



Care Inspectorate

External Audit Plan for the financial year ending 31 March 2019

Audit Committee 7 March 2019

Final Plan

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Engagement Leader

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Audit In-charge



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 the budgeted 2018/19 expenditure (£751,380), which is consistent with prior year.

This is based on our assessment of what misstatement either individually or in aggregate could be considered significant as to be misleading to the users of financial statements.



Significant audit risks are: management override of controls and revenue recognition as set out in International Standards on Auditing (ISAs UK) and expenditure recognition as set out in Financial Reporting Council (FRC) Practice Note 10.



Performance materiality is set at 75% and trivial is 5% of materiality.

This reflects no uncorrected misstatements in prior year and our understanding of Care Inspectorate in year 3 of our audit cycle.

An audit underpinned by quality and adding value to you



At the planning stage and throughout our fieldwork, we will continue to develop our understanding of the overall control environment as related to the financial statements, with a focus on; procedures and controls around related parties, journal entries, payroll and other key entity level controls.



Our audit is undertaken in accordance with the Code of Audit Practice.

We do not consider a full wider scope audit to be appropriate to the Care Inspectorate. However, we will consider the Care Inspectorates 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 International Standards on Auditing (ISAs) (UK) and the Audit Scotland Code of Audit Practice 2016 ('the Code').

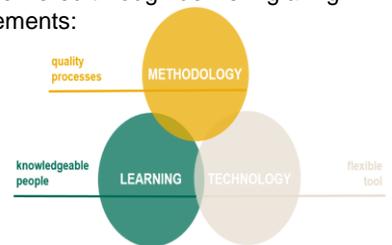
Our overall objective is a effective, quality-focused external audit which adds value through wider insights and challenge. Our audit foundations are:

- ✓ professional scepticism
- ✓ a focus on audit risks and key areas of management judgement
- ✓ Delivering a quality audit through our experienced public sector audit team, use of data analytics to focus our audit and understanding of the organisation
- ✓ clear and upfront communications, with regular communication during the year
- ✓ reporting with focused actions which will support you in improving your controls/operations

Adding value

Our aim is to add value to Care Inspectorate through our external audit work. This will be delivered through delivering a high quality audit. Specifically for Care Inspectorate we will also undertake the following arrangements:

- **Robust and effective audit methodology:** Our ISA compliant audit methodology is tailored to **focus audit resource on significant risk areas** and key estimates and judgements.
- **Investing in our people:** Our resourcing model is designed to ensure you have a **skilled, Public Sector experienced and knowledgeable audit team**.
- **Investing in technology:** We continue to invest in data analysis and audit software to deliver an **efficient ISA compliant audit processes**.



We will share relevant Audit Scotland and Grant Thornton publications with Senior Management and the Audit Committee, identifying particular areas for consideration. We will pro-actively work with management during the year to discuss any new or emerging matters, such as the new applicable standards per the FReM; Revenue (IFRS15) and Financial Instruments (IFRS9).

Audit timeline



Key audit deliverables

2018/19 Deliverables as set out in the Audit Scotland planning guidance (October 2018)

- Confirmation of agreed fee by end of February 2019.
- Annual quality report to the Auditor General and Accounts Commission (January 2019).
- Current issues return for Central Government to Audit Scotland (21 January 2019 and 19 July 2019).
- National Fraud Initiative – completed Auditor questionnaire (30 June 2019)
- Submission of fraud cases to Audit Scotland on a quarterly basis.
- Submission of annual audit report and audited accounts (deadline 31 October 2019).

Planned Audit Scotland publications which may be relevant to Care Inspectorate

- Digital progress in central government and health (reporting early 2019/20).
- Modern Apprenticeships.

External Audit deliverables for 2018/19 – Audit Committee

- External Audit Plan (this document).
- Annual Report to those Charged with Governance (September 2019).
- Audit opinion (September 2019).
- Management letter of representation (September 2019).

