



Care Inspectorate

2015/16 Annual audit
report to Members and
the Auditor General for
Scotland

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Key contacts

David McConnell, Assistant Director
dmccconnell@audit-scotland.gov.uk

Liz Maconachie, Senior Audit Manager
lmaconachie@audit-scotland.gov.uk

Neil Reid, Senior Auditor
nreid@audit-scotland.gov.uk

Audit Scotland
4th floor (South Suite)
8 Nelson Mandela Place
Glasgow
G2 1BT

Telephone: 0131 625 1500

Website: www.audit-scotland.gov.uk

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively (www.audit-scotland.gov.uk/about/).

David McConnell, Assistant Director, Audit Scotland is the appointed external auditor of the Care Inspectorate for the period 2011/12 to 2015/16.

This report has been prepared for the use of the Care Inspectorate and no responsibility to any member or officer in their individual capacity or any third party is accepted.

The information in it may be used by the Auditor General in support of her wider responsibilities, including reporting to the Scottish Parliament.

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Key messages

Audit of financial statements

- Unqualified independent auditor's report on the 2015/16 financial statements.
- Working papers were of a high standard and officers provided excellent support which enabled the audit team to complete on-site fieldwork by the planned target date.
- Only presentational and disclosure adjustments were required to the financial statements presented for audit.

Financial Position

- The Care Inspectorate operated within its resource budget for 2015/16.
- The financial position remains stable. An internal budget of income and expenditure is projected for a 3 year period to 2019 based on continuing Scottish Government funding and efficiency savings.
- The Care Inspectorate faces a challenge in keeping its operating costs within its budget in the medium to longer term.
- Financial management is strong and soundly based

