



# Mental Welfare Commission for Scotland

External Audit Annual Plan 2021/22

February 2022



# Table of Contents

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Introduction	3
Respective responsibilities of the auditor and the Commission	6
Audit strategy	12
Annual report and accounts	16
Wider scope audit	26
Audit outputs, timetables and fees	29
Appendices	33

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# Introduction



## Introduction

1. This document summarises the work plan for our 2021/22 external audit of the Mental Welfare Commission for Scotland (the “Commission”).
2. The core elements of our work include audits of:
  - the 2021/22 annual report and accounts and related matters;
  - the Commission’s arrangements for, where applicable, financial sustainability, financial management, governance and transparency and value for money; and
  - any other work requested by Audit Scotland.
5. The Auditor General has appointed Azets as external auditor of the Mental Welfare Commission for Scotland for the six year period 2016/17 to 2021/22<sup>1</sup>. This document summarises the audit plan for 2021/22 and includes;
  - the responsibilities of Azets as the external auditor;
  - our strategy;
  - our planned audit work and how we will approach it;
  - our proposed audit outputs and timetable; and
  - background to Azets and the audit team.

## Audit appointment

3. The Auditor General for Scotland is an independent Crown appointment, made on the recommendation of the Scottish Parliament. The Auditor General is independent and not subject to control of any member of the Scottish Government or the Parliament. The Auditor General is responsible for securing the audit of the Scottish Government and most public bodies, including NHS bodies in Scotland, and reporting on their financial health and performance.
4. Audit Scotland is an independent statutory body that provides the Auditor General with the services required to carry out his statutory functions, including monitoring the performance of auditors through a quality control process.

## Auditor independence

6. International Standards on Auditing in the UK (ISAs (UK)) require us to communicate on a timely basis all facts and matters that may have a bearing on our independence.
7. We confirm that we comply with the Financial Reporting Council’s (FRC) Ethical Standard. In our professional judgement, we are independent and our objectivity is not compromised in any way.
8. We set out in Appendix 2 our assessment and confirmation of independence.

## Adding value through the audit

9. All of our clients demand of us a positive contribution to meeting their ever-changing business needs. Our

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<sup>1</sup> In October 2020, the Auditor General extended our audit appointment for one year through to the audit of

the 2021/22 financial year to provide continuity and stability in the current challenging environment.

aim is to add value to the Commission through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way, we aim to help the Commission promote improved standards of governance, better management and decision making and more effective use of resources.

## Feedback

10. Any comments you may have on the service we provide, the quality of our work and our reports would be greatly appreciated at any time. Comments can be reported directly to any member of your audit team.

## Openness and transparency

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

# Respective responsibilities of the auditor and the Commission



## Respective responsibilities of the auditor and the Commission

### Auditor responsibilities

#### Code of Audit Practice

12. The Code of Audit Practice (the Code) outlines the responsibilities of external auditors appointed by the Auditor General for Scotland and it is a condition of our appointment that we follow it.

public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance, not only on the financial statements, but on the appropriateness, effectiveness and impact of corporate governance and performance management arrangements and financial sustainability.

