

Stephen Brown (Chief Officer)

Orkney Health and Social Care Partnership

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Agenda Item: 5

Performance and Audit Committee

Date of Meeting: 25 September 2025.

Subject: External Annual Audit Report.

1. Purpose

1.1. To consider the External Auditor's Annual Audit Report to those charged with governance of the Annual Accounts.

2. Recommendations

The Performance and Audit Committee is invited to scrutinise:

2.1. The Annual Audit Report prepared for members of the Performance and Audit Committee and the Controller of Audit in respect of the Orkney IJB's Annual Accounts for the year ended 31 March 2025, attached as Appendix 2 to this report.

It is recommended:

2.2. That the Orkney Integration Joint Board's Letter of Representation to KPMG in connection with its audit of the Annual Accounts for the year ended 31 March 2025, attached as Appendix 1 to this report, be approved.

3. Background

3.1. The scope of the audit was set out in KPMG's Indicative External Audit Plan 2024/25, presented to the Performance and Audit Committee on 19 March 2025. The annual audit report comprises the findings from the following:

- The audit of the Orkney Integration Joint Board's Annual Accounts.
- A review of the arrangements put in place by the Orkney Integration Joint Board to secure Best Value.
- Consideration of the four audit dimensions that frame the wider scope of public audit set out in the Code of Audit Practice namely, financial sustainability; financial management; vision, leadership and governance; and use of resources to improve outcomes.

4. Audit Findings

4.1. KPMG's Independent Auditor's Report in respect of the Orkney Integration Joint Board's Annual Accounts for 2024/25, attached as Appendix 2 to this report, confirms that, under UK auditing standard ISA (UK) 260, auditors are required to report specific matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action.

4.2. As part of the completion of the audit, KPMG seeks written assurances from the Section 95 Officer on aspects of the financial statements and judgements and estimates made. The Orkney Integration Joint Board's letter of representation is attached as Appendix 1 to this report.

4.3. KPMG has prepared the draft of their Independent Auditor's report, which will be issued on 25 September 2025, which contains an unqualified opinion on the Orkney Integration Joint Board's Statement of Accounts for the year ended 31 March 2025. The Independent Auditor's report will certify that the accounts have been properly prepared in accordance with applicable law, accounting standards and other reporting requirements.

4.4. Under UK Auditing Standard ISA (UK) 260, auditors are required to provide the Performance and Audit Committee with a summary of adjusted differences (including disclosures) identified during the audit. There were also a small number of disclosure adjustments, which were all corrected in the final version of the annual accounts.

4.5. Under UK Auditing Standards ISA (UK) 260, auditors are also required to provide the Performance and Audit Committee with a summary of unadjusted audit differences (including disclosure misstatements) identified during the audit, other than those which are 'clearly trivial', which are not reflected in the Financial Statements. There are no unadjusted misstatements to report.

4.6. The Auditor has concluded that the Orkney Integration Joint Board has made progress in developing arrangements to secure Best Value.

5. Audit Recommendations

5.1. Pages 21 to 27 of the Annual Audit Report, attached as Appendix 2, summarises outstanding recommendations from prior year audits. Two of the eight outstanding recommendations had been completed by the time of the audit, with five of the recommendations being actions which will be ongoing as business as usual. Work is progressing on the remaining actions.

5.2. Page 28 of the Annual Audit Report, attached as Appendix 2, provides two recommendations for the current year. These recommendations have a priority rating of one, being an issue that is fundamental and material to the Orkney Integration Joint Board's system of internal control, and of two, being an issue that has an important effect on internal controls but do not need an immediate action.

6. Contribution to quality

Please indicate which of the Orkney Community Plan 2025 to 2030 values are supported in this report adding Yes or No to the relevant area(s):

Resilience: To support and promote our strong communities.	No.
Enterprise: To tackle crosscutting issues such as digital connectivity, transport, housing and fuel poverty.	No.
Equality: To encourage services to provide equal opportunities for everyone.	No.
Fairness: To make sure socio-economic and social factors are balanced.	Yes.
Innovation: To overcome issues more effectively through partnership working.	No.
Leadership: To involve partners such as community councils, community groups, voluntary groups and individuals in the process.	No.
Sustainability: To make sure economic and environmental factors are balanced.	Yes.

7. Resource and financial implications

7.1. The cost of external audit for 2024/25 was £34,000 which was met from the resources of the Orkney Integration Joint Board.

7.2. The cost of external audit for 2023/24 was £38,010.

8. Risk, equality and climate change implications

8.1. There are no risks arising directly from this report. Under UK Auditing Standard ISA (UK) 260, auditors are required to report specific matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action. Should subsequent annual audits not be completed timeously there is a risk that the Performance and Audit Committee is not sufficiently enabled to take appropriate action.

8.2. External audit is part of a process of scrutiny and an assurance that makes a positive contribution to risk management.

9. Direction required

Please indicate if this report requires a direction to be passed to:

NHS Orkney.	No.
Orkney Islands Council.	No.

10. Escalation required

Please indicate if this report requires escalated to:

NHS Orkney.	No.
Orkney Islands Council.	No.

11. Author and contact information

11.1. Deborah Langan (Chief Finance Officer), Integration Joint Board. Email: deborah.langan@orkney.gov.uk, telephone: 01856873535 extension 2601.

12. Supporting documents

12.1. Appendix 1: The Orkney Integration Joint Board's Letter of Representation to KPMG.

12.2. Appendix 2: KPMG's Annual Audit Report to Members of the Performance and Audit Committee and the Controller of Audit for the year ended 31 March 2025.

12.3. Appendix 3: KPMG's Independent Auditor's Report.



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DL/SJ/01

25 September 2025

KPMG LLP
319 St Vincent Street
Glasgow
G2 5AS

Dear Sirs,

**Orkney Integration Joint Board
Annual Accounts 2024/25**

This representation letter is provided in connection with your audit of the financial statements of Orkney Integration Joint Board (“the IJB”), for the year ended 31 March 2025 for the purpose of expressing an opinion:

1. As to whether these financial statements, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2024/25 give a true and fair view of the state of the IJB’s affairs as at 31st March 2025 and of the IJB’s income and expenditure for the financial year then ended.
2. Whether the IJB financial statements have been properly prepared in accordance with UK adopted international accounting standards, as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2024/25.
3. Whether the financial statements have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

These financial statements comprise the following: The Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, Balance Sheet and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

I confirm that the representations it makes in this letter are in accordance with the definitions set out in Appendix 1 to this letter.

I confirm that, to the best of my knowledge and belief, having made such Inquiries as I considered necessary for the purpose of appropriately informing myself:

Financial Statements

1. I have fulfilled my responsibilities, as set out in the terms of the audit engagement letter dated 18 March 2022, for the preparation of financial statements that:
 - i. Give a true and fair view of the state of the IJB's own affairs as at the end of its financial year and of the IJB's own income and expenditure for that financial year.
 - ii. Have been properly prepared in accordance with UK adopted international accounting standards, as interpreted, and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2024/25.
 - iii. Have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

The financial statements have been prepared on a going concern basis.