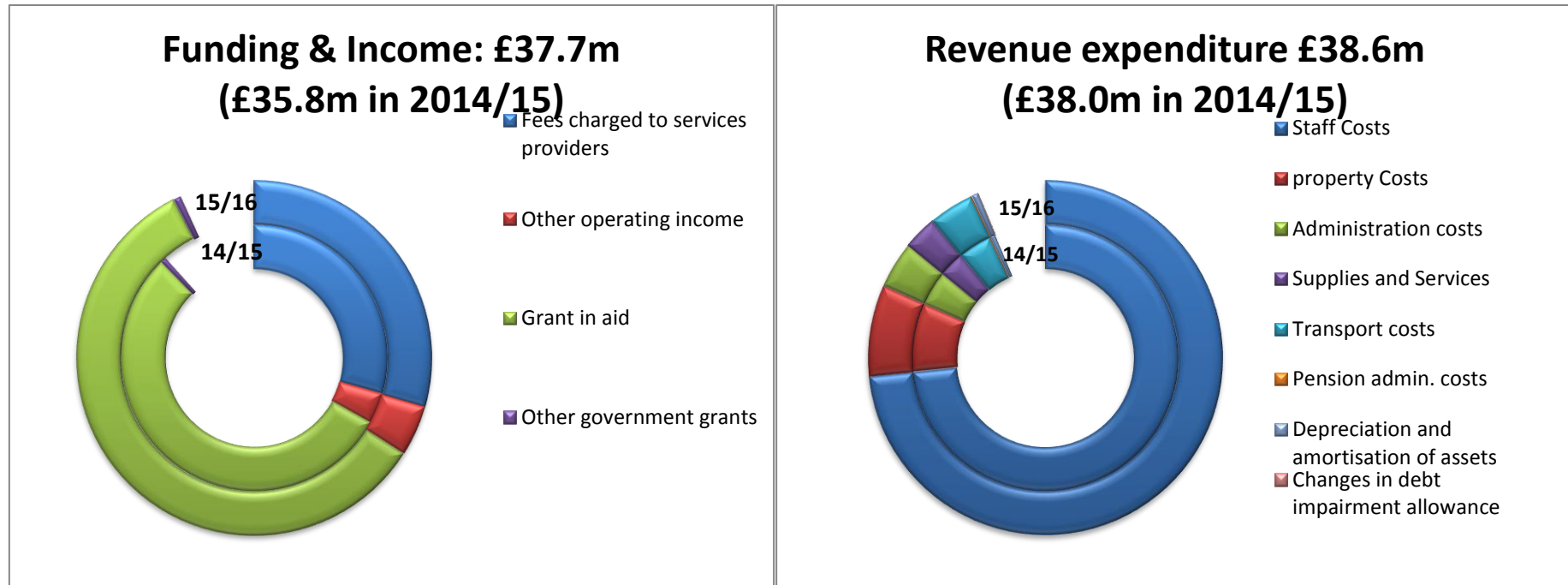
Governance & accountability

- Overall we found that the Care Inspectorate had sound governance arrangements.
- Systems of internal control operated effectively during 2015/16.
- The register of interests extends to all Care Inspectorate board members and is renewed annually.
- The board has an effective internal audit function and robust anti-fraud arrangements.

Introduction

1. This report is a summary of our findings arising from the 2015/16 audit of the Care Inspectorate.
2. The management of the Care Inspectorate is responsible for:
 - preparing financial statements which give a true and fair view, in accordance with the relevant financial reporting framework
 - ensuring the regularity of transactions, by putting in place systems of internal control
 - maintaining proper accounting records
 - publishing with their financial statements an annual governance statement and a remuneration report.
3. Our responsibility, as the external auditor, is to undertake our audit in accordance with International Standards on Auditing, the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011 and the ethical standards issued by the Auditing Practices Board.
4. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements prepared by management with the oversight of those charged with governance. This does not relieve management of their responsibility for the preparation of financial statements.
5. A number of reports, both local and national, have been issued by Audit Scotland during the course of the year. These reports are summarised at [appendix II](#) and [appendix III](#).
6. [Appendix IV](#) is an action plan setting out our recommendations to address the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "Management action/response". We recognise that not all risks can be eliminated or even minimised. What is important is that the Agency understands its risks and has arrangements in place to manage them. The Audit and Risk committee should ensure that they are satisfied with proposed action and have a mechanism in place to assess progress and monitor outcomes.
7. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.
8. 2015/16 is the final year of the current five year audit appointment. From 2016/17 the external auditor of the Care Inspectorate will be Grant Thornton. In accordance with agreed protocols and International Standards on Auditing we will be liaising with Grant Thornton as part of this transition.

Audit of the 2015/16 financial statements



The financial statements show that income and Scottish Government net funding for 2015/16 was £37.748 million, an increase of £1.924million (5.4%) from 2014/15. Expenditure increased by £0.566 million (1.49%) to £38.595 million in 2015/16. Staff costs within the expenditure for 2015/16 include the impact of IAS 19 actuarial pension valuation adjustment of £2.806 million.

Audit opinions

Financial Statements	<ul style="list-style-type: none">• The financial statements of the Care Inspectorate for 2015/16 give a true and fair view of the state of the body's affairs and of its net expenditure for the year.• We confirm that the financial statements have been properly prepared in accordance with the 2015/16 FReM and the requirements of the Public Finance and Accountability (Scotland) Act 2000 and directions.
Regularity	<ul style="list-style-type: none">• In all material respects, the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance.
Other prescribed matters	<ul style="list-style-type: none">• The part of the Remuneration Report to be audited has been properly prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers.• The information given in the Performance Report is consistent with the financial statements.

Submission of financial statements for audit

9. We received the unaudited financial statements on 30 June 2016, in accordance with the agreed timetable. The working papers were of a high standard and staff provided excellent support to the audit team which enabled us to complete our fieldwork on 29 July 2016.

