Care Inspectorate

Financial year ended 31 March 2021

Prepared for the Accountable Officer and the Auditor General for Scotland

External Audit Report

Contents

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our external audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect Care Inspectorate or all weaknesses in your internal controls. This report has been prepared solely for your benefit and Audit Scotland (under the Audit Scotland Code of Practice 2016). We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Key messages

This is our final report to the Accountable Officer and the Auditor General For Scotland and concludes our audit on the financial year ended 31 March 2021. We have issued an unmodified audit opinion on the annual report and accounts, including an unmodified opinion on regularity and the Remuneration Report. We thank management for all their assistance during the audit process.

03 Other audit matters

Our final report summarises a number of other audit matters, including:

- We have concluded that Care Inspectorate meets the definition of a going concern, reflecting on FRC Practice Note 10 considerations.
- The accounts contain areas of estimation and judgement. Significant estimates relate to defined benefit pension liabilities. Our testing over these did not identify any indication of management bias or error.
- We set out our roles and responsibilities on fraud. During the course of our work we did not identify fraud and/or material error.

We identified two adjusted misstatements to the draft accounts as well as a number of disclosure adjustments. These are detailed in Appendix 1 and not considered material to the accounts.

01 Materiality

We re-calculated our materiality based on the unaudited annual report and accounts. The benchmark of 2% of gross expenditure remained the same. This resulted in:

- Materiality of £796,000 and a performance materiality (75% of materiality) of £597,000
- All audit adjustments above £39,800 were reported to management and captured in this report.
- Lower materiality of banding on Staff Remuneration Report (being £1,000)

04 Wider Scope Audit

In accordance with the Code we determined that the Care Inspectorate meet the definition of a smaller body. This is based on Care Inspectorate's income and expenditure transactions and balances held being relatively smaller than other public bodies and the financial statements are considered less complex.

In accordance with the Code we have concluded in this report on your governance statement and Care Inspectorate's financial sustainability arrangements. During our audit we did not identify any further areas of wider scope risk.

02 Financial statement audit risks

At planning, in accordance with the ISAs (UK) and FRC Practice Note 10 we have identified the following significant financial statement audit risks:

- Management override of controls (ISA UK 240)
- Risk of fraud in revenue (cut-off) (ISA UK 240)
- Risk of fraud in expenditure (cut-off) (FRC PN10)
- Risk of misstatement of defined benefit pension scheme liabilities

We have no matters to bring to your attention arising from our work over these significant audit risks.

05 Our Audit Fee

Our audit fee of £34,140 was our final audit fee. This was an increase from our planned audit fee due to additional audit work over pension scheme member data. There were no non-audit services (fees) during the year and we did not need to vary our agreed fee.

Introduction

Scope of our audit work

This report is a summary of our findings from our external audit work for the financial year ended 31 March 2021 at Care Inspectorate. The scope of our audit was set out in our External Audit Plan communicated to the Audit and Risk Committee on the 4 March 2021 and finalised and submitted to Care Inspectorate on the 31 March 2021.

The main elements of our audit work in 2020/21 have been:

- An audit of Care Inspectorate's annual report and accounts for the financial year ended 31 March 2021; and
- Consideration financial sustainability and the Governance Statement, as required under the smaller body classification, within the Audit Scotland Code of Practice (2016).

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

This report is addressed to the Accountable Officer and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

Responsibilities

The Care Inspectorate is responsible for preparing an annual report and accounts which show a true and fair view and that are in accordance with the accounts direction from Scottish Ministers. The Care Inspectorate is also responsible for establishing appropriate and effective arrangements for governance, propriety and regularity that enable it to successfully deliver its objectives.

The recommendations or risks identified in this report are only those that have come to our attention during our normal audit work and may not be all that exist. Communication in this report of matters arising from the audit or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Adding value through our audit work

We aim to add value to the Care Inspectorate throughout our audit work. In delivering our audit we use a dedicated public sector audit team. This ensures our team have a comprehensive understanding of Care Inspectorate and the wider public sector to focus on key areas of risk relevant to your financial statements.

