



# Care Inspectorate

## External Audit Annual Report to the Board and the Auditor General for Scotland for the financial year ended 31 March 2020

Audit Committee – 10 September 2020 and updated for the Board on 30 September 2020

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# Our audit at a glance



We received a good complete set of financial statements at the outset of the audit. This was in line with the timeline agreed with management.

Good working papers were provided to support the audit process and our queries were responded to quickly by the Finance Team throughout.

This was greatly appreciated by the audit team as it allowed a quality audit to be delivered in line with the timeline agreed by management despite the challenges Covid-19 created and the need to deliver the audit remotely.



As included in our audit plan we consider Care Inspectorate to be a smaller body for the purposes of wider scope responsibilities. We do however conclude on the financial sustainability and the governance statement disclosures, as required by the Code.



We have fulfilled our responsibilities per International Standards on Auditing (ISAs) (UK) and the Audit Scotland Code of Audit Practice throughout our work. This report to the Board and the Auditor General for Scotland concludes our work.

An audit  
underpinned by  
quality and adding  
value to you



We have issued an unmodified audit opinion on the annual report and accounts.



Significant audit risks are:  
management override of controls; risk of fraud in revenue recognition and the risk of fraud in expenditure recognition as set out in Financial Reporting Council's (FRC) Practice Note 10. An additional significant audit risk was identified in relation to Covid-19 which caused significant disruption to all public sector entities in the later half of March 2020. Our audit procedures in relation to the significant risks did not identify any exceptions.



Materiality is set at £828,660, representing approximately 2% of gross expenditure based on expenditure of £41.433 million, as set out in the unaudited annual report and accounts.

We did not identify any adjustments to the unaudited annual report and accounts based on our work and minor disclosure amendments were discussed and made in the signed version.

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### **Adding value through our external audit work**

First and foremost our objective is to ensure we deliver a quality external audit which fully complies with International Standards on Auditing (ISAs) UK and the Audit Scotland Code of Practice (2016).

Through this Annual Report we seek to provide insight and commentary over certain aspects of Care Inspectorate's arrangements, sharing relevant practices with the Audit Committee and Management.

We have continued to build on our working relationship with management and our understanding of Care Inspectorate as an organisation. We have acted on feedback received in prior year audits and sought to ensure continuity within the audit team. We also revisited with management the suitability of the timing of the year-end audit work.

Following the emergence of Covid-19 we discussed the approach to remote working at the outset of the year end audit to ensure an effective and efficient approach could be taken. We communicated with key members of the Finance Team on a weekly basis throughout the audit to keep them updated as to audit progress and we believe this worked well.

We continue to work closely with management on how we can add value through our external audit observations to further support them strengthen their financial arrangements. One example of this has been reviewing the front end of the accounts alongside management to identify where they can be streamlined, using good practice.

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# Introduction

## Reporting

This report is a summary of our findings from our external audit work for the financial year ended 31 March 2020.

Our work has been undertaken in accordance with International Standards on Auditing (ISAs) (UK) and the Audit Scotland Code of Audit Practice 2016.

Our report is addressed to the Board of Care Inspectorate. In addition, in accordance with our reporting responsibilities the report is jointly addressed to the Auditor General for Scotland.

Once the accounts have been laid before parliament, the finalised audit report will be made publicly available on the Audit Scotland website ([www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk))

Our report was presented to the Audit Committee and then to the Board on 30 September 2020 alongside the final annual report and accounts. This report was then finalised and submitted to Audit Scotland.

We would like to thank Care Inspectorate management and the finance team for an effective year-end audit process and all their support and assistance throughout the financial year.

## Structure of this report

As set out in our Audit Plan (March 2020) we consider in accordance with the Audit Scotland Code of Practice that Care Inspectorate meets the smaller body definition. Therefore full wider scope is not considered relevant.

However, as required in the Code of Audit Practice our report concludes on our audit of the annual report and accounts and certain aspects of Care Inspectorate's arrangements – Governance disclosures and financial management.

## Covid-19

As a result of the Covid-19 pandemic an additional significant risk – Covid-19 was identified at financial statement level.

This risk reflects the challenges posed by remote working, market volatility and the risk to financial stability across the economy.

Given the timing of the pandemic in March 2020, Covid-19 had little impact on the 2019/20 financial statements. However, it did impact on a material uncertainty over the valuation of the Investment Property assets within the Tayside Pension Fund. This is drawn to users of the Care Inspectorate Annual Report and Accounts within Accounting policies, Note 5F. We have not included an emphasis of matter paragraph in respect of this matter as we do not consider this would significantly influence the users of the financial statements.

