Item: 1

Pension Fund Sub-committee: 16 September 2026.

Orkney Islands Council Pension Fund.

Audit Report to those charged with Governance.

Report by Director of Enterprise and Resources.

1. Overview

1.1. This report presents the Audit Report to those charged with governance, together with Orkney Islands Council's Letter of Representation to KPMG in connection with their audit of the Pension Fund, for scrutiny and approval.

1.2. KPMG, as the Council's external auditors, have concluded their audit of the Orkney Islands Council Pension Fund's Annual Report and Accounts for the year ended 31 March 2026.

1.3. KPMG has provided an unqualified certificate on the Pension Fund's Annual Report and Accounts for the year ended 31 March 2026.

1.4. The draft audit certificate states that the financial statements have been properly prepared in accordance with applicable law, accounting standards and other reporting requirements.

1.5. During the course of the audit, no material weaknesses in the accounting and internal control systems relating to the Pension Fund were identified.

2. Recommendations

2.1. It is recommended that members of the Sub-committee:

i. Scrutinise the Audit Report for the year ended 31 March 2026, prepared by KPMG for members of the Pension Fund Sub-committee and the Controller of Audit, in respect of the Orkney Islands Council Pension Fund, attached as Appendix 1 to this report.

ii. Approve Orkney Islands Council's Letter of Representation to KPMG in connection with their audit of the financial statements of Orkney Islands Council Pension Fund for the year ended 31 March 2026, attached as Appendix 2 to this report.

For Further Information please contact:
Shonagh Merriman, Service Manager (Corporate Finance), extension 2105, Email shonagh.merriman@orkney.gov.uk.

Implications of Report

1. **Financial** The audit fee for the audit of the Pension Fund's annual report and accounts was £28,000 which is £1,400 more than the fee for the 2024/25 audit.
2. **Legal** The Local Government Pension Scheme is a funded defined benefit scheme, established under the Superannuation Act 1972, with pensioners receiving index-linked pensions. It is administered by Orkney Islands Council in accordance with The Local Government Pension Scheme (Scotland) Regulations 2018 (as amended) and is contracted out of the State Second Pension. The Pension Fund is subject to a triennial valuation by an independent, qualified Actuary, whose report indicates the required future employer's contributions.
   Local authorities have a duty under section 12 of the Local Government in Scotland Act 2003 to observe proper accounting practices.
   The Local Government Pension Scheme Amendment (Scotland) Regulation 2010 (SSI 2010/234) require a pension fund annual report and separate audit.
3. **Corporate Governance** In terms of the Scheme of Administration, review of the Annual Audit Report on the Orkney Islands Council Pension Fund to elected members, including the audit certificate, from External Audit, is a delegated function of the Pension Fund Sub-committee.
   The report at Appendix 1 is provided by KPMG on the basis that it is only for the information of the Pension Fund Sub-committee of the Pension Fund; that it will not be quoted or referred to, in whole or in part, without their prior written consent; and that they accept no responsibility to any third party in relation to it.
4. **Human Resources** N/A
5. **Equalities** An Equality Impact Assessment is not required for financial reporting.
6. **Island Communities Impact** An Island Communities Impact Assessment is not required for financial reporting.
7. **Links to Council Plan** The proposals in this report support and contribute to improved outcomes for communities as outlined in the following Council Plan strategic priorities:
   ☐ Growing our economy.
   ☐ Strengthening our communities.
   ☐ Developing our Infrastructure.
   ☐ Transforming our Council.
8. **Links to Local Outcomes Improvement Plan** The proposals in this report support and contribute to improved outcomes for communities as outlined in the following Local Outcomes Improvement Plan priorities:

☐Cost of Living.

☐Sustainable Development.

☐Local Equality.

☐Improving Population Health.

9. **Environmental and Climate Risk** N/A.
10. **Risk** An annual audit provides reassurance that the Annual Pension Fund accounts have been prepared in accordance with International Financial Reporting Standards, and reduces the risk of material misstatement.
11. **Procurement** Any contractual arrangements require to comply with the Financial Regulations and Contract Standing Orders.
12. **Health and Safety** N/A.
13. **Property and Assets** N/A.
14. **Information Technology** N/A.
15. **Cost of Living** N/A

List of Background Papers

Orkney Islands Council Pension Fund Annual Audit Plan 2025/2026

Appendices

Appendix 1 - KPMG Annual Report to Members and the Controller of Audit of the Orkney Islands Council Pension Fund Annual Report and Accounts (ISA 260 Report).

Appendix 2 – Orkney Islands Council's Letter of Representation to KPMG in connection with their audit of the financial statements of Orkney Islands Council Pension Fund for the year ended 31 March 2026.

KPMG

Orkney Islands Council Pension Fund

Audit Report for the year ended 31 March 2026

Prepared on 3 September 2026

For presentation at the Orkney Islands Council Pension Fund Sub-committee Meeting on 16 September 2026

Introduction

To the Pension Fund Sub-committee of Orkney Islands Council Pension Fund

We are pleased to have the opportunity to meet with you on 16 September 2026 to discuss the results of our audit of the annual accounts of Orkney Islands Council Pension Fund, as at and for the year ended 31 March 2026.

We are providing this report in advance of our meeting to enable you to consider our findings and hence enhance the quality of our discussions. This report should be read in conjunction with our audit plan and strategy report, presented on 20 May 2026. We will be pleased to elaborate on the matters covered in this report when we meet.

Subject to the Pension Board's approval, we expect to be in a position to sign our audit opinion on accounts by 30 September 2026, provided that the outstanding matters noted on page 5 of this report are satisfactorily resolved.

There have been no significant changes to our audit plan and strategy except the materiality numbers. Materiality in the audit plan was based on total assets as per the 31 March 2025 audited accounts; however, it was updated using total assets from the draft accounts as at 31 March 2026

	Planning materiality (based on 31 March 2025 audited accounts)	Final materiality (based on 31 March 2026 draft accounts)
Materiality	£5.3m	£5.7m
Performance Materiality	£4.5m	£4.8m
Reporting threshold	£266k	£285k

We expect to issue an unmodified Auditor's Report.

We draw your attention to the important notice on page 4 of this report, which explains:

- The purpose of this report
- Limitations on work performed
- Restrictions on distribution of this report

Yours sincerely,

Julie Radcliffe

Julie Radcliffe

Introduction

To the Pension Fund Sub-committee of Orkney Islands Council Pension Fund

How we deliver audit quality

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.

We consider risks to the quality of our audit in our engagement risk assessment and planning discussions.

We define 'audit quality' as being the outcome when:

- Audits are executed consistently, in line with the requirements and intent of applicable professional standards within a strong system of quality management; and,
- All our related activities are undertaken in an environment of the utmost level of objectivity, independence, ethics and integrity.

Important notice

Audit Scotland (AS) has issued a document entitled Code of Audit Practice (the Code). This summarises where the responsibilities of auditors begin and end and what is expected from the Board.

External auditors do not act as a substitute for the Board's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

Purpose of this report

This Report has been prepared in connection with our audit of the annual accounts of Orkney Islands Council Pension Fund, prepared. in accordance with [International Financial Reporting Standards ('IFRSs') as adapted Code of Practice on Local Authority Accounting in the United Kingdom 2025/26, as at and for the year ended 31 March 2026.

This Report has been prepared for the Pension Fund Sub-committee of Orkney Islands Council Pension Fund, a sub-group of those charged with governance, in order to communicate matters that are significant to the responsibility of those charged with oversight of the financial reporting process as required by ISAs (UK), and other matters coming to our attention during our audit work that we consider might be of interest, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone (beyond that which we may have as auditors) for this Report, or for the opinions we have formed in respect of this Report.

This report summarises the key issues identified during our audit but does not repeat matters we have previously communicated to you by written communication.

Limitations on work performed

This Report is separate from our audit report and does not provide an additional opinion on the Pension Fund's annual accounts, nor does it add to or extend or alter our duties and responsibilities as auditors.

We have not designed or performed procedures outside those required of us as auditors for the purpose of identifying or communicating any of the matters covered by this Report.

The matters reported are based on the knowledge gained as a result of being your auditors. We have not verified the accuracy or completeness of any such information other than in connection with and to the extent required for the purposes of our audit.

Status of our audit

Our audit is substantially complete; however, matters communicated in this Report may change pending signature of our audit report. We will provide an oral update on the status. Page 5 'Our Audit Findings' outlines the outstanding matters in relation to the audit. Our conclusions will be discussed with you before our audit report is signed.

Restrictions on distribution

The report is provided on the basis that it is only for the information of the Pension Fund Sub-committee of the Pension Fund; that it will not be quoted or referred to, in whole or in part, without our prior written consent; and that we accept no responsibility to any third party in relation to it.

Our audit findings

Significant audit risks	Page 7
Significant audit risks	Our findings
Management override of controls	We have found no issues in respect of management override of controls.

Key accounting estimate	Page 10-11
	Our findings
Valuation of pooled investment vehicles (level 3)	We agreed to investment manager confirmations and assessed as reliable the NAV statements provided by the investment managers as at 31 March 2026
Valuation of segregated financial instruments and pooled investment vehicles (level 1 and 2)	We have agreed the value to investment manager confirmations as at 31 March 2026.

