



Care Inspectorate

Final report to the Audit and Risk Committee, Board and the Auditor General for Scotland on the 2022/23 audit

Issued on 19 September 2023 for the meeting on 28 September 2023 (updated 31/10/2023)

Contents

01 Final report

Partner Introduction [3](#)

Annual Report and Accounts

Quality indicators [7](#)

Our audit explained [8](#)

Significant risks [9](#)

Other significant findings [14](#)

Our audit report [16](#)

Your Annual Report and Accounts [17](#)

Wider scope audit

Overview [19](#)

Financial management [20](#)

Financial sustainability [23](#)

Vision, leadership and governance [29](#)

Use of resources to improve outcomes [31](#)

Best value [33](#)

Climate change [34](#)

Cyber Risk [36](#)

Purpose of our report and responsibility statement [37](#)

02 Appendices

Our other responsibilities explained [39](#)

Independence and fees [40](#)

1.1 Partner introduction

The key messages in this report

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the financial statements.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

I have pleasure in presenting our final report to the Audit and Risk Committee (“ARC”) of the Care Inspectorate for the 2022/23 audit. The report summarises our findings and conclusions in relation to the audit of the Annual Report and Accounts and the wider scope requirements, the scope of which was set out within our planning report presented to the Audit and Risk Committee in March 2023.

I would like to draw your attention to the key messages of this paper:

Conclusions from our testing

Based on our audit work completed to date, we expect to issue an unmodified audit report.

The Performance Report and Accountability Report comply with the statutory guidance and proper practice and are consistent with the Annual Accounts and our knowledge of the Care Inspectorate. We provided management with comments and suggested changes based on review of the first draft and have received a final draft with all points addressed.

The auditable parts of the Remuneration and Staff report have been prepared in accordance with the relevant regulation.

A summary of our work on the significant risks is provided in the dashboard on page [8](#). The Care Inspectorate reported a small surplus of £11,000.

No material errors have been identified through the course of our testing.

1.2 Partner introduction (continued)

The key messages in this report (continued)

Status of the Annual Report and Accounts audit

Outstanding matters to conclude the audit include:

- Finalisation of internal quality control procedures;
- Receipt of signed management representation letter; and
- Our review of events since 31 March 2023.

Conclusions from wider scope audit work

Financial management – Effective budget setting and monitoring arrangements in place. While there have been a number of changes to the finance team of the shared service in the year, we have not identified any risks with the teams capacity that has impact on the financial management of the Care Inspectorate.

Financial sustainability – Financial balance has been achieved in 2022/23 and funding confirmed for 2023/24, however there remains a gap between the funding confirmed and the expected costs to deliver the services. While the 2023/24 position is being managed through one-off use of reserves and letter of comfort from Scottish Government, a sustainable solution is needed for future years.

The medium to longer term projections are showing an increasingly challenging financial position, with a deficit of £10.775m by 2029/30 if no action taken, representing 20% of net expenditure. There therefore remains a risk that the Care Inspectorate is not financially sustainable.

A comprehensive financial strategy is in place. While the strategy sets out areas for potential efficiencies and savings options, management has made it clear that the options identified have limited potential to generate significant budget reductions. It therefore concludes that if additional funding is not made available, then a reduction in activity will be necessary..

Vision, leadership and governance –The Corporate Plan clearly sets out the vision and strategic priorities. The Leadership has undergone a period of change with the transition to new Chief Executive and the new Chair of the Board being well managed, with a positive culture and fresh perspective. The governance arrangements continue to operate effectively, and the Care Inspectorate continues to be open and transparent.

Use of resources to improve outcomes – A clear performance management framework is in place. In line with best practice, the Care Inspectorate monitors both Key Performance Indicators and Key Outcome Indicators, thereby demonstrating its focus on outcomes in line with the Christie report. The Care Inspectorate has continued to perform well during 2022/23, actively managing its performance and taking appropriate action and recognising the risks that remain.

1.3 Partner introduction (continued)

The key messages in this report (continued)

Conclusions from wider scope audit work (continued)

Best Value - The Care Inspectorate has sufficient arrangements in place to secure best value. It has a clear understanding of areas which require further development. Financial sustainability remains a key risk.

Climate change – Recognising the nature of the Care Inspectorate with leased or shared office accommodation with other public sector bodies, it is clear that the Care Inspectorate is committed to take action to meet the Scottish Government’s ambitious targets in relation to sustainability and climate.

Cyber risk – Cyber security has been a high priority for the Care Inspectorate, with a Security Improvement Plan now in place, with phase 2 being implemented in 2023/24.

Added value

Our aim is to add value to the Care Inspectorate by providing insight into, and offering foresight on, financial sustainability, risk and performance by identifying areas for improvement and recommending and encouraging good practice. In so doing, we aim to help the Care Inspectorate promote improved standards of governance, better management and decision making, and more effective use of resources. This is provided throughout the report.

