Scott-Moncrieff

Mental Welfare Commission for Scotland

Annual Report to the Board and the Auditor General for Scotland
2011/12

June 2012

Mental Welfare Commission for Scotland

Annual Report to the Board and the Auditor General for Scotland
2011/12

Executive summary

Financial statements

The Mental Welfare Commission's annual accounts are due to be approved by the Board on 19 June 2012. We expect to report within our independent auditors' report an unqualified opinion on the financial statements for the year ended 31 March 2012.

We have also concluded that in all material respects, the expenditure and income shown in the financial statements was incurred or applied in accordance with applicable enactments and relevant guidance issued by Scottish Ministers.

We received draft annual accounts and supporting papers of a good standard, in line with our agreed audit timetable. We are pleased to report that the audit process ran smoothly and our thanks go to the finance team for their assistance with our work.

Use of resources and performance

The Commission achieved a break-even position against its Revenue Resource Limit (RRL) of £3.561million. A surplus of £30,000 was generated against its Capital Resource Limit. Overall the Commission has achieved its statutory financial targets.

The Commission has received notification from its sponsor department that its resource budget for 2012/13 will be £3.6million. The Commission has forecast that the resource budget will remain at £3.6million over the next three financial years.

The Commission has five key performance indicators which are monitored by the Board on a quarterly basis. For 2011/12, the Commission reported that it had achieved all its performance targets for 2011/12.

Governance

There has been a significant change in the governance structure of the Commission this year. A dedicated Board was established on 1 April 2011. The previous structure allowed for Part Time Commissioners to carry out the Board function and operational work for the organisation. The appointment of a new Board comes from the changes made to the structure and functions of the Commission under the Public Services Reform (Scotland) Act 2010. In April 2012, the Board participated in a facilitated seminar to evaluate the Board's effectiveness following a year in existence. The findings from this exercise have yet to be finalised. It is however anticipated that the findings will be presented in a report, with an improvement plan, to a future Board meeting.

Our work on the Commission's governance arrangements focussed on reviewing the arrangements to ensure effective systems are in place for internal control, prevention and detection of fraud and irregularity, standards of conduct and the prevention and detection of bribery and corruption. We are pleased to report that governance arrangements at the Commission appear effective.

Conclusion

This report concludes our audit of the Mental Welfare Commission for Scotland for 2011/12. We have performed our audit in accordance with the Code of Audit Practice published by Audit Scotland, International Standards on Auditing (UK and Ireland) and Ethical Standards. This report has been discussed and agreed with the Head of Corporate Services and Finance Manager and we would like to thank all management and staff for their co-operation and assistance during our audit.

Scott-Moncrieff

June 2012

Introduction

1. This report summarises the findings from our 2011/12 audit of the Mental Welfare Commission for Scotland (the Commission). The scope of our audit was set out in our External Audit Plan, which was presented to the Audit Committee at the outset of our audit.

2. The main elements of our audit work in 2011/12 have been:

    - An audit of the financial statements, including a review of the governance statement
    - A review of governance arrangements, internal controls and financial systems

3. In addition to this annual report, we have delivered the following outputs during 2011/12:

    - External audit plan
    - Interim management report

    The key issues from these outputs are summarised in this annual report.

4. As part of our audit, we have also made use of the work of other inspection bodies including the Commission's internal audit service and Audit Scotland's Public Reporting Group.

5. This report is addressed to both the Board and to the Auditor General for Scotland and will be published on Audit Scotland's website, www.audit-scotland.gov.uk.

Financial statements

Introduction

6. The annual financial statements are the principal means of accounting for the stewardship of the resources made available to the Commission. In this section we summarise the issues arising from our audit of the 2011/12 financial statements.

Management responsibilities

7. It is the responsibility of the Board and the Chief Executive, as Accountable Officer, to prepare the financial statements in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder. This means:

- acting within the law and ensuring the regularity of transactions by putting in place systems of internal control to ensure that financial transactions are in accordance with the appropriate authority;
- maintaining proper accounting records;
- preparing financial statements timeously which give a true and fair view of the financial position of the Commission and its expenditure and income for the year ended 31 March 2012; and
- preparing a Directors' Report, an Operating and Financial Review, a Corporate Governance Statement and a Remuneration Report.

