

Independent Living Fund Scotland

Report to the Audit and Risk Committee and the Auditor
General for Scotland on the 2019/20 audit

Issued on 09 June for the meeting on 15 June 2020

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Introduction

The key messages in this report

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the financial statements.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

I have pleasure in presenting our final report to the Audit and Risk Committee ('the Committee') of the Independent Living Fund Scotland ("ILF") for the 2019/20 audit.

This audit was carried out under unusual circumstances, being a remote audit conducted during the national lockdown in response to COVID-19. We recognise the extra pressure faced by ILF in preparing the annual report and in preparing for the audit. We engaged early with management on the potential implications of COVID-19 for the preparation of the annual report as well as the audit, and management confirmed their desire to stick to the original timetable. While the shift to remote working placed pressure on the original timetable for preparation of the annual report and completion of the audit, we have worked closely with management to mitigate this whilst maintaining audit quality as our number one focus.

The scope of our audit was set out within our planning report presented to the Committee in January 2020.

This report summarises our findings and conclusions in relation to:

- The audit of the **financial statements**, for which our risk assessment has not changed from that communicated to the Committee in our planning report; and
- Consideration of the wider scope requirements of public sector audit. As set out in our plan, we have concluded that the full application of the wider scope is not appropriate and applied the "small body" clause set out in the Code which allows narrower scope work to be carried out. We have updated our risk assessment during the audit and confirm that the judgement made in our audit plan has not changed. Our work in this area was restricted to concluding on:
 - The appropriateness of the disclosures in **the governance statement**; and
 - The **financial sustainability** of ILF and the services that it delivers over the medium to longer term.

Introduction (continued)

The key messages in this report (continued)

I would like to draw your attention to the key messages of this paper:

Conclusions from our testing

Based on our audit work completed to date, we expect to issue an unmodified audit opinion.

The performance report and annual governance statement comply with the statutory guidance and proper practice and are consistent with the financial statements and our knowledge of ILF.

The auditable parts of the remuneration report have been prepared in accordance with the relevant regulation.

A summary of our work on the significant risks is provided in the dashboard on page 10.

No misstatements in excess of our reporting threshold of £54k. We have identified one disclosure deficiency on key judgements and estimation uncertainty, which is included on page 30.

Status of the financial statements audit

Outstanding matters to conclude the audit include:

- Receipt of final financial statements;
- Finalisation of internal quality control procedures;
- Receipt of signed management representation letter; and
- Our review of events since 31 March 2020.

Conclusions on audit dimensions

As set out on page 3, our audit work covered the wider scope requirements of public sector audit.

The outbreak of COVID-19 has brought unprecedented challenges to organisations around the country. It is not yet known what long-term impacts these will have on populations and on the delivery of public services, but they will be significant and could continue for some time. While this report makes reference to COVID-19 where relevant, we have not considered the full impact of COVID-19 on ILF at this stage.

Governance statement - The disclosures are appropriate and address the current requirements of the Scottish Public Finance Manual. We have reviewed the governance statement and did not note any inconsistencies or omissions based on other evidence obtained throughout the audit.

Introduction (continued)

The key messages in this report (continued)

Conclusions on audit dimensions (continued)

Financial sustainability – ILF has effective budgeting in place. ILF has relied on using reserves to achieve balance in 2019/20 and is forecasting to do so in 2020/21 and 2021/22. Given the rate of use of reserves, we are unable to conclude that ILF is in a financially sustainable position. It is important to note that our review does not incorporate any consideration for COVID-19.

ILF has a rolling three-year financial plan which management believes meets its needs. From our work, we have concluded that the medium-term financial planning and workforce planning in the organisation does not reflect all of the basic components expected, and we recommend on page 22 that improvements in this regard should be made. Improvements to the budget – ensuring it considers all income and expenditure, and links to medium-term financial, workforce and strategic planning – are also recommended.

Our detailed findings and conclusions are included on pages 19 to 23 of this report.

Next steps

An agreed Action Plan is included as an Appendix on pages 31 – 32 of this report. We will consider progress with the agreed actions as part of our 2020/21 audit.

Emerging issues

Deloitte’s wider public sector team prepare a number of publications to share research, informed perspective and best practice across different sectors. Most recently, a number of articles have been published focusing on the impact of COVID-19. We have provided a summary of those most relevant to ILF on pages 27 – 28 of this report.

Added value

Our aim is to add value to ILF by providing insight into, and offering foresight on, financial sustainability, risk and performance by identifying areas for improvement and recommending and encouraging good practice. In so doing, we aim to help ILF promote improved standards of governance, better management and decision making, and more effective use of resources.

This is provided throughout the report, and in particular from our work, we have made recommendations in relation to improving how budgets are prepared, encouraging a focus on medium-term financial planning and workforce planning. In addition, we have worked closely with management to ensure that the annual report and accounts - a key publication for the organisation - is in line with requirements of and good practice for public bodies, whilst being cognisant of ILF's status as a body subject to the Companies Act 2006.

In addition, as information emerges as a result of the COVID-19 pandemic, we have shared guidance with management on areas to consider in relation to internal controls, fraud risks and annual reporting. Further, invites have been issued to our weekly webinar “Responding to COVID-19: Updates and practical steps” which is open to anyone to join.

Pat Kenny
Audit Director






Financial statements audit



Quality indicators

Impact on the execution of our audit

Management and those charged with governance are in a position to influence the effectiveness of our audit, through timely formulation of judgements, provision of accurate information, and responsiveness to issues identified in the course of the audit. This slide summarises some key metrics related to your control environment which can significantly impact the execution of the audit. We consider these metrics important in assessing the reliability of your financial reporting and provide context for other messages in this report.

Area	Grading	Reason
Timing of key accounting judgements		Key judgements for ILF relate primarily to the recognition of deferred income and accruals. Management demonstrated a clear understanding of these areas, were able to explain them clearly and provide sufficient and appropriate evidence to support these judgements at an early stage in the audit.
Adherence to deliverables timetable		Management provided all evidence in a timely manner, in advance of agreed timelines. Any follow-up requests during the audit were quickly actioned.
Access to finance team and other key personnel		Deloitte and ILF have worked together to facilitate remote communication during the audit which has been successful.
Quality and accuracy of management accounting papers		Working papers provided to support the amounts included in the annual report and accounts were of a high standard, with additional information readily available when needed.
Quality and timing of Audit and Risk Committee papers		The deadlines for the Audit and Risk Committee, while tight, have been met. We have identified no issues in relation to either the quality or availability of papers presented to the Committee based on our review of minutes or attendance at meetings.



