Care Inspectorate

Financial year ended 31 March 2022

Prepared for the Audit & Risk Committee, the Accountable Officer, and the Auditor General for Scotland

External Audit Report for the Audit & Risk Committee

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 the 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 report to the Care Inspectorate (CI) Audit & Risk Committee, Board, and the Auditor General For Scotland and concludes our audit on the financial year ended 31 March 2022. We will issue an unmodified audit opinion on the annual report and accounts, including an unmodified opinion on regularity and the Remuneration and Staff Report. We thank management for all their assistance during the audit process.

01 Materiality

We re-calculated our materiality based on the unaudited 2021-22 annual report and accounts. The benchmark of 2% of gross revenue remained the same. This resulted in:

- Materiality of £896,360 and a performance materiality (75% of materiality) of £672,270.
- All audit adjustments above £44,800 were reported to management and are captured in this report.
- Lower materiality of banding on Staff Remuneration Report (being £5,000).

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:

- Risk of management override of controls (ISA UK 240);
- Risk of fraud in expenditure (completeness) (FRC PN10);
- Risk of fraud in revenue (occurrence)(ISA 240); and
- Risk of misstatement of the valuation of the defined benefit pension scheme liabilities.

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

03 Other audit matters

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

- We have concluded that CI 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 or material error.

We have not identified any adjusted or unadjusted misstatements to the draft accounts. We have identified one disclosure adjustment which is detailed in Appendix 1 and not considered material to the accounts.

04 Wider Scope Audit

In accordance with Audit Scotland's Code of Practice, we determined that the Care Inspectorate (CI) meets the definition of a smaller body. This is based on CI's 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 CI's financial sustainability arrangements. During our audit we did not identify any further areas of wider scope risk.

05 Our Audit Fee

Our audit fee, set out in our Audit Plan, of £34,900, was our final audit fee. There were no fees for non-audit services 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 2022 at CI. The scope of our audit was set out in our External Audit Plan communicated to the Audit & Risk Committee in March 2022.

The main elements of our audit work in 2021-22 have been:

- An audit of CI's annual report and accounts for the financial year ended 31 March 2022; and
- Consideration of CI's financial sustainability and Governance Statement disclosures, 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.

Audit Status

Our audit work is complete and opinion issued on 24 November 2022

Responsibilities

CI 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. CI 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 CI 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 CI and the wider public sector to focus on key areas of risk relevant to your financial statements.

For the financial statements audit, the audit team is lead by Sophia Brown, as Engagement Lead, and Justine Thorpe, as Engagement Manager.

Audit of the annual report and accounts

Key messages and judgements

We will issue an unmodified audit opinion on the annual report and accounts.

We have not identified any adjusted or unadjusted differences to the financial statements. We raised a number of disclosure adjustments identified from our review of the annual report and accounts. 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 2022 we will issue an unmodified opinion on the annual report and accounts, whereby 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; and
- 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

Our audit work commenced in October 2022. We received the draft primary 2021-22 financial statements in line with our agreed timetable. We have not identified any adjusted or unadjusted differences to the primary financial statements. There were a number of disclosure adjustments in respect of the draft financial statements to ensure compliance with the FReM. A full listing of disclosure misstatements is detailed in Appendix 1.

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 & Risk Committee in March 2022. We updated our audit materiality to reflect the 2021-22 draft financial statements. Materiality is set at £896,360, representing 2% of gross revenue. Performance materiality was set at £672,270, representing 75% of our calculated materiality. We report to management any difference identified over £44,800 (being 5% of overall materiality).

We applied a lower £5,000 materiality threshold for Directors' remuneration disclosures (salary), within the Remuneration and Staff Report, to ensure that remuneration has been disclosed within the appropriate bandings.

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. Our risk focuses on the areas of the financial statements where there is potential for management to use their judgement to influence the financial statements alongside the potential to override Care Inspectorate internal controls, related to individual transactions. Our work focuses on critical estimates and judgements as set out within the financial statements, including accounting policies. In addition, we specifically consider cut-off (expenditure and income) and the use of manual journals during the year, and in creating the financial statements where controls may be overridden by management.	To address this risk we: • Considered the design of controls in place over key accounting estimates and judgements through performance of walkthrough procedures. • Evaluated the design effectiveness of management controls over journals. • Analysed the journals listing and determine the criteria for selecting high risk unusual journals. • Reviewed the journals population, identifying those where there may be increased risk of fraud, including any prepared by senior management, and selected these for targeted testing. • Tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration. • Gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence. • Evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. **Conclusion** Through our audit procedures performed we found that there was no evidence of management override in our testing of transactions. We have not identified issues in relation to this risk.