Pat Kenny
Lead audit partner








Annual Report and Accounts Audit



2.1 Quality indicators

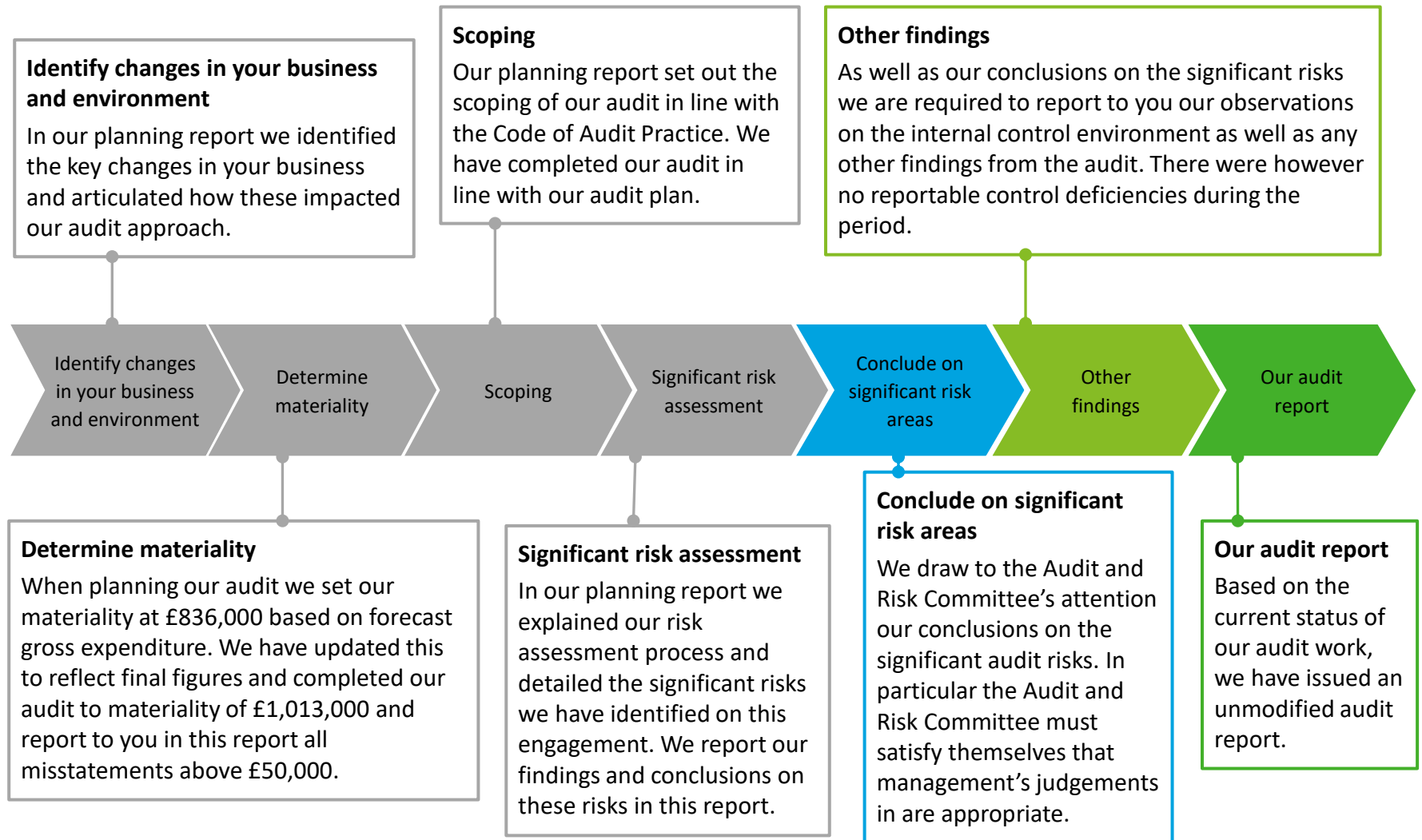
Impact on the execution of our audit

Management and those charged with governance are in a position to influence the effectiveness of our audit, through timely formulation of judgements, provision of accurate information, and responsiveness to issues identified in the course of the audit. This slide summarises some key metrics related to your control environment which can significantly impact the execution of the audit. We consider these metrics important in assessing the reliability of your financial reporting and provide context for other messages in this report.

Area	Grading	Reason	Further detail
Timing of key accounting judgements		Information was provided by the requested deadline and covered the points required.	N/A
Adherence to deliverables timetable		Management provided deliverables within agreed timelines.	N/A
Access to finance team and other key personnel		The audit team always had access to the finance team and key personnel from beginning through to the end of the audit process.	N/A
Quality and accuracy of management accounting papers		Working papers provided were accurate and of good quality to allow the audit team perform the audit procedures on time.	N/A
Quality of draft Annual Report and Accounts		Quality of draft was generally of a high standard as no significant issues were noted upon review of the draft annual report and accounts.	N/A
Response to control deficiencies identified		There was no reportable control deficiency	N/A
Volume and magnitude of identified errors		No material errors have been identified throughout the course of our testing.	N/A










2.2 Our audit explained

We tailor our audit to your business and your strategy






2.3.1 Significant risks

Significant risk dashboard

Risk	Fraud risk	Planned approach to controls	Controls conclusion	Consistency of judgements with Deloitte's expectations
Management override of controls			Satisfactory	
Operating within the approved budget			Satisfactory	
Completeness of Fee Income			Satisfactory	

Controls approach adopted
 Assess design & implementation

Controls conclusion
 Satisfactory
 Not Satisfactory

Consistency of judgements with Deloitte's expectations
 Consistent
 Improvement required
 Inconsistent

2.3.2 Significant risks (continued)

Management override of controls

Risk identified

Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Although management is responsible for safeguarding the assets of the entity, we planned our audit so that we had a reasonable expectation of detecting material misstatements to the Annual Report and Accounts and accounting records.

Deloitte response and challenge

In considering the risk of management override, we have performed the following audit procedures that directly address this risk:

Journals

- We have tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the Annual Report and Accounts. In designing and performing audit procedures for such tests, we have:
- Tested the design and implementation of controls over journal entry processing;
- Made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments;
- Selected journal entries and other adjustments made at the end of a reporting period; and
- Considered the need to test journal entries and other adjustments throughout the period.

Accounting estimates and judgements.

We have reviewed accounting estimates for biases and evaluate whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud. In performing this review, we have:

- Evaluated whether the judgements and decisions made by management in making the accounting estimates included in the Annual Report and Accounts, even if they are individually reasonable, indicate a possible bias on the part of the entity's management that may represent a risk of material misstatement due to fraud. From our testing we did not identify any indications of bias. A summary of the key estimates and judgements considered is provided on the next page; and.
- Performed a retrospective review of management judgements and assumptions related to significant accounting estimates reflected in the Annual Report and Accounts of the prior year.

Significant and unusual transactions

We did not identify any significant transactions outside the normal course of business or any transactions where the business rationale was not clear.

Deloitte view

We have not identified any instances of management override of controls from our audit procedures.

2.3.3 Significant risks (continued)

Management override of controls (continued)

Key estimates and judgements The key estimates and judgements in the Annual Report and Accounts includes those which we have selected to be significant audit risks around expenditure recognition and completeness of fee income (see page [13](#)). This is inherently the area in which management has the potential to use their judgement to influence the Annual Report and Accounts. As part of our work on this risk, we reviewed and challenge management’s key estimates and judgements including:

Estimate / judgement	Details of management’s position	Deloitte Challenge and conclusions
Dilapidations	As at 31 March 2023, the Care Inspectorate has a provision of £663,000 for dilapidations, with a slight change to the provision carried forward from 2021/22 at £662,000. The value of the provision is based on information provided by Avison Young and comprises costs required to restore leased office space to their original state.	We have assessed the use of information provided by the independent experts and confirmed the existence of the obligation to provide for dilapidations within the lease agreements. We have reviewed both confirmatory and contradictory evidence and concluded that the value provided is reasonable and that the provision has been appropriately disclosed in line with reporting requirements.

2.3.4 Significant risks (continued)

Operating within the approved budget



Risk identified and key judgements

In accordance with Practice Note 10 (Audit of Annual Accounts of public sector bodies in the United Kingdom), in addition to the presumed risk of fraud in revenue recognition set out in ISA (UK) 240, auditors of public sector bodies should also consider the risk of fraud and error on expenditure. This is on basis that most public bodies are net spending bodies, therefore the risk of material misstatement due to fraud related expenditure may be greater than the risk of material misstatement due to fraud related to revenue recognition.

We consider this fraud risk to be focused on how management operate within the expenditure resource limits set by the Scottish Government. The risk is that the Care Inspectorate could materially misstate expenditure in relation to year end transactions, in an attempt to align with its tolerance target or achieve a breakeven position.

The Care Inspectorate was projecting an overspend during the year, although there was an agreement with Scottish Government to use reserves to reduce this overspend. The significant risk is therefore pinpointed to the completeness of accruals and the existence of prepayments made by management at the year end and invoices processed around the year end as this is the area where there is scope to manipulate the final results. Given the financial pressures across the whole of the public sector, there is an inherent fraud risk associated with the recording of accruals, trade and other creditors and prepayments around year end.



Deloitte response and challenge

We have evaluated the results of our audit testing in the context of the achievement of the limits set by the Scottish Government. Our work in this area included the following:

- Evaluating the design and implementation of controls around monthly monitoring of financial performance;
- Confirming the resource limits allocated to the Care Inspectorate by the Scottish Government by reference to the Budget Act and letter;
- Performing focused testing of accruals and prepayments made at the year end; and
- Performing focused cut-off testing of invoices received and paid around the year end.

Deloitte view

We have concluded that expenditure and receipts were incurred or applied in accordance with the applicable enactments and guidance issued by the Scottish Ministers.

Based on our testing, we confirm that the Care Inspectorate has performed within the limits set by Scottish Government, reporting a small surplus of £11,000.

2.3.5 Significant risks (continued)

Completeness of fee income



Risk identified and key judgements

ISA (UK) 240 states that when identifying and assessing the risks of material misstatements due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give risk to such risks.