## Our opinion

For the financial year ended 31 March 2020 we have issued an **unmodified audit opinion**:

- True and fair view of the financial statements
- Regularity – expenditure has been incurred in accordance with the purpose of Care Inspectorate
- Other prescribed matters (which include the audited information in the remuneration report)

## The audit process

We received a good complete set of financial statements, including front end, on 22 June 2020. This was in line with the timeline agreed with management.

The draft financial statements were supported by good working papers and the finance team were very quick to respond to our queries which was particularly helpful given the remote delivery of the audit.

We have no unadjusted differences to report. We noted minor disclosure and formatting changes which resulted from our review of the accounts. These have all been processed in the final annual report and accounts. None of these changes were considered material and/or significant in nature and helped to improve the readability of the accounts.

## Materiality

Our audit approach was set out in our audit plan presented to the Audit Committee on 5 March 2020. Overall materiality has been set at £828,660, approximately 2% of gross expenditure and performance materiality is set at £621,495, 75% of materiality.

This is an increase from materiality communicated at planning due to actual expenditure being greater than budgeted. The benchmark of 2% remained the same.

We report to management any difference identified over £41,400 (trivial threshold being 5% of materiality).

The remuneration report was audited to a separate materiality of £2,500, based on the bandings reported. This reflects the wider financial statement users interest in the disclosures.

An additional significant audit risk was identified in relation to Covid-19 which caused significant disruption to all public sector entities in the later half of March 2020. Our work over this risk is captured in this report.

## Internal control environment

During the year we sought to understand Care Inspectorate's overall control environment (design) as related to the financial statements. In particular, we have:

- Considered procedures and controls around related parties, journal entries and other key entity level controls.
- Performed walkthrough procedures of key financial processes including income and expenditure recognition, journal postings, and payroll.

Our work over controls is limited to our ISA requirements in understanding an entities control environment. While we have assessed Care Inspectorate's controls to determine if they are designed to mitigate financial statement risk we don't rely on controls in our approach. As such, our audit is fully substantive.

We identified no material weaknesses or areas of concern from this work which would have caused us to alter the planned approach as documented in our plan.

## Internal Audit

As set out in our external audit plan our audit approach is to comply with the ISA's and we do not place formal reliance on the work of Scott Moncrieff, Care Inspectorate's internal audit provider during 2019/20. We have reviewed the internal audit plan and individual reports issued, to consider if any impact on our audit approach.

The opinion of internal audit for the year is:

*"In our opinion, the Care Inspectorate has a framework of controls in place that provides reasonable assurance regarding the organisation's governance framework, effective and efficient achievement of objectives and the management of key risks."*

The findings of internal audit are consistent with our knowledge and experience of Care Inspectorate. From our review we are satisfied that there were no areas arising from the work of internal audit that would impact on our audit approach, opinion or require specific disclosure in the annual governance statement. We noted no concerns over the capability or capacity of the internal audit function. Following a competitive tender exercise during 2019/20, Henderson Loggie were appointed Internal Auditors from 2020/21.

# Responding to significant risks

Risk area	Identified audit risks at planning
<b>Risk of fraud in expenditure recognition</b>	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. There is an inherent risk that operating expenditure is understated or not treated in the correct period in order to operate within expenditure limits (risk of fraud in expenditure). As payroll expenditure is well forecast and agreeable to underlying payroll systems, there is less opportunity for the risk of misstatement in this expenditure stream. We therefore focus on non-pay expenditure (other expenditure). We consider the risk to be particularly prevalent around the year end where there is greater incentive and susceptibility for misstatement and therefore focus our testing on cut-off of non-pay expenditure.

## Work completed

The audited financial statement value for Operating Expenditure (excluding payroll expenditure) in 2019/20 is £7.751 million. In our response to the risk we have performed the following:

- Walkthroughs of the controls and procedures over other expenditure.
- Substantive testing (at an elevated risk level) of expenditure recognised pre and post year end to identify if there is any potential over or under-statement.
- Testing post year end bank statements and review of minutes and any legal expenses incurred to identify any potential unrecorded liabilities.
- Testing of expenditure incurred in the year to invoice and bank (completeness and accuracy).