Materiality



We undertake your audit in accordance with International Standards on 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
- audited parts of the remuneration and staff report have been prepared in accordance with the guidance
- regularity of expenditure and income
- the wider information contained in the financial statements e.g. Accountability Report; Directors Report and Governance Statement is consistent with our audit knowledge and the financial statements

Basis for materiality

We calculated financial statement materiality based on the Care Inspectorate total budget for 2018/19 (£37.569 million). We have determined materiality to be **£751,380** which equates to approximately **2%** of your total budget for 2018/19. This is based on our judgement of what we consider to be material to the users of the accounts based on understanding of Care Inspectorate.

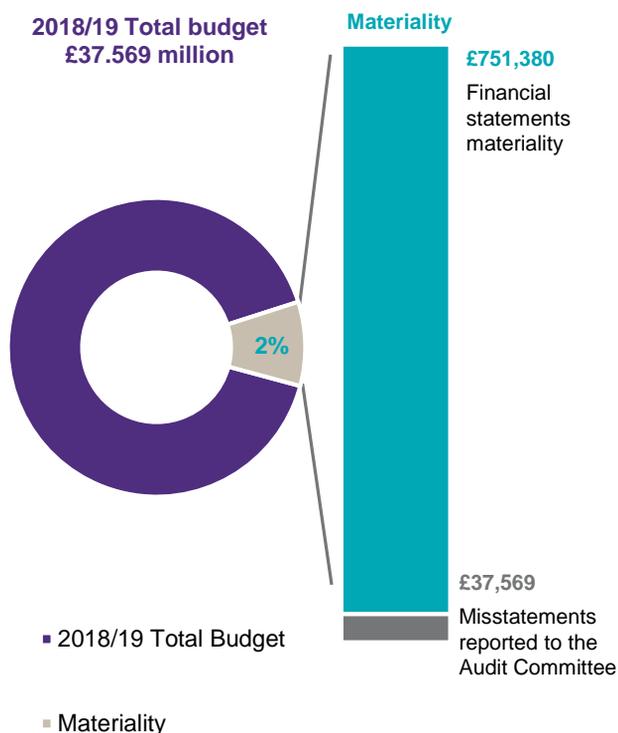
We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

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 2017/18, we have set performance materiality at **75%** of total materiality and this remains unchanged from prior year. Performance materiality determines the level of sample testing performed where applicable.

Reporting to those charged with governance

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are required 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 **£37,569**.



A risk based audit methodology

This is the third year as external auditors of the Care Inspectorate appointed under the Audit Scotland framework. In 2017/18 Care Inspectorate received £21.389m of grant in aid and generated £13.741m of operating income through fees and charges through service providers and other income.

Care Inspectorate is responsible for the scrutiny and improvement of health and social care provision within Scotland.

Recent legislative and social policy changes are beginning to embed, impacting on care provision across Scotland. This includes legislation to aid joint working arrangements to promote the integration of health and social care with Scotland's Health and Social Care Standards coming into effect 1 April 2018, replacing the National Care Standards. Demographic changes, such as an ageing population, are likely to increase the level of future demand for care services.

The Care Inspectorate budget for 2018/19 was approved with a budget deficit of £1.454 million to be funded from the general reserve balance. For 2019/20 and beyond achieving financial balance will be challenging and will require good management. Care Inspectorate have appointed a new Chief executive who started in January 2019. Additionally, Care Inspectorate have received £2.3 million from the Scottish Government for their ICT development which they are utilising on an agile basis, with money being drawn down as needed over the time period. From 2020/21 Care Inspectorate are required to pay the additional funding back, 25% per annum based on the efficiency savings they will generate.

Significant 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.