#### Our responsibilities

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

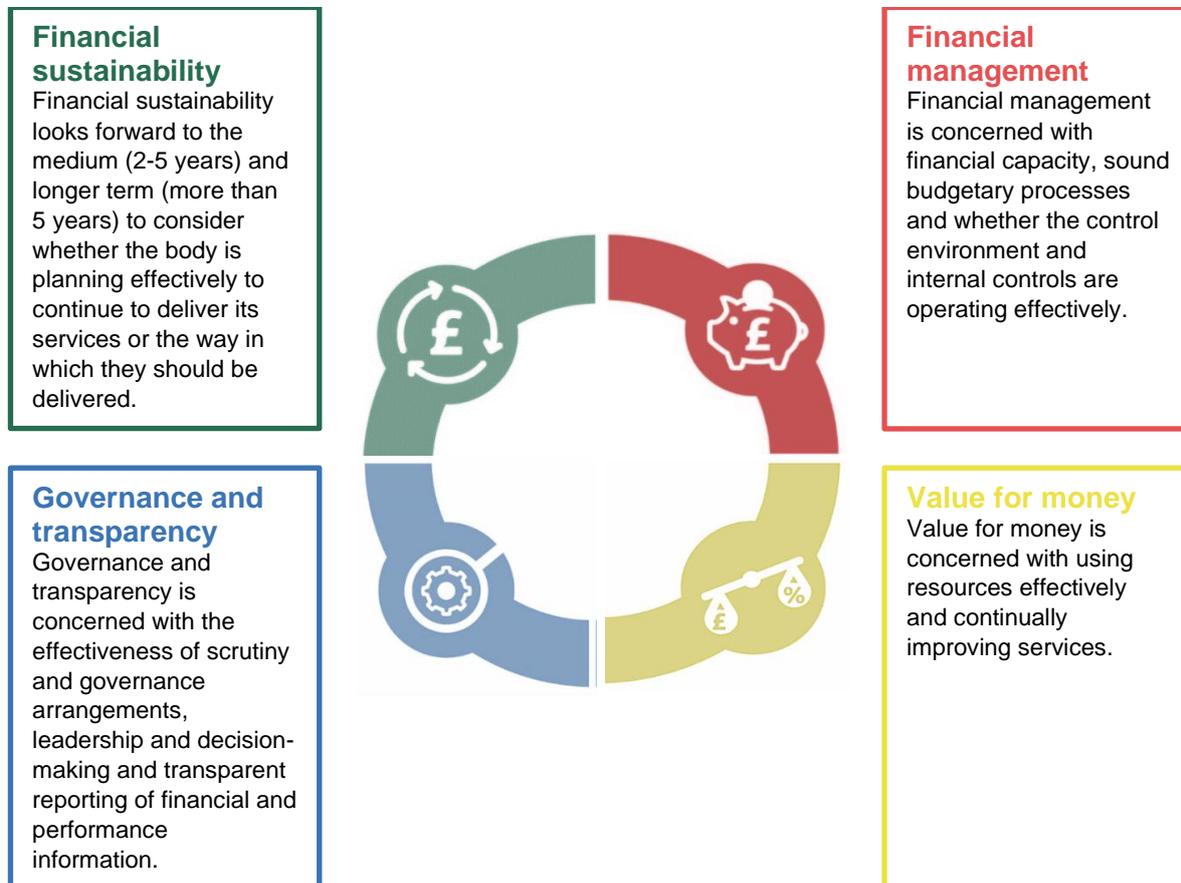
- undertake statutory duties, and comply with professional engagement and ethical standards;
- provide an opinion on financial statements and, where appropriate, the regularity of transactions;
- review and report on, as appropriate, other information such as annual governance statements, management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

15. The Code sets out four audit dimensions that frame the wider scope audit work into identifiable audit areas. These are summarised in Exhibit 1.

#### Wider scope audit work

14. The special accountabilities that attach to the conduct of public business, and the use of public money, mean that

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



16. Where the application of the full wider scope is judged by us not to be appropriate then our annual audit work on the wider scope is restricted to:
- Audit work to allow conclusions to be made on the appropriateness of the disclosures in the governance statement; and
  - Consideration of the financial sustainability of the organisation and the services that it delivers over the medium and longer term.
17. Our assessment takes into account the size, nature and risks of the organisation. Taking these factors into consideration, we have concluded that application of the restricted wider scope is appropriate at the Commission.
18. Weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work in accordance with the Code and may not be all that exist. Communication by Azets of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

## Commission responsibilities

19. The Commission has primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective

arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives. The Commission's responsibilities are summarised in Exhibit 2.

## Exhibit 2: Commission responsibilities

Area	Commission responsibilities
<p><b>Financial statements:</b> Annual accounts containing financial statements and other related reports should be prepared.</p>	<p>The Commission has responsibility for:</p> <ul style="list-style-type: none"><li>• preparing financial statements which give a true and fair view of its financial position and its expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation;</li><li>• maintaining accounting records and working papers that have been prepared to an acceptable professional standard and that support their financial statements and related reports disclosures;</li><li>• ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority;</li><li>• maintaining proper accounting records; and</li><li>• preparing and publishing, along with their financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that are consistent with the disclosures made in the financial statements.</li></ul>

Area	Commission responsibilities
<p><b>Financial sustainability:</b> Financial sustainability looks forward to the medium and longer term to consider whether the organisation is planning effectively to continue to fulfil its functions in an affordable and sustainable manner.</p>	<p>The Commission is responsible for putting in place proper arrangements to ensure the financial position is soundly based having regard to:</p> <ul style="list-style-type: none"><li>• Such financial monitoring and reporting arrangements as may be specified;</li><li>• Compliance with statutory financial requirements and achievement of financial targets;</li><li>• Balances and reserves, including strategies about levels and their future use;</li><li>• How the organisation plans to deal with uncertainty in the medium and long term; and</li><li>• The impact of planned future policies and foreseeable developments on the financial position.</li></ul>
<p><b>Financial management:</b> Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.</p>	<p>The Commission is responsible for ensuring that financial affairs are conducted in a proper manner. Management is responsible, with the oversight of those charged with governance, to communicate relevant information to users about the entity and its financial performance.</p> <p>The Commission is responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of its objectives and safeguard and secure value for money from the public funds at its disposal.</p> <p>The Commission is responsible for establishing arrangements to prevent and detect fraud, error and irregularities, bribery and corruption and also to ensure that its affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.</p>