Risks identified in our Audit Plan	Commentary
Risk of fraud in expenditure recognition (completeness) 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. Operating expenditure is understated or not treated in the correct period (risk of fraud in expenditure). As payroll expenditure is well forecast and agreeable to underlying payroll systems, there is less opportunity for the risk of misstatement in this expenditure stream. We therefore focus on material non-pay expenditure streams. We consider the risk to be particularly prevalent around the year end and therefore focus our testing on cut-off ensuring the completeness of non-pay 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.	To address this risk we: • Documented our understanding of the accounts payable system, walking through the relevant controls. • Substantively tested expenditure transactions throughout the year to confirm occurrence and accuracy of recording. • Performed focused substantive testing of non-pay expenditure recognised post year-end to identify potential understatement. • Reviewed year-end accruals and payables to consider 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 or in the completeness and accuracy of accruals or payables balances at year end. Through our substantive procedures we did not identify any expenditure which was not in accordance with applicable legislation and guidance for the Care Inspectorate (regularity testing).

Risks identified in our Audit Plan	Commentary
Risk of fraud in revenue recognition (occurrence) ISA 240 requires us to consider the risk of fraud in revenue recognition. This is considered a presumed risk in all entities. The Care Inspectorate receives grant-in-aid funding through resource allocations direct from the Scottish Government. We consider the risk of management manipulation and fraud through this funding stream as limited and rebut the risk in relation to this grant-in-aid funding. In addition, we consider the risk of material misstatement within other operating income to be low give its value (2021: £0.992 million). We therefore focus our significant risk of material misstatement in relation to revenue recognition on fees income, being fees charged to service providers (2021: £11.726 million). In the context of future years financial pressures and a projected surplus position in the current year, we consider the risk of understatement of revenue, where management may be incentivised to allocate revenue to future years. 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 focus our testing on the occurrence of revenue recognised at year-end including existence of receivables at the year-end.	To address this risk we: • Documented our understanding of the accounts receivable system, walking through the relevant controls. • Substantively tested revenue transactions throughout the year to confirm occurrence and accuracy of recording. • Performed focused substantive testing of fees income recognised at year-end to identify potential overstatement. • Substantively tested year-end debtor balances to gain assurance over completeness of balances due. **Conclusion** Through our audit procedures performed we did not identify any exceptions in our year-end cut-off testing of income or in the completeness and accuracy of receivable balances at year end. Through our substantive procedures we did not identify any revenue which was not in accordance with applicable legislation and guidance for the Care Inspectorate (regularity testing).

Risks identified in our Audit Plan	Commentary
IAS 19 Defined benefit pension liabilities (valuation) The 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, the Care Inspectorate is required to recognise its share of the scheme assets and liabilities on its statement of financial position. As at 31 March 2022, the Care Inspectorate has pension fund liabilities of £1.454 million. Barnett Waddingham LLP provide an annual IAS 19 actuarial valuation of the Care Inspectorate'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. In particular, the assumptions applied in the valuation may not be appropriate, resulting in a material misstatement.	To address this risk we: • Updated our understanding of the processes and controls put in place by management to ensure that CI's pension fund net liability is not materially misstated and evaluated the design of the associated controls. • Evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work. • Assessed the competence, capabilities and objectivity of the actuary who carried out the pension fund valuation. • Considered the work of the actuary, including the assumptions applied, using the work performed by PwC (commissioned on behalf of Audit Scotland to review the actuarial assumptions proposed by LGPS actuaries), as well as local audit assessment. • Obtained assurances from Audit Scotland, as auditors of the pension fund, to provide assurances over the information supplied to the actuary in relation to CI, including assets held and membership data, and confirmed joint assurances in respect of employer and employee contributions in the year. • Performed substantive analytical procedures in the year over the pension fund movements, investigating any deviations from audit expectations. • Tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary. **Conclusion** Through our audit procedures performed we did not identify any exceptions in our testing of defined benefit liabilities. The latest triennial valuation for the Tayside Pension Fund was as at 31 March 2020. As such, we expect a standard roll-forward process to produce asset and liability values which have an estimation uncertainty of up to 2%-3% per year since 31 March 2020. Hence, at 31 March 2022 there are two years' of uncertainty, resulting in around 4%-6% maximum potential inaccuracy in the accounting results which would be between £58,160 to £87,240 for the £1.454 million pension liability as disclosed in the financial statements. However, we would not expect the uncertainties to move in the same directions each year, and the impact could be lower than 2% in many cases. Based on the work we have performed, detailed above, we conclude that we have obtained sufficient and reasonable assurance over the valuation of the pension fund net liability.