Lagging






Developing



Mature

Quality indicators (continued)

Impact on the execution of our audit (continued)

Area	Grading	Reason
Quality of draft annual report and accounts		The annual report and accounts were initially drafted in accordance with the Companies Act 2006 and were non-compliant with the Government Financial Reporting Manual ('FReM'). Significant changes were required to bring the annual report and accounts in line with public sector reporting requirements. However, this must be considered in the context that ILF's status has changed in the year and the Accounts Direction from the Scottish Ministers – which directs the form of the annual report and accounts – was not available to ILF until specifically requested through our audit.
Response to control deficiencies identified		We did not identify any control deficiencies during our audit.
Volume and magnitude of identified errors		We have not identified any financial adjustments during our audit. We have identified a single disclosure deficiency in the notes to the financial statements, as set out on page 30.



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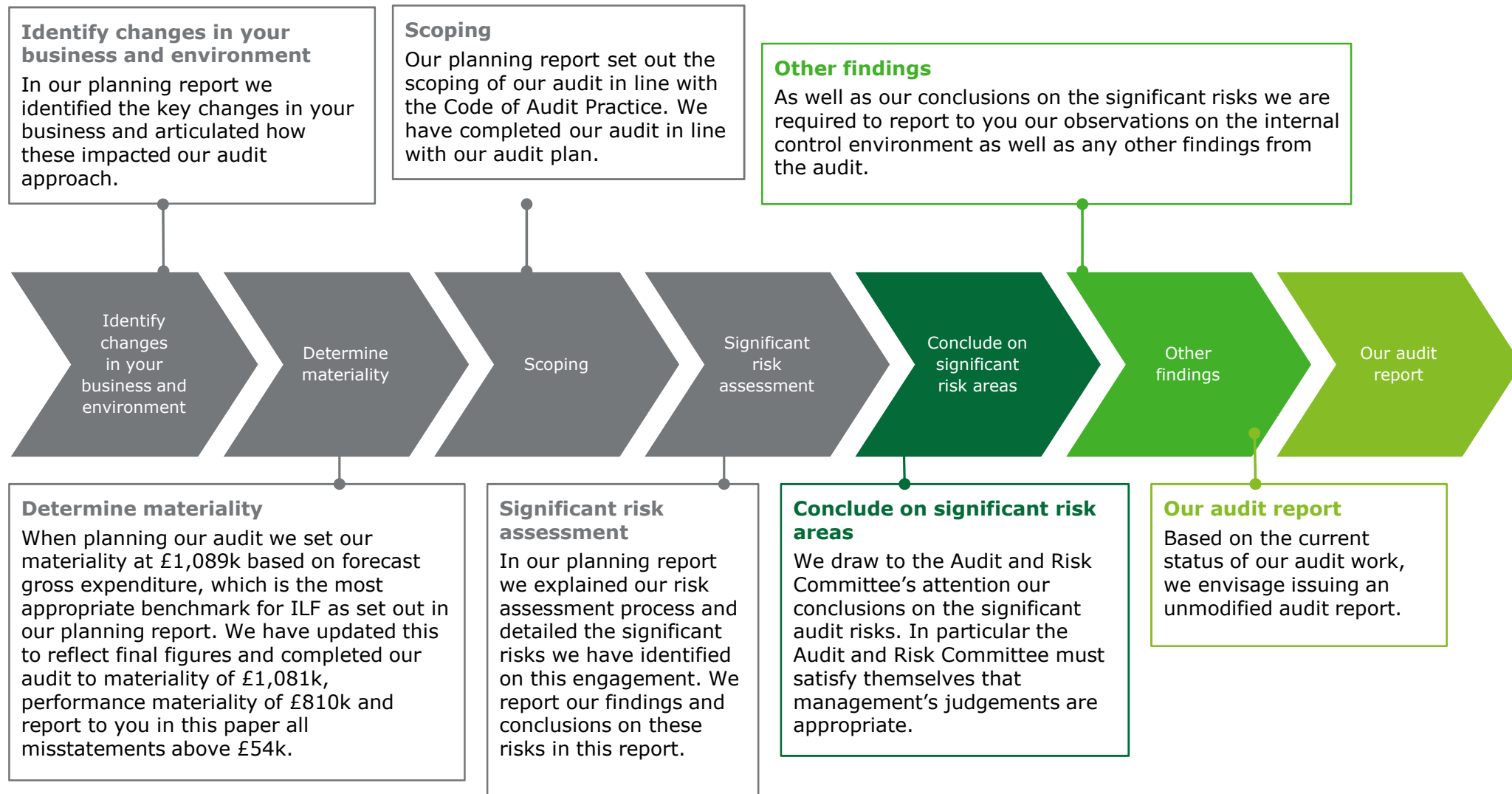
Developing



Mature







Our audit explained

We tailor our audit to your business and your strategy



Significant risks Dashboard

Ensure risks tie up to plan

Risk	Material	Fraud risk	Planned approach to controls testing	Controls testing conclusion	Consistency of judgements with Deloitte's expectations	Comments	Page no.
Grants to individuals – year end liabilities			D+I	Satisfactory		Satisfactory	11
Management override of controls			D+I	Satisfactory		Satisfactory	12

Overly prudent, likely to lead to future credit



Overly optimistic, likely to lead to future debit.

D+I: Testing of the design and implementation of key controls

Significant risks (continued)

Risk 1 – Grants to individuals

Year end liabilities

Risk identified

The risk of fraud in revenue recognition is a presumed risk under International Standards on Auditing. The main component of income for Independent Living Fund is the Grants from the Scottish Government and this is not considered to be a significant risk as the process for receipt of this income is not complex and can be verified 100% to the Grant-in-aid letter.

We therefore consider the fraud risk to be focused on the year-end accounting treatment of grants to individuals where a constructive obligation exists but payment is not made till after the year-end as there is an element of management judgement in determining when the constructive obligation exists and the estimated value of the obligation. As at 31 March 2020, a total £2.5m grant liability was recognised for amounts unpaid at the year-end.



