

Mental Welfare Commission for Scotland External Audit Plan

Year ending
31 March 2024

12 February 2024



Contents

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular, we cannot be held responsible to you for reporting all of the risks which may affect the organisation or all weaknesses in your internal controls. This report has been prepared solely for your benefit and Audit Scotland (under the Audit Scotland Code of Practice 2021). We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Introduction

Purpose

This document provides an overview of the planned scope and timing of the external audit of Mental Welfare Commission for Scotland for those charged with governance.

We are appointed by the Auditor General as the external auditors of Mental Welfare Commission for Scotland for the five-year period 2022/23 to 2026/27.

Respective responsibilities

The Code of Audit Practice ('the Code') summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities, and that of Mental Welfare Commission for Scotland are summarised in Appendix 1 of this Audit Plan. We draw your attention to this and the Code.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on Mental Welfare Commission for Scotland financial statements, which have been prepared by management with the oversight of those charged with governance (Audit, Performance and Risk Committee). Our audit of the financial statements does not relieve management or the Audit, Performance and Risk Committee of your responsibilities.

It is your responsibility to ensure that proper arrangements are in place for the conduct of your business, and that public money is safeguarded and properly accounted for. As part of our wider scope work, we will consider how you are fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of Mental Welfare Commission for Scotland and is risk based.



Plan overview

The audit plan sets out our risk-based audit approach for Mental Welfare Commission for Scotland. This plan outlines our initial risk assessment and is reported to those charged with governance (Audit, Performance and Risk Committee) and will be shared with Audit Scotland.

01 Materiality

We have calculated our planning materiality using prior year gross expenditure as per audited 2022/23 financial statements as our benchmark, resulting in the following:

- £0.101 million planning materiality which is set at 2% of gross expenditure.
- £0.075 million performance materiality which is based on 75% of planning materiality.
- £0.005 million trivial threshold which is set at 5% of planning materiality.
- A lower materiality will be used on:
 - £25,000 for the auditable elements of the Remuneration and Staff Report.

We will revisit our materiality throughout our audit including updating to reflect the draft unaudited financial statements for 2023/24.

02 Financial statement audit

At planning, in accordance with the ISA's (UK) and Practice Note 10 (Revised 2020) 'The Audit of Public Sector Financial Statements' issued by the Public Audit Forum, we have identified the following significant financial statement audit risks:

- Management override of controls (ISA (UK) 240);
- Risk of fraud in expenditure recognition – non payroll expenditure (cut-off) (PN10)

03 Wider Scope and Best Value Audit

In accordance with Code and supporting guidance: "Supplementary guidance -wider scope audit, less complex bodies and Best Value", we have concluded that Mental Welfare Commission for Scotland is a 'less complex body' and therefore, carried out more limited wider scope work as set out in this Audit Plan.

Plan overview (continued)

04 Other audit matters

We summarise other audit matters for Audit, Performance and Risk Committee awareness. This includes:

- In accordance with the Code and planning guidance we also complete and submit a number of deliverables during the year, including sharing intelligence with Audit Scotland, and completing Audit Scotland data sets
- We provide a separate report to Audit Scotland to support the consolidation at a Scottish Government level.
- Consideration of going concern in accordance with Practice Note 10.

05 Our Audit Fee

Audit fees were shared by Audit Scotland with Mental Welfare Commission for Scotland in January 2024. Our fee agreed Mental Welfare Commission for Scotland is £23,880. This fee includes:

- Auditor remuneration £38,070;
- Pooled costs £4,480; and
- Sectoral cap adjustment of -£18,670.

Audit fees are paid to Audit Scotland who in turn pay Grant Thornton UK LLP. The auditors' remuneration includes £1,000 to cover all the work required to follow up on 2022/23 financial and disclosure amendments.