Overview of the scope of the audit of the financial statements

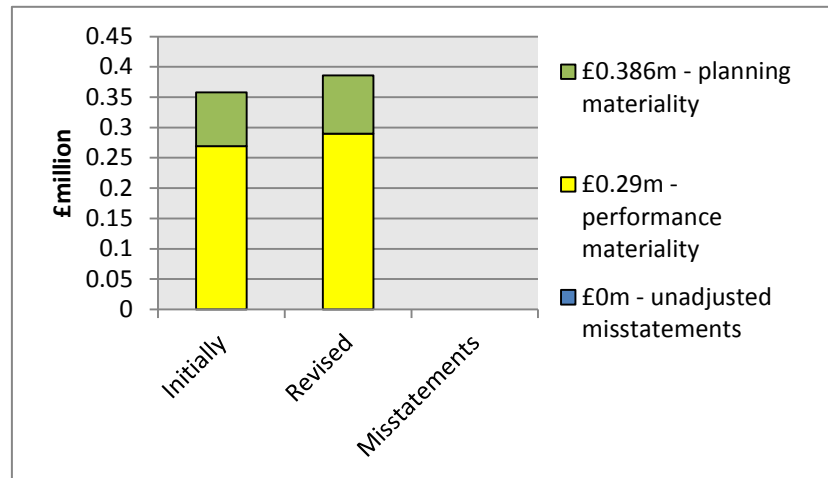
10. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in our Annual Audit Plan presented to the Audit Committee on 11 March 2016.
11. As part of the requirement to provide full and fair disclosure of matters relating to our independence, we can confirm that we have not undertaken any non-audit related services. The 2015/16 agreed fee for the audit was £31,200 and, as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.
12. The concept of audit risk is of central importance to our audit approach. During the planning stage of our audit we identified a number of key audit risks which had the greatest effect on the audit strategy, resources and effort. We set out in our Annual Audit Plan the audit work we proposed to undertake to secure appropriate levels of assurance.

13. [Appendix I](#) sets out the audit risks identified at the planning stage and how we addressed each risk in arriving at our opinion on the financial statements.
14. Our audit involved obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

Materiality

15. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
16. We summarised our approach to materiality in our Annual Audit Plan. We revised our planning materiality for 2015/16 on receipt of the unaudited accounts to £0.386 million (1% of gross expenditure).
17. We also set a lower level, known as performance materiality, when defining our audit procedures. This is determined to ensure that uncorrected and undetected audit differences do not exceed our materiality level. Performance materiality was set at £0.290 million (i.e. 75% of materiality).
18. We report all misstatements greater than £4,000.

