



**Mental Welfare  
Commission for Scotland**

**Annual report on the 2013/14  
audit to the Board and the  
Auditor General for Scotland**

**June 2014**



**Scott-Moncrieff**  
business advisers and accountants

# **Mental Welfare Commission for Scotland**

## **Annual report on the 2013/14 audit to the Board and the Auditor General for Scotland**

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# Executive summary

## Financial statements

The Mental Welfare Commission for Scotland's annual accounts were approved by the Board on 25 June 2014. Our audit of the annual accounts is complete and our independent auditor's report is unqualified.

The Commission appointed a new Chief Executive during 2013/14. Due to the timing of the appointment, the new Chief Executive, as Accountable Officer, will sign the governance statement. We confirmed during our audit that arrangements have been put in place by the Commission to ensure that the Accountable Officer, responsible for preparing and signing the governance statement, has been given necessary assurances to do so.

We received draft annual accounts and supporting papers of a good standard, in line with our agreed audit timetable and document requests. 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.

The annual accounts will be submitted to the Scottish Government and the Auditor General for Scotland prior to the 30 June 2014 deadline.

## Use of resources and performance

The Commission has met all of its key financial targets for 2013/14, achieving a breakeven position against its revenue resource limit of £3.636 million.

The Commission has received notification from the Scottish Government that its resource budget for 2014/15 will be set at the same level as in 2013/14 (£3.6 million). The Commission has also been allocated a £1 million resource budget in 2014/15 for the operation of the National Confidential Forum (NCF) (see below).

The Commission has five key performance indicators which are monitored by the Board on a quarterly basis. For 2013/14, the Commission reported that it had achieved all of its annual performance targets.

## Governance

We have reviewed the Commission's corporate governance arrangements, to ensure effective systems are in place for internal control, the prevention and detection of fraud and irregularity, standards of conduct and the detection and prevention of bribery and corruption. Our audit work identified no issues of concern in relation to these arrangements.

During our audit we have monitored the progress made by the Commission and Scottish Government in establishing a National Confidential Forum (NCF). The Victims and Witnesses (Scotland) Act provides for the creation of a National Confidential Forum for adults placed in institutional forms of care as children. A draft memorandum of understanding (MOU) between the Commission and the Scottish Government has been prepared concerning the operation of the NCF. It is anticipated that the Forum Head, Panel members and staff will be recruited over summer 2014 and the Forum will be operational by the end of the 2014 calendar year. We will continue to monitor the development of the Forum in 2014/15.

## Conclusion

This report concludes our audit for 2013/14. Our work has been performed in accordance with the Audit Scotland Code of Audit Practice, International Standards on Auditing (UK and Ireland) and Ethical Standards.

This report has been 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 2014**

# Introduction

1. This report summarises the findings from our 2013/14 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 previously presented to the Audit Committee.
2. The main elements of our audit work in 2013/14 have been:
  - An audit of the financial statements, including a review of the Governance Statement; and
  - A review of governance arrangements, internal controls and financial systems.
3. 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.
4. The Board is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. Weaknesses or risks identified by auditors are only those which have come to our attention during our normal audit work, and may not be all that exist. Communication by auditors 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.
5. This report is addressed to both members of the Board and to the Auditor General for Scotland and will be published on Audit Scotland's website, [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

# 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 2013/14 financial statements.

## Overall conclusion

### An unqualified audit opinion on the financial statements

7. The annual accounts for the year ended 31 March 2014 were approved by the Board on 25 June 2014. Our independent auditor's report includes:
  - an unqualified opinion on the financial statements;
  - an unqualified audit opinion on regularity; and
  - an unqualified audit opinion on other prescribed matters.

8. We are also satisfied that there are no matters which we are required to report to you by exception.

### Good administrative processes were in place

9. We received draft annual accounts and supporting papers of a good standard, in line with our agreed audit timetable and document requests. We are pleased to report that the audit process ran smoothly and efficiently and would like to thank the finance team for their assistance and cooperation throughout.
10. 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 2014 deadline.