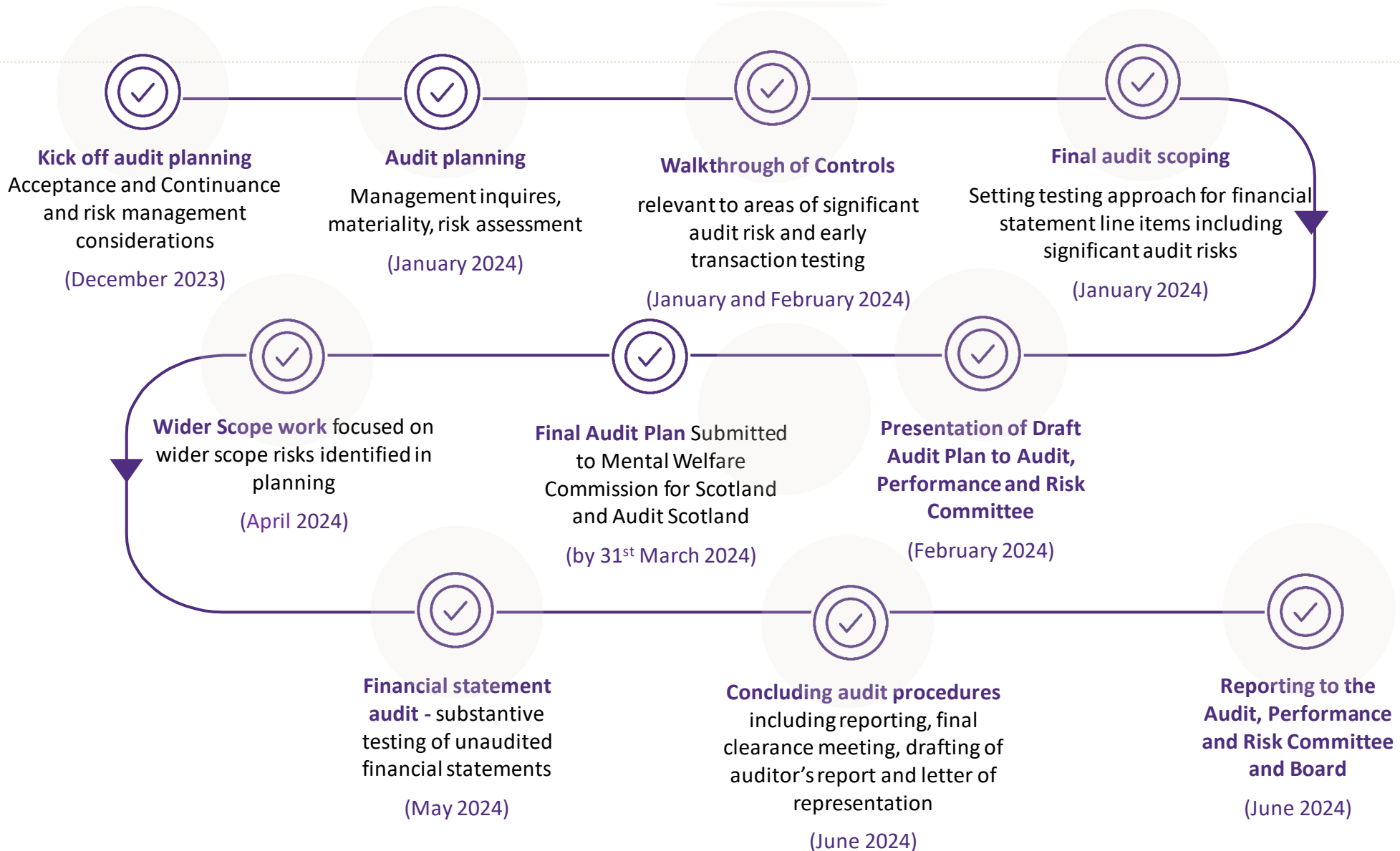
We reserve the right to review our fee during the audit should significant delays be encountered and/or new technical matters arise. The audit fee does not include any work on the new Scottish Government accounting system, and if any work is required for the 2023/24 audit, additional fees will be charged.

06 Adding Value Through the Audit

Our overall approach to adding value through the audit is clear and upfront communication, founded on our public sector credentials. We use our LEAP audit methodology and data analytics to ensure delivery of a quality audit.

