Mental Welfare Commission for Scotland

2016/17 Annual Audit Report to the Board of the Mental Welfare Commission for Scotland and the Auditor General for Scotland

June 2017

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Annual accounts

The Mental Welfare Commission for Scotland's annual report and accounts for the year ended 31 March 2017 were approved by the Board on 27 June 2017.

We reported within our independent auditor's report, unqualified opinions on the annual accounts, the regularity of transactions and on other prescribed matters. There were no matters which we were required to report by exception.

- **The Commission has generated a saving of £20,000 against its revenue resource allocation of £3.62million.**
- **The National Confidential Forum (NCF) has reported a saving of £67,000 against a revised revenue resource allocation of £835,000.**
- **No capital expenditure has been incurred during the year.**
- **Indicative funding for 2017/18 has been confirmed at £3.6million for the Commission's core activities and £985,000 for the operation of the NCF. Both the Commission and the NCF are forecasting a breakeven position in 2017/18.**
- **The NCF published a report entitled 'What we have heard so far' in December 2016 detailing the outcomes of its work to date. This has since been publicised through a number of stakeholder sessions in Glasgow, Edinburgh and Dundee.**
- **The Commission has met 4 of its 5 key performance indicators in 2016/17.**
- **The NCF met all ten of its key performance indicators during the year.**

Wider Scope

The Code of Audit Practice frames the wider scope audit in terms of four dimensions. We summarise below our conclusions on each dimension:

Wider Scope

Financial management

- The Commission has effective financial management arrangements in place.
- We have not identified any significant deficiencies in the operation or design of the key financial systems. Arrangements for the prevention and detection of fraud and corruption are operating effectively.

Financial sustainability

- The Commission has effective arrangements in place for short and medium term (3 year) financial planning. Annual business plans are aligned to a rolling three year Strategic plan. .

Governance and transparency

- The Commission has appropriate and effective governance arrangements in place. We have concluded that the Commission's arrangements for scrutiny and decision-making are appropriate.

Value for money

- The Commission and the NCF have appropriate performance management arrangements in place.

Conclusion

This report concludes our audit for 2016/17. 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.

Scott-Moncrieff
June 2017

1 Introduction

Introduction

1. This report summarises the findings from our 2016/17 audit of the Mental Welfare Commission for Scotland ('the Commission').

2. We outlined the scope of our audit in our external audit plan, which we presented to the audit committee in November 2016. The core elements of our audit work in 2016/17 have been:

   - an audit of the Commission's 2016/17 annual report and accounts;
   - a review of arrangements as they relate to the four dimensions of wider-scope public audit: governance and transparency, financial management, financial sustainability and value for money; and
   - consideration of the local impact of Audit Scotland's national performance report *The Role of Boards*.

3. The Commission's Board is responsible for preparing annual accounts that show a true and fair view and for implementing appropriate internal control systems. The weaknesses or risks identified are only those that have come to our attention during our normal audit work, and may not be all that exist. Communication in this report of matters arising from the audit of the annual report and accounts 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.

4. We discussed and agreed the content of this report with the Head of Corporate Services. We would like to thank all management and staff for their co-operation and assistance during our audit.

Adding value through the audit

5. All of our clients quite rightly demand of us a positive contribution to meeting their ever-changing business needs. Our aim is to add value to the Board 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 Board promote improved standards of governance, better management and decision making and more effective use of resources.

6. We welcome any comments you may have on the quality of our work and this report via: *www.surveymonkey.co.uk/r/S2SPZBX.*

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

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Annual accounts

Annual accounts

8. The Commission's annual accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources. The respective responsibilities of the Commission and the auditor in relation to the annual accounts are outlined in Appendix 2.

9. In this section we summarise the issues arising from our audit of the 2016/17 annual accounts.

Overall conclusion

An unqualified audit opinion on the annual accounts

10. The annual accounts for the year ended 31 March 2017 were approved by the Board on 27 June 2017. We reported within our independent auditor's report:

- an unqualified opinion on the annual accounts;
- an unqualified audit opinion on regularity; and
- an unqualified audit opinion on other prescribed matters.