Significant estimates and judgements

This section provides commentary on key estimates and judgements in line with the enhanced requirements for auditors per ISA 540. The Care Inspectorate's annual report and accounts are considered straightforward and non-complex as the accounts contain limited areas of estimation and judgement. One area of significant estimation is in relation to IAS19 defined benefit pension.

<table>
<tr><th>Significant estimate or judgement</th><th>Summary of management's approach</th><th>Audit comments</th><th>Assessment</th></tr>
<tr>
<td>IAS19 Defined benefit pension liabilities</td>
<td>CI's net pension liability at 31 March 2022 is £1.454m (PY £10.466m), part of the Tayside Pension Fund.

CI engages Barnett Waddingham to provide actuarial valuations of its assets and liabilities derived from the Tayside Pension Scheme.

A full actuarial valuation is required every three years. The latest full actuarial valuation was completed as at 31 March 2020.

Given the significant value of the net pension fund liability, small changes in assumptions can result in significant movements. 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 and are predominantly informed by the actuary's recommended assumptions.</td>
<td>Using the work of PwC, we reviewed the key assumptions underpinning the actuarial valuation. We are satisfied that the assumptions adopted were appropriate for the Care Inspectorate and that those applied were considered reasonable i.e. within our acceptable tolerances, as shown below:
<table>
<tr><th>Assumption</th><th>Actuary Value</th><th>PwC range</th><th>Assessment</th></tr>
<tr><td>Discount rate</td><td>2.60%</td><td>2.55% - 2.60%</td><td>●</td></tr>
<tr><td>Pension increase rate</td><td>3.3%</td><td>3.05% - 3.45%</td><td>●</td></tr>
<tr><td>Salary growth</td><td>4.3%</td><td>0.5% - 2.5% above CPI inflation
(3.10% - 5.1%)</td><td>●</td></tr>
<tr><td>Life expectancy – Males currently aged 45 / 65</td><td>20.3</td><td>20.5 - 23.1</td><td>●</td></tr>
<tr><td>Life expectancy – Females currently aged 45 / 65</td><td>23.9</td><td>23.4 - 25.0</td><td>●</td></tr>
</table>
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 2021-22 financial statements.</td>
<td>We consider management's process is appropriate and key assumptions are neither optimistic or cautious.</td>
</tr>
</table>

Internal control environment

In accordance with ISA requirements we have developed an understanding of the control environment in place within the Care Inspectorate. We did this through a walkthrough of key controls within the Care Inspectorate's core financial systems including payroll, income, expenditure, valuation of IAS19 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 Audit Plan.

Our audit is not controls-based and we have not placed reliance on controls operating effectively as our audit is fully substantive in nature.

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 CI 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 2021-22 HM Treasury Financial Reporting Manual (FReM).
- We enquired of management and the Audit & Risk Committee, concerning CI'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 & 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 the 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 CI'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:
  - CI'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.
  - CI'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 significant risks, 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 CI'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 representations from management regarding management's 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 CI's accounting policies, accounting estimates and financial statement disclosures. Disclosures and accounting policies are in line with the FReM and we have no significant 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 will 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; or 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 CI. The Report includes the Statement of the Accountable Officer's Responsibilities and has 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 were 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 & Risk Committee papers.
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 CI 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, the 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	Scope risk identified in our Audit Plan	Audit response and findings	Grant Thornton conclusion
Governance arrangements (Audit Scotland planning guidance consideration)	No significant risks identified within our audit planning	Governance The Care Inspectorate's Chief Executive is supported by four executive directors and is responsible for strategic decision-making and operational delivery. The Board, consisting of 13 members, provides an independent perspective and advice on issues of strategy, performance, resources and standards of conduct within CI. The Board has an Audit & Risk Committee which supports the Board in its responsibilities for issues of risk, control and governance, and associated assurance through a process of constructive challenge During 2021-22 CI's governance arrangements continued to operate effectively. We found effective scrutiny and challenge and no significant concerns around CI's governance arrangements.	We are satisfied that CI's Governance Statement disclosures represent the governance arrangements in place during 2021-22.