Exhibit 1: Overall materiality misstatements



Source: 2015/16 Annual Audit Plan and draft Annual Report and Accounts

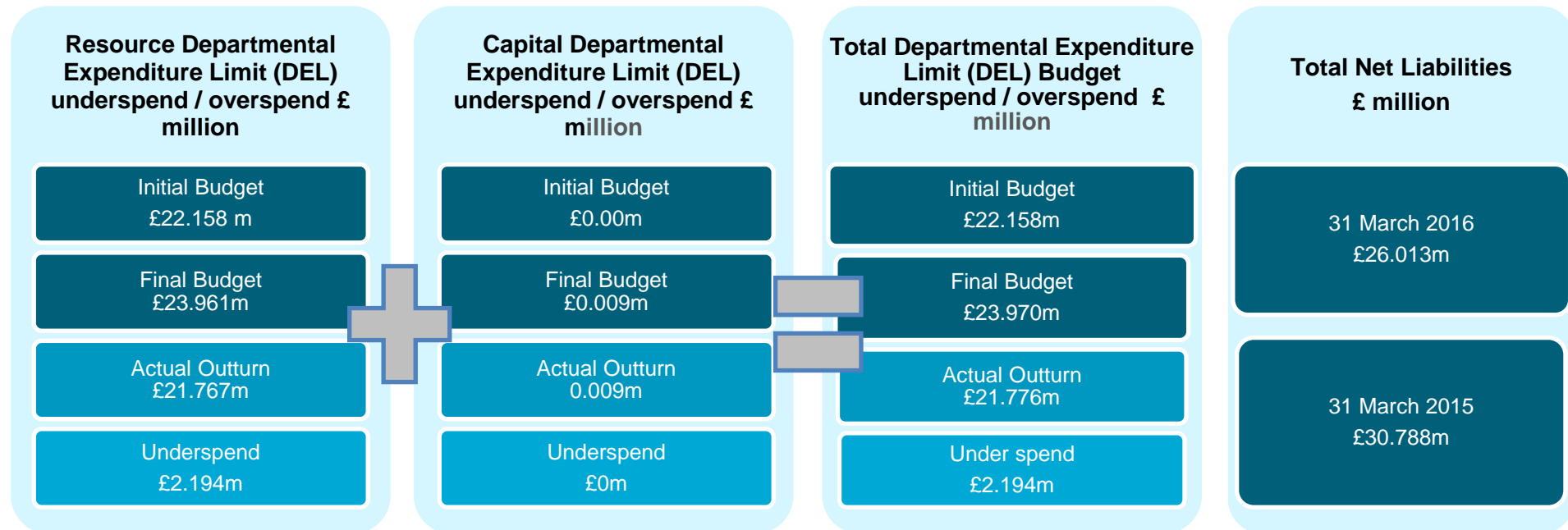
Evaluation of misstatements

19. There were no misstatements identified during the audit which exceeded our misstatement threshold. Therefore, no amendments have been made to the financial statements which impact upon either the net expenditure for the year or the net assets position at 31 March 2016.

Significant findings from the audit

20. International Standard on Auditing 260 (ISA 260) requires us to communicate to you significant findings from the audit as detailed below:
- The auditor’s views about significant qualitative aspects of the entity’s accounting practices, including accounting policies, accounting estimates and disclosures.
 - Significant difficulties encountered during the audit.
 - Significant matters arising from the audit that were discussed, or subject to correspondence with management.
 - Written representations requested by the auditor.
 - Other matters which in the auditor's professional judgment, are significant to the oversight of the financial reporting process.
21. There are no significant findings from the audit that we require to bring to your attention.
22. We recommended changes to the presentation of the annual report and accounts in the financial statements due to changes in the 2015/16 FReM. The recommended changes have been processed by management and there are no unadjusted misstatements to report.

Financial management and sustainability



23. The main financial objective for the Care Inspectorate is to ensure that the financial outturn for the year is within the budget allocated by Scottish Ministers.

2015/16 financial position

24. The Scottish Government sets a resource budget for the year for the Care Inspectorate which originates from the spending review settlement and is subsequently approved in the Budget Bill. During the year, any revisions are approved in the autumn and spring.

25. The Care Inspectorate received a total final resource budget of £23.970 million for 2015/16 which was internally split between revenue (£23.961 million) and capital (£0.009 million) as detailed above.

26. Spending on operating costs was within the final budget set, mainly as a result of in-year expenditure monitoring where budget adjustments, slippages and efficiencies have been used to balance within the overall allocation. We have concluded that the Care Inspectorate budget setting and monitoring arrangements are satisfactory, and we noted that senior management and the Board received relevant monitoring reports timeously.

27. The Statement of Financial Position at 31 March 2016 shows net liability of £26.013 million. This position is largely attributable to the pension liability value of £29.751 million which is subject to an annual valuation process.

28. The financial position of the Care Inspectorate remains stable with the body operating within its available funding (on an accounting and resource basis).

Financial management

29. As auditors we need to consider whether bodies have established adequate financial management arrangements. We do this by considering a number of factors, including whether:

- the director of Corporate Services has sufficient status to be able to deliver good financial management
- standing financial instructions and standing orders are comprehensive, current and promoted within the body
- reports monitoring performance against budgets are accurate and provided regularly to budget holders
- monitoring reports do not just contain financial data but are linked to information about performance
- audit committee members provide a good level of challenge and question significant variances.

30. Our review noted that the Director of Corporate Services and Head of Finance and Corporate Governance have sufficient status to deliver good financial management to the Care Inspectorate.

31. Our review of the Care Inspectorate's financial regulations concluded that they are comprehensive and current. The financial regulations are available on its website.