As a result of the social distancing and travel restrictions implemented in response to the Covid-19 pandemic our audit work was delivered remotely. We continue to share recommended practices with management, where relevant, and contribute to wider discussions at the Audit and Risk Committee during the year.

Audit of the annual report and accounts

Key messages and judgements

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

There were two adjustments to the primary financial statements. There were no unadjusted differences to the financial statements. We raised a number of minor disclosure adjustments identified from our review of the annual report and accounts. We do not consider these to be material. Further details are provided in *Appendix 1.*

We would like to thank management for all their assistance during the year in ensuring the delivery of the audit, to the timescales agreed at the start of the financial year.

Our audit opinion

For the financial year ended 31 March 2021 we have issued an unmodified opinion on the annual report and accounts. As reported in the independent auditor's report:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- expenditure and income were regular and in accordance with applicable enactments and guidance
- the audited part of the remuneration and staff report, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

The audit process

In accordance with our annual external audit plan, our audit work commenced in June 2021. We received the draft primary financial statements in line with our agreed timetable. There was one audit adjustments to the draft primary financial statements in relation to provide for dilapidations on leasehold buildings. There were no unadjusted differences to the draft financial statements. We also identified a number of disclosure adjustments in respect of the draft financial statements. A full listing of disclosure misstatements is detailed in Appendix 1. We do not consider these to be material to the financial statements.

Materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Our audit approach was set out in our audit plan communicated to the Audit and Risk Committee on the 4 March 2021 and finalised and submitted 31 March 2021. We updated our audit materiality to reflect the 2020/21 draft financial statements. It is set at £796,000, representing 2% of gross expenditure. Performance materiality was set at £597,000), representing 75% of our calculated materiality. We report to management any difference identified over £39,800 (Being 5% of overall materiality).

We applied a lower materiality threshold for Directors Remuneration disclosures within the Remuneration and Staff Report to ensure that remuneration has been disclosed within the appropriate bandings (being £1,000).

Responding to significant financial statement risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary

Management override of controls
 	
As set out in ISA 240 there is a presumed risk that management override of controls is present in all entities. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override Care Inspectorate's controls for specific transactions.
We consider those key judgements that are most susceptible to significant audit risk of management override are those over expenditure recognition. These are areas where management has the potential to influence the financial statement through estimate and judgement. This includes manual journals as well as critical judgements or estimates.
	• We considered the design of controls in place over key accounting estimates and judgements through performance of walkthrough procedures.
	• We reviewed accounting estimates for management bias / indication of fraud that could result in material misstatement. This included review of estimates as at 31 March 2021 and retrospective review of those estimates as at 31 March 2020. This included valuation of defined benefit pension scheme liabilities.
	Journals testing including:
	  • Assessment of the design of controls in place over journal entries, including journal preparation, authorisation and processing onto the financial ledger;
	  • Risk assessment of the journals population to identify large or unusual journal entries, such as those that are not incurred in the normal course of business, or those entries that may be indicative of fraud or error that could result in material misstatement. We tested these journals to ensure they are appropriate and suitably recorded in the financial ledger;
	  • Target testing of transactions around the financial year end, reviewing large journals and those which appear unusual to understand the rationale for the transaction.
	
	Conclusion
	Through our audit procedures performed we found that there was no evidence of management override in our testing of transactions tested. We did not identify indication of fraud or inappropriate management bias in accounting estimates that could result in a material misstatement.