Area	Commission responsibilities
<p><b>Governance and transparency:</b> Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.</p>	<p>The Commission, through its Chief Executive (as accountable officer) is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Those charged with governance should be involved in monitoring these arrangements.</p> <p>The Commission is also responsible for establishing effective and appropriate internal audit and risk management functions.</p>
<p><b>Value for money:</b> Value for money is concerned with the appropriate use of resources and ensuring continual improvement of services delivered.</p>	<p>Accountable officers have a specific responsibility to ensure that arrangements have been made to secure best value. Audited bodies are responsible for ensuring that these matters are given due priority and resources, and that proper procedures are established and operate satisfactorily.</p>

# Audit strategy



## Audit strategy

### Risk-based audit approach

20. We follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to the Commission. This

ensures that our audit focuses on the areas of highest risk. Our audit planning is based on:



21. Planning is a continuous process and our audit plans are updated during the course of our audit to take account of developments as they arise.

### Communication with those charged with governance

22. Auditing standards require us to make certain communications throughout the audit to those charged with governance. We have agreed with the Commission that these communications will be through the Audit, Risk and Information Governance Committee (A, R & IG Committee).

### Professional standards and guidance

23. We perform our audit of the financial statements in accordance with International Standards on Auditing (UK (ISAs (UK))), the International Standard on Quality Control 1 (UK), Ethical Standards, and applicable Practice Notes and other guidance issued by the Financial Reporting Council (FRC).

### Partnership working

24. We coordinate our work with Audit Scotland, internal audit, other external auditors and relevant scrutiny bodies, recognising the increasing integration

of service delivery and partnership working within the public sector.

## Audit Scotland

25. Although we are independent of Audit Scotland and are responsible for forming our own views and opinion, we do work closely with them throughout the audit. This helps, for example, to identify common priorities and risks, treat consistently any issues arising that impact on a number of audited bodies, and further develop an efficient and effective approach to public audit. We share information about identified risks, good practices and barriers to improvement so that lessons to be learnt and knowledge of what works can be disseminated to all relevant bodies.

## Internal Audit

26. We will consider the work of internal audit within our audit process and look to minimise duplication of effort, to ensure the total audit resource to the Commission is used as efficiently and effectively as possible.

## Shared systems and functions

27. Audit Scotland encourages auditors to seek efficiencies and avoid duplication of effort by liaising closely with other external auditors, agreeing an appropriate division of work and sharing audit findings. The Commission uses the Scottish Government payroll services and accounting systems (SEAS). The appointed auditor to the Scottish Government will share with us their findings on work carried out on those systems.

## COVID-19 – impact on our 2021/22 audit strategy

28. The COVID-19 pandemic has had, and continues to have, a significant and profound effect on every aspect of Scottish society.
29. We appreciate that organisations have been impacted differently by COVID-19, as have finance teams, and some organisations are better set up for remote working. We also know that plans can change quickly and it only takes the absence of one key member of staff from a finance team to have a big impact. Equally our own teams may also be impacted by the pandemic. The wellbeing of our clients and our staff is paramount. Maintaining a pragmatic and flexible approach will enable change at short notice as new issues emerge, or current risks change in significance.

### Remote working

30. As we continue to follow Scottish Government guidelines and acknowledge the Commission's working arrangements, we are currently planning to carry out our audit remotely. We have the following arrangements in place:
  - All of our people have the equipment, technology and systems to allow them to work remotely, including secure access to all necessary data and information.
  - All of our staff are fully contactable by email, phone call and video-conferencing.
  - All meetings are now held over Skype, Microsoft Teams or by telephone.

- We are keeping all of our staff fully up to date with the latest government guidelines in order to keep everyone as safe as possible.

31. If resourcing levels in any part of our business are compromised due to illness or inability to work, we will refocus our teams as necessary to deliver to deadlines. Our teams are holding regular catch ups to allow us to re-prioritise workloads as necessary.

### Secure sharing of information

32. We use a cloud-based file sharing service that enables users to easily and securely exchange documents.

### Audit evidence

33. Working remotely, does unfortunately result in the audit team requesting audit evidence which we would have previously obtained through other means (for example, face to face meetings or access to systems and client premises).
34. Where required, we will consider other ways in which we can obtain audit evidence or carry out alternative audit procedures.
35. We will employ greater use of technology to examine evidence, but only where we have assessed both the sufficiency and appropriateness of the audit evidence produced.

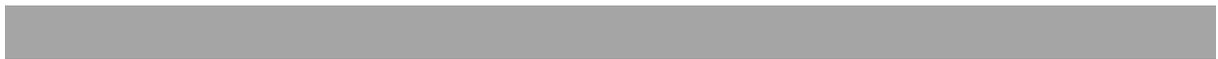
### Regular contact

36. During the 'fieldwork' phase of our audit, we will look to agree regular catch-ups with key personnel to discuss the progress of the audit. The frequency of these meetings will be discussed and agreed with management.

