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ilf Independent
Living Fund
Scotland



Independent Living Fund Scotland

Report to the Audit and Risk Committee and the Auditor General for Scotland, on
the 2020/21 audit

Issued on 28 May 2021 for the meeting on 10 June 2021

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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 Annual Report and Accounts.
- 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 year ending 31 March 2021 audit. The scope of our audit was set out within our planning report presented to the Committee in April 2021.

This report summarises our findings and conclusions in relation to:

- The audit of the **financial statements**; and
- Consideration of the wider scope requirements of public sector audit. 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**; and
 - The **financial sustainability** of the 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 Accountability Report comply with the statutory guidance and proper practice and are consistent with the financial statements and our knowledge of the ILF.

The auditable parts of the Remuneration and Staff Report have been prepared in accordance with the relevant regulations.

A summary of our work on the significant risks is provided in the dashboard on page 9.

We have identified one misstatement above our reporting threshold, relating to deferred income, which is included on page 28.

Status of the financial statements audit

There are no matters outstanding.

Conclusions on audit dimensions

Governance statement – The disclosures are appropriate and address the minimum requirements of the Scottish Public Finance Manual (“SPFM”) and the Government Financial Reporting Manual (“FReM”).

Financial sustainability – As with previous years, ILF are projecting to achieve short term balance in 2021/22. This position will be achieved through the use of reserves.

The ILF has improved its budget setting process in the year. The budget presented to the Committee now captures grants paid to individuals and income received from the Scottish Government. The budget now also has links to the Medium-Term Financial Plan (“MTFP”). As set out on page 19, we have recommended further improvements in these areas.

The MTFP was revised in the year, in line with recommendations we made in 2019/20. Based on ILF’s historic performance, its budget, and the MTFP, we are satisfied that ILF is currently in a financially sustainable position.

There are potentially significant changes to the scope of work which will be provided by ILF over the short-to-medium term. ILF needs to ensure that it has robust financial and workforce scenario planning arrangements in place to respond to any changes as they occur.

Our detailed findings and conclusions are included on pages 17 to 21 of this report.

Introduction (continued)

The key messages in this report (continued)

Emerging issues

Deloitte's wider public sector team prepare a number of publications to share research, informed perspective and best practice across different sectors. We have provided a summary of those most relevant to the ILF on pages 24 to 26 of this report.

Next steps

An agreed Action Plan is included on pages 29 – 31 of this report, including a follow-up of progress against prior year actions. We will consider progress with the agreed actions as part of our 2021/22 audit.

Added value

Our aim is to add value to the 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 the ILF promote improved standards of governance, better management and decision making, and more effective use of resources.

This is provided throughout the report. In addition, we have included our "sector developments" on pages 24 – 26 where we have shared our research, informed perspective and best practice from our work across the wider public sector that are specifically relevant to the ILF.

During the year, we have also provided guidance on demonstrating Best Value, expectations with regards to openness and transparency in the public sector, and good practice with regards to governance in the public sector. We have also discussed with management potential methods for quantifying efficiency savings and costs incurred due to the COVID-19 pandemic.

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 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. There have been no issues with access to the finance team or other key personnel.
Quality and accuracy of management accounting papers		Documentation provided has been of a high standard, which enabled an efficient audit. Working papers were clear and reconcilable to the Annual Report and Accounts. This is borne out by the resubmission rate on requests for the audit being low, at 6%.
Quality of draft financial statements		A full draft of the Annual Report and Accounts was received for audit on 5 May 2021. We identified 12 changes which were required, a significant improvement on 2019/20.
Response to control deficiencies identified		We did not identify any control deficiencies during our audit.
Volume and magnitude of identified errors		We have identified one financial adjustment during our audit relating to deferred income, as set out on page .