Risks identified in our Audit Plan	Commentary
Risk of fraud in revenue recognition (occurrence/completeness) Auditing standards require us to consider the risk of fraud in Revenue. This is considered a presumed risk in all entities. Care Inspectorate receives Grant in aid funding through resource allocations direct from the Scottish Government. The risk of management manipulation and fraud is therefore limited. We focus our significant risk of material misstatement on the Care Inspectorates material revenue streams being registration fees and service recharges. Our testing includes a specific focus on year end cut-off arrangements, where it may be advantageous for management to show an enhanced/different financial position in the context of reporting in-year to Scottish Government and the need to achieve the financial targets set. We therefore our testing on the occurrence of revenue recognised at year end including existence of receivables at the year end.	• We performed walkthroughs of the controls and procedures over registration fees and service recharges. • For these income streams, substantive testing over income recognised in the final two months of the year where there is an inherently higher susceptibility of fraudulent recognition • Sample testing of receivable balances held at 31 March 2021 through agreeing balances held to invoices and/or other supporting records. • Reviewed Management's assessment of bad debts through ensuring consistent with underlying records and based on assessment of outstanding debt and forecast recovery including key assumptions supporting the provider accrued income. • Performed income cut-off procedures and substantive testing over pre and post year end balances, over non GIA funding income streams. Conclusion Through our audit procedures performed we did not identify any exceptions in our year end cut-off testing of income. We did not identify any exceptions in the occurrence and accuracy of receivables balances at year end and are satisfied that income is free from material misstatement. Through our substantive procedures and sample testing we did not identify any income which was not in accordance with the nature of the Care Inspectorate (regularity testing).

Risks identified in our Audit Plan	Commentary
Risk of fraud in expenditure recognition (completeness/Occurrence) As set out in Practice note 10 (revised) which applies to public sector entities we consider there to be an inherent risk of fraud in expenditure recognition. As payroll expenditure is well forecast and agreeable to underlying payroll systems, there is less opportunity for the risk of misstatement in this expenditure stream. We therefore focus on material non-pay expenditure including administration costs, property costs, supplies and services and transport costs. We consider the risk to be particularly prevalent around the year end and therefore focus our testing on cut-off of these expenditure streams ensuring the completeness and occurrence of expenditure. Our testing includes a specific focus on year end cut-off arrangements, where it may be advantageous for management to show an enhanced/different financial position in the context of reporting in-year to Scottish Government and the need to achieve the financial targets set.	• We performed walkthroughs of the controls and procedures over material non-pay expenditure streams; • Substantive testing of expenditure throughout the year to confirm its occurrence and accuracy of recording; • Focused substantive testing of non-pay expenditure recognised pre and post year end at an elevated level to identify if there is any potential overstatement or understatement to address the risk of cut-off; and • Review of accruals and payables, where material, around the year end to consider if there is any indication of understatement or overstatement of balances held through consideration of accounting estimates. **Conclusion** Through our audit procedures performed we did not identify any exceptions in our year end cut-off testing of expenditure. We did not identify any exceptions in the completeness and accuracy of accruals or payables balances at year end. Through our substantive procedures and sample testing we did not identify any expenditure which was not in accordance with the nature of the Care Inspectorate (regularity testing).

