



Orkney and Shetland Valuation Joint Board



Item: 8

Orkney and Shetland Valuation Joint Board: 23 June 2026.

Internal Audit Annual Report and Opinion.

Report by Chief Internal Auditor.

1. Overview

- 1.1. The Global Internal Audit Standards for the UK Public Sector require that the Chief Internal Auditor must prepare an overall conclusion about the effectiveness of governance, risk management and control at least annually in support of wider governance reporting. The overall conclusion must encompass governance, risk management and control.
- 1.2. The Annual Audit Report and Opinion, attached as Appendix 1 to this report, details the level of completion of work achieved in respect of the 2025/26 Internal Audit plan.
- 1.3. The report provides assurance on the systems examined by Internal Audit during the financial year. In respect of the areas subject to audit review during 2025/26, as well as a review of outstanding audit recommendations, it was found that the framework of controls in place provides Substantial assurance regarding governance, internal control, and risk management.

2. Recommendations

- 2.1. It is recommended that members of the Board:
 - i. Scrutinise the Internal Audit Annual Report and Opinion 2025/26, attached as Appendix 1 to this report, in order to obtain assurance in respect of the overall opinion stated at section six of this report.

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Implications of Report

1. **Financial** - None directly related to this report.
2. **Corporate Governance** – The Board’s consideration of Internal Audit recommendations and review of the actions taken, contributes to the continuing effectiveness of the governance framework.
3. **Human Resources** - None directly related to this report.
4. **Equalities** - None directly related to this report.
5. **Island Communities Impact** - None directly related to this report.
6. **Environmental and Climate Risk** - None directly related to this report.
7. **Risk** - None directly related to this report.
8. **Procurement** - None directly related to this report.
9. **Health and Safety** - None directly related to this report.

List of Background Papers

Global Internal Audit Standards in the UK Public Sector.

Appendix

Appendix 1: Internal Audit Annual Report and Opinion.



Orkney & Shetland Valuation Joint Board



Internal Audit Annual Report and Opinion

Issue date: 29 May 2026

Contents

1. Introduction.....	1
2. Governance.....	1
3. Risk Management	1
4. Control Framework.....	2
5. Internal Audit	2
6. Overall Opinion.....	3
7. Achievement of Annual Audit Plan	3
8. Quality Assurance and Improvement Plan	5
9. Audit Action Progress	5
Annex 1 – Definition of Opinions	10

1. Introduction

- 1.1. The Global Internal Audit Standards for the UK Public Sector require that the Chief Audit Executive must prepare an overall conclusion about the effectiveness of governance, risk management and control at least annually in support of wider governance reporting. The overall conclusion must encompass governance, risk management and control.
- 1.2. The purpose of this document is to report on the Internal Audit work completed during 2025/26 and to provide the Chief Internal Auditor's annual internal audit opinion on the Orkney and Shetland Valuation Joint Board's (VJB) framework of governance, risk management and control.
- 1.3. On 3 March 2022, the VJB appointed the Chief Internal Auditor of Orkney Islands Council (OIC) as the Chief Internal Auditor of the VJB.
- 1.4. The 2025/26 Internal Audit Strategy and Plan was approved by the VJB on 27 March 2025. Audit work is undertaken by the OIC Internal Audit Service to allow the Chief Internal Auditor to provide an annual internal audit opinion.

2. Governance

- 2.1. Governance comprises the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved. The fundamental function of good governance in the public sector is to ensure that entities achieve their intended outcomes while acting in the public interest at all times. The core principles and sub-principles of good governance are:
 - Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law.
 - Ensuring openness and comprehensive stakeholder engagement.
- 2.2. Good governance in the public sector also requires effective arrangements for:
 - Defining outcomes in terms of sustainable economic, social, and environmental benefits.
 - Determining the interventions necessary to optimise the achievement of the intended outcomes.
 - Developing the entity's capacity, including the capability of its leadership and the individuals within it.
 - Managing risks and performance through robust internal control and strong public financial management.
 - Implementing good practices in transparency, reporting and audit, to deliver effective accountability.