Auditor responsibilities

8. We audit the financial statements and the part of the Remuneration Report to be audited and give an opinion on:

- whether they give a true and fair view of the financial position of the Commission and its expenditure and income for the year then ended;
- whether they were prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements;
- whether the part of the Remuneration Report to be audited has been properly prepared in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers;
- whether the information given in the Operating and Financial Review and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- whether expenditure and income has been incurred and applied in accordance with guidance from Scottish Ministers (the regularity opinion).

9. We also report by exception as to whether the governance statement does not comply with guidance from Scottish Ministers. In arriving at our opinion we:

- consider the adequacy of the process put in place by the Chief Executive as Accountable Officer to obtain assurances on systems of internal control; and
- assess whether disclosures in the statement are consistent with our knowledge of the Commission.

Confirmation of auditor independence

10. Ethical Standard 1 – *Integrity, objectivity and independence*, issued by the Auditing Practices Board (APB), requires that external auditors ensure that the Audit Committee is appropriately informed on a timely basis of all significant facts and matters that bear upon the auditors' objectivity and independence.

11. We confirm that we have complied with APB Ethical Standards throughout our audit and that, in our professional judgement, we have remained independent and our objectivity has not been compromised in any way. In particular:

- There are and have been no relationships between Scott-Moncrieff and the Commission, its directors and senior management that may reasonably be thought to bear on our objectivity and independence,
- Scott-Moncrieff has not provided any consultancy or non-audit services to the Commission.

Overall conclusion

An unqualified audit opinion on the financial statements

12. The Commission's annual accounts are due to be approved by the Board on 19 June 2012. We expect to report, within our independent auditors' report, an unqualified opinion on the financial statements for the year ended 31 March 2012.

13. We are satisfied that the governance statement complies with the Scottish Ministers' guidance and that the contents are not inconsistent with information gathered during the course of our normal audit work. The Commission has a good overall framework in place to support an effective internal control environment.

14. We have also concluded that the part of the Remuneration Report to be audited has been properly prepared in accordance with guidance issued by Scottish Ministers and the information given in the Operating and Financial Review and Directors Report is consistent with the financial statements.

An unqualified audit opinion on the regularity of transactions

15. The Public Finance and Accountability (Scotland) Act 2000 imposes a responsibility on auditors to certify that, in all material respects, the expenditure and income shown in the financial statements was incurred or applied in accordance with applicable enactments and guidance

issued by the Scottish Ministers. We have issued an unqualified opinion on the regularity of transactions in the Commission's financial statements.

Good administrative processes were in place

16. We received draft annual accounts and supporting papers of a good standard, in line with our agreed audit timetable. We are pleased to report that the audit process ran smoothly, and our thanks go to the finance team for their assistance with our work.

17. Arrangements are in place to enable the annual accounts to be submitted to the Scottish Government and the Auditor General for Scotland prior to the 30 June 2012 deadline.

Audit and accounting adjustments

18. We have set out below the adjustments to the financial statements processed during the audit and the impact on the outturn against the Revenue Resource Limit (RRL).

Table 1 – Audit and accounting adjustments

	£'000
Saving per initial draft accounts	20
Accounting entries made during the audit process:	
Re-classification of website development costs (from intangible assets to administration costs)	(24)
Reversal of aged accruals	4
Actual saving/excess per final version of the accounts	**0**

19. The Commission reported in its draft financial statements £24,000 in relation to website development costs. These costs had been classified as intangible 'assets under construction'. The NHSScotland Capital Accounting Manual states "*for the public sector, it has been made clear that web sites designed for the purpose of informing stakeholders of the services or other objectives of the reporting entity should not be capitalised*". Following discussion with the Finance Manager on the nature and scope of the website it was agreed that the website development costs initially capitalised should be reclassified as administration costs.

20. We also identified some disclosure and presentational adjustments and are pleased to report that these are reflected in the updated financial statements.

Key areas of audit focus and significant findings

21. We are required by international auditing standards to report to the Board the main issues arising from our audit of the financial statements. The most significant issues are noted below.