Key judgements and our challenge of them

Given the financial pressures across the whole of the public sector, there is an inherent fraud risk associated with the recording or deferral of grant liabilities around year end.

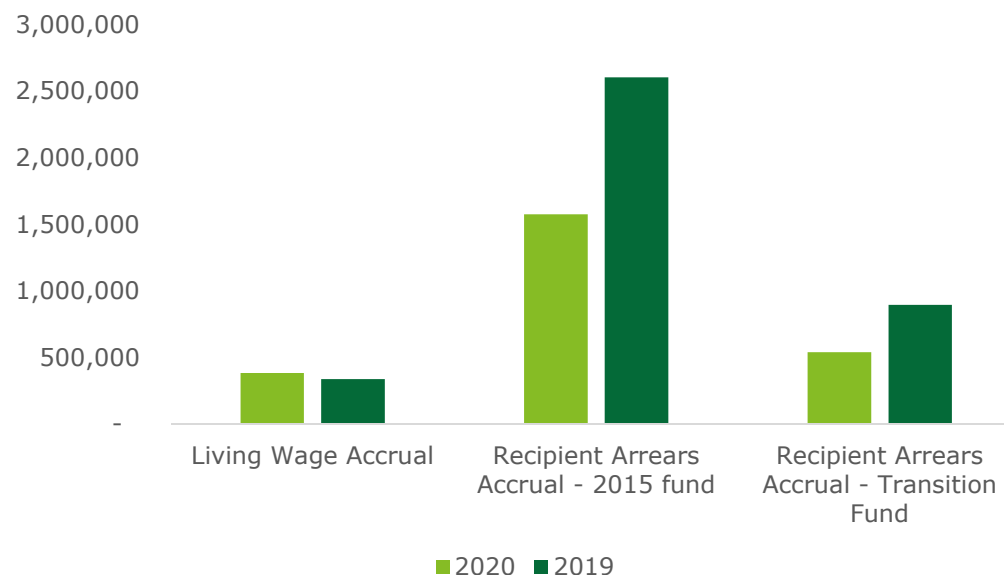


Deloitte response

We have evaluated the results of our audit testing in the context of the achievement of the target set by the Scottish Government. Our work in this area included the following:

- Evaluating the design and implementation of controls over month end and year end accruals in respect of grants to individuals;
- Sample testing of post year-end payments to assess the accuracy of the year-end accrual.

Grant Liabilities



Deloitte view

The graph above highlights the reduction in recipient arrears accruals for both funds which is mainly due to timing differences when the last payment run for 2019/20 was made. We have not identified any material misstatement in the recognition of accruals.

Significant risks (continued)

Risk 2 - Management override of controls

Risk identified

In accordance with ISA 240 (UK) management override is a significant risk. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override ILF's controls for specific transactions.



The key judgements in the financial statements are those which we have selected to be the significant audit risk around the recognition of grant liabilities. This is inherently the area in which management has the potential to use their judgement to influence the financial statements.



Deloitte response

We have considered the overall sensitivity of judgements made in preparation of the financial statements, and note that:

- ILF's results throughout the year were projecting breakeven and underspends in operational areas. This was closely monitored and whilst projecting underspends, the underlying reasons were well understood and regular discussions were held with Scottish Government; and
- Senior management's remuneration is not tied to particular financial results.

We have considered these factors and other potential sensitivities in evaluating the judgements made in the preparation of the financial statements.

Significant and unusual transactions

We did not identify any significant transactions outside the normal course of business or any transactions where the business rationale was not clear.

Journals

We have performed design and implementation testing of the controls in place for journal approval, with no issues noted.

We have used Spotlight data analytics to risk assess journals and select items for detailed follow up testing. The journal entries were selected using computer-assisted profiling based on areas which we consider to be of increased interest.

We have tested the appropriateness of journal entries recorded in the general ledger, and other adjustments made in the preparation of financial reporting. No issues were noted.

Accounting estimates and judgements

We have performed design and implementation testing of the controls over key accounting estimates and judgements.

We reviewed accounting estimates for biases that could result in material misstatements due to fraud.

We note that overall the changes to estimates in the period were balanced and did not indicate a bias to achieve a particular result.

We tested accounting estimates and judgements (including accruals, deferred income and any other one-off accruals), focusing on the areas of greatest judgement and value. Our procedures included comparing amounts recorded or inputs to estimates to relevant supporting information from third party sources.

Deloitte view

We have not identified any significant bias in the key judgements made by management.

We have not identified any instances of management override of controls in relation to the specific transactions tested.

Significant risks (continued)

Risk 2 - Management override of controls (continued)

Key judgements The key judgements in the financial statements are those which we have selected to be the significant audit risk around the recognition of grant liabilities, in addition to deferred income. These are inherently the areas in which management has the potential to use their judgement to influence the financial statements. As part of our work on this risk, we reviewed and challenge management's key estimates and judgements including:

Estimate / judgement	Details of management's position	Deloitte Challenge and conclusions
Accruals	Accruals relating to grant award payments for the following year are estimated based on the pre-approved recipient applications in ILF's system.	We have assessed this estimate through the performance of detailed testing, sample testing accruals as a significant risk, with further sample testing on potential unrecorded liabilities performed at a significant risk level to assess the completeness of the amount recorded. Based on the procedures performed, we are satisfied that the amount recorded is reasonable.
Deferred income	Deferred income relating to grant funding received for next financial year is based on the amounts received from Scottish Government before 1 April 2020.	We have reviewed the appropriate evidence including management's communication with the Scottish Government and the amounts received in ILF's bank account in the month of March 2020. Based on the procedures performed, we are satisfied that the amount recorded is reasonable.

Coronavirus (COVID-19) outbreak

Impact on the annual report and audit

The current crisis is unprecedented in recent times. Like most public sector bodies ILF is exposed to the practical challenges and tragedies of the pandemic which requires rapid operational changes in response.