2. The methods, the data and the significant assumptions used by me in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in the context of the applicable financial reporting framework.
3. All events subsequent to the date of the financial statements and for which IAS 10 *Events after the reporting period* requires adjustment or disclosure have been adjusted or disclosed.
4. The effects of uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole.

Information Provided

5. I have provided you with:
 - Access to all information of which I am aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters.
 - Additional information that you have requested from me for the purpose of the audit.
 - Unrestricted access to persons within the IJB from whom you determined it necessary to obtain audit evidence.

6. All transactions have been recorded in the accounting records and are reflected in the financial statements.

7. I confirm the following:

- I have disclosed to you the results of my assessment of the risk that the financial statements may be materially misstated as a result of fraud. [ISA (UK) 240.39b]
- Included in Appendix 1 to this letter are the definitions of fraud, including misstatements arising from fraudulent financial reporting and from misappropriation of assets.

8. I have disclosed to you all information in relation to:

- i. Fraud or suspected fraud that I am aware of and that affects the IJB and involves:
 - Management.
 - Employees who have significant roles in internal control.
 - Others where the fraud could have a material effect on the financial statements.
- ii. Allegations of fraud, or suspected fraud, affecting the IJB's financial statements communicated by employees, former employees, analysts, regulators or others.

In respect of the above, I acknowledge my responsibility for such internal control as I determine necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

9. I have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

10. I have disclosed to you and have appropriately accounted for and/or disclosed in the financial statements, in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

11. I have disclosed to you the identity of the IJB's related parties and all the related party relationships and transactions of which I am aware. All related party relationships and transactions have been appropriately accounted for and disclosed in accordance with IAS 24 *Related Party Disclosures*.

Included in the Appendix to this letter are the definitions of both a related party and a related party transaction as I understand them and as defined in IAS 24.

I confirm that:

- The financial statements disclose all of the key risk factors, assumptions made and uncertainties surrounding the IJB's ability to continue as a going concern as required to provide a true and fair view and to comply with IAS 1 Presentation of Financial Statements.
- No material events or conditions exist that may cast significant doubt on the ability of the IJB to continue as a going concern.

This letter was tabled and agreed at the meeting of the Orkney Integration Joint Board Performance and Audit Committee on 25 September 2025.

Yours faithfully,

Deborah Langan
Chief Finance Officer

Appendix 1 to the Board Representation Letter of Orkney Integration Joint Board: Definitions

Financial Statements

IAS 1.10 states that “a complete set of financial statements comprises:

- A statement of financial position as at the end of the period.
- A statement of profit or loss and other comprehensive income for the period.
- A statement of changes in equity for the period.
- A statement of cash flows for the period.
- Notes, comprising a summary of significant accounting policies and other explanatory information.
- Comparative information in respect of the preceding period as specified in IAS 1 paragraphs 38 and 38A.
- A statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements in accordance with IAS 1 paragraphs 40A-40D.

An entity may use titles for the statements other than those used in this Standard. For example, an entity may use the title ‘statement of comprehensive income’ instead of ‘statement of profit or loss and other comprehensive income’.”

Additionally, the financial statements contain the IJB’s Statement of Financial Position, Statement of Movement in Reserves and related notes.

Material Matters

Certain representations in this letter are described as being limited to matters that are material.

IAS 1.7 and IAS 8.5 state that:

“Material omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.”

Fraud

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity’s assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation.

Error

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

- Was available when financial statements for those periods were authorised for issue.
- Could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

Management

For the purposes of this letter, references to "management" should be read as "management and, where appropriate, those charged with governance".

Related Party and Related Party

Transaction Related party:

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to in IAS 24 *Related Party Disclosures* as the "reporting entity").

1. A person or a close member of that person's family is related to a reporting entity if that person:

- Has control or joint control over the reporting entity;
- Has significant influence over the reporting entity; or
- Is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

2. An entity is related to a reporting entity if any of the following conditions applies:

- The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- Both entities are joint ventures of the same third party.
- One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
- The entity is controlled, or jointly controlled by a person identified in (1).
- A person identified in (1) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the

reporting entity.

A reporting entity is exempt from the disclosure requirements of IAS 24.18 in relation to related party transactions and outstanding balances, including commitments, with: A government that has control or joint control of, or significant influence over the reporting entity; and

- Another entity that is a related party because the same government has control or joint control of, or significant influence over, both the reporting entity and the other entity.

Related party transaction:

A transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether



Orkney Integration Joint Board

Annual Audit Report to the Members of Orkney Integration Performance and Audit Committee and the Controller of Audit for the year ended 31 March 2025

DRAFT

25 September 2025

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About this report

This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's *Code of Audit Practice* ("the Code").

This report is for the benefit of Orkney Integration Joint Board ("the IJB") and is made available to Audit Scotland and the Controller of Audit (together "the Beneficiaries"). This report has not been designed to be of benefit to anyone except the Beneficiaries. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the Beneficiaries, even though we may have been aware that others might read this report. We have prepared this report for the benefit of the Beneficiaries alone.

Nothing in this report constitutes an opinion on a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the introduction and responsibilities sections of this report.

This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the Beneficiaries) for any purpose or in any context. Any party other than the Beneficiaries that obtains access to this report or a copy (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through a Beneficiary's Publication Scheme or otherwise) and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the Beneficiaries.

Complaints

If at any time you would like to discuss with us how our services can be improved or if you have a complaint about them, you are invited to contact Michael Wilkie, who is the engagement leader for our services to the IJB, telephone 0141 300 5890, email: michael.wilkie@kpmg.co.uk who will try to resolve your complaint. If your problem is not resolved, you should contact Tim Cutler, either by writing to him at 1 St Peter's Square, Manchester, M2 3AE, by telephoning 0161 246 4774 or email tim.cutler@kpmg.co.uk. We will investigate any complaint promptly and do what we can to resolve the difficulties. After this, if you are still dissatisfied with how your complaint has been handled you can refer the matter to Owen Smith, Audit Scotland, 4th Floor, 102 West Port, Edinburgh, EH3 9DN.

Executive summary

Audit conclusions

Our work on the financial statements of the IJB is substantially progressed. We expect to issue an unqualified audit opinion on the annual accounts of Orkney Integration Joint Board ("the IJB"), following their approval by the Orkney Integration Joint Board Performance and Audit Committee.

We identified one significant risk in relation to the audit of the IJB, which relates to fraud risk from management override of controls. As documented on page 7, we have concluded satisfactorily in respect of the significant risk and audit focus areas identified in the audit strategy document.

