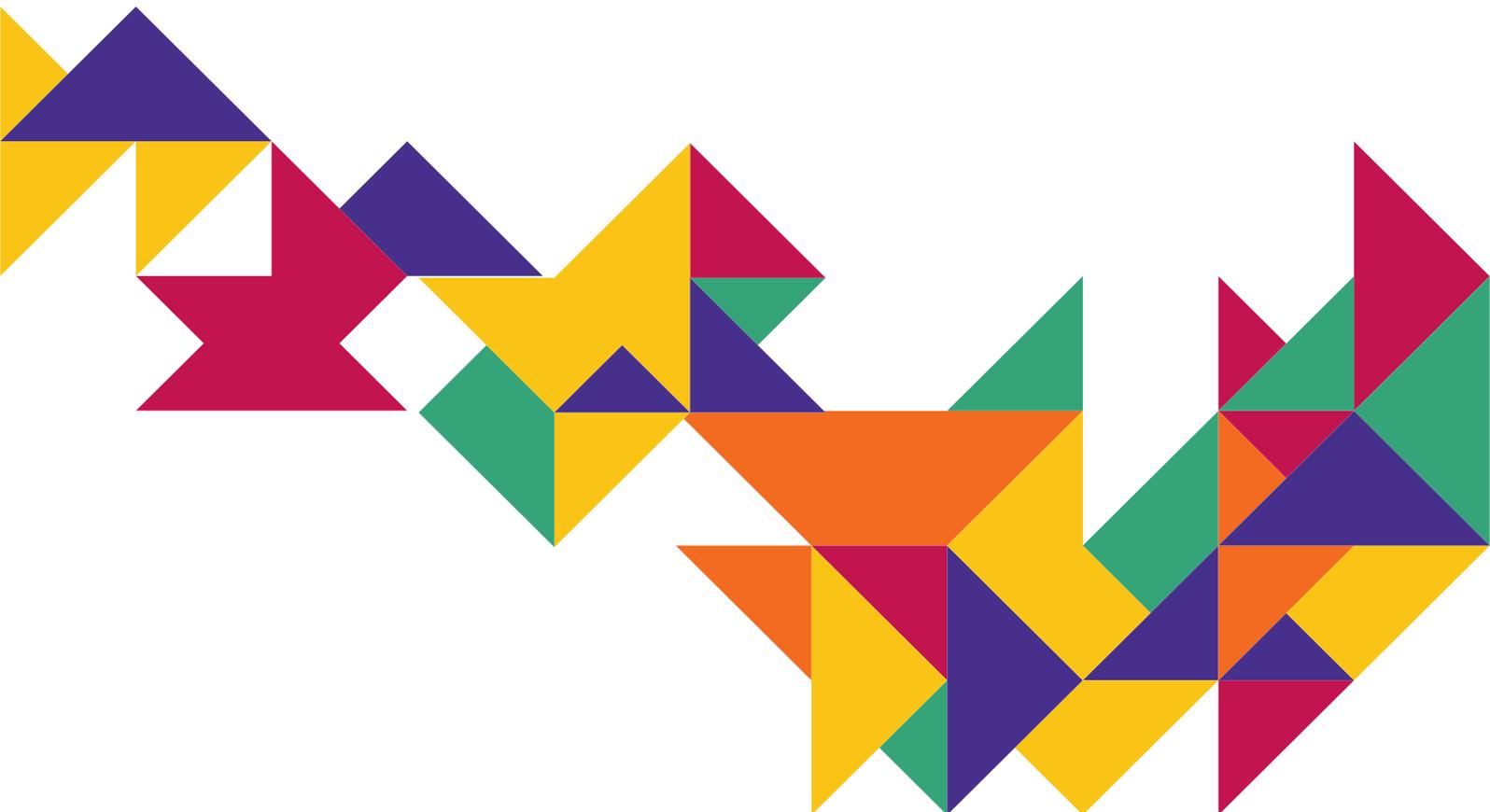


# Care Inspectorate

## External audit plan for the financial year ending 31 March 2017

Audit Committee\* 10 March 2017



\* In the Committee's role as "those charged with governance"



Grant Thornton

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10 February 2017

Dear Members of the Audit Committee,

## External audit plan for the financial year ending 31 March 2017

Please find enclosed our annual external audit plan addressed to those charged with governance for the financial year ending 31 March 2017. We are delighted to have been appointed as your external auditors and look forward to working with you to ensure you get maximum value from our audit work. We will be pragmatic and actively engage with you throughout the year in an open and transparent manner, ensuring you benefit from our wider insights and observations.