3. Risk Management

- 3.1. Risk management is the planned and systematic approach to the identification, evaluation and control of risk. The VJB approved a Risk Management Policy and Strategy 2026-2029 on 10 March 2026.

3.2. The aims and objectives of the Strategy include:

- Identification of risks.
- Quantification of risks.
- Control of risks.
- Financing of risks.

3.3. Risk management is a continuous process which will incorporate all strategic and operational risks associated with the following:

- Premises.
- Finance.
- Information Technology (IT).
- Staffing (Valuation Service).
- Service.
- Electoral Registration:
- Planning and Organisation.
- Loss of Premises.
- Failure of IT.
- Communication.
- Failure on the part of Contractors.
- Integrity Issues.
- Staffing (Electoral Registration).
- Completeness and accuracy of records

4. Control Framework

4.1. The policies, procedures and activities that are part of a control framework are designed and operated to ensure that risks are contained within the level that the organisation is willing to accept.

4.2. The control environment includes the following elements:

- Integrity and ethical values.
- Management's philosophy and operating style.
- Organisational structure.
- Assignment of authority and responsibility.
- Human resource policies and practices.
- Competence of personnel.

5. Internal Audit

5.1. The Global Internal Audit Standards in the UK Public Sector define the nature and set the domains and principles for carrying out internal audit in the UK Public Sector.

- 5.2. The primary role of Internal Audit is that of an assurance function which provides an independent and objective opinion on the adequacy of the control environment and the effectiveness of risk management and governance processes.
- 5.3. The Internal Audit Charter 2025-26, which was approved by the VJB on 27 March 2025, defines the purpose, authority and responsibility for the Internal Audit service. The Charter conforms to the Global Internal Audit Standards for the UK Public Sector.
- 5.4. Internal Audit has organisational independence, and this independence was maintained throughout 2025/26. Staff involved in each internal audit review were independent of the VJB and their objectivity was not compromised in any way.
- 5.5. The Internal Audit Strategy and Plan is reviewed and approved annually. The Strategy for 2025/26 was approved by the VJB on 27 March 2025. A risk-based planning exercise is carried out each year to determine priorities and to establish and achieve objectives. This helps to control and direct audit work and to ensure the efficient and effective use of resources.
- 5.6. In carrying out the audit planning, consultation is carried out with the Assessor and Board Officers to produce a detailed list of VJB services. Emphasis is also placed on the VJB's risk register when considering which areas should be subject to audit.

6. Overall Opinion

- 6.1. On the basis of the audit work performed in 2025/26, my opinion is that the VJB has a framework of controls in place that provides **Substantial** assurance regarding the organisation's governance framework, related internal controls, and the management of key risks.
- 6.2. The actions identified during the audit work were all of a low priority and did not impact on the overall governance arrangements of the VJB.
- 6.3. Furthermore, I confirm that there were no instances of fraud identified from the audit work conducted during the year.
- 6.4. My opinion has not been limited by any shortfall in resources, absence of skills, or any limitation of scope of internal audit activity that would adversely affect my ability to form an opinion.

7. Achievement of Annual Audit Plan

- 7.1. The internal audit plan for 2025/26 included audits of Corporate Governance and Risk Management, Payroll and Financial Controls. The table below shows the auditable areas considered as part of the annual planning process. All audits from this year's plan have been completed.