Risks identified in our Audit Plan	Commentary
IAS 19 Defined Benefit Pension Liabilities (valuation) Care Inspectorate participates in the Tayside Pension Fund, a local government pension scheme (LGPS). The scheme is a defined benefit pension scheme and in accordance with IAS 19: Pensions, Care Inspectorate is required to recognise its share of the scheme assets and liabilities on the statement of financial position. As at 31 March 2020 the Authority had pension fund liabilities of £20.052 million. Barnett Waddingham provide an annual IAS 19 actuarial valuation of the Authority's net liabilities in the pension scheme. There are a number of assumptions contained within the valuation, including: discount rate; future return on scheme assets; mortality rates; and, future salary projections. Given the material value of the scheme liabilities and the level of estimation in the valuation, there is an inherent risk that the defined benefit pension scheme liability could be materially misstated within the financial statements.	• From year end planning review our risk focused predominantly around the key assumptions used in the actuarial valuation, where there was an increased risk of material misstatement. • We performed walkthroughs of the controls and procedures over the valuation of defined benefit pension liabilities, including Management oversight of the valuation; • We considered the work of the actuary (Barnett Waddingham), including the assumptions applied, using the work performed by PricewaterhouseCoopers (PwC) (commissioned on behalf of Audit Scotland to review actuarial assumptions proposed by LGPS actuaries), as well as local audit assessment. • We obtained assurances from Audit Scotland as Auditors of the Pension Fund over the information supplied to the actuary in relation to the Care Inspectorate, including assets held and membership data, and confirm joint assurances in respect of employer and employee contributions in the year. • We performed substantive analytical procedures in the year over the pension fund movements, investigating any deviations from audit expectation. • We reviewed the accounting entries and disclosures made within Care Inspectorate's financial statements in relation to IAS 19. **Conclusion** Through our audit procedures performed we did not identify any exceptions in our review and testing over IAS 19 defined benefit pension liabilities recognised in the financial statements. Through considering the work performed by PwC, we are satisfied that the assumptions applied by the actuary are reasonable. The IAS 19 defined benefit valuation represents a material liability within the financial statements (2021: £10.466 million). The valuation is subject to significant estimation and thus sensitive to movements in underlying assumptions. While we recognise that Management utilise Barnett Waddingham to provide actuarial expertise in determining actuarial valuation, there is an opportunity to enhance the processes and controls around the valuation to enable Management greater oversight of the estimates made and assurances around the accuracy of the calculation. In particular, assurances from the actuary around the controls in place at the actuary to ensure data used in the valuation is complete and accurate and controls in place at the actuary to ensure underlying calculations are correct. ***Action Plan Recommendation 1.***

Significant estimates and judgements

Care Inspectorate's annual report and accounts contain limited areas of estimation and judgement. The one material area of estimation is in relation to IAS 19 defined benefit pension liabilities. This has been confirmed by Management and confirmed in our audit testing including review of disclosures.

judgement or estimate	Summary of management's approach	Audit Comments	Assessment
IAS 19 Defined benefit pension liabilities	Care Inspectorate engage Barnett Waddingham provide an annual IAS 19 actuarial valuation of the Authority's net liabilities in the pension scheme. There are a number of assumptions contained within the valuation, including: discount rate; future return on scheme assets; mortality rates; and, future salary projections. These key assumptions are discussed with the actuary to inform the report. These are predominantly informed by the actuaries recommended assumptions. Management review the draft actuarial valuation.	As noted in our Response to significant risk section, using the work of PwC we reviewed the key assumptions underpinning the actuarial valuation. We are satisfied that the assumptions adopted were appropriate for Care Inspectorate and that those applied were considered reasonable i.e. within our acceptable tolerances. We did not identify any indication of management bias in the underlying assumptions applied in the estimate and found that Management have disclosed the key sensitivities surrounding these in the draft financial statements.	●

Assessment

- ● Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Internal control environment

In accordance with ISA requirements we have developed an understanding of the control environment in place within Care Inspectorate. Our audit is not controls based and we have not placed reliance on controls operating effectively as our audit is fully substantive in nature. We did this through a walkthrough of key controls within Care Inspectorate including payroll, income, expenditure, valuation of IAS 19 defined benefit pension scheme liabilities and journals. We identified no material weaknesses or areas of concern from this work which would have caused us to alter the planned approach as documented in our plan.

Detecting Irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to Care Inspectorate and determined that the most significant which are directly relevant to specific assertions in the financial statements are those related to the reporting frameworks; International Financial Reporting Standards and the 2020/21 HM Treasury Financial Reporting Manual (FReM).
- We enquired of management and the Audit and Risk Committee, concerning Care Inspectorate's policies and procedures relating to the identification, evaluation and compliance with laws and regulations; the detection and response to the risks of fraud; and the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of management and the Audit and Risk Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of Care Inspectorate's financial statements to material misstatement, including how fraud might occur, by evaluating management's incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to journal entries that altered Care Inspectorate's financial performance for the year and potential management bias in determining accounting estimates. Our audit procedures involved are documented within our response to the significant risk of management override of controls on Page 6.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations, included the potential for fraud in expenditure recognition and significant accounting estimates.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
  - Care Inspectorate's operations, including the nature of its operating revenue and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
  - Care Inspectorate's control environment, including the policies and procedures implemented to ensure compliance with the requirements of the financial reporting framework.