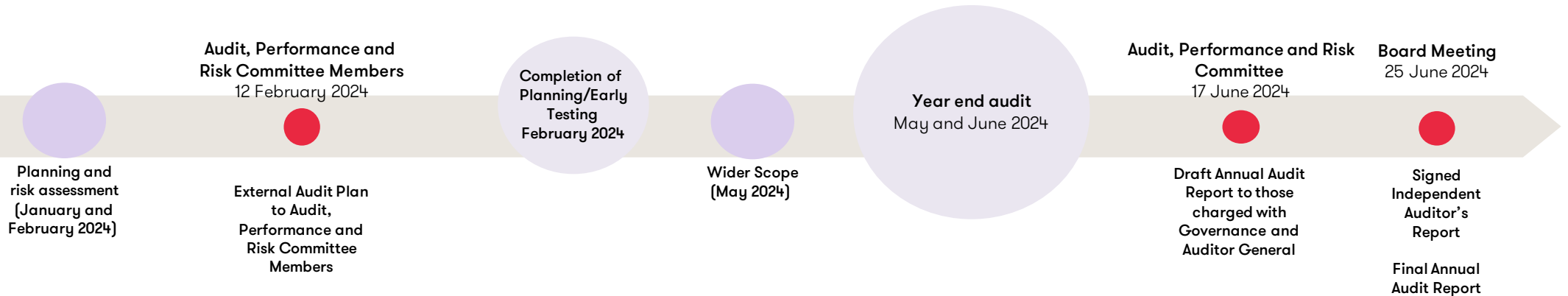
We aim to add value to Mental Welfare Commission for Scotland through our external audit work by being constructive and forward looking, by attending meetings of the Audit and Risk Committee and by recommending and encouraging good practice. In doing so, we will help Mental Welfare Commission for Scotland promote improved standards of governance, better management and decision making and more effective use of resources.

Audit approach



Audit timeline

We are required to submit audit plans to Audit Scotland by 31 March 2024, and it is anticipated that we will have drafted our Annual Audit Report and shared with management by 30 June 2024 in line with the Audit Scotland deadline. We have set out below our planned timescales for the Mental Welfare Commission for Scotland audit.



Audited body responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging our other audit engagements. Where additional resources are needed to complete the audit due to an audited body not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

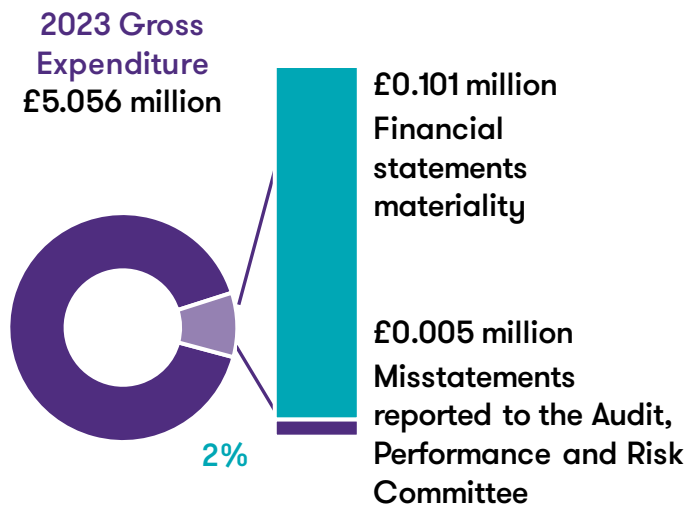
To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft accounts, comprising financial statements and related reports, of good quality, by the deadline you have agreed with us
- produce draft accounts that are complete with all adjustment included in the draft accounts
- prepare good quality working papers which support the figures included in the financial statements, in line with the working paper requirements schedule that we have shared with you, and make these available to us at the start of the year end audit visit
- provide all agreed data reports to us at the start of the audit, which are fully cleansed and reconciled to the figures in the financial statements
- ensure that all appropriate staff are available to us for queries over the planned period of the audit, or as otherwise agreed
- respond promptly and appropriately to all audit queries, within agreed timescales.

