



Care Inspectorate

External Audit Plan for the financial year ending 31 March 2018

Audit Committee 8 March 2018

Joanne Brown
Engagement Leader

John Boyd
External Audit Senior
Manager



Our audit at a glance



We fulfil our responsibilities per ISAs (UK) and the Audit Scotland Code of Audit Practice throughout our work.



Materiality is set at 2% of gross expenditure based on 2016/17 audited information. Previous year it was 1% of gross expenditure reflecting the first year of our audit appointment.



Significant audit risks are: management override of controls; and the risk of fraud in revenue as set out in International Auditing Standards (ISAs UK and Ireland)

An audit underpinned by quality and adding value to you



Performance materiality is set at 75% and trivial is 5% of materiality. This reflects minimal audit adjustments in prior year and our understanding of the Care Inspectorate in a year 2 of our audit cycle.



At the planning stage we have identified other areas of audit focus around accounting for the defined benefit pension scheme.



Our audit is undertaken in accordance with the Code of Audit Practice. We do not consider a full wider scope audit scope is appropriate to the Care Inspectorate. However, we will consider the Care Inspectorate's financial sustainability and governance arrangements as part of our audit

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Overarching principles of our audit

Our audit is risk based and undertaken in accordance with the relevant International Auditing Standards (ISAs) (UK and Ireland) and the Audit Scotland Code of Audit Practice 2016.

Our overall objective is a robust, quality-focused external audit which adds value through wider insights and challenge. Our audit foundations are:

- professional scepticism
- a focus on audit risks and key areas of management judgement
- sharing our wider insights across the sector (Scotland and UK)
- use of specialists to support our work where relevant
- using IDEA our data analytical software to effectively and efficiently test your balances
- clear and upfront communications, with regular updates during the year
- clear reporting with focused actions which will support you in improving your controls/operations
- we will liaise effectively with Internal Audit.

Adding value

Specific areas we will look to add value to the Care Inspectorate 2017/18, identified as part of our planning work and reflection on prior year include:

- We will act on the 'learning the lessons' sessions we held after the first year audit.
- We will actively share relevant Audit Scotland and Grant Thornton publications with Senior Management and the Audit Committee, identifying particular areas for consideration.
- Should any new accounting changes or governance updates emerge during the year we will providing a briefing for the Audit Committee. We will also pro-actively work with management during the year to discuss any emerging matters and seek to reach agreement on the treatment of these in advance of year-end.
- We will share the Scottish Public Sector Transparency report we produced for Audit Scotland at the end of December 2017, alongside our UK Grant Thornton Transparency Report.



External Audit deliverables for 2017/18 – Audit Committee

- External Audit Plan (this document)
- Governance and Transparency report and audit quality briefing (May Audit Committee)
- Annual Report to those Charged with Governance (September 2018)
- Audit opinion (September 2018)
- Management letter of representation (September 2018)



2017/18 Deliverables as set out in the Audit Scotland planning guidance (October 2017)

- Confirmation of agreed fee by end of February 2018 and submission of final plan
- Current issues return for Central Government to Audit Scotland (19 January 2018 and 20 July 2018)
- National Fraud Initiative - completed Auditor checklist (February 2018)
- Submission of fraud returns to Audit Scotland – 27 April 2018



Planned Audit Scotland publications which may be relevant to the Care Inspectorate

- Digital developments and projects – risks and issues
- Supporting Scotland's economic growth (Spring 2018) – Auditors impact assessment return