Lothian Pension Fund

22. The Commission participates in the Lothian Pension Fund (a local government pension scheme). The scheme is accounted for as a defined benefit pension scheme where the assets

and liabilities can be separately identified each year by an actuary. As at 31 March 2011, the Commission reported a net pension liability of £469,000 on its balance sheet. By 31 March 2012 this had reduced to a net pension liability of £106,000.

23. In 2011, the Commission took the decision to make additional contributions to the Lothian Pension Fund to address the liability and potential costs on cessation. Following advice from the Commission's previous external auditors (PricewaterhouseCoopers), the payments (£120,000 paid during 2010/11 and £197,000 accrued as at 31 March 2011) were classified as administration costs and not charged against the pension liability on the balance sheet. In 2011/12, the actuary has taken these payments into consideration in evaluating the pension liability as at 31 March 2012. As a result the net pension liability reported at the balance sheet date has reduced. These transactions are reported as employer's contributions in the actuarial valuation. In accordance with accounting standards we would expect employer's contributions to be reflected in the statement of comprehensive net expenditure. In 2011/12 the additional contributions have been reported under the statement of changes in taxpayers' equity. This treatment has been agreed with the Scottish Government.

24. The Commission is reporting a 'net liability' position on its balance sheet (£113,000). This is predominantly due to the net pension liability as at 31 March 2012. In common with similar public bodies, the future financing of the Commission's liabilities will be met by grant funding from the Scottish Government. The approval of funding for 2012/13 has already been given and there is no reason to believe that future approvals will not be forthcoming. The Commission have accordingly considered it appropriate to adopt a going concern basis for the preparation of the 2011/12 financial statements.

NHS Superannuation Scheme

25. The Commission also participates in the NHS Superannuation Scheme for Scotland. This is a defined benefit pension scheme, where contributions are credited to the Exchequer and are invested in a portfolio of Government securities. The Commission is unable to identify its share of the underlying assets and liabilities on a consistent and reasonable basis and therefore accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the statement of comprehensive net expenditure represents the Commission's contributions payable to the scheme in respect of the year. The most recent actuarial valuation was for the year 31 March 2004. Given that the Scheme ought to be subject to a full actuarial valuation every five years, we would have expected a more up to date valuation to have been reflected in the 2011/12 accounts. Furthermore, the periodic actuarial valuation is key to determining the adequacy of employer and employee contributions to the Scheme.

26. In common with all health boards in Scotland, the net liability figure for the Scheme, as disclosed in Note 15 is out of date. There is a risk that, as the level of contributions from employers and employees have not been recently reviewed there is uncertainty as to their adequacy to meet the future commitments of the Scheme.

Use of resources and performance

27. This section of the report sets out the main findings from our review of how the Commission manages its key resources in terms of financial performance and management of assets.

The Commission's financial performance in 2011/12

The Commission has met its key targets in the year

28. The Commission is required to work within the resource limits and cash requirements set by the Scottish Government Health and Social Care Directorate (SGHSCD). As shown in Table 2 below, the Commission has met all of its financial targets.

Table 2 – Performance against financial targets

Financial Target	Target £'000	Actual £'000	Underspend £'000	Target achieved
Revenue Resource Limit - Core	3,561	3,497	64	Yes
Revenue Resource Limit – Non-core	0	64	(64)	
Capital Resource Limit	75	45	30	Yes
Cash Requirement	3,840	3,810	30	Yes

(Source: 2011/12 Annual Accounts)

29. The Commission reported a break-even position against its Revenue Resource Limit (RRL). We have analysed the Commission's 2011/12 outturn into recurring and non-recurring items, as shown in Table 3. At the start of the financial year, the Scottish Government confirmed an allocation of £3.6 million for 2011/12 and was subsequently awarded a further £36,000 relating to a distinction award. During the year the Commission requested a revenue to capital transfer of £75,000.