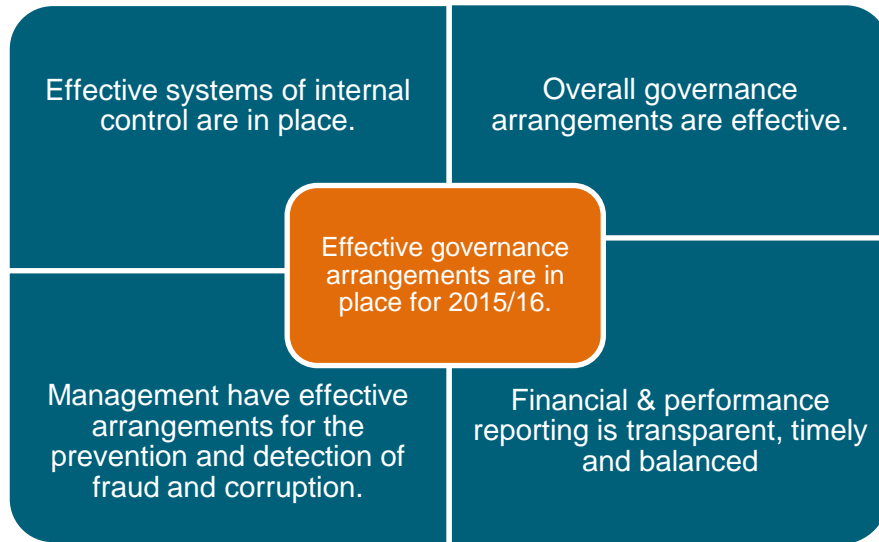
- 32. Regular reporting on budget monitoring and key performance indicator updates are provided to relevant board and resources committee members on a regular basis throughout the year.
- 33. Based on our accumulated knowledge, our review of board papers and through our attendance at the Audit Committee we conclude that the Care Inspectorate has strong financial management arrangements in place.

2016/17 budget

- 34. Longer term efficiencies, budget reductions or funding increases are required to manage the anticipated budget deficits of £0.308 million (2016/17), 0.480 million (2017/18) and £0.668 million (2018/19). This a very challenging budget reduction target for the Care Inspectorate who are in the process of identifying future efficiency savings.

Refer Action Plan no. 1

Governance and transparency



Corporate governance

35. The board and Chief Executive (as Accountable Officer) are responsible for establishing arrangements for ensuring the proper conduct of the affairs of the Care Inspectorate and for monitoring the adequacy of these arrangements.
36. The Care Inspectorate is managed by a board of non-executive directors and is accountable through the Scottish Ministers to

the Scottish Parliament. The board's Chair and non-executives are appointed by the Scottish Ministers.

37. The board is supported in its role by the audit committee, policy committee and resources committee. The committees meet on a regular basis throughout the year to consider relevant matters.
38. We concluded that the Care Inspectorate has effective overarching and supporting governance arrangements which provide an appropriate framework for organisational decision making.

Transparency

39. The Scottish Government's On Board guidance (<http://www.gov.scot/Publications/2015/04/9736/0>) for board members of public bodies was updated and reissued in April 2015. On Board states that boards should demonstrate high standards of corporate governance at all times including openness and transparency in decision making. It recommends boards should consider:

- holding an annual open meeting
- holding board meetings in public unless there is a good reason not to
- publishing summary reports and/or minutes of meetings
- inviting evidence from members of the public in relation to matters of public concern

- consulting stakeholders and users on a wide range of issues
 - making corporate plans and the annual report widely available.
40. Audit Scotland supports transparency of financial reporting within the Annual Report and Accounts including:
- a clear reconciliation between expenditure and the outturn against Scottish Government Resource budgets.
 - identification and explanation of any significant movements in budget during the year.
41. The financial statements include a table showing the Care Inspectorate's outturn against budget and a reconciliation to the statement of comprehensive net expenditure within the accounts. The Performance Report also includes an overview of the financial performance for the year.
42. Together with the annual accounts, the Care Inspectorate also publishes a comprehensive annual report which includes performance against its key indicators. We consider that this provides a fair and balanced view of activities for the year.
43. The Care Inspectorate makes available a range of information on its website, such as the Corporate Plan 2014/18. While we acknowledge that there are aspects of meetings that are confidential and sensitive in nature, the Care Inspectorate's

board meetings are open to the public and summarised minutes are made available on the website.

44. Overall we concluded that the Care Inspectorate have effective overarching and supporting governance arrangements which provide an appropriate framework for organisational decision making.

