Care Inspectorate

External Audit Annual Report to the Board and the Auditor General for Scotland for the financial year ended 31 March 2019

Final Report 11 October 2019

Joanne Brown
Engagement Leader

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Our audit at a glance

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

Materiality has been updated based on the unaudited 2018/19 financial statements to £830,000 (2% of gross 2018/19 expenditure).

Performance materiality is £622,500 and we have reported to management any audit adjustments identified over £41,500 (5% of materiality).

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

Our risk assessment remained unchanged and we did not identify any audit adjustments related to our significant audit risks.

An audit underpinned by quality

We have built on our relationship with Care Inspectorate management during the year and we thank management for their support and assistance during the audit process.

We have issued an unmodified audit opinion for the financial year 2018/19.

There were delays in the audit process, compared with the timetable agreed, due to unplanned staff absences and annual leave. We will review the audit timeline with management to re-look at the best audit timing for 2019/20.

The draft financial statements produced by management were complete (with the exception of the remuneration report which we received later in the audit process) and supported by working papers.

A wider scope audit for Care Inspectorate, as set out in our plan, was considered not appropriate. However, we do conclude on financial sustainability and the governance statement disclosures, as required by the Code. Care Inspectorate have a medium term financial strategy covering 2018/19 to 2024/25 which is clear in the scenarios it considers and future financial forecasts. This strategy highlights a potential deficit of £5.439 million by 2024/25.

Contents

Adding value through our external audit work

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

Throughout 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, including a meeting with the new Chief Executive, Peter Macleod, where we discussed the development of the updated Corporate Plan.

Introduction

This report is a summary of the findings from our external audit work for the financial year ended 31 March 2019.

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.

This final report will be made publically available on the Audit Scotland website (www.audit-scotland.gov.uk)

Our report was presented as a draft to the Care Inspectorate Audit Committee on 12 September 2019.

Care Inspectorate took this report alongside the final 2018/19 financial statements to the Board meeting on 26 September 2019 where the financial statements were approved for signing. The financial statements were then signed by the Care Inspectorate's Accountable Officer on 10 October 2019.

We would like to thank Care Inspectorate management and the finance team for all the help throughout the year to support the audit process.

Structure of this report

As set out in our Audit Plan (March 2019) we consider Care Inspectorate, in accordance with the Audit Scotland Code of Practice, to be a smaller body. Therefore full wider scope is not appropriate. Our report concludes on our financial statements audit and certain aspects of Care Inspectorate's arrangements as follows:

The Financial Statements Audit – Pages 5 to 8

Financial sustainability and governance statement commentary – Pages 9 to 12

Our Opinion

For the financial year ended 31 March 2019 we have issued an **unmodified audit opinion** in respect of:

- 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 set of financial statements in accordance with the agreed timetable on 24 June 2019. These included the Performance and Strategic report as well as the Governance Statement, however the renumeration report was not included. This was due to a delay in the provision of CETV figures. The complete remuneration report was received on 2 August 2019.

We identified no unadjusted differences to report to the Audit Committee. However, during the course of the audit it was noted that, due to McCloud/Sargeant judgement with respect to pension age discrimination, the IAS 19 pension disclosures were materially understated. Management obtained a revised actuarial valuation and adjusted the IAS 19 pension amounts and removed the related contingent liability.

We identified minor disclosure amendments and these have been reflected in the financial statements.

The financial statements audit

Our audit work was completed in accordance with International Standards on Auditing (UK) (ISAs) and the Audit Scotland Code of Audit Practice (May 2016). Based on our audit procedures performed we have issued an unmodified audit opinion on the financial statements including:

- they give a true and fair view
- have been properly prepared in accordance with relevant legislation and standards
- the wider information contained in the financial statements, e.g. Performance Overview and Governance Statement, is consistent with the financial statements
- regularity of expenditure
- audited parts of the remuneration and staff report have been prepared in accordance with the guidance

Audit approach and materiality

Our audit approach was set out in our annual audit plan presented to the Audit Committee in March 2019. Our materiality calculations, set out in our plan, were based on the 2018/19 budget, this has been updated to reflect the unaudited 2018/19 financial statements. Overall materiality has been set at £830,000 (2% of gross expenditure) and performance materiality is set at £622,500. (75% of materiality). We report to management any audit adjustments identified over £41,500 (Trivial as 5% of materiality).