## Board members' responsibilities

11. 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:
  - applying on a consistent basis the accounting policies and standards approved for NHS Scotland by Scottish Ministers;
  - making judgements and estimates that are reasonable and prudent;
  - stating whether applicable accounting standards as set out in the Financial Reporting Manual (FReM) have been followed, subject to any material departures disclosed and explained in the financial statements; and
  - preparing the accounts on a going concern basis unless it is inappropriate to presume that the Board will continue to operate.
12. Board members are responsible for ensuring that proper accounting records are maintained which disclose with reasonable accuracy at any time the financial position of the Commission and enable them to ensure that the accounts comply with the National Health Service (Scotland) Act 1978 and the

requirements of Scottish Ministers. They are also responsible for safeguarding the assets of the Commission and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## Auditor responsibilities

13. Our responsibilities, as independent auditors, are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice approved by the Auditor General for Scotland, and guided by the auditing profession's ethical guidance. Specifically in relation to the financial statements, we are required to audit them in accordance with International Standards on Auditing (ISAs) and to give an opinion on:
- whether they give a true and fair view of the financial position of the Board and its net operating cost for the year then ended;
  - whether the financial statements, and the part of the Remuneration Report to be audited, have been prepared in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder;
  - whether expenditure and income has been applied and incurred in accordance with guidance from Scottish Ministers;
  - whether the information given in the Management Commentary for the financial year is consistent with the financial statements;
  - whether the Commission has kept proper accounting records, or if we have not received all the information and explanations we require for our audit; and
  - whether the Governance Statement complies with the guidance issued by Scottish Ministers and report if the statement does not comply with the guidance or if it is misleading or inconsistent with other information we are aware of from our audit.

## Independence

14. International Standard on Auditing (UK & Ireland) 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. We can confirm that we have complied with the APB's Ethical Standard 1 – Integrity, Objectivity and Independence. In our professional judgement the audit process has been independent and our objectivity has not been compromised.

## Key areas of audit focus and significant findings

15. As noted in our External Audit Plan the following audit risk areas were identified as significant matters and therefore considered in detail during our audit fieldwork.

## Succession planning

Succession planning has been identified by the Board as a key risk for the organisation. The Chief Executive is due to retire in March 2014. The Board is currently reviewing the executive team structure to ensure it meets the needs of the organisation and can adapt to any potential legislative changes.

As Accountable Officer, the Chief Executive has responsibility for maintaining a sound system of internal control. The governance statement, included within the financial statements, is signed by the Accountable Officer.

For 2013/14 it is anticipated that a newly appointed Chief Executive, as Accountable Officer, will sign the governance statement. Arrangements will need to be established so that the present Chief Executive provides the future Chief Executive with an assurance statement on the system of internal control that has been in place during 2013/14.

*Extract from 2013/14 External Audit Plan*

16. The Commission appointed Colin McKay as the Chief Executive in April 2014. Due to the timing of the appointment, the newly appointed Chief Executive, as Accountable Officer, will sign the governance statement. We confirmed during our audit that arrangements have been put in place by the Commission to ensure that the Accountable Officer, responsible for preparing and signing the governance statement, has been given necessary assurances to do so.

## National Confidential Forum

The Victims and Witnesses (Scotland) Bill seeks to establish a National Confidential Forum (NCF) for adults placed in institutional forms of care as children. The functions of NCF are to be delegated to a Committee of the Mental Welfare Commission for Scotland. A Head of the Forum (NCF Head) is to be appointed who will be accountable to the Commission for the work of the Forum. The Forum will consist of the NCF Head and no fewer than two other members, all of whom are to be appointed by Scottish Ministers.

Aspects of the governance arrangements have yet to be finalised, including, for example, the role of the Accountable Officer and reporting arrangements.

Although it is envisaged that the NCF will be operational from 2014/15, start-up costs will be incurred in 2013/14. There is a risk that these are not accounted for appropriately in the 2013/14 financial statements.