## Our conclusion

Based on our testing we conclude:

- We did not identify any exceptions in our cut-off testing of year end expenditure.
- We did not identify any exceptions in the completeness and accuracy of expenditure or associate accruals balances at the year end.
- Through our substantive procedures and sample testing we confirmed expenditure testing was in accordance with the nature of Care Inspectorate (regularity).

Risk area	Identified audit risks at planning
<b>Risk of fraud in revenue recognition</b>	<p>As set out in ISA 240, there is a presumed risk that revenue may be misstated due to improper recognition of revenue. In 2019/20, Care Inspectorate received £24.1 million (2018/19: £22.5 million) in revenue funding from the Scottish Government.</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 low risk of fraud. Our presumed risk focusses on fees and charges. Care Inspectorate charges fees to service providers applying to register a service and once registered an annual continuation of registration fee is charged. Fees charged in 2019/20 were £12.063 million (2018/19: £11.911 million).</p>

### Work completed

The audited financial statement value for Income from Fees and charges in 2019/20 is £12.063 million. In our response to the risk we have performed the following:

- Walkthroughs of the controls and procedures over fees and charges.
- Substantive testing (at an elevated risk level) over income recognised in the final two months of the year where there is an inherently higher susceptibility of fraudulent recognition.
- Evaluation of the existence of debtor balances held at 31 March 2020 by agreeing balances held to invoices and/or other supporting records.
- Income cut-off procedures and substantive testing over pre and post year end balances, focused on income from fees and charges.

### Our conclusion

Based on our testing we conclude:

- We did not identify any exceptions in our cut-off testing of year end expenditure.
- We did not identify any exceptions in the evaluation of debtor balances existing at the year end.
- Through our substantive procedures and sample testing we confirmed expenditure testing was in accordance with the nature of Care Inspectorate (regularity).



## Risk area

### Management override of controls

## Identified audit risks at planning

As set out in ISA 240 there is a presumed risk that management override of controls is present in all entities. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override Care Inspectorates controls for specific transactions.

We consider those key judgements that are most susceptible to significant audit risk of management override are those over income and expenditure recognition. These are areas where management has the potential to influence the financial statement through estimate and judgement.

## Work completed

### Accounting estimates:

In assessing the risk of management override, we have considered those key accounting estimates and judgements that could impact on the organisations financial results and where there is an inherently increased risk of fraudulent misstatement or where management bias could result in a material misstatement. In response to the significant audit risk we have:

- Considered the design of controls in place over key accounting estimates and judgements.
- Reviewed accounting estimates for management bias / indication of fraud that could result in material misstatement. This included review of estimates as at 31 March 2020 and retrospective review of those estimates as at 31 March 2019.

### Journals testing:

We used data analytics to support our evaluation of journal transactions during the year. In response to the significant risk we have:

- Assessed the design of controls in place over journal entries, including how these are prepared, authorised and processed onto the financial ledger;
- Risk assessed the journals population to identify large or unusual journal entries, such as those that are not incurred in the normal course of business, or those entries that may be indicative of fraud or error that could result in material misstatement. We have tested these journals to ensure they are appropriate and that they are suitably recorded in the financial ledger and appropriately recognised within the financial statements;
- We have performed targeted testing of transactions around the financial year end reviewing journals which are large or otherwise appear unusual to understand the rationale for the transaction.

## Our conclusion

Based on our testing we conclude:

- There was no evidence of management override in our testing of controls.
- We did not identify any unusual or significant transactions throughout the financial year or during the financial close period which were out with the ordinary operations of Care Inspectorate.
- We did not identify any indications of management bias or indication of fraudulent

## Risk area

### Covid-19

## Identified audit risks at planning

The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to;

- Remote working arrangements may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation;
- Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and the reliability of evidence we can obtain to corroborate management estimates;
- Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and
- Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.

We therefore identified the global outbreak of the Covid-19 virus as a significant financial statement risk, and potential for increased risk of misstatement.

## Work completed

In assessing the risk posed by Covid-19 we have:



- Worked with management to understand the implications the response to the Covid-19 pandemic has on the organisation's ability to prepare the financial statements and update financial forecasts and assess the implications on our audit approach.
- Evaluated the adequacy of the disclosures in the financial statements in light of the Covid-19 pandemic.
- Evaluated whether sufficient audit evidence using alternative approaches could be obtained for the purposes of our audit whilst working remotely.
- Evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates including provisions.
- Evaluate management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment.
- Discussed with management any potential implications for our audit report if we have been unable to obtain sufficient audit evidence.