We concur with management's assessment that the entity prepares its financial statements on a going concern basis.

The annual accounts were received at the start of the audit fieldwork. There are no matters to highlight in respect of our independence. Adjusted audit differences and our recommendations on our work are included in the appendices to this report.

Wider Scope.

Details of current year and prior year recommendations are included on pages 21 to 28 of this report.

Introduction

Scope and responsibilities

Purpose of this report

The Accounts Commission has appointed KPMG LLP as auditor of Orkney Integration Joint Board ("the IJB") under part VII of the Local Government (Scotland) Act 1973 ("the Act"). The period of appointment is 2022-23 to 2026-27, inclusive.

Our annual audit report is designed to summarise our opinions and conclusions on significant issues arising from our audit. It is addressed to both those charged with governance at the IJB and the Controller of Audit. The scope and nature of our audit are set out in our audit strategy document which was presented to the IJB.

Audit Scotland's Code of Audit Practice ("the Code") sets out the wider dimensions of public sector audit which involves not only the audit of the financial statements but also consideration of areas such as financial performance and corporate governance.

Accountable officer responsibilities

The Code sets out the IJB's responsibilities in respect of:

- Corporate governance;
- Financial statements and related reports;
- Standards of conduct for prevention and detection of fraud and error;
- financial position; and
- Best Value.

Audit status

Our audit is substantially progressed. Following are the details of the outstanding work:

- Review of the updated set of accounts based on our comments;
- Completion of the review of the samples provided in relation to management override of controls testing;
- Final check on accounts before sign off;
- Receipt of the signed management representation letter.

Auditor responsibilities

This report reflects our overall responsibility to carry out an audit in accordance with our statutory responsibilities under the Act and in accordance with International Standards on Auditing (UK) ("ISAs") issued by the Financial Reporting Council and the Code. Appendix one sets out how we have met each of the responsibilities set out in the Code.

Scope

An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance.

Weaknesses or risks identified are only those which have come to our attention during our normal audit work in accordance with the Code, and may not be all that exist.

Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Under the requirements of ISA 260 *Communication with those charged with governance*, we are required to communicate audit matters arising from the audit of financial statements to those charged with governance of an entity.

This report to those charged with governance and our presentation to the Board, together with previous reports to the Audit and Performance committee throughout the year, discharges the requirements of ISA 260.

Audit conclusions

Audit opinion

Our work on the financial statements of the IJB is substantially progressed. We expect to issue an unqualified opinion on the truth and fairness of the state of the IJB's affairs as at 31 March 2025, and the results for the year then ended.

There are no matters identified on which we are required to report by exception.

Financial reporting framework, legislation and other reporting requirements

The IJB is required to prepare its annual accounts in accordance with International Financial Reporting Standards, as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2024-25 and in accordance with the Local Authority Accounts (Scotland) Regulations 2014. Our audit confirmed that the financial statements have been prepared in accordance with the CIPFA Code and relevant legislation.

Statutory reports

We have not identified any circumstances to notify the Controller of Audit that indicate a statutory report may be required.

Other communications

We did not encounter any significant difficulties during the audit. There were no other significant matters arising from the audit that were discussed, or subject to correspondence with management that have not been included within this report. There are no other matters arising from the audit, that, in our professional judgement, are significant to the oversight of the financial reporting process.

Audit misstatements

See appendix 4 for details of adjusted misstatements. There are no unadjusted misstatements to report.

Written representations

Our representation letter did not include any additional representations to those that are standards required for our audit.

Materiality and summary of risk areas

Materiality

We summarised our approach to materiality in our audit strategy document. On receipt of the financial statements and following completion of audit testing we reviewed our materiality levels and concluded that the level of materiality set at planning was still relevant.

We used a materiality of £2.2 million for the IJB's financial statements. This equates to approximately 2.69% of gross expenditure. We designed our procedures to detect errors in specific accounts at a lower level of precision than our materiality. For the IJB, our performance materiality was £1.65 million. We report all misstatements greater than £110k.

Forming our opinions and conclusions

In gathering the evidence for the above opinions and conclusions we:

- performed substantive procedures to ensure that key risks to the annual accounts have been covered;
- Reviewed internal audit reports as issued to the Board to ensure all key risk areas which may be viewed to have an impact on the annual accounts had been considered;
- Reviewed estimates and accounting judgments made by management and considered these for appropriateness;
- considered the potential effect of fraud on the annual accounts through discussions with senior management and internal audit to gain a better understanding of the work performed in relation to the prevention and detection of fraud; and
- Attended Board meetings to communicate our findings to those charged with governance, and to update our understanding of the key governance processes.

Financial statements preparation

Draft financial statements were published online in line with Section 195 of Local Government (Scotland) Act 1973, this included the management commentary and annual governance statement. In advance of our audit fieldwork we issued a 'prepared by management' request setting out a list of required analyses and supporting documentation. We received working papers of good quality, and signed complete draft financial statements were provided.

We recognise the significant efforts of the finance team given the ongoing pressures to deliver a set of accounts to us in accordance with the normal time frames.

Significant risks and other focus areas in relation to the audit of the financial statements

We summarise below the risks of material misstatement as reported within the audit strategy document.

Significant risks (page 7 of this report):

- Management override of controls fraud risk.
- Fraudulent revenue recognition (rebutted).

Wider-scope areas (pages 9 -15).

Significant risks

Significant risk	Our Response	Audit conclusion
<p>Fraud risk from management override of controls</p> <p>Professional standards require us to communicate the fraud risk from management override of controls as a significant risk; as management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> — Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we evaluate the design and implementation of the controls in place for the approval of manual journals posted to the general ledger to ensure that they are appropriate. — We analysed all journals through the year and focus our testing on those with a higher risk, such as journals impacting revenue or expenditure recognition around year-end, or journals linked to our other recognised significant risks. — We review the appropriateness of the accounting for significant transactions that are outside the Board's normal course of business, or are otherwise unusual. — We assess the controls in place for the identification of related party relationships and test the completeness of the related parties identified. We verify that these have been appropriately disclosed within the financial statements. 	<p>Our work did not identify any instances of override of control, or matters that required adjustment in the annual accounts or which require to be brought to attention.</p> <p>As noted on page 4 Completion of the review of the samples provided in relation to management override of controls testing is in process.</p>
<p>Fraud risk from income revenue recognition and expenditure</p> <p>Under ISA 240 there is a presumed risk that income may be misstated due to improper recognition of income. This requirement is modified by Practice Note 10, issued by the FRC, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.</p>	<ul style="list-style-type: none"> — We considered that the Board's significant income streams, which include funding requisitions from both the Orkney Island Council and NHS Orkney. These are agreed in advance of the financial year, with any changes arising from changes in need, requiring approval from each body. There is no estimation or judgement in recognising this stream of income and we do not regard the risk of fraud to be significant. — The Board works with both bodies in order to deliver services delegated by the Board. The Board makes these decisions based on its budget agreed in advance of the financial year. There is no estimation or judgement in recognising expenditure to these bodies, and we do not regard the risk of fraud to be significant. 	<p>We have rebutted the fraud risk from income revenue and expenditure recognition in the financial statements.</p> <p>We have not identified any issues of fraudulent income or expenditure recognition in the accounts.</p>