Receiving the draft accounts that are complete by the date agreed and working papers being available at the start of the audit are key. Our audit scheduling is such that we are staffed to complete the audit to the target deadlines and the impact of any client overrun impacts upon audit fees.

Materiality

Financial statement materiality is determined based on a proportion of gross expenditure. We have determined planning materiality to be £0.101 million (PY: £0.087 million), which equates to approximately 2% (PY: 1.75%) of gross expenditure as per the 2022/23 audited financial statements.



Performance materiality represents the amount set for the financial statements as a whole to reduce the probability that the aggregate of uncorrected and undetected misstatements exceed materiality. We use this to determine our testing approach to the financial statements. We have set this at 75% (PY: 65%) of planning materiality (£0.075 million). This is based on our understanding of Mental Welfare Commission for Scotland and our overall risk assessment procedures.

Materiality reflects our professional judgement of the magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements.

We apply a separate **lower materiality level of £25,000 (PY: £5,000)** to the auditable elements of the Remuneration and Staff Report.

Under ISA 260 (UK) 'Communication with those charged with governance', we are required by auditing standards to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. We have determined this threshold to be £5,100, being 5% (PY: 5%) of planning materiality.

We will revisit our materiality based on the unaudited 2023/24 financial statements when received in May 2024. During the course of our audit engagement, we will continue to assess the appropriateness of our materiality.

Significant audit risks

Significant risks are defined by ISAs(UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Management Override of Controls (as required by Auditing Standards – ISA (UK) 240)

As set out in ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements' there is a presumed risk that management override of controls is present in all entities. Our risk focuses on the areas of the financial statements where there is potential for management to use their judgement to influence the financial statements alongside the potential to override the entity's internal controls, related to individual transactions. Our work focuses on journals, critical estimates and judgements, including accounting policies, and unusual transactions.

We will:

- Document our understanding of and evaluate the design effectiveness of management's key controls over journals;
- Analyse your full journal listing for the year and use this to determine our criteria for selecting high risk journals;
- Test the high-risk journals we have identified;
- Gain an understanding of the critical judgements applied by management in the preparation of the financial statements and consider their reasonableness;
- Gain an understanding of the key accounting estimates made by management and carry out substantive testing on in scope estimates.
- Evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK) 315)

Significant audit risks (continued)

Risk of Fraud in Revenue (rebutted)

(As required within Auditing Standards- ISA (UK) 240)

As set out in ISA (UK) 240 (Revised May 2021), there is a presumed risk that revenue may be misstated due to improper recognition of revenue in all entities.

The risk of management manipulation and fraud is deemed to be low in relation to revenue received through Revenue Resource Allocations direct from Scottish Government with the opportunity for manipulation and the inherent risk of material misstatement in revenue recognition reduced. Given this is the only material revenue stream applicable to Mental Welfare Commission for Scotland, we rebut the risk of fraud in revenue.

Risk of Fraud in Expenditure (as recommended in Practice Note 10)

As set out in practice note 10 (Revised 2020) 'The Audit of Public sector Financial Statements', issued by the Public Audit Forum, which applies to all public sector entities, we consider there to be an inherent risk of fraud in expenditure recognition.

Mental Welfare Commission for Scotland's expenditure includes both payroll and non-payroll costs. We consider payroll costs to be well forecast and are able to agree these costs to underlying payroll systems. As such, we believe there is less opportunity for a material misstatement as a result of fraud to occur in this area.

We therefore focus our risk on the following non-payroll expenditure streams: other operating expenditure. Our testing will include a specific focus on year-end cut-off arrangements, including consideration of the existence of accruals and provisions, in relation to non-payroll/non finance expenditure.

We will:

- Evaluate your accounting policy for recognition of expenditure for appropriateness and compliance with the NHS Accounting Manual and FReM;
- Perform detail testing of expenditure transactions at and around year end to verify the accounting period transactions relate to and confirm that transactions have been recognised in the correct accounting period;
- Review the judgements and estimates made by management when recognising accruals and provisions at year end within the financial statements and where appropriate challenge management accordingly.