We have assessed the income streams for the Care Inspectorate and concluded that the risk of a material misstatement due to fraud in relation to the Grant-in-Aid funding is limited given the funding can be agreed to confirmations supplied.

We have therefore pinpointed our significant risk on fee income, being registration fee (£11.986m in 2022/23). The Care Inspectorate charges fees to care service providers applying to register a service and, once registered, an annual continuation of registration fee is charged. In particular, given future year financial pressures and a projected overspend in the current year, we have pinpointed the risk to occurrence and cut-off as management may be incentivised to increase fee income to meet current period overspend.



Deloitte response and challenge

Our work in this area included the following:

- Evaluated the design and implementation of controls around recognition of fee income;
- We focused our testing on the year end cut-off arrangements, testing the occurrence of fee income recognised and the existence of receivables at the year end.

Deloitte view

Based on our testing performed, we have concluded that fee income has been recorded appropriately within the Annual Report and Accounts and is complete and accurate. Controls in place around recognition of income were found to be designed and implemented satisfactorily.

2.4 Other significant findings

Financial reporting findings

Below are the findings from our audit surrounding your financial reporting process.

Qualitative aspects of your accounting practices:

The Care Inspectorate's Annual Report and Accounts have been prepared in accordance with the Government Financial Reporting Manual (the "FRoM"). Following our audit work, we are satisfied that the accounting policies are appropriate.

Significant matters discussed with management:

No significant matters discussed with management.

Regulatory change

IFRS 16, Leases, came into effect on 1 April 2022, therefore 2022/23 is the first year of implementation. This required adjustments to recognise on balance sheet arrangements previously treated as operating leases.

We tested the completeness of leases identified on transition. The Care Inspectorate has 12 property leases, being its office accommodation and 14 car leases. We tested a sample of the transactions to assess accuracy of the Right of Use Asset and lease liability. We identified no significant issues on IFRS 16 recognition and disclosure.

Liaison with internal audit

The audit team, has completed an assessment of the independence and competence of the internal audit department and reviewed their work and findings. In response to the significant risks identified, no reliance was placed on the work of internal audit and we performed all work ourselves.

We will obtain written representations from the Care Inspectorate on matters material to the Annual Report and Accounts when other sufficient appropriate audit evidence cannot reasonably be expected to exist. A copy of the draft representations letter has been circulated separately.

2.5 Other Areas of Audit Focus

Defined benefits pension scheme

Background

Care Inspectorate participates in the Tayside Superannuation Fund, administered by Dundee City Council, which is a defined benefit scheme.

The pension balance has moved from a liability position to an asset position in 2022/23. In 2021/22, there was a pension liability of £1.5m whereas in 2022/23, there was a pension asset of £56.5m.



Deloitte response

- We assessed the independence and expertise of the actuary supporting the basis of reliance upon their work;
- We reviewed and challenged the assumptions made by Barnett Waddingham;
- We have obtained assurance from the auditor of the pension fund over the controls for providing accurate data to the actuary;
- We assessed the reasonableness of the Council's share of the total assets of the scheme with the Pension Fund Annual Accounts;
- We have reviewed and challenged the calculation of the impact of the McCloud and Goodwin cases on pension liabilities;
- We have assessed whether the recognition of the asset is in line with standards and the rules of the pension scheme; and
- We reviewed the disclosures within the accounts against the FReM.

	Council	Comments
Discount rate (% p.a.)	4.8%	Reasonable
CPI Inflation (% p.a.)	2.9%	Reasonable
Pension increase (CPI)(% p.a.)	2.9%	Reasonable
Salary increase (% p.a.)	3.9%	Reasonable
Mortality - Life expectancy of a male/ female pensioner from age 65 (currently aged 65)	19/22.4	Reasonable
Mortality - Life expectancy of a male/ female pensioner from age 65 (currently aged 45)	20.4/23.9	Reasonable

Deloitte view

We have concluded that the net pension asset in relation to the defined benefit pension scheme is fairly stated.

2.6 Our audit report

Other matters relating to the form and content of our report

Here we discuss how the results of the audit impact on other significant sections of our audit report.

66
99

Our opinion on the Annual Report and Accounts

Our opinion on the financial statements is unmodified.



Going concern

We have not identified a material uncertainty related to going concern and will report that we concur with management's use of the going concern basis of accounting.

Practice Note 10 provides guidance on applying ISA (UK) 570 Going Concern to the audit of public sector bodies. The anticipated continued provision of the service is more relevant to the assessment that the continued existence of a particular body.



Emphasis of matter and other matter paragraphs

There are no matters we judge to be of fundamental importance in the financial statements that we consider it necessary to draw attention to in an emphasis of matter paragraph.

There are no matters relevant to users' understanding of the audit that we consider necessary to communicate in an other matter paragraph.



Other reporting responsibilities

The Annual Report is reviewed in its entirety for material consistency with the Annual Accounts and the audit work performance and to ensure that they are fair, balanced and reasonable.

Opinion on regularity

In our opinion in all material respects the expenditure and income in the Annual Report and Accounts were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

Our opinion on matters prescribed by the Auditor General for Scotland are discussed further on page [17](#).

2.7 Your Annual Report and Accounts

We are required to provide an opinion on the auditable parts of the Remuneration and Staff report, the Annual Governance Statement and whether the Performance Report is consistent with the disclosures in the accounts.

	Requirement	Deloitte response
The Performance Report	The report outlines the Care Inspectorate's performance, both financial and non-financial. It also sets out the key risks and uncertainties faced by the Care Inspectorate.	<p>We have assessed whether the Performance Report has been prepared in accordance with the Accounts Direction. We have also read the Performance Report and confirmed that the information contained within is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading.</p> <p>We provided management with comments and suggested changes which management have updated in the revised draft.</p>
The Accountability Report	Management have ensured that the accountability report meets the requirements of the FReM, comprising the governance statement, remuneration and staff report and the parliamentary accountability report.	<p>We have assessed whether the information given in the Annual Governance Statement is consistent with the Annual Report and Accounts and has been prepared in accordance with the accounts direction. No exceptions noted.</p> <p>We have also read the Accountability Report and confirmed that the information contained within is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading. We provided management with comments and suggested changes and we are waiting on the updated annual report and accounts.</p> <p>We have also audited the auditable parts of the Remuneration and Staff Report and confirmed that it has been prepared in accordance with the accounts direction.</p>