Audit approach and materiality

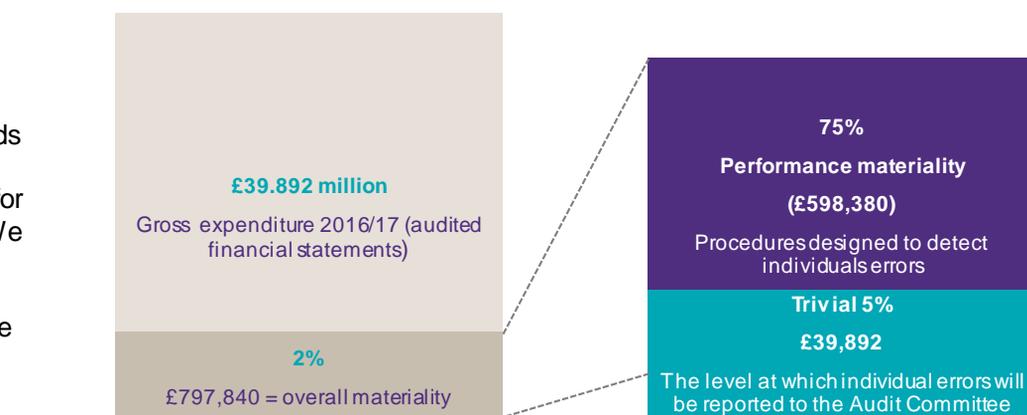


We undertake your audit in accordance with International Standards in Auditing (UK) (ISAs) and the Audit Scotland Code of Audit Practice (May 2016). On an annual basis we are required to give an opinion as to whether the Financial Statements:

- give a true and fair view
- have been properly prepared in accordance with relevant legislation and standards
- the wider information contained in the annual report and accounts e.g. Performance Report, the Accountability report including the Corporate Governance Report and Governance Statement, management commentary, that are consistent with the disclosures in the financial statements
- regularity of expenditure
- audited parts of the remuneration and staff report have been prepared in accordance with the guidance

Materiality

In performing our audit we apply International Standards on Auditing (UK) 320: *Materiality*. Our materiality for 2017/18 is shown below. We will revise this on receipt of the unaudited financial statements for 2017/18 once received.



Overall materiality

We have calculated overall materiality in line with gross expenditure, as is recognised as a common measure in the public sector. This is in line with prior year. As this is our second year of the audit, and taking into account the level of errors and adjustments in prior year, and the context of your activities we feel it is appropriate to increase our materiality benchmark to 2% (1% in 2016/17). Under our audit methodology we typically set materiality within the benchmark range of 0.5% up to 2%.

Trivial

Under ISA 540 we are required to set an amount below which we consider misstatements would be clearly trivial, and therefore when accumulated we would not expect that they would have a material impact on the financial statements. Misstatements identified below this level would not be reported to the Audit Committee (in their role as those charged with governance).

Misstatements above trivial (corrected and uncorrected) will be reported to the Audit Committee in our Annual Report to those charged with governance.

Performance materiality

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. Based on our audit experience in 2016/17 we have increased this for 2017/18 to 75% (65% in prior year). This does not impact on the financial statement balances we undertake substantive testing on, as all balances are in scope per prior year, but will impact on sample sizes.

Going concern considerations

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

We will review management's assessment of the going concern assumption and evaluate the disclosures in the financial statements.

A risk based audit methodology

Our understanding of the Care Inspectorate

This is the second year as external auditors of the Care Inspectorate appointed under the Audit Scotland framework. In 2017, the Care Inspectorate received £22.896 million of grant in aid and generated £13.545 million of operating income through fees and charges to service providers and other income.

The Care Inspectorate is responsible for the scrutiny and improvement of health care provision within Scotland. The Corporate Plan 2016-18 outlines the key strategic objectives with each underpinned by key priorities of the organisation over the next 2 years.

Recent legislative and social policy changes are beginning to embed, impacting on how care provision across Scotland. This includes legislation to aid joint working arrangements to promote the integration of health and social care and development and forthcoming roll-out of the Health and Social Care Standards. Demographic changes, such as an ageing population, are likely to increase the level of future demand for care services. The Care Inspectorate set a balanced budget for 2017/18 however for 2018/19 and beyond achieving financial balance will be challenging. The organisation recognises that its operating model must continue to evolve to ensure that the Inspectorates work is appropriately informed, risk based and targeted to maximise the use of its resources to allow it to deliver its statutory functions and support the continuous improvement of care across Scotland.