## Our conclusion




Based on our testing we conclude:

- Covid-19 and remote working did not restrict Care Inspectorate's ability to prepare the financial statements or restrict the audit evidence required to complete the audit.
- Management have adequately assessed the impact of Covid-19 on the organisations governance arrangements and there has been no detrimental impact as a result of effective use of remote working technologies.

# Accounting policies

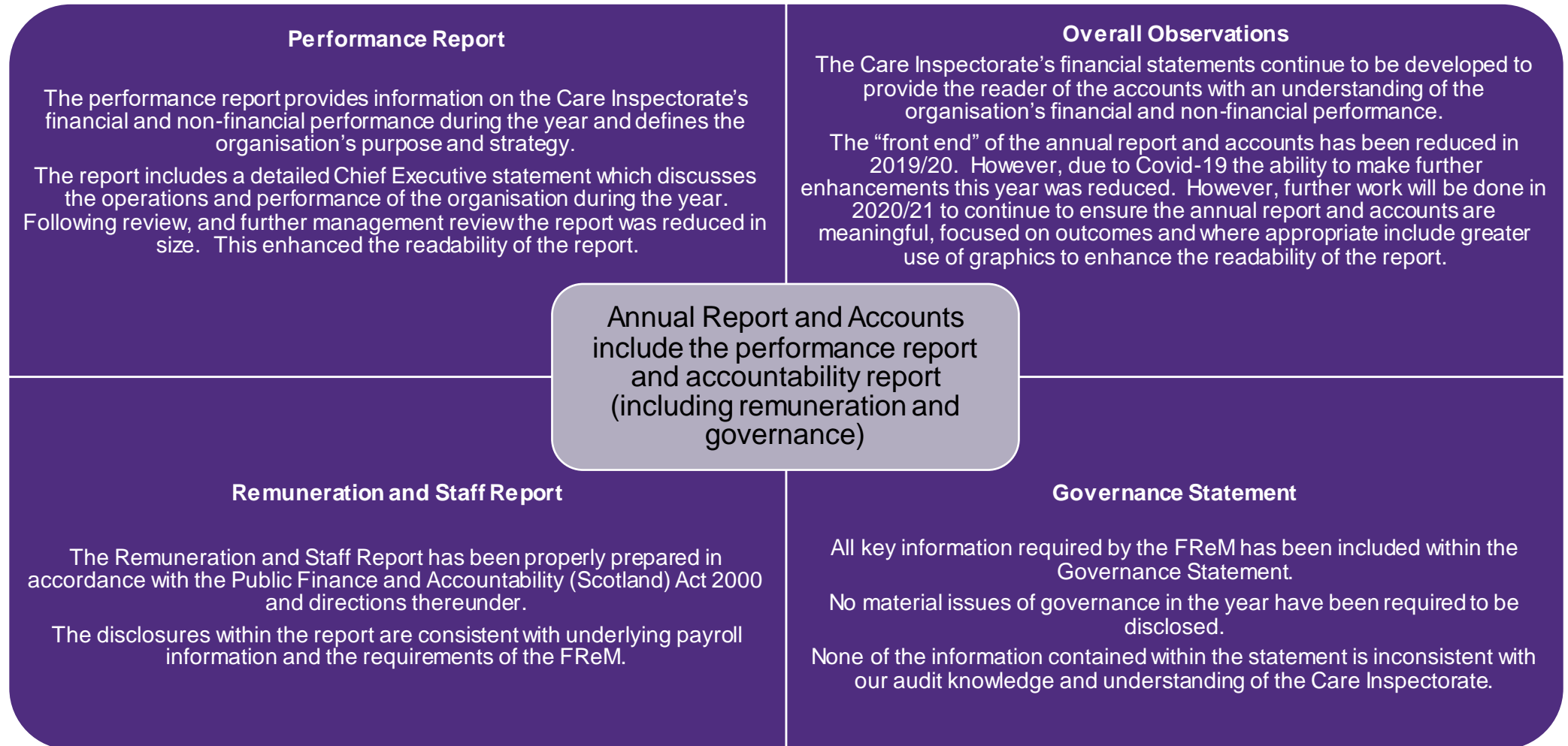
Accounting area	Summary of policy	Comments	Assessment
<b>Revenue recognition</b>	<p>Care Inspectorate recognise grant funding from the Scottish Government based on the budget allocated.</p> <p>Income from registration fees and other income is recognised as it is earned and not on a cash basis.</p>	<p>Care Inspectorate's revenue recognition policies are in line with the FReM.</p> <p>While we recognised the risk of fraud within revenue in respect of registration fees and other income the presumed risk was rebutted in relation to government funding.</p> <p>Our audit testing addressed the risk of revenue being recognised incorrectly through cut-off testing. Our testing did not identify any exceptions.</p>	<p> (GREEN)</p>
<b>Judgements and estimates</b>	<p>The only area of significant judgement and estimate included within Care Inspectorate's accounts is the defined benefit pension scheme.</p> <p>An independent actuary provides an IAS 19 valuation in respect of these balances and transactions each year.</p> <p>All appropriate disclosures, including sensitivities and assumptions are included within the accounts.</p>	<p>Care Inspectorate's accounting treatment in respect of the defined benefit pension scheme is in accordance with IAS 19.</p> <p>Our audit testing has considered the independence and objectivity of the actuary as well as specific audit procedures over the transactions within pension assets and liabilities year on year.</p> <p>Audit procedures include assessment of the disclosure included within the annual accounts and we are satisfied that disclosure is in line with the FReM.</p>	<p> (GREEN)</p>
<b>Other critical policies</b>	<p>None identified by Care Inspectorate.</p>	<p>We have reviewed the Care Inspectorate accounting policies against the FReM requirements. Where appropriate the Care Inspectorate has tailored accounting policies, whilst still complying with the FReM. A number of accounting policies are of less relevance to Care Inspectorate's annual reports and accounts.</p> <p>We recommended a small number of minor disclosure changes, which have been made in the audited financial statements.</p>	<p> (GREEN)</p>