Uncorrected Audit Misstatements	Appendix 5
Understatement/ (overstatement)	
None	

Misstatements in respect of Disclosures	Appendix 5
Misstatement in respect of Disclosures	Our findings
None	

Number of Control deficiencies	Appendix 6
We note that there are no further current year control observations	0
Significant control deficiencies	0
Other control deficiencies	1
Prior year control deficiencies remediated	2

Regulatory breaches

Clearly inconsequential

We noted that employer contributions from The Pickaquoy Centre for July 2026 were received three days after the due date, this is mainly due to staff absence and lack of cover arrangements. As the payment delay was minimal, no reporting obligation arose and there was no impact on scheme members.   We consider this breach to be inconsequential in relation to the audit work.

Outstanding matters

- Completion of internal review and file documentation
- Completion of our post balance sheet events review up to the date of sign off
- Receipt of signed letter of representation and approved and signed financial statements

Significant risks and other audit risks

We discussed the significant risks which had the greatest impact on our audit with you when we were planning our audit.

Our risk assessment draws upon our historic knowledge of the business, the industry and the wider economic environment in which Orkney Islands Council Pension Fund operates.

We also use our regular meetings with senior management to update our understanding and internal audit reports.

During our audit we identified risks of material misstatement as highlighted on the graph below.

See the following pages for the cross-referenced risks identified on this slide.

Significant risks

1 Management override of controls

Other audit risks

2 Level 1, 2 and 3 investments are not complete, do not exist or are not accurately recorded

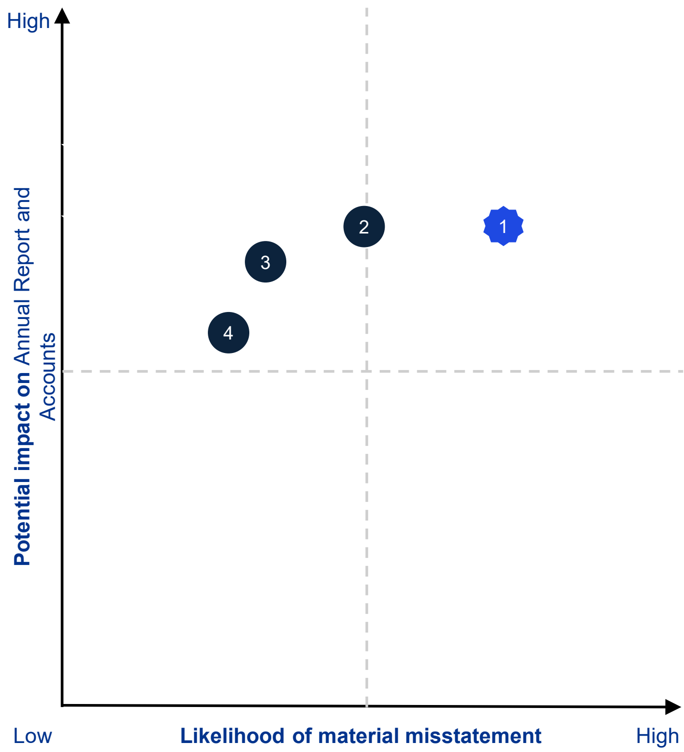
3 Valuation of Level 1, 2 and Level 3 investments is misstated

4 Contributions into the Fund are not completely identified and recorded, do not exist or are not in compliance with the Regulations and the Fund's Rates and Adjustments Schedule

KEY

1 Presumed significant risk

2 Other audit risks



Audit risks and our audit approach

1 **Management override of controls** (a)

Fraud risk related to unpredictable way management override of controls may occur

Significant audit risk

- Professional standards require us to communicate the fraud risk from management override of controls as significant.
- Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent accounts by overriding controls that otherwise appear to be operating effectively.
- We have not identified any specific additional risks of management override relating to this audit.

Note: (a) Significant risk that professional standards require us to assess in all cases.

Our response

Our audit methodology incorporates the risk of management override as a default significant risk.

- Assessed accounting estimates for biases by evaluating whether judgements and decisions in making accounting estimates, even if individually reasonable, indicate a possible bias.
- Evaluated the selection and application of accounting policies.
- In line with our methodology, evaluated the design and implementation of controls over journal entries and post closing adjustments.
- Assessed the appropriateness of changes compared to the prior year to the methods and underlying assumptions used to prepare accounting estimates.
- We evaluated the design and implementation of automated controls used in the financial reporting process, where automated controls are in place.
- Assessed the business rationale and the appropriateness of the accounting for significant transactions that are outside the component's normal course of business or are otherwise unusual.
- We performed the following over journal entries and other adjustments:
  - Evaluated the completeness of the population of journal entries.
  - We determined high risk criteria and select journals based on this criteria for testing.

Audit risks and our audit approach

1

Management override of controls (cont.)

Fraud risk related to unpredictable way management override of controls may occur

Our findings

As part of our audit work, we may seek to identify controls over significant account balances and transactions within the annual report and accounts, evaluate their design and implementation and in some but not necessarily all circumstances test the operating effectiveness of these controls. Alternatively, if we can obtain sufficient appropriate audit evidence through substantive procedures we may choose not to identify, evaluate and test controls as part of our audit.

We did not identify any high-risk journal entries as part of our screening – our examination did not identify unauthorised, unsupported or inappropriate entries. We considered all post closing journal entries and no matters to note.

- We evaluated the segregated and pooled investment vehicles as estimates and did not identify any indicators of management bias.
- Our procedures did not identify any significant unusual transactions.

Audit risks and our audit approach (cont.)

2 Level 1, 2 and 3 investments are not complete, do not exist or are not accurately recorded

Other risks

- Level 1, 2 and 3 investments are not complete, do not exist or are not accurately recorded.
- Investments are held to pay benefits of the Fund. They are held with 5 investment managers across the number of asset classes. The investments are material to the accounts (99% of the Statement of Net Assets) and therefore there is a risk of material misstatement.

Planned response

- We gained an understanding of the processes over the completeness, existence and accuracy of Level 1, 2 and 3 investments. This included gaining an understanding of the control environment at all the investment managers and custodian (BNYM) by reviewing their internal controls reports to identify any control deficiencies that would impact our audit approach (where available).
- We obtained direct confirmations from your custodian and all your investment managers to vouch the holdings and valuation of assets at the year end.
- We vouched purchases and sales to investment manager and custodian reports (where available).
- We recalculated change in market value and compared this to the overall investment return stated in the year end investment performance monitoring report provided to the Pension Fund Sub-committee for consistency with the amounts reported in the annual accounts. We investigated any material deviations.

Our findings

- We obtained direct confirmations from custodian and noted minor holdings differences between BNYM and Baillie Gifford holdings. The accounts have been prepared from the information provided by the investment manager. The differences were due to timing of transactions and not material.
- No other matters to note in relation to the audit procedures performed.

Audit risks and our audit approach (cont.)

3 Valuation of Level 1, 2 and other Level 3 investments is misstated

Other risks

- Investments are held to pay benefits of the Fund. They are largely held as pooled investment vehicles with around 5 investment managers across a number of asset classes. The investments are material to the accounts (99% of the Statement of Net Assets) and therefore there is a risk of material misstatement.
- There is a risk of material misstatement relating to fair values of level 1 and 2 pooled investments, due to the estimation uncertainty resulting from the pricing of these investments.
- There is an elevated risk of material misstatement relating to fair values of level 3 pooled investments, due to the estimation uncertainty resulting from unobservable inputs to these investments.

Our response

- **Segregated financial instruments:** Our in-house investment team, iRADAR, were engaged to independently re-value the segregated securities and identify stale price issues of directly held financial instruments within the investment portfolio as well as any exposures to hard to value assets.
- **Pooled Investment Vehicles (Level 1 and 2):** We re-calculated the value of level 1 and 2 pooled investment vehicles using published pricing at the year end (where available), We also reconciled the closing unit holdings based on audited prior period position and purchases and sales transactions reported by the investment managers.
- **Pooled Investment Vehicles (Level 3):** For each Level 3 investment manager, we obtained the unaudited Net Asset Value ('NAV') Statement at (or closest to) the measurement date and vouched the valuation to this. For all of level 3 pooled investments vehicles, we further assessed the reliability of the NAV statement by:
  - Obtaining and inspecting the latest audited accounts for the underlying funds where available;
  - Inspecting the audit report to confirm that it is unqualified and that the audit has been carried out by a reputable audit firm; and
  - Comparing the unaudited pricing information at the year end to the audited accounts valuation. Where the audited accounts are not as at the Fund year end date, we agreed them to unaudited pricing information at that date and reconciled significant movements to the Fund year end date agreeing movements to quarterly NAV/transaction statements.

Audit risks and our audit approach (cont.)