We did not identify any additional significant audit risks from those identified in our audit plan. Our work completed in relation to the audit risks identified (management override of controls and risk of fraud in income and expenditure) is set out on page 8.

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, informed by the work of Audit Scotland in their role of Scottish Government external auditors (key financial controls May 2019) as an auditor expert.
- Performed walkthrough procedures on key financial controls; journals, payroll and ledger controls.

Our work over controls is limited to our ISA requirements in understanding an entities control environment. Our audit is not controls based and we do not seek reliance over controls. Our audit is fully substantive in nature.

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

Internal Audit

As set out in our external audit plan we have not placed formal reliance on the work of Scott-Moncrieff, the Care Inspectorate's internal audit provider. We have reviewed the internal audit plan and individual reports issued to date, to consider if any impact on our audit approach. During the year, the internal auditors faced resourcing challenges and this meant that all internal audit activity took place in the last quarter of the financial year. This has been discussed with the Audit Committee and a better phasing of the plan agreed for 2019/20.

The opinion of internal audit for the year was reasonable assurance, which is consistent with prior year.

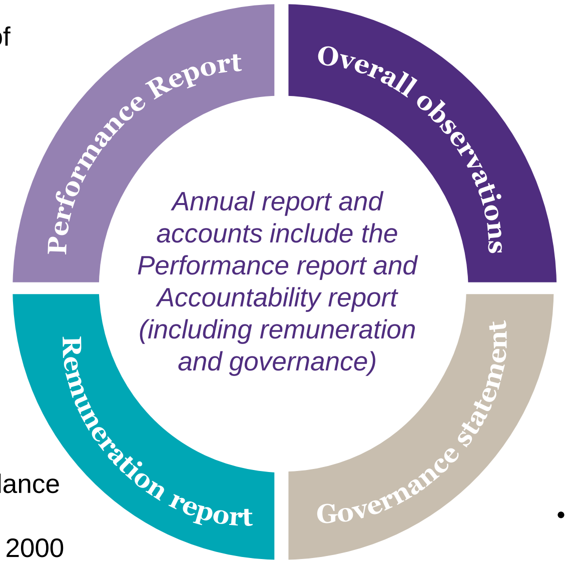
The findings of internal audit do not disagree with our knowledge and understanding of Care Inspectorate as an organisation.

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 and the financial statements and have set out our observations below. We have also audited the required information in the remuneration report (marked audited) and have no matters we wish to bring to your attention.

Performance Report

- The performance report is in line with our understanding of Care Inspectorate and in particular the vision and strategic themes of Care Inspectorate.
- The Accountable Officer's statement is detailed.
- Risks are aligned to Care Inspectorate's internal risk reporting.



Overall observations

- Care Inspectorate should continue to look at how the "front end" of the Annual Report and how the Accounts tells the story of Care Inspectorate as an organisation including strategic priorities, risks, challenges and opportunities. (**PY Action Plan 2**)
- There are further opportunities to continue to focus on the outcomes of Care Inspectorate as an organisation and to make use of graphics as appropriate.

Remuneration Report

- Has been prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions thereunder.
- The senior managers reflected in the report have been correctly identified in accordance with FReM.
- It was noted that the Board Chair had worked more than the 174 days allowed by the appointment letter. (See below and **Action Plan 1.**)

Governance Statement

- As required by the FReM the Governance statement is included in the Accountability report.
- No material issues of governance in year that are required to be reported.
- The governance statement is in accordance with the SPFM.
- The statement is supported by assurances to the Accountable Officer over internal controls.