Our plan sets out how as your auditors we will fully discharge our responsibilities as set out in the Audit Scotland Code of Audit Practice 2016 (the Code), as well as requirements under International Standards of Auditing (ISA's) (UK and Ireland).

Under the Code, reflecting on the nature and size of Care Inspectorate we have determined that the full wider scope audit is not appropriate. However, as set out in the Code, we will ensure our work allows us to make suitable conclusions in respect of the appropriateness of disclosures in the governance statement (including performance and accountability reports) and the financial sustainability of Care Inspectorate over the medium to long term.

Our approach delivers:

- A robust, independent challenge of your judgements and key aspects of your financial statements, in particular in respect of the significant audit risks and other audit risks as highlighted in this plan
- An efficient and effective audit which is proportionate and risk based
- A clear and concise annual report addressed to those charged with governance and the Auditor General for Scotland, reporting the outcome of our work during the year and reflecting our key judgements and conclusions over your arrangements as relevant to our audit role.

We look forward to working with you over the course of our appointment and discussing this plan with you the on 10<sup>th</sup> of March 2017

Joanne Brown, Engagement Leader

Director

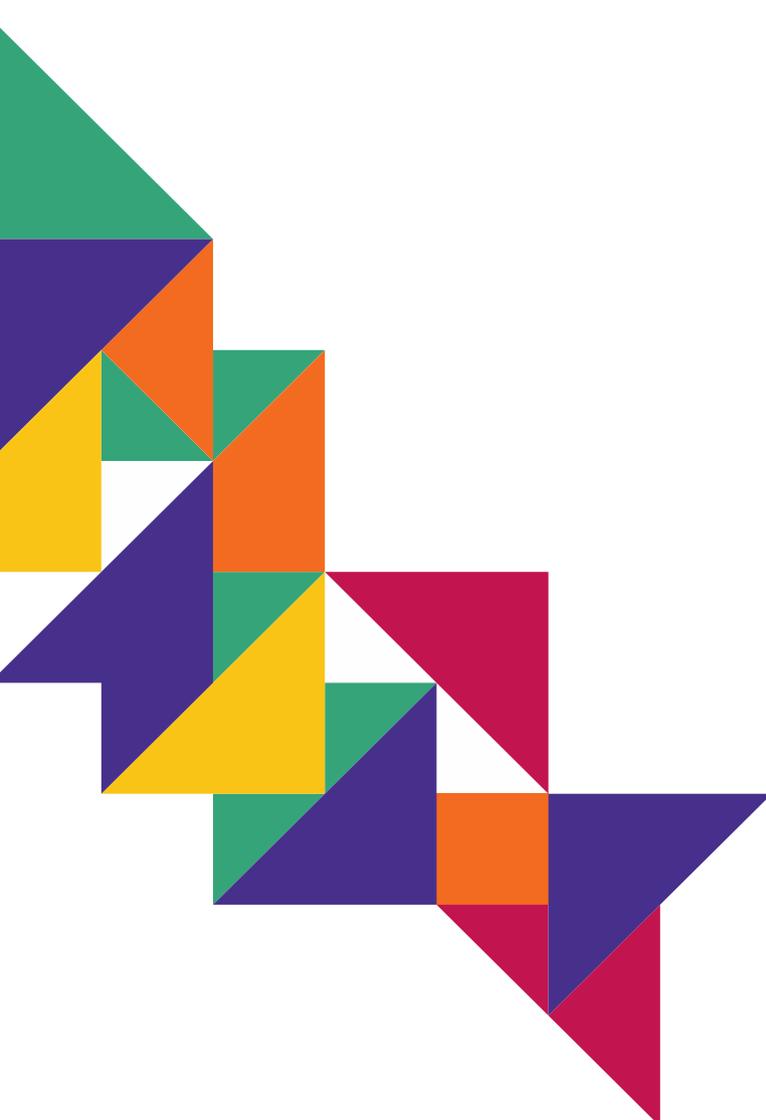
For Grant Thornton UK LLP

#### Chartered Accountants

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# Table of Contents



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<b>Section</b>	<b>Page</b>
1. Our approach at a glance	4
2. Materiality	7
3. Significant and other relevant audit risks	8
4. A quality audit	10