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

Administrative processes were in place

12. We received draft financial statements and supporting papers of a good standard, in line with our agreed audit timetable. Our thanks go to management and staff for their assistance.

13. The annual accounts were submitted to the Scottish Government and the Auditor General for Scotland by the 30 June 2017 deadline.

Our assessment of risks of material misstatement

14. The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the audit team. Our audit procedures relating to these matters were designed in the context of our audit of the annual accounts as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the annual accounts is not modified with respect to any of the risks described in exhibit 1 below.

Exhibit 1: Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

1.1 Loss of financial expertise

The Finance manager is leaving in March 2017, resulting in a significant gap in the Commission's financial resource and expertise. The Commission is actively seeking a replacement and has made an offer of employment following interviews in February. There remains a risk however that this individual does not take up the post or that they will not be in position long to be able to prepare the accounts to the standard expected.

Excerpt from the 2016/17 External Audit Plan

15. The Commission appointed a new finance manager who took up post in April 2017 prior to the commencement of our audit work. The newly appointed finance manager, along with the finance officer, occupied a key role in the preparation of the annual accounts and working papers of a good standard were provided within specified timeframes.

Exhibit 1: Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

1.2 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 annual accounts. This is treated as a presumed risk area in accordance with ISA 240 - *The auditor's responsibilities relating to fraud in an audit of financial statements*.

Excerpt from the 2016/17 External Audit Plan

16. While we do not suspect any incidences of management override leading to irregularities in financial reporting we have done significant work in this area. We have performed testing over transactions made during the year in order to confirm the regularity of expenditure. We have also reviewed transactions made outside of the normal course of business and performed analysis of all journals posted. Through this work we identified no issues and gained assurance over this risk.

1.3 Revenue recognition

Under ISA 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.

Excerpt from the 2016/17 External Audit Plan

17. We do not believe the risk of fraud in revenue recognition is material to the annual accounts and have therefore rebutted this risk. This view has been based on the fact that the Commission's only source of income is its revenue resource limit as determined by the Scottish Government.

Our application of materiality

18. The assessment of what is material is a matter of professional judgement and involves considering both the amount and the nature of the misstatement. This means that different materiality levels will be applied to different elements of the annual accounts.

19. Our initial assessment of materiality for the annual accounts was £70,000 and it remained at this level throughout our audit. Our assessment of materiality equates to approximately 1.5% of the Commission's Revenue Resource Limit (RRL). A key target for the Commission is achieving a breakeven position against its RRL. We consider the RRL to be one of the principal considerations for the users of the annual accounts when assessing the financial performance of the Commission.

20. We set a performance materiality for each area of work based on a risk assessment for the area and percentage application of overall materiality. We then perform audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we are performing a greater level of testing on the areas deemed to be of significant risk of material misstatement. Performance testing thresholds used are set out in the table below:

Area risk assessment	Weighting	Performance materiality
High	45%	£31,500
Medium	55%	£38,500
Low	70%	£49,000

21. We agreed with the Audit Committee that we would report to them on all misstatements falling into the following categories;

- All material corrected misstatements;
- Uncorrected misstatements with a value in excess of 2% of the overall materiality figure (i.e. over £1,400); and
- Other misstatements below the 2% threshold that we believe warrant reporting on qualitative grounds.

22. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the annual report and accounts.

Audit differences

23. There were no material adjustments to the draft annual accounts. We identified some minor disclosure and presentational adjustments during our audit, which have been reflected in the final set of annual accounts.

An overview of the scope of our audit

24. The scope of our audit was detailed in our External Audit Plan, which was presented to the Audit Committee in November 2016. The plan explained that 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. Planning is a continuous process and our audit plan is subject to review during the course of the audit to take account of developments that arise.