### Audit reporting

37. It may be that the current circumstances lead to more modified opinions in auditor's reports, than would typically have been the case in previous years.
38. Where necessary, we will engage with the A, R & IG Committee to explain the implications of our proposed report and consider whether there are other procedures that could be undertaken, which could mitigate any modification either fully or in part.
39. Sufficient time should be set aside by the A, R & IG Committee to allow for comprehensive, complete and informed communication with the auditor. This will need to take account of the potential for extended communication to explain any modified audit reports, or to report any higher than expected deficiencies or misstatements, that may result from the current circumstances.
40. We will use DocuSign (electronic signatures) for signing annual accounts. Annual accounts signed electronically are acceptable for laying in Parliament.
41. Electronic signatures simplify the process of signing the accounts. Accounts can be signed using any device from any location. There is no longer a need for duplicate copies to be signed, thus reducing the risk of missing a signature and all signatories have immediate access to a high quality PDF version of the accounts.

# Annual report and accounts



## Annual report and accounts

### Introduction

42. Audited bodies' annual accounts are an essential part of accounting for their stewardship of the resources made available to them and their financial performance in the use of those resources. This section sets out our approach to the audit of the Commission's annual report and accounts.
43. The annual report and accounts of the Commission comprise the financial statements, the performance report and the accountability report.

### Approach to audit of the financial statements

44. Our opinion on the financial statements will be based on:

#### Risk-based audit planning

45. We focus our work on the areas of highest risk. As part of our planning process we prepare a risk assessment highlighting the audit risks relating to each of the key systems on which the financial statements will be based.

#### Accounting systems and internal controls

46. We evaluate the key accounting systems and internal controls and determine whether they are adequate to prevent material misstatements in the financial statements.
47. The systems we review and the nature of the work we perform will be based on the initial risk assessment. We will examine and test compliance with best practice and Commission's own policies and procedures.

48. We will take cognisance of any relevant internal audit reviews of systems and controls.
49. Since the start of the pandemic, the risk of fraud and error has increased as the control environment and internal controls change. Potential areas of risk include:
- Public sector staff working under increased pressure leading to some internal controls being suspended or relaxed;
  - Procurement fraud or normal controls being relaxed to allow bodies to buy goods or services which are required urgently, possibly from new suppliers;
  - Weakened governance arrangements;
  - Admin and finance staff being redeployed to operational areas; and
  - Staff working remotely may pose potential security risks e.g. when using personal devices and/or using removable devices to download data.
50. We will update the risk assessment following our evaluation of systems and controls, considering the impact the pandemic has had on the Commission's accounting systems and controls. This will ensure that we continue to focus attention on the areas of highest risk.
51. This work is not for the purpose of expressing an opinion on the effectiveness of internal controls. We will report to the Commission, significant deficiencies in internal

controls that we identify during the audit. These matters will be limited to those which we conclude are of sufficient importance to merit being reported. The scope of our work is not designed to be an extensive review of all internal controls.

#### Prevention and detection of fraud or error

52. We plan our audit in such a way as to obtain reasonable assurance of detecting material misstatements in the financial statements resulting from fraud or error.
53. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
54. We will assess the susceptibility of the Commission's financial statements to material misstatement, including obtaining an understanding of how fraud might occur, by:
  - making enquiries of management as to where they considered there was susceptibility to fraud, their knowledge of actual, suspected and alleged fraud; and
  - considering the internal controls in place to mitigate risks of fraud and non-compliance with laws and regulations.
55. Our work as auditor is not intended to identify any instances of fraud of a non-material nature and should not be

relied upon for this purpose. Material misstatements that arise due to fraud can be harder to detect than those that arise from error as they may involve deliberate concealment or collusion.

#### Laws and regulations

56. We plan and perform our audit recognising that non-compliance with statute or regulations may materially impact the financial statements. Our audit procedures include the following:
  - Identification of the laws and regulations applicable to the Commission through enquiries with management, and from our knowledge and experience of the Commission and sector;
  - A focus on specific laws and regulations which we consider may have a direct material effect on the financial statements or the operations of the Commission;
  - Reviewing minutes of relevant meetings;
  - Enquiring of management and the Commission's legal representatives the position in relation to litigation, claims and assessments; and
  - Performing detailed testing of transactions and balances.
57. There are however inherent limitations in our audit procedures described above. The more removed that laws and regulations are from financial transactions, the less likely it is that we would become aware of non-compliance.

#### A final audit of the financial statements

58. During our final audit we will test and review the material amounts and

disclosures in the financial statements. The extent of testing will be based on our risk assessment.

59. Our final audit will seek to provide reasonable assurance that the financial statements are free from material misstatement and comply with the HM Treasury Financial Reporting Manual 2021/22 (FRoM) and the Accounts Directions issued by Scottish Ministers.
60. In order to provide assurance on the regularity of transactions, we also review whether, in all material respects, expenditure has been incurred and income applied in accordance with guidance issued by Scottish Ministers.