Lagging



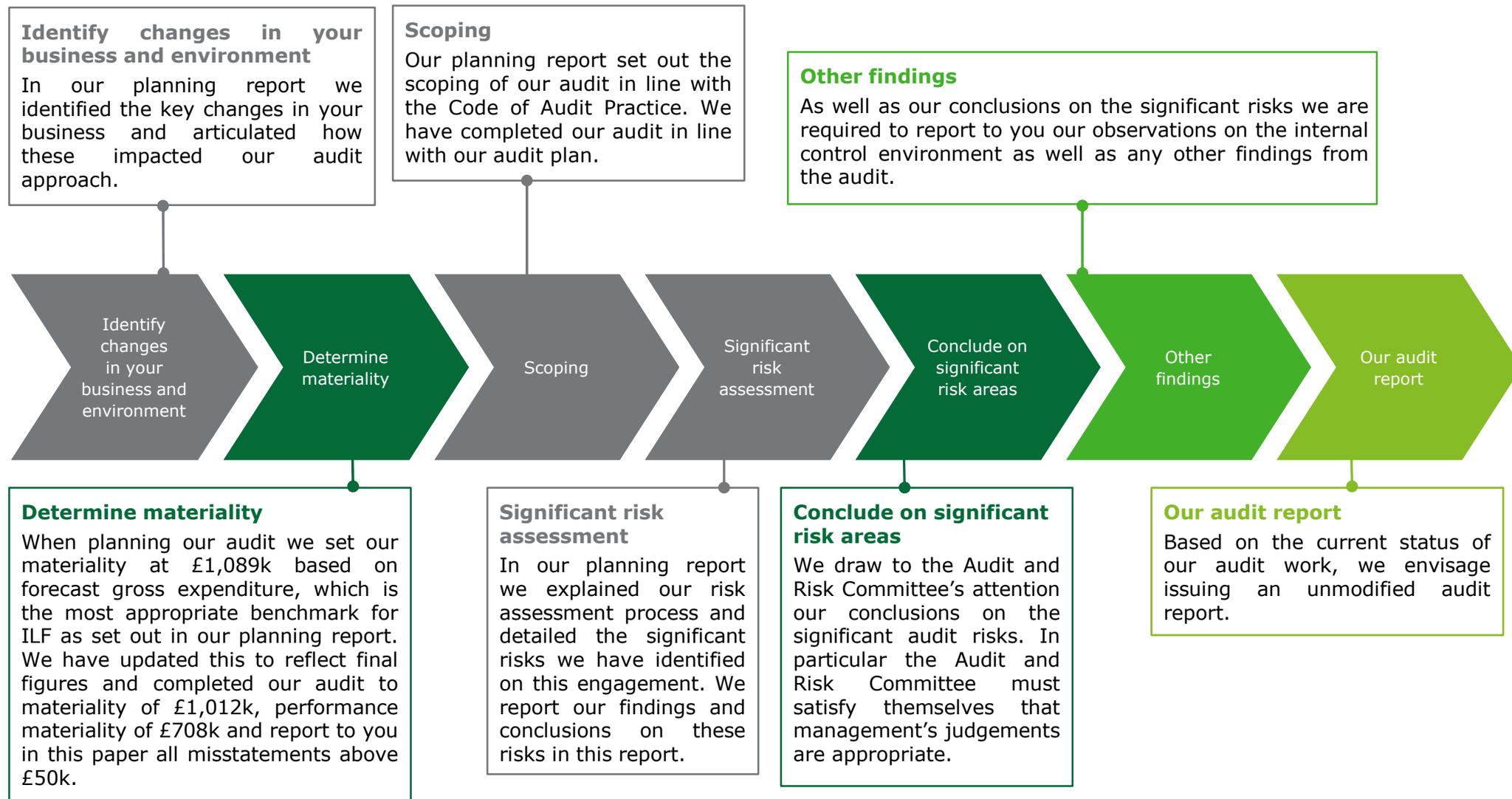
Developing



Mature

Our audit explained

We tailor our audit to your business and your strategy



Significant risks

Dashboard

Risk	Material	Fraud risk	Planned approach to controls testing	Controls testing conclusion	Consistency of judgements with Deloitte's expectations	Comments	Page no.
Operating within expenditure resource limits			D+I	Satisfactory		Satisfactory	10
Management override of controls			D+I	Satisfactory		Satisfactory	11

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)

Operating within expenditure resource limits



Risk identified and key judgements

Under Auditing Standards there is a rebuttable presumption that the fraud risk from revenue recognition is a significant risk. In line with previous years, we do not consider this to be a significant risk for ILF as there is little incentive to manipulate revenue recognition with the entirety of revenue being from the Scottish Government which can be agreed to confirmations supplied.

In line with guidance on identifying an alternative fraud risk, and as noted in Practice Note 10 for public sector bodies where breakeven targets exist, there is a risk of fraud in achieving expenditure resource limits. 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 until 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.

Deloitte view

We identified no issues through the testing performed.

As shown in the graph to the right, there has been a significant increase in the year-end accruals for the 'Transition Fund', due to a significant increase in applications in 2020/21. The new 'Scottish Government accrual' relates to the 'thank you' payment announced by the Scottish Government but which has not been paid by the year-end. As this was included in the overall allocation provided to ILF by the Scottish Government, and as there is minimal uncertainty over the amount and timing of the payments, we are satisfied that these are appropriately accounted for as an accrual.



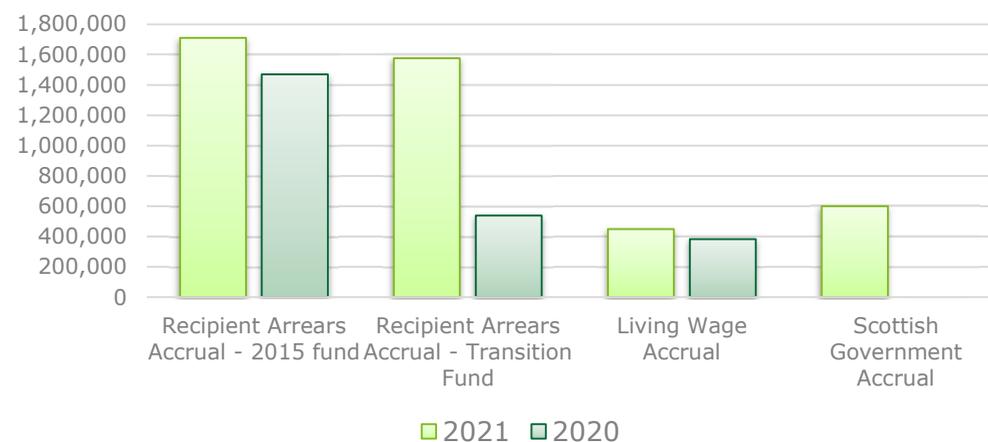
Deloitte response and challenge

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 around monthly monitoring of financial performance and year end accruals;
- Performed focused testing of accruals made at the year end in respect of grants to individuals; and
- We tested a sample of post year-end payments to assess the accuracy of the year-end accrual.