Other key elements of the financial statements

As part of our audit there were other key areas of focus during the course of our audit. Whilst not considered a significant risk, these are areas of focus either in accordance with the Audit Scotland Code of Audit Practice or ISAs or through due to their complexity or importance to the user of the accounts.

Issue	Commentary
Matters in relation to fraud and irregularity	It is Care Inspectorate's responsibility to establish arrangements to prevent and detect fraud and other irregularity. As auditors, we obtain reasonable assurance that the financial statements as a whole are free from material misstatement, whether due to fraud or error. We obtain annual representation from management regarding managements assessment of fraud risk, including internal controls, and any known or suspected fraud or misstatement. We have also made inquires of internal audit around internal control, fraud risk and any known or suspected frauds in year. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
Accounting practices	We have evaluated the appropriateness of Care Inspectorate's accounting policies, accounting estimates and financial statement disclosures. Disclosures and accounting policies are in line with the FReM and we have no matters to report.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified and we plan to issue an unmodified opinion in this respect.
Opinion on other aspects of the annual report and accounts	We are required to give an opinion on whether the parts of the Remuneration Report and Staff Report subject to audit have been prepared properly in accordance with the requirements of the FReM, and the Accounts directions thereunder. We have audited the elements of the Remuneration Report and Staff Report , as required and are satisfied that these have been properly prepared in accordance with applicable legislation. The information given in the Performance Report is consistent with the financial statements and that report has been prepared in accordance with the FReM and directions made thereunder by the Scottish Ministers. The information given in the Governance Statement is consistent with the financial statements and that report has been prepared in accordance with the directions made thereunder by the Scottish Ministers.

Issue	Commentary
Matters on which we report by exception	We are required by the Auditor General for Scotland to report to you if, in our opinion: adequate accounting records have not been kept; or the financial statements and the audited part of the Remuneration and Staff Report are not in agreement with the accounting records; or we have not received all the information and explanations we require for our audit there has been a failure to achieve a prescribed financial objective. We have nothing to report in respect of these matters.
Governance statement	The governance statement is included within the Accountability Report. The report outlines the governance framework in place at the Care Inspectorate. The Report includes the Statement of the Accountable Officer's responsibilities and had been prepared in accordance with the FReM. In accordance with the Scottish Public Finance Manual (SPFM), the Accountable Officer has a specific responsibility to ensure that arrangements have been made to secure Best Value and this is confirmed in the narrative in the annual report and accounts. There was no matters arising from our review of the governance statement that we want to draw attention to.
Written representations	A letter of representation has been requested from the Accountable Officer, including specific representations, which is included in the Audit and Risk Committee papers. Specific representations have been requested from management in line with prior years and confirms as auditors all records have been made available to us.
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by Care Inspectorate meets this criteria, and so we have applied the continued provision of service approach. In accordance with Audit Scotland guidance: Going concern in the public sector, we have therefore considered Management's assessment of the appropriateness of the going concern basis of accounting and conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
Regularity	The Accountable Officer is responsible for ensuring the regularity of expenditure and income. We are responsible for expressing an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000. In our opinion in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

Wider scope audit – Smaller body

As set out in our Audit Plan, Care Inspectorate meets the definition of a smaller body in accordance with the Audit Scotland Code of Practice (2016). Therefore, as auditors we are required to include in our annual report commentary on arrangements as they relate to financial sustainability and the Governance Statement. Our work on the governance statement, and conclusions are set out on page 13 of this report. Below we have captured our commentary and conclusions on financial sustainability and other matters of interest during the year.