Overview of our audit risks identified at planning and our proposed approach

	Risk of fraud in revenue	Risk of fraud in expenditure	Management override of controls
The Risk	As set out in ISA 240, there is a presumed risk that revenue may be misstated due to improper recognition of revenue. Grant Funding from the Scottish Government is well forecast and agreed directly to funding award letters and is therefore inherently lower risk of fraud. Our presumed risk focuses on fees and charges. We consider the risk to be prevalent around the year end and therefore focus our audit work on transactions around the year end.	Operating expenditure is understated or not treated in the correct period (risk of fraud in expenditure). Asset out in Practice note 10 (revised) which applies to public sector entities.	As set out in ISA 240, across all entities there is a presumed risk of fraud being perpetrated by management through its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Override of controls is present in all entities.
Our planned response	<ul style="list-style-type: none"> Walkthroughs of the controls and procedures around material income streams and validation of key controls where appropriate Agree income in year to supporting receipts/invoices/cash Consider income cut off procedures and substantive testing over pre and post year end balances A focus on recoverability of balances at the year end 	<ul style="list-style-type: none"> Perform cut off at year end on pre and post year end transactions and recording Walkthrough of the key expenditure controls in place Regularity – Expenditure incurred in accordance with the type/nature of the Care Inspectorate as an organisation 	<ul style="list-style-type: none"> A focus on understanding how/where management override of controls may occur Review of the controls over journal entries Understanding key areas of judgement and estimation within the financial statements and the basis for these judgements and the application of accounting policies Reviewing unusual and/or significant transactions

A risk based audit methodology continued

Other areas of audit focus

Through our audit planning process we identify areas and accounts that due to the nature of a transaction, disclosure or account balance in the financial statements that are inherently more at risk of material misstatement within the financial statements. While we do not consider these to represent significant risk we highlight them as areas of specific audit focus.

Overview of other areas of audit focus identified at planning and our proposed approach

Pension scheme liabilities

The Risk

The Care Inspectorate participate in the Tayside Superannuation Fund defined benefit pension scheme. The Care Inspectorate recognises its share of the defined benefit pension scheme assets and liabilities. These are valued through an actuarial valuation. As at 31 March 2017 the Care Inspectorate recognised a net pension liability of £48.509 million. While we have no underlying concerns around the historic accounting treatment, given the scale of the liability recognised and level of judgement in the assumptions used in the actuarial valuation the pension scheme liability is an area of increased inherent risk. Management obtain an independent actuarial valuation to support the year end balance and we have no underlying concerns around the basis of the approach adopted in previous years.

Our planned response

- Review of accounting treatment adopted by the Care Inspectorate for post employment benefits and confirm that it complies with the FReM and IAS 19: *Employee benefits*.
- Confirming that the valuation is consistent with the actuaries' valuation and that the actuarial assumptions underpinning the valuation are reasonable and reflective of the Care Inspectorate's circumstances.

Applying a lower materiality to specific balances

During the course of our audit we may apply a lower level of materiality to specific balances or transactions in the financial statements. This reflects areas where there is a greater degree of interest or sensitivity on the amounts reported in the financial statements for example the remuneration report.

Wider Scope – Smaller Body approach

For smaller bodies the Audit Scotland Code of Practice permits auditors to not apply the full wider scope audit. In our judgement, taking into account the nature of the Care Inspectorate's operating activity and income and expenditure streams, we feel it is appropriate to treat you as a smaller body under the Code. However, we will update our understanding of your arrangements for ensuring financial sustainability as well as your governance arrangements in place to support the deliver of the Inspectorate's strategic outcomes as part of our audit.