#### Independent auditor's report

61. Our opinion on whether the financial statements give a true and fair view of the financial position and its net expenditure and of the regularity of transactions will be set out in our independent auditor's report which will be included in the annual report and accounts.
62. We also provide an opinion on other prescribed matters including the remuneration and staff report, annual governance statement and performance report.

#### Materiality

63. Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor's report. The assessment of what is material is a matter of professional judgement over both the amount and the nature

of the misstatement. We review our assessment of materiality throughout our audit.

64. Performance materiality is the working level of materiality used throughout the audit. We use performance materiality to determine the nature, timing and extent of audit procedures carried out. We perform audit procedures on all transactions, or group of transactions, and balances that exceed our performance materiality. This means that we perform a greater level of testing on the areas deemed to be at significant risk of material misstatement.
65. Performance materiality is set at a value less than overall materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of the uncorrected and undetected misstatements exceed overall materiality.

	Materiality £
<p><b>Overall materiality:</b> Our initial assessment is based on approximately 1.5% of the Commission’s Revenue Resource Limit (RRL). Achieving a breakeven position against RRL is a key target for the Commission and one of the principal considerations for the users of the financial statements when assessing financial performance.</p> <p>In performing our audit we apply a lower level of materiality to the audit of the Remuneration and Staff Report. Our materiality is set at £5,000.</p>	67,935
<p><b>Performance materiality:</b> using our professional judgement we have calculated performance materiality at approximately 75% of overall materiality.</p>	50,950

**Key audit risks in the financial statements**

67. Auditing standards require that we inform the Audit, Risk and Information Governance Committee of our assessment of the risk of material misstatement in the financial statements. We have set out our initial assessment below, including how the scope of our audit responds to those risks. We will provide an update to the Audit, Risk and Information Governance Committee if our assessment changes significantly during the audit.

66. We will report any misstatements identified through our audit that fall into one of the following categories:
- All material corrected misstatements;
  - Uncorrected misstatement with a value in excess of 5% of the overall materiality figure; and
  - Other misstatements below 5% threshold that we believe warrant reporting on qualitative grounds.

## Exhibit 3 – Key audit risks in the financial statements

### Management override

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

68. In response to this risk we will review the Commission's accounting records and obtain evidence to ensure that any significant transactions outside the normal course of business are valid and accounted for correctly. We will adopt data analytics techniques to review and test aspects of this significant risk. We will assess whether judgements and assumptions made in determining accounting estimates as set out in the financial statements are indicative of potential bias.

### Revenue recognition

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

69. The Commission does not undertake any income generating activities; funding from the Scottish Government is its only source of income. We consider, for this type of income, there is a lack of incentive and opportunity to manipulate it. Therefore, at this stage of our audit cycle, we do not believe the risk of fraud in revenue recognition is material to the financial statements and have therefore rebutted this risk.
70. We understand however that the Commission is expecting to receive income from the Care Inspectorate for the provision of guidance on legal discharges. This is expected to commence from March 2022. We will however continue to review this position throughout the audit.

### Risk of fraud in the recognition of expenditure

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

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

### National Confidential Forum (NCF)- cessation

The NCF was originally established in 2014/15 for a three to five year period. The Scottish Government confirmed that the Forum would cease in March 2021, though this deadline was extended due to the delay in the Redress Bill progressing through Parliament. Further delays in the cessation of the NCF are expected due to the date of the break out clause in the building lease not being until June 2022.

There is a risk that the cessation of NCF is not accounted for and correctly disclosed in the 2021/22 annual report and accounts.

72. We will review the Commission's accounting treatment and disclosures in the annual report and accounts and ensure these are in accordance with accounting standards, the accounts manual and Government Financial Reporting Manual.

### National Confidential Forum (NCF) provision (key accounting estimate)

A provision for the cessation of NCF was created in 2019/20 and reviewed in 2020/21. The provision in 2020/21 comprised amounts for rent and dilapidation obligations. In 2020/21, the Commission engaged experts to provide an assessment of the estimated dilapidation costs. There continues to be ongoing negotiations over the dilapidation obligations and in 2021/22 the lease agreement is still instated.

There is a significant degree of subjectivity in the measurement of the valuation of provisions. This subjectivity represents an increased risk of misstatement in the financial statements.

73. We will review the method and underlying assumptions used to carry out the valuation of the provision to ensure these are appropriate and accurately reflect the Commission's position as at 31 March 2022. We will ensure that provisions, are recorded in line with the FReM and have been accounted for appropriately.

## Other risk factors

### Impact of COVID-19 on the financial statements

74. Further to the identification of significant audit risks, we also continue to monitor the impact COVID-19 could have on the financial statements. COVID-19 continues to present unprecedented challenges to the operation, financial management and governance of organisations, including public sector bodies. It is uncertain how long these challenges will persist.
75. We continue to monitor government and relevant announcements as they pertain to the audit and will adapt our audit approach as required.