The uncertainties and changes to ways of working also impact upon reporting and audit processes, and present new issues and judgements that management and the Audit and Risk Committee needs to consider. We summarise below the key impacts on reporting and audit:

Impact on the annual report and accounts

ILF needs to consider the impact of the outbreak on the annual report and accounts, including:

- Principal risk disclosures
- Change in the funding regime for 20/21
- Going concern
- Events after the end of the reporting period

Impact on our audit

COVID-19 has fundamentally changed the way we have conducted our audit this year including:

- Teams are working remotely with some challenges in efficiency due to communication and deliverables.
 - The teams have had regular status updates to discuss progress and facilitate the flow of information.
 - Consideration of impacts on the areas of the financial statements and annual report listed has been included as part of our audit work in the current year and comments have been included where appropriate within this report.
 - In conjunction with management, we will continue to consider any developments for potential impact up to the finalisation of our work in June 2020.
-

Other significant findings

Financial reporting findings

Below are the findings from our audit surrounding your financial reporting process.

Qualitative aspects of your accounting practices:

ILF initially prepared its annual report and accounts in line with the Companies Act 2006, rather than the FReM. The confusion arose due to the change in ILF's status in the year and the fact that the Accounts Direction was not available prior to drafting the accounts. We have also queried a number of the accounting policies in place for ILF, including: whether the accounts are actually modified for the revaluation of non-current assets; whether intangibles are actually held at fair value; whether the policy for recognition of grant recoveries is in line with accounting standards; whether the policy for recognition of provisions is in line with accounting standards and whether the disclosure for key judgements and significant estimates meets the requirements of accounting standards. Changes to address these issues have been made in the revised accounts.

Significant matters discussed with management:

Significant matters discussed with management related primarily to the impact of COVID-19 on the organisation, the need to move to medium-term financial planning and the revisions required to the annual report and accounts in order to bring them into line with public sector reporting requirements.

Other matters relevant to financial reporting:

We have not identified other matters arising from the audit that, in the auditor's professional judgement, are significant to the oversight of the financial reporting process.

We will obtain written representations from the Board on matters material to the financial statements when other sufficient appropriate audit evidence cannot reasonably be expected to exist. A copy of the draft representations letter has been circulated separately.

Our audit report

Other matters relating to the form and content of our report

Here we discuss how the results of the audit impact on other significant sections of our audit report.



Our opinion on the financial statements

Based on the audit work completed to date, we anticipate that our opinion on the financial statements is unmodified.



Material uncertainty related to going concern

We have not identified a material uncertainty related to going concern and will report by exception regarding the appropriateness of the use of the going concern basis of accounting.



Emphasis of matter and other matter paragraphs

There are no matters we judge to be of fundamental importance in the financial statements that we consider it necessary to draw attention to in an emphasis of matter paragraph.

There are no matters relevant to users' understanding of the audit that we consider necessary to communicate in an other matter paragraph.



Other reporting responsibilities

The Annual Report is reviewed in its entirety for material consistency with the financial statements and the audit work performance and to ensure that they are fair, balanced and reasonable.

Opinion on regularity

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.

Our opinion on matters prescribed by the Auditor General for Scotland are discussed further on page 17.

Your annual report

We are required to provide an opinion on the auditable parts of the remuneration and staff report, the annual governance statement and whether the management commentaries are consistent with the disclosures in the accounts.

	Requirement	Deloitte response
The Performance Report	The report outlines ILF's performance, both financial and non-financial. It also sets out the key risks and uncertainties faced by ILF.	<p>We have assessed whether the performance report has been prepared in accordance with the accounts direction. Significant revisions were required to the initial draft of the annual report and accounts to address the requirements of the FReM, although this is likely due to the fact that the accounts direction was not available when the accounts were initially prepared.</p> <p>We have also read the performance report and confirmed that the information contained within is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading.</p>
The Accountability Report	Management have ensured that the accountability report meets the requirements of the FReM, comprising the governance statement, remuneration and staff report and the parliamentary accountability report.	<p>We have assessed whether the information given in the governance statement is consistent with the financial statements and has been prepared in accordance with the accounts direction. As with the performance report, a number of changes were required.</p> <p>We have also read the accountability report and confirmed that the information contained within is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading.</p> <p>We have also audited the auditable parts of the remuneration and staff report and confirmed that, following a number of changes arising from the audit, it has been prepared in accordance with the accounts direction.</p>
Going Concern	Management has made appropriate disclosure relating to Going Concern matters.	<p>We have confirmed that the 2020/21 budget was approved by ILF in February 2020. We have concluded that the plan is sufficiently robust to demonstrate that ILF will be a going concern for 12 months from signing the accounts.</p> <p>We have requested that management specifically disclose their considerations in relation to the impact of COVID-19 on the ability of ILF to operate as a going concern in the going concern disclosure in the financial statements. Management have now included this additional disclosure.</p>

Audit dimensions



Audit dimensions

Overview

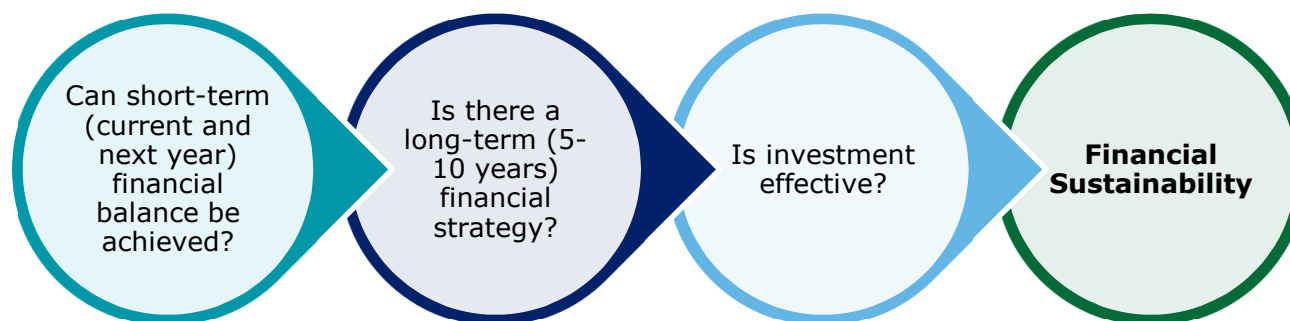
Overview

Public audit in Scotland is wider in scope than financial audit. This section of our report sets out our findings and conclusion on our audit work covering the following areas. As set out in our plan, in line with previous years, we have concluded that the full application of the wider scope is not appropriate and applied the “small body” clause set out in the Code which allows narrower scope work to be carried out. We have updated our risk assessment during the audit and confirm that the judgement made in our audit plan has not changed. Our work in this area was restricted to concluding on:

- The appropriateness of the disclosures in the **governance statement** (which is discussed on page 17); and
- The **financial sustainability** of ILF and the services that it delivers over the medium to longer term.