Board Chair remuneration

During our testing of the Remuneration Report, it was noted that the Board Chair had worked in excess of his maximum number of days (174 days), as confirmed through the appointment letter. The letter states that no fee will be paid for any time devoted to performing functions which exceed the 174 days, however payment was made for time in excess of this limit. The limit was exceeded by six days in 2017/18 and five days in 2018/19.

The Sponsor Department were informed of the circumstances that gave rise to this position and provided retrospective approval.

Management should look to strengthen their controls around monitoring the Board Chair days/hours worked to ensure limits are not exceeded going forward, without first having Scottish Government approval. - **Action Plan 1.**

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 provided our conclusions below.

Care Inspectorate's **accounting policies** are consistent with the FReM. The 2018/19 financial statements reflect the adoption of two new International Financial Reporting Standards (IFRS): IFRS 9 and IFRS 15. Management's assessment of these standards was that they did not have a material impact on the financial statements;

For **IFRS 15**, Care Inspectorate income comes largely from a mixture of Scottish Government grants and fees from service providers. The Care Inspectorate does not earn income from issuing contracts.

For **IFRS 9**, the financial instruments held by the Care Inspectorate are cash, trade receivables and trade payables. Trade receivables and payables are accounted for at fair value through the Statement of Comprehensive Net Expenditure, therefore, there is no impact on the financial statements. We agree with Managements conclusion.

Overall the Care Inspectorate accounts are considered simple accounts with few areas of **estimate or judgement**.

Care Inspectorate are an admitted body to Tayside Superannuation Fund. Due to the nature of Local Government Pension Schemes, these figures can vary materially from year to year. However, this amounts are calculated by an independent actuary (Barnett Waddingham) and tested as part of the audit.

In relation to the audit risk of fraud in respect of expenditure and income, we tested Care Inspectorate's cut off arrangements in particular (**timing of transaction**) and identified no issues in accruals or prepayments which would indicate potential fraud.

There was a **post balance sheet event** at year-end; during the course of the audit it was noted that due to McCloud/Sargeant judgement with respect to pension age discrimination, the IAS 19 pension disclosures were materially understated. Management obtained a revised actuarial valuation and adjusted the IAS 19 pension amounts and removed the related contingent liability. As a result of the McCloud /Sargeant judgement, additional audit testing was carried out which resulted in the audit team having to consult with our internal actuaries to gain assurance that Barnett Waddingham had correctly assessed the impact of the judgement.

The Care Inspectorate, as set out in the performance and accountability reports, consider themselves a **going concern**.

It has an agreed budget with the Scottish Government for 2019/20 and has considered indicative 2020/21 and 2021/22 Budgets, only a one year budget settlement is received.

Given the Care Inspectorate's role as the regulator for a range of care services, carrying out strategic inspections of Local Authorities social work departments and also the Care Inspectorate responsibility for the scrutiny of children's services, it's role is set out in Scottish legislation and we have no reason to believe this legislation will change.

On this basis we agree with managements assertion the going concern criteria is met.

In terms of **uncertainties**, Care Inspectorate had no material uncertainties in the accounts.

Identified audit risks and our conclusions

Within our annual external audit plan we identified **significant audit risks** and our planned approach. We have set out below a summary of the work undertaken over these risks and our audit conclusions