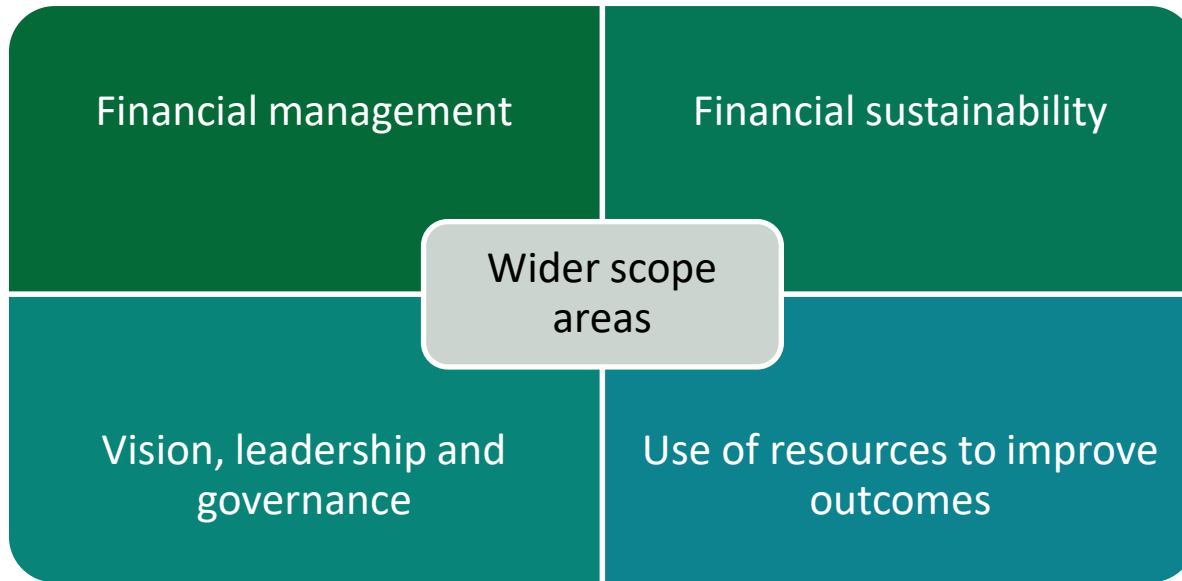
Wider scope audit



3.1 Wider scope requirements

Overview

As set out in our audit plan, Reflecting the fact that public money is involved, public audit is planned and undertaken from a wider perspective than in the private sector. The wider scope audit specified by the Code of Audit Practice broadens the audit of the accounts to include consideration of additional aspects or risks in the following areas.



In its planning guidance, Audit Scotland has also highlighted the following national or sectoral risks that the Auditor General and Accounts Commission wish auditors to consider at all bodies during the 2022/23 audits:

- Climate change.
- Cyber security.

Our audit work has considered how the Care Inspectorate is addressing these and our conclusions are set out within this report, with the report structured in accordance with the four dimensions. Our responsibilities in relation to Best Value ('BV') have all been incorporated into this audit work.

3.2 Wider scope requirements (continued)

Financial management

Is there sufficient financial capacity?



Is there sound budgetary processes in place?



Is the control environment and internal controls operating effectively?



Financial Management

Significant risks identified in Audit Plan

We did not identify any significant risks in relation to financial management during our planning work. We therefore restricted our audit work to reviewing the budget monitoring to the Board during the year to assess whether financial management and budget setting has continued to be effective.

We did note the upcoming changes to the leadership of the shared service function with Scottish Social Services Council (SSSC) which could impact on the capacity of the finance team within the Care Inspectorate. We have therefore continued to monitor any impact this has had.

Current year financial performance

The 2022/23 budget of £43.149 million was approved by the Board on 22 March 2022. The approved budget was a deficit position of £3.3 million, which was balanced by the agreement to draw £2 million from reserves and £0.7 million letter of comfort from the Scottish Government. The agreement to draw on reserves resulted in the general reserves balance expected to reduce to the target range set out in the financial strategy. The budget was updated throughout the year to reflect minor change to specific funding with the revised budgeted deficit of £2.594 million at the end of the year.

The Care Inspectorate reported a smaller surplus of £11,000, i.e., a variance of £2.605 million against its budget. The key reason for the variance was the receipt of additional grant-in-aid of £2 million during the year to support the anticipated settlement of the 2022/23 pay award and other budget pressures.

The Senior Leadership Team and Board regularly review progress against budget through the year, with quarterly reporting to the Board. Any variances arising during the year are clearly reported and there is a clear link between the financial information reported in the year and the Annual Report and Accounts.

3.3 Wider scope requirements (continued)

Financial management (continued)

Finance capacity

The finance team continues to be led by the Head of Finance and Corporate Governance, with the team continuing to be stable throughout the year. The Head of Finance and Corporate Governance also has a role as the Head of Shared Services.

While there have been a number of changes at an operational level within the shared service finance team in the year, and time is needed for the new team to embed, we have not identified any risks with the team's capacity that has impact on the operational financial management of the Care Inspectorate.

In view of the recent changes in the leadership of the shared service function, the Care Inspectorate and SSSC have reviewed the arrangements and concluded that the strategic accounting and budgeting functions will now be directly controlled by the respective organisations and remove from the shared service agreement. This provides clarity on the arrangements that are currently in practice with the two teams effectively operating independently. The transaction services will continue to be provided by the shared service as this has operated successfully for both organisations for many years.

In view of these changes, the Care Inspectorate are reviewing the finance team structure to ensure there is sufficient capacity at a strategic level.

Internal controls and internal audit

The Care Inspectorate relies upon the financial systems provided by the Scottish Government, in particular the general ledger, receivables ledger, purchase ledger and payment of invoices. A detailed Framework Agreement is in place, which was signed in June 2019.

We have assessed the internal audit function, including its nature, organisational status and activities performed. We have reviewed all internal audit reports published throughout 2022/23. The conclusions have helped inform our audit work, although no specific reliance has been placed on this work.

The 2022/23 Internal Audit Plan was approved by the ARC in February 2022 and comprised ten planned reports, covering 60 audit days. Detailed reports are provided to the Committee for each project.

Standards of conduct for prevention and detection of fraud and error

We have assessed the Care Inspectorate's arrangements for the prevention and detection of fraud and irregularities. This has included specific considerations in response to the Audit Scotland's publication "Fraud and irregularities 2021/22 – sharing risks and case studies to support the Scottish public sector in the prevention of fraud". Overall, we found the arrangements to be to be designed and implemented appropriately.

3.4 Wider scope requirements (continued)

Financial management (continued)

National Fraud Initiative (NFI)

A number of central government bodies, including the Care Inspectorate are participating in the most recent NFI exercise. We have monitored the Care Inspectorate's participation and progress in the NFI exercise.

The ARC considered the outcome of the 2022/23 exercise at its meeting in May 2023, including the self-appraisal checklist in line with the recommendations in Audit Scotland report.

The Care Inspectorate has concluded its review of the matches identified, with all matches investigated. One instance of potential fraud in relation to a duplicate invoice was investigated and additional controls have been identified to prevent similar instances. Another fraud investigation has been referred to NHS Counter Fraud Services and reported to Audit Scotland. This was reported promptly to the Audit Committee, providing assurance that action was being taken.

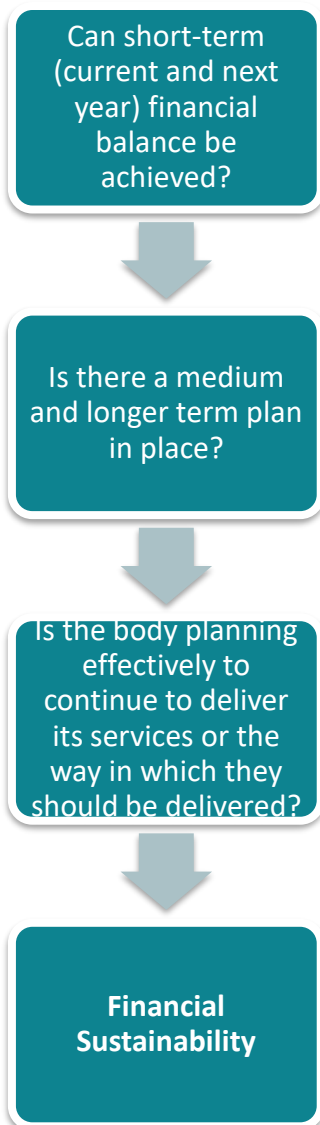
Deloitte view – financial management

The Care Inspectorate continues to have effective budget setting and monitoring arrangements in place. This is supported by an experienced Head of Finance and Corporate Governance and a robust internal audit function, as well as appropriate arrangements for the prevention and detection of fraud and error.