*Extract from 2013/14 External Audit Plan*

17. The Victim and Witnesses (Scotland) Bill received Royal Assent in January 2014. Although the NCF will become operational in 2014/15, the Commission has incurred start-up costs in this financial year to the value of £57,000. The Commission has been fully reimbursed by the Scottish Government for those costs incurred during 2013/14. As part of our audit of the financial statements we have reviewed NCF costs incurred in 2013/14 and confirmed that they have been accounted for appropriately in the financial statements.
18. We have made reference to the development of the governance arrangements for the NCF at paragraph 48 of this report.



## Payroll system

The Commission uses the Scottish Government ledger (SEAS) and payroll system. The Scottish Government project to migrate its existing payroll system to Oracle went live in July 2013.

The SLA (Service Level Agreement) for payroll and SEAS remains unresolved with the Scottish Government (a formal SLA has yet to be put in place). The Scottish Government is developing a corporate standard for service level agreements.

*Extract from 2013/14 External Audit Plan*

19. During our interim audit we carried out sample testing on the payroll system. This included a review of the controls and transactions before and after the migration to Oracle. Following the move to the new system, the Commission's finance team identified issues in relation to the recording of staff costs. Staff costs incurred by other organisations were being posted to the Commission's account codes. At the time however the finance team were confident that Commission staff were being paid the right amount.
20. The finance team has conducted a detailed review of these costs in conjunction with the two other parties involved and a number of 'inter-entity' journals have been raised in order to accurately present the staff costs related to the Commission within the financial statements. We have reviewed these manual adjustments along with relevant backup documentation. We are satisfied that payroll costs are materially free of misstatement in the financial statements.
21. At the time of our audit, the SLA between the Commission and the Scottish Government for payroll services and SEAS had yet to be developed. This issue has previously been raised by both the former external auditors and internal auditors. The Commission's Audit Committee receives an update on progress in obtaining a SLA at each committee meeting. We will continue to monitor this during our 2014/15 audit.

## Lothian Pension Fund

The Commission participates in the Lothian Pension Fund (a local government pension scheme). In prior years, the Commission has made additional payments into the pension fund. We understand no additional payments are expected to be made to the pension fund in 2013/14. In June 2013, the Board agreed to support in principle the use of any underspend in 2013/14 to make payment to the Lothian Pension Fund. This is due to be kept under annual review.

The Commission should account for its participation on the pension scheme in accordance with IAS 19 'Employee Benefits'. There is a risk that these amounts are not correctly accounted for in the financial statements. (This risk however has not materialised in previous years).

*Extract from 2013/14 External Audit Plan*

22. In 2013/14, the Commission has accrued £3,000 (equals underspend in 2013/14) to pay to the Lothian Pension Fund. As noted above, the Board agreed in 2013 to support, in principle, the use of any underspend in the year to make payment to the Lothian Pension Fund.
23. From 2013/14 there have been changes to how the various components of cost for defined benefit schemes (such as the local government pension scheme) are classified. This is as a result of the Financial Reporting Manual (FRoM) adopting an amendment to IAS 19 'employee benefits'. The prior

year comparators in the Commission's accounts have been restated due to the amendment to IAS 19. The financial impact on the prior year figures is an increase in net operating costs of £4,000. Overall we have concluded that the Commission has accounted for its participation in the local government pension scheme in accordance with IAS 19.

### Revenue recognition

Under International Standard on Auditing (UK & Ireland) 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.

*Extract from 2013/14 External Audit Plan*

24. We have evaluated each material revenue stream, considered the Commission's revenue recognition policy and carried out testing to ensure this is appropriate and has been applied. Satisfactory assurance has been gained in respect of the completeness and occurrence of revenue transactions in the year.

### 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 International Standard on Auditing (UK & Ireland) 240, "The auditor's responsibilities relating to fraud in an audit of financial statements".

*Extract from 2013/14 External Audit Plan*

25. We have reviewed the accounting records and did not identify any significant transactions outside the normal financial control processes. We did not identify any evidence of management override. Satisfactory assurance has been gained in respect of the mitigation of this risk.