Wider scope dimension	Wider scope risk identified in our audit plan	Wider scope audit response and findings	Grant Thornton conclusion
Governance arrangements (Audit Scotland planning guidance consideration)	No significant risks identified within our audit planning.	Governance During 2020/21 Care Inspectorate's governance arrangements continued to operate as intended, and as in prior year. Care Inspectorate responded to the Covid-19 pandemic through continuing with existing governance arrangements, working remotely through holding Board and supporting Committees via video conferencing. During 2020/21 there was a degree of change of membership at the Board.	We did not identify any concerns around Care Inspectorate's governance arrangements or disclosures within the draft Governance Statement.

Wider scope dimension	Wider scope risk identified in our audit plan	Wider scope audit response and findings	Grant Thornton conclusion
Financial Sustainability, (as applicable to a smaller body)	No significant risks identified within our audit planning.	For 2020/21 Care Inspectorate reported net expenditure of £14.8 million. Following recognition of government grant in aid funding and IAS 19 adjustments, the outturn position reflected an underlying surplus against budget of £869,000. This has increased Care Inspectorate's General Reserve Balance to £3.070 million. The underspend primarily reflects the impact of unfilled vacancies as a result of longer than normal recruitment processes and reduced levels of travel as a result of Covid-19. For 2021/22 Care Inspectorate have budgeted for an deficit of £0.872 million with planned use of reserves to meet these costs. Over the medium term, Care Inspectorate budgeted for a deficit of £1.699 million and £2.001 million in 2022/23 and 2023/24 respectively. However, this incorporated estimated property costs that have subsequently been provided for in the current year. Management recognise the financial pressures facing the organisation. The financial projections include the assumption that the Transformational Funding of £2.3 million received from the Scottish Government will not require repayment. In addition, with over 83% of operating expenditure relating to staff costs, the nature of Care Inspectorate's operations mean that delivering budget savings would likely curtail/stop services. Consequently, Care Inspectorate is exploring options around fee levels and securing additional grant in aid. It is important that Care Inspectorate ensure they continue to engage with the Scottish Government to obtain agreement around Transformational Funding as well as any additional funding required to meet cost pressures in the coming years. In addition it is important that there is continued close management of costs alongside targeting additional funding / income streams to ensure Care Inspectorate establish a sustainable operating model.	Through our audit procedures we have not identified any significant risks in relation to Care Inspectorate's financial sustainability. Care Inspectorate's operating expenditure is funded through a combination of grant in aid funding as well as income from fees and charges. Management have recognised the financial challenges facing the organisation and it is important there is ongoing engagement with the Scottish Government and consideration of the fee regime to ensure financially sustainable operating model. (*See Follow up of 2019/20 Recommendations – Appendix 3*)

Appendices

1. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. There were two corrected misstatement to the primary financial statements in relation to the recognition of a provision for dilapidations on buildings held on leases as at 31 March 2021 and grossing up of debtors and creditors. There were no uncorrected misstatement to the financial statements arising during our audit.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2021.

Detail	Statement of Comprehensive Net Expenditure £'000	Statement of Financial Position £' 000
Being adjustment to recognise a provision in the financial statements in respect of Care Inspectorate's estimate of dilapidations costs as at 31 March 2021 (see Action Plan and recommendations – Point 2)	Dr operating expenditure 662	Cr Provisions for dilapidations (662)
Being adjustment to remove prepayments and accrued income where transaction relates to 2021/22.		Dr Payables – 91 Cr Prepayments (91)
Overall impact	662	

Misclassification and disclosure changes

The table below provides details of substantive misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure	Auditor recommendations	Adjusted?
Annual Report	In accordance with the FReM a number of presentational adjustments were required to the Annal Report including the Performance Report and Accountability Report. These were primarily presentational updates.	Partly – Minor presentational changes have been made to the draft Annual report. There is an opportunity for Management to review the structure of the report, particularly in relation to the Performance Analysis section, to follow the requirements of the FReM.
Remuneration and Staff Report	Minor presentational adjustment noted in the draft financial statements.	✓
Income accounting policies	There is an opportunity to enhance the current accounting policies and disclosures around Care Inspectorate's income streams to reflect the requirements of IFRS 15: revenue from contracts with customers around recognition across material revenue streams.	Partly – Changes have been made to the draft accounts to reflect some of the requirements of IFRS 15. There are opportunities to further enhance the disclosure to cover all material revenue streams and basis of recognition. Audit are satisfied that this is not material to the financial statements.
Intangible assets / Property, plant and equipment	Clarification around basis of initial recognition and valuation basis in accordance with the FReM.	✓