Table 3 – Achievement of 2011/12 break-even position

	£000
Recurring income	3,525
Recurring expenditure	(3,525)
Recurring savings	0
Underlying recurring surplus/(deficit)	**0**
Non-recurring income	36
Non-recurring expenditure	(36)
Non-recurring savings	0
Non-recurring surplus/(deficit)	0
Financial surplus/(deficit)	0
Underlying recurring surplus/(deficit) as percentage of recurring income	0%

(Source: Correspondence from the Scottish Government on the Commission's 2011-12 budget)

Capital Resource Limit

30. The Commission generated a surplus of £30,000 against its CRL in 2011/12 with total capital expenditure of £45,000. The capital expenditure incurred was for the purchase of new servers for the e-mail system and patient information system.

Financial plans

31. The Commission has received provisional indication from its sponsor department that its resource budget for 2012/13 will be £3.6million. The Commission has forecast that the resource budget will remain at £3.6million over the next three financial years. One area which the Commission are unable to forecast with certainty is costs associated with second opinion doctor fees. This is an area in which the Commission has statutory responsibilities but is unable to predict the number of second opinions required in any year.

Performance framework

32. To ensure effective performance, the Commission needs both a clear strategy that defines what it aims to achieve and appropriate processes in place to effectively monitor and measure its outputs. The Board has approved a five year rolling strategic plan. Each year an annual business plan is also developed and approved by the Board.

33. The Commission has five key performance indicators (KPIs) which have been agreed with the Scottish Government. These targets are incorporated into the five year strategic plan and annual business plan and progress against these indicators is reported to the Board on a quarterly basis. The table below summarises performance against these targets for 2011/12. Overall, the Commission has achieved all its performance targets for 2011/12.

Table 4 – Overall progress against targets

	Target	2011/12 performance
1	Visit at least 1,750 individual service users and complete 30 visits in the unannounced format	Reviewed the care and treatment of 2,762 individuals (1,878 visits to individuals and 884 file reviews). Completed 28 focussed visits in the unannounced format and all of the Part 5 monitoring visits (all of which were unannounced).
2	Produce statistics on the use of mental health legislation twice a year and within 13 weeks of the end of each half year	Statistics and analysis posted on the website within 8 weeks
3	Complete and publish three investigation reports by the end of March 2012	Published four investigation reports
4	Assess samples of telephone advice and aim for at least 90% of all advice to be accurate	97%

	Target	2011/12 performance
5	Publicly report, within agreed timescales, the outcome of recommendations made to service in 90% of cases	Satisfied with the action reported in 98% of cases.

(Source: Annual Accounts for year ended 31 March 2012)

Best value framework

34. In 2011 the operational management group revised the Commission's best value framework. The framework reflects the Scottish Government revised guidance "Best Value in Public Services Guidance for Accountable Officers" (March 2011) and is aligned to the Commission's new governance structure (paragraph 37). The framework provides a self assessment against the Scottish Government best value guidance and allocates responsibility to either the Board, audit committee or operational management group for monitoring progress against the framework.

35. A progress report was presented to the Board in May 2012 on the Commission's position against the best value guidance. The report notes that the main area of focus for continuous improvement for the Commission over the last year has been a process mapping exercise. This exercise involved a review of a number of the Commission's key processes used for carrying out its statutory duties. The exercise has allowed the efficiency and relevance of the processes to be checked. It also enabled any inconsistencies in implementing the process to be identified and addressed.

Governance

36. This section sets out the main findings arising from our review of the Commission's governance arrangements as they relate to:

- systems of internal control;
- the prevention and detection of fraud and irregularity; and
- standards of conduct and arrangements for the prevention and detection of bribery and corruption.

Governance Arrangements

37. There has been a significant change in the governance structure of the Commission. Up until 31 March 2011, the membership of the full Commission comprised Commissioners, Directors and Executive Officers. The Commissioners carried out the Board function and operational work for the organisation. Six standing committees were in operation which functioned until December 2010 (the audit committee continued until March 2011). Most of the standing committees had Commissioners as members.

38. A dedicated Board was established on 1 April 2011. The new Board comprises seven board members and the Chair. The appointment of a new Board comes from the changes made to the structure and functions of the Commission under the Public Services Reform (Scotland) Act 2010. The Board is responsible for setting the strategic direction for the Commission. Board members have no role in relation to visits and investigations.

