not disagree with the disclosures contained in the Statement.

Follow Up Report on control matters raised for action in previous years

7.06 We followed up the Commission's progress in implementing previous external audit recommendations. Our Follow Up Report was considered at the Audit Committee meeting on 29 February 2008.

7.07 At the time of reporting, of the 2 agreed actions, one had been implemented and one was no longer applicable.

Interim Management Letter 2007/08

7.07 Our Interim Management Letter was presented to the Audit Committee on 29 February 2008. The report contained five recommendations to improve controls, none of which were categorised as high risk.

7.08 The Commission has completed an action plan detailing those individuals responsible for implementing our recommendations and the timetable for completion. We will follow up this action plan during our 2008/09 audit.

Control Weaknesses Identified

7.09 Two control weaknesses were identified during the course of the final audit. These had a direct impact on the work performed on the financial statements and have been outlined below.

Accounts Payable

7.10 In previous years the Commission has been unable to obtain a detailed list of creditors from the SEAS system. This year-end a report was made available to the Commission and was found to include a number of invoices that had already been paid and had in effect been expensed twice. Management undertook work to ensure that no duplicate payments had been made during the year. This exercise identified two small payments but we are content that the expenditure figure is now correctly stated.

7.11 This issue arose as a result of teething problems with the new Easebuy system. Further training has been received and management considers that this issue should not recur. ***The Commission should ensure that it receives the accounts payable report on a monthly basis facilitating management review on the accuracy of the accounts payable listing on a regular basis.***

Action 1

Petty Cash Reconciliation

7.12 The petty cash balance disclosed by the Commission in the financial statements did not agree to the general ledger balance. On investigation it was identified that, although the petty cash account is reconciled to the cash book on a monthly basis, no reconciliation to the General Ledger has been performed during the year. As a result, journal mis-postings had not been identified and investigated in a timely manner. This difference relates to £2,800 of costs associated with travel and subsistence. ***The Commission should ensure that the petty cash balance is reconciled to the general ledger on a monthly basis.***

Action 2

National Fraud Initiative (NFI)

7.13 We submitted a return to Audit Scotland in February 2008, providing information on the Commission's arrangements for the management of its 2006/07 NFI project. We concluded that the Commission appeared to have established satisfactory systems to fulfil the requirements of the 2006/07 NFI exercise.

7.14 As outlined in CEL 18 (2007) the Scottish Government Health Directorate supports Audit Scotland's proposal that NHS bodies should continue to participate in the 2008/09 NFI exercise.

7.15 The 2008/09 exercise will commence on 6 October 2008 with payroll being the only mandatory dataset for submission by health bodies. However, health bodies may also take the opportunity to submit trade creditors' payment history information for comparison.

Fraud Strategy and Submission

7.16 CEL 3 (2008) informed Boards of the need for an updated strategy to combat NHS fraud and set out specific action in relation to the strategy. The Audit Committee reviewed the Commission's Fraud Prevention and Investigation strategy at the end of February 2008 and was satisfied with actions being taken forward to address the guidance.

7.17 The Commission has submitted a nil return in respect of frauds during 2007/08.

Appendix 1: Action Plan

Ref	Recommendation	Risk Category	Management Response and Action	Responsible Officer	Date of Implementation
7.11	The Commission should ensure that it receives the accounts payable report on a monthly basis facilitating management review of the accuracy of the accounts payable listing on a regular basis.	Low	Agreed	Kathleen Glass	Immediate
7.12	The Commission should ensure that the petty cash balance is reconciled to the general ledger on a monthly basis.	Low	Agreed	Kathleen Glass	Immediate

Appendix 2: Other Reports Submitted During the 2007/08 Audit

Reports submitted by PricewaterhouseCoopers LLP during the 2007/08 audit process

Planning Visit

1. Annual Service Plan

Interim Visit

2. Follow up of 2006/07 Audit Recommendations
3. Interim Management Letter 2007/08

Final Accounts Visit

4. Audit Opinion
5. Annual Report to Commission Commissioners

Health Reports finalised by Audit Scotland during 2007/08

1. Managing long-term conditions (16 August 2007)
2. Primary care out-of-hours services (30 August 2007)
3. Health and community care bulletin (11 October 2007)
4. Priorities and Risks Framework: A national planning tool for 2007/08 NHSScotland audits (16 November 2007)
5. Overseas staff in the NHS – pre-employment checks (29 November 2007)
6. Overview of Scotland's health and NHS performance 2006/07 (14 December 2007)
7. A review of free personal and nursing care (1 February 2008)

Freedom of Information (Scotland) Act 2002

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