Orkney and Shetland Valuation Joint Board

Item: 10

Orkney and Shetland Valuation Joint Board: 10 March 2026.

Internal Audit - Payroll.

Report by Chief Internal Auditor.

1. Overview

1.1. The internal audit plan 2025/26 includes a review of Payroll. This audit has been completed and the internal audit report is attached as Appendix 1 to this report.

1.2. Orkney Islands Council provides payroll services to the Orkney and Shetland Valuation Joint Board, involving the payment of wages and salaries for 13 employees and 11 pensioners. This audit has undertaken a high-level review of all key aspects of Payroll, including an examination of payments, authorisations and changes to payroll data.

1.3. Audit work focussed on the period from 1 April 2024 to 30 September 2025.

1.4. The objective of this audit was to review the processes and procedures in place to ensure that the financial record of salaries, wages and deductions are accurate, and that staff are paid the correct amount at the right time.

1.5. The audit provides Substantial assurance that procedures and controls relating to Payroll are well controlled and managed.

1.6. The internal audit report, attached as Appendix 1 to this report, includes two low priority recommendations regarding a memorandum of understanding and authorised signatories.

2. Recommendations

2.1. It is recommended that members of the Board:

i. Scrutinise the findings contained in the internal audit report, attached as Appendix 1 to this report, relating to the procedures and controls in respect of payroll activities, in order to obtain assurance that action has been taken or agreed where necessary.

For Further Information please contact:
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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

Internal Audit Plan 2025/26.

Appendix

Appendix 1: Internal Audit Report - Payroll.

Orkney & Shetland Valuation Joint Board

Internal Audit

Audit Report **Orkney and Shetland Valuation Joint Board Payroll** **Draft issue date: 30 January 2026** **Final issue date: 16 February 2026**	
Distribution list:	**O&SVJB Assessor and Electoral Registration Officer** **O&SVJB Treasurer** **O&SVJB Clerk**

Contents

Audit Opinion

Based on our findings in this review we have given the following audit opinion.

Substantial	**The framework of governance, risk management and control were found to be comprehensive and effective.**

A key to our audit opinions and level of recommendations is shown at the end of this report.

Executive Summary

This audit reviewed payroll arrangements for the Orkney and Shetland Valuation Joint Board (OSVJB), focusing on payroll accuracy, authorisation, statutory compliance and financial reconciliation. Overall, the control environment is strong.

The audit noted the following areas of good practice:

- Strong documentation and control.
- Accurate payroll processing.
- Effective process around pension contributions.
- Sound reconciliation practices.
- Effective governance framework.

The following areas of improvement were identified:

- Lack of payroll service agreement.
- Single authorised signatory risk.

The report includes 2 recommendations which have arisen from the audit. The number and priority of the recommendations are set out in the table below. The priority headings assist management in assessing the significance of the issues raised.

Responsible officers will be required to provide an update on progress with the agreed actions.

Total	High	Medium	Low
2	**0**	**0**	**2**

The assistance provided by officers contacted during this audit is gratefully acknowledged.

Introduction

The Orkney and Shetland Valuation Joint Board (the Board / OSVJB) was established in 1996, under The Valuation Joint Boards (Scotland) Order 1995, and its primary purpose is to discharge all the functions of its two constituent authorities, Orkney Islands Council (OIC) and Shetland Islands Council (SIC) as valuation authorities under the Valuation Acts.

The Board is responsible for appointing the Assessor for Orkney and Shetland, an independent statutory official responsible for the preparation and maintenance of the Valuation Roll and the Council Tax Valuation List. The Assessor has also been appointed as Electoral Registration Officer for both Orkney and Shetland and is, therefore, also responsible for the preparation and maintenance of the Register of Electors or Electoral Roll.

OIC provides payroll services to the OSVJB, involving the payment of wages and salaries for 13 employees and 11 pensioners. This audit has undertaken a high-level review of all key aspects of Payroll, including an examination of payments, authorisations and changes to payroll data. Audit work focussed on the period from 1 April 2024 to 30 September 2025.

This review was conducted in conformance with the Global Internal Audit Standards in the UK Public Sector.

Audit Scope

The scope of this audit included:

- Accuracy of Payroll data.
- Adherence to statutory requirements.
- Authorisation and approval of payroll changes.
- System and process controls.
- Reporting and reconciliation.

Audit Findings

1.0 System and Process Controls

1.1 The list of available staff posts, the 'establishment', is held by the Assessor, and currently lists 14 posts including one vacant post. Controls around access to the establishment are satisfactory. The establishment, in the format of a staff structure, is included within the Revised Workforce Plan for 2024-2027, which was itself reviewed and approved by the Board in September 2024. Accordingly, there has been Board approval for the current establishment, and a process implemented for future Board scrutiny of the establishment as part of future reviews undertaken of the Workforce Plans.