Financial sustainability

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.



Audit risks

Within our audit plan we identified the following risk:

- There is a risk that plans in place are not sufficiently robust to meet planned outcomes.

Audit dimensions (continued)

Financial sustainability

Short-term financial balance

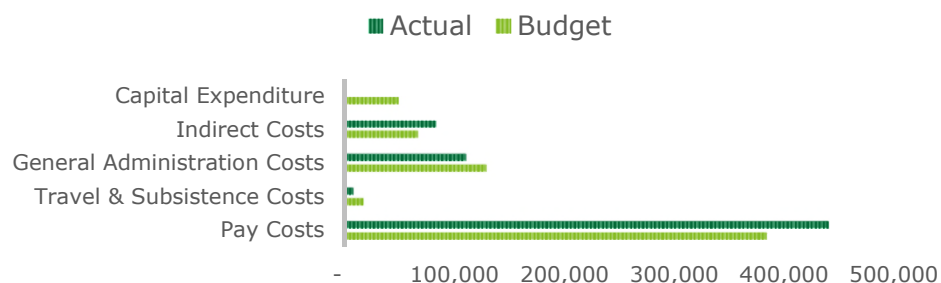
Management presented a budget for 2019/20 that forecast total spend of £2.75m on the 2015 Fund and £0.65m on the Transition Fund. The actual expenditure on each fund was £2.74m and £0.64m respectively, suggesting a forecasting accuracy of 99%, which is to be commended.

The only significant differences in both funds were the 'general administration costs' and 'capital expenditure', with the combined capital expenditure £0.15m (100%) less than budgeted, with general administration costs being £0.92m (15%) over budget. The reason for this is that income was anticipated in relation to capital projects - when this money was not received, the capital projects and associated capital expenditure did not occur. However, other costs were then incurred in the general upkeep and maintenance of the existing infrastructure. These variances were not foreseeable at the time of budget setting, the budget was based on reasonable assumptions and the actual position reported suggests that there is reliable forecasting and budgeting in place at ILF.

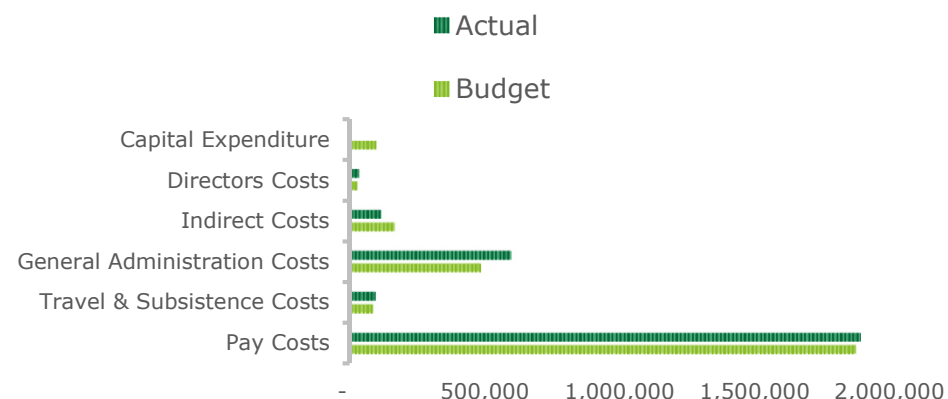
From review of the budget presented to the Committee, we note that it is focused entirely on what is disclosed within the annual accounts as being "staff costs" and "other operating income and expenditure". This represents just 6.2% of ILF's total expenditure, not taking into account grants paid to individuals in the year, nor income received from the Scottish Government, or unspent grants returned by claimants. Given that it is these items which are pivotal for delivering the strategy of ILF and achieving the outcomes desired, it would be beneficial to ensure the budget which is presented to the Committee captures these items.

We have noted in our work that the budget is a standalone document, and it does not make reference to other key documents or information which ILF has - such as a longer-term financial forecast, a workforce plan, or ILF's operational or strategic plan. It is important that the budget links to these key documents to demonstrate: (a) how the annual budget links into and affects the medium-term position; (b) how the budget is deliverable with and impacts on the workforce of ILF; (c) how the budget delivers the objectives set out in the annual operational plan and the cost of each of those objectives; and (d) how the budget drives progress against the strategic themes set out in the strategic plan. Having this information set out will enable decision makers to understand the cost of different priorities, the amount of progress which is delivered against which priority and at what cost (which can help towards demonstrating value for money), and how the annual budget will impact on longer-term decisions that will need to be made regarding the workforce and medium-term finances.

TRANSITION FUND



2015 FUND



Audit dimensions (continued)

Financial sustainability (continued)

Short-term financial planning

The Board approved the 2020/21 budget in February 2020. Having reviewed the budget and considered the history of forecasting at ILF, we are satisfied that the 2020/21 budget is based on reasonable assumptions. In order to deliver a balanced budget, ILF plans to use £0.54m (33%) of its opening reserves. In 2018/19, ILF utilised £0.69m (30%) of its opening reserves.

This information is set out in the three year forecast (which is not necessarily presented to the Board) rather than the budget itself, which indicates utilising £0.82m of the reserves (50%). These differences demonstrate why it is important that the budget includes all the information necessary for decision makers to understand the position in its totality.

Based on ILF's own forecasts, it is anticipated that reserves will decline from £2.33m (4.3% of annual expenditure) in 2018/19 to £0.36m (0.7% of annual expenditure) in 2021/22. The key assumption in this for ILF is the rate of attrition in those utilising the 2015 Fund - if the rate of attrition is just 0.5% less than forecast, ILF will (all else being equal) run out of reserves in 2021/22. ILF are aware that it is unsustainable to use reserves in this way. ILF has built in an assumption that if it were to run out of reserves, funding received from the Scottish Government would be increased to offset this. Given the current situation and the anticipated macro-economic situation following the COVID-19 pandemic, whether this remains a reasonable assumption will need to be carefully monitored as ILF progresses through 2020/21 and 2021/22.