## **Appendices**

Our commitments to you aligned to the principles in the Code of Audit Practice	12
Our team and key audit deliverables	13
Fees, non-audit services and independence	14
Fraud arrangements	15
Respective responsibilities	16
Communication of audit matters with those charged with governance	17

# Our approach at a glance

## A smooth transition

- We have extensive experience of transitioning into new clients and will do this at minimum disruption to you
- We will quickly look to build up good working relationships with your team
- We will produce a high level plan with you upfront and agree key dates for our work, and deliverables

## Regular meetings throughout the process

- Joanne Brown as engagement leader or Megan Dallas as in-charge auditor will meet with you on a regular basis, discuss your emerging issues and act as a sounding board
- Member of the team will attend Audit Committee meetings where we have papers to present
- We will hold at least one in private meeting with the Audit Committee.

## Feedback from you

- Debrief meeting with senior finance staff
- Client service review undertaken and feedback and shared with all of our team
- Action plan to address findings where relevant

## Completion

- Finalise all statutory accounts by 31<sup>st</sup> October (statutory deadline for Central Government)
- Sign accounts and audit opinion

## Audit Committee meeting (21 September 2017)

- Present Annual Report to those Charged with Governance
- Discuss key audit issues; associated risks identified and action plan
- Hold pre-meeting with Audit Committee Chair, if required

## Annual Report to those charged with Governance

- Sets out key audit and accounting issues and how these have been resolved
- Provides comments on systems and controls, and review of accounting policies; conclusions and judgements in respect of your arrangements.
- Commentary on financial sustainability and other potential risks identified during the course of our audit

## Audit planning meeting

- Meeting with key management to identify audit risks/judgements in particular the Head of Finance and Corporate Governance and Senior Accountant
- Consider key aspects of the Care Inspectorate's activities, strategic goals and business issues
- Agree client prepared schedules, accounts and audit timetables

## Audit Plan

- Confirm audit risk areas (significant and other risks) and agreed audit approach
- Set out audit scope and agreed timetable, including how we discharge our responsibilities under the Audit Scotland code of practice
- Formal communication with the Audit Committee

## Interim audit work

- Review of financial systems and controls
- Assess control environment including potential fraud risks
- Liaise with Internal Audit, review outputs and assess impact on our work
- Early year end substantive testing where considered beneficial for example large and unusual balances; employee remuneration

## Final accounts audit

- Focused on risk areas, with Engagement Lead review
- IDEA interrogation software utilised to provide efficiency and insight (data analytics)
- Audit issues and potential adjustments, discussed and cleared with you as they arise

## Annual report including annual governance statement

- Check the annual report is consistent with the accounts and meets the requirements set out in the FReM
- Check the annual governance statement; accountability report and performance report is consistent with our knowledge of Care Inspectorate
- Consideration of governance and financial sustainability arrangements

## Audit clearance meeting

- Discuss audit issues with management
- Agree treatment of any unadjusted differences
- Practical recommendations on systems and controls

# Our approach at a glance (continued)

Our audit is risk based and undertaken in accordance with International Standards of Auditing ("ISA (UK&I)") and Audit Scotland Code of Practice 2016.

We continue to understand the strategy of the Care Inspectorate and ongoing developments, and your key organisational arrangements within the context of the wider central government in Scotland.

Our audit will be largely substantive in nature although under our ISA requirements we will seek to understand your internal control environment, including policies and procedures, segregation of duties and budgeting and financial reporting arrangements.

## Wider Scope – Smaller Body

For smaller bodies we are allowed under the Audit Scotland Code of Practice not to apply the wider scope audit regime in our judgement taking into account the nature of the organisation and associated risks.

Given the nature of Care Inspectorate as an organisation taking into account the complexity of your arrangements involving income and expenditure we have determined that the smaller body classification applies.

However, we will still focus on financial sustainability considering your medium to longer term financial planning for example scenario planning around future funding settlements, your savings and transformational programmes and future strategic direction.