Note that in our Audit Plan, we planned to perform focused testing of prepayments in respect of grants to individuals. No such prepayments were recorded at the year-end, which means we consequently did not perform testing in this area.

Significant Accruals



Significant risks (continued)

Management override of controls



Risk identified

Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Although management is responsible for safeguarding the assets of the entity, we planned our audit so that we had a reasonable expectation of detecting material misstatements to the Annual Report and Accounts and accounting records.



Deloitte response and challenge

In considering the risk of management override, we have performed the following audit procedures that directly address this risk:

Journals

We have tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the Annual Report and Accounts. In designing and performing audit procedures for such tests, we have:

- Tested the design and implementation of controls over journal entry processing;
- Made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments;
- Selected journal entries and other adjustments made at the end of a reporting period; and
- Considered the need to test journal entries and other adjustments throughout the period.

Accounting estimates and judgements

We have reviewed accounting estimates for biases and evaluate whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud. In performing this review, we have:

- Evaluated whether the judgments and decisions made by management in making the accounting estimates included in the Annual Report and Accounts, even if they are individually reasonable, indicate a possible bias on the part of the entity's management that may represent a risk of material misstatement due to fraud. From our testing we did not identify any indications of bias. A summary of the key estimates and judgements considered is provided on the next page; and
- Performed a retrospective review of management judgements and assumptions related to significant accounting estimates reflected in the Annual Report and Accounts of the prior year.

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.

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)

Management override of controls (continued)

Key estimates and judgements The key judgement in the financial statements is that 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. 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
<p>Accruals – grants to individuals</p>	<p>Management accrue for the ‘2015 Fund’ based on the previous month’s payment information, as amounts are paid four weekly in arrears. Management are satisfied that this is a reliable measure.</p> <p>With regards to the ‘Transition Fund’, management accrue based on the applications approved by management before the year-end which have not been paid by that date.</p>	<p>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.</p> <p>For the ‘2015 Fund’, we reviewed a sample of payments made following the year-end, noting that the difference between the amount paid and the accrual was trivial. This provides assurance that management’s approach to determining the year-end accrual is reasonable.</p> <p>For the ‘Transition Fund’, we reviewed a sample of approved applications and the date when the funds were paid, noting trivial differences between the accrual and the amounts paid. This provides assurance that management’s approach to determining the year-end accrual is reasonable.</p> <p>Based on the procedures performed, we are satisfied that the amount recorded is reasonable.</p>

Other significant findings

Financial reporting findings

Below, we set out the findings from our audit surrounding your financial reporting process.

Qualitative aspects of your accounting practices:

ILF has prepared its Annual Report and Accounts in line with the FReM. Other than ILF's approach to deferring a portion of income received through Grand in Aid, which is not compliant with the FReM or standard practice in the public sector (with a consequent adjustment raised on page 28), we are satisfied that ILF's accounting practices are appropriate.

Significant matters discussed with management:

Significant matters discussed with management related primarily to the impact of COVID-19 on the organization. We also discussed the potential short-to-medium term impacts on ILF arising from the Independent Review of Adult Social Care in Scotland.

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 Annual Report and Accounts 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

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.

Practice Note 10 provides guidance on applying ISA (UK) 570 Going Concern to the audit of public sector bodies. The anticipated continued provision of the service is relevant to the assessment of the continued existence of a particular body.



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.