3

Valuation of Level 1, 2 and other Level 3 investments is misstated

Our findings

Investment portfolio valuation summary

Detailed below is an analysis of investments by investment manager and by type of securities and details the pricing risks associated with each type of investment:

Fund manager	Classification	Economic exposure	Level 1 (£'m)	Level 2 (£'m)	Level 3 (£'m)
Baillie Gifford & Co	Directly held equities	Equity - UK quoted	50		
Baillie Gifford & Co	Directly held equities	Equity – Overseas quoted	261		
LGIM	Pooled Investment Vehicle (PIV)	Fixed Income Fund		161	
IFM	Pooled Investment Vehicle (PIV)	Infrastructure Fund			48
Barings	Pooled Investment Vehicle (PIV)	Private Debt Fund			45
Baillie Gifford & Co	Directly held cash	Cash & Deposits	4		
Total			315	161	93

We note the following as part of our work:

- The overall out of tolerance variance difference between the iRADAR valuation and reported valuation is £43.2k, which is not considered material for the purpose of our audit.
- The pooled funds held with LGIM are unit linked insurance policies and are not externally quoted. Our testing involved by reviewing news reports for any internal control issues, confirming that the fund managers are FCA registered and confirming that they would be willing to transact at the price quoted at the year end.
- We note that the mid price has been used rather than the bid price for the LGIM pooled funds, the difference is £(125k). This difference is not material.
- The net difference of the matters noted above is an overstatement of £81.8k of the net assets. .
- No other matters to note from our work over the valuation of the investments.

Audit risks and our audit approach (cont.)

4 Contributions into the Fund are not completely identified and recorded, do not exist or are not in compliance with the Regulations and the Fund’s Rates and Adjustments Schedule

Other risks

- Contributions into the Fund are not completely identified and recorded, do not exist or are not in compliance with the Regulations and the Fund’s Rates and Adjustments Schedule due to the volume of admitted bodies and scheduled bodies

Planned response

- We gained the understanding of the processes over the contribution payment arrangements between the admitted and scheduled bodies and administering authority, and also the effectiveness of the Fund’s contribution monitoring arrangements.
- As part of risk assessment procedures, we performed trend analysis over normal employee contributions and employer contributions to identify any unusual movements during the year.
- Our audit procedures over contributions included:
  - We inspected whether contributions from the administering authority and a selection of other bodies are received into the Fund on a timely basis in accordance with the Regulations and the Fund’s rates and adjustments schedule by vouching contributions received to employer returns and to bank statements;
  - We developed an expectation of the normal employer and employee contributions receivable in the year reflecting changes in active members in the year, increases in pensionable salary and any changes in the contributions rates in the year and compare these to actual employer and employee contributions received in the year; and
  - We inspected that there are 12 months of receipts in the year.

Our findings

We note that employer returns are provided by Orkney Ferries Limited and Pickaquoy Centre Trust and we have agreed the contributions to those employer returns. Employer returns are not provided for the other entities.

There are no matters arising from our work over this risk area.

Wider Scope

Wider Scope

Orkney Islands Council Pension Fund

The Code of Audit Practice (2021) refreshed the framework used to define the wider scope of public audit in Scotland. Under the previous 2016 Code, the wider scope was assessed across four audit dimensions: financial management, financial sustainability, governance and transparency, and value for money.

The 2021 Code no longer refers to these as audit dimensions but continues to focus on four key areas. While financial management and financial sustainability have been retained (with updated definitions), the remaining areas have been revised as follows:

- Governance and transparency has been replaced by Vision, Leadership and Governance.
- Value for Money has been replaced by Use of Resources to Improve Outcomes.

Accordingly, the wider scope of public audit under the Code of Audit Practice (2021) is assessed across the following four areas:

- Financial Management
- Financial Sustainability
- Vision, Leadership and Governance
- Use of Resources to Improve Outcomes

The following pages set out the results of our assessment against each of these areas.

Wider Scope

Orkney Islands Council Pension Fund

Financial Management

Scope

Financial management is concerned with financial capacity. and has a sound budgetary processes.

Audited bodies should understand the financial environment and whether internal controls are operating effectively; as well as having sound budgetary processes.

Areas of Focus

- the arrangements to ensure effective systems of internal control, to ensure public money is applied within the relevant financial rules;
- the effectiveness of the budget control system to communicate accurate and timely financial performance to meet the needs of the user.
- the accuracy and embeddedness of financial forecasting within financial management and financial reporting arrangements, including achievement of financial targets;
- the arrangements taken to link budget setting, savings plans to the priorities and risks of the Board;
- the capacity and skills of the Board's finance team.

In summary

- There is a clear budgetary process in place and monitoring against budget.
- The Committee members and the Finance team are provided with a clear training programme and attendance at training is monitored. A training plan is set annually.
- The Fund relies on the Council's arrangements for the prevention and detection of fraud and corruption.

Wider Scope

Orkney Islands Council Pension Fund

Financial Management

The Fund has appropriate and effective financial management arrangements in place

Orkney Islands Council is the administering authority for the Fund.

The Director of Enterprise and Resources has overall responsibility for the financial administration and governance of the Fund, including:

- the financial accounting of the Fund;
- the preparation of the Pension Fund Annual Report and Accounts; and
- acting as the principal adviser to the Council, in its capacity as Trustee and Administering Authority, on matters relating to the management of the Fund's investments.

Day-to-day investment management activities are administered by the Corporate Finance Team within the Enterprise and Resources.

Administration of the Scheme is carried out in-house and undertaken by the Payroll and Pensions section within Orkney Islands Enterprise and Resources and Infrastructure and Organisational Development., ensuring the efficient delivery of services and compliance with regulatory requirements.

The staff resources detailed above are supplemented by shared staff resources within the Enterprise and Resources and Infrastructure and Organisational Development. providing additional governance payments, investment, and accounting expertise. In addition, the Human Resources and Organisational Development section, within Orkney Islands Council's Strategy, Performance & Business Solutions Service also supports the work of the Pension section by arranging pre-retirement workshops for scheme members who are within two years of retirement.

Wider Scope

Orkney Islands Council Pension Fund

Financial Management

Effectiveness of the system of internal controls

The Pension Fund does not maintain a separate internal audit function; instead, internal audit services are provided by the Orkney Islands Council Internal Audit team, which conducts reviews and issues audit reports covering relevant Pension Fund activities.

Internal audits of the Fund administration and investment activities are undertaken on a cyclical basis, with resulting reports presented to the Monitoring and Audit Committee of the Council, as well as reporting to the Pensions Board and Pension Fund Sub-committee. The scope of each audit is agreed with Finance management before the annual audit plan is submitted to members for approval.

An internal audit was conducted during 2025/26 to consider the effectiveness and robustness of the procedures in place for the management of the pension fund assets. The work was concluded on 17 July 2025 and the audit opinion concluded that the framework of governance, risk management and control were found to be comprehensive and effective.

The scope of the internal audit covered the following:

- That funds are invested in accordance with statutory requirements and approved policy;
- Acquisitions and disposals are properly controlled and recorded;
- All income earned is received and properly recorded;
- Investment performance is reviewed; and
- Training provided to trustees.

Areas of good practice noted:

- Effective governance in place due to Sub-committee and policies.
- Training is regularly provided and monitored.
- Good attitude toward risk management with the risk register being regularly reviewed.
- Investment performance is monitored.
- Reconciliations are completed periodically.

There were no significant recommendations arising from the report.

Our audit procedures are substantive in nature and do not rely on the internal controls. In addition, our audit procedures did not extend to assessing whether public funds had been applied in accordance with all relevant financial regulations and policies, except in relation to contribution arrangements where specific audit consideration was performed

Wider Scope

Orkney Islands Council Pension Fund

Financial Management

Skills and capacity of the Board and the Finance Team

The financial management of the Fund is the responsibility of the Pension Fund Sub-committee and Pension Board. The administration of the Pension Fund is delivered in-house by the Payroll and Pensions Section of Orkney Islands Council. The Pensions Team comprises 3.7 full-time equivalent posts, including a Service Manager, a full-time Team Manager, two part-time Senior Assistants and an Administrative Assistant.

Training activity for the members of the Pension Fund Sub-committee and Pension Board was undertaken during the financial year 2025/2026, in accordance with the agreed training plan, to enable them to execute their role effectively.

In recognition of the complex and ever-changing environment of Local Government Pension Scheme finance, and specifically to address the governance requirements, the Chartered Institute of Public Finance and Accountancy Code of Practice on Public Sector Pensions Finance Knowledge and Skills has been adopted and accordingly training is provided to members and officers involved in Pension Fund financial matters. The training policy was approved in 2015/16 and is aligned to CIPFA's Knowledge and Skills Framework.

A log has been established of all training provided to members and this is monitored and reported as appropriate. The annual training plan for 2025/2026 was approved by the PSC at its meeting of 26 February 2026.

All members of the Pension Fund Sub-committee and the Pension Board have, over the 12-month period to 31 December 2025, achieved the minimum requirement of participation in at least one training event, or equivalent to five hours training.

The 2026 Training Plan has been formulated using a self assessment questionnaire identifying where members may benefit from further training and this will be built into the plan.

The Scheme is administered in-house by the Payroll and Pensions Section, which forms part of Orkney Islands Council's Enterprise and Resources.

The Corporate Finance Team also attend the training session provided to the Committee members, as well as representatives from this Team attending the quarterly Scottish LGPS Meetings and the annual LGPS Investment Seminar. This year all Committee members and staff members were asked to complete the self-assessment questionnaire to inform the training plan for 2025/26. In addition, all staff members complete all the mandatory training provided by the Council.

