



Orkney Islands Council

**Annual Audit Report - Monitoring and
Audit Committee**

12 March 2025

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Introduction

Purpose of this report

The Accounts Commission has appointed KPMG LLP as auditor of Orkney Islands Council (the Council) under part VII of the Local Government (Scotland) Act 1973 (“the Act”). The period of appointment is 2022-23 to 2026-27, inclusive.

Our annual audit report is designed to summarise our opinions and conclusions on significant issues arising from our audit. It is addressed to both those charged with governance at the Council and the Controller of Audit. The scope and nature of our audit are set out in our audit strategy document which was presented to the Audit Committee on 19 March 2024.

Audit Scotland’s Code of Audit Practice (“the Code”) sets out the wider dimensions of public sector audit which involves not only the audit of the financial statements but also consideration of wider scope areas. The reports incorporates both aspects of the Code.

Accountable officer responsibilities

The Code sets out Orkney Islands Council’s responsibilities in respect of:

- corporate governance;
- financial statements and related reports;
- standards of conduct for prevention and detection of fraud and error
- financial position; and
- Best Value.

Auditor responsibilities

This report reflects our overall responsibility to carry out an audit in accordance with our statutory responsibilities under the Act and in accordance with International Standards on Auditing (UK) issued by the Financial Reporting Council and the Code.

How we have delivered 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 controls** and
- All of our related activities are undertaken in an environment of the utmost level of **objectivity, independence, ethics and integrity**.

External auditors do not act as a substitute for the Council’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.

Introduction

Limitations on work performed

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

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

Nothing in this report constitutes an opinion on a valuation or legal advice. We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the scoping and purpose section of this report.

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

Status of our audit

Our audit is now complete.

Orkney Islands Council

Audit Conclusions

Audit opinion

We issued an unqualified opinion, on 12 March 2025, on the truth and fairness of the state of the Council's affairs as at 31 March 2024, and of the surplus for the year then ended. There are no matters identified on which we are required to report by exception.

Financial reporting framework, legislation and other reporting requirements

The Council is required to prepare its annual accounts in accordance with International Financial Reporting Standards, as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2022-23 ("the CIPFA Code"), and in accordance with the Local Authority Accounts (Scotland) Regulations 2014. Our audit confirmed that the annual accounts have been prepared in accordance with the CIPFA Code and relevant legislation.

Statutory reports

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

Other communications

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

Materiality - Group and Council

Total group expenditure
£231m
 (2022-23 - £208m)

Total council expenditure
£225m
 (2022-23 - £201m)



Group materiality
£4.2m
1.82% of total expenditure
 (2022-23 £4.1m 1.97%)

Council materiality
£4.1m
1.82% of expenditure
 (2022-23 £4.0m 1.99%)



£205k (Group and Council)
 (2022-23 £205k)

Group: £3.150m
Council: £3.070m
 (2022-23 Group £3,075, Council £3.0m)

Group: £4.2m
Council: £4.1m
 (2022-23 Group 4.1m Council £4.0m)

Misstatements reported to the Audit Committee

Procedure designed to detect individual errors at this level

Materiality for the financial statements as a whole

Our materiality levels

We determined materiality for the consolidated financial statements at a level which could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. We used a benchmark of gross expenditure which we consider to be appropriate as it reflects the scale of the Group/Council's services and we consider this most clearly reflects the interests of users of the Group/Council's accounts. To respond to aggregation risk from individually immaterial misstatements, we design our procedures to detect misstatements at a lower level of performance materiality of £3.15m (2022-23 3.075m) (Council: £3.07m (2022-23 £3.0m)). We also adjust this level further downwards for items that may be of specific interest to users for qualitative reasons.

Group materiality vs other metrics

	2023-24	2022-23
Total assets	0.46%	0.53%
Total Revenues	2.1%	2.3%

The above percentages reflect our Group materiality level as a proportion of other key account balances (Total Assets and Total Revenues) for 2023/24 and 2022-23