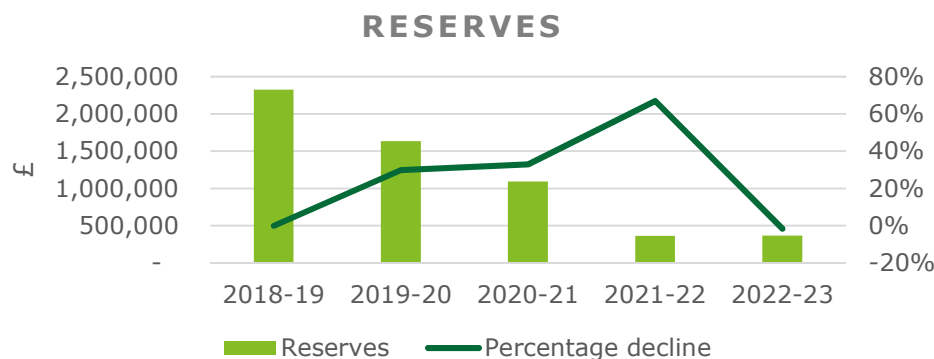
The management commentary attached to 2020/21 budget states "many cost efficiencies have been incorporated", although these are not explained in great detail. Also, there are no separate detailed savings or transformation plans in place to explain how these savings can be achieved.

Medium-term financial planning

It is not possible for us to conclude that ILF is in a financially sustainable position. A body is considered to be financially sustainable if it: (i) has adequate reserves; (ii) is spending within a balanced budget and (iii); has credible medium-term plans in place. While ILF currently has adequate reserves, these are being utilised at a quick rate and a minor change to the attrition rate assumed in the 3 year financial forecast would use up all reserves by 2021/22. While ILF is spending within budget, this budget is set on the assumption that reserves will be used. We are not concluding that ILF is financially unsustainable, however given the recent rate of use of reserves, the precariousness of the 3 year financial forecast and the lack of any detailed savings plans, we cannot conclude that it is sustainable either.

While management prepare a 3 year financial forecast for internal purposes which identifies a funding gap to 2021/22, there is no standalone medium-term financial plan ('MTFP') (which ideally should cover 5 years, in line with good practice) which is presented to the Board or considered on an annual basis. Similarly, there are no service redesign or transformation programmes in place to deliver savings and ILF's intention is to use reserves to address the forecast funding gaps.

To encourage a move to longer-term planning, it is important that ILF prepares such a plan - using its current 3 year forecasts as a basis, if appropriate - and links this plan clearly to its strategic plan and a workforce plan. The annual budget should then link clearly to the MTFP, which itself should be updated on an annual basis (demonstrating to the Board the impact their annual budget decision has on the medium-term position and the delivery of the strategic plan.)



Audit dimensions (continued)

Financial sustainability (continued)

Medium-term financial planning (continued)

ILF should develop an MTFP covering a 5 year period, being updated annually. The following approach is best practice:

1. The plan should cover a period of three to five years and be updated annually.
2. The plan should include scenarios - a best case and worst case of reasonable possibilities, with the case demonstrated in the plan being the mid-point of these.
3. The plan should not be made to balance. If there is a funding gap, the plan should quantify how much this is on an annual basis. Future budgets and annual savings plans to close the funding gap should then be linked to the MTFP.
4. There should be clear links between the MTFP, the strategic plan and the workforce plan, demonstrating how ILF plans to use its resources over the medium term to achieve its objectives, deliver its statutory duties, and deliver improved outcomes as set out in its strategic plan.

The MTFP should take account of the Scottish Government's Medium-Term Financial Strategy ('MTFS') and the assumptions set out therein, including how it intends to use its resources to contribute to the National Performance Framework and to the key themes of public service reform.

We appreciate that it may be pragmatic for ILF to wait until later in 2020/21 before developing such a plan, in order that the economic situation post-COVID-19 is better understood and appropriately reflected in any plans.

Workforce planning

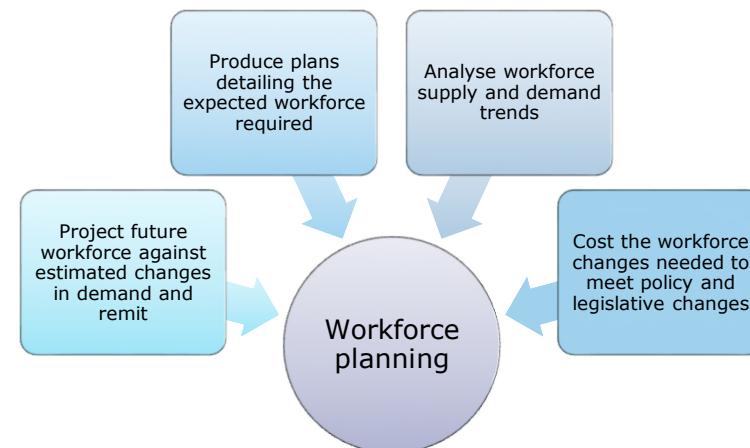
In June 2019, ILF engaged a third party to carry out a workforce assessment. A number of recommendations were made arising from this, including specific recruitment and job description changes, changes to the team structures within ILF and the resourcing needs of the operations team within ILF. The issues identified and recommendations made demonstrate why it is important that ILF prepares its own workforce plan, to proactively consider these areas on an ongoing basis.

The workforce plan needs to consider the needs of the organisation and those of its workforce, ensuring it is sufficient to meet its legal obligations and objectives. Workforce planning provides a basis for understanding workforce behaviours, considering areas such as recruitment, promotion and turnover, as well as looking at causes of absenteeism and changes in productivity. Understanding these issues can allow the organisation to plan appropriately. Workforce planning is an ongoing process, and should be considered for appropriateness by the Board on an annual basis.

Audit Scotland has produced reports on workforce planning in the NHS in Scotland, identifying key areas which need to be considered for effective workforce planning. Although not directly applicable, the overarching principles here should be used to guide ILF's workforce planning.