Wider Scope

Orkney Islands Council Pension Fund

Financial Management

Effectiveness of the budgetary control process

The establishment of an annual service budget in advance of the financial year forms a key component of the Pension Fund's governance framework. Budgetary performance is monitored through monthly reports prepared by officers and quarterly budget reports presented to the Pension Fund Sub-committee.

The budget encompasses four principal areas: Orkney Islands Council member benefits and contributions, admitted and scheduled body member benefits and contributions, pension administration costs, and investment-related activities.

On 4 March 2025, the Council set its overall revenue budget for financial year 2025/26. On 17 June 2025, the Policy and Resources Committee recommended approval of the detailed revenue budgets for 2025/26

The Head of Finance provides a **Revenue Expenditure Monitoring Report** at each committee meeting. Individual revenue expenditure monitoring reports are circulated every month to inform elected members of the up-to-date financial position. Quarterly revenue expenditure monitoring reports are presented to individual service committees.

In terms of revenue spending, at an individual cost centre level, budget holders are required to provide an explanation of the causes of each material variance and to identify appropriate corrective actions to remedy the situation.

Budget holders have access to their own budgets at all times through the finance system and are required to explain any material variances.

In addition, the Sub-Committee receives an annual **Revenue Expenditure Outturn** report, which includes a reconciliation between the budgetary outturn and the figures reported in the Pension Fund annual report and accounts.

We understand that no specific savings targets have been applied in recent years, reflecting the challenging economic environment and associated financial uncertainties.

Going forward we note that the 2026/27 draft budget was presented to the Pension Fund Sub-committee on 25 February 2026. The 2026/27 Pension Fund budget was developed using the 2025/26 baseline budget as a starting point and incorporates the following key assumptions:

- 3.8% increase in pension payments;
- 3.5% increase in salaries; and
- 3.5% increase in apportioned costs.

Wider Scope

Orkney Islands Council Pension Fund

Financial Management

Arrangements for prevention and detection of fraud and error

Effective counter-fraud and anti-corruption measures are in place and are maintained in line with the Code of Practice on Managing the Risk of Fraud and Corruption. These arrangements are supported by robust internal controls and security procedures, clear segregation of duties, supervisory checks of key calculations and comprehensive audit and monitoring activities.

Measures to mitigate the increasing risk of fraud and scams continue to be actively monitored and enhanced. Ongoing initiatives include targeted staff support, regular communication of emerging fraud risks and scam trends, and close oversight of transfer activity. These controls are further strengthened through a mandatory online fraud awareness training programme for all Finance staff.

The risk register specifically considers the risk of fraud by internal staff members and by the investment manager and has identified specific controls to mitigate the risk of fraud in these areas. The responsibility for monitoring these controls is the Head of Finance/Pensions Manager/Internal Audit and Pension Fund Sub-committee.

Risk awareness is embedded throughout the Fund's investment performance management framework, enabling effective oversight, ongoing monitoring and informed decision-making.

The Fund follows the Corporate Anti Fraud Policy (updated November 2024), which sets out the expectations of staff in relation to fraud. The policy is communicated to all employees, elected members and stakeholders.

In addition, the Fund follows the Council's Whistleblowing Policy and Procedure (April 2019).

Wider Scope

Orkney Islands Council Pension Fund

Financial Sustainability

Scope

Financial sustainability considers how the Fund is able to meet the needs of the present without compromising the ability of future generations to meet their own needs.

Areas of Focus

- Are arrangements in place to balance any short-term financial challenges and cashflow requirements and longer-term financial sustainability?
- Are investment decisions informed by clear business cases?
- Is it clear how investments will be funded and how success will be measured?
- Are the benefits of investment clearly articulated at the outset and how is success measured?

Our findings in summary:

- The Fund has several arrangements in place, in relation to financial sustainability, including a medium-term financial strategy, monitoring performance against the plan and reserves strategy.

Financial Sustainability

Financial planning arrangements

Funding policy

The funding policy is set out in the Administering Authority's Funding Strategy, detailing the key funding principles.

The Pension Fund is governed by the Local Government Pension Scheme (Scotland) Regulations. These include requirements for the preparation and production of several key policy documents including a Valuation Report, a Funding Strategy Statement and Statement of Investment Principles.

The latest **Statement of Investment Principles (SIP)** is dated November 2022. The SIP has been reviewed regularly since it was initially created in 2003 with the most recent version being approved by the Pension Fund Sub-committee in November 2022.

Triennial valuation and annual update

The Pension Fund prepares a triennial valuation looking forward and following each triennial valuation, the Pension Fund reviews and revises its funding strategy. The funding strategy is a summary of the Fund's approach to funding liabilities. The investment strategy outlines the types of investment to be held and the balances between the different types of investment.

The Actuary provides an **Annual Funding Statement** to monitor the financial position of the Fund against its liabilities and reports accordingly to the Pension Fund Sub-committee.

Investment decision making

The Pension Fund does not maintain a separate governance framework for decision-making, financial regulations or standing orders. Instead, it adopts and operates in accordance with the governance and financial management framework of Orkney Islands Council, acting in its capacity as the Fund's Administering Authority.

This framework sets out a comprehensive range of policies and procedures, including the roles and responsibilities of the Section 95 Officer, arrangements for reporting breaches of regulations, financial planning and administration requirements, budgetary control processes, and financial monitoring responsibilities.

Wider Scope

Orkney Islands Council Pension Fund

Financial Sustainability

An investment strategy has been in place and there have been no updates since October 2023; this will be updated following the forthcoming actuarial valuation.

Given the Fund's significant allocation to equities, relative investment performance against the benchmark may be subject to short-term volatility. However, the Fund remains in a strong funding position and continues to benefit from positive net cash inflows from member and employer contributions. This financial strength enables the Fund to maintain a long-term investment perspective and to manage its investment strategy effectively across multiple market cycles.

Investment Funding and performance monitoring

Funding update

The results of the 2023 full triennial valuation of the Orkney Islands Council Pension Fund as at 31 March 2023 showed a funding level of 164%, an improvement over the 2020 level of 118%; the surplus at this time was £188m. This meant that, overall, the Fund had a surplus of assets over liabilities and that the fund assets were sufficient to meet 164% of its liabilities.

The Fund receives an annual Funding Update Report from the Actuary and at 31 March 2026 this shows a funding level of 175% with a surplus of £244m; this uses the same base as the triennial funding valuation, rolled forward to take account of changes in membership and updated assumptions.

The Actuary also provided an Actuarial Statement for 2025/26 which considers the Fund's compliance with Regulation 55(1)(d) of the Local Government Pension Scheme (Scotland) Regulations 2013. The policy is set out in the Administering Authority's Funding Strategy Statement (FSS), dated October 2023. The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable.

The next actuarial valuation will be carried out as at 31 March 2026 and will be finalised by 31 March 2027. The FSS will also be reviewed during the valuation, and a revised version will come into effect from 1 April 2027.

Responsible Investment

On 28 February 2024, the Pension Fund Sub-committee approved a Responsible Investment Policy (January 2024), to define beliefs for Responsible Investment and to integrate Environmental, Social and Governance considerations into investment management processes and practices.

Hymans Robertson were appointed during the year to provide a Climate Transition Action Plan which was presented to Pension Fund Sub-committee on 19 February 2025. It sets out the current position, the targets set by the Committee, as well as the detail on the approaches that will be taken to support their net zero ambition by 2050.

Wider Scope

Orkney Islands Council Pension Fund

Financial Sustainability

Contribution income

Employee contributions are determined by the Scottish Government, and the guidance is updated annually and applies to active members of the Local Government Pension Scheme (LGPS)

Following the triennial valuation in 2023, the Actuary assessed the contributions that should be paid into the Fund by participating employers for the period 1 April 2024 to 31 March 2027 to maintain the solvency of the Fund. According to **Rates and Adjustments Certificate (March 2024)** the contribution rate is 15% from 2024/25 to 2026/27.

The employer contribution rate will be considered again following the next actuarial valuation as at 31 March 2026.

Cash flows

Cash flows from dealings with members continue to be negative because the amount paid out in benefits exceed the contributions received in year.

The continued growth in pensioner numbers within the Fund's membership makes funding pension payments increasingly challenging. The Fund has considered this as part of its investment strategy and is further diversifying its investment structure to increase investment in income generating assets.

Membership update

Membership of the Fund increased by 422 to 5,199 members at 31 March 2026; an increase in membership of 1.98%. The impact of auto-enrolment continues to contribute to the increase in employee members.

During 2025-26, the number of pensioners (including dependents) receiving a pension from Orkney Islands Council Pension Fund increased by 287 members and the number of pensioner members continues to increase steadily each year. The number of active members continues to outweigh the number of pensioners but the ratio of active members to pensioners has reduced over the past five years.

.

Wider Scope

Orkney Islands Council Pension Fund

Financial Sustainability

Investment – benefits and performance

At each quarterly meeting, the Head of Finance presents a Statement of Managed Funds report. The performance of the Pension Fund investments, which are managed by appointed external fund managers, is measured over a rolling five-year period with a target to outperform the aggregate benchmark.