### Key accounting estimates

76. Changes to ISA (UK) 540 - Auditing Accounting Estimates and Related

Disclosures, which is applicable for accounting periods beginning on or after 15 December 2019, places increased regulatory requirements on the auditor in respect of the auditing of significant estimates at the planning and completion stages of the audit.

77. As part of the planning stages of the audit we identified all accounting estimates made by management and determined which of those are key to the overall financial statements. Consideration was given to provisions for clinical and medical negligence claims, depreciation rates, provisions for the cessation of NCF and accruals. Other than the provision of the cessation of NCF we have not determined the accounting estimates to be key. We will however revisit our assessment during the fieldwork and completion stages of our audit.

## The performance report, accountability report and other information

78. The HM Treasury Government Financial Reporting Manual 2021/22 sets out the content required within the annual report and accounts.
79. HM Treasury issued an addendum to the Government Financial Reporting Manual in 2019/20 and 2020/21 which permitted bodies to omit the performance analysis section of the Performance Report. This addendum does not apply in 2021/22 and full compliance with the Government Financial Reporting Manual is expected.
80. In addition to presenting our opinions over the financial statements our independent auditor's report will also present our opinion on the other aspects of the annual report and accounts:

### Other information

81. "Other information" in the annual report and accounts comprises any information other than the financial statements and our independent auditor's report thereon. We do not express any form of assurance conclusion on the "other information" except as specifically stated below.
82. We read all the financial and non-financial information in the annual report and accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent

material misstatements or inconsistencies we consider the implications for our independent auditor's report

### The performance report

83. The performance report provides information on the entity, its main objectives and strategies and the principal risks that it faces. Our independent auditor's report will confirm whether in our opinion the performance report has been properly prepared and is consistent with the financial statements.

### The accountability report

84. The accountability report is required in order to meet key parliamentary accountability requirements. It has three sections:
  - A corporate governance report (including a governance statement) explaining the composition and organisation of the entity's governance structures and how they support the achievement of the entity's objectives.
  - A remuneration and staff report setting out staff numbers and costs as well as the entity's remuneration policy for directors and the remuneration awarded to directors.
  - A parliamentary accountability report disclosing the regularity of expenditure and other parliamentary accountability requirements.
85. Our independent auditor's report will confirm whether in our opinion the governance statement and the audited part of the remuneration and staff report have been properly prepared

and are consistent with the financial  
statements.

# Wider scope audit



## Wider scope audit

### Introduction

86. As described above, the Code frames a significant part of our wider scope responsibilities in terms of four audit dimensions. Following consideration of the size, nature and risks of the Commission, the application of the full wider scope audit is judged by us not to be appropriate. Our annual audit work on the wider scope will therefore be restricted to:
- Audit work to allow conclusions to be made on the appropriateness of the disclosures in the governance statement; and
  - Consideration of the financial sustainability of the organisation and the services that it delivers over the medium and longer term.
87. Our planned audit work against these two areas is risk based and proportionate. Our initial assessment builds upon the understanding of the Commission which we developed from previous years, along with discussions with management and review of committee minutes and key strategy documents.
88. As outlined in the Scottish Public Finance Manual, accountable officers have a specific responsibility to ensure that arrangements are in place to secure best value in public services. Audit Scotland has requested that
- external auditors focus on the arrangements relating to the best value theme of fairness and equality. We will consider this risk area in the context of our reduced wider scope audit work and include commentary in our annual audit report as appropriate.
89. At this stage of our audit planning process, we have identified one significant risk to the wider scope of our audit (Exhibit 4). Audit planning is a continuous process and we will report any identified significant risks, as they relate to the wider scope, in our annual audit report.

## Exhibit 4 – Wider scope significant risk

### Financial sustainability

The Commission prepares a three-year financial plan which is updated on an annual basis. The financial plan for 2022/23 to 2024/25 assumes a pay remit equivalent to 2021/22 and that an annual increase in funding to cover those pay increases will continue to 2024/25. Based on these assumptions, the Commission forecast financial breakeven/slight underspend positions in 2022/23 to 2024/25. However, the Commission's financial plans note that should there be a pay increase but no increase in funding, a deficit position is forecast. Recent discussion with the Commission's sponsor department gave an indication of additional funding to cover the increases to the pay remit and other anticipated cost increases in 2022/23. The Commission are confident that they will achieve a breakeven position in 2022/23.

The Commission has recently held discussions with the Scottish Government in relation to general increases in funding requirements from 2022/23, primarily for additional projects including the integration of the Commission's investigation function with Death in Detention activity.

The Information Management Portal (IMP) project commenced in 2021/22. The Commission has identified a capital funding requirement of £1.947million and an increase to the revenue budget of £0.63million over the 7-year project life. This funding is required by the Commission in order to proceed with this project and the Scottish Government have confirmed that they will provide the required level of funding to the Commission.