Appendices

Key audit deliverables and our team

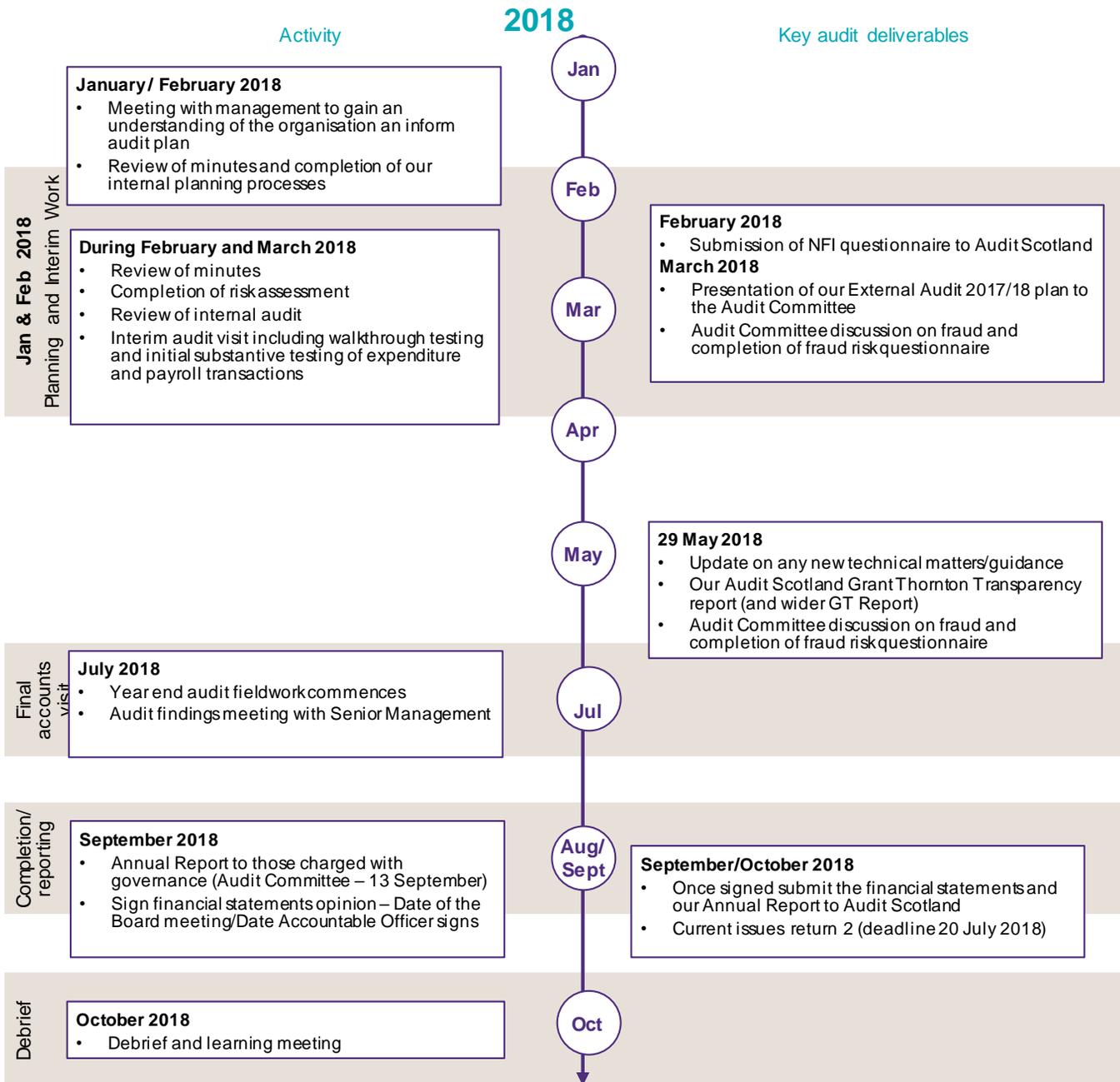
Independence and fees

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Key audit deliverables and our team



Our team

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Fees and independence

External Audit Fee

Service	Fees £
External Auditor Remuneration	24,420
Pooled Costs	5,950
Contribution to Audit Scotland costs	1,490
Contribution to Performance Audit and Best Value	0
2017-18 Fee	31,860

Fees for other services

Service	Fees £
At planning stage we confirm there are no non-audit fees	Nil

The audit fee is calculated in accordance with guidance issued by Audit Scotland. In accordance with the Audit Scotland guidance we can increase the fee by up to 10% from the base fee set by Audit Scotland, depending on risk factors identified by us as your external auditors. We cannot reduce the fee from the baseline set out by Audit Scotland. The above proposed fee, set at the base fee, has been agreed with management. The fee is based on the following assumptions:

- supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- the scope of the audit, and the Care Inspectorate's activities will not change significantly from planned
- The Care Inspectorate will make available management and accounting staff to help us locate information and to provide explanations. We reserve the right to charge an additional fee for any additional work.
- We will only receive (and audit) 3 sets of accounts (1st draft; amended draft and final)
- Specific balances such as pensions and valuations of assets are supported by an independent specialist

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention.