The performance of the Pension Fund managed investment funds is measured against a range of indices reflecting the weighting or concentration of individual asset classes within the approved investment strategy.

It is supported by reports from Hymans Robertson. This is supplemented by quarterly reporting from the investment managers (where available).

The investment strategy (as mentioned in the statement of investment principles) of the Fund is to invest monies in a prudent and diversified manner, in accordance with the Fund regulations and in recognition of the inherent risks that accompany any investment in the respective asset classes.

The revised asset allocation and range guidelines have been regularly reviewed with the most recent review in February 2024. The agreed interim and long-term target allocations are shown in the Asset Allocation table below together with the actual asset allocation at 31 March 2026:

	Asset allocation at 31/03/2026	Range	Revised Long-Term target
	%	%	%
Growth	54.6	46.0 – 56.0	50.0
Income	16.3	00.0 – 12.5	20.0
Protection	29.1	02.5 – 12.5	30.0
Overall	**100.0**		**100.0**

Source: Orkney Islands Council Pension Fund 2025/26 unaudited annual report and accounts

KPMG

Wider Scope

Orkney Islands Council Pension Fund

Vision, Leadership and Governance

Scope

Audited bodies must have a clear vision and strategy and set priorities for improvement within this vision and strategy. They work together with partners and communities to improve outcomes and foster a culture of innovation.

Areas of Focus

- the vision and strategy of the Pension Fund Sub-committee, to ensure it includes a clear set of priorities which reflects the pace and depth of improvement that is needed to realise the Pension Fund's priorities and long-term sustainability of services to meet the needs of the members
- the governance arrangements are appropriate and operating.
- assess the evidence that demonstrates leaders are adaptive to the changing environment
- the culture of the Board and how it operates with partners to understand their roles and responsibilities to help deliver the priorities of all partners.

In summary we note that

- The framework of governance, risk management and control were found to be comprehensive and effective.
- the Pension Fund has effective strategic planning in place
- Governance arrangements are appropriate and operated effectively; and
- Arrangements are in place in relation to security, challenge and transparency

Wider Scope

Orkney Islands Council Pension Fund

Vision, Leadership and Governance

Governance arrangements

Orkney Islands Council acts as the Administering Authority for the Orkney Islands Council Pension Fund and is responsible for ensuring that the Fund's affairs are conducted in accordance with applicable legislation, regulations, and recognised standards of good governance. This includes safeguarding public funds, ensuring proper stewardship of resources, and promoting economy, efficiency, and effectiveness in the use of public money. The Council also has a statutory duty under the Local Government in Scotland Act 2003 to secure Best Value in the delivery of its functions.

The Council has established an appropriate governance framework, supported by management and reporting arrangements designed to provide assurance that corporate governance arrangements operate effectively in practice. These arrangements include access to specialist advice on governance matters, the provision of training to members of the Pension Fund Sub-committee and Pension Board, the maintenance of robust administrative and financial records, and effective controls and procedures to support the governance of the Fund.

The Council has established a **Local Code of Corporate Governance**, adopted on 10 October 2017 and revised and approved on 4 October 2022 and again in April 2026, which clearly sets out the governance framework, noting the Council's Good Governance Principles. It is aligned with the principles of the CIPFA/SOLACE *Delivering Good Governance in Local Government framework*. In addition, the Council's financial management arrangements are consistent with the governance requirements set out in CIPFA's Statement on the Role of the *Chief Financial Officer in Local Government.*

Orkney Islands Council, as the administering authority, has delegated responsibility for the governance of the Fund to the Pension Fund Sub-committee. The Pension Fund Sub-committee is supported by the Pension Board, which operates in accordance with relevant legislation and the requirements of The Pensions Regulator.

The **Scheme of Administration** document has been updated on several occasions; most recently in November 2025. It sets out the terms of reference of the business of the Council, its Committees and Sub-committees, as well as defining the decisions which Committees and Sub-committees can make without any further reference to Committees or the Council.

The Fund's basis of conduct of the financial affairs of the Fund is set out in the Council's **Financial Regulations (June 2024),** which are subject to periodic review and update. Investments are managed in line with the Fund's **Investment Strategy Statement**.

The governance arrangements are reviewed regularly to ensure that they remain appropriate as the Fund changes and takes account of any changes in the regulatory framework in which it operates.

Wider Scope

Orkney Islands Council Pension Fund

Vision, Leadership and Governance

Pension Board and Pension Fund Sub-committee

Responsibility for the management of the Fund's investments has been delegated to the Pension Fund Sub-committee, which fulfils the role of Scheme Manager.

The Council has also established a Pension Board to assist the Scheme Manager in ensuring compliance with the Local Government Pension Scheme Regulations and the requirements of The Pensions Regulator.

A Terms of Reference is in place for the Pension Board, defining its role in supporting the Scheme Manager with regulatory compliance, governance, and oversight in accordance with the Local Government Pension Scheme (Scotland) Regulations 2014. It also outlines the Board's membership structure, meeting arrangements, dispute resolution process, training requirements, and access to information, ensuring effective governance and transparent oversight of the Pension Fund.

In line with scheme regulations, Pension Fund Sub-committee and Pension Board, met concurrently on six occasions during 2025/2026.

Wider Scope

Orkney Islands Council Pension Fund

Vision, Leadership and Governance

Annual Governance Compliance Statement

The **Annual Governance Statement**, as well as the **Governance Compliance Statement** is set out in the annual accounts

The Council's annual review of the effectiveness of its governance framework has not identified any significant governance deficiencies or control weaknesses within the Fund's governance arrangements, as reported in the draft annual report and accounts.

Risk Management

The Fund's Risk Register was last reviewed and updated at the concurrent meetings of the Pension Fund Sub-committee together with the Pension Board on 26 February 2026.

The risk register incorporates a risk matrix to clearly demonstrate the Pension Fund's current threats relative to the individual risks anticipated, and a summary and prioritisation of risks to indicate the descriptive risks ranking.

Regular review of the risk register ensures that it is up to date and fit for purpose in a changing regulatory environment.

Wider Scope

Orkney Islands Council Pension Fund

Vision, Leadership and Governance

Interaction with partners and advisers

The basis of communications arrangements with other advisers is set out in those terms of engagement with those advisers such as the investment managers, custodian, actuary and investment advisers.

The partners refers to members and admitted bodies and members of the Pension Fund.

The Fund has an external website that helps members understand its governance and operation; how it is run including multiple standard tools such lump sum calculator, contribution calculator, annual allowance details etc. In addition, annual benefit statements are shared with them, and the Annual Report and Accounts along with the pension fund newsletter are available on the website.

In line with scheme regulations, Pension Fund Sub-committee and Pension Board met concurrently on four occasions during 2025/2026 These meetings are recorded and available for stakeholders on the Council website, providing transparency over the matters of the Fund.

There are union representatives and employer representatives at all committee meetings.

Information in the Annual Accounts

In addition, the Annual Report and Accounts include a Management Commentary, which provides stakeholders with an overview of the Fund’s objectives, activities, financial performance, and key risks. The commentary is intended to present a fair, balanced, and understandable assessment of the Fund’s performance and financial position, thereby enhancing the transparency and accessibility of the annual report and accounts.

We found the 2025/26 Management Commentary to be of a high standard. It is clearly written, stakeholder focused, and effectively explains complex matters in an accessible manner, supporting transparency and accountability in financial reporting.

The Annual Report and Accounts also include information on the performance of both the Pension Administration Team and the Fund’s investment managers, providing stakeholders with a comprehensive overview of operational and investment outcomes. Furthermore, the report contains an Annual Governance Statement, which outlines the Fund’s governance framework and the processes in place to maintain effective oversight and control.

Wider Scope

Orkney Islands Council Pension Fund

Vision, Leadership and Governance

The Pensions Regulator's General Code of Practice

In March 2024, the Pensions Regulator combined various codes of practice into a single General Code of Practice which is applicable to most public and private occupational pension schemes, including the LGPS. There are elements of the code which do not apply to the LGPS and not all requirements carry the same weight. Administering Authorities of LGPS funds must comply with the sections relevant to them.

The five main areas of the Code include:

- Administration.
- Funding and Investment.
- Governing Bodies.
- Communication and Disclosure.
- Reporting to The Pensions Regulator.

In October 2025, the Fund prepared a General Code of Practice – Assessment Summary, which considered how the Fund officers view compliance with the Code.

The report was broken down into each specific area of the Code and clearly noted:

- Risk rating for each requirement – fully met, partially met or not completed
- The evidence taken into account when assessing compliance
- The owner of that particular strand
- The steps which need to be taken to ensure compliance or continued compliance
- The suggested immediate actions

An initial assessment against the Code was carried out in 2024, with the above follow up in 2025. It si planned to annually review compliance against the code.

.

Wider Scope

Orkney Islands Council Pension Fund

Use of Resources to Improve Outcomes

Scope

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.

Areas of Focus

- The arrangements in place to demonstrate that there is a clear link between money spent and outputs and the outcomes delivered
- The arrangements to evaluate service delivery and quality and whether the user needs and views are included in any such evaluation

.