25. At the planning stage we identified the significant risks that had the greatest effect on our audit. Audit procedures were then designed to mitigate these risks.

26. Our standard audit approach is based on performing a review of the key accounting systems in place, substantive tests and detailed analytical review. Tailored audit procedures, including those designed to address significant risks, were completed by the audit fieldwork team and the results were reviewed by the audit manager and audit partner. In performing our work, we have applied the concept of materiality, which is explained earlier in this report.

Governance statement

27. We are satisfied that the governance statement within the annual report and accounts complies with the Scottish Ministers' guidance and that the content is consistent with the financial statements.

28. The accountable officer did not disclose any significant issues in the governance statement and internal audit did not identify any high-risk recommendations in the year. An assurance statement was provided by the Head of the NCF in which no significant concerns were raised. The disclosures in the Governance Statement are consistent with this and internal audit's conclusion for 2017/18.

Remuneration report

29. We did not identify any issues with the remuneration report in 2016/17. The Commission contacted the Scottish Public Pensions Agency (SPPA) for all relevant information to ensure accurate disclosures were made.

Other matters identified during our audit

30. We identified that the non-current assets held by the Commission and the NCF had all been completely depreciated in 2016/17 leaving a nil balance on the balance sheet.

31. As these assets are still in use it would appear unreasonable for them to be fully depreciated and would suggest that the estimated useful life applied is inaccurate.

32. Following review of this we concluded that any revision made would be immaterial to the financial statements.

Regularity

33. We have planned and performed our audit recognising that non-compliance with statute or regulations may materially impact on the annual report and accounts. During our 2016/17 audit we performed detailed testing over the regularity of expenditure incurred during the year. We identified no issues through this testing and our wider audit work.

34. This enables us to give an unqualified opinion over the regularity of transactions.

Follow up of prior year recommendations

35. As part of our audit we followed up the recommendations we raised in 2015/16. Both of the recommendations raised have now been implemented. In addition, the one recommendation which remained outstanding from our 2014/15 audit has also been implemented. These are detailed within appendix 1 to this report.

Board representations

36. We have requested that the Board present a signed representation letter, covering a number of issues, to us at the date of signing the annual accounts.

37. We identified one unadjusted difference during our audit work in relation to the write down of assets. The difference is not considered material to the financial statements. Through discussion with the Head of Corporate Services the decision was taken not to adjust the financial statements. The difference is reported to the Board through the representation letter.

Qualitative aspects of accounting practices and financial reporting

38. We have considered the qualitative aspects 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. Our findings are summarised below:

Qualitative aspect considered	Audit conclusion
The appropriateness of the accounting policies used.	The accounting policies, which are disclosed in the annual accounts, are considered appropriate to the Commission.
The timing of the transactions and the period in which they are recorded.	We did not identify any concerns over the timing of transaction or the period in which they were recognised.
The appropriateness of the accounting estimates and judgements used.	The accounting estimates and judgements used by management in preparing the annual accounts are considered appropriate. The principal areas of estimates and judgements include asset depreciation rates (paragraph 30) and the valuation of provisions.
The potential effect on the annual accounts of any uncertainties, including significant risks and related disclosures that are required.	We have not identified any uncertainties, including any significant risk or required disclosures, which should be included in the annual accounts.
The extent to which the annual accounts have been affected by unusual transactions during the period and the extent that these transactions are separately disclosed.	From the testing performed, we identified no significant unusual transactions in the period.
Apparent misstatements in the annual report or material inconsistencies with the annual accounts.	The annual report contains no material misstatements or inconsistencies with the annual accounts.
Any significant annual accounts disclosures to bring to your attention.	There are no significant annual accounts disclosures that we consider should be brought to your attention. All the disclosures required by relevant legislation and applicable accounting standards have been made appropriately.
Disagreement over any accounting treatment or annual accounts disclosure.	While some disclosure and presentational adjustments were made during the audit process there was no material disagreement during the course of the audit over any accounting treatment or disclosure.
Difficulties encountered in the audit.	There were no significant difficulties encountered during the audit.