## Audit issues identified during our audit fieldwork

26. During the course of our audit work we noted the following:

### Bequeathed asset

27. In July 2013 the Commission were notified that they were the joint beneficiary in a Will. This included a property with a home valuation report of £48,000. The Commission has since been informed that the son of the individual making the bequest wishes to claim for his right to 50% of the movable estate. Due to this position, the bequest has been disclosed in the accounts as a contingent asset. This is in accordance with IAS 37 'Provision, Contingent Liabilities and Contingent Assets'.

## NHS Superannuation Scheme

28. The Commission participate in the NHS Superannuation Scheme for Scotland. All NHS Boards in Scotland participate in this defined benefit scheme in which contributions are credited to the Exchequer and are invested in a portfolio of Government securities. Due to the multiple participants and the pooling of contributions it has been the case that Boards are unable to identify their share of the underlying assets and liabilities on any reliable or reasonable basis. The scheme is therefore accounted for as if it were a defined contribution scheme with the only accounting entry being to the statement of comprehensive net expenditure for the Commission's contributions payable during the year.
29. The amount charged to the statement of comprehensive net expenditure represents the Commission's contributions payable to the scheme in the year, determined by an actuarial valuation. However, the most recently published actuarial valuation was at 31 March 2004. Given that the scheme ought to be subject to a full actuarial valuation every five years, a more up to date valuation should have been received by now and reflected in the 2013/14 accounts. The periodic actuarial valuation is essential to determine the adequacy of employer and employee contributions to the scheme.
30. In common with all health boards in Scotland, the information in relation to the scheme is out of date. There is a risk that, as the level of employers contributions have not recently been revised, the current contribution levels may not be sufficient to meet the future commitments of the pension scheme. The NHS Directors of Finance group has requested an updated valuation for the scheme from the Scottish Public Pensions Agency. We endorse this action and encourage the Board to continue with efforts to obtain an updated valuation.

## Going concern

31. The Commission is reporting a 'net liability' position on its balance sheet (£161,000). 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 2014/15 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 2013/14 financial statements.

## Audit adjustments

32. As noted above, the prior year comparative figures in the annual accounts have been restated to reflect the adoption of the amendment to IAS 19 'Employee Benefits'. The financial impact on the prior year figures is an increase in net operating costs of £4,000.
33. We also identified various presentational adjustments within the accounts which have been amended by the Commission, including updates to the remuneration report and directors report (to comply with new Financial Reporting Manual requirements). These have all been processed by the Commission.
34. Our audit of the financial statements for 2013/14 identified no unadjusted differences.

## Board representations

35. We have requested that a signed representation letter, covering a number of issues, be presented to us at the date of signing the financial statements.

## Qualitative aspects of accounting practices and financial reporting

36. During the course of our audit, we consider the qualitative aspect of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the financial statements. The following observations have been made:

Qualitative aspect considered	Audit conclusion
The appropriateness of the accounting policies used.	We have reviewed the significant accounting policies, which are disclosed in the financial statements, and we consider these to be appropriate to the Commission.
The timing of the transactions and the period in which they are recorded.	We did not identify any significant transactions where we had concerns over the timing or the period in which they were recognised.
The appropriateness of the accounting estimates and judgements used.	We are satisfied with the appropriateness of accounting estimates or judgements used in the preparation of the financial statements. The valuation of the defined benefit pension liability is provided by the Commission's actuary, Hymans Robertson.
The potential effect on the financial statements of any uncertainties, including significant risks and disclosures such as pending litigation that are required to be disclosed in the financial statements.	We did not identify any uncertainties including any significant risk or required disclosures that should be included in the financial statements (beyond the existing disclosures made).
The extent to which the financial statements have been affected by unusual transactions during the period and the extent that these transactions are separately disclosed in the financial statements.	From our testing performed, we identified no unusual transactions in the period.
Apparent misstatements in the directors' report or material inconsistencies with the financial statements.	There has been no misstatement or material inconsistency with the financial statements included in the directors' report.
Any significant financial statement disclosures to bring to your attention.	There are no significant financial statement disclosures that we consider should be brought to your attention. All disclosures made are required by relevant legislation and applicable accounting standards.
Disagreement over any accounting treatment or financial statement disclosure.	There was no disagreement during the course of the audit with regards to any accounting treatment or disclosure.
Difficulties encountered in the audit.	There were no difficulties encountered in the audit.