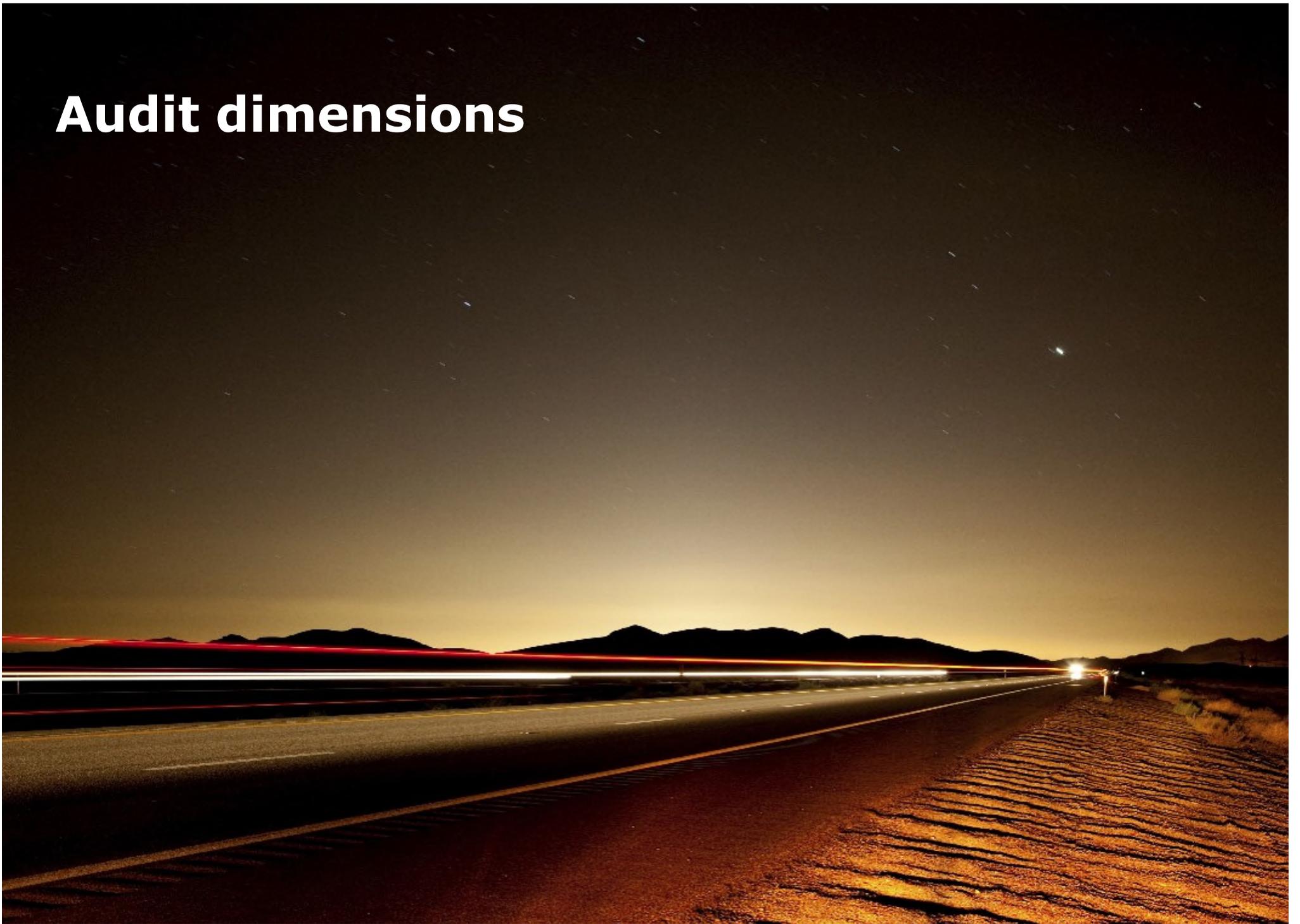
Our opinion on matters prescribed by the Auditor General for Scotland are discussed further on page 15.

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 Performance Report is consistent with the disclosures in the accounts.

	Requirement	Deloitte response
The Performance Report	The report outlines the 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. 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. We highlighted a number of areas where amendments were required – for example on the disclosure of key risks and performance against ILF's key performance indicators – although this was a significant improvement on 2019/20.</p> <p>In future years, ILF should consider the use of tables and graphics to enhance the accessibility of the Performance Report to users.</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. No exceptions have been noted.</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. We provided management with comments and suggested changes and have received an updated version reflecting these changes.</p> <p>We have also audited the auditable parts of the Remuneration and Staff Report and confirmed that 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 2021/22 budget was approved by ILF in February 2021. We have concluded that the plan is sufficiently robust to demonstrate that ILF will be a going concern for 12 months from signing the Annual Report and Accounts.</p> <p>We requested that management specifically disclosed 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 Annual Report and Accounts. This disclosure has been appropriately included.</p>

Audit dimensions



Audit dimensions

Overview

As set out in our Audit Plan, 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. 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:

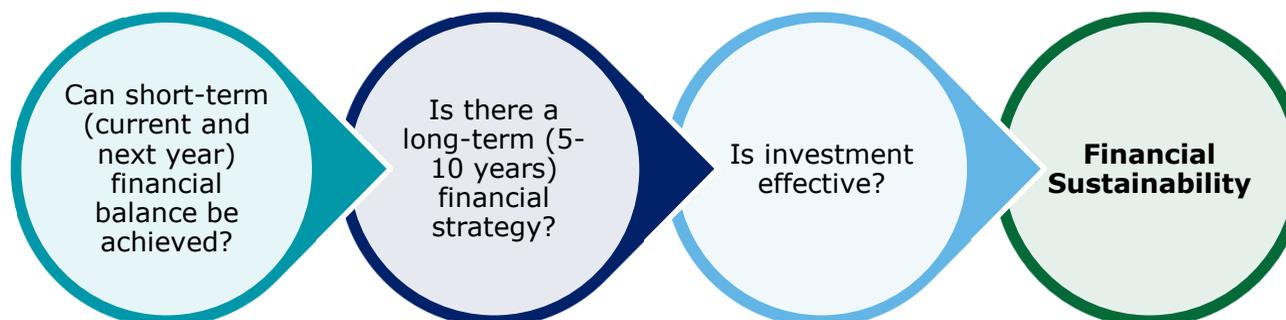
- The appropriateness of the disclosures in the **governance statement** (which is discussed on page 15); and
- The **financial sustainability** of the ILF and the services that it delivers over the medium to longer term.