## Internal Audit

As set out in ISA (UK&I) 610 'using the work of internal auditors' we are prohibited from using internal audit to provide direct assistance' to the audit, therefore we design our approach to internal audit to ensure compliance with these requirements.

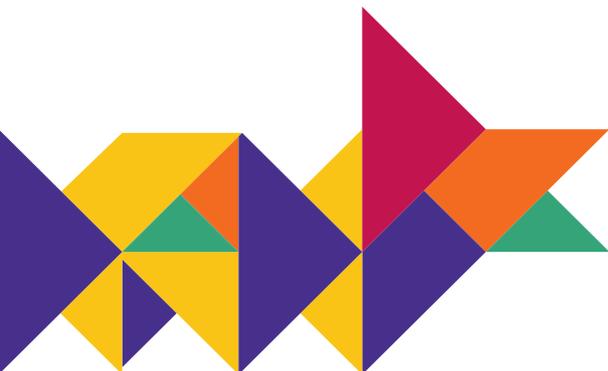
We have reviewed the Internal Audit Plan for 2016/17 and will review reports finalised during the year and meet with Internal Audit to discuss their work including their understanding of the control environment and potential fraud risks. Should Internal Audit identify specific material deficiencies in the control environment during the year we will consider the impact of this on our planned audit approach and substantive testing.

We will work with internal audit in respect of our risk assessment, minimising any risk of duplication or inefficiency. However, we do not intend to take specific reliance on the work performed in the period.

## Professional standards

Our objective is robust, quality driven external audit which adds value to you. Our team works to the highest level of professional standards in delivering their work. Specifically we would highlight:

- professional scepticism will be applied throughout the audit, in particular in respect of significant or key judgements.
- we will provide robust challenge and insights to management based on our significant Public Sector experience, including wider Central Government experience.
- we will seek to really understand your culture and ethics as well as Care Inspectorate's Strategic priorities, risks and challenges and how you operate on a day to day basis. This will mean our approach is suitably tailored to you.
- we will involve necessary specialists to support us in our audit work, for example, using our National Audit Technical team for complex accounting queries and using our IT team to understand your IT control environment.
- we will use IDEA, our data analytical software to effectively and efficiently test your balances and transactions during the year including journals.



# Materiality

We are required to audit the financial statements and to give an opinion as to:

- whether they give a true and fair view of the financial position of the Care Inspectorate and its expenditure and income for the period 1 April 2016 to 31 March 2017
- whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements including our regularity opinion
- The part of the remuneration report which is subject to audit is free from misstatement.
- Whether the information which comprises the performance report, accountability report and governance statement is consistent with the financial statements
- The regularity of expenditure and income

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## Determining materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit.

The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

## Overall materiality

As is usual in public sector entities, we have determined materiality for the financial statements as a proportion of gross revenue expenditure of the Care Inspectorate. Using budgeted annual expenditure we have calculated our preliminary planning materiality as £385,880 (1% of gross expenditure).

It is normal practice for us to reconsider our materiality levels when final accounts are presented for audit. We will report any changes in our materiality threshold to you within our Annual Report to those charged with Governance.

## Performance materiality

Performance materiality is set at £250,822 and is calculated based on 65% of materiality, and represents the amount set for the financial statements as a whole to reduce the probability that the aggregate of uncorrected and undetected misstatements exceed materiality.

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## Trivial

Under ISA 540, auditors set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulation of such amounts would have a material effect on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £3,859 based on 1% of materiality. We will report to you any adjustments identified through our audit work if below these thresholds where we consider them to be material by nature.

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## Regularity Opinion

The Care Inspectorate is responsible for ensuring that public money is used only for its approved purpose.

As required we provide an opinion on the regularity of the income and expenditure of the Care Inspectorate. We will therefore consider whether there are adequate controls in place over expenditure and substantively test transactions to ensure they are in line with the approved purpose of the Care Inspectorate.