While there have been a number of changes to the finance team of the shared service in the year, and time is needed for the new team to be embedded, we have not identified any risks with the team's capacity that has impact on the financial management of the Care Inspectorate. We also recognise the recently approved changes to the shared service function, with the strategic accounting and budgeting functions now be directly controlled by the respective organisations. No risks have been identified from this change.

3.5 Wider scope requirements (continued)

Financial sustainability



Significant risks identified in Audit Plan

In our audit plan we highlighted that the Care Inspectorate was projecting significant deficits in future years. As a result, we identified a significant risk that the Care Inspectorate does not have sufficient plans in place to manage its finances sustainably, deliver its statutory function and meet its objectives set out within its Corporate Plan over the medium to longer term.

2023/24 budget setting

The 2023/24 budget was approved by the Board in March 2023, following consideration and review by budget managers and the SLT to identify priorities. In recognition of the challenging financial position, the Board had agreed at its September 2022 meeting to convene a member/officer working group to enable an earlier start to the final planning process and consideration of all possible scenarios that might emerge. Discussions were also held with the Sponsor Department and Health Finance within Scottish Government in advance of consideration by the Board.

In a similar approach to 2022/23, discussed on page [20](#), the initial budget was a deficit position, as summarised below, with agreement to fund in part by drawing on the general reserve and through additional funding provided in-year by the Scottish Government. The Scottish Government Sponsor Department has provided a letter of comfort providing a commitment to fund up to £2.050 million in 2023/24 to support this position. The use of the general reserve will reduce this to the minimum level set out within the financial strategy.

	Operating budget (£m)	Stage 2 Business and Digital Transform (£m)	Expenditure funded by Specific Grant (£m)	Total Budget (£m)
Net Expenditure	42.486	2.746	2.226	47.458
Grant-in-aid (GiA) and grants	(28.078)	(0.746)	(1.969)	(30.793)
Fees	(11.900)	-	-	(11.900)
Letter of Comfort	(2.050)	-	-	(2.050)
Deficit	0.458	2.000	0.257	2.715

3.6 Wider scope requirements (continued)

Financial sustainability (continued)

2023/24 budget setting (continued)

The budget papers clearly set out the assumptions that have been applied in developing the budget.

The approved budget clearly sets out the risks associated with the budget, and in particular the fact that the in-year funding available is not sufficient to meet the core operating costs.

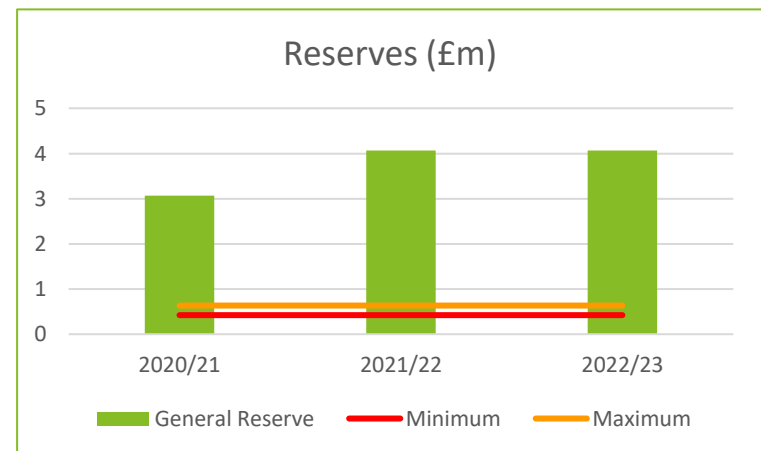
. Other risks identified include:

- **Inflation** – over recent years, pay and general inflation costs have to a significant extent been absorbed by the Care Inspectorate budget over several years. The cost of living crisis has made this difficult, if not impossible to do and while inflation is anticipated to reduce over the next two years, upward pressure on pay and prices are still expected which remains a risk.
- **National Care Service Change and Independent Review of Inspection, Scrutiny and Regulations** – while the impact of these is currently unknown, management has noted that there is little capacity and no funding for additional resources if preparatory work is required.
- **Inspector Resource** – improvements in recruiting to vacant posts is a positive step, however, this reduces the flexibility in the budget, where previously held vacancies have supported managing the overall budget.
- **Public inquiries** – the budget includes £200,000 each year for additional legal fees arising from supporting public inquiries. This estimate could change significantly and there is no provision for additional staff time that may require to be directed towards supporting inquiries.

Reserves

The Care Inspectorate is in the unusual position as a central government body where it holds reserves. The level of reserves held are considered as part of the budget setting process each year and any use, including carry forward, is agreed with Scottish Government. The Care Inspectorate policy is to maintain a target of between 1% and 1.5% of gross expenditure (£425,000 to £636,000) as a general reserve.

The balance held at 31 March 2023 is illustrated below, showing the balance held is significant above the target level. This has largely been achieved due to the additional grant-in-aid of £2 million received in 2022/23 to support the anticipated settlement of the 2022/23 pay award and other budget pressures. As noted earlier, the 2023/24 budget has been agreed on the basis of using general reserves to fund the deficit, which would bring the balance down the target level by the end of 2023/24.



3.7 Wider scope requirements (continued)

Financial sustainability (continued)

Medium-to-long term financial planning

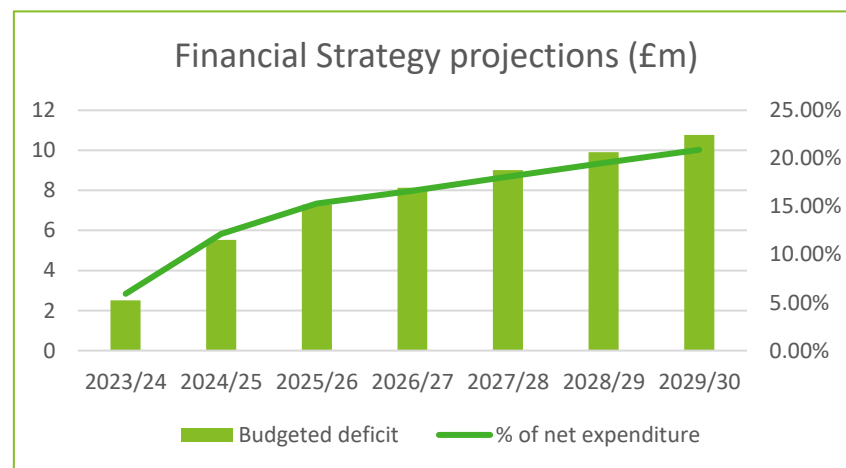
The Board approved an updated Financial Strategy in August 2023 covering the period 2023/24 to 2029/30. This covers a period beyond the current Corporate Plan which covers the period 2022-2025 and has been developed to help the Care Inspectorate ensure its sustainability, by providing a framework that enables resources to be managed and prioritised effectively within the financial constraints. It also assists in quantifying future resource needs, including the need for investment and will enable the Care Inspectorate to develop a fully considered response to opportunities that have associated long term financial implications. It therefore is a key enabler to the corporate plan.

The strategy sets out the following financial strategy objectives:

1. To achieve long term financial security.
2. To invest appropriately in our key resources and capabilities over the medium-to-long term.
3. To plan and control the financing of developments.
4. To integrate and harmonise financial and other strategies.

The Strategy incorporates a number of areas of best practice, including a clear understanding of the business model and its costs, savings options, scenario planning and sensitivity analysis.