In Summary we note:

The Pension Fund Sub-committee

- meets on a quarterly basis and receives regular reports on both fund administration and investment performance.
- Monitors administration performance against targets.
- Monitors financial performance against targets and other benchmarks.
- Use advisers in decision making; and
- Evaluates investment managers' performances

Wider Scope

Orkney Islands Council Pension Fund

Use of Resources to Improve Outcomes

Orkney Islands Council act as administering authority for the Fund.

Arrangements in place to evaluate service delivery

The Local Government Pension Scheme (Scotland) Regulations 2018 state that an administering authority may prepare a written pension administration strategy, setting out:

- The roles and responsibilities of the administering authority and scheme employers.
- Performance levels which the administering authority and scheme employers are expected to achieve in carrying out their functions.

The Pensions Administration Strategy (October 2023) document outlines key objectives of the Council as the administering body for the Fund, as well as setting performance standards for both the Council and its Employer as administering authority and the Admitted Bodies. The document sets out the roles and responsibilities of both the Administering Authority and Fund Employers. The administration strategy includes several key tasks which are benchmarked against expected timescales, with the results included in the Pension Fund Accounts.

The Pension Fund Sub-committee meets on a quarterly basis and receives a Pensions Administration Performance Report biannually. This is prepared by the Head of Finance; it covers fund administration, in particular employer contributions, auto enrolment, administrative performance, voluntary severance and early retirement payments and Fund membership.

Service level standards for the Administering Authority's performance are based on national Performance Indicators

Performance measurement for pensions administration includes both member experience and statutory compliance.

Appendices

Appendix 1

Mandatory communications

Type		Statement
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 2026.
Adjusted audit differences		There were no adjusted audit differences.
Unadjusted audit differences		There were no unadjusted audit adjustments to note.
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 Pension Board		There were no matters to report arising from the audit that, in our professional judgement, are significant to the oversight of the financial reporting process.
Control deficiencies		We communicated to management in writing all deficiencies in internal control over financial reporting of a lesser magnitude than significant deficiencies identified during the audit that had not previously been communicated in writing. See Appendix 6 for current year control observations and Appendix 7 for prior year control observations.
Actual or suspected fraud, noncompliance with laws or regulations or illegal acts		No actual or suspected fraud involving management, employees with significant roles in internal control, or where fraud results in a material misstatement in the accounts was identified during the audit.
Significant difficulties		No significant difficulties were encountered during the audit.
Modifications to auditor's report		None.

Appendix 1

Mandatory communications (cont.)

Type		Statement
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		Our opinion on the annual accounts does not cover the other information and we do not express any form of assurance conclusion thereon except on the Management Commentary, Annual Governance Statement and Governance Compliance Statement to the extent explicitly stated in the following opinions prescribed by the Accounts Commission.
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 Orkney Islands Council Pension Fund's accounting policies, accounting estimates and annual disclosures. In general, we believe these are appropriate.
Significant matters discussed or subject to correspondence with management		The were no significant matters arising from the audit that were discussed, or subject to correspondence with management.

Appendix 2

Draft auditor's report

Independent auditor's report to the members of Orkney Islands Council as administering authority for the Orkney Islands Council Pension Fund and the Accounts Commission

Reporting on the audit of the annual accounts

Opinion on annual accounts

We certify that we have audited the annual accounts in the Annual Report and Accounts of the Orkney Islands Council Pension Fund (the "Fund") for the year ended 31 March 2026 under Part VII of the Local Government (Scotland) Act 1973. The annual accounts comprise the Pension Fund Account, the Net Assets Statement, and notes to the annual accounts, including a summary of significant accounting policies. 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 2025/26 (the "2025/26 Code").

In our opinion the accompanying annual accounts:

- give a true and fair view of the financial transactions of the Fund during the year ended 31 March 2026 and of the amount and disposition at that date of its assets and liabilities;
- have been properly prepared in accordance with UK adopted international accounting standards, as interpreted and adapted by the 2025/26 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 annual accounts 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 Fund in accordance with the ethical requirements that are relevant to our audit of the annual accounts 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 Orkney Islands Council as administering authority for the Fund. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Appendix 2

Draft auditor's report (cont.)

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 annual accounts 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 Fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from when the annual accounts are authorised for issue.

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

Risks of material misstatement

We report on page x the most significant assessed risks of material misstatement that we identified and our judgements thereon.

Responsibilities of the Director of Enterprise and Resources and Orkney Islands Council Pension Fund Sub-committee for the annual accounts

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

In preparing the annual accounts, the Director of Enterprise and Resources is responsible for assessing the Fund'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 Fund's operations.

The Orkney Islands Council Pension Fund Sub-committee is responsible for overseeing the financial reporting process.

Auditor's responsibilities for the audit of the annual accounts

Our objectives are to obtain reasonable assurance about whether the annual accounts 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 annual accounts.

Appendix 2

Draft auditor's report (cont.)

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, the Local Government in Scotland Act 2003, and The Local Government Pension Scheme (Scotland) Regulations 2018 as amended are significant in the context of the Fund;
- inquiring of the Director of Enterprise and Resources as to other laws or regulations that may be expected to have a fundamental effect on the operations of the Fund;
- inquiring of the Director of Enterprise and Resources concerning the Fund's policies and procedures regarding compliance with the applicable legal and regulatory framework;
- discussions among our audit team on the susceptibility of the annual accounts 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 Fund'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 annual accounts 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

Other information

The Director of Enterprise and Resources is responsible for the other information in the Annual Report and Accounts. The other information comprises the information included in the Annual Report and Accounts other than the annual accounts and our auditor's report.

Appendix 2

Draft auditor's report (cont.)

Our responsibility is to read all the other information and, in doing so, consider whether the other information is materially inconsistent with the annual accounts 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 annual accounts 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 annual accounts does not cover the other information and we do not express any form of assurance conclusion thereon except on the Management Commentary, Annual Governance Statement and Governance Compliance 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, Annual Governance Statement and Governance Compliance 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 annual accounts are prepared is consistent with the annual accounts and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003;
- the information given in the Annual Governance Statement for the financial year for which the annual accounts are prepared is consistent with the annual accounts and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016); and
- the information given in the Governance Compliance Statement for the financial year for which the annual accounts are prepared is consistent with the annual accounts and that report has been prepared in accordance with The Local Government Pension Scheme (Scotland) Regulations 2018.

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 annual accounts 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 report, our conclusions on the wider scope responsibilities specified in the Code of Audit Practice are set out from page x to x.

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.

Julie Radcliffe,

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

1 St Peter's Square

Manchester

M2 3AE

DATE

Appendix 3

Draft letter of representation

KPMG LLP
1 St Peter's Square
Manchester
M2 3AE

Dear Julie

This representation letter is provided in connection with your audit of the Pension Fund annual accounts of Orkney Islands Council Pension Fund ("the Pension Fund"), for the year ended 31 March 2026, for the purpose of expressing an opinion:

- as to whether these annual accounts give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2026 and of the amount and disposition at that date of its assets and liabilities.
- whether the Pension Fund's annual accounts have been properly prepared in accordance with the UK adopted international accounting standards, as interpreted, and adapted by the 2025/26 Code; and
- whether the annual accounts 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 annual accounts comprise the Pension Fund account, the Net Assets Statement and the related notes to the annual accounts, comprising material accounting policies and other explanatory information.

The Pension Fund confirms that the representations it makes in this letter are in accordance with the definitions set out in the Appendix to this letter.

The Pension Fund confirms that, to the best of its knowledge and belief, having made such inquiries as it is considered necessary for the purpose of appropriately informing itself.

Appendix 3

Draft letter of representation (cont.)

Annual Accounts

The Pension Fund has fulfilled its responsibilities, as set out in the terms of the audit engagement letter dated 18 May 2022, for the preparation of annual accounts that:

- give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2026 and of the amount and disposition at that date of its assets and liabilities
- have been properly prepared in accordance with UK adopted international accounting standards, as interpreted, and adapted by the 2025/26 Code; and
- have been properly prepared in accordance with the requirement of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

The annual accounts have been prepared on a going concern basis.

The methods, the data and the significant assumptions used 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.

All events subsequent to the date of the annual accounts and for which IAS 10 Events after the reporting period requires adjustment or disclosure have been adjusted or disclosed.

Information provided

The Pension Fund has provided you with:

- access to all information of which it is aware, that is relevant to the preparation of the annual accounts, such as records, documentation and other matters;
- additional information that you have requested from the Pension Fund for the purpose of the audit; and
- unrestricted access to persons within the Pension Fund from whom you determined it necessary to obtain audit evidence.

All transactions have been recorded in the accounting records and are reflected in the annual accounts.

Appendix 3

Draft letter of representation (cont.)

The Pension Fund confirms the following:

The Pension Fund has disclosed to you the results of its assessment of the risk that the annual accounts may be materially misstated as a result of fraud.

Included in the Appendix to this letter are the definitions of fraud, including misstatements arising from fraudulent financial reporting and from misappropriation of assets.