<table>
<tr><th colspan="4">Overview of our audit risks identified at planning and our proposed approach</th></tr>
<tr><th></th><th>Risk of fraud in revenue</th><th>Risk of fraud in expenditure</th><th>Management override of controls</th></tr>
<tr><td>The Risk</td><td>As set out in ISA 240, there is a presumed risk that revenue may be misstated due to improper recognition of revenue.
The Care Inspectorate budget is agreed with Scottish Government with very little change occurring to the agreed budget and therefore there is an inherently lower risk of fraud.
Our presumed risk focuses on fees and charges. Care Inspectorate charges fees to care service providers applying to register a service and once registered an annual continuation of registration fee is charged.
We consider the risk to be prevalent around the year end and therefore focus our audit work on transactions around the year end.</td><td>Operating expenditure is understated or not treated in the correct period (risk of fraud in expenditure) as set out in Financial Reporting Council Practice note 10 (revised) which applies to public sector entities.</td><td>As set out in ISA 240, across all entities there is a presumed risk of fraud being perpetrated by management through its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.
Management override of controls is present in all entities.</td></tr>
<tr><td>Our planned response</td><td>• Walkthroughs of the controls and procedures around material income streams and validation of key controls where appropriate.
• Agree income in year to supporting receipts/invoices/cash.
• Consider income cut off procedures and substantive testing over pre and post year end balances.
• A focus on recoverability of balances at the year end.</td><td>• Walkthrough of the key expenditure controls in place.
• Agree expenditure in year to supporting receipts/invoices.
• Perform cut off at year end on pre and post year end transactions and recording.
• Regularity – Expenditure incurred in accordance with the type/nature of Care Inspectorate as an organisation.</td><td>• A focus on understanding how/where management override of controls may occur.
• Review of the controls over journal entries.
• Understanding key areas of judgement and estimation within the financial statements and the basis for these judgements and the application of accounting policies.
• Reviewing unusual and/or significant transactions.</td></tr>
<tr><td>Our Conclusions</td><td>• Our walkthroughs did not identify any significant control deficiencies within the revenue processes.
Subject to review;
• Our testing did not identify any issues over the completeness and accuracy of income.
• Our testing of cut-off confirmed income transactions were treated in the correct period.
• Our testing of grant income and expenditure confirmed that spending is in line with the conditions of the grant as set out in the award letters.</td><td>• We did not identify any incorrect recording or classification of operating expenditure in the annual accounts based on our substantive audit testing.
• Our testing of cut-off identified transactions sampled were treated in the correct period.
• Our testing confirmed expenditure recorded in the annual accounts was incurred in accordance with the purpose and nature of Care Inspectorate as an organisation and in accordance with relevant laws and regulations.</td><td>We made inquiries of those members of staff who can post and authorise journals related to inappropriate or unusual activity with no concerns noted. We confirmed completeness of journals during the year, and targeted large and/or unusual journals. We noted no issues from our testing.
Care Inspectorate use the Scottish Government accounting system (SEAS) and we have obtained additional understanding over these arrangements through the report provided by Audit Scotland over the SEAS system, in their role as external auditor for the Scottish Government.
Through our substantive audit testing, we did not identify any significant or unusual transactions that are out with the normal course of business.</td></tr>
</table>

Financial sustainability and governance statement commentary

Financial Position 2018/19

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

In 2018/19, Care Inspectorate received income directly of £13.971 million, alongside Grant-in-aid and specific grant income from Scottish Government of £22.944 million (£36.915 million total income). This income was used to cover expenditure of £38.149 million in year, resulting in an in-year deficit of £1.234 million.

In funding the deficit from the reserve balance built up in previous years intentionally by the Care Inspectorate, reduced the reserves to £1.616 million, which is still in excess of the medium term target of holding reserves at between 1.0% (£0.432 million) and 1.5% (£0.648 million) of gross expenditure. Care Inspectorate's actual results are in-line with forecasts during the year.

The Statement of Financial Position shows a net liability position of £16.510 million which has increased from £10.872 million in 2017/18, 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. 78% of Care Inspectorate's expenditure in 2018/19 relates to staff costs (£33.827 million).

Financial Position 2019/20

The draft 2019/20 budget set out in a report to the Board on 28 March 2019, assumed that grant-in-aid will remain at the same level as 2018/19 (£21.714 million). The budget also assumes £1.089 million specific grant funding for business / digital transformation programme, £0.499 million for CAPA 2 (Salaries and employer payroll costs of £0.408 million, admin. costs £0.059 million and transport costs of £0.032 million) and a further £0.205 million as a one year adjustment to the funding to provide time to deal with the financial consequences of the Scottish Social Services Council (SSSC) decision to end shared ICT services (see *Shared services with SSSC – ICT*).