As part of approval of the 2023/24 budget, the Board was presented with high level projected budget position for 2024/25 and 2025/26. This is illustrated below along with projections to 2029/30 included in the Financial Strategy. This demonstrates that the Care Inspectorate is in an increasingly challenging financial position. While the 2023/24 position is being managed through one-off use of reserves and letter of comfort, a sustainable solutions is needed for future years. It is critical that this is progressed to allow any changes to be made in sufficient time to generate the savings required from 1 April 2024 if no additional funding is available.



3.8 Wider scope requirements (continued)

Financial sustainability (continued)

Medium-to-long term financial planning (continued)

The Strategy recognises that as 84% of costs are staff costs, this needs to be the key area of focus. A thematic review is being undertaken of the Inspector resources, looking at recruitment and retention, resource planning, job design, reward and digital capability. Inspector resources are currently determined through the use of resource models based on Scrutiny and Assurance Strategy, Scrutiny and Improvement Plan, the profile of care services and scrutiny and improvement activity times. This was last reviewed in 2015/16 and service profiles and activity requirements and timings have changes since then.

Management has also recognised it needs to improve its ability to describe the impact on the protection, assurance and improvement it can deliver at different levels of resource allocation.

Another factor considered in the Strategy is the fee structure. The Scottish Government sets the maximum fees the Care Inspectorate may charge and any changes to this require public consultation. The fees have not increased since 2005/06. The strategy recognises that any increase to fees will be complex, but calculates that an average 10% increase to fee rates would generate additional annual income of £1.2 million. Increasing care home fees from the current £157 per place to the current statutory maximum of £165 per place would generate additional income of circa. £320,000.

Digital Transformation

The Care Inspectorate is progressing with stage 2 of its Business and Digital Transformation programme which is expected to continue to 2027/28. Stage 1 commenced in 2017 to replace high risk, end of life legacy systems with a digital platform to support registration and complaints operations. Stage 1 concluded in March 2022 and laid the foundation for the next phase of the transformation programme. The Care Inspectorate has identified that legacy systems are at a high risk of failure. A Business Case demonstrating the case for further investment to support Stage 2 of the programme was approved by the Scottish Government and additional funding of £8m has been confirmed.

An IT and Digital Transformation Strategy was agreed by the Strategic Leadership Team in August 2022. As part of its 2022/23 audit programme, internal audit carried out a review of the adequacy and effectiveness of the governance, processes and controls over the definition, maintenance and delivery of the IT and Digital Transformation Strategy. The overall level of assurance provided was “good” indicating the system meets control objectives.

Regular updates are currently provided to the ARC on the digital programme. The Board have recently agreed to create a Digital Programme Board, being a sub committee of the ARC, to ensure that the programme is closely monitored.

3.9 Wider scope requirements (continued)

Financial sustainability (continued)

Medium-to-long term financial planning (continued)

As part of the Spending Review, the Scottish Government expects bodies to set an annual efficiency target of 3% and also expects them to explore the scope to maximise the use of shared services across the public sector landscape. We have considered each of these elements as applicable to the Care Inspectorate as follows.

Savings targets

The Financial Strategy includes a section on “efficiencies and savings options” where it recognises that the options identified have limited potential to generate significant budget reductions. It therefore concludes that if additional funding is not made available, then a reduction in activity will be necessary.

The stage 2 Business and Digital Transformation business case was prepared on the premise that efficiencies will be treated as time releasing efficiencies to be re-invested into added value scrutiny and improvement activities. At the end of Stage 2, it is anticipated there will be additional recurring costs of £850,000 as opposed to a saving. This additional cost and additional grant in aid to support these costs are included in the outline budget.

Use of shared services

The Care Inspectorate currently have a number of shared service agreements in place, in particular the shared service function with SSSC which includes finance, procurement, HR and Estates and Health and Safety.

As part of the internal audit plan for 2022/23, they carried out a review of the shared service and in particular building on previous shared service reviews that were conducted in May 2021 and August 2021. This audit considered the way in which the shared service specification has been embedded and reviewed the extent to which the new arrangements introduced in 2021 are delivering the anticipated benefits in service delivery. The overall level of assurance provided was “satisfactory” indicating that the system meets the control objectives with some weaknesses present. An Action Plan, with 4 recommendations, has been agreed with management for implementation.

3.10 Wider scope requirements (continued)

Financial sustainability (continued)

Deloitte view – Financial sustainability

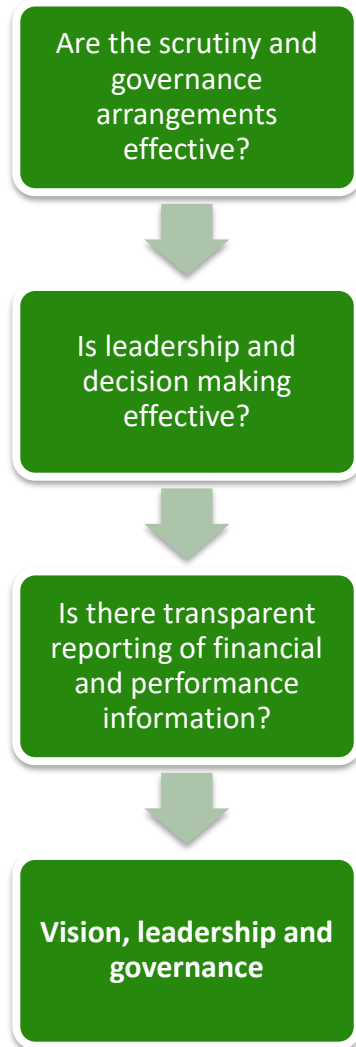
The Care Inspectorate has achieved financial balance in 2022/23 and has confirmed funding for 2023/24, however there remains a gap between the funding confirmed and the expected costs to deliver the services. While the 2023/24 position is being managed through one-off use of reserves and letter of comfort from Scottish Government, a sustainable solution is needed for future years. The medium to longer term projections are showing an increasingly challenging financial position, with a deficit of £10.775m by 2029/30 if no action is taken, representing 20% of net expenditure. There therefore remains a risk that the Care Inspectorate is not financially sustainable.

A comprehensive financial strategy is in place, and the Care Inspectorate has a clear understanding of its cost pressures and risks faced. While the strategy sets out areas for potential efficiencies and savings options, management has made it clear that the options identified have limited potential to generate significant budget reductions. It therefore concludes that if additional funding is not made available, then a reduction in activity will be necessary. Any changes to the fee structure would require public consultation and agreement from Scottish Government.

A thematic review of the Inspector resource is planned, and work is progressing to implement Phase 2 of the Business and Transformation programme.

3.11 Wider scope requirements (continued)

Vision, leadership and governance



Significant risks identified in Audit Plan

In our audit plan, we identified an increased risk around the effectiveness of the governance and leadership arrangements in place as a result of changes in the Board during the year as well as a new Chief Executive being appointed in September 2022.

Vision and strategy

The current Corporate Plan covers the period 2022-25. This clearly sets out the vision, mission and values of the organisation. Plans are in place to review this at the end of year 1 as part of a Board development session.

“The Care Inspectorate’s vision is for world-class social care and social work in Scotland, where everyone, in every community, experience high quality care, support and learning, tailored to their rights, needs and wishes”

The plans sets out the following four strategic outcomes, along with the associated key priorities across the period of the Plan:

1. High quality care for all.
2. Improving outcomes for all.
3. Everyone’s rights are respected and realised.
4. Our people are skilled, confident and well supported to carry out their roles.

The Corporate Plan also sets out how the Care Inspectorate’s work supports the deliver of the National Performance Framework and is focused on delivering the National Outcomes.

The Care Inspectorate measure its impact over the lifetime of the strategic plan through a series of measures and indicators, which we have considered further on page [32](#).