Other risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<p>Migration of data to the new finance system is not accurate and complete.</p>	<p>As part of its corporate transformation, the Scottish Government Shared Services Programme (SSP) is set to deliver a new HR and Finance system (Oracle Cloud), which replaces decades-old systems and is expected to provide shared services to the Scottish Government core and over 30 other public bodies including Mental Welfare Commission for Scotland.</p> <p>The go-live date for the project was April 2024 however, this has been delayed due to several issues and the new implementation date is to be confirmed.</p>	<p>Our initial planned audit procedures include:</p> <ul style="list-style-type: none"> Obtaining an understanding of the implementation position and updates in terms of the go-live date. <p>During the course of our audit engagement, we will continue to assess the appropriateness of our planned approach and update where appropriate.</p> <p>Our planned procedures are based on the expectation that the new finance system will be implemented after the 2023/24 accounts have been signed. If this is not the case, additional audit procedures will be required as part of the 2023/24 audit and additional audit fees will be required.</p>

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you, in our Annual Report to those Charged with Governance and the Auditor General for Scotland in June 2024.

Other matters (1)

Auditor Responsibilities

We have a number of audit responsibilities as set out in the Code and Planning Guidance 2023/24 issued by Audit Scotland:

- We audit parts of your Remuneration and Staff Report in your Annual Report and check whether these sections have been properly prepared (opinion).
- We read the sections of your Annual Report which are not subject to audit and check that they are consistent with the financial statements on which we give an opinion (opinion).
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set out in the FReM (opinion).
- We issue a separate "consistency with" opinion on your summarisation schedules which confirm whether the schedules are consistent with the audited financial statements.
- We consider our other duties under the Code and planning guidance (2023/24), as and when required, including:
 - Supporting Audit Scotland in Section 22 reporting
 - Providing regular updates to Audit Scotland to share awareness of current issues
 - Notifying Audit Scotland of any cases of money laundering or fraud
 - Informing the Shared Intelligence for Health and Social Care Group via a data return, presented and facilitated by Audit Scotland
 - Participating in the Audit Scotland NHS Sector group
 - Completing a data set provided by Audit Scotland to support NHS Overview reporting.
 - Completing an auditors National Fraud Initiative return to support Audit Scotland's next report, due to be published in summer 2024.
 - Review of NHS Technical guidance prior to issue by Audit Scotland.

Going concern assessment

As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

- whether a material uncertainty related to going concern exists; and
- the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

The Public Audit Forum has been designated by the Financial Reporting Council as a "SORP-making body" for the purposes of maintaining and updating Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (PN 10). It is intended that auditors of public sector bodies read PN 10 in conjunction with (ISAs) (UK).

PN 10 was updated in 2020 to take account of revisions to ISAs (UK), including ISA (UK) 570 (Revised September 2019) on going concern..

PN 10 allows auditors to apply a 'continued provision of service approach' when auditing going concern in the public sector, where appropriate. Audit Scotland's also issued further guidance in a Going Concern publication in December 2020).

Within our wider scope work, we will conclude on Mental Welfare Commission for Scotland arrangements to ensure financial sustainability.

Other matters (2)

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be considered as part of our audit. However, the procedures will not be as extensive as the procedures adopted for the significant risks we have identified and highlighted in this Audit Plan.

Internal control environment

During our initial audit planning we will develop our understanding of your control environment (design) as it relates to the preparation of your financial statements. In particular, we will:

- Consider key business processes and related controls
- Assess the design of key controls over all significant risks we have identified. This will include key controls over: other operating expenditure, journal entries and material areas of management estimate and judgement.

Our focus is on design and implementation of controls only. We do not intend to assess, or place any reliance on the operating effectiveness of your controls during our audit.

Financial reporting developments

We invited members of your finance team to our NHS audit workshops due to take place in February 2024.

During our audit we will actively discuss emerging financial reporting developments with you. The key financial reporting development for 2023/24 NHS audits that will impact upon Mental Welfare Commission for Scotland.