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Financial management

Financial management

39. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. It is the Commission's responsibility to ensure that its financial affairs are conducted in a proper manner.

Overall conclusion

40. We concluded that the Commission has effective financial management arrangements in place. We based our conclusion on a review of the Commission's financial performance, underlying financial position, financial reporting and the arrangements in place to ensure systems of internal financial control (including budgetary controls) are operating effectively.

Key audit risk

41. As outlined in our audit plan, we considered there to be a key audit risk to the wider scope of our audit in relation to financial management.

Exhibit 2: Key audit risk: financial management

Loss of financial resource and expertise

The Finance manager is leaving in March 2017, resulting in a significant gap in the Commission's financial resource and expertise. Whilst we have identified this as an immediate risk to the preparation of the 2016/17 annual accounts, failure to fill this position in a timely manner may impact upon the Commission's capacity for sound financial management.

During our audit we will continue to monitor the recruitment process and assess the Commission's continuity arrangements in relation to financial management.

Excerpt from the 2016/17 External Audit Plan

42. The Commission appointed a new finance manager who took up post in April 2017 prior to the commencement of our audit work. The appointment was made in a timely manner and ensured the continuity of financial management at the Commission.

43. We have no significant concerns over the level of financial resource and expertise at the Commission.

The Commission's financial performance in 2016/17

44. Both the Commission and the NCF met all of their financial targets in 2016/17. Both returned a small underspend against RRL as detailed in Exhibit 3 below.

Exhibit 3

Performance against budget limits	Original budget £million	Revised budget £million	Actual £million	Savings/(excess) £million	Target achieved?
Core revenue resource limit					
Mental Welfare Commission	3.620	3.620	3.596	0.024	Yes
National Confidential Forum	0.985	0.835	0.670	0.165	Yes
Non-core revenue resource limit					
Mental Welfare Commission	0	0	0.004	(0.004)	Yes
National Confidential Forum	0	0	0.098	(0.098)	Yes
Revenue resource limit	**4.605**	**4.455**	**4.368**	**0.087**	**Yes**

45. The Commission underspend by £24,000 against its allocation of £3.6million. This was mainly due to staffing and travel and subsistence costs being less than originally expected.

46. The original NCF allocation of £0.985million was reduced in November 2016 following a re-budgeting exercise conducted by the Commission in which some of the key assumptions were adjusted. Following this exercise the Commission returned £150,000 of the £230,000 forecast underspend to the Scottish Government.

47. One of the key revised budgetary assumptions was the forecast number of hearings during 2016/17. The original budget was prepared assuming 250 hearings this was raised in our 2015/16 annual audit report where we concluded this assumption was unrealistic. In November 2016 this was revised to 68.

48. No capital allocation was awarded to the Commission during the year. This is in line with our expectations and, through our audit work, we have gained assurance that no capital spend has been incurred.

Systems of internal control

49. We found the Commission's key financial systems were well designed and operating effectively. The Commission has adequate systems in place to provide assurance over the preparation of the annual accounts.

50. We considered the Commission's system of budgetary control and financial management and did not identify any significant deficiencies.

Fraud and corruption

51. In accordance with the Code of Audit Practice, we have reviewed the Commission's arrangements for the prevention and detection of fraud and corruption. Overall, we found the Commission's arrangements to be sufficient and appropriate.

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Financial sustainability

Financial sustainability

52. Financial sustainability looks forward to the medium and longer term to consider whether the Commission is planning effectively to continue to deliver its services or the way in which they should be delivered.