In addition to the above, we have reviewed the Board’s arrangements for the **prevention and detection of fraud and irregularities**. Overall we found ILF’s arrangements to be effectively designed and appropriately implemented.

The internal audit function has independent responsibility for examining, evaluating and reporting on the adequacy of internal controls. During the year, we have completed an assessment of the independence and competence of the internal audit team and reviewed their work and findings. The conclusions have helped inform our audit work, although no specific reliance has been placed on the work of internal audit.

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.



Financial sustainability

Areas considered

Our approach to the audit dimensions is risk focused. Within our audit plan we identified the following risk:

- Changes in 2020/21 and over the short-to-medium term are expected to significantly increase demand for ILF's services. There is a risk that ILF will not have the necessary skills, structure and resources to deliver planned services over the medium-term.

Short-term financial planning

2019/20 conclusion: The Board approved the 2020/21 budget in February 2020. We were satisfied that the budget was based on reasonable assumptions. ILF planned to use £0.54m of reserves (33% of the opening balance) to achieve this position. 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.

2020/21 update: In 2020/21, ILF increased its reserves by £0.995m (37%). This was due to substantial increases in funding from the Scottish Government of £1.2m, primarily to assist with the response to COVID-19.

Management presented the draft budget – with a separate paper outlying key assumptions – to the Board in February 2021. ILF are projecting a break even position in 2021/22. To achieve this position, ILF intend to use £0.852m of reserves (32% of its opening reserves). This also assumes that ILF will receive a £0.295m increase in its Grant in Aid allocation from the Scottish Government.

The budget does not set out any savings targets to be achieved in the year. Cost efficiencies are referred to, although this is at a high level and the impact of these on the budget is not quantified. This approach to budgeting makes it difficult to assess whether the efficiencies achieved – for example, the £0.175m in cash savings and 7,600 operational hours saved as referred to in ILF's Annual Report and Accounts – are in line with target.

In our 2019/20 audit, we recommended that the budget presented to the Board should be enhanced, ensuring it covers all income and expenditure, as opposed to just staff and operating expenditure. We are pleased to note that these have been included in the 2020/21 budget and the budget presents a full picture of the anticipated financial position of ILF for the coming year.

The budget now also makes reference to the MTFP. However, there are inconsistencies between the two, for example the MTFP assumes non-pay cost inflation of 2%, whereas the budget assumes no cost inflation other than pay.

The budget does not refer to the Workforce Plan or the Strategic Plan. As ILF is an outcome-focused organisation by nature, the budget should make explicit links to the Strategic Plan and the outcomes the budget expects to progress with the resources expended, in order to enable the Board to scrutinise whether the focus being placed on ILF's priorities is appropriately resourced.

2020/21 conclusion: As with previous years, ILF are projecting to achieve short term balance in 2021/22. This position will be achieved through the use of reserves, in line with historical performance. We are satisfied that the budget is sufficiently robust and ILF has sufficient reserves to achieve short-term financial balance in 2021/22.

We welcome the improvements made to the budget in the year, ensuring it captures the planned income and expenditure of ILF for the year. Further improvements should be made, including setting out specific savings targets, outlining where the key risks in the budget lie (for example, with particular assumptions), and making clearer links to the MTFP, Workforce Plan and Strategic Plan.



Financial sustainability (continued)

Medium-to long-term financial planning

2019/20 conclusion: 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).

2020/21 update: In line with our recommendation during the 2019/20 audit, management has developed a standalone MTFP which covers the period to 2024/25. The MTFP clearly sets out the reason for the plan, the key assumptions used and the body's financial projections over the period.

The MTFP does not make reference to ILF's workforce or link with the Workforce Plan. Information on the Strategic Plan is limited to setting out the financial parameters within which ILF have to operate to achieve their objectives. The new Strategic Plan approved in 2020/21 sets out ILF's strategy for the period to 2023/24. It has three strategic priorities and an outline delivery plan showing how the body will meet these priorities. The MTFP does not link the body's financial plans with these strategic outcomes.

The MTFP is underpinned by various key assumptions – for example, a 5% attrition rate in the 2015 Fund, pay increases of 2%, inflationary pressures of 2% and additional income from the Scottish Government to address ILF's sustained use of reserves to achieve a breakeven position. The MTFP does not set out any scenario analysis of other potentialities. The MTFP does not set out any savings targets or cost efficiencies to be achieved over the course of the plan.

Currently the MTFP projects that usable reserves will decline from £2.627m in 2021/22 to £1.629 in 2024/25 (a 38% decrease). However, ILF forecasts that by 2024/25 the body will no longer be reliant on the use of reserves to achieve a break even position. It is not clear what the position will be if the assumed additional income from the Scottish Government does not materialise. Assuming that the 'administration grant shortfall' set out in the MTFP is consistent from 2020/21 to 2024/25, ILF will continue to rely on its reserves to breakeven, with reserves falling below £1m by the end of the plan, as shown in the 'alternative reserves forecast' across.