The Pension Fund has disclosed to you all information in relation to:

There have been no instances of fraud or suspected fraud that the Pension Fund is aware of and that affect the Pension Fund and involves:

- management;
- members;
- employees who have significant roles in internal control; or
- others where the fraud could have a material effect on the annual accounts; and

There have been no allegations of fraud, or suspected fraud, affecting the Pension Fund's annual accounts communicated by employees, former employees, members, analysts, regulators or others.

In respect of the above, the Pension Fund acknowledges its responsibility for such internal control as it determines necessary for the preparation of annual accounts that are free from material misstatement, whether due to fraud or error. In particular, the Pension Fund acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error, and we believe we have appropriately fulfilled those responsibilities.

The Pension Fund has 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 annual accounts.

The Pension Fund has disclosed to you and has appropriately accounted for and/or disclosed in the annual accounts, 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 annual accounts.

The Pension Fund has disclosed to you the identity of the Pension Fund's related parties and all the related party relationships and transactions of which it is 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 we understand them and as defined in IAS 24 and the Code of Practice on Local Authority Accounting in the United Kingdom 2025/26.

Appendix 3

Draft letter of representation (cont.)

The Pension Fund confirms that:

- The annual accounts disclose all of the matters that are relevant to the Pension Fund's ability to continue as a going concern, including the key risk factors, assumptions made and uncertainties surrounding the Pension Fund'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 uncertainties related to events or conditions exist that may cast significant doubt upon the ability of the Pension Fund to continue as a going concern.

On the basis of the process established by the Pension Fund and having made appropriate enquiries, the Pension Fund is satisfied that the actuarial assumptions underlying the valuation of defined benefit obligations are consistent with its knowledge of the business and are in accordance with the requirements of IAS 26 Accounting and Reporting by Retirement Benefit Plans.

This letter was tabled and agreed at the meeting of the Pension Fund Sub-committee on

DATE

Yours faithfully,

Gareth Waterson, BAcc, CA

Section 95 Officer

DATE

Appendix 3

Draft letter of representation (cont.)

Appendix to the Pension Fund Representation Letter of Orkney Islands Council Pension Fund: Definitions

Annual Accounts

A complete set of annual accounts comprises:

- Pension Fund Account;
- Net Assets Statement;
- Notes, comprising a summary of significant accounting policies and other explanatory information.

A pension fund administering authority must prepare Pension Fund accounts in accordance with Chapter 6.5 of the Code of Practice.

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:

"Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

Materiality depends on the nature or magnitude of information, or both. An entity assesses whether information, either individually or in combination with other information, is material in the context of its financial statements taken as a whole.

Information is obscured if it is communicated in a way that would have a similar effect for primary users of financial statements to omitting or misstating that information. The following are examples of circumstances that may result in material information being obscured:

- information regarding a material item, transaction or other event is disclosed in the financial statements but the language used is vague or unclear;
- information regarding a material item, transaction or other event is scattered throughout the financial statements;
- dissimilar items, transactions or other events are inappropriately aggregated;
- similar items, transactions or other events are inappropriately disaggregated; and
- the understandability of financial statements is reduced as a result of material information being hidden by immaterial information to the extent that a primary user is unable to determine what information is material.

Assessing whether information could reasonably be expected to influence decisions made by the primary users of a specific reporting entity's general purpose financial statements requires an entity to consider the characteristics of those users while also considering the entity's own circumstances.

Many existing and potential investors, lenders and other creditors cannot require reporting entities to provide information directly to them and must rely on general purpose financial statements for much of the financial information they need. Consequently, they are the primary users to whom general purpose financial statements are directed. Financial statements are prepared for users who have a reasonable knowledge of business and economic activities and who review and analyse the information diligently. At times, even well-informed and diligent users may need to seek the aid of an adviser to understand information about complex economic phenomena."

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; and
- 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".

personnel of the reporting entity or of a parent of the reporting entity.

Appendix 3

Draft letter of representation (cont.)

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").

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

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 (a).
- A person identified in (a)(i) 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 a price is charged.

Appendix 4

Confirmation of Independence

We confirm that, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and that the objectivity of the Director and audit staff is not impaired.

To the Pensions Board and Pension Fund Sub-committee

Assessment of our objectivity and independence as auditor of the Orkney Islands Council Pension Fund

Professional ethical standards require us to provide to you at the planning stage 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 ethics and independence policies, all KPMG LLP partners/directors 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.

Appendix 4

Confirmation of Independence (cont.)

Summary of Fees

	2025/26
	£'000
Auditor Remuneration	46.9
Pooled cost	1.6
Sectoral cap adjustment	(20.5)
TOTAL	28.0

Confirmation of audit independence

We confirm that as of the date of this letter, in our professional judgement, 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 Pensions Board and Pension Fund Sub-committee 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

Appendix 5

Significant audit misstatements

Under UK auditing standards (ISA (UK) 260) we are required to provide the Pension Board 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 annual report and accounts. In line with ISA (UK) 450 we request that you correct uncorrected misstatements. However, they will have no effect on the opinion in our auditor's report, individually or in aggregate. As communicated previously with the Pension Board, details of all adjustments greater than £285K are noted below

We note that there are no significant corrected misstatements

There are no unadjusted audit differences.

Types of misstatement

Factual: Misstatements about which there is no doubt

Projected: Our best estimate of misstatements in the audited populations

Judgemental: Differences arising from judgements of management that we consider unreasonable or inappropriate

Appendix 6

Detailed status report on prior year control deficiencies

Matter previously raised	Status Current Year	Remaining issues
Membership reconciliation (Priority two - 2023)	Amber	Steps have been taken to reconcile members numbers and full membership reconciliation is prepared to identify the members' movements during the year. However, no reconciliation is prepared to reconcile the active and pensioner members to payroll records and explain any differences. The risk of incorrect membership data is minimised. This issue remains in current year.
Climate Strategy (Priority two - 2024)	Green	The Fund has implemented and approved a formal Responsible Investment Policy, which includes specific provisions relating to the consideration, management and monitoring of climate-related risks and opportunities. As a result, this point has now been closed.
Nominal Ledger headings for Baillie Gifford portfolio (Priority two – 2025)	Green	Whilst no separate nominal code has been set up, the movement in the investments table has been correctly accounted for and does not impact on the current year's annual accounts. As a result, this point has now been closed.

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.

Note:

- Red: Little or no change.
- Amber: Some action taken but not fully implemented.
- Green: Satisfactorily dealt with.

Appendix 7

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 partner 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

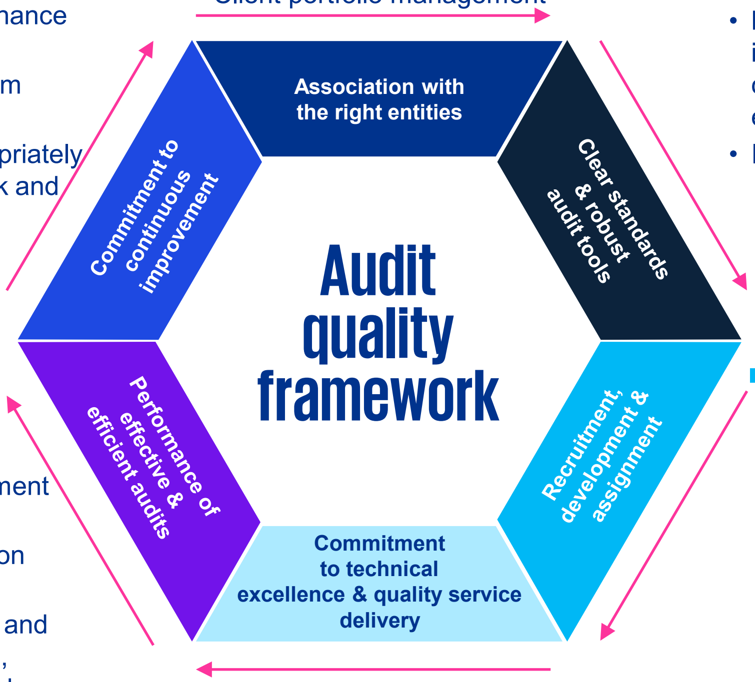
- Comprehensive effective monitoring processes
- Significant investment in technology to achieve consistency and enhance audits
- Obtain feedback from key stakeholders
- Evaluate and appropriately respond to feedback and findings

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



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 conclusion s
- Insightful, open and honest two way communications

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

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

Appendix 8

ISA (UK) 240 Revised: changes embedded in our practices

Ongoing impact of the revisions to ISA (UK) 240

ISA (UK) 240 (revised May 2021, effective for periods commencing on or after 15 December 2021*)* *The auditor's responsibilities relating to fraud in an audit of financial statements* included revisions introduced to clarify the auditor's obligations with respect to fraud and enhance the quality of audit work performed in this area. These changes are embedded into our practices and we will continue to maintain an increased focus on applying professional scepticism in our audit approach and to plan and perform the audit in a manner that is not biased towards obtaining evidence that may be corroborative, or towards excluding evidence that may be contradictory.

We will communicate, unless prohibited by law or regulation, with those charged with governance any matters related to fraud that are, in our judgement, relevant to their responsibilities. In doing so, we will consider the matters, if any, to communicate regarding management's process for identifying and responding to the risks of fraud in the entity and our assessment of the risks of material misstatement due to fraud.