Key audit risk

53. As outlined in our audit plan, we considered there to be a significant risk to the wider scope of our audit in relation to financial sustainability:

Exhibit 4: Key audit risk: financial sustainability

Financial sustainability
The Commission has a three year financial plan in place which has been approved by the Operational Management Group (OMG). The Commission forecasts a breakeven position against a flat budget for each of these years. Management have identified however that costs for second opinion doctors are increasing and this could put significant strain on the Commission's ability to achieve financial balance.
Excerpt from the 2016/17 External Audit Plan

54. The Commission has set a balanced budget for 2017/18. This has been achieved through a reduction in headcount and in part through the application of a cap on second opinion doctors' fees and travel and subsistence costs. These were historically a significant cost pressure for the Commission. The cap has been set at 11% of total budget and has resulted in a forecast saving of £26,000 and £4,000 respectfully.

55. The application of the cap was instructed by the Board in December 2016. Initial discussions have taken place between the Commission and the Scottish Government sponsor division regarding how any liabilities should be met in the event of second opinion expenditure exceeding the cap. As the Commission has not yet received agreement regarding funding for these costs, there remains a risk that the Commission will not achieve financial balance in 2017/18. We will continue to liaise with the Commission and monitor the progress of these negotiations.

Overall Conclusion

56. The Commission has effective arrangements in place for short and medium term (3 year) financial planning. Annual business plans are aligned to a rolling three year Strategic plan. The 2017/18 allocation was considered as part of the strategic business plan review in December 2016. The most recent Board paper on the 2017/18 budget was presented in March 2017.

57. We have assessed how the Commission's financial plans and projections consider the delivery of services in the future. The Commission has started to consider an accommodation reduction plan which forms part of a three-year programme to reduce costs. The Commission has conducted scenario planning to assess how much office space is required and may apply to the Scottish Government for funding of this programme during 2017/18 if there is a credible business case to do so.

Indicative 2017/18 budgets

58. The Scottish Government has indicated that the Commission's resource budget for 2017/18 will be set at £3.6 million for the Commission and £0.985million for the operation of the NCF. An initial allocation letter however has yet to be received. As referred to above, funding for second opinion doctors' fees and travel and subsistence costs above the capped level, has not yet been agreed. No capital allocation has been awarded at this time and is not anticipated.

Future planning for the NCF

59. The NCF was originally established in 2014/15 for a three to five year period. The Commission presented an options appraisal paper to the Scottish Government in March 2017 outlining the possibilities for the future of the NCF.

60. The NCF member appointments currently run until February and March 2018 and staff contracts run until February 2018. This provides sufficient time for re-appointment should the decision be taken to extend the NCF beyond 2017/18.

61. Given the uncertainties in 2017/18 a balanced budget, assuming continued funding of £0.985million was presented to the Board without a forecast. A total of £0.299million(30%)remains unallocated with the intention of either using it to further raise awareness of the work of the NCF or to cover any costs associated with its wind-up. It is also likely that some funds will be returned to the Scottish Government in line with 2016/17.

62. The budget has been prepared on an assumption of 60 hearings taking place in 2017/18.

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Governance & transparency

Governance and transparency

63. Governance and transparency is concerned with the adequacy of governance arrangements, leadership and decision making, and transparent reporting of financial and performance information. 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.

Governance arrangements

64. During our audit we have reviewed the effectiveness of the Commission's governance framework and the extent to which Board and committee roles, membership and terms of reference comply with current guidance.

65. We have considered whether the information provided to the Board and committees is sufficient for members to assess the impact of decisions on resources and performance. Based on our review, we concluded that overall governance arrangements are adequate and appropriate.

Role of boards

66. In September 2010 the Auditor General for Scotland published a report aiming to assess the role and work of boards across 67 public bodies and 39 colleges. The report made a number of recommendations as detailed in exhibit 5 below.

Exhibit 5

All non-executives should receive a formal induction	Boards should review the skills and expertise required on the Board and attract people to plug the gaps	Performance of non-executives should be assessed on a regular basis	Scrutiny efforts should be focused on organisational performance, financial and risk management
Performance information provided to a Board could be improved	Boards should aim to maximise openness and accessibility of papers	Declarations of interests should be considered at every meeting	Boards should review the use of Committees and ensure delegation levels are appropriate

Source: Role of Boards Report (September 2010)

67. As part of our work in 2016/17 we followed up on the issues highlighted by Audit Scotland. Our aim was to identify any causes for concern or areas of good practice. Our detailed findings will be shared with Audit Scotland and are summarised below.