Succession planning needs to be included in the workforce plan. This needs to include clear promotion opportunities within the organisation, effective delegation to staff, and tailored training plans to enable staff to carry out more senior roles.

In order to develop a meaningful workforce plan, ILF needs to understand (i) its current workforce, (ii) the workforce it currently needs, (iii) the workforce it needs in the future, (iv) the gaps between the current workforce and the needed workforce and (v) actions to fill those gaps (recruitment, training, automation, changing service provision). The Board should consider whether it has the capacity to carry out a review to address these points internally, or whether an external review should be conducted.



Audit dimensions (continued)

Financial sustainability (continued)

Deloitte View – Financial sustainability

As discussed on page 20, ILF achieved financial balance in 2019/20 and expects to achieve financial balance in 2020/21, although this is achieved through an unsustainable use of reserves. The position over the medium term is expected to be more difficult, with levels of reserves dropping from 4.3% of annual expenditure at the start of 2019/20 to 0.7% by 2021/22.

ILF's budgeting and forecasting is of a high quality, with only minor variances noted against the budget in the year and these variances being clearly and transparently reported.

In order to demonstrate its financial sustainability as an organisation, ILF should develop a standalone MTFP, which should be linked to a to-be-developed workforce plan and ILF's strategic plan. The annual budget should be enhanced to include all funding and expenditure of the organisation, and this budget should in turn be linked to the MTFP and workforce plan (both of which should also be considered on an annual basis).

Audit dimensions (continued)

Other requirements

Standards of conduct for prevention and detection of fraud and error

We have reviewed the Board's arrangements for the prevention and detection of fraud and irregularities. Overall we found the Board's arrangements to be operating effectively.

Review of Internal audit

We have reviewed the internal audit reports and opinion for any material deficiencies in the control environment which would have an impact on our risk assessment. Overall we did not note any significant issues from our review of the internal audit reports.

Deloitte view

ILF has appropriate arrangements in place for the prevention and detection of fraud and other irregularities. For further discussion on the fraud prevention and detection responsibilities of both management and audit, see page 33.

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to help the Audit and Risk Committee and the Board discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA (UK) 260 to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations on the quality of your Annual Reports;
- Our internal control observations; and
- Other insights we have identified from our audit.

The scope of our work

Our observations are developed in the context of our audit of the financial statements.

We described the scope of our work in our audit plan.

Use of this report

This report has been prepared for ILF, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

What we don't report

As you will be aware, our audit was not designed to identify all matters that may be relevant to ILF.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the procedures performed in fulfilling our audit plan.

We welcome the opportunity to discuss our report with you and receive your feedback.



Pat Kenny, CPFA

For and on behalf of Deloitte LLP

Glasgow | 9 June 2020

Sector developments



Sector developments

Responding to COVID-19

As part of our “added value” to the audit process, we are sharing our research, informed perspectives and best practice from our work across the wider public sector.

An emerging legacy

How COVID-19 could change the public sector

While governments and public services continue to respond at scale and pace to the COVID-19 pandemic, its leaders have begun to consider how the crisis might permanently change their agencies – and seven legacies are emerging.

The COVID-19 pandemic has been uncharted territory for governments. Elected representatives, officials and public service leaders around the world are making profound decisions with no precedent to draw upon and little certainty around when the crisis will end. As French President Emmanuel Macron observed, this is a kinetic crisis – in constant motion with little time to make far-reaching decisions.

In the UK and across much of Europe, government responses have been radical and exhaustive. Health services have mobilised at scale, finance ministries have acted fast to support businesses, and the full spectrum of departments have made rapid adjustments to ensure public needs continue to be met.

While leaders across the public sector remain focused on the immediate COVID-19 threat, they are increasingly mindful of its longer-term implications – and for some, the crisis could be an inflection point for their agency. This paper explores the pandemic’s likely legacy on governments, public services and the debates that shape them.

Seven emerging legacies:

1. Our view of resilience has been recast.
2. Governments could be left with higher debt after a shock to the public finances.
3. Debates around inequality and globalisation are renewed.
4. Lines have blurred between organisations and sectors.
5. The lockdown has accelerated collaborative technologies.
6. Civil society has been rebooted and citizen behaviour may change.
7. The legacy that still needs to be captured.

Read the full article at:

<https://www2.deloitte.com/uk/en/pages/public-sector/articles/an-emerging-legacy-how-corona-virus-could-change-the-public-sector.html>

Sector developments (continued)

Responding to COVID-19 (continued)

COVID-19: Lockdown exit and recovery

Whilst many things remain uncertain in the current environment, it is increasingly clear that many organisations are beginning to plan for the easing of the lockdown.

Two documents have been developed to support you in your thinking:

- **Lockdown exit and recovery:**– Based on insight from Henry Nicholson, our Chief Strategy Officer and our Economic and Financial Advisory Team, this document provides an overview of economic forecasts to predictions around exit strategies, potential economic impact, plus key considerations to consider in relation to: Supply, Demand, Operations, People and Financing
- **Exit timelines:** This document provides an overview for each of the major European countries of their current status, key statistics and a reported or illustrative timeline (as relevant) for their exit strategy. It also includes some actions organisations are taking in the workplace to 'return to work' plus advice for management teams.

Copies of these documents can be accessed through the following link:

<https://www2.deloitte.com/uk/en/pages/financial-advisory/articles/covid19-uk-lockdown-exit-and-recovery.html>

COVID-19: Impact on the workforce

It's likely that the way we work will be forever changed as a result of COVID-19. All of us are seeking answers to guide the way forward. That's why Deloitte's Global and UK Human Capital practice have produced a series of articles to inform business leaders on their path to respond, recover, and thrive in these uncertain times. These articles explore the impact of COVID-19 on the workforce and are aimed at supporting HR teams as they navigate their organisation's response to the pandemic.

HR leaders, in particular, have been at the centre of their organisation's rapid response to COVID-19, and have been playing a central role in keeping the workforce engaged, productive and resilient. Understandably, recent priorities have been focused almost exclusively on the respond phase. As progress is made against respond efforts, another reality is forming quickly. Now is the time for HR leaders to turn their attention toward recover, to ensure their organisations are prepared to thrive.