Disclosure	Auditor recommendations	Adjusted?
Critical judgements	International Financial Reporting standards prescribe the required disclosures in relation to critical judgements. It also requires separate consideration of accounting estimates. Care Inspectorate should disclose judgements that Management makes when applying its accounting policies that have the most significant effect on carrying amounts in the financial statements. The most significant accounting estimate is in relation to defined benefit pension liabilities, in particular the assumptions underpinning the IAS 19 actuarial valuation. While information is included in the pensions note to the accounts, this should be clearly defined within the accounts identifying the key areas of estimation. Significant Estimates relate to assumptions and estimates at 31 March that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. There is an opportunity to enhance the disclosure to focus on those key areas of estimation that may have a significant risk of material misstatement in the next 12 months. This should focus on those key areas of assumptions such as pension fund discount rate or key assumptions in the valuation.	No – Management consider the disclosure within Note 5 to the accounts sufficient to provide the reader of the accounts an understanding of the significant estimate. However, there are further opportunities to enhance the disclosure in accordance with the accounting standards. In particular we would expect a specific note to inform the reader of the accounts around the estimates and judgements in the financial statements. The focus in relation to pension scheme liabilities should be those estimates where there is a significant risk of material misstatement in the next 12 months. As auditors we are satisfied that this does not represent a material disclosure misstatement given the most significant estimate relates to defined benefit pension liabilities and there is disclosure around estimates and sensitivities around these in the notes to the accounts.
Staff costs note	The Staff Costs note to the accounts should disclose the key elements of staff costs: payroll, National Insurance and Pensions. While this information is included in the Remuneration and Staff Report, the Notes to the accounts should provide information to support the Primary Financial Statements.	No – Management are satisfied that there is sufficient detail contained within the remuneration report to allow the reader an understanding of the costs. As auditors we are satisfied that this does not reflect a material omission or misstatement.

There were minor presentational (rounding / formatting) changes recommended to Management. These are not considered material to the accounts.

2. Action plan and recommendations

We have set out below, based on our audit work undertaken in 2020/21, the significant recommendations arising from our audit work.

Recommendation	Agreed management response
1. Pension Fund The IAS 19 defined benefit valuation represents a material liability within the financial statements (2021: £10.466 million). The valuation is subject to significant estimation and thus sensitive to movements in underlying assumptions. While we recognise that Management utilise Barnett Waddingham to provide actuarial expertise in determining actuarial valuation, there is an opportunity to enhance the processes and controls around the valuation to enable Management greater oversight of the estimates made and assurances around the accuracy of the calculation. In particular, assurances from the actuary around the controls in place at the actuary to ensure data used in the valuation is complete and accurate and controls in place at the actuary to ensure underlying calculations are correct.	We will agree with the actuaries that in future years there will be a specific statement in the actuary's report that reasonableness checks have been completed on membership data as submitted by Tayside Pension Fund. Action owner: Head of Finance & Corporate Governance Timescale for implementation: 31 March 2022
2. Dilapidations provisions Care Inspectorate operate from a number of leased properties in Scotland. The lease agreements which are due to end over the next 5 years contain a number of contractual obligations for Care Inspectorate to return the building to its condition at the outset of the lease. During 2020 Management engaged Avison young to independently assess the condition of the property and arrive at an estimate of the cost of the works that would be incurred to return the property to is original condition in accordance with the lease agreements. Management have used the report to arrive at the estimate of the present value of the future costs that would be incurred. As some of the premises are shared with Scottish Social Services Council and OSCR the provision reflects Care Inspectorates assumed share of any future costs. This is based on underlying lease split or agreed budgeted share of costs for 2021/22. While we are satisfied that the assumed split is reasonable for the 2021 accounts, Management should look to ensure that there is a formal agreement in place between the parties around how the costs will be split at the end of the lease term.	A formal dilapidations agreement will be drafted and circulated for agreement between Scottish Government Property Division, Care Inspectorate, Scottish Social Services Council and Office of the Scottish Charities Regulator. Action owner: Head of Finance & Corporate Governance Timescale for implementation: 30 September 2021