Our audit findings

Significant audit risks	Risk Change since planning	Findings (Pages 9-14)
1 Retirement Benefit Obligations *	No change	<p>We have identified that there was not a Management Review Control (MRC) to address the significant audit risk. An audit difference was identified, which has not been adjusted by management in respect of Actual rate of return on assets as against the estimated rate included in the draft statements.</p> <p>We identified one unadjusted misstatement.</p>
2 Valuation of Land and Buildings and Investment Properties *	Reduced	<p>We have identified that there was not a Management Review Control (MRC) to address the significant audit risk.</p> <p>We identified a control deficiency in quality of the evidence to support the Management Experts valuations.</p> <p>We identified one adjustment to the value of Investment Properties.</p>
3 Fraud risk from expenditure recognition (completeness of expenditure)	No change	<p>We did not identify any issues in relation to fraud risk from expenditure recognition.</p>
4 Management override of controls	No change	<p>We have not identified any instances of management override of controls.</p>
Key accounting estimates	Judgement	Findings (Pages 15-16)
Retirement benefit obligations (LGPS)	Neutral	<p>Overall, we considered the assumptions underpinning the valuation of the LGPS obligation to be neutral / balanced. The recognition of the Pension Asset is based on an estimated benefit to the Council, the Council have added additional disclosures, and shared revised calculations and we are considering these documents.</p>
Valuation of Land & Buildings	Optimistic	<p>We have reviewed the data, assumptions and methodology involved in managements' valuation of land and buildings. We have assessed that certain assumptions included in the valuation were optimistic, while not having a material effect on the overall valuation.</p>

Our audit findings

Uncorrected Audit Misstatements

Page 56

One audit misstatement to report.

Corrected Audit Misstatements

Page 55

There were four corrected audit misstatements greater than our trivial threshold, resulting in Nil impact on the General Fund Usable Reserves.

Number of Control Recommendations

Pages 41-54

Priority one control recommendations	0
Other control recommendations	2
Wider Scope and Best Value recommendations (including one priority one)	2
Prior year control recommendations outstanding	9

Wider Scope and Best Value (Pages 19-37)

Under the Code of Audit Practice we are required to consider the areas defined in the Code of Audit Practice as wider-scope audit. We are required to provide clear judgements and conclusions on the effectiveness and appropriateness of the arrangements in place based on the work that we have done. Where significant risks are identified we will make recommendations for improvement. To consider how effectively the Council demonstrates Best Value in its delivery of services we consider the audit findings across the four audit dimensions. The Best Value section includes our conclusions relating to the audit dimension of Value for Money which contribute to the delivery of Best Value.

Preparation of the financial statements

The Council plan was to approve the financial statements by 30 September 2024. We have issued our unqualified opinion on these financial statements on 12 March 2025.

Audit Risks and our audit approach

1 Retirement benefit Obligations

Significant Audit risk

Risk: An inappropriate amount is estimated and recorded for the defined benefit obligation

The valuation of the Local Government Pension Scheme (Orkney Pension Fund) relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Council's overall valuation.

There are financial assumptions and demographic assumptions used in the calculation of the Council's valuation, such as the discount rate, inflation rates, mortality rates etc. The assumptions should also reflect the profile of the Council's employees, and should be based on appropriate data. The basis of the assumptions should be derived on a consistent basis year to year, or updated to reflect any changes.

There is a risk that the assumptions and methodology used in the valuation of the Council's pension obligation are not reasonable. This could have a material impact to net pension liability accounted for in the financial statements.

Pension Funds in surplus pose an additional risk to Councils, as the entity will need to assess the level of surplus that it can recognise. This will need to be assessed each year, and the conclusion can change from one year to the next based on facts and circumstances for each participation.

Our response

We performed the following procedures designed to specifically address the significant risk associated with the valuation:

Control design:

- We evaluated the design and implementation of controls in place for management to review the LGPS valuation and the appropriateness of assumptions used.

Assessing the actuarial expert's credentials:

- We evaluated the competency and objectivity of the Scheme actuaries, Hymans Robertson, to confirm their qualifications and the basis for their calculations.

Input assessment:

- We reviewed the input from the Council into the calculation of the LGPS valuation; and
- We agreed the data provided by the audited entity to the Scheme Administrator for use within the calculation of the scheme valuation.

Audit Risks and our audit approach

1 Retirement benefit Obligations (continued)

Assessing methodology and benchmarking assumptions:

- We challenged, with the support of our own actuarial specialists, the key assumptions applied, being the discount rate, inflation rate, salary increases and mortality/life expectancy against externally derived data where appropriate; and
- We confirmed that the accounting treatment and entries applied by the Authority are in line with the requirements of the Code.

Assessing transparency:

- Disclosures: We considered the adequacy of the disclosures concerning the key judgements and degree of estimation involved in arriving at the valuation, in addition to disclosures regarding the sensitivity of the Authority's defined benefit obligation to these assumptions.

Assessing the recognised Surplus:

- We have considered the level of surplus that the Council has recognised and ensured that the asset recognised met the requirements of the CIPFA code for Local Authority Accounting in 2023-24, and current actuarial interpretation of the Code.