The latest thinking from our UK Human Capital practice is "**COVID-19 CHRO Lens: Work, Workforce and Workplace Considerations**". This workbook provides a framework to enable leaders to plan for recovery. It sets out a series of key questions across the dimensions of work, workforce and workplace, enabling organisations to plan for multiple scenarios and time horizons, as they shift from crisis response to recovery.

The workbook can be found at the following link, along with links to other articles which we would encourage you to explore.

<https://www2.deloitte.com/uk/en/pages/human-capital/articles/covid-19-impact-on-the-workforce-insight-for-hr-teams.html>

Appendices



Audit adjustments

Disclosures

Disclosure misstatements

The following disclosure misstatements have been identified up to the date of this report which management have corrected as required by ISAs (UK).

Disclosure	Summary of disclosure requirement	Quantitative or qualitative consideration
<p><i>Key judgements and sources of estimation uncertainty</i></p> <p>The disclosure of key judgements should be amended to include items such as:</p> <ul style="list-style-type: none">- How the deferral of income is managed;- How accruals are recognised; and- How depreciation/amortisation rates are determined. <p>(This can be achieved by cross-referring to other relevant notes.)</p> <p>The estimates disclosure should be amended to include items such as:</p> <ul style="list-style-type: none">- Setting out the amount of the estimate, the key assumptions that underpin it and any estimation uncertainty attached to that. If possible, the impact should be quantified if other judgements were applied. We would expect this to be applicable to the accrued grant liabilities at the year-end.	<p>Key judgements made by management in the preparation of the accounts and the sources of estimation uncertainty which could have a material effect on the amounts disclosed in the accounts.</p>	<p>Qualitatively material – This is an accounting standard requirement and is a key focus area for regulatory bodies.</p>

Action plan

Recommendations for improvement

No.	Area	Recommendation	Management Response	Responsible person	Target Date	Priority
1	Financial Sustainability	<p>ILF should develop a MTFP, in line with best practice, including links to the Scottish Government MTFS and demonstrating a focus on outcomes.</p> <p>(See page 22 for details.)</p>	<p>We have an MTFP which is under constant review and presented to the Committee and Board as appropriate. Whilst this is a useful planning tool it needs to be noted that ILF's funding commitment is only given for one year in advance. Often, ILF's funding gets cut mid-year with no reference to ILF's medium or longer-term needs. Any initiatives that we had in our MTFP would therefore become unviable.</p> <p>We will discuss this in the first instance with the Committee whether we consider it worthwhile to address this recommendation.</p>	Director of Finance	31/03/21	High
2	Financial Sustainability	<p>ILF should develop a workforce plan, setting out: (i) its current workforce; (ii) the workforce it currently needs; (iii) the workforce it needs in the future; (iv) the gaps between the current workforce and the needed workforce; and (v) actions to fill those gaps (recruitment, training, automation, changing service provision).</p> <p>In light of these changes to the workforce plan, ILF should review its staffing structure to ensure it is as efficient and resilient as possible.</p> <p>(See page 22 for details.)</p>	<p>Workforce planning is under constant review and forms part of our business planning progress. We are happy to formalise this.</p>	Chief Operating Officer	31/12/21	Medium

Action plan (continued)

Recommendations for improvement (continued)

No.	Area	Recommendation	Management Response	Responsible person	Target Date	Priority
3	Financial Sustainability	<p>ILF should enhance the budget which is presented to the Committee, ensuring it covers all income and expenditure, as opposed to just staff and operating expenditure.</p> <p>The budget should also clearly link other key strategic documents to demonstrate: (a) how the annual budget links into and affects the medium-term position; (b) how the budget is deliverable with and impacts on the workforce of ILF; (c) how the budget delivers the objectives set out in the annual operational plan and the cost of each of those objectives; and (d) how the budget drives progress against the strategic themes set out in the strategic plan.</p> <p>(See page 22 for details.)</p>	<p>Our expenditure budget process commences in November and is presented to the Committee in January and formally approved in March. ILF's income for the forthcoming year is not normally advised to us until late March.</p> <p>ILF budgets for income and this is inextricably linked to our admin expenditure budget. ILF need to budget for income (and Recipient Payments) since this affects our Staffing Plan and various other costs. For example we cannot budget for Transition Fund admin costs without first having budgeted for income since our income granted impacts upon volume throughput and hence our resources and resultant costs. ILF's income budget (and Recipient Payments) is reflected in our monthly management accounts. It is simply not presented to the Committee/Board for approval in that particular budget paper. Income is also outwith our control whereas admin costs are within our control – hence the process of presenting those costs for approval for governance purposes.</p> <p>In any event ILF's income budget matches exactly with our Recipient Payments and does not affect our bottom line.</p> <p>Our annual budget does link to our MTFP and the Annual Operating Plan and Strategic Plan. We perhaps need to make this more clear.</p>	Chief Operating Officer / Director of Finance	31/03/21	Medium

Our other responsibilities explained

Fraud responsibilities and representations



Responsibilities:

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. As the auditor, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.



Required representations:

We have asked the Board to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you are not aware of any fraud or suspected fraud that affects the entity.

We have also asked the Board to confirm in writing their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.



Audit work performed:

In our planning we identified the risk of fraud in grant liabilities and management override of controls as a key audit risk for your organisation.

During course of our audit, we have had discussions with management and those charged with governance.

In addition, we have reviewed management's own documented procedures regarding fraud and error in the financial statements

We have reviewed the paper prepared by management for the audit committee on the process for identifying, evaluating and managing the system of internal financial control.

Concerns:

No concerns have been identified relating to fraud



Independence and fees

As part of our obligations under International Standards on Auditing (UK), we are required to report to you on the matters listed below:

Independence confirmation

We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of ILF and our objectivity is not compromised.

Fees

The audit fee for 2019/20, in line with the expected fee range provided by Audit Scotland, is £23,370, as analysed below:

	£
Auditor remuneration	18,850
Audit Scotland fixed charges:	
Pooled costs	3,650
Audit support costs	870
Total fee	23,370

There are no non-audit services fees proposed for the period.

Non-audit services

In our opinion there are no inconsistencies between the FRC's Ethical Standard and the company's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.

Relationships

We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its board and senior management and its affiliates, including all services provided by us and the DTTL network to the audited entity, its board and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence.

We are not aware of any relationships which are required to be disclosed.



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