Arrangements for scrutiny and decision-making are appropriate

68. We consider that arrangements for scrutiny and decision-making at the Commission are appropriate.

69. Minutes for all Board and Forum meetings are published on the websites for the Commission and NCF respectively.

70. There have been three new appointments to the Board in the year each of whom attended the CIPFA on board training as part of the induction process.

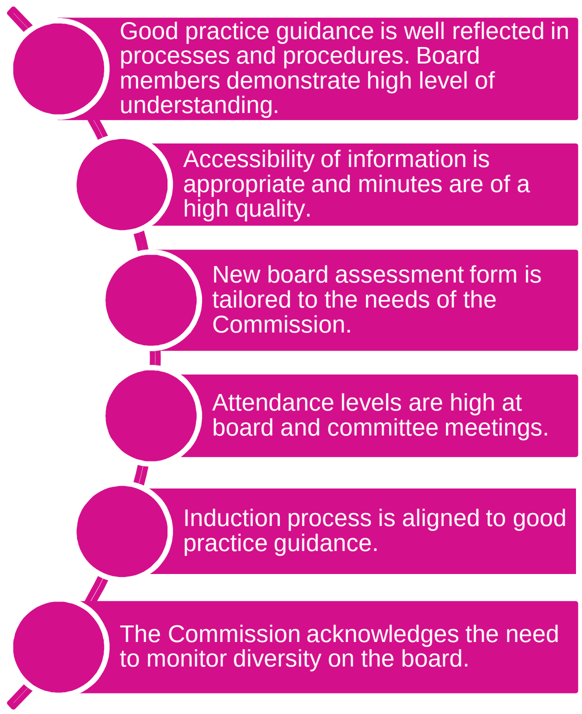
71. Registers of interest are held for both the Commission and the Forum. Any individual with a conflict of interest does not take part in discussions.

72. In forming our conclusions we have also taken account of the board governance review performed by internal audit during the year. This review referred to the good practice guidance notes with in the On Board Guide for Members of Public Bodies in Scotland (2015) and the Model Code of Conduct for Members of Devolved Public Bodies (2014).

73. A total of five recommendations were made following the review with one being categorised as ‘Moderate’ (in accordance with KPMGs scoring system) and the remaining four categorised as ‘Low’. The one moderate recommendation was in relation to the performance review process for members. Currently members complete appraisal forms and hand them to the Chair for review without their being any formal feedback mechanism. There is therefore a risk that key development opportunities are missed and agreed actions are not implemented.

74. Internal audit also noted the following good practice examples:

Exhibit 6



Source: KPMG Internal audit report on Board Governance

Internal Audit

75. KPMG provides the Commission’s internal audit service. To avoid duplication of effort and to ensure an efficient audit process we have taken cognisance of all of the work of internal audit.

We are grateful to the KPMG team for their assistance during the course of our work.

Risk management

76. The Commission has an established risk management framework in place which includes a Risk Universe and associated action plan in relation to NCF. Risk registers include risks specific to the NCF and risks posed to the Commission as a result of the NCF. Risks are reviewed and updated annually following consideration by the Commission’s risk management group. The Forum considers NCF specific risks separately and these are then incorporated into the overall risk strategy.

77. The 2016/17 Risk strategy document was reviewed by the Audit Committee in February 2016 and approved by the Board in March 2016.

6

Value for money

Value for money

78. Value for money is concerned with using resources effectively and continually improving services. In this section we report on our audit work as it relates to consideration of the Commission's reported performance and to what extent this demonstrates achievement of value for money.