Management reporting in financial statements

Report	Summary observations	Audit conclusion
Management commentary	<p>The Local Authority Accounts (Scotland) Regulations 2014 require the inclusion of a management commentary within the annual accounts, similar to the Companies Act requirements for listed entity financial statements. The requirements are outlined in the Local Government finance circular.</p> <p>We are required to read the management commentary and express an opinion as to whether it is consistent with the information provided in the annual accounts.</p> <p>We also review the contents of the management commentary against the guidance contained in the CIPFA disclosure checklist IJB accounts.</p>	<p>The information contained within the management commentary is consistent with the annual accounts.</p> <p>We reviewed the contents of the management commentary against the guidance and are content with the proposed report.</p>
Remuneration report	<p>The remuneration report was included within the unaudited annual accounts and supporting reports and working papers were provided.</p>	<p>The information contained within the remuneration report is consistent with the underlying records and the annual accounts and all required disclosures have been made in line with the regulations.</p> <p>Our independent auditor's report confirms that the part of the remuneration report subject to audit has been properly prepared.</p>
Annual governance statement	<p>The statement for 2024/25 outlines the corporate governance and risk management arrangements in operation in the financial year. It provides detail on the IJB's governance framework, review of effectiveness, continuous improvement agenda, and analyses the efficiency and effectiveness of these elements of the framework.</p> <p>We consider the annual governance statement to ensure that management's disclosure is consistent with the annual accounts, and that management have disclosed that which is required under the delivering good governance in local government framework.</p>	<p>We consider the governance framework and annual governance statement to be appropriate for the IJB and that it is in accordance with guidance and reflects our understanding of the IJB.</p> <p>We were satisfied with the proposed disclosures over the governance arrangements.</p>

Audit dimensions introduction

The Code of Audit Practice sets out four audit dimensions which, along side Best Value in the local government sector, set a common framework for all the audit work conducted for the Controller of Audit and for the Accounts Commission: financial sustainability, financial management, vision, leadership and governance, and use of resources to improve outcomes.

It remains the responsibility of the audited body to ensure that it has proper arrangements across each of these audit dimensions. These arrangements should be appropriate to the nature of the audited body and the services and functions that it has been created to deliver. We review and come to a conclusion on these proper arrangements.

Financial management

Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

Budget setting

The 2024/25 budget of £66.7 million was approved by the Board in June 2024. Additional allocation amounting to £4.2 million was made during the year resulting in the fully year budget of £73.1 million. Net expenditure of £77.6 million represents an overspend of £4.5 million. This resulted in the IJB requiring an additional £4.4m funding from the Parties to cover the year-end overspend.

The 2025/26 budget of £74.4 million was approved by the Board on 30 April 2025. We note that delayed approval of the budget has resulted in the Board operating without an approved budget for a month after the start of the relevant financial year. Furthermore, there is a risk in relation to achievement of balance in the short term based on the approved budget, keeping in view the actual outturn for 2024/25. We recommend that development and implementation of a recovery plan is fundamental to achievement of balance in the short and medium term.

Prior year Recommendation

Budget Monitoring

Finance reports are submitted to the Board on a periodic basis and highlight the financial position and projections to the year end, together with any significant variances and areas of concern. We have seen evidence of quarterly reports being presented however we note that the annual budget overrun report, to explain the nature and cause of the overspend was presented in September 2025 i.e. 5 months after the end of the relevant financial year. We recommend that the report should be presented earlier in the year to provide timely information to plan the year ahead.

Recommendation one

Financial regulations

We have noted the approved and up to date financial regulations are in place and available at the designated section of the Board website.

Fraud prevention mechanisms

Financial regulations of the IJB contain a section on fraud however the IJB does not maintain its own policies relating to the prevention and detection of fraud and error, relying on those in place at its partnership bodies. We reviewed the arrangements in place at partnership bodies and found them to be appropriate. The IJB has a Code of Conduct in place to which members subscribe and the Members' Registers of Interest is publicly available on the partners' websites.

We have concluded that appropriate arrangements are in place for the prevention and detection of fraud and error.

Internal controls

The IJB relies on the information generated by its partner bodies (Orkney Islands Council and NHS Orkney) for key financial systems such as the ledger and payroll. The details of the IJB's financial transactions are processed through the partners' systems and those partners are responsible for appropriate systems of internal control.

The IJB's transactions are maintained separately from those of the partner bodies in respective ledgers.

Going Concern

The annual accounts are prepared on a going concern basis. IJB is reliant on others for the financial resources needed to cover its operating costs, the going concern concept is met by the legal framework surrounding the Board. Further, annual accounts demonstrate that the entity is in a net assets position.

Conclusion

The 2024-25 budget was set in April 2025, after the commencement of the relevant financial year.

Entity's latest accounts are prepared on a going concern basis.

There continues to be a risk in relation to achievement of financial balance which must be addressed through development and implementation of a recovery plan.

Measures should be taken to ensure timely reporting in relation to the annual budget outturn.

Financial sustainability

Medium term financial plan (MTFP)

The Board had developed a Medium Term Financial Plan (MTFP), to look beyond the single year budget. The plan related to financial planning for three years from 2022 to 2025.

An updated medium-term financial plan for the period for three years from 2025 to 2028 was presented to the Board for consideration and was approved dated 2 July 2025.

The MTFP assumes annual budget increase of 3% and cost increases as per the following:

Staff costs: 5% for 2025/26 followed by 4% for the remaining two years

Other costs: 4% for 2025/26 and 2026/27 followed by 3% for the remaining one year covered by the MTFP.

Three scenarios have been calculated which highlight potential fluctuation which could exist within each model. The analysis indicates adverse variances between £10.4 million to £12 million over the three-year period based on different scenarios.

The Orkney Integration Scheme requires that where it is forecast that an overspend shall arise then the Chief Officer and the Chief Finance Officer of the Board, in consultation with NHS Orkney and Orkney Islands Council, shall identify the cause of the forecast overspend and prepare a recovery plan setting out how they propose to address the forecast overspend and return to a breakeven position. Given the predicted funding gap over the next three financial years, the financial recovery plan will need to cover objectives and targets being set and successes in meeting these to bring spend in line with budget. We had recommended development of a recovery plan as part of prior year recommendation.

As part of the previous year, we noted that the latest available plan related to period from 2022 to 2025 and has not been rolled forward in the current year and is limited to 3 years. We were given to understand that a process for updating the MTFP on an annual basis will be implemented. With the new MTFP in place we recommend implementation of the process to ensure that it is rolled forward on an annual basis.