Progress against prior year audit recommendation

As part of our final account's procedures, we will follow up on the implementation of prior year audit recommendations and report on progress against the recommendations in full within our Annual Audit Report.

Interim testing

As part of our interim procedures, we will complete testing on a number of areas when efficient to do so, including:

- Payroll - starters, leavers and changes in circumstances (first nine months)
- Payroll substantive analytical procedure (first nine months)
- Operating expenditure (first nine months)

Wider scope exemption

Under the Code and supporting guidance: “Supplementary guidance - wider scope audit, less complex bodies and Best Value” issued by Audit Scotland, there is an exemption in relation to the normal wider scope audit requirements of the Code for public bodies which are smaller and have limited financial activity (referred to as “Less Complex Bodies”).

As required by the Code and this supporting guidance, we have assessed both the quantitative and qualitative risk factors related to Mental Welfare Commission for Scotland and concluded that Mental Welfare Commission for Scotland qualifies for this exemption for 2023/24. From a quantitative perspective the gross revenue, gross assets and gross liabilities of Mental Welfare Commission for Scotland are not expected to exceed the £10.2 million limit set out in Audit Scotland’s guidance, and from a qualitative perspective, we have not identified any wider scope risks beyond financial sustainability that would require further consideration during the audit. Our wider scope work at Mental Welfare Commission for Scotland will therefore be limited to the following areas specified for Less Complex Bodies in the Code:

Wider scope arrangements for less complex bodies set out in the 2021 Code

A review of the Annual Governance Statement

Concluding on the financial sustainability of the body and the services that it delivers over the medium to longer term

Financial Sustainability:

Mental Welfare Commission for Scotland receive annual funding settlements from the Scottish Government. For 2023/24, the written confirmation of funding was not received until the 29th August 2023 and at the date of this audit plan, the formal notification of funding for 2024/25 has yet to be confirmed. This is required to feed into the next three-year plan and adds difficulty into the forecasting process for Mental Welfare Commission for Scotland. We will seek to understand the future financial forecasts and plans for Mental Welfare Commission for Scotland for 2024/25 and beyond as part of our detailed wider scope work.

During our risk assessment and planning work, we reviewed key documentation including Board minutes, prior year reports, Internal Audit findings, risk registers and other pertinent information.

We will report our findings, conclusions and any recommendations in our Annual Audit Report.

Audit Fees

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing.

As a firm, we are absolutely committed to meeting the expectations of the FRC on audit quality and public sector financial reporting. This includes, for Audit Scotland contracts, meeting the expectations of the Audit Scotland Quality Team and the Scottish quality framework.

Audit fees were shared by Audit Scotland with Mental Welfare Commission for Scotland in January 2024. Our audit fee was agreed by the Head of Culture and Corporate Services and confirmed at the Audit, Performance and Risk Committee on 12 February 2024. Audit fees are paid to Audit Scotland who in turn pay us. We reserve the right to review our fee during the audit should significant delays be encountered including working papers not being available, the quality of accounts are not at the level required and/or new technical matters arise.

Relevant professional standards

Audit Scotland set the baseline audit fee. We can increase the fee, from the baseline, for the inclusion of additional risks, new technical matters or specific client matters identified including poor quality of accounts and working papers not being available. As part of the setting of the audit fee, auditors are able to use flexibility in resourcing the core manual annual activities. As the 2022/23 financial statements had a significant number of financial and disclosure amendments, additional work is required to follow up each issue and additional fee of £1,000 is sought from the outset.

We are required to consider all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's Ethical Standard (revised 2019) which state that the Engagement Lead must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Fee assumptions

In setting the fee for 2023/24, we have assumed that you will:

- prepare a good quality set of accounts, supported by comprehensive and well-presented working papers which are ready at the start of the audit
- produce draft accounts that are complete with all adjustment included in the draft accounts
- provide appropriate analysis, support and evidence for all critical and significant judgements and estimates made in preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements
- ensure that all appropriate staff are available to us for queries over the planned period of the audit, or as otherwise agreed.