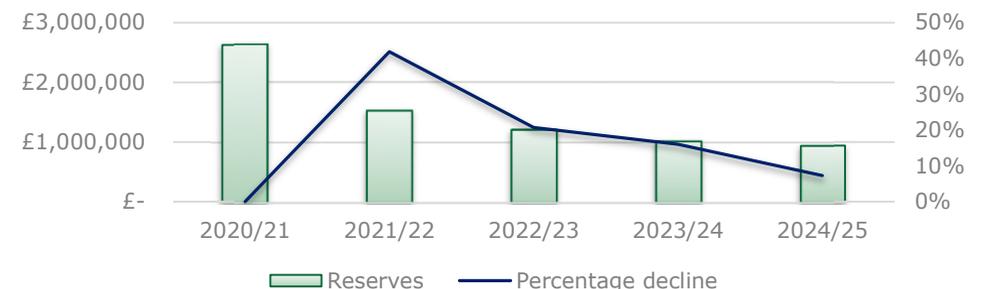
The Independent Review of Adult Social Care in Scotland was completed between September 2020 and January 2021, with the report being published 3 February 2021. The principal aim of the review was to recommend improvements to adult social care in Scotland, primarily in terms of the outcomes achieved by and with people who use services, their carers and families, and the experience of people who work in adult social care.

The review has highlighted the work that ILF perform as an organisation. The review recommended that the fund is reopened and the threshold be reviewed and adjusted which could result in a additional investment of £32m. Although these recommendations highlight the value of the work being delivered by the body, they also highlight how vital it is for the body to have robust financial, workforce and strategic planning arrangements in place to ensure that ILF is fully prepared for the increase in demand that may occur.

MTFP – Reserves Forecast



Alternative Reserves Forecast



Financial sustainability (continued)

Medium-to long-term financial planning (continued)

2020/21 conclusion: It is positive to note the development of a standalone MTFP, in line with our prior year audit recommendation. Further improvements to the MTFP should be made, including:

- Setting out a 'reasonable worst case' and 'reasonable best case' scenario;
- Quantifying the funding gap (if any) in the period covered using reasonable best case and reasonable worst case scenarios;
- Including clear links to the Strategic Plan and how the resources and workforce of the organisation will be used over the medium-term to drive progress against the Board's priorities; and
- Improving links with the budget and Workforce Plan.

Based on the MTFP, ILF are in a financially sustainable position. ILF has adequate reserves to continue to deliver services over the short-to-medium term, is spending within its budget and has a credible medium-term plan in place.

Workforce Planning

2019/20 conclusion: It is important that ILF prepares its own workforce plan, and to proactively consider this on an ongoing basis. ILF needs to understand its current workforce, the workforce it currently needs, the workforce it needs in the future, the gaps between the current workforce and the needed workforce, and the actions to fill those gaps.

2020/21 update: In 2020/21, ILF continued to deliver services remotely. From review of ILF's performance as set out in its Annual Report and Accounts, the transition to a remote working environment has been effectively managed. ILF has continued to gather staff feedback during the pandemic, through the use of staff surveys. The staff survey results are positive, with a 93% response rate (up from 85% in 2019/20), of which 100% of staff considered the ILF to be a 'good employer'.

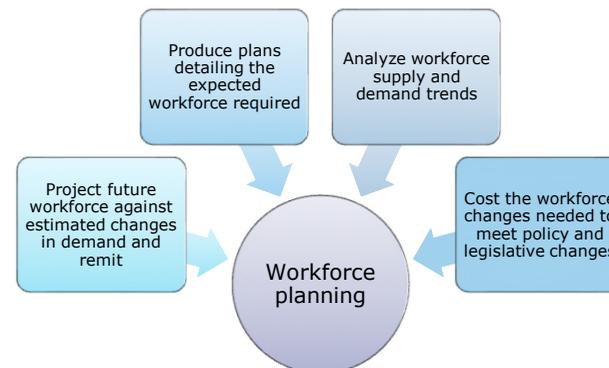
The views expressed in the staff survey have also been evidenced by external recognition. For example, ILF was recognised at the 'Working Mums Best Employer Awards', 'Top 30 UK Employer for Working Families', and 'Family Friendly Working Scotland 2020 Awards'. The staff survey results and external recognition align with ILF's Strategic Plan, which highlights a priority for ILF to be a leader for their people and to be a top employer.

Staff turnover within ILF continues to be low – 1.85% in 2020/21, down from 3.84% in 2019/20. Staff absences have increased from 3.23% to 5.02%, although it should be noted that increased staff absence has been seen across the public sector in the year.

In 2020/21, a draft Workforce Plan was prepared, in line with our prior year audit recommendation. From review of the Workforce Plan, we are satisfied that it has captured the required points as set out in our 2019/20 conclusion. We note that the plan has clear links to the new Strategic Plan and has considered the impact COVID-19 has and will have on the workforce and future work practices.