3. Follow up of 2019/20 recommendations

We set out below our follow up of our 2019/20 recommendation and this is reflected below for information.

(Follow up of 2018/19 Recommendation) Recognising the impact of Covid and publication of the future strategy

ICT savings and efficiencies (raised 2018/19) Care Inspectorate to date have received additional Scottish Government funding of £0.970 million with a further £1.089 million and £0.241 million expected in 2019/20 and 2020/21 respectively. The total additional funding of £2.300 million from the Scottish Government is required to be repaid in later years (starting in financial year 2021/22) from the savings and efficiencies generated by the business and digital transformation programme and investment in ICT modernisation. These savings will need to be closely monitored and measured by Care Inspectorate Management in order to meet the terms of the Scottish Government in repaying the additional funding from savings made.

Initial management response: This is being considered as an element of the financial strategy work as described in the "Financial Sustainability" section earlier in this report. Cash releasing savings from the transformation programme are being identified separately and used to either supplement the digital transformation programme, reduce the amount drawn down to support the Digital Transformation Programme (this will reduce the repayments due to commence 2021/22 onwards) or to fund nonrecurring expenditure. The Scottish Government have also been requested to review this repayment of funding approach within the context of the Care Inspectorate's projected financial position.

Follow up: ONGOING

During 2020/21 Care Inspectorate agreed with the Scottish Government that the repayment due in 2021/22 was not required. While not formally agreed with Scottish Government, Management have assumed that repayment will not be required in 2022/23 and 2023/24. With cost driver predominantly staffing pressures, it is envisaged that additional revenue (fees) or grant in aid funding will be required rather than achieving financial balance through savings. It is therefore increasingly important that Care Inspectorate carefully consider fee strategy as well as engaging with Scottish Government to ensure appropriate funding in place. In addition, the CI it will be important that there continues to be close cost control in place to avoid additional pressures arising from overspends.

Management update:

The Care Inspectorate's strategy, including the funding repayment and fees strategy, continue to be discussed at the quarterly finance update meeting between the Care Inspectorate, Sponsor and Health Finance.

4. Audit fees and independence

External Audit Fee

Service	Fees £
External Auditor Remuneration	26,740
Pooled costs	6,060
Contribution to Audit Scotland costs	1,340
Contribution to Performance Audit and Best Value	Nil
2020/21 Fee	34,140

Our final audit fee includes an uplift of £400 from our proposed fee included in the draft audit plan reflecting the additional audit work required over member data used to support the IAS 19 actuarial valuation.

Fees for other services

Service	Fees £
We confirm that for 2020/21 we did not receive any fees for non-audit services	Nil

Client service

We take our client service seriously and continuously seek your feedback on our external audit service. Should you feel our service falls short of expected standards please contact Joanne Brown, Head of Public Sector Assurance Scotland in the first instance who oversees our portfolio of Audit Scotland work (joanne.e.brown@uk.gt.com). 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.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Transparency report 2020 (grantthornton.co.uk)

Independence and ethics

- We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention.
- We have complied with the Financial Reporting Council's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.
- 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.
- We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

5. Communication of audit matters

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

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, including planning assessment of audit risks and wider scope risks	•	
Confirmation of independence and objectivity	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant matters in relation to going concern	•	•
Views about the qualitative aspects of Care Inspectorate's accounting and financial reporting practices, including accounting policies, accounting estimates and financial statement disclosures		•
Significant findings from the audit		•
Significant matters and issues arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

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