We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Annual Report to those charged with governance at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

We are required by auditing and ethical standards to communicate any relationships that may affect the independence and objectivity of the audit team.

We can confirm no independence concerns have been identified.

Fraud arrangements

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 the Care Inspectorate.

As part of our audit work we are responsible for:

- identifying and assessing the risks of material misstatement of the financial statements due to fraud in particular in relations to management override of controls.
- Leading a discussion with those charged of governance (for the Care Inspectorate this is assumed to be the Audit Committee) on their view of fraud. Typically we do this when presenting our audit plan and in the form of management and those charged with governance questionnaires.
- designing and implementing appropriate audit testing to gain assurance over our assessed risks of fraud
- responding appropriately to any fraud or suspected fraud identified during the audit.

As auditors we obtain reasonable but not absolute assurance the financial statements as a whole are free from material misstatement, whether due to fraud or error.

We will obtain annual representation from management regarding managements assessment of fraud risk, including internal controls, and any known or suspected fraud or misstatement.

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 the Care Inspectorate'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.

Throughout the audit we work with the Care Inspectorate to review specific areas of fraud risk, 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.

In addition, as set out in the Audit Scotland Code of Audit Practice we have a role in reviewing the Care Inspectorate's arrangements in response to the national fraud initiative exercise.

All suspected frauds and/or irregularities over £5,000 are reported to Audit Scotland by us as your auditors on an annual basis (no later than end of April 2018)

Respective responsibilities

As set out in the Code of Audit Practice (pages 10 to 16) there are a number of key responsibilities you as an organisation are responsible for, and others, as appointed auditors we are responsible for. These are summarised below:

Area	The Care Inspectorate's Responsibilities
Corporate governance	<ul style="list-style-type: none"> Establishing arrangements for proper conduct of its affairs Legality of activities and transactions Monitoring adequacy and effectiveness of arrangements (inc role of those charged with governance)
Financial statements	<ul style="list-style-type: none"> Preparing financial statements which give a true and fair view of their financial position Maintaining accounting records and working papers Putting in place systems of Internal Control Maintaining proper accounting records Preparing and publishing an annual governance statement, management commentary and remuneration report Effective systems of internal control as well as financial, operational and compliance controls – supporting achievement of objectives and secure value for money
Financial position	<ul style="list-style-type: none"> Proper arrangements to ensure financial position is soundly based and responsibility to ensure arrangements secure best value
Fraud and error	<ul style="list-style-type: none"> Establishing appropriate arrangements for prevention and detection of fraud, error, irregularities, bribery and corruption and affairs are properly managed

Our responsibilities



- Undertake statutory duties and comply with professional engagement and ethical standards
- Provide an opinion on financial statements
- Review and report on, as appropriate, other information eg annual governance statements, management commentary, remuneration reports
- Notify the Auditor General when circumstances indicate a statutory report may be required
- Demonstrate compliance with wider public audit scope

How do we do this in practice



- By reviewing and providing judgements and conclusions on the Care Inspectorate's arrangements including those across the wider scope of audit dimensions.
- Consideration of the effectiveness of performance management arrangements
- Suitability and effectiveness of corporate governance arrangements in year
- Financial position and arrangements for ensuring financial sustainability in the medium to longer term
- Review of other information in line with our knowledge and understanding of the Care Inspectorate
- Ongoing dialogue and engagement with Audit Scotland during the year

Weaknesses and risks identified by us as your auditors are only those which have come to our attention during our normal audit work in accordance with the Code, and may not be all that exist. Communication by us 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.

Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
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	•	•
Views about the qualitative aspects of the Care Inspectorate 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		•

International Standards on Auditing (UK) (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table above.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while our Annual Report to those Charged with Governance will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Care Inspectorate Management and the Audit Committee.



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