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

	Management override of controls	Risk of fraud in revenue	Risk of fraud in expenditure
The Risk	<p>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. Management override of controls is present in all entities.</p>	<p>As set out in ISA 240, there is a presumed risk that revenue may be misstated due to improper recognition of revenue.</p> <p>The Care Inspectorate budget is agreed with Scottish Government with very little change occurring to the agreed budget and therefore there is an inherently lower risk of fraud.</p> <p>Our presumed risk focuses on fees and charges. Care Inspectorate charges fees to care service providers applying to register a service and once registered an annual continuation of registration fee is charged. Fees charged in 2017/18 were £11.911 million. We consider the risk to be prevalent around the year end and therefore focus our audit work on transactions around the year end.</p>	<p>Operating expenditure is understated or not treated in the correct period (risk of fraud in expenditure) as set out in Practice note 10 (revised) which applies to public sector entities.</p>
Our planned response	<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. 	<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 Care Inspectorate as an organisation.

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, confirming these are appropriate through our substantive testing.

Working with Internal Audit

We will aim to not duplicate the work of the Scott Moncrieff. We will consider the internal audit plan for 2018/19 and identify any particular areas of risks that we either need to reflect in our approach or are relevant to our wider scope audit work. We will continue to consider the work of internal audit throughout the year and maintain an ongoing, open dialogue with internal audit.

Internal control environment

Throughout our audit planning and fieldwork we will continue to develop our understanding of the overall control environment (design) as related to the financial statements. In particular we will:

- Consider procedures and controls around related parties, journal entries and other key entity level controls. In particular placing reliance on the work of Audit Scotland in their role of Scottish Government external auditors.
- Perform walkthrough procedures on key controls around identified risk areas including payroll expenditure (as approx. 78% of Care Inspectorate costs relate to staff), other expenditure, journal entries and material areas of management estimate and judgement.

Wider scope - Significant risk considerations

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 Care Inspectorate operating activity and income and expenditure streams, we feel it is appropriate to continue to treat you as a smaller body under the Code. However, in accordance with Audit Scotland planning guidance, we will update our understanding of your arrangements for ensuring financial sustainability as well as your governance arrangements in place to support disclosures contained within the annual governance statement included within your financial statements.

We made a recommendation within our 2017/18 Audit Report regarding the shared services with SSSC. We will follow up on how our recommendation is being implemented, reporting on progress as part of our annual audit report following the 2018/19 audit.

Audit Scotland Planning guidance – areas for auditor consideration

Audit Scotland Audit Planning guidance outlines certain areas for consideration. We will consider the following areas, where relevant to Care Inspectorate, and comment in our annual report as appropriate.

- EU Withdrawal;
- Changing landscape for public financial management;
- Dependency on key suppliers; and
- Openness and transparency.