Internal control

45. No material weaknesses in the accounting and internal control systems were identified during the 2015/16 audit which could adversely affect the organisation's ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

Internal audit

46. Internal audit provides the audit committee and Accountable Officer with independent assurance on the overall risk management, internal control and corporate governance processes. We are required by international auditing standards to make an assessment of internal audit to determine the extent to which we can place reliance on its work. To avoid duplication, we place reliance on internal audit work where possible.

47. Our review of internal audit concluded that the internal audit service (provided by Scott Moncrieff) operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place. Therefore, we were able to place reliance on the following reviews during 2015/16:

- financial systems health check
- financial sustainability
- partnership working.

Arrangements for the prevention and detection of fraud

48. The Care Inspectorate is responsible for establishing arrangements to prevent and detect fraud and other irregularity. We reviewed and reported on these arrangements and have concluded that there are effective arrangements for the prevention and detection of fraud.

Arrangements for maintaining standards of conduct and the prevention and detection of corruption

49. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. We consider whether bodies have adequate arrangements in place and have concluded that appropriate arrangements exist within the Care Inspectorate.

Acknowledgements

50. We would like to express our thanks to the staff and members of the Care Inspectorate for their help and assistance during the audit of this year's financial statements which has enabled us to provide an audit report within the agreed timetable.

Appendix I: Significant audit risks

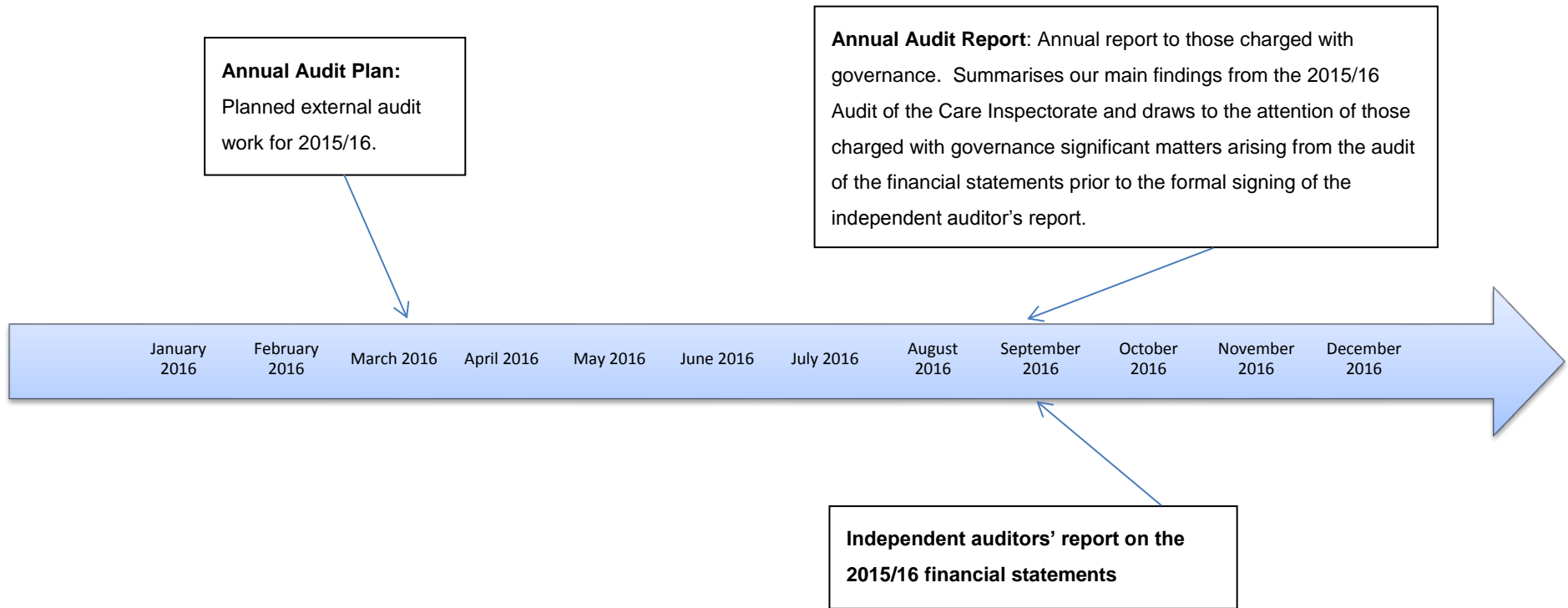
The table below sets out the audit risks we identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