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

90. During our audit we will continue to review whether the Commission has appropriate arrangements in place to manage its financial position and use of resources. Our work will include an assessment of progress made in developing financially sustainable operating plans that continue to support the delivery of the Commission's statutory functions and strategic objectives.

# Audit outputs, timetables and fees



## Audit outputs, timetable and fee

### Audit outputs

The submission deadline for annual accounts is provisional but is set to be consistent with the administrative deadline set by the Scottish Government. This is normally 30 June but has been provisionally set at 31 August for 2021/22.

We have set out below target months which align to the Commission’s schedule of A,R& IG and Board meetings. We will aim to meet these scheduled meetings however this will be monitored during the audit process and may require to be revised to reflect emerging issues as a result of the pandemic.

Audit output	Description	Target month	Deadline for submission to Audit Scotland
External audit plan	This report sets out the scope of our audit for 2021/22.	February 2022	28 February 2022
Independent Auditor’s Report	This report will contain our opinion on the financial statements, the audited part of the remuneration report, annual governance statement and performance report.	August 2022	31 August 2022
Annual Report to the Commission and the Auditor General for Scotland	At the conclusion of each year’s audit we issue an annual report setting out the nature and extent of our audit work for the year and summarise our opinions, conclusions and the significant issues arising from our work. This report pulls together all of our work under the Code of Audit Practice.	August 2022	31 August 2022

91. Prior to submitting our outputs, we will discuss all issues with management to confirm factual accuracy and agree a draft action plan where appropriate. responsible officers and implementation dates. We will review progress against the action plans on a regular basis.
92. The action plans within the reports will include prioritised recommendations,

## Audit fee

93. Audit Scotland sets an expected fee that assumes the body has sound governance arrangements in place, has been operating effectively throughout the year, prepares comprehensive and accurate draft accounts and meets the agreed timetable for audit. The expected fee is reviewed by Audit Scotland each year and adjusted if necessary based on auditors' experience, new requirements, or significant changes to the audited body.

94. As auditors we negotiate a fee with the Commission during the planning process. The fee may be varied above the expected fee level to reflect the circumstances and local risks within the body.

95. For 2021/22 we propose setting the audit fee at the same level as in 2020/21<sup>2</sup>. This represents a moderate increase in comparison to the expected fee level, which for 2021/22, has been set at £17,720.

	2021/22	2020/21
Auditor remuneration	£15,460	£15,480
Pooled costs	£1,710	£1,670
Contribution to Audit Scotland costs	£750	£770
<b>Total fee</b>	<b>£17,920</b>	<b>£17,920</b>

96. We will take account of the risk exposure of the Commission and the management assurances in place. We assume receipt of the draft working papers at the outset of our on-site final audit visit. If the draft accounts and papers are late, or agreed management assurances are unavailable, we reserve the right to charge an additional fee for additional audit work. An additional fee will be required in relation to any other significant exercises not within our planned audit activity.

<sup>2</sup> The expected fee level for 2020/21 was £17,380. Our audit fee in 2020/21 was £540 above the expected level.

## Audit timetable

97. A provisional timetable, including audit outputs, is set out as follows:

<b>JAN 22</b>		Planning meeting to inform the 2021/22 audit
<b>FEB 22</b>		Presentation of External Audit Plan to the Audit, Risk and Information Governance Committee
<b>MAY 22</b>		Accounts presented for audit and final audit visit begins
<b>JUL 22</b>		Presentation of our Annual Report on the Audit to the Audit, Risk and Information Governance Committee

# Appendices



## Appendix 1: Azets

On 7 September 2020, the CogitalGroup of companies (Scott-Moncrieff, Campbell Dallas, Baldwins and Wilkins Kennedy) came together as Azets. Whilst it is a new name, we still deliver the same personal approach to accounting, tax, audit, advisory and business services, digitally and locally.

With over 6,500 advisers and specialists across our office network, we help people and organisations of all shapes and sizes save time, work smarter and achieve their goals. Our job is to give you the support you need so you can focus on what you do best.

We have been external auditors within the public sector for at least fifty years. We provide a comprehensive range of services to clients across the public sector, including NHS bodies, local authorities, central government bodies and FE colleges. We also provide services to charities, schools, as well as private and public limited companies.

### Your Audit Engagement Team

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**Karen Jones ([karen.jones@azets.co.uk](mailto:karen.jones@azets.co.uk))**

**Audit Director – Engagement Lead**

Karen is the Engagement Lead in charge of our audit of the Commission. Karen is one of our directors responsible for the audit of some of our Audit Scotland external audit appointments. She has considerable experience in planning and delivering audits, producing management reports and liaising with senior officers.

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**Catriona Biggs ([catriona.biggs@azets.co.uk](mailto:catriona.biggs@azets.co.uk))**

**Audit Senior**

Catriona joined Azets in 2018 as a public sector audit trainee and has since achieved her CA qualification. She has been involved in the audit of the Commission since 2018/19.