Internal audit also performed a review of Staff Recruitment and Retention and Staff Development (including succession planning) in the year. They found the body to have robust recruitment processes, a robust approach to training and appropriate succession planning arrangements.

2020/21 conclusion: ILF transitioned effectively to remote working, and has continued to support staff throughout the COVID-19 pandemic, with this being recognised through positive staff survey scores, high staff engagement and external recognition. The Workforce Plan developed by ILF is robust, and identifies 10 priorities to be delivered within 2021/22. As this is the first year of a Workforce Plan being in existence for ILF, we will continue to monitor if ILF is effectively implementing the actions which the Workforce Plan identifies as necessary.



Financial sustainability (continued)

Deloitte view – Financial sustainability

As discussed on page 18, ILF are projecting to achieve short term balance in 2021/22. This position will be achieved through the use of reserves. Improvements to the budget setting process were noted in the year, although further improvements should be made going forward, particularly in relation to savings targets and demonstrating a focus on outcomes.

We welcome the development of a standalone MTFP in the year. The development of the MTFP, the achievement of short-term financial balance and the reserves held by ILF demonstrate that it is currently in a financially sustainable position. Further improvements to the MTFP are needed to increase the robustness of ILF's medium-term planning. Scenario planning is particularly important, especially as ILF faces potentially significant changes to the scope of its services over the short-to-medium term.

ILF has developed a robust Workforce Plan in the year. This Workforce Plan, in addition to the actions undertaken by ILF to support staff through the COVID-19 pandemic, demonstrate progress against ILF's Strategic Plan aims to be a leader for their people and a top employer.

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 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 Report;
- 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 the Audit and Risk Committee.

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 | 28 May 2021

Sector developments



Independent Review of Adult Social Care

Feeley report

Background and overview

On 1 September 2020 the First Minister announced that there would be an Independent Review of Adult Social Care in Scotland as part of the Programme for Government. The Review was chaired by Derek Feeley, a former Scottish Government Director General for Health and Social Care and Chief Executive of NHS Scotland. Mr Feeley was supported by an Advisory Panel of Scottish and international experts.

The principal aim of the review was to recommend improvements to adult social care in Scotland, primarily in terms of the outcomes achieved by and with people who use services, their carers and families, and the experience of people who work in adult social care. The review took a human-rights based approach.

The Independent Review concluded at the end of January 2021 and its report, together with an accompanying short film, was published on 3 February 2021.

Next steps

The review concluded that there are three things that must change in order to secure better outcomes:

1. Shift the paradigm;
2. Strengthen the foundations; and
3. Redesign the system.

A summary of the key themes of the recommendations is on the following page. The full report is available at:

<https://www.gov.scot/publications/independent-review-adult-social-care-scotland/>



Independent review of adult social care (continued)

Feeley report (continued)

The recommendations within the report cover the following key themes



Scottish Futures Trust - New Frontiers for Smarter Working, Work and Workplace post COVID-19

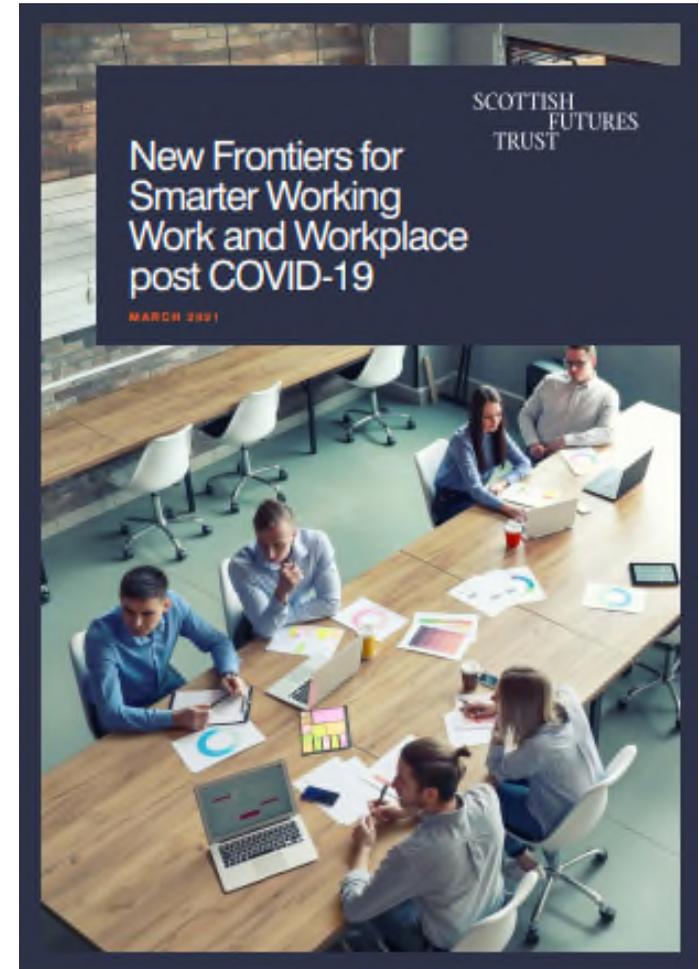
Background and overview

COVID-19 has fast-tracked a social revolution where a wider range of working choices could be on the horizon for hundreds of thousands of workers.