## Assessment

-  Marginal accounting policy which could potentially be open to challenge and/or interpretation
-  Accounting policy appropriate but scope for improved disclosure
-  Accounting policy appropriate and disclosures sufficient

# Narrative elements of your annual accounts

In accordance with our responsibilities we have reviewed the narrative aspects of the annual accounts and report. We have considered the consistency of this narrative with our understanding of Care Inspectorate and the financial statements and have set out our observations below.



# Key aspects of your financial statements

As set out in our audit plan we consider particular aspects of your financial statements in relation to management judgements including estimates and where management may have particular options or choices in what accounting standards or disclosure requirements to apply. We have summarised where these apply, and our conclusions below.



## Judgements and Estimates – Defined Benefit Pension Scheme

Care Inspectorate is an admitted body to the Tayside Superannuation Fund. Due to the nature of Local Government Pension Schemes, these figures can move materially year on year as a result of in year transactions, changes in discount rates used in the actuarial calculation and the performance of scheme assets.

Care Inspectorate use an independent actuary to calculate the valuation of the pension under IAS 19. The IAS 19 valuation has been substantively audited in the year including an assessment of the actuary (independence, objectivity and qualifications) and the discount rates used.

Audit testing identified that the prior year pension assets value, was £187.692 million and not the £184.692 reported. Assets in the prior year were therefore understated by £3 million. This resulted from the asset valuation being performed by the actuary at February 2019 and rolled forward to 31 March 2019 which is an acceptable valuation technique under IAS 19.

We do not consider this error to be fundamental to users of the accounts as the restatement adjustment would be direct to the pension reserve with no impact on the bottom line. Although greater than materiality, the error represents just 1.6% of pension assets and material movements within pension balances are common year on year. Furthermore, pension assets in the current year were valued at the year end date so there is no risk that the error is repeated in the valuation as at 31 March 2020.

As a result, we have not proposed restatement of the prior year accounts.

As a result of the economic uncertainty which Covid-19 created at the year end date, the pension fund's independent property valuation experts have provided their valuation on the basis of material uncertainty in line with industry guidance. This material uncertainty impacts Care Inspectorate's share of the assets and a disclosure to this effect has been included in Care Inspectorate's financial statements.

## Going Concern

As set out in the performance and accountability reports, Care Inspectorate's accounts have been prepared on the going concern basis.

A budget has been agreed with the Scottish Government for 2020/21.

As the Care Inspectorate's role is set out in Scottish legislation, to provide regulatory services for a range of care services, we have no reason to believe this will change.

We therefore agree with management's assertion that going concern is the appropriate basis for preparation of accounts.

## Timing of transactions

Our substantive testing in relation to the significant risks of fraud in expenditure and revenue recognition has assessed the timing and recognition of transactions.

No exceptions were identified in our testing, indicating transactions have been recognised in the correct accounting period.

# Care Inspectorate's financial and governance arrangements

## Financial position 2019/20

The Care Inspectorate's budget is funded by grant-in-aid and specific grants from the Scottish Government alongside fees paid by service providers.