It is assumed fee income will remain at the 2018/19 level of £11.850 million. This provides an expenditure funding figure of £35.357 million. The initial draft budget shows expenditure of £35.581 million, resulting in a budget deficit of £0.224 million funded by reserve balance similar to 2018/19 deficit. The confirmed grant-in-aid was received 1 July 2019. This included additional funding for specific programmes of work in 2019/20.

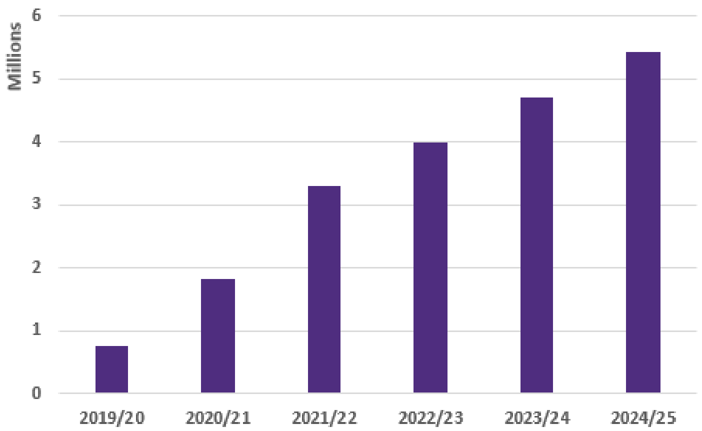
As noted above, the greater than anticipated reserve balance as at 31 March 2019 provides for a better financial position for 2019/20 than was set out in the indicative budget for 2019/20. The base budget deficit of £0.224 million can be funded from the reserve balance whilst still remaining above the 1% to 1.5% (2.32%) of expenditure.

This improved financial position for 2019/20 provides more time to identify further recurring budget reductions and savings that will be required from 2020/21 onwards. Specific initiatives are taking place to look at discretionary spend and targeted staff reductions. The approved budget for 2019/20 reflects future initiatives alongside the need to balance costs to income and the challenges where staffing is a significant cost, and therefore relatively fixed in nature.

Financial Sustainability

According to the Care Inspectorate Financial Strategy, the main financial objectives of Care Inspectorate are to achieve long-term financial security, invest appropriately in their key resources and capabilities over the medium to long term, plan and control the financing of developments and integrate and harmonise financial and other strategies.

The strategy includes assumptions covering pay, pensions, property, reserves and funding and are clearly articulated. Year on year the forecast shows the Care Inspectorate net expenditure increasing which without action would result in a potential deficit of £5.439 million by 2024/25. Any changes in the grant-in-aid assumptions result in large movements in the forecasted deficit;



The strategy document is useful in setting out future trends in expenditure and income based on certain scenarios. The strategy demonstrates the action the Care Inspectorate needs to take if it wants to be financially sustainable in the future. 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 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.

Openness and Transparency

The Care Inspectorate is committed to openness and transparency. Board minutes and papers, corporate plans, polices and governance documents and the strategic risk register are published on the website. The Care Inspectorate recognises the importance of continued engagement with the public through consultation and making information readily accessible.

We noted that the annual accounts are presented to the August Audit Committee allowing members to develop a better understanding of the annual report and accounts as well as additional time for scrutiny of the financial statements. As a result of this, the wider commentary within the annual accounts has been reduced in length from 121 to 99 pages long, increasing the readability and user friendliness of the document, however this is still further opportunities to continue to improve the Annual Report and Accounts. (**PY Action Plan 2**).

Shared services with SSSC – ICT

The Care Inspectorate work in partnership with the SSSC through the sharing of certain support services. The SSSC decided not to continue with shared ICT services in 2017/18 leaving Care Inspectorate with staff over capacity costs of £0.157 million and residual contract costs of £0.048 million. The Scottish Government has agreed to provide non-recurring funding of £0.205 million in transitional costs for 2019/20, as noted above at *Financial Position 2019/20*. There is a further estimated £0.140 million per annum cost associated with the loss of the ability to share costs with the SSSC over supplies and services that are of mutual benefit.