Auditable Areas	22/23	23/24	24/25	25/26	Scope of Audit
Performance Reporting			5		To consider the format, content, accuracy and timeliness of management information, both financial and non-financial, provided to the Board in terms of the Annual Public Performance Report.
Council Tax		5			Adequacy and effectiveness of the controls relating to the accuracy of records relating to domestic property including property bandings, new entries, deletions, amendments, proposals and appeals.
Non-Domestic Rates		5			The adequacy and effectiveness of the controls and procedures in place to ensure that: records relating to property values are up to date and accurate, valuations and appeals are dealt with appropriately and timeously, and entries and amendments are made to the Valuation Roll accurately and timeously.
Electoral Register		5			The adequacy and effectiveness of the controls and procedures in place to ensure that the Registers of Electors published annually for the Orkney and Shetland VJB areas are up to date and accurate.
Workforce Planning			5		To consider whether the Board is making best use of its staff, including a review of workforce planning, recruitment, training, and succession planning.
Budget Setting & Budgetary Control			5		The adequacy and effectiveness of the processes and controls in place for budget setting and budgetary control within the Valuation Joint Board.
Corporate Governance & Risk Management	5			5	That the Board's corporate governance arrangements are in accordance with best practice as set out in the CIPFA / SOLACE Delivering Good Governance in Local Government: Framework (2016) and accompanying guidance notes. This audit would review the processes in place for the maintenance of policies and procedures and review the Board's procedures for assessing, monitoring and mitigating risk.

Auditable Areas	22/23	23/24	24/25	25/26	Scope of Audit
Financial Controls	5			5	Review the financial systems documentation to ascertain the current processes and procedures and review the financial controls in place to ensure that they are adequate and effective. This will include a review of procurement, Contract Standing Orders and Financial Regulations.
IT Network and Security	5				To review the VJB's IT network and cyber security arrangements including Data Governance and compliance with GDPR legislation.
Payroll				5	To review the controls in place around the input and update of employee information, the calculation of remuneration and deductions and to test payroll transactions for accuracy.

8. Quality Assurance and Improvement Plan

- 8.1. Internal Audit monitors its performance to gauge the effectiveness of the service and to inform future service improvements.
- 8.2. The Global Internal Audit Standards for the UK Public Sector have a specific requirement for the Internal Audit Service to have in place a quality assurance and improvement programme. The programme must cover all aspects of the internal audit function and includes both internal and external quality assessments.
- 8.3. The internal assessment is now annual and the next review will be performed during 2026. The external assessment is on a five year cycle and our last external assessment was done in 2022 with the next one due in 2027/28.
- 8.4. Action plans are produced following each assessment and actions are tracked to completion.

9. Audit Action Progress

- 9.1. The recommendations from this year's audit reports and the current status of the actions from these and any outstanding from previous audits are summarised in the table below.
- 9.2. The table below shows which audits the actions are associated with and when the audits were performed. It also provides more detail on the individual actions, owners and target dates as well as the current position with implementation of the actions.

Council Tax Audit 2023/24

Recommendations	Priority	Management Comment	Responsible Officer	Target Date	Current Position
We recommend that a plan is put in place to align the information requested from the Local Authorities in Orkney and Shetland.	Low	The receipt of information on property is covered by the Acts, although a review of this information will be undertaken in each Island office.	Assessor and ERO and Depute Assessor	30 November 2024	Still having difficulty prioritising this. It must also be recognised that we will need cooperation from our constituent Local Authorities

Non-Domestic Rates Audit 2023/24

Recommendations	Priority	Management Comment	Responsible Officer	Target Date	Current Position
We recommend that there is a review of appropriate KPIs for the rating valuation review process prior to the revaluation in 2026.	Low	Agreed. It is considered that the current proposal settlement work for R23 is too new and unfamiliar to be able to establish meaningful potential KPIs.	Assessor and ERO	31 March 2026	I would appeal for some support/guidance on this – our KPIs are set by the Scottish Government, so we aren't free to change these.