1.2 OSVJB payroll is currently administered by the OIC Payroll Team. The operation of the payroll was transferred from SIC in 2020. At the time of this transfer no Service Level Agreement (SLA) or Memorandum of Understanding (MoU) with regard to the payroll service was completed.

1.3 Best practice is that outsourced services are covered by either a SLA or a MoU to clarify responsibilities, service standards, costs and governance, and to ensure that implicit expectations are recorded as explicit enforceable controls operating to support accurate and timely payments and compliance with statutory requirements. We recommend that, as a minimum, a Memorandum of Understanding is drawn up setting out responsibilities in respect of the payroll and pension administration.

Recommendation 1

2.0 Statutory requirements

2.1 UK employers have obligations in respect of payrolls coming mainly from HMRC rules, employment law, pension law and statutory pay regulations. However, the operation of payroll within OIC was subject to internal audit in 2025, which included covering these obligations. As a result, no further testing in this area has been undertaken as a part of this audit.

2.2 Pension contributions are made to the Local Government Pensions Scheme, but SIC has remained as the Administrator of the Scheme for OSVJB employees. Employees and employer's pension contributions are collated and an indent produced for a single payment to be made to SIC. The monthly summary breakdown extracted from the payroll system is then emailed to the Pensions team in SIC.

2.3 Audit testing has confirmed the controls around and process of paying the SIC's Pension Team an amount equivalent to the calculated employer's and employees' pension contributions are operating satisfactorily.

No Recommendation

3.0 Authorisation and approval of payroll changes

3.1 The Assessor uses a spreadsheet template to produce forms for starters, leavers and notification of changes required. Once completed, and signed by an authorised signatory, these forms are then forwarded to the OIC Payroll Team.

3.2 Audit testing of these processes has confirmed that, in each case, the forms contained all necessary information and were signed by the Assessor. At present, as a result of previous

role vacancies, the Assessor is the sole authorised signatory. In the absence of the Assessor there is a risk that necessary approvals could be stalled.

3.3 We recommend that consideration be given to retaining the Assessor as a primary authorised signatory, and appointing the Depute Assessor or Depute ERO as a formally designated deputy for payroll related approvals.

Recommendation 2

4.0 Accuracy of Payroll data

4.1 Audit testing was performed in respect of employees starting and leaving the OSVJB within the audit period. This testing covered the employee details including the National Insurance number and start or leaving date, bank details and signature of the form by the Assessor. All details were correctly captured within the Payroll system.

4.2 In addition, overtime and casual sheets were reviewed, and found to be signed by either the Depute Electoral Registration Officer or the Assessor. Overtime and casual hours were correctly included in the payslip.

4.3 Requests for variations are made in a standard form and signed by an authorised signatory. Audit testing showed that changes requested were correctly reflected in the relevant employee's payslip.

No Recommendation

5.0 Reporting and reconciliation

5.1 Payroll costs are split within the Integra finance system between the standard payroll costs and the Barclay Review costs, i.e. additional staff costs arising from the move to three yearly reviews and other Barclay reforms, for which funding is received from the Scottish Government.

5.2 In addition the audited Annual Accounts contain remuneration and pension contribution details for Senior Employees. The figures within the Annual Accounts were checked back to the details for those employees within Integra. No material differences were found.

5.3 Separately the cost figures in Integra were checked against the monthly pay summary for 2 months, and the underlying payslips for all employees. Testing showed that figures in Integra were correctly derived from underlying payslip records and agreed with the monthly summaries.

No Recommendation

Action Plan

Recommendation	Priority	Management Comments	Responsible Officer	Agreed Completion Date
1 A Memorandum of Understanding should be drawn up setting out responsibilities in respect of the payroll and pension administration.	Low	Agreed.	Assessor & ERO, Treasurer and Clerk	30 June 2026
2 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 & ERO	Immediate effect.

Key to Opinion and Priorities

Audit Opinion

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.

Recommendations

Priority	Definition	Action Required
High	Significant weakness in governance, risk management and control that if unresolved exposes the organisation to an unacceptable level of residual risk.	Remedial action must be taken urgently and within an agreed timescale.
Medium	Weakness in governance, risk management and control that if unresolved exposes the organisation to a significant level of residual risk.	Remedial action should be taken at the earliest opportunity and within an agreed timescale.
Low	Scope for improvement in governance, risk management and control.	Remedial action should be prioritised and undertaken within an agreed timescale.