In 2019/20, Care Inspectorate received income directly of £13.415 million, alongside Grant-in-aid and specific grant income from Scottish Government of £24.727 million (£38.142 million total income). This income was used to cover expenditure of £37.457 million in year, resulting in an in-year surplus of £0.685 million. Staff costs continue to be the largest source of expenditure for Care Inspectorate accounting for 81% of gross expenditure (£33.682 million).

The return of a surplus in year compared to the budgeted deficit of £0.224 million is a result of:

- Income being greater than budgeted by £0.454 million.
- Additional grant funding of specific projects of £0.156 million.
- Savings in expenditure of £0.299 million, in part as a result of Covid-19, necessitating the delay of some planned activities to 2020/21.

The surplus has increased the reserves to £2.251 million (£2.140 million revenue and £0.111 million capital transactions). The £2.140 million revenue reserves is in excess of the medium term target of holding reserves at between 1.0% (£0.414 million) and 1.5% (£0.621 million) of gross expenditure.

The Statement of Financial Position shows a net liability position of £17.801 million which has increased from £16.510 million in 2018/19, with the majority attributable to the increase in the pensions liability. Similar to other public sector entities, the pension liability is a material figure, however, it is not expected that the Scottish Government will withdraw support for the pension liability.



## Financial sustainability – 2020/21 budget 2020/21 and beyond

Indicative budgets for 2020 to 2023 includes budgeted deficits of £0.808 million in 2020/21, £2.367 million in 2021/22 and £3.256 million in 2022/23. Although the Care Inspectorate has sufficient reserves to absorb the budgeted deficit in 2020/21, if the current budget reflects actual outturn the organisation will be in a negative reserves position by 31 March 2022.

2020/21 is the first year that the Care Inspectorate has been required to set a deficit budget, using available reserves to fund core operating expenditure. This is not sustainable in the longer term and is recognising as a significant risk in the Care Inspectorate's risk register. It is forecast that £646k of digital costs will be funded from reserves, these are one off costs for 2020/21. In addition, £113k of operational costs are forecast to be paid for using reserves.

The budgets for 2021/22 and 2022/23 includes repayments to the Scottish Government of £0.575 million each year in respect of expected savings following ICT improvements. Management continue to discuss the future repayments with the Scottish Government as the savings originally anticipated from ICT improvements may not be fully realised.

The Care Inspectorate has formed a member / officer working group to consider how to reduce projected budget deficits over the next two years. This group will identify and consider potential savings and additional funding together with the likelihood of delivering these on time or at the value estimated. We will continue to monitor the progress made by this group in reducing forecasted deficits going forward.



## Governance and transparency

The Care Inspectorate is committed to transparency in its governance arrangements. Board Minutes and Papers are published on the Care Inspectorate website alongside corporate plans, policies, governance documents and the strategic risk register. Board meetings are held in public to promote transparency and despite the move to remote working as a result of Covid-19, members of the public can still join meetings as observers via Microsoft Teams.

The Care Inspectorate embraces the importance of engagement with the public and continues to make information readily accessible and undertake public consultations.

The annual accounts and report have been presented to the Audit Committee in August 2020 to provide members with additional time to exercise scrutiny of the financial statements and provide feedback on the annual report.



## Covid-19 response

Care Inspectorate moved to remote working as a result of the Covid-19 outbreak and has been able to continue operations throughout the pandemic. Given its role, enhanced notification systems were put in place requiring services to report suspected and confirmed cases of Covid-19 and any staffing issues as a result of the virus.

Due to the timing of the pandemic, it has not significantly impacted the finances of the organisation for year ended 2019/20. Some planned activities were postponed until 2020/21 to enable resources to be focussed on priority areas which has contributed to the surplus reported.

There was no detrimental impact on Care Inspectorate's governance arrangements as a result of Covid-19.

In accordance with the Coronavirus (Scotland) (No.2) Act 2020, which came into force on 27 May 2020, the Care Inspectorate must provide a report to the Scottish Parliament every fortnight setting out, which care home services have been inspected in the two weeks and the findings of those inspections. The first of these reports was laid before Parliament on 10 June 2020. The fortnightly reports are published on the Care Inspectorate's website once laid before Parliament.