Overall conclusion

79. We found that the Commission has appropriate performance management arrangements in place.

The Commission has achieved four out of five performance targets

80. The Commission monitors its performance against five key performance indicators (KPIs) agreed with the Scottish Government. These targets are outlined in the annual business plan and progress against the plan is reported to the board on a quarterly basis. The table below summarises performance against these targets for 2016/17.

81. Overall, the Commission has met all but one of its performance targets for the year. The KPI it failed to meet (KPI 3) was also not achieved during 2015/16 or 2014/15. This is despite the KPI being revised down from four investigation reports to two for 2015/16.

82. Although the Commission did not publish the required two investigation reports by March 2017 one report was published and further analysis and a draft report was prepared for a second investigation.

Key performance indicator	KPI met
KPI 1: Visit at least 1500 individuals service users, 25% of which in an unannounced format	Yes
KPI 2: Produce statistics and analysis on the use of mental health and incapacity legislation on time, within six months of the year end	Yes
KPI 3: Complete and publish two investigation reports by the end of March 2017	No
KPI 4: Assess samples of telephone advice given and aim for at least 97% of all advice to be accurate	Yes
KPI 5: Publically report, within agreed timescales, the outcome of the recommendations we make to services in 90% of cases	Yes

Source: 2016/17 Annual Accounts (non-audited information)

NCF performance

83. During the year the NCF recorded a total of 98 initial enquiries with 58 of these leading to applications and 47 resulting in hearings.

84. The NCF business plan for 2016/17 includes KPIs under each of the following three key areas of focus for the Forum;

- Supporting
- Listening
- Reporting

85. During 2015/16 we raised an audit recommendation regarding the arrangements for NCF performance reporting. We are pleased to report that the KPIs in place are now being appropriately reported within the NCF annual report. The NCF achieved all ten of its defined KPI targets for 2016/17.

86. In December 2016 the NCF published a report entitled 'What we have heard so far' reflecting on the testimonies given during the first 18 months of operation. The report details excerpts from testimonies on events before, during and after being in care with particular

emphasis on what these experiences say about institutional child care in Scotland and what effect this has had on adults in later life.

87. The ‘What we have heard so far’ report also addressed the lessons learned by the NCF in the conduct of hearings and how these will be incorporated into future NCF activity. This report also served as a key part of the NCFs communication strategy in order to raise awareness of the Forum and its work.

88. In order to publicise and build on the report a number of stakeholder engagement sessions were held in the most populous areas of Scotland (Glasgow, Edinburgh and Dundee). The feedback gained through these was then used to inform the options paper presented to the Scottish Government regarding the future of the NCF.

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Appendices

Appendix 1: Action plan

Our action plan details the control weaknesses that we have identified during the course of our audit together with the officers responsible for implementing the recommendations and the implementation dates.

It should be noted that the weaknesses identified in this report are only those that have come to our attention during the course of our normal audit work, and may not be all that exist. The audit cannot be expected to detect all errors, weaknesses or opportunities for improvements in management arrangements. Communication in this report of matters arising from the audit of the annual accounts 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.

Action plan grading structure

To assist the Commission in assessing the significance of the issue raised and prioritising the action required to address it, the recommendation has been rated.

The grading structure for our recommendations is as follows;

Grade	Explanation
Grade 5	Very high risk exposure - Major concerns requiring Commission attention.
Grade 4	High risk exposure - Material observations requiring management attention.
Grade 3	Moderate risk exposure - Significant observations requiring management attention.
Grade 2	Limited risk exposure - Minor observations requiring management attention
Grade 1	Efficiency / housekeeping point.