A new report by infrastructure experts, the Scottish Futures Trust reveals that the workforce of the future - predominantly those who have been office based - will want to make informed choices of where and how to work most productively and more beneficially for their wellbeing.

Post the pandemic, organisations should consider the three 'Hs' of working - from Home, a nearby hub or local location, where employees can meet clients or have time to concentrate on projects, or the HQ and head office, where people can gather to socialise, brainstorm ideas or collaborate face-to-face.

The "New Frontiers for Smarter Working, Work and Workplace Report" also finds that this new blended future will depend on how employers gauge the benefits from the improved working set up while ensuring the wellbeing of employees.



Next steps

The report reveals a new future for best work, productivity and wellbeing. The full report is available at https://www.scottishfuturestrust.org.uk/storage/uploads/new_frontiers_report_march2021.pdf

Appendices



Audit adjustments

Unadjusted misstatements

The following uncorrected misstatements have been identified up to the date of this report, which we request that you ask management to correct as required by ISAs (UK). The overall impact on the Statement of Comprehensive Net Expenditure is a decrease in net expenditure of £137k, with a corresponding increase in net assets.

	Debit/(Credit) Statement of Comprehensive Net Expenditure £k	Debit/(Credit) in Net Assets £k	Debit/(Credit) prior year Taxpayer's Equity £k	Debit/(Credit) in Income £k	If applicable, control deficiency identified
Misstatements identified in current year					
Deferred Income [1]	(137)	137	-	-	None
Total	(137)	137	-	-	

[1] During our audit, it was identified that grant income had not met the criteria to be classified as deferred income at the year end. Management had deferred £137k of grant income received in 2020/21 as it is to be used for grant awards in 2021/22. However, under section 8.2 of the FReM, grant income is required to be recognised immediately rather than over the period of related expenditure. This means grants should be recognised immediately as income unless any conditions that could lead to their return have not been satisfied by the year end. As no such conditions existed, we raised a misstatement. Management have not made the adjustment as they believe the current treatment, even though not in line with the FReM, reflects the substance of the transaction.

Action plan

Recommendations for improvement

No.	Area	Recommendation	Management Response	Responsible person	Target Date	Priority
1	<i>Financial Sustainability</i>	<p>The MTFP should be reviewed to include:</p> <ul style="list-style-type: none"> ○ A 'reasonable worst case' and 'reasonable best case' scenario; ○ A quantified funding gap (if any) in the period covered using reasonable best case and reasonable worst case scenarios; ○ Clear links to the Strategic Plan and how the resources and workforce of the organisation will be used over the medium-term to drive progress against the Board's priorities; and ○ Improved links with the budget and Workforce Plan. 	We will give these points consideration when the next update is prepared.	Director of Finance	31/03/2022	Medium
2	<i>Financial sustainability</i>	<p>Improvements to the budget should be made, including setting out specific savings targets, outlining where the key risks in the budget lie (for example, with particular assumptions), and making clearer links to the MTFP, Workforce Plan and Strategic Plan.</p>	We will give these points consideration when preparing the budget for next year.	Director of Finance	31/03/2022	Medium

Action plan (continued)

Follow-up 2019/20 action plan

We have followed up the recommendations made in our 2019/20 annual report and are pleased to note that 1 of the total 3 recommendations made have been fully implemented. We will continue to monitor those partially implemented as part of our audit work.

Area	Recommendation	Responsible person	Target Date	Priority	2020/21 Update
<i>Financial Sustainability</i>	ILF should develop a MTFP, in line with best practice, including links to the Scottish Government MTFS and demonstrating a focus on outcomes.	Director of Finance	31/03/2021	High	ILF has developed a standalone MTFP in the year, as discussed on page 19 - 20. We have identified improvements which should be made to this, with this recommendation superseded by the new recommendation made on page 29.
<i>Financial Sustainability</i>	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). 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.	Chief Operating Officer	31/03/2021	Medium	ILF has developed a Workforce Plan in the year. We are satisfied that the recommendation has been implemented.

Action plan (continued)

Follow-up 2019/20 action plan (continued)

Area	Recommendation	Responsible person	Target Date	Priority	2020/21 Update
<i>Financial Sustainability</i>	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. 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.	Chief Operating Officer / Director of Finance	31/03/2021	Medium	Management have taken steps in line with this recommendation and improved their budget setting process in the year. This recommendation has been superseded by the revised recommendation on page 29.

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 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 ILF 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 have disclosed to us all information in relation to fraud or suspected fraud that you are aware of and that affects the entity or group.

We have also asked the ILF 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 relation to operating within the expenditure resource limit 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.

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 the ILF and our objectivity is not compromised.

Fees

The audit fee for 2020/21, in line with the expected fee range provided by Audit Scotland, is £20,730, as analysed below:

	£
Auditor remuneration	16,180
Audit Scotland fixed charges:	
Pooled costs	3,730
Audit support costs	820
Total fee	20,730

No non-audit services fees have been charged 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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