# Significant and other audit risks identified at planning

Audit risks identified	Description of risk	Work planned
<p>1 <b>Significant Audit risk:</b> Management override of controls</p>	<p>Under ISA (UK&amp;I) 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities (fraud risk)</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• complete walkthroughs of the controls and procedures in place around journal entries;</li> <li>• review the key accounting estimates, judgements and decisions made by management;</li> <li>• test journal entries with a focus on unusual posting sources, times or amounts identified using our IDEA data analysis software; and</li> <li>• review unusual and/or significant transactions.</li> </ul>
<p>2 <b>Significant Audit risk:</b> The revenue cycle includes fraudulent transactions</p>	<p>Under ISA 240 (UK&amp;I) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.  This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA (UK&amp;I) 240 and the nature of the revenue streams at the Care Inspectorate, we plan to rebut the assertion in respect of Scottish Government Income. However, over and above the Scottish Government core grant income, income is received from other sources therefore we will target our work and specific fraud risk on this income stream. Our work will include:</p> <ul style="list-style-type: none"> <li>• Confirmation of income received in year</li> <li>• Completeness and accuracy of income recorded in year, specifically focused on treatment of income received on or close to the end of the financial year</li> <li>• Substantive testing of income received</li> </ul>
<p>3 <b>Other audit risk:</b> Completeness of operating expenditure</p>	<p>Operating expenses are understated or not recorded in the right period. This risk also relates to Practice Note 10 (revised) in respect of public sector entities which outlines that auditors should also consider the risk that misstatement may occur by the manipulation of expenditure recognition (Fraud risk).</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• Complete walkthrough of the controls and procedures around purchase ordering, procurement and general payment and recording of expenditure</li> <li>• Reconcile creditors ledger to the general ledger and financial statements</li> <li>• Perform cut-off testing on pre-year end and post year end transactions to gain comfort around the completeness and accuracy of recognised expenditure</li> <li>• Gain comfort around the regularity of expenditure and the application of public funds in accordance with Scottish Government guidelines.</li> </ul>
<p>4 <b>Other audit risk:</b> Financial sustainability</p>	<p>The Care Inspectorate relies on funding from Scottish Government and a high proportion of its cost base is employees. The funding settlement for 2017/18 resulted in a reduction of funding of 3% therefore delivery of planning efficiency savings are key, alongside transformation.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• We will review the Care Inspectorate's medium to long term financial plans, linked where relevant to workforce plans.</li> <li>• We will consider communication of financial challenges and associated action plans including governance over financial planning.</li> </ul>

# A quality audit

Ensuring we deliver on our commitments to you is important to us.

Our regular meetings are an opportunity to discuss our performance and confirm your expectations about audit outputs and audit approach including our team interactions with you for example, are being met.

We will look to use the performance metrics set out below so you can assess our performance; and we will report our progress back to you.

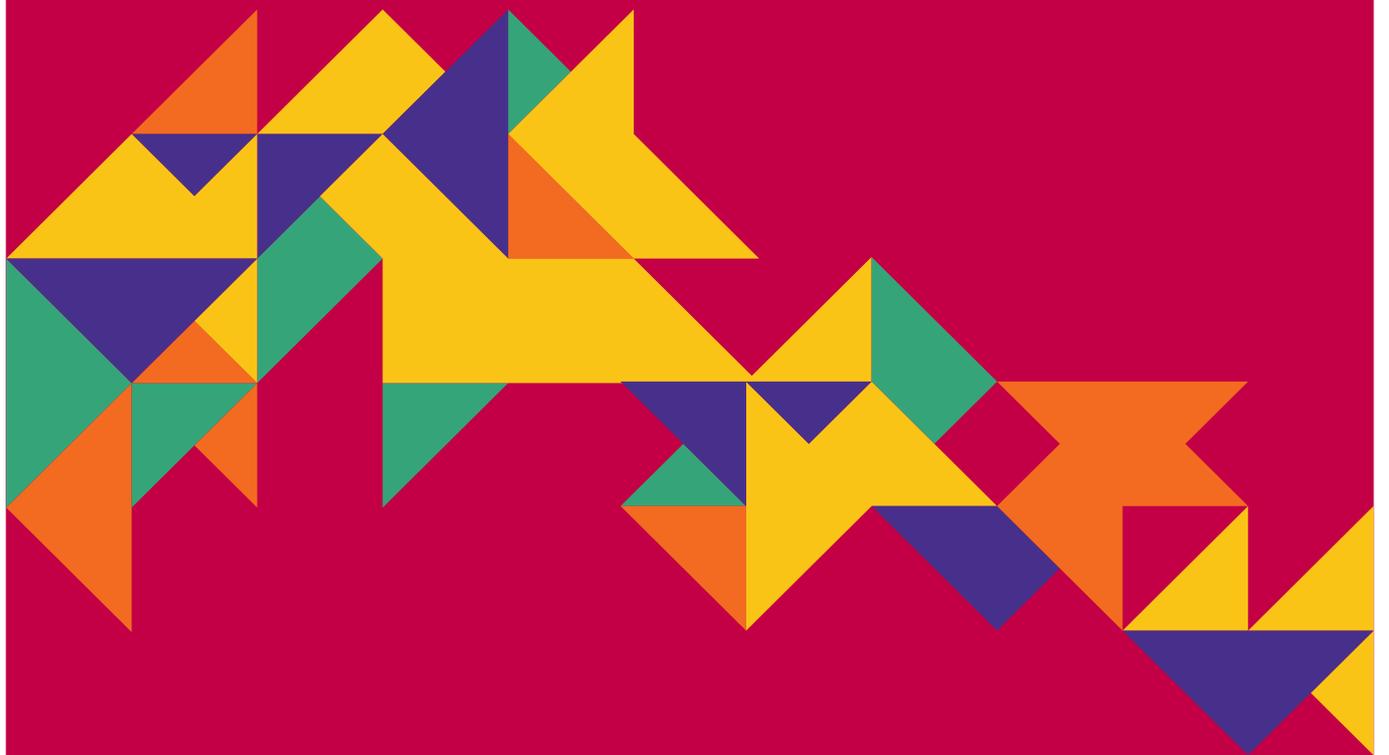
We will also undertake regular client service reviews so that you can tell us how we are performing, as well as recognising that Audit Scotland will also ask you for feedback on us. We take your feedback seriously and will seek to continually improve our service reflecting on your ongoing feedback.