Follow up of prior year recommendations

Title	Issue identified & Recommendation	2016/17 update
2014/15 Interim report **Thistle House Lease Agreement** **Grade: 2**	The Commission offices at Thistle House are now owned by the Scottish Legal Aid Board (SLAB). The existing lease is with the Scottish Government and a new agreement with SLAB has yet to be drawn up. Management must ensure that this situation is monitored and that a new agreement is put in place as soon as possible.	The lease for Thistle House was signed in June 2016. The agreement rolls forward year to year and a six month notice must be given by either party for termination. **Recommendation closed.**

Title	Issue identified & Recommendation	2016/17 update
2015/16 Annual report **NCF budget assumptions** **Grade: 3**	The 2016/17 for the NCF is based on an assumption of 250 hearings during the year. This appears to be an unrealistically high estimate given past activity levels. Management should consider the implications of a lower than anticipated number of hearings during the year and revise the allocation of resources accordingly.	The NCF 2016/17 budget was revised in November 2016 to a more realistic 68 hearings. **Recommendation closed.**

Title	Issue identified & Recommendation	2016/17 update
2015/16 Annual report **NCF Performance reporting** **Grade: 2**	There are five defined KPIs within the NCF strategic and business plan for 2015/16. We have identified however that, whilst performance against these KPIs is being regularly reported on, there is room for considerable improvement. Improvements should be made to NCF performance reporting. KPIs within the NCF strategic and business plan should be formally reported on to both the Commission and the Forum on at least an annual basis.	NCF performance reporting has improved with KPIs being broken down into specific, measurable performance measures with defined deadlines and responsible officers. The NCF met all ten of its defined KPIs in the year. **Recommendation closed.**

Appendix 2: Respective responsibilities of the Commission and the Auditor

Responsibility for the preparation of the annual report and accounts

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

In preparing the annual report and accounts, the Commission and the Chief Executive, as Accountable Officer are required to:

- apply on a consistent basis the accounting policies and standards approved for the NHS Scotland by Scottish Ministers;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the Financial Reporting Manual have not been followed where the effect of the departure is material;
- prepare the accounts on a going concern basis unless it is inappropriate to presume that the Commission will continue to operate; and
- ensure the regularity of expenditure and income.

Board members are also responsible for;

- keeping proper accounting records which are up to date; and
- taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditor responsibilities

We audit the annual report and accounts and give an opinion on whether:

- they give a true and fair view in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers of the state of the board's affairs as at 31 March 2017 and of its net expenditure for the year then ended;
- they have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2016/17 FReM ;
- they have been prepared in accordance with the requirements of the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers;
- in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers;
- the auditable part of the Remuneration and Staff Report has been properly prepared in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers; and
- the information given in the Performance Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers; and
- the information given in the Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers.

We are also required to report by exception if, in our opinion

- adequate accounting records have not been kept; or
- the annual accounts and the part of the Remuneration and Staff Report to be audited are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit; or
- there has been a failure to achieve a prescribed financial objective.

Wider scope of audit

The special accountabilities that attach to the conduct of public business, and the use of public money, mean that 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 annual accounts, but providing audit judgements and conclusions on the appropriateness, effectiveness and impact of corporate governance and performance management arrangements and financial sustainability.

The Code frames a significant part of our wider scope responsibilities in terms of four audit dimensions. As part of our annual audit we will consider and report against these four dimensions: financial management; financial sustainability; governance and transparency; and value for money.

Independence

We are required by International Standards on Auditing 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 Financial Reporting Council's Ethical Standards. In our professional judgement the audit process has been independent and our objectivity has not been compromised. In particular, there have been no relationships between Scott-Moncrieff and the Board or senior management that may reasonably be thought to bear on our objectivity and independence.

With regard to our appointment for a second term, we can confirm that we comply with the Financial Reporting Council's Ethical Standard which states that where applicable, once an engagement partner has held this role for a continuous period of ten years, careful consideration is given as to whether it is probable that an objective, reasonable and informed third party would conclude the integrity, objectivity or independence of the firm or covered persons are compromised. Therefore, the new appointment for a second five year term does not contradict the requirement of the FRC. This is in line with guidance from Audit Scotland which states that there is no expectation for the rotation of audit partners for special health board audits.

Scott-Moncrieff
business advisers and accountants