Our findings

Our work is complete for this significant risk,

Our actuarial specialists have evaluated the assumptions applied in measuring the defined benefit liabilities and have found these to be balanced, while remaining within actuaries' acceptable range. More detail is available on Page 16.

In assessing the Net pension Asset that has been recognised in the financial statements one misstatement was identified between the actual rate of return on assets achieved and the value the Actuary estimated in their report. This misstatement has not been corrected see unadjusted misstatement - Page 55.

Auditing Standards requires where we have identified a significant audit risk, for management to have a review control in place (MRC) to respond to the risk. The threshold set for an effective Management Review Control is a high one, with various criteria that must be met including creating an independent expectation around amounts estimated. While we acknowledge that putting such a control in place would be impractical for a Council of your size, under Audit Standards we communicate to you that we have not identified such a MRC that is designed and implemented in such a way to provide the level of precision, response, investigation, and follow up needed by the Auditing Standards. **It is recommended.**

Audit Risks and our audit approach

2- Valuation of land and buildings, Investment Properties Significant Audit risk

Risk: The carrying amount of revalued Land & Buildings, and Investment Properties differs materially from the fair value

The value of the Council's Other Land and Buildings at 31 March 2023 was £344.3m, and Investment Property was £19.2m.

The Code requires that Land and Buildings and Investment Properties are subject to revaluation and their year end carrying value should reflect the fair value at that date.

Any asset valuation carries with it risks of estimation uncertainty. The size of the land and buildings balance relative to our expected materiality means that the risk of a material difference between carrying value and fair value is increased.

The Council is planning to carry out a rolling programme of Revaluation in 2023-24. This will include a fair value assessment of the Land and Buildings not revalued required by the Code.

Our response

We performed the following procedures designed to specifically address the significant risk associated with the valuation:

Control design:

- We evaluated the design and implementation of controls in place for management to review the valuation and the appropriateness of assumptions used.

Assessing the valuer's credentials:

- We critically assessed the independence, objectivity and expertise of Orkney and Shetland Joint Valuation Board, the valuers used in developing the valuation of the Council's properties at 31 March 2024; and
- We inspected the instructions issued to the valuers for the valuation of land and buildings to verify they are appropriate to produce a valuation consistent with the requirements of the Code.

Input assessment:

- We compared the accuracy of the data provided to the valuers for the development of the valuation to underlying information, such as floor plans, and to previous valuations, challenging management where variances were identified.

Assessing methodology and benchmarking assumptions:

- We challenged the appropriateness of the valuation of land and buildings; including any material movements from the previous valuation. We challenged key assumptions within the valuation, including the use of relevant indices and assumptions around physical and functional obsolescence;

Audit Risks and our audit approach

2 Valuation of land buildings (continued)

- We performed inquiries of the valuers in order to verify the methodology that was used in preparing the valuation and whether it was consistent with the requirements of the Royal Institute of Chartered Surveyors (RICS) Red Book and the Code; and
- We agreed the calculations performed of the movements in value of land and buildings and verified that these had been accurately accounted for in line with the requirements of the Code.

Assessing transparency:

- Disclosures: We considered the adequacy of the disclosures concerning the key judgements and degree of estimation involved in arriving at the valuation.

Our findings

The work is complete, and we found that the movement in the BCIS build rates for operational land and buildings was such that the 2023 values were still deemed to be free from material misstatement.

We challenged management in respect of the Beacon valuation compared to market sales evidence for certain categories, and the approach to Beacon valuations in general. We undertook additional risk assessment procedures and concluded there was no risk of material misstatement. We identified a control weakness related to the evidence supplied by the Council Valuer to support some of the judgements made. **Recommendation** (page 41).

We have identified one adjustment on the valuation of the Investment Properties, this has been corrected by management (page 55)

Auditing Standards requires where we have identified a significant audit risk, for management to have a review control in place (MRC) to respond to the risk. The threshold set for an effective Management Review Control is a high one, with various criteria that must be met including creating an independent expectation around amounts estimated. While we acknowledge that putting such a control in place would be impractical for a Council of your size, under Audit Standards we communicate to you that we have not identified such a MRC that is designed and implemented in such a way to provide the level of precision, response, investigation, and follow up needed by the Auditing Standards. **It is recommended.**

Orkney Islands Council

Audit Risks and our audit approach

3 Fraud risk from expenditure recognition – cut off of expenditure

Significant Audit risk

Risk: Liabilities and related expenses for purchases of goods or services are not complete.

Under ISA 240 there is a presumed risk that income may be misstated due to improper recognition of income. This requirement is modified by Practice Note 10, issued by the FRC, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

In our audit plan reported