Prior year recommendation

Savings Plans

Although no additional recurring savings target has been set against the NHS Orkney delegated service budgets for 2025/26, the Orkney IJB is expected to deliver, as a minimum, £2.4 million of the unachieved recurring savings for NHS Orkney commissioned services over the course of five years, which commenced in 2023/24 on its delegated budgets.

For services commissioned from Orkney Islands Council in financial year 2025/26, £170k of savings were applied to the budget in respect of income from the introduction of Day Care and Telecare charges.

For Orkney Islands Council commissioned services, to assist in achieving balanced budgets for 2025/26, 2026/27 and 2027/28, indicative efficiency targets of £469k, £704k and £938k respectively have been set. There are no quantified savings plans in place and should be developed as part of the development and implementation of a financial recovery plan.

Prior year recommendation

Conclusion

MTFP is in place and takes into account scenario planning.

A process should be in place to roll forward the MTFP on an annual basis.

No quantified analysis has been carried out to consider alternatives to bridge the funding gap.

A detailed recovery plan should be developed for short as well as medium term.

Vision, leadership and Governance

Vision, leadership and governance is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.

The governance framework is the system by which the Board leads, directs and controls its functions and relates to the community and other stakeholders. It includes the systems, processes, cultures and values through which the Board strives to adhere to the principles of good governance of openness, inclusivity, integrity and accountability.

The Board uses 2016 CIPFA/SOLACE framework as a guidance framework for implementing a governance environment.

The Orkney IJB's Code of Conduct is applicable to all Members of the Orkney IJB and requires them to exercise leadership in establishing specific operating principles and values, ensuring they are communicated and understood throughout the organisation.

Leadership capacity

An induction pack, which gives an overview of the Orkney IJB and where to find out more detailed information to enable all Members to fulfil their role and the different elements of the Orkney IJB, is in place.

Details of various development sessions delivered for the members are enumerated as part of the Annual Governance Statement.

Strategy and Risk Management

The Strategic Plan illustrates how the Orkney IJB plans and commissions future services. The Strategic Plan 2022 – 2025 was approved by the IJB on 29 June 2022.

In April 2025, the Orkney IJB approved the new three-year Strategic Plan for the period 2025 – 2028, and the annual Strategic Delivery Plan 2025/26.

An approved risk management strategy is in place for the periods from 2025 to 2027. Risk register is in place and reviewed periodically.

Scrutiny, challenge and transparency

We had noted in the previous year that the status of progress of audit recommendations and action points should be regularly reported to the Board/committee. We were given to understand that the half yearly reporting on outstanding external and internal audit recommendations will be introduced. We note status update on internal and external audit action plan being presented to the Performance and Audit Committee in December 2024 and June 2025 respectively.

Prior year Recommendation

Board meetings are open to the public and only where there is a requirement to do so will an item be considered in private. Audio recordings of board meetings are available. Board minutes and related documents are available on the Orkney Islands Council's website for public scrutiny.

The Communication and Engagement Strategy has been in place and regularly updated. The Orkney IJB approved the 2025 - 2028 Communication and Engagement Strategy in April 2025.

The Performance Management Framework uses various measures to show how well the services commissioned by the Orkney IJB are performing. The IJB has a performance management framework covering periods from 20221 to 2025. Performance management framework needs to be updated to align with the new Strategic Plan.

Recommendation two

The Orkney IJB Performance and Audit Committee, through its consideration of reports in relation to performance, and from internal and external auditors, monitors the effectiveness of internal control procedures. Meetings of the IJB Performance and Audit Committee are similarly open to the public and only where there is a requirement to do so will an item be considered in private. Audio recordings, minutes and related documents to the Orkney IJB Performance and Audit Committee are available on the Orkney Islands Council's website for public scrutiny.

Vision, leadership and Governance(continued)

Further information including the Integration Joint Board's strategies, policies, plans, and annual accounts are also available on the Orkney Islands Council's website for public scrutiny.

Internal Audit

The Chief Internal Auditor reports directly to the Orkney IJB Performance and Audit Committee with the right of access to the Chief Finance Officer, the Chief Officer and/or the Chair of the Performance and Audit Committee on any matter.

The annual programme of internal audit work is based on a strategic risk assessment and is approved by the Performance and Audit Committee. The internal audit function for financial year 2024/25 was provided by Orkney Islands Council's Chief Internal Auditor as the Chief Internal Auditor of the Orkney IJB. This appointment is for the period 2021 to 2026.

The Audit Committee approved the Internal Audit Strategy and Plan for 2024/25 on 13 March 2024.

Internal Audit Annual Report and Opinion, relating to 2024/25, was presented to the Performance and Audit Committee dated 18 June 2025. The report noted that on the basis of the audit work performed in 2024/25:

- the IJB has a framework of controls in place that provides limited assurance regarding the organisation's governance framework, related internal controls, and the management of key risks.
- significant weaknesses in the framework of governance and control were identified during an audit of Financial Planning, Monitoring and Reporting, performed during 2024/25.
- They confirmed that there were no instances of fraud identified from the audit work conducted during the year.

Conclusion

Status of progress of audit recommendations and action points should be regularly reported to the Board.

The IJB's has various governance arrangements in place with scope for continued improvements.

Use of resources to improve outcomes

Audited bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities. This includes demonstrating economy, efficiency, and effectiveness through the use of financial and other resources and reporting performance against outcomes.

The Performance Management Framework act as a framework for the IJB to undertake an improved scrutiny function, and for the Orkney Health and Social Care Partnership to enhance its performance culture focused on quality and continuous improvement, this being critical when demand for services is growing and resources are tightening.

We noted that the framework requires performance reporting to the performance and audit committee meeting however based on the review of minutes we could not identify evidence that such reporting is being carried out in line with the frequency laid down in the framework.

Prior year recommendation

We noted that the annual performance report for 2024/25 has been presented to the Board in June 2025. However, the data included therein is limited to the previous years in a number of cases based on the availability of the underlying data.

The performance report also includes data in relation to National Health and Wellbeing Outcomes. As per the report, Orkney has performed better than Scotland average in all 9 of the indicators.

LGBF performance is identified and reported as part of the annual performance reporting process. As per the latest published report Orkney IJB performed poorly in four of the eleven indicators related to Adult Social Care Services when compared to other HSCPs throughout Scotland. Six indicators showed a drop in national ranking, one ranking position stayed the same, and four measures showed an improvement in ranking.

Conclusion

Annual performance report for 2024/25 has been uploaded to the IJB's website for public access and reports performance in relation to national health and wellbeing outcomes as well as LGBF.

Performance reporting is not being carried out to relevant committee in line with the frequency laid down in the Performance Management Framework.