## Fraud and Irregularity

Care Inspectorate has arrangements in place to help prevent, detect and mitigate the risk of fraud or irregularity, including anti-bribery and whistleblowing policies. While we consider these to be reasonable, no arrangements can fully prevent against the risk of fraud, theft or irregularity. We are not aware of any material frauds at Care Inspectorate during the course of the year and have confirmed this with management.

The Care Inspectorate participates in the National Fraud Initiative (NFI), a counter fraud exercise co-ordinated by Audit Scotland working together with a range of Scottish public bodies, external auditors and the National Audit Office to identify fraud and error. All 109 matches identified in the NFI exercise have been worked through and actioned.

We found Care Inspectorate's arrangements for participation in the NFI exercise to be satisfactory. The Care Inspectorate has effective arrangements in place for the submission of data and investigation of potential matches.



# Appendices

- Audit adjustments
- Audit recommendations 2019/20
- Follow up of previous recommendations
- Audit fees and independence
- Fraud arrangements
- Communication of audit matters



# Audit adjustments

## Uncorrected and corrected misstatements

We are pleased to report that there were no uncorrected misstatements to the financial statements arising during our audit.

## Disclosure misstatements

In accordance with auditing standards we are required to highlight significant disclosure misstatements to allow Audit Committees to evaluate the impact of these matters on the financial statements.

Disclosure misstatement	Detail	Adjusted
Correction of operating leases disclosure	A formula error was identified in the operating leases working paper which resulted in the disclosure in the draft financial statements being incorrect to the value of £31k.	✓
Pension sensitivity analysis	One of the sensitivities in the IAS 19 report had been incorrectly disclosed in the first version of the draft financial statements.	✓

We also noted minor disclosure and formatting changes in our review which have been reported to management and updated in the final version of the financial statements. These were simple typos and rewording to enhance the user friendliness and readability of the information and do not require reporting in this report.

# Audit recommendations 2019/20

We are pleased to report that we have not identified any recommendations in the year.

We will continue to monitor the recommendations raised in previous audits where these have not been fully implemented as detailed overleaf.

# Follow up of previous recommendations

We set out below our follow up of our 2018/19 and 2017/18 recommendations and these are reflected below for information.

## Recommendation

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### Board Chair Remuneration (raised 2018/19)

Care Inspectorate have gained retrospective approval from the Scottish Government for remuneration paid to the Board Chair in excess of the 174 days limit, stipulated in the appointment letter, for 2017/18 and 2018/19. Care Inspectorate Management should look to strengthen their controls around monitoring the Board Chair remuneration to ensure limits are not exceeded going forward, without first having Scottish Government approval.

#### Initial management response

Claimed hours worked will be reviewed throughout the year. Where a risk of exceeding the maximum number of days is identified, Scottish Government approval will be sought in advance.

#### Follow up – recommendation is closed

The Board Chair exceeded the 174 day limit per the appointment letter in 2019/20 however this was monitored throughout the year and approval was sought and obtained from the Scottish Government prior to the limit being exceeded. Management will continue to monitor this in future years and where it appears the limit will be exceeded will seek advance approval from the Scottish Government. As part of the appointment process for a new Chair, Care Inspectorate should discuss the time commitment with the Scottish Government to ensure it is appropriate, for the role to be fulfilled.

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### ICT savings and efficiencies (raised 2018/19)

Care Inspectorate to date have received additional Scottish Government funding of £0.970 million with a further £1.089 million and £0.241 million expected in 2019/20 and 2020/21 respectively. The total additional funding of £2.300 million from the Scottish Government is required to be repaid in later years (starting in financial year 2021/22) from the savings and efficiencies generated by the business and digital transformation programme and investment in ICT modernisation. These savings will need to be closely monitored and measured by Care Inspectorate Management in order to meet the terms of the Scottish Government in repaying the additional funding from savings made.

#### Initial management response

This is being considered as an element of the financial strategy work as described in the “Financial Sustainability” section earlier in this report.

Cash releasing savings from the transformation programme are being identified separately and used to either supplement the digital transformation programme, reduce the amount drawn down to support the Digital Transformation Programme (this will reduce the repayments due to commence 2021/22 onwards) or to fund non-recurring expenditure.

The Scottish Government have also been requested to review this repayment of funding approach within the context of the Care Inspectorate’s projected financial position.

#### Follow up – recommendation still applicable

Care Inspectorate have continued to assess the savings expected to be realised as a result of ICT efficiencies. Monitoring to date has identified that the expected savings will not be realised. Discussions with the Scottish Government in respect of the scheduled repayments is ongoing and management continue to monitor the savings and efficiencies. This will continue to be monitored by external audit in 2020/21.