During 2018/19 the two organisations continued to share Finance, Procurement, Estates, Health & Safety, Reception and Human Resources services, alongside certain reduced IT support services. Under the service level agreement in place, the Care Inspectorate Executive Director Corporate & Customer Services spends time dedicated to supporting SSSC.

Following the Section 22 Report on SSSC's arrangements in respect of IT both organisations committed to re-looking at the sharing of services and how this could continue with improved governance, alongside greater clarity over the joint vision for the sharing of services. Both organisations recognise that over time, as each organisation has developed, the service level agreement (last rewritten in April 2015) may no longer support both organisations now alongside the opportunity to re-look at governance and reporting lines.

As a short term measure both organisations agreed to re-establish the shared services group, led by the Executive Director Corporate & Customer Services and agreed an approach to reviewing and monitoring the current service level agreement which remains in place. The service level agreement was refreshed slightly, to reflect the ICT developments, and is in place now to ensure continuation of services whilst the forward looking arrangements are developed.

A piece of work has been commissioned from CIPFA to support both organisations in redefining the vision for shared services. Once this has been defined, the governance arrangements and then operational delivery will be re-reviewed to ensure alignment to the vision. This is a positive development and will ensure that the future shared services agreement will be built on solid foundations and a joint understanding, which both organisations will agree to via the respective Board and Council arrangements. It is anticipated that by January 2020 both organisations will have agreed the vision.

Investment in ICT programme

During the year, the Care Inspectorate commenced an investment in ICT programme, supporting the organisation's wider transformation. Some of this activity is being funded from additional Scottish Government funding of £1.089 million. The additional funding from the Scottish Government is required to be repaid in later years 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 in order to meet the terms of the Scottish Government in repaying the additional funding from savings made - **Action Plan 2.**

EU Withdrawal

It is recognised that the potential impact on the Care Inspectorate as a result of the UK potentially leaving the EU at the end of October is minimal taking into account the nature of the organisation and the organisation's staffing profile. Taking this into account we would conclude, based on the degree of risk, the Care Inspectorate is 'partly prepared'. We note it has been considered as a risk, that management are continuing to monitor as the position develops but as of yet, given nature of Care Inspectorate, it is not captured as a strategic risk on the risk register. Should the position change, or additional guidance be received from Scottish Government this will be reviewed.

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. Of a total of 120 matches, 108 have been processed and 12 were for information only. The majority of the processed items did not require investigation as they were within the risk tolerances.

We found Care Inspectorate's arrangements for participation in the NFI exercise during 2018/19 to be satisfactory. The Care Inspectorate has effective arrangements in place for the submission of data and investigation of potential matches.

Appendices

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.

The following adjustment was identified during the course of the audit and corrected in the financial statements.

Item		Dr (£'000)	(Cr) (£'000)	Description
1	Staff costs	1,460		*Adjustment to recognise defined benefit pension scheme net liability actuarial estimation difference as a result of McCloud/Sargeant judgement.*
	Defined benefit pension liability		(1,460)	*Note there is corresponded movement through reserves to take the charge through the pension reserve.*

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.

There were no material/significant disclosure misstatements identified we wish to bring to your attention

Action plan for 2018/19

We have set out below, based on our audit work undertaken in 2018/19, those risks and recommendations we consider are of a higher risk to Care Inspectorate that Management may wish to consider in the future.

Recommendation from 2018/19 audit	Agreed management response
Action Plan 1 – **Board Chair remuneration** Care Inspectorate have gained retrospective approval from the Scottish Government for renumeration 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 renumeration to ensure limits are not exceeded going forward, without first having Scottish Government approval.	**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. **Action owner:** Head of Finance and Corporate Governance **Timescale for implementation:** 31 October 2019
Action Plan 2 – **ICT savings and efficiencies** 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.	**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. **Action owner:** Executive Director Corporate & Customer Services **Timescale for implementation:** 31 March 2021

Follow up of 2017/18 external audit recommendations

We have completed follow up of our 2017/18 recommendations and this is reflected below for information.