Best Value

Local government bodies have a duty under the Local Government in Scotland Act 2003 to make arrangements which secure Best Value. Best Value is continuous improvement in the performance of the body's functions.

Auditors are required to consider and to be satisfied that bodies have made proper arrangements to secure Best Value. Work is required to be undertaken in a way that it is proportionate to the size and type of the body.

Auditors should consider how the body demonstrates that it is meeting its Best Value responsibilities, and report on the body's own arrangements for doing this in the Annual Audit Report.

In the case of IJBs, work undertaken on the wider-scope areas will contribute to this consideration. We have included our consideration and reporting of, in relation to each of the wider scope dimensions, throughout this report.

The Strategic Plan illustrates how the Orkney IJB plans and commissions future services. The Strategic Plan 2025 – 2028 was approved by the IJB in April 2025.

Monitoring performance against strategic plans is key to demonstrating Best Value. The Performance Management Framework uses various measures to show how well the services commissioned by the Orkney IJB are performing. The Performance Management Framework, which was presented and approved at the December 2022 meeting of the Orkney IJB Performance and Audit Committee, act as a framework for the IJB to undertake an improved scrutiny function to enhance its performance culture focused on quality and continuous improvement. Performance management framework needs to be updated to align with the new Strategic Plan.

The IJB has a performance and audit committee which has met regularly in 2024-25. There is evidence of scrutiny and sufficient challenge in relation to the matters being considered at these meetings. The minutes of the meeting of the Performance and Audit Committee are regularly presented at the IJB meetings.

The minutes of the meetings of IJB and Performance and Audit committee, including performance related information therein, is publicly available on the Orkney Islands Council's website. The annual performance report for 2024/25 has been uploaded to the IJB's website for public access and that the LGBF performance is identified and reported as part of the annual performance reporting process.

Regular performance reporting is an area under development within the Orkney IJB.

Conclusion

The IJB needs to make improvements in relation to the regular performance reporting.

Appendices

Appointed auditor's responsibilities

AREA	APPOINTED AUDITOR'S RESPONSIBILITIES	HOW WE HAVE MET OUR RESPONSIBILITIES
Statutory duties	Undertake statutory duties, and comply with professional engagement and ethical standards.	Appendix two outlines our approach to independence.
Financial statements and related reports	Provide an opinion on audited bodies' financial statements and, where appropriate, the regularity of transactions. Review and report on, as appropriate, other information such as annual governance statements, management commentaries, and remuneration report.	Page 5 summarises the opinion. Page 8 reports on the other information contained in the financial statements, covering the annual governance statement, management commentary and remuneration report.
Financial statements and related reports	Notify the Auditor General or Controller of Audit when circumstances indicate that a statutory report may be required.	Reviewed and concluded on the effectiveness and appropriateness of arrangements and systems of internal control, including risk management, internal audit, financial, operational and compliance controls.
Wider audit dimensions	Demonstrate compliance with the wider public audit scope by reviewing and providing judgements and conclusions on the audited bodies': <ul style="list-style-type: none"> - Effectiveness in the use of public money and assets; - Suitability and effectiveness of corporate governance arrangements; - Financial position and arrangements for securing financial management and sustainability; - Effectiveness of arrangements to achieve best value; and 	We have concluded on pages (10 to 15) on the arrangements in place.

Auditor independence

Assessment of our objectivity and independence as auditor of Orkney Integration Joint Board (“the IJB”)

Professional ethical standards require us to provide to you at the conclusion of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP’s objectivity and independence, the threats to KPMG LLP’s independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP’s objectivity and independence to be assessed.

This letter is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our policies, all KPMG LLP partners and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result, we have underlying safeguards in place to maintain independence through:

- Instilling professional values
- Communications
- Internal accountability
- Risk management
- Independent reviews.

We are satisfied that our general procedures support our independence and objectivity.



Summary of fees

Audit Scotland has completed a review of funding and fee setting arrangements for 2024-25. An expected fee is calculated by Audit Scotland to each entity within its remit. This expected fee is made up of four elements:

- Auditor remuneration (** average of Tender values)
- Audit Scotland Pooled costs
- PABV Contribution
- Audit Scotland sectoral cap adjustment

Entity	2024/25	2023/24
Auditor Remuneration	£37,030	£35,540
Pooled Costs	£930	£1,300
PABV Contribution	£7,110	£7,590
Sectoral Cap Adjustment	-£11,070	-£11,070
TOTAL AUDIT FEES	£34,000	£33,360

There were no non-audit services provided during the year

Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the IJB.

Confirmation of audit independence

We confirm that as of the date of this letter, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the partner and audit staff is not impaired.








This report is intended solely for the information of the IJB and should not be used for any other purposes.





We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

Yours faithfully,

KPMG LLP

Required communications with the IJB

Type		Response
Our draft management representation letter		We have not requested any specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 March 2025.
Adjusted audit differences		Page 20 of this report
Unadjusted audit differences		There are no unadjusted audit differences.
Related parties		There were no significant matters that arose during the audit in connection with the entity's related parties.
Other matters warranting attention by the Audit Committee		There were no matters to report arising from the audit that, in our professional judgment, are significant to the oversight of the financial reporting process.
Control Deficiencies		We have not identified any internal control weakness during our audit to date. Management retains the responsibility for maintaining an effective system of internal control.
Actual or suspected fraud, non-compliance with laws and regulations or illegal acts		No actual or suspected fraud involving group or component management, employees with significant roles in internal control, or where fraud results in a material misstatement in the financial statements were identified during the audit.

Type		Response
Significant difficulties		No significant difficulties were encountered during the audit.
Modifications to auditor's report		There are no expected modifications to the auditor's report.
Disagreements with management or scope limitations		The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.
Other information		No material inconsistencies were identified related to other information in the annual report, management commentary and annual governance statement. The management commentary is fair, balanced and comprehensive, and complies with the law.
Breaches of independence		No matters to report. The engagement team have complied with relevant ethical requirements regarding independence.
Accounting practices		Over the course of our audit, we have evaluated the appropriateness of the IJB's accounting policies, accounting estimates and financial statement disclosures. In general, we believe these are appropriate.
Key audit matters discussed or subject to correspondence with management		The key audit matters (summarised on Page 5) from the audit were discussed with management.

Audit Differences

Under UK auditing standards (ISA (UK) 260) we are required to provide the Performance and Audit Committee with a summary of unadjusted audit differences (including disclosure misstatements) identified during the course of our audit, other than those which are ‘clearly trivial’, which are not reflected in the financial statements.

No unadjusted misstatements to report.

Under UK auditing standards (ISA (UK) 260) we are required to provide the Performance and Audit Committee with a summary of adjusted audit differences (including disclosures) identified during the course of our audit. The disclosure adjustment below, which has been corrected, has been included in the financial statements.