Audit fees for 2023/24

Service	Fees £
External Auditor Remuneration	£38,070
Pooled Costs	£4,480
Sectoral cap adjustment	-£18,670
2023/24 Fee	£23,880

Additional Fees (Non-Audit Services)

Service	Fees £
At the planning stage, we confirm there are no planned non-audit services	Nil

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Independence

Auditor independence

Ethical Standards and ISA (UK) 260 'Communication with Those Charged With Governance' require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the Firm, or covered persons, relating to our independence.

We encourage you to contact us to discuss any independence issues, with us and will discuss the matter with you if we make any significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors of Mental Welfare Commission for Scotland that we are required to report or wish to draw to your attention.

We have complied with the Financial Reporting Council's Ethical Standard (Revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the 2019 Ethical Standard.

Our team complete annual fit and proper declarations, including independence confirmations, as well as confirming independence from individual audited bodies when completing timesheets. The work of our Ethics team is overseen by our Ethics partner and all staff undergo regular ethics training each year.

We confirm we are independent of Mental Welfare Commission for Scotland.

Non-audit services provided prior to appointment

Ethical Standards require us to draw your attention to relevant information on recent non-audit / additional services before we were appointed as auditor. We did not provide any non-audit or additional services to Mental Welfare Commission for Scotland prior to our appointment as auditors.



Responsibilities

The Code sets out auditor responsibilities and responsibilities of the audited body. Key responsibilities are summarised below. Please refer to the Code for further detail.

Mental Welfare Commission for Scotland

Your responsibilities include:

- Maintaining adequate accounting records and working papers
- Preparing accounts for audit, comprising financial statements, which give a true and fair view, and related reports
- Establishing and maintaining a sound system of internal control
- Establishing sound arrangements for proper conduct of affairs, including the regularity of transactions
- Maintaining standards of conduct for the prevention and detection of fraud and other irregularities
- Maintaining strong corporate governance arrangements and a financial position that is soundly based
- Establishing and maintaining an effective internal audit function.

External Audit

Our responsibilities include:

- Compliance with the FRC Ethical Standard
- Compliance with the Code and UK Auditing Standards (ISA's UK) in the conduct and reporting of our financial statements audit
- Compliance with the Code and guidance issued by Audit Scotland in the conduct and reporting of our wider scope work
- Providing assurance on specified returns and other outputs (where required), as specified in guidance issued by Audit Scotland
- Liaison with and notifying Audit Scotland when circumstances indicate a statutory report may be required.
- Contributing to relevant performance studies (as set out in Audit Scotland's Planning Guidance for 2023/24).



Communication

ISA (UK) 260 'Communication with Those Charged With Governance', as well as other ISAs set out prescribed matters which we are required to report to those charged with governance (the Audit, Performance and Risk Committee). Our reporting responsibilities are set out below. We communicate all matters affecting the audit on a timely basis, to management and/or the Audit, Performance and Risk Committee.

	Audit Plan	Annual Report (our ISA 260 Report)
Our communication plan		
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, including planning assessment of audit risks and wider scope risks	•	
Confirmation of independence and objectivity	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant matters in relation to going concern	•	•
Matters in relation to the audit, including: Scope of work on components, involvement of auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the audit, fraud or suspected fraud	•	•
Views about the qualitative aspects of Mental Welfare Commission for Scotland's accounting and financial reporting practices, including accounting policies, accounting estimates and financial statement disclosures		•
Significant findings from the audit		•
Significant matters and issues arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report or emphasis of matter		•

Fraud responsibilities

ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements' came into force for accounting periods commencing on or after 15 December 2021. Requirements in ISA (UK) 240 (Revised May 2021) have been enhanced for the identification and assessment of risks of material misstatement due to fraud and the response to those risks.

The term fraud refers to intentional acts of one or more individuals amongst management, those charged with governance, employees or third parties involving the use of deception that result in a material misstatement of the financial statements. In assessing risks, the audit team is alert to the possibility of fraud at Mental Welfare Commission for Scotland.

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance including establishing and maintaining internal controls over the reliability of financial reporting effectiveness and efficiency of operations and compliance with applicable laws and regulations.