Catriona will work alongside Karen and Amy to deliver the audit engagement.

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**Amy Hughes ([amy.hughes@azets.co.uk](mailto:amy.hughes@azets.co.uk))**

**Audit Associate**

2021/22 is Amy's third year auditing the Mental Welfare Commission. Amy joined Azets in 2019 as a public sector audit trainee. She is currently studying towards her CA qualification.

Amy will lead the audit fieldwork.

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## Appendix 2: Confirmation of independence

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

In particular, FRC's Ethical Standard stipulates that where an auditor undertakes non audit work, appropriate safeguards must be applied to reduce or eliminate any threats to independence. Azets has not been appointed by the Commission to provide any non-audit services during the year.

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

In October 2020, the Auditor General extended our audit appointment for one year through to the audit of the 2021/22 financial year to provide continuity and stability in the current challenging environment. The FRC's Ethical Standard states that careful consideration must be given once an audit engagement lead has held the role for a continuous period of ten years. Our period of total uninterrupted appointment as at the end of 31 March 2021 was 10 years. As such to mitigate the threat to auditor independence as result of long association, and in accordance with guidance from Audit Scotland, Nick Bennett is no longer the audit engagement lead. Karen Jones is now the Commission's Engagement Lead. As Karen Jones has held a management position in the audit engagement team for a period of 10 years, we will apply internal quality control review procedures to further mitigate the treat to auditor independence.

## Appendix 3: Statement of understanding

### Introduction

The purpose of this statement of understanding is to clarify the terms of our appointment and the key responsibilities of the Mental Welfare Commission for Scotland (the “Commission”) and Azets.

### Annual report and accounts

We require the annual report and accounts and supporting working papers for audit by the agreed date specified in the audit timetable. It is assumed that the relevant Commission staff will have adequate time available to deal with audit queries and will be available up to the expected time of completion of the audit. We will issue a financial statements strategy in advance of our final audit visit which sets out our expectations in terms of audit deliverables. This document helps to ensure we can work together effectively to deliver an efficient and effective audit.

### Fees

We based our agreed fee upon the assumption that all of the required information for the audit is available within the agreed timetable. If the information is not available within the timetable we reserve the right to charge a fee for the additional time spent by our staff. The fee will depend upon the level of skill and responsibility of the staff involved. The indicative financial statements strategy referred to above is a key means to us to clarify our expectations in terms of quality, quantity and extent of working papers and supporting documentation.

### Representations

As auditors we do not act as a substitute for the Commission’s responsibility to establish proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively.

As part of our normal audit procedures, we will ask you to provide written confirmation of certain oral representations which we have received from the Commission during the course of the audit on matters having a material effect on the annual report and accounts. This will take place by means of a letter of representation, which will require to be signed by the Accountable Officer.

### Internal audit

It is the responsibility of the Commission to establish adequate internal audit arrangements. The audit fee is agreed on the basis that an effective internal audit function exists.

We will liaise with internal audit to ensure an efficient audit process.

### Fraud and irregularity

In order to discharge our responsibilities regarding fraud and irregularity we require any fraud or irregularity issues to be reported to us as they arise. In particular we require to be notified of all frauds which:

- Involve the misappropriation of theft of assets or cash which are facilitated by weaknesses in internal control
- Are over £5,000

We also require a historic record of instances of fraud or irregularity to be maintained and a summary to be made available to us after each year end.

## Anti-money laundering

The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 impose an obligation on the Auditor General to inform the National Crime Agency (NCA) if he knows or suspects that any person has engaged in money laundering or terrorist financing.

We require the Commission to notify us on a timely basis of any suspected instances of money laundering so that we can inform Audit Scotland who will determine the necessary course of action.

## Ethics

We are bound by the ethical guidelines of our professional body, the Institute of Chartered Accountants in England and Wales and the Code of Audit Practice.

## Service

If at any time you would like to discuss with us how our service to you could be improved or if you are dissatisfied with the service you are receiving please let us know by contacting Karen Jones. If you are not satisfied, you should contact our Ethics Partner, Bernadette Higgins. In the event of your not being satisfied by our response, you may also wish to bring the matter to the attention of the Institute of Chartered Accountants in England and Wales.

We undertake to look at any complaint carefully and promptly and to do all we can to explain the position to you.

## Reports

During the course of the audit we will produce reports detailing the results and conclusions from our work.

Any recommendations arising from our audit work will be included in an action plan. Management are responsible for providing responses, including target dates for implementation and details of the responsible officer.

## Agreement of terms

We shall be grateful if the Audit, Risk & Information Governance Committee would consider and note this statement of understanding. If the contents are not in accordance with your understanding of our terms of appointment, please let us know.



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We are an accounting, tax, audit, advisory and business services group that delivers a personal experience both digitally and at your door.  
**Accounting | Tax | Audit | Advisory | Technology**

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