The table outlines the service levels that you can expect as a minimum. We will always strive to do more, and deliver above and beyond these.

Area	Proposed service level and indicator
Response time	<ul style="list-style-type: none"> <li>• We will respond to all minor queries or requests for assistance within two working days</li> <li>• We will provide an initial response to all major queries or requests for assistance within two working days, with full responses within five working days</li> <li>• We will acknowledge any complaint by return and will resolve it in discussion with you within two working days. We will escalate any complaint at your request</li> </ul>
Achievement of planned inputs and milestone	<ul style="list-style-type: none"> <li>• We will not vary the total approved audit fee, except by prior approval by the Head of Finance and Corporate Governance and the Audit Committee</li> <li>• We will achieve all key milestone dates and audit inputs, as agreed with you at the start of the year. All papers for Audit Committee will have been reviewed by management and submitted in advance of the paper deadlines (100% target)</li> </ul>
Liaison	<ul style="list-style-type: none"> <li>• We will agree a schedule of liaison meetings with you at the start of each year, along with the proposed dates for our on-site work</li> <li>• We will confirm agendas for every liaison meeting a week in advance to allow the most appropriate colleagues to participate</li> <li>• We will attend all Audit Committee meetings where we have a paper with the Engagement Lead attending where appropriate.</li> </ul>
Reporting	<ul style="list-style-type: none"> <li>• Our reports will be clear and concise and include sufficient/ appropriate evidence of our work.</li> </ul>
Audit protocol	<ul style="list-style-type: none"> <li>• We will comply with all auditing and ethical standards and will maintain the integrity, objectivity and independence of the team at all times (100%)</li> </ul>
Client feedback	<ul style="list-style-type: none"> <li>• We will informally seek your feedback throughout the year. On an annual basis we will undertake a client satisfaction survey with an aim of a score of 8 or above (out of 10)</li> </ul>

# Appendices

Contents	Page
Our commitments to you aligned to the principles set out in the Code of Audit Practice	11
Our team and key audit deliverables	12
Independence and fees	13
Fraud arrangements	14
Respective responsibilities	15
Communication of audit matters with those charged with governance	16



# Our commitments to you aligned to the principles of the Code of Audit Practice

## Independent

- full compliance with independence and ethical standards

## Co-ordinated & integrated

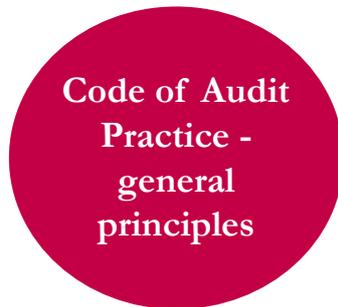
- co-ordination with Auditor General and Audit Scotland
- seeking to minimise duplication/inefficiency with Assurance Providers for example internal audit
- sharing of Audit Scotland National Reports including action plans

## Adds value

- clear and concise Annual Report to those charged with Governance
- recommended actions which make a difference to you and are aligned to your risk framework
- judgements and conclusions-supported by evidence

## Proportionate & risk based

- focus on significant audit risks relevant to you and meeting ISA requirements.