It is Mental Welfare Commission for Scotland's responsibility to establish arrangements to prevent and detect fraud and other irregularity. This includes:

- developing, promoting and monitoring compliance with standing orders and financial instructions
- developing and implementing strategies to prevent and detect fraud and other irregularity
- receiving and investigating alleged breaches of proper standards of financial conduct or fraud and irregularity.

As auditors, we are required to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. Due to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

As part of our risk assessment procedures, we are required to:

- identify and assess the risks of material misstatement in the financial statements due to fraud, including financial misreporting and misappropriation of assets.
- hold separate discussions with management, those charged with governance and others (as appropriate) to gain insights on their views of fraud.

Fraud responsibilities (continued)

During our audit work we will:

- design and implement appropriate audit procedures to respond to the risks of misstatement we have identified and reported in this Audit Plan
- remain alert to new risks and amend our risk assessments accordingly
- respond appropriately to any risks identified.

Throughout the audit we work with you to consider the significant risks we identify, including the operation of key financial controls. We also examine the policies in place, strategies, standing orders and financial instructions to ensure that they provide a strong framework of internal control. We will report to you any significant deficiencies we identify.

In addition, as set out in the Audit Scotland Planning Guidance 2023/24 ,we are required to:

- provide information on fraud cases to Audit Scotland on a quarterly basis
- communicate emerging issues to Audit Scotland, and
- contribute to the National Fraud Initiative report

Anti-Money Laundering Arrangements

As required under the Money Laundering, Terrorist Financing and Transfer of Funds Regulations 2017 there is an obligation on the Auditor General (as set out in the Audit Scotland Planning Guidance for 2023/24) to inform the National Crime Agency if he knows or suspects that any person has engaged in money laundering or terrorist financing. Should we be informed of any instances of money laundering at Mental Welfare Commission for Scotland we will report to the Auditor General as required by Audit Scotland.

IT audit strategy

In accordance with ISA (UK) 315 Revised, we are required to obtain an understanding of the information systems relevant to financial reporting to identify and assess the risks of material misstatement. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs), our audit will include the completion of an assessment of the design and implementation of relevant ITGCs.

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach, we will perform the indicated level of assessment.

IT system	Audit area	Planned level IT audit assessment
Scottish Executive Accounting System (SEAS)	Financial Reporting Payroll	<ul style="list-style-type: none"> Review of Audit Scotland Management's Report ITGC Assessment
PECOS	Operating Expenditure	<ul style="list-style-type: none"> ITGC Assessment

Future auditing developments

There are changes to the following ISAs (UK) which will impact on NHS audits for the first time.

Revised standards applicable for audits of financial statement for periods commencing on or after 15 December 2022 which will impact on Mental Welfare Commission for Scotland for the first time in 2023/24 are:

- ISQM (UK) 2 (Issued July 2021) 'Engagement Quality Reviews'
- ISA (UK) 220 (Revised July 2021) 'Quality Management for an Audit of Financial Statements'

A summary of the impact of the key changes on various aspects of the audit is included below:

Area of change	Impact of changes
Quality control	<ul style="list-style-type: none"> • ISQM 2 deals with the appointment and eligibility of the engagement quality reviewer (EQR) and the EQRs responsibilities relating to the performance and documentation of an engagement quality review. • The objective of the firm, through appointing an EQR, is to perform an objective evaluation of the significant judgments made by the engagement team and the conclusions reached thereon. • The objective of the auditor is to implement quality control procedures at the engagement level that provide the auditor with reasonable assurance that the audit complies with professional standards and applicable legal and regulatory requirements; and the auditor's report issued is appropriate in the circumstances.
Direction, supervision and review of the engagement	<ul style="list-style-type: none"> • Greater responsibilities, audit procedures and actions are assigned directly to the engagement lead, resulting in increased involvement in the performance and review of audit procedures.
Documentation	<ul style="list-style-type: none"> • The amendment to these auditing standards will result in additional documentation requirements to demonstrate how these requirements of these revised standards have been addressed.