3.12 Wider scope requirements (continued)

Vision, leadership and governance

Leadership

As noted on the previous page, a new Chief Executive was appointed during 2022/23 as was a new Chair of the Board, therefore there has been a period of change. The transitions have been well managed and from our audit work we have identified a positive culture with the new leadership bringing a fresh perspective. This includes the introduction of more informal Board discussions and working groups, separate from the formal Board meeting, to allow the Board to enhance its understanding of the strategic issues of the Care Inspectorate.

In line with good practice, the Board has a programme of development sessions throughout the year.

Governance and scrutiny arrangements

The Scottish Government Framework Agreement was last signed in 2019. This sets out the broad framework within which the Care Inspectorate operates and defines key roles and responsibilities which underpin the relationship between the Care Inspectorate, Scottish Ministers and the Scottish Government sponsor team.

The ARC continues to be a key element of the governance arrangements in place. In line with good practice, the Committee carries out an annual self assessment of its effectiveness, the outcome of which was reviewed by the ARC in March 2022. Key actions arising from the assessment were minute'd for follow-up.

The ARC also provide oversight and scrutiny of the risk management activity. An updated Strategic Risk Register was reviewed by the ARC in May 2023, with updates provided on the work being done to mitigate the strategic risks.

We have reviewed meetings attendance from the past year and confirm that there has been generally well attended. In addition, from review of the minutes and observation at meetings, we can confirm that there is sufficient scrutiny and challenge exercised by members during the meetings.

Transparency of reporting

All Board minutes and papers are publicly available through the Care Inspectorate website. Board meetings also continue to be held in public in line with good practice.

The Care Inspectorate website includes a comprehensive suite of information including links to strategies and plans, annual report and accounts and key statistics, thereby demonstrating openness and transparency of decision making and performance information (which is considered further on page [31](#)).

Deloitte view – Vision, leadership and governance

The Corporate Plan clearly sets out the vision and strategic priorities of the Care Inspectorate. The Leadership of the Care Inspectorate has undergone a period of change with the transition to new Chief Executive and the new Chair of the Board being well managed, with a positive culture and fresh perspective. The governance arrangements continue to operate effectively and the Care Inspectorate continues to be open and transparent.

3.13 Wider scope requirements (continued)

Use of resources to improve outcomes



Significant risks identified in Audit Plan

In our audit plan we highlighted that due to the significant financial challenges and the significant uncertainties around the National Care Service and the Independent Care Review and how they will impact the Care Inspectorate, there was an increased risk that the Care Inspectorate is unable to demonstrate the best use of resources to improve outcomes.

Performance management framework

A comprehensive performance management framework is in place. Within the Corporate Plan, discussed on page [30](#), against each strategic outcome, a number of key priorities are identified, along with how performance will be measured through:

- Key Outcome Indicator (KOI)
- Key Performance Indicators (KPI)

Internal Audit carried out a review of the Performance Reporting and KPI's during 2022/23. The scope of the review considered the format, content and timeliness of performance management information both financial and non-financial, provided to management, the Board and to external stakeholders. The overall assurance level provided was “good” indicating the system meets the control objectives.

As highlighted in his blog “Christie 10-years on” [Blog: Christie 10-years on | Audit Scotland \(audit-scotland.gov.uk\)](#), the Auditor General for Scotland noted that Christie challenged us to make a shift towards prevention and deliver improved long term outcomes for individuals and communities. But we still measure the success of public services by short-term, service specific measures. Public bodies need to rethink radically how we measure success and hold organisations to account for their performance. It is positive to see the Care Inspectorate’s focus on both Key Performance Indicators and Key Outcome Indicators, demonstrating that commitment in focussing on outcomes.

3.14 Wider scope requirements (continued)

Use of resources to improve outcomes

Performance data

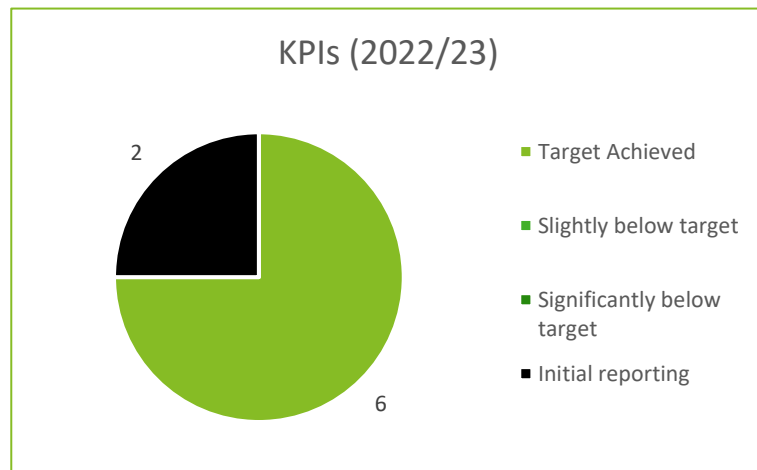
A summary of the performance reported to the Board during the year is provided in the chart below. The reporting to the Board has changed during the year, with the new style reports introduced from Q4, reported to the May 2023 Board meeting. These provide both high level information on whether targets have been achieved at a point in time, but also provide trend information in graph form to allow Board members to see any specific variations in performance.

The detail provided to the Board on KOI's clearly shows that management is actively managing its performance, with clear actions agreed in response to reviewing the analysis.

Deloitte view –Use of resources to improve outcomes

The Care Inspectorate has a clear performance management framework in place. Regular reporting on performance is provided to the Board. The Corporate Plan also sets out how the Care Inspectorate contribute to the Scottish Government National Performance Framework. In line with best practice, the Care Inspectorate monitors both Key Performance Indicators and Key Outcome Indicators, thereby demonstrating its focus on outcomes in line with the Christie report.

The Care Inspectorate has continued to perform well during 2022/23, actively managing its performance and taking appropriate action and recognising the risks that remain.



3.15 Wider scope requirements (continued)

Best value

Requirements

The Scottish Public Finance Manual (SPFM) explains that Accountable Officers have a specific responsibility to ensure that arrangements have been made to secure Best Value (BV).

Ministerial guidance to Accountable Officers for public bodies sets out their duty to ensure that arrangements are in place to secure Best Value in public services. As part of our wider scope audit work, we have considered whether there are organisational arrangements in place in this regard.

The duty of BV in Public Services is as follows:

- To make arrangements to secure continuous improvement in performance whilst maintaining an appropriate balance between quality and cost; and in making those arrangements and securing that balance;
- To have regard to economy, efficiency, effectiveness, the equal opportunities requirements, and to contribute to the achievement of sustainable development.
- BV characteristics have been recently regrouped to reflect the key themes which will support the development of an effective organisational context from which public services can deliver key outcomes and ultimately achieve best value:
 - Vision and Leadership
 - Governance and Accountability
 - Use of resources
 - Partnership and collaborative working
 - Working with Communities
 - Sustainability
 - Fairness and equality

Conclusions

The Care Inspectorate has a number of arrangements in place to secure best value. As noted elsewhere within this report, the Corporate Plan provides a clear vision and has specific focus on some of the BV characteristics including partnership and collaboration, sustainability and a focus on continuous improvement. The leadership has seen a period of change during 2022/23, with the transition managed well and a positive culture and fresh perspective.

Financial sustainability remains a key risk, as is the case across the public sector. The updated Financial Strategy sets out a clear picture of the risks faced, making it clear that if additional funding is not made available, then a reduction in activity will be necessary.