# Use of resources and performance

37. 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. Our conclusions are based on a review of the Commission's financial performance, underlying financial position, financial plans and financial reporting.

## The Commission's financial performance in 2013/14

### The Commission has met its key financial targets in the year

38. The Commission is required to work within the resource limits set by the Scottish Government<sup>1</sup>. As shown below, the Commission has met all of its key financial targets.

#### Performance against key financial targets

Financial Target	Target £'000	Actual £'000	Underspend £'000	Target achieved
Revenue Resource Limit	3,636	3,636	0	Yes
Capital Resource Limit	0	0	0	Yes

(Source: Annual Accounts for year ended 31 March 2014)

39. The Commission has achieved all of its financial targets in 2013/14, achieving a breakeven position against its total Revenue Resource Limit (RRL) of £3.636 million. At the start of the financial year, the Scottish Government confirmed an allocation of £3.6 million for 2013/14. The Commission was subsequently awarded a further £36,000 for a distinction award.

## Financial plans

40. The Commission has received confirmation from the Scottish Government that its resource budget for 2014/15 will be set at the same level as in 2013/14 (£3.6 million). No capital allocation has been awarded at this time. Capital resources may however be required to upgrade the Commission's information management system should proposed changes to the Mental Health legislation be introduced during the year. The Commission has notified the Scottish Government of this. The Commission has also been allocated a £1 million resource budget in 2014/15 for the operation of NCF.

## Performance framework

41. 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 strategic plan. Each year an annual business plan is also developed and approved by the Board.

<sup>1</sup> NHS Boards also have a cash requirement target which is communicated to them in their annual allocation letter. The Mental Welfare Commission for Scotland's annual allocation letter does not currently include a cash requirement target. Therefore for 2013/14 the Commission has not been assessed against this target. This approach has been agreed with the Scottish Government and will be reviewed in 2014/15.

42. 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 2013/14. Overall, the Commission has met all its performance targets for the year.

**Progress against key performance indicators for 2013/14**

Target	Performance
Visit at least 1,900 individual services users and complete 30 focussed visits in the unannounced format	The Commission made 2,186 visits to individuals during 2013/14 and reviewed 351 files. The Commission also completed 26 focussed unannounced visits. While this is fewer than the target of 30, the Commission did see 134 individuals in the specified person monitoring review on an unannounced basis.
Produce statistics and analysis on the use of mental health and incapacity legislation on time, within six months of the end of the year	Statistic and analysis were published on the Commission's website in September 2013.
Complete and publish four investigation reports by the end of March 2014	The Commission progressed 22 investigations during the year, of these five were published of their website. Eight cases were remitted back to local services after initial investigation with recommendations for further internal investigation. In a further two cases the Commission was satisfied with the level of investigation conducted by local services. A further seven cases are still being investigated.
Assess samples of telephone advice and aim for at least 97.5% of all advice to be accurate	The Commission estimates the number of calls received requesting advice was 4,254 during 2013/14. Of these calls 12% were audited to assess the accuracy of the advice provided. This produced an accuracy rate of 98.5%.
Publicly report, within agreed timescales, the outcome of recommendations made to services in 90% of cases	The Commission made 339 recommendations following 98 focused visits during the year to 31 December 2013. The Commission has undertaken follow up action on 96% of its recommendations.

*(Source: Annual Accounts for year ended 31 March 2014. Note these are not subject to audit.)*

# Governance

43. Corporate Governance is concerned with the structures and processes for decision-making, accountability, control and behaviour at the upper levels of organisations. Through the Accountable Officer and the Board, the Commission is responsible for ensuring the proper conduct of its affairs, including compliance with relevant guidance, the legality of activities and transactions and for monitoring the adequacy and effectiveness of these arrangements.
44. We have found that the Commission has appropriate governance arrangements in place. Our work has involved reviewed the Commission's arrangements for:
- Systems of internal control;
  - The prevention and detection of fraud and irregularity; and
  - Standards of conduct and the prevention and detection of bribery and corruption.