Audit Risk	Assurance procedure	Results and conclusions
Risk of material misstatement		
<p>Funding</p> <p>A funding solution has been agreed for 2015/16 which is consistent with previous years. However, a longer term funding/ efficiencies solution is required to manage the identified budget deficits in future years.</p> <p><i>Without a longer term solution, the Care Inspectorate may not be able to deliver the key objectives and outcomes agreed within the corporate plan.</i></p>	<ul style="list-style-type: none"> We plan to monitor progress in agreeing a funding solution and will report accordingly within our annual audit report. 	<p>The Care Inspectorate's projected budget allocation for following 3 years has resulted in a funding deficit of £0.308m (2016/17), 0.172m (2017/18) and £0.668m (2018/19).</p> <p>The Care Inspectorate are in process of identifying future efficiency savings.</p> <p>Satisfactory</p>

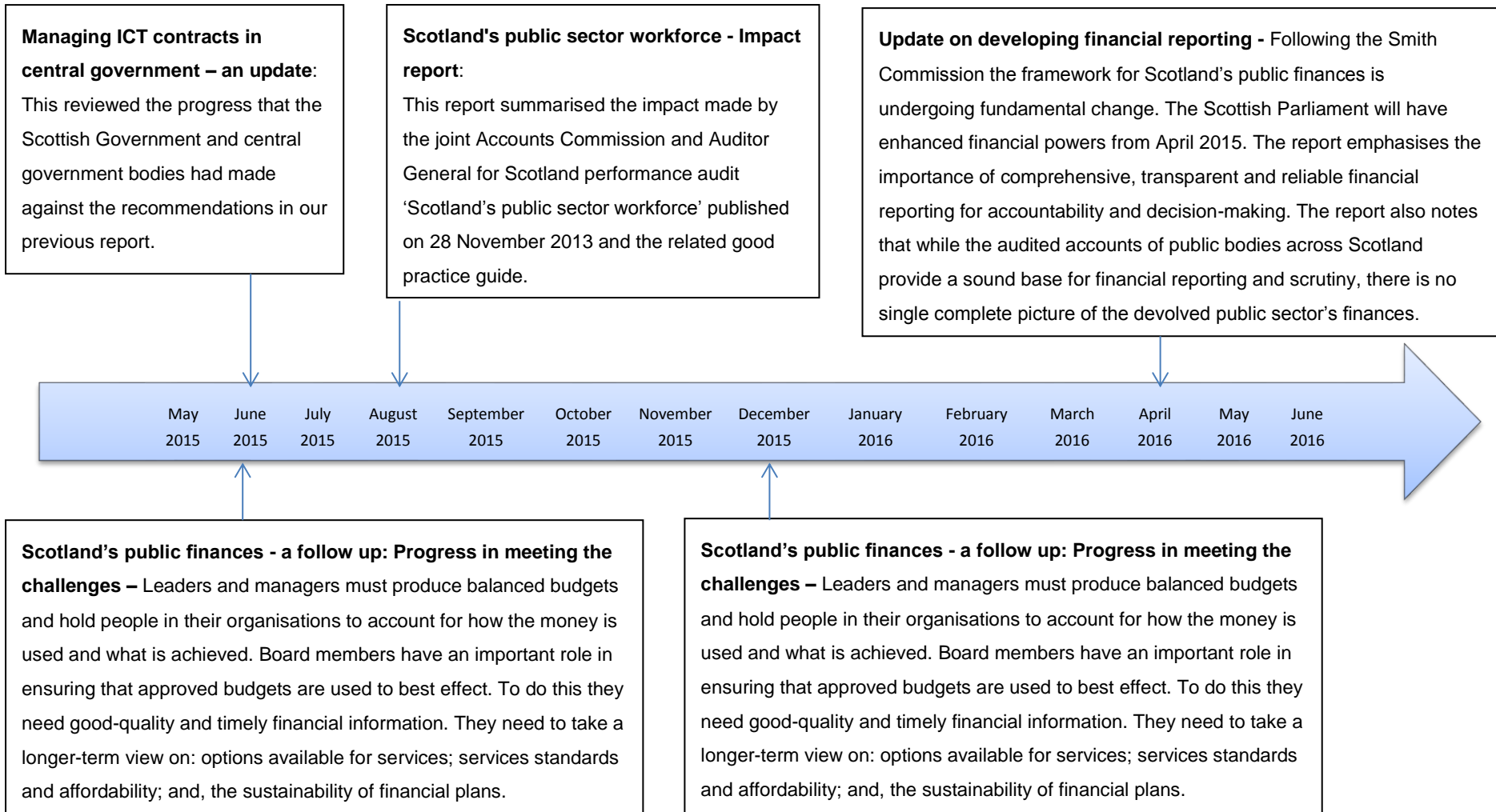
Audit Risk	Assurance procedure	Results and conclusions
<p>Changes to the 2015/16 FReM</p> <p>The 2015/16 FReM contains changes that will require action by officers to ensure they are fully reflected in the 2015/16 unaudited financial statements.</p> <p><i>There may be ongoing issues with the financial statements provided for audit and they may require additional resource and effort from both audit and Care Inspectorate staff to ensure compliance with the FReM.</i></p>	<ul style="list-style-type: none"> • We met with the Care Inspectorate in February 2016 to discuss the required changes and their proposals for the revised annual report layout and content. • We reviewed the annual report included within the unaudited financial statements against the requirements of the 2015/16 FReM as part of the financial statements audit. 	<p>Our review did not identify any significant departures from the requirements of the 2015/16 FReM. However, a number of minor presentational and disclosure adjustments to the Annual Report were identified to ensure this reflected the disclosure requirements set out for the new Performance Report and Accountability Report sections. The Care Inspectorate reflected the required changes in the final version of the accounts.</p> <p>Satisfactory</p>