Adj.	Adjusted Audit Differences
1	Narrative updates to the management of risk section of the management commentary to align with the requirements of the applicable framework.
2	Updates to the financial performance section of the management commentary to align with the results as per the income and expenditure
3	Narrative updates to remuneration report to align with the requirement of the applicable framework.
4	Narrative updates to the conclusion section of the Annual Governance Statement to align with the requirement of the applicable framework.
5	Small number of updates, to the accounts, in the nature of internal consistency.

Recommendations - follow-up

The table below summarises the outstanding recommendations from prior years.

We have provided a summary of progress against 'in progress' actions below, and their current progress.

Priority rating for recommendations			
1	Priority one: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	2	Priority two: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.
3	Priority three: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.		
Rating	Finding(s) and risk(s)	Prior year agreed actions	Agreed management actions
Governance and Transparency			
1	The Medium-term Financial Plan identified a cumulative funding gap based on different assumed scenarios. There are no proposed actions included in the plan and the OIJB is yet to develop savings options. There is a risk that the IJB does not achieve financial balance across the medium term.	An updated recovery plan will be presented to the IJB in November 2024. A new updated MTFP will be developed and presented to the IJB in February 2025	A new updated MTFP was presented to the board in July 2025. A new updated financial recovery plan is due to be presented to the Board at the next opportunity. There was no CFO in post from Dec 24 to Aug 25 which has contributed to the delay with these.
2	A number of the governing documents have not been reviewed since 2018 and are difficult to find on the website. There is a risk that the governing documents do not reflect current arrangements nor meet the OIJB's commitment to openness and transparency.	Agreed. IJB will work with the OIC communications team to ensure full transparency of IJB governing documents on the Council's website	Ongoing. Governing documents have been updated and this is a continued ongoing rolling process.

Recommendations – follow-up(continued)

Rating	Finding(s) and risk(s)	Prior year agreed actions	Agreed management actions
	Governance and Transparency		
2	<p>The OIJB should have effective arrangements for scrutinising performance, monitoring progress towards their strategic objectives and holding partners to account. However, performance management information was not provided to those charged with governance throughout the financial year.</p> <p>There is a risk that performance failures are not identified in sufficient time to take corrective action.</p>	<p>During 2023/24 there were regular performance reports presented at the relevant committee meetings</p>	<p>Revenue Expenditure Monitoring Reports continue to be presented to the IJB Board quarterly throughout 24.25.</p>

Recommendations – follow-up(continued)

Rating	Finding(s) and risk(s)	Prior year agreed actions	Agreed management actions
	Financial Sustainability		
2	As part of the previous year, we noted that the latest available plan relates to period from 2022 to 2025 and has not been rolled forward in the current year and is limited to 3 years. We were given to understand that a process for updating the MTFP on an annual basis will be implemented. With the new MTFP in place we recommend implementation of the process to ensure that it is rolled forward on an annual basis.	A new updated MTFP will be developed and presented to the IJB in February 2025 The Medium Term Financial Plan will be rolled forward on an annual basis and reported to the Board.	The new updated MTFP was presented to the IJB Board in July 2025. There was no CFO in post from Dec 24 until Aug 25 which contributed to this delay.

Recommendations – follow-up(continued)

Rating	Finding(s) and risk(s)	Prior year agreed actions	Agreed management actions
Financial Sustainability			
2	<p>The MTFP plan is limited to 3 years and does not include any financial forecasts to cover a longer term period. The plan should also seek to provide a longer term projection of the Board's future budget position for the next ten years. This will allow longer term risks and issues to be identified. Although it is clear that the further away from the current date that projections go the less certain the projections become, they will nevertheless allow the Board to consider longer term views and options.</p> <p>There is a risk of failure to identify financial imbalance and inability to plan accordingly over a longer term period.</p> <p>We recommend that longer term forecasts/plans should also be developed</p>	<p>Management will consider forecasting into longer term period when the MTFP is updated.</p>	<p>Agreed.</p> <p>Consideration to be given to produce a LTFP using the newly updated MTFP as a starting basis.</p>

Recommendations – follow-up(continued)

Rating	Finding(s) and risk(s)	Prior year agreed actions	Agreed management actions
Performance and progress reporting			
2	<p>Despite performing better than national averages in 9 of 11 indicators, Orkney's score deteriorated in 7 out of 9 indicators in 2021/22 compared to 2019/20 related to national health and wellbeing outcomes.</p> <p>Further Orkney's ranking has gone down in relation to 5 of the 11 LGBF metrics as compared to the previous year. There is a risk of deteriorating outcomes and reputational damage.</p> <p>We recommend that a root cause analysis be carried out to investigate and develop and action plan against deteriorating performance</p> <p><u>2023/24 update</u></p> <p>As per the latest published report Orkney HSCP's performance in LGBF is reported for 7 out of 11 indicators. The reported performance ranking has deteriorated, improved and remained unchanged for 4, 2 and 1 metrics respectively.</p> <p><u>2024/25 update</u></p> <p>As per the latest published report Orkney IJB performed less well in four of the eleven indicators related to Adult Social Care Services when compared to other HSCPs throughout Scotland. Six indicators showed a drop in national ranking, one ranking position stayed the same, and four measures showed an improvement in ranking.</p>	Ongoing. Performance reports to PAC will continue to analyse the data to check the root causes of the changes in performance rankings	Ongoing. Performance reports to PAC will continue to analyse the data to check the root causes of the changes in performance rankings.

Recommendations – follow-up(continued)

Rating	Finding(s) and risk(s)	Prior year agreed actions	Agreed management actions
	Performance and progress reporting		
3	<p>As part of review of the minutes of the meeting, we could not identify evidence in relation to half yearly reporting of the status of the outstanding audit recommendations.</p> <p>There is a risk that action points are not addressed in a timely manner.</p> <p>We recommend that the status of progress of audit recommendations and action points should be regularly reported to the Board.</p>	<p>Ongoing. Half yearly reporting on outstanding external and internal audit recommendations has been introduced and will be monitored.</p>	<p>Ongoing.</p> <p>Half yearly reporting on outstanding external and internal audit recommendations occurs and will be monitored.</p>

Recommendations – follow-up(continued)

Rating	Finding(s) and risk(s)	Prior year agreed actions	Agreed management actions
Financial Management			
1	<p>1- The 2024/25 budget was approved by the Board on 19 June 2024 and 2025/26 budget was approved in April 2025. We note that delayed approval of the budget has resulted in the Board operating without an approved budget for a period after the start of the relevant financial year. Furthermore, there is a risk in relation to inability to achieve balance in the short term based on the approved budget, keeping in view the actual outturn for 2024/25. We understand that the recovery plan has not yet been approved and is fundamental to achievement of balance in the short and medium term.</p> <p>We recommend the implementation of recovery plan to ensure achievement of short and medium term financial balance. We further recommend timely approval of the budget ahead of the start of the relevant financial year.</p>	<p>Ongoing. An updated recovery plan will be presented to the IJB in November 2024. There are plans to ensure the budget for 2025/26 is approved by the board before the start of the financial year.</p>	<p>Ongoing.</p> <p>The IJB budget was approved in April 2025.</p> <p>The financial recovery plan is due to be presented to the IJB Board at the next available opportunity.</p> <p>There was no CFO in post from Dec 24 until Aug 25 which has contributed to the delays.</p>

Recommendations - current year

The table below summarises the recommendations based on current year work.