Appendices

Key audit deliverables and our team

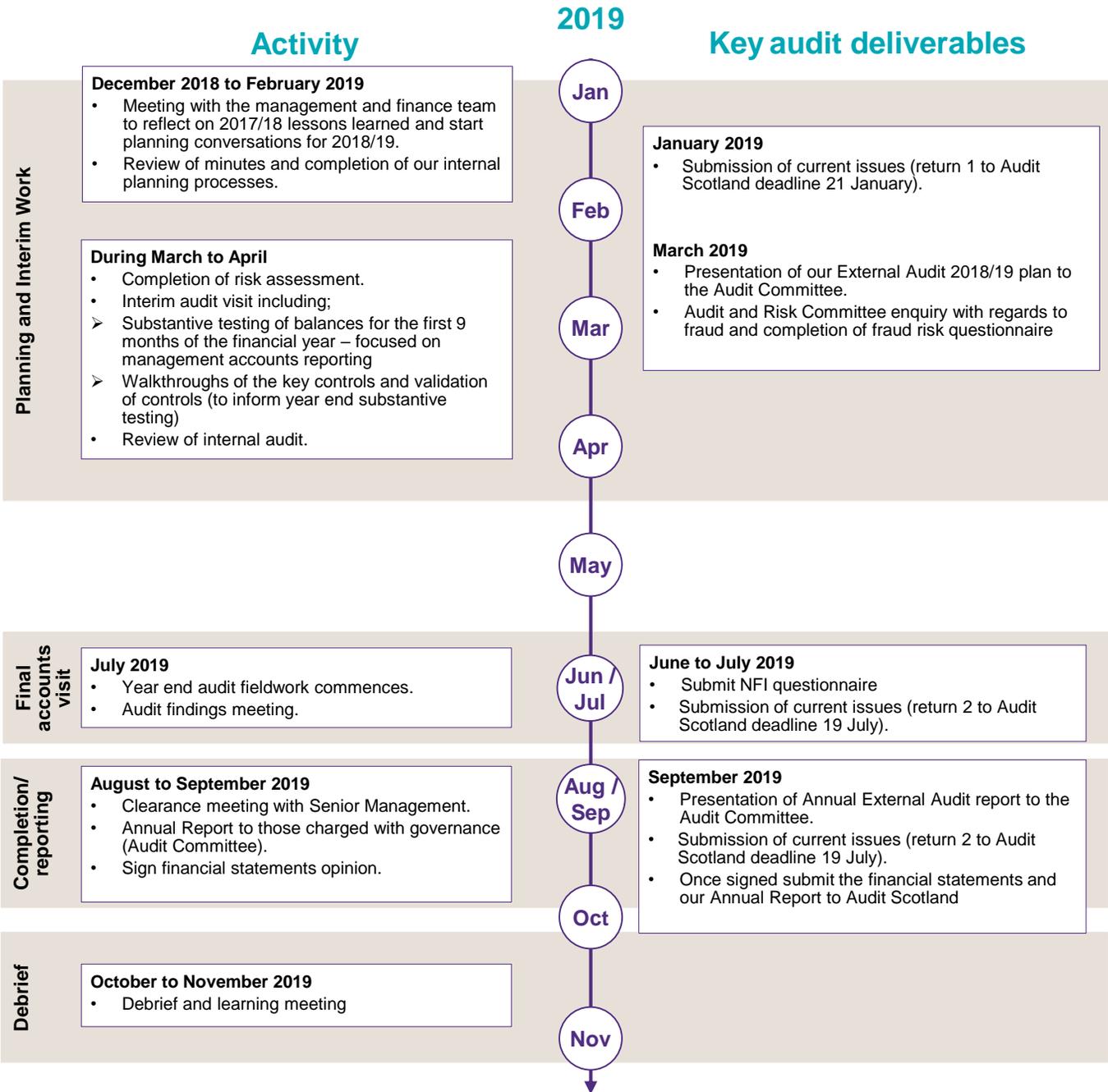
Fees and independence

Fraud arrangements

Respective responsibilities

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Key audit deliverables and our team



Our team

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|---|--|--|
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Fees and independence

External Audit Fee

Service	Fees £
External Auditor Remuneration	24,990
Pooled Costs	6,010
Contribution to Audit Scotland costs	1,500
Contribution to Performance Audit and Best Value	0
2018-19 Fee	32,500

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 Care Inspectorate activities will not change significantly from planned
- 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).

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.

Client Service

We take our client service seriously and continuously seek your feedback on our external audit service. Should you feel our service falls short of expected standards please contact Joanne Brown, Head of Public Sector Assurance Scotland in the first instance who oversees our portfolio of Audit Scotland work (joanne.e.brown@uk.gt.com). Alternatively, should you wish to raise your concerns further please contact Jon Roberts, Partner and Head of Assurance, 30 Finsbury Square, London, EC2A 1AG. If your feedback relates to audit quality and we have not successfully resolved your concerns, your concerns should be reported to Elaine Boyd, Assistant Director, Audit Scotland Quality and Appointments in accordance with the Audit Scotland audit quality complaints process.

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 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 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 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 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.

All suspected frauds and/or irregularities over £5,000 are reported to Audit Scotland by us as your auditors on a quarterly basis.

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 planning guidance) to inform the National Crime Agency if she 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 Care Inspectorate we will report to the Auditor General as required by Audit Scotland.

Respective responsibilities

As set out in the Code of Audit Practice 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	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 and where appropriate regularity of transactions
- 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 the Code of Practice and Auditing standards

How do we do this in practice



- Consideration of adequate disclosures in the annual governance statement.
- 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 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.

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

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 Care Inspectorate'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		•

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 Care Inspectorate Management and the Audit Committee.