Matters related to fraud that are, in our judgement, relevant to the responsibilities of Those Charged with Governance

Our assessment of the risks of material misstatement due to fraud may be found on page 7. We also considered the following matters required by ISA (UK) 240 (revised May 2021, effective for periods commencing on or after 15 December 2021) *The auditor's responsibilities relating to fraud in an audit of financial statements* , to communicate regarding management's process for identifying and responding to the risks of fraud in the entity and our assessment of the risks of material misstatement due to fraud:

- Concerns about the nature, extent and frequency of management's assessments of the controls in place to prevent and detect fraud and of the risk that the financial statements may be misstated.
- A failure by management to address appropriately the identified significant deficiencies in internal control, or to respond appropriately to an identified fraud.
- Our evaluation of the entity's control environment, including questions regarding the competence and integrity of management.
- Actions by management that may be indicative of fraudulent financial reporting, such as management's selection and application of accounting policies that may be indicative of management's effort to manage earnings in order to deceive financial statement users by influencing their perceptions as to the entity's performance and profitability.
- Concerns about the adequacy and completeness of the authorisation of transactions that appear to be outside the normal course of business.

Based on our assessment, we have no matters to report to Those Charged with Governance.

Appendix 9

Audit quality, evidence & the timeline of completion activities

Audit quality is at the core of everything we do – the quality and timeliness of information received from management and those charged with governance also affects audit quality.

The timeline on this page is for illustration only and shows the timing of our completion activities around the signing of the audit opinion. We depend on well planned timing of our audit work to avoid compromising the quality of the audit. We aim to complete all audit work no later than 2 days before audit signing.

Weeks before signing Audit Opinion	-3 weeks	-2 weeks			-1 week		Completion week			Teams involved in the process
Individual day's activities		Day 1	Day 3	Day 5	Day 1	Day 5	Day 1	Day 3	Day 5	
Final audit fieldwork										Audit Team
Review significant risk audit areas and challenge work performed										RI
Review of Pension Fund Sub-committee and Pension Board reporting and draft accounts										RI
KPMG reporting issued to the Pension Fund Sub-committee and Pension Board				♦						Audit Team
Final Pension Fund Sub-committee meeting						♦				Audit Team
Final audit field work completed and signed off								♦		Audit Team
Stand-Back review								♦		Audit Team
Ensure all points raised are cleared								♦		RI

Key:

- ♦ One day activity
- Activity over a period of time
- Year end
- Signing date of the Audit Report

Some or all of the services described herein may not be permissible for KPMG audited entities and their affiliates or related entities.

kpmg.com/uk

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

Document Classification: KPMG Confidential

Appendix 2

ENTERPRISE & RESOURCES

Director: Gareth O Waterson BAcc CA
Council Offices, Kirkwall, Orkney, KW15 1NY

Tel: (01856) 873535 Website: www.orkney.gov.uk
Email: accountancy@orkney.gov.uk

ORKNEY
ISLANDS COUNCIL

KPMG LLP
1 St Peter's Square
Manchester
M2 3AE

16 September 2026

Dear Julie

This representation letter is provided in connection with your audit of the Pension Fund annual accounts of Orkney Islands Council Pension Fund ("the Pension Fund"), for the year ended 31 March 2026, for the purpose of expressing an opinion:

i. as to whether these annual accounts give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2026 and of the amount and disposition at that date of its assets and liabilities.
ii. whether the Pension Fund's annual accounts have been properly prepared in accordance with the UK adopted international accounting standards, as interpreted, and adapted by the 2025/26 Code; and
iii. whether the annual accounts 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 annual accounts comprise the Pension Fund account, the Net Assets Statement and the related notes to the annual accounts, comprising material accounting policies and other explanatory information.

The Pension Fund confirms that the representations it makes in this letter are in accordance with the definitions set out in the Appendix to this letter.

The Pension Fund confirms that, to the best of its knowledge and belief, having made such inquiries as it is considered necessary for the purpose of appropriately informing itself:

Annual Accounts

1. The Pension Fund has fulfilled its responsibilities, as set out in the terms of the audit engagement letter dated 18 May 2022, for the preparation of annual accounts that:

   i. give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2026 and of the amount and disposition at that date of its assets and liabilities
   ii. have been properly prepared in accordance with UK adopted international accounting standards, as interpreted, and adapted by the 2025/26 Code; and
   iii. have been properly prepared in accordance with the requirement of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

   The annual accounts have been prepared on a going concern basis.

2. The methods, the data and the significant assumptions used 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 annual accounts and for which IAS 10 *Events after the reporting period* requires adjustment or disclosure have been adjusted or disclosed.

Information provided

4. The Pension Fund has provided you with:

   - access to all information of which it is aware, that is relevant to the preparation of the annual accounts, such as records, documentation and other matters;
   - additional information that you have requested from the Pension Fund for the purpose of the audit; and
   - unrestricted access to persons within the Pension Fund from whom you determined it necessary to obtain audit evidence.

5. All transactions have been recorded in the accounting records and are reflected in the annual accounts.

6. The Pension Fund confirms the following:

   The Pension Fund has disclosed to you the results of its assessment of the risk that the annual accounts may be materially misstated as a result of fraud.

   Included in the Appendix to this letter are the definitions of fraud, including misstatements arising from fraudulent financial reporting and from misappropriation of assets.

7. The Pension Fund has disclosed to you all information in relation to:

   a) There have been no instances of fraud or suspected fraud that the Pension Fund is aware of and that affect the Pension Fund and involves:
      - management;
      - members;
      - employees who have significant roles in internal control; or
      - others where the fraud could have a material effect on the annual accounts; and

   b) There have been no allegations of fraud, or suspected fraud, affecting the Pension Fund's annual accounts communicated by employees, former employees, members, analysts, regulators or others.

   In respect of the above, the Pension Fund acknowledges its responsibility for such internal control as it determines necessary for the preparation of annual accounts that are free from material misstatement, whether due to fraud or error. In particular, the Pension Fund acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error, and we believe we have appropriately fulfilled those responsibilities.

8. The Pension Fund has 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 annual accounts.

9. The Pension Fund has disclosed to you and has appropriately accounted for and/or disclosed in the annual accounts, 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 annual accounts.

10. The Pension Fund has disclosed to you the identity of the Pension Fund's related parties and all the related party relationships and transactions of which it is 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 we understand them and as defined in IAS 24 and the Code of Practice on Local Authority Accounting in the United Kingdom 2025/26.

11. The Pension Fund confirms that:

a) The annual accounts disclose all of the matters that are relevant to the Pension Fund's ability to continue as a going concern, including the key risk factors, assumptions made and uncertainties surrounding the Pension Fund'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.
b) No material uncertainties related to events or conditions exist that may cast significant doubt upon the ability of the Pension Fund to continue as a going concern.

12. On the basis of the process established by the Pension Fund and having made appropriate enquiries, the Pension Fund is satisfied that the actuarial assumptions underlying the valuation of defined benefit obligations are consistent with its knowledge of the business and are in accordance with the requirements of IAS 26 Accounting and Reporting by Retirement Benefit Plans.

This letter was tabled and agreed at the meeting of the Pension Fund Sub-committee on 16 September 2026.

Yours faithfully,

Gareth Waterson, BAcc, CA
Section 95 Officer
16 September 2026

Appendix to the Pension Fund Representation Letter of *Orkney Islands Council Pension Fund*: Definitions

Annual Accounts

A complete set of annual accounts comprises:

- Pension Fund Account;
- Net Assets Statement;
- Notes, comprising a summary of significant accounting policies and other explanatory information.

A pension fund administering authority must prepare Pension Fund accounts in accordance with Chapter 6.5 of the Code of Practice.

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:

"Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

Materiality depends on the nature or magnitude of information, or both. An entity assesses whether information, either individually or in combination with other information, is material in the context of its financial statements taken as a whole.

Information is obscured if it is communicated in a way that would have a similar effect for primary users of financial statements to omitting or misstating that information. The following are examples of circumstances that may result in material information being obscured:

a) information regarding a material item, transaction or other event is disclosed in the financial statements but the language used is vague or unclear;
b) information regarding a material item, transaction or other event is scattered throughout the financial statements;
c) dissimilar items, transactions or other events are inappropriately aggregated;
d) similar items, transactions or other events are inappropriately disaggregated; and
e) the understandability of financial statements is reduced as a result of material information being hidden by immaterial information to the extent that a primary user is unable to determine what information is material.

Assessing whether information could reasonably be expected to influence decisions made by the primary users of a specific reporting entity's general purpose financial statements requires an entity to consider the characteristics of those users while also considering the entity's own circumstances.

Many existing and potential investors, lenders and other creditors cannot require reporting entities to provide information directly to them and must rely on general purpose financial statements for much of the financial information they need. Consequently, they are the primary users to whom general purpose financial statements are directed. Financial statements are prepared for users who have a reasonable knowledge of business and economic activities and who review and analyse the information diligently. At times, even well-informed and diligent users may need to seek the aid of an adviser to understand information about complex economic phenomena."

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:

a) was available when financial statements for those periods were authorised for issue; and
b) 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").

- 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.

- 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 (a).
  - A person identified in (a)(i) 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 a price is charged.