Deloitte view – Best Value

The Care Inspectorate has sufficient arrangements in place to secure best value. It has a clear understanding of areas which require further development. Financial sustainability remains a key risk.

3.16 Wider scope requirements (continued)

Climate change

Risks identified in Audit Plan

Tackling climate change is one of the greatest global challenges. The Scottish Parliament has set a legally binding target of becoming net zero by 2045 and has interim targets including a 75% reduction in greenhouse gas emissions by 2030. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impact of climate change.

The Auditor General and Accounts Commission are developing a programme of work on climate change. This involves a blend of climate change-specific outputs that focus on key issues and challenges as well as moving towards integrating climate change considerations into all aspects of audit work. For the 2022/23 audit, we have provided responses to a series of questions supplied by Audit Scotland to gather basic information on the arrangements for responding to climate change in each body. These are summarised below.

Question	Care Inspectorate position
1. What targets has the body set for reducing emission in its own organisation or in its local area?	Within its Carbon Management Plan (CMP) 2018-2023, the Care Inspectorate set itself a target to reduce carbon emissions by 28% on a baseline of 2015-16. This equates to a figure of 956 tonnes CO ₂ e in 2023. An update against this target has been reported as part of the 2022/23 Annual Report and Accounts, which reports that it has continued to exceed targets across all areas of scope. Due to Covid-19, there has been considerable reduction across all areas since 2020/21.
2. Does the body have a climate change strategy or action plan which sets out how the body intends to achieve its targets?	The Care Inspectorate has a CMP covering the period 2018-2023, which replaced the previous plans first published in 2012. This set out existing projects that have been completed since 2014 which have already contributed to the Care Inspectorate's carbon reductions and corresponding savings. The 2018-2023 Plan sets out future measures focussing on energy, travel and transport, waste and water. Clear roles and responsibilities are set out within the plan, with the Chief Executive being the champion of the project and the Executive Director of Corporate and Customer Services overseeing the strategic implementation. The Care Inspectorate manage its carbon emissions in partnership with SSSC as part of its shared service provision, with an updated CMP for the period 2023-2026 being developed.

3.17 Wider scope requirements (continued)

Climate change

Question	Care Inspectorate position
3. How does the body monitor and report progress towards meeting its emissions targets internally and publicly?	<p>The CMP sets out that an annual review will take place including progress towards overall carbon reduction targets, financial savings, risk register and wider benefits. This annual progress is published on the Care Inspectorate intranet. An update is then published within the Annual Report and Accounts.</p> <p>The Care Inspectorate monitor and report on carbon emissions to the Scottish Government, with data published on the Sustainable Scotland Network website.</p>
4. Has the body considered the impact of climate change on its financial statements?	<p>No specific consideration has been given to the impact of climate change on the financial statements. Given the type of public sector organisation, based in 14 office locations which are all leased or shared with other Scottish Government bodies, the expected impact on the financial statements is minimal.</p>
5. What are the areas of the financial statements where climate change has, or is expected to have, a material impact?	<p>As above, given the type of public sector organisation, the expected impact on the financial statements is minimal. Areas that are being considered around hybrid working, travel and transport and waste management are likely to have an impact on the ongoing annual costs recognised in the financial statements.</p>
6. Does the body include climate change in its narrative reporting which accompanies the financial statements and is consistent with those financial statements?	<p>The Care Inspectorate has included a section on sustainability within the Annual Report and Accounts setting out its achievements to date in reducing emissions.</p>

Deloitte view – Climate change

As a public sector body with leased or shared office accommodation with other public sector bodies, and as a consequence relatively low carbon emissions, the opportunities for emissions reductions are limited.. The Corporate Plan has a clear commitment on managing its impact on the environment, with a detailed Carbon Management Plan in place. The Annual Report and Accounts also includes a section on achievements to date. It is therefore clear that the Care Inspectorate is committed to take action to meet the Scottish Government’s ambitious targets.

3.18 Wider scope requirements (continued)

Cyber risk

Area	Management actions	Impact on Care Inspectorate Annual Report and Accounts	Impact on our audit
Cyber risk	<p>The Care Inspectorate recognise cyber risk as a strategic risk which is regularly monitored by the ARC.</p> <p>A Security Improvement Plan has been developed. With phase 2 planned for 2023/24 to include:</p> <ul style="list-style-type: none">• Establishing a Cyber Security Strategy;• Extending staff security awareness, using new training courses and materials;• Developing continuity plans to link Business Continuity and Cyber Security;• Establishing a management system to evidence all security policy and controls in life; and• Establishing an enduring capability to support the ongoing development of Cyber Security.	<p>Reference to the developments planned to further strengthen cyber security during 2023/24 has been included within the Annual Governance Statement.</p>	<p>We have obtained an understanding the business and its internal controls in relation to cyber including assessing the maturity and coverage of the entity's cyber risk management programme.</p> <p>We obtained an understanding of the relevant laws and regulations in relation to the entity.</p>

4.1 Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to help the Audit and Risk Committee and the Board discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA (UK) 260 to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations on the quality of your Annual Report.
- Our internal control observations
- Other insights we have identified from our audit.

The scope of our work

Our observations are developed in the context of our audit of the Annual Report and Accounts.

We described the scope of our work in our audit plan.

Use of this report

This report has been prepared for Care Inspectorate, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

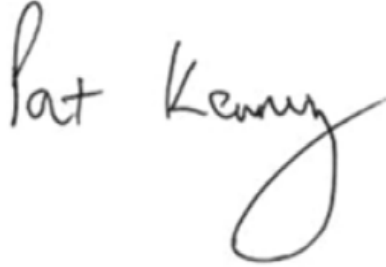
What we don't report

As you will be aware, our audit was not designed to identify all matters that may be relevant to Care Inspectorate.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

We welcome the opportunity to discuss our report with you and receive your feedback.



Deloitte LLP
Glasgow | 31 October 2023

Appendices



5.1 Our other responsibilities explained

Fraud responsibilities and representations



Responsibilities:

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

Required representations:

We have asked the Care Inspectorate to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you are not aware of any fraud or suspected fraud that affects the entity.

We have also asked the Care Inspectorate to confirm in writing their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error and their belief that they have appropriately fulfilled those responsibilities.



Audit work performed:

In our planning we identified the risk of fraud in management override of controls, completeness of fee income and operating within the revenue budget as key audit risks.

During the course of our audit, we have had discussions with management and those charged with governance.

In addition, we have reviewed management's own documented procedures regarding fraud and error in the financial statements.

We have reviewed the paper prepared by management for the Audit and Risk Committee on the process for identifying, evaluating and managing the system of internal financial control

We will explain in our audit report how we considered the audit capable of detecting irregularities, including fraud. In doing so, we will describe the procedures we performed in understanding the legal and regulatory framework and assessing compliance with relevant laws and regulations.

Concerns:

No issues or concerns have been identified in relation to fraud.

6.1 Independence and fees

As part of our obligations under International Standards on Auditing (UK), we are required to report to you on the matters listed below:

Independence confirmation We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Care Inspectorate, and our objectivity is not compromised.

Fees The expected fee for 2022/23, as communicated by Audit Scotland in December 2022 is analysed below:

	£
Auditor remuneration	40,860
Audit Scotland fixed charges:	
• Pooled costs	(650)
• Audit support costs	1,160
• Sectoral cap adjustment	3,550
Total expected fee	44,920

There are no non-audit fees.

Non-audit services In our opinion there are no inconsistencies between the FRC's Ethical Standard and the Board's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise, as necessary.

Relationships We have no other relationships with the Board, its directors, senior managers and affiliates, and have not supplied any services to other known connected parties.

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