# Follow up of previous recommendations

## Recommendation

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### Shared services ICT arrangements (raised 2017/18)

Following on from the lessons learned in respect of the shared services ICT arrangements between the Care Inspectorate and SSSC, Management should agree an action plan which can then be monitored by the Audit Committee and the Board. Recognising the wider sharing of arrangements between Care Inspectorate, SSSC and then NES from 2018/19 it is key that the arrangements in place in respect of governance are strengthened to mitigate any future similar risks to the Care Inspectorate.

### Prior year management update

This has proved to be a more onerous task than originally anticipated. The Care Inspectorate and SSSC are working together as described in the “Shared services with SSSC – ICT” section earlier in this report. Once the vision for future shared services is agreed (anticipated October 2019) then the revised operational service level agreements will be fully developed and agreed.

### Follow up – recommendation still applicable. Work ongoing and will be concluded during 2020/21

Substantial work and discussion has taken place between Care Inspectorate and SSSC over wider shared services and the supporting governance structures. CIPFA were commissioned and completed a review. This was accepted by both parties. Further discussion took place during 2019/20 between Chief Executives and also at the Board of Care Inspectorate and the Council of SSSC. Internal Audit plan to review the arrangements early on, in the 2020/21 Internal Audit programme to support the Care Inspectorate and SSSC reach final agreement. Both parties are committed to the continuation of shared services.

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### Annual report (raised 2017/18)

The front end of the financial statements, the wider annual report commentary, is very lengthy and contains information which is already publicly available on the Care Inspectorate and might not necessarily enhance the user of the accounts understanding of the work of the Care Inspectorate or the service outcomes.

**2018/19 update:** Minimal improvement has been made to the front end of the 2018/19 financial statements, Care Inspectorate should act on the recommendation for 2017/18 as well as consider how they can get the front end to better ‘tell the story’ of the organisation, in line with FReM requirements.

### Prior year management update

Management still continue to look at the front end. Improvements have been made in 2017/18 and the accounts are more focused in commentary. There continues to be opportunity to look at how the Care Inspectorate demonstrates the achievement of outcomes and links to information already publicly available.

### Follow up – recommendation still applicable. Work ongoing and improvements made in 2019/20

The 2019/20 annual report and accounts has been streamlined during 2019/20. However, due to Covid and other priorities it is recognised that further reductions to the size of the document could be made in 2020/21. Further improvements planned include the continued focus on outcomes and what the Care Inspectorate achieved in year vs description of activities, greater use of graphics and adopting a style of communication similar to the new corporate plan.

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# Audit fees and independence

## External Audit Fee

Service	Fees £
External Auditor Remuneration	25,570
Pooled costs	5,940
Contribution to Audit Scotland costs	1,420
Contribution to Performance Audit and Best Value	-
<b>2019/20 Fee</b>	<b>32,930</b>

## Fees for other services

Service	Fees £
We confirm there are no non-audit fees for 2019/20	Nil

## 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](mailto: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.

## 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 Financial Reporting Council'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 are set out above in this annual report.
- We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council'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 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 and Risk 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.

## 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 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 Care Inspectorate we will report to the Auditor General as required by Audit 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 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.

In addition, as set out in the Audit Scotland Code of Audit Practice we have a role in reviewing 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 a quarterly basis.

# Communication of audit matters

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. This document, our Annual Report is issued prior to approval of the financial statements and presents key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

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 <b>No significant matters identified.</b>	•	•
Views about the qualitative aspects of Care Inspectorate's accounting and financial reporting practices, including accounting policies, accounting estimates and financial statement disclosures <b>Summarised on slides 11, 12 and 13.</b>		•
Significant findings from the audit <b>Captured within this report.</b>		•
Significant matters and issues arising during the audit and written representations that have been sought <b>No significant matters arising and letter of representation signed as at date of signing the accounts.</b>		•
Significant difficulties encountered during the audit <b>No difficulties were encountered during the audit.</b>		•
Significant deficiencies in internal control identified during the audit <b>No significant deficiencies in internal control identified during the audit.</b>		•
Significant matters arising in connection with related parties <b>No significant matters identified in connection with related parties</b>		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements <b>None identified</b>		•
Non-compliance with laws and regulations <b>None identified</b>		•
Unadjusted misstatements and material disclosure omissions <b>None identified</b>		•
Expected modifications to the auditor's report, or emphasis of matter <b>No modifications to the opinion</b>		•



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