<p>Income</p> <p>The Care Inspectorate receives a significant amount of income in addition to Scottish Government funding.</p> <p><i>The extent of income means there is an inherent risk that income could be materially misstated.</i></p>	<ul style="list-style-type: none"> • Analytical procedures on income streams. • We will perform substantive testing of income to ensure that income has been recognised appropriately. 	<p>We undertook detailed testing of income streams and did not identify any evidence of fraudulent activity or significant weaknesses in related controls.</p> <p>Satisfactory</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>Risk of management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<ul style="list-style-type: none"> • Detailed testing of journal entries. • Review of accounting estimates. • Focused testing of accruals and prepayments. • Evaluation of any significant transactions that are outside the normal course of business. 	<p>We undertook detailed testing of journal entries, accruals and prepayments. We also reviewed accounting estimates and transactions for appropriateness.</p> <p>We did not identify any incidents of management override of controls.</p> <p>Satisfactory</p>

Appendix II: Summary of local audit reports 2015/16



Appendix III: Summary of Audit Scotland national reports 2015/16



Appendix IV: Action plan

No. AS ref.	Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
1.	34	<p>Issue: As we have reported in previous years, a longer term funding/ efficiencies solution is required to manage the identified budget deficits in the future.</p> <p>Risk: Without a longer term solution, the Care Inspectorate may not be able to deliver the key objectives and outcomes agreed within the corporate plan.</p> <p>Recommendation: The Care Inspectorate should clarify future funding arrangements and continue to identify and implement efficiencies in order to reduce costs and have a balanced budget in-line with funding and anticipated income streams.</p>	<p>We are working with the Sponsor to secure a longer term funding solution. A three year indicative budget has been prepared.</p> <p>There is an officer / member / partnership forum working group set up to examine short and medium term budget and funding issues and report to Resources Committee. The intention is to develop an initial financial strategy during quarter 4 of 2016/17.</p>	Chief Executive 31/3/17