## Transparent

- clear plan linked to final reporting
- upfront, open engagement
- responsive to your queries
- consideration of potential contentious audit areas upfront to agree early resolution

## Quality focused

- fully ISA (UK & Ireland) compliant audit
- full compliance with Audit Scotland Code of Audit practice
- Rigorous quality checks built into our audit approach
- an internal audit quality compliance programme

## Public focused

- focus on user of the accounts and what matters to them
- jargon free – easy to understand
- commentary supported by evidence
- risk based and relevant to you

# Team and key audit deliverables

## The audit cycle



### Our team

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Date	Activity	Audit Scotland Deliverables
October/November 2016	Audit Planning & Meetings with Management Handover meeting with predecessor auditor (Audit Scotland) Review of predecessor audit file to gain comfort over opening balances	
10 March 2017	Audit Plan presented to Audit Committee	Submit Audit Plan (Audit Scotland Central Government Deadline 28 February 2017)
Late June/early July 2017	Year end fieldwork commences (timing to be finalised)	Submit Fraud return – Deadline end of May Submit NFI questionnaire (end of June) Role of Boards Audit Scotland Return (June)
July 2017	Audit findings meeting with the Head of Finance and Corporate Governance	
21 September 2017	Report audit findings to those charged with governance (Audit Committee)	Certify annual accounts, submit annual accounts and annual audit report .
28 September 2017	Sign financial statements opinion after the Board meeting	
October 2017	Debrief and learning meeting	



# Independence and fees

## Audit Fee

Service	Fees £
External Auditor Remuneration	24,180
Pooled Costs	5,940
Contribution to Audit Scotland	1,260
<b>Expected Fee</b>	<b>31,380</b>

The audit fee is calculated in accordance with guidance issued by Audit Scotland for determining the fee level for Central Government organisations.

Your total fee for the 2016-17 external audit is £31,380.

Typically our fee assumptions include:

- supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- the scope of the audit, and the Care Inspectorate activities will not change significantly from planned
- Care Inspectorate will make available management and accounting staff to help us locate information and to provide explanations.
- We will only receive (and audit) 3 sets of accounts (1<sup>st</sup> draft; amended draft and final)

## Fees for other services

Service	Fees £
At planning stage we confirm there are no non-audit fees	Nil

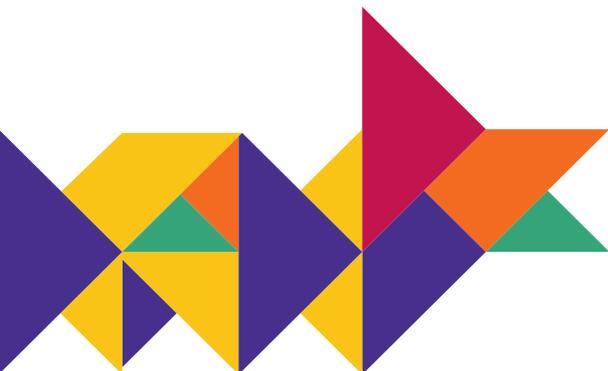
## Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Annual Report to those charged with governance at the conclusion of the audit.

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

We are required by auditing and ethical standards to communicate any relationships that may affect the independence and objectivity of the audit team. We can confirm no independence concerns have been identified.



# Fraud arrangements

The term fraud refers to intentional acts of one or more individuals amongst management, those charged with governance, employees or third parties involving the use of deception that result in a material misstatement of the financial statements. In assessing risks, the audit team is alert to the possibility of fraud at Care Inspectorate.

As part of our audit work we are responsible for:

- identifying and assessing the risks of material misstatement of the financial statements due to fraud in particular in relations to management override of controls.
- designing and implementing appropriate audit testing to gain assurance over our assessed risks of fraud
- responding appropriately to any fraud or suspected fraud identified during the audit.