Scope dimension	Scope risk identified in our Audit Plan	Audit response and findings	Grant Thornton conclusion
Financial sustainability (as applicable to a smaller body)	No significant risks identified within our audit planning	For the 2022-23 financial year, the Care Inspectorate has budgeted for a year-end deficit of £2.157 million, with planned use of reserves to meet these costs. At the end of July 2022, the projected financial position for 2022-23 is a deficit of £1.820 million. Over the medium term, the Care Inspectorate has budgeted for a deficit of £2.001 million in 2023-24. Management recognises the financial pressures facing the organisation. With over 86% of operating expenditure relating to staff costs, the nature of the Care Inspectorate's operations mean that delivering budget savings would likely curtail services. Consequently, the CI is exploring options around fee levels, which have not been increased since 2005-06, and securing additional grant-in-aid. An underspend of £0.337m against the 2022-23 budget (which includes the £1.82 million forecast deficit) is currently projected after foregoing drawing on the Letter of Comfort of up to £0.738m supplied by CI's Sponsor. The opening general reserve balance of £4.060 million is £0.771 million higher than the budgeted general reserve balance of £3.289 million, which provides funding for the in-year projected deficit of £1.820m and £0.926m for further budget pressures identified in the remainder of the financial year. It is important that the Care Inspectorate continues to engage with the Scottish Government to obtain agreement around the Transformational Funding, as well as additional funding required to meet cost pressures in the coming years. The Care Inspectorate must continue to closely manage costs, alongside targeting additional funding and identifying additional/increased income streams to establish a financial sustainable operating model fit for the future.	Through our audit procedures we have not identified any significant risks in relation to the Care Inspectorate's financial sustainability. The Care inspectorate's operating expenditure is funded through a combination of grant-in-aid funding as well as income from fees and charges. Management has recognised the financial challenges facing the organisation and it is important that there is ongoing engagement with the Scottish Government and consideration of the fee regime to ensure a financially sustainable operating model going forward, as they cannot rely on reserves in the longer term.

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. We are pleased to report there are no adjusted or unadjusted misstatements to the primary financial statements.

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?
Our audit identified some disclosure errors which were brought to management's notice. These errors were all minor and have no impact on the Statement of Financial Position or the Statement of Comprehensive Net Expenditure. The change suggested was to the following note: • Banding disclosure in the Remuneration Report and Staff Report	Disclosures should be updated in the manner that has been communicated by the audit team. **Management response** Management agreed to amend the relevant note.	✓

2. Follow up of 2020-21 recommendations

We set out below our follow up of our 2020-21 recommendations and these are reflected below for information.

Recommendation (from the 2020-21 external audit report)	Agreed management response	Follow-up in 2021-22
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. Whilst 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 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 statements 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	2021-22 IAS 19 Report (page 3) contains the required actuarial assurances.
2. Dilapidated provisions The 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 the Care Inspectorate to return the buildings 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 its original condition in accordance with the lease agreements. Management have used the report to arrive at an estimate of the present value of the future costs that would be incurred. As some of the premises are shared with the Scottish Social Services Council and OCSR, the provision reflects the Care Inspectorates share of any future costs. This is based on an underlying lease split on an agreed budgeted share of costs for 21/22. While we are satisfied that the assumed split is reasonable for the 20/21 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	All three bodies will be operating from the same property and the new lease of April 2023 will contain the dilapidations agreement.

3. Audit fees and independence

External Audit Fee

Service	Fees £
External Auditor remuneration	27,310
Pooled costs	6,197
Contribution to Audit Scotland costs	1,393
Contribution to Performance Audit and Best Value	Nil
2021-22 Fee	34,900

Fees for other services

Service	Fees £
We confirm that for 2021-22 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 Sophia Brown, Audit Director, in the first instance, CI Engagement Lead (sophia.y.brown@uk.gt.com) or Joanne Brown (joanne.e.brown@uk.gt.com), Head of Public Sector Assurance Scotland, who oversees our portfolio of Audit Scotland work.

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 2021 (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 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.
- 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.

4. 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 CI'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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