Performance Reporting Audit 2024/25

Recommendations	Priority	Management Comment	Responsible Officer	Target Date	Current Position
<p>The Best Value spreadsheets and 'Stats' spreadsheets should be linked by formulae to avoid errors in carrying numbers from one to the other.</p>	<p>Low</p>	<p>This will be implemented.</p>	<p>Assessor & ERO</p>	<p>June 2026</p>	<p>Still ongoing, but some tidying up of the master spreadsheet was done this year. There will be a limit to how far this is taken as the underlying Orkney and Shetland information is held on different drives.</p>
<p>The O&SVJB should consider whether the % reduction on appeal is an effective KPI, or whether some alternative measure might be more appropriate. In the event that the KPI is retained, the O&S VJB should consider adopting a target of less than 5% reduction on appeal averaged over a 3-year period going forward.</p>	<p>Low</p>	<p>This is a fairly meaningless statistic given the lack of control we have over it, only exasperated by the speed we have to carry out revaluations in the 3 yearly cycle with 1-year tone. It isn't a Statutory KPI and we aren't aware of any other Assessor who uses it. So for those reasons we would be in favour of dropping it and investigating an alternative measure. In the interim we agree with the change to 5% becoming the target.</p>	<p>Assessor & ERO</p>	<p>June 2026</p>	<p>This is a non-statutory KPI, and its value has been questioned due to lack of control in this area. However, it has been retained and hopefully made more useful by a new and complimentary statistic – RV saving compared to proposals.</p>

Workforce Planning Audit 2024/25

Recommendations	Priority	Management Comment	Responsible Officer	Target Date	Current Position
A summary of issues to be considered in the next iteration of the Workforce Plan should be produced, which can then be amended and updated as required, to ensure that the WFP addresses issues which have arisen.	Low	Agree to consider the above-noted issues in preparation of the next Workforce Plan.	Assessor and ERO	30 September 2027	Ongoing
Any demand forecasting undertaken for the purposes of the WFP should be based on the Local Housing Strategy and Housing Need and Demand Assessment (HNDA) documents for the relevant authorities.	Low	These documents will be considered along with other indicators in terms of demand forecasting.	Assessor and ERO	30 September 2027	Ongoing
Consideration should be given to including SMART goals within the action plan of the WFP where possible	Low	This will be considered where possible.	Assessor and ERO	30 September 2027	Ongoing

Corporate Governance and Risk Management Audit 2025/26

Recommendations	Priority	Management Comment	Responsible Officer	Target Date	Current Position
The Annual Governance Statement within the accounts is reviewed to ensure that governance is both meeting and recorded as meeting the elements within the guidance framework.	Low	The Assessor accepts the recommendation and will work with officers at Orkney Islands Council in preparation of the Annual Governance Statement within the accounts to ensure that it is achieved.	Assessor and ERO	30 June 2026	This is currently in progress.

Payroll Audit 2025/26

Recommendations	Priority	Management Comment	Responsible Officer	Target Date	Current Position
A Memorandum of Understanding should be drawn up setting out responsibilities in respect of the payroll and pension administration	Low	Agreed	Assessor and ERO, Treasurer and Clerk	30 June 2026	A Memorandum of Understanding was agreed and signed on 13 May 2026. This action is complete.
Consideration should be given to retaining the Assessor as a primary authorised signatory, and appointing the Depute Assessor and / or Depute ERO as a formally designated deputy for payroll related approvals.	Low	Agreed	Assessor and ERO	Immediate effect	Complete

Financial Controls Audit 2025/26

Recommendations	Priority	Management Comment	Responsible Officer	Target Date	Current Position
Petty cash reconciliations should be initialled and dated by the staff performing and reviewing them.	Low	This will be implemented. While it will only be put into effect at the next reconciliations, the relevant staff have been made aware and understand the requirement.	Assessor and ERO	Immediate effect	Complete

Annex 1 – Definition of Opinions

Audit Opinions

Opinion	Definition
Substantial	The framework of governance, risk management and control were found to be comprehensive and effective.
Adequate	Some improvements are required to enhance the effectiveness of the framework of governance, risk management and control.
Limited	There are significant weaknesses in the framework of governance, risk management and control such that it could be or become inadequate and ineffective.
Unsatisfactory	There are fundamental weaknesses in the framework of governance, risk management and control such that it is inadequate and ineffective or is likely to fail.