39. There is one standing committee (Audit Committee). The Standing Orders outline the remits of the Board and the Audit Committee and delegate authority to the Audit Committee, Chief Executive and executive team members. The Commission has co-opted a non-commission member to sit on the Audit Committee to provide relevant NHS financial experience.

40. An operational management group has been established comprising the Chief Executive, Head of Corporate Services, Chief Social Work Officer, Chief Nursing Officer and Chief Medical Officer. This group is responsible for preparing and reporting progress against the business plan, strategic plan and financial plan to the Board.

41. In April 2012, the Board participated in a facilitated seminar to evaluate the Board's effectiveness following a year in existence. The findings from this exercise have yet to be finalised. It is however anticipated that the findings will be presented in a report, with an improvement plan, to a future Board meeting.

Systems of internal control

42. In recent years all NHS Boards have been required to produce an annual statement on internal control within the annual accounts. This has been replaced by a governance statement for

2011/12 onwards. We have reviewed the governance statement and concluded that the content is consistent with the information gathered during the course of our audit and the requirements set out in guidance from the Scottish Government.

43. The Chief Executive has overall responsibility for maintaining a sound system of internal control and the governance statement included within the Board's 2011/12 Annual Accounts disclosed no material internal control weaknesses.

44. During our audit we reviewed the Commission's key accounting systems and internal financial controls. As reported in our interim audit report, we have found the internal controls over the accounting systems to be generally well designed and operating effectively.

45. Our audit identified no issues which would give rise to a disclosure in the 2011/12 governance statement.

Risk Management

46. An important feature of a robust system of internal control is a developed and integrated approach to risk management. Effective risk management will deliver an appropriate balance between risk and control, more effective decision making, better use of limited resources and greater innovation.

47. The Audit Committee has delegated responsibility for monitoring the overall risk management strategy and ensuring it is incorporated into the business plan and is monitored and reviewed regularly. A risk management group has also been created to implement the Commission's risk management strategy. The risk management group has responsibility for developing the Commission's risk register (referred to as the risk universe). This group meets on an annual basis. Responsibility for managing risks lies with the operational management group. This group has responsibility for developing a risk management action plan based on the risk universe. The operational management group reports to the Audit Committee.

48. Overall we concluded, following our interim review, that the risk management arrangements are embedded into the organisation.

Internal Audit

49. Internal audit is a key component of the Commission's corporate governance arrangements. The Commission's internal audit service is provided by provided by Fife, Tayside and Forth Valley Audit and Management Services (FTF).

50. In accordance with ISA 610 – Considering the work of internal audit, "the external auditor should perform an assessment of the internal audit function when internal auditing is relevant to the external auditor's risk assessment." FTF provide internal audit services to a number of NHS bodies. To ensure efficiencies and avoid duplication in audit effort, Audit Scotland has carried out a review of FTF internal audit arrangements. Overall they concluded that reliance could be

placed on the work of internal audit. To avoid duplication of effort and ensure an efficient audit process, we have made use of internal audit work where appropriate.

Prevention and detection of fraud and irregularity

51. Our audit was planned to provide a reasonable expectation of detecting material misstatements in the financial statements resulting from fraud and irregularity. As part of our governance work we reviewed the Commission’s arrangements to prevent and detect fraud and irregularity. We did not find any indication of fraud and irregularity and concluded that the Commission’s internal controls and financial procedures were adequate to prevent and detect material fraud and irregularity.

Standards of conduct and arrangements for the prevention and detection of bribery and corruption

52. We have reviewed the arrangements for adopting and reviewing standing orders, financial instructions and schemes of delegation and complying with national and local codes of conduct. We also considered controls over registers of interest and disposal of assets. We are pleased to report that our audit identified no significant issues of concern in relation to standards of conduct and the arrangements for prevention and detection of bribery and corruption.

Scott-Moncrieff (www.scott-moncrieff.com), one of Scotland's leading independent professional services firms, provides industry-focused audit, tax, business advisory and corporate consulting services for commercial, public, not-for-profit and private clients.

Scott-Moncrieff Chartered Accountants is registered to carry on audit work and regulated for a range of investment business activities by the Institute of Chartered Accountants of Scotland.