Recommendation from 2017/18 audit	Agreed management response
PY Action Plan 1 - **Shared services ICT arrangements** 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.	**Management response:** The Shared Service Strategy will be reviewed by both the Care Inspectorate and SSSC. This review will include the development of an action plan in accordance with this audit recommendation. **Action owner:** Interim Director of Corporate and Customer Services. **Timescale for implementation:** Strategy revised and action plan agreed by 31 March 2019. **Revised to** 31 October 2019. **Follow up:** 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.
PY Action Plan 2 - **Annual report** The front end of the financial statements, the wider annual report commentary, is very lengthy and contains information which is already publically 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, inline with FReM requirements.	**Partially complete** 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 publically available. **Action owner**: Communications Lead. **Timescale for implementation:** 30 June 2019. **Revised to** 30 June 2020. **Follow up:** It is recognised that further work is needed. Work on this will start much earlier in the financial year for the 2019/20 Annual report and Accounts

Fees, independence, fraud arrangements

External Audit Fee

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

The audit fee was calculated in accordance with guidance issued by Audit Scotland and agreed with Management.

The above fee has not changed and our final fee was £32,500

Fees for other services

Service	Fees £
We can confirm there are no non-audit fees for the 2018/19 financial year	Nil

Independence and ethics

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

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

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

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

We can confirm no independence concerns have been identified.

Client service

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

Fraud arrangements

In assessing our audit risks, the audit team was 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 relation to management override of controls.
- Leading a discussion with those charged with governance (for Care Inspectorate this is assumed to be the Audit Committee) on their view of fraud. We did this when presenting our audit plan and in the form of management and those charged with governance questionnaires which were received in July 2019.
- 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. None were identified in-year.

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.

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 worked with Care Inspectorate to review specific areas of fraud risk, including the operation of key financial controls.

We also examined certain policies in place, strategies, standing orders and financial instructions, as relevant to the fraud framework, to ensure that they provide a reasonable framework of internal control.

No suspected frauds or irregularities have been identified by Management and reported in-year.

Anti-Money Laundering Arrangements

As required under the Money Laundering, Terrorist Financing and Transfer of Funds Regulations 2017 there is an obligation on the Auditor General (as set out in the planning guidance) to inform the National Crime Agency if she knows or suspects that any person has engaged in money laundering or terrorist financing. Should we be informed of any instances of money laundering at the Care Inspectorate we will report to the Auditor General as required by Audit Scotland.

Communication of audit matters with the Board in their role as those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, including planning assessment of audit risks and wider scope risks	•	
Confirmation of independence and objectivity **We are independent of Care Inspectorate and have not identified any conflicts of interest.**	•	•
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 **We have not incurred any non-audit fees during the year and no threats to independence identified.**	•	•
Significant matters in relation to going concern **No significant going concern matters identified.**	•	•
Views about the qualitative aspects of Care Inspectorate accounting and financial reporting practices, including accounting policies, accounting estimates and financial statement disclosures **Set out in the Financial statements section of our report.**		•
Significant findings from the audit **No significant findings from our audit.**		•
Significant matters and issues arising during the audit and written representations that have been sought **Letter of representation will be shared and signed by the Accountable Officer when signing the financial statements. This is our standard, unmodified letter of representation.**		•
Significant difficulties encountered during the audit **No difficulties encountered.**		•
Significant deficiencies in internal control identified during the audit **None identified.**		•
Significant matters arising in connection with related parties **None identified.**		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements **A suspected fraud to the value of £3,910.94 in relation to payroll was reported to the Audit Committee in September. Improvements in internal control for amending employee bank details has been implemented, and access to effect these changes has been restricted to senior, experienced members of staff.** **All returns were submitted to Audit Scotland quarterly in accordance with the planning guidance. The aforementioned fraud was not reported due to falling below the £5,000 reporting threshold.**		•
Non-compliance with laws and regulations **None noted.**		•
Unadjusted misstatements and material disclosure omissions **None noted. Minor disclosure amendments only and these were not material in nature.**		•
Expected modifications to the auditor's report, or emphasis of matter **None, an unmodified opinion.**		•

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

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