## Governance arrangements

45. The Mental Welfare Commission Board comprises a Chair and seven Board members. The Board was established on 1 April 2011 following 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. To support the Board there are two standing committees; the Audit Committee and the Advisory Committee. The Standing Orders outline the remits of the Board and the standing committees and the delegated 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.
46. In 2013, Board members completed a self-assessment using the NHS Board Diagnostic developed by the Scottish Government. The findings of were reported to the Board in May 2013 and an action plan agreed. Actions for improvement continue to be implemented.
47. The operational management group (OMG) comprising the Chief Executive, Head of Corporate Services, Chief Social Work Officer, Chief Nursing Officer and Executive Director (Medical), is responsible for preparing and reporting progress against the business plan, strategic plan and financial plan to the Board. During the year there have been changes to personnel on the operational management group. A new Executive Director (Medical) was appointed in November 2013 and the new Chief Executive started on 11 April 2014. Going forward, the Commission intend to review the executive team roles and responsibilities to ensure it meets the needs of the organisation and can adapt to any potential legislative changes.

## National Confidential Forum

48. The Victims and Witnesses (Scotland) Act provides for the creation of a National Confidential Forum (NCF) for adults placed in institutional forms of care as children. The Forum will have a life span of three to five years. The NCF is being set up as a committee of the Commission but will operate independently and will be led by a Forum Head who will carry out hearings alongside up to three Panel members. Support staff will manage the day to day running of applications and hearings. The Commission will



provide shared corporate services for the Forum. It is anticipated that the Forum Head, Panel members and staff will be recruited over summer 2014 and the Forum will be operational by the end of the 2014 calendar year. The Commission has been allocated £1 million resource budget in 2014/15 for the operation of NCF.

49. A draft memorandum of understanding (MOU) between the Commission and the Scottish Government has been prepared concerning the operation of the NCF. This document sets out the corporate governance structure for the NCF. The Head of NCF will report to the Commission Chair but the Accountable Officer for the NCF will be the Commission's Chief Executive. The draft MOU contains clauses which will ensure the Chief Executive is given appropriate assurances from the NCF Head to enable a governance statement to be prepared. The MOU will be finalised once the Head of NCF is in post.

## Systems of internal control

50. In line with International Standards on Auditing, we have considered the internal controls in place over the Commission's key financial systems. As reported in our interim management report, we identified no significant deficiencies in the operation or design of internal financial controls over the Commission's key financial systems. We found the internal financial controls to be well designed and operating effectively.
51. The governance statement included within the Commission's 2013/14 annual accounts discloses no material internal control weaknesses. Our audit identified no issues which we consider need to be disclosed in the governance statement. This is in keeping with the findings from internal audit which reported that *'Based on the work undertaken in 2013/14, we are of the opinion that the Commission's systems provide a reasonable basis for maintaining control and the control framework provides reasonable assurance regarding the effective and efficient achievement of strategic objectives.'*

## Internal audit

52. An effective internal audit service is an important element of the Commission's governance arrangements. The Commission's internal audit service is provided by KPMG. In accordance with International Standards on Auditing we have considered the function provided by KPMG and have concluded that the service is fit for purpose. To avoid duplication and effort and to ensure an efficient audit process, we have taken cognisance of internal audit work where appropriate and we are grateful to the KPMG internal audit team for their assistance during the course of our audit work.

## Prevention and detection of fraud and irregularity

53. Our audit was planned to provide a reasonable expectation of detecting material misstatements in the financial statements resulting from fraud and irregularity. During the year we have found the Commission's arrangements for the prevention and detection of fraud and other irregularities to be adequate.



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

In our opinion the Commission's arrangements in relation to standards of conduct and the prevention and detection of bribery and corruption are sufficient and appropriate. Our conclusion has been informed by a review of the arrangements for adopting and reviewing standing orders, financial instructions and schemes of delegation and complying with national and local codes of conduct. We have also considered the controls in place to ensure compliance with the regulatory guidance that is produced by the Scottish Government throughout the year

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