Rating	Finding(s) and risk(s)	Recommendation	Agreed management actions
1	1- We have seen evidence of quarterly budget monitoring reports being presented however we note that the annual budget overrun report, to explain the nature and cause of the overspend was presented in September 2025 i.e. 5 months after the end of the relevant financial year.	We recommend that the report should be presented earlier in the year to provide timely information to plan the year ahead.	Unfortunately there are no IJB committee meetings sooner due to the members recess over the summer months but consideration should be given to this information being circulated as a briefing report initially before Sept presentation.
2	2- The Performance Management Framework uses various measures to show how well the services commissioned by the Orkney IJB are performing. The IJB has a performance management framework covering periods from 20221 to 2025. Performance management framework needs to be updated to align with the new Strategic Plan.	We recommend update of the performance management framework in line with latest approved Strategic Plan.	Agree. The update is due to be presented as part of the November committee cycle.

KPMG's Audit quality framework

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion.

To ensure that every engagement lead and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework. Responsibility for quality starts at the top through our governance structures as the UK Board is supported by the Audit Oversight Committee, and accountability is reinforced through the complete chain of command in all our teams.

■ Commitment to continuous improvement

- Comprehensive effective monitoring processes
- Significant investment in technology to achieve consistency and enhance audits
- Obtain feedback from key stakeholders
- Evaluate and appropriately respond to feedback and findings

■ Performance of effective & efficient audits

- Professional judgement and scepticism
- Direction, supervision and review
- Ongoing mentoring and on the job coaching, including the second line of defence model
- Critical assessment of audit evidence
- Appropriately supported and documented conclusions
- Insightful, open and honest two way communications

■ Commitment to technical excellence & quality service delivery

- Technical training and support
- Accreditation and licensing
- Access to specialist networks
- Consultation processes
- Business understanding and industry knowledge
- Capacity to deliver valued insights



■ Association with the right entities

- Select clients within risk tolerance
- Manage audit responses to risk
- Robust client and engagement acceptance and continuance processes
- Client portfolio management

■ Clear standards & robust audit tools

- KPMG Audit and Risk Management Manuals
- Audit technology tools, templates and guidance
- KPMG Clara incorporating monitoring capabilities at engagement level
- Independence policies

■ Recruitment, development & assignment of appropriately qualified personnel

- Recruitment, promotion, retention
- Development of core competencies, skills and personal qualities
- Recognition and reward for quality work
- Capacity and resource management
- Assignment of team members employed KPMG specialists and specific team members



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Independent auditor's report to the members of Orkney Integration Joint Board and the Accounts Commission

Reporting on the audit of the financial statements

Opinion on financial statements

We certify that we have audited the financial statements in the annual accounts of Orkney Integration Joint Board for the year ended 31 March 2025 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, Balance Sheet, and notes to the financial statements, including material accounting policy information. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards, as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2024/25 (the 2024/25 Code).

In our opinion the accompanying financial statements:

- give a true and fair view of the state of affairs of the body as at 31 March 2025 and of its income and expenditure for the year then ended;
- have been properly prepared in accordance with UK adopted international accounting standards, as interpreted and adapted by the 2024/25 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Basis for opinion

We conducted our audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)), as required by the [Code of Audit Practice](#) approved by the Accounts Commission for Scotland. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We were appointed by the Accounts Commission on 18 May 2022. Our period of appointment is five years, covering 2022/23 to 2026/27. We are independent of the body in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK including the Financial

Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the body. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern basis of accounting

We have concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the body's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from when the financial statements are authorised for issue.

These conclusions are not intended to, nor do they, provide assurance on the body's current or future financial sustainability. However, we report on the body's arrangements for financial sustainability in a separate Annual Audit Report available from the [Audit Scotland website](#).

Risks of material misstatement

We report in our Annual Audit Report the most significant assessed risks of material misstatement that we identified and our judgements thereon.

Responsibilities of the Chief Finance Officer and Orkney Integration Joint Board for the financial statements

As explained more fully in the Statement of Responsibilities, the Chief Finance Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Chief Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Finance Officer is responsible for assessing the body's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention to discontinue the body's operations.

The Orkney Integration Joint Board is responsible for overseeing the financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities outlined above to detect material misstatements in respect of irregularities, including fraud. Procedures include:

- using our understanding of the local government sector to identify that the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003 are significant in the context of the body;
- inquiring of the Chief Finance Officer as to other laws or regulations that may be expected to have a fundamental effect on the operations of the body;
- inquiring of the Chief Finance Officer concerning the body's policies and procedures regarding compliance with the applicable legal and regulatory framework;
- discussions among our audit team on the susceptibility of the financial statements to material misstatement, including how fraud might occur; and
- considering whether the audit team collectively has the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.

The extent to which our procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of the body's controls, and the nature, timing and extent of the audit procedures performed.

Irregularities that result from fraud are inherently more difficult to detect than irregularities that result from error as fraud may involve collusion, intentional omissions, misrepresentations, or the override of internal control. The capability of the audit to detect fraud and other irregularities depends on factors such as the skilfulness of the

perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Reporting on other requirements

Opinion prescribed by the Accounts Commission on the audited parts of the Remuneration Report

We have audited the parts of the Remuneration Report described as audited. In our opinion, the audited parts of the Remuneration Report have been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

Other information

The Chief Finance Officer is responsible for the other information in the annual accounts. The other information comprises the Management Commentary, Annual Governance Statement, Statement of Responsibilities and the unaudited parts of the Remuneration Report.

Our responsibility is to read all the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon except on the Management Commentary and Annual Governance Statement to the extent explicitly stated in the following opinions prescribed by the Accounts Commission.

Opinions prescribed by the Accounts Commission on the Management Commentary and Annual Governance Statement

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Management Commentary for the financial year for which the financial statements are

prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003; and

- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).

Matters on which we are required to report by exception

We are required by the Accounts Commission to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements and the audited parts of the Remuneration Report are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

In addition to our responsibilities for the annual accounts, our conclusions on the wider scope responsibilities specified in the Code of Audit Practice, including those in respect of Best Value, are set out in our Annual Audit Report.

Use of our report

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 108 of the Code of Audit Practice, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

[Signature]

[Name of appointment lead],

for and on behalf of KPMG LLP

Chartered Accountants

[Full KPMG office postal address],

[Full date]