As auditors we obtain reasonable but not absolute assurance the financial statements as a whole are free from material misstatement, whether due to fraud or error. We will obtain annual representation from management regarding managements assessment of fraud risk, including internal controls, and any known or suspected fraud or misstatement. In addition, we will ask the question of the Audit Committee at the planning stage and routinely during the audit.

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance including establishing and maintaining internal controls over the reliability of financial reporting effectiveness and efficiency of operations and compliance with applicable laws and regulations.

It is the Care Inspectorate's responsibility to establish arrangements to prevent and detect fraud and other irregularity. This includes:

- developing, promoting and monitoring compliance with standing orders and financial instructions
- developing and implementing strategies to prevent and detect fraud and other irregularity
- receiving and investigating alleged breaches of proper standards of financial conduct or fraud and irregularity.

Throughout the audit we work with the Care Inspectorate to review specific areas of fraud risk, including the operation of key financial controls. We also examine the policies in place, strategies, standing orders and financial instructions to ensure that they provide a strong framework of internal control.

In addition, as set out in the Audit Scotland Code of Audit Practice we have a role in reviewing the Care Inspectorate NFI arrangements, in response to the national fraud initiative exercise.



# Respective responsibilities

As set out in the Code of Audit Practice (pages 10 to 16) there are a number of key responsibilities you as an organisation are responsible for, and others, as appointed auditors we are responsible for. These are summarised below:

Area	Care Inspectorate Responsibilities
<b>Corporate governance</b>	<ul style="list-style-type: none"> <li>• Establishing arrangements for proper conduct of its affairs</li> <li>• Legality of activities and transactions</li> <li>• Monitoring adequacy and effectiveness of arrangements (inc role of those charged with governance)</li> </ul>
<b>Financial statements</b>	<ul style="list-style-type: none"> <li>• Preparing financial statements which give a true and fair view of their financial position</li> <li>• Maintaining accounting records and working papers</li> <li>• Putting in place systems of Internal Control</li> <li>• Maintaining proper accounting records</li> <li>• Preparing and publishing an annual governance statement, management commentary and remuneration report</li> <li>• Effective systems of internal control as well as financial, operational and compliance controls – supporting achievement of objectives and secure value for money</li> </ul>
<b>Financial position</b>	<ul style="list-style-type: none"> <li>• Proper arrangements to ensure financial position is soundly based and responsibility to ensure arrangements secure best value</li> </ul>
<b>Fraud and error</b>	<ul style="list-style-type: none"> <li>• Establishing appropriate arrangements for prevention and detection of fraud, error, irregularities, bribery and corruption and affairs are properly managed</li> </ul>

## Our responsibilities

- Undertake statutory duties and comply with professional engagement and ethical standards
- Provide an opinion on financial statements and regularity of transactions
- Review and report on, as appropriate, other information eg annual governance statements, management commentary, remuneration reports
- Notify the Auditor General when circumstances indicate a statutory report may be required
- Demonstrate compliance with wider public audit scope as relevant to 'smaller bodies' as set out in the Code

## How do we do this in practice

- By reviewing and providing judgements and conclusions on the Care Inspectorate's arrangements
- Suitability of corporate governance arrangements in year
- Financial position and arrangements for ensuring financial sustainability in the medium to longer term
- Review of other information in line with our knowledge and understanding of Care Inspectorate
- Ongoing dialogue and engagement with Audit Scotland during the year

Weaknesses and risks identified by us as your auditors are only those which have come to our attention during our normal audit work in accordance with the Code, and may not be all that exist. Communication by us of matters arising from the audit of the financial statements 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.

# Communication of audit matters with those charged with governance (summary of ISA requirements)

Our communication plan	Audit Plan	Annual Audit Report
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
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	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

International Standards on Auditing (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 opposite.

This document outlines our audit strategy and plan to deliver the audit, while the Annual Audit Report will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

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



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This proposal is made by Grant Thornton UK LLP and is in all respects subject to the negotiation, agreement and signing of a specific contract/letter of engagement. The client names quoted within this proposal are disclosed on a confidential basis. All information in this proposal is released strictly for the purpose of this process and must not be disclosed to any other parties without express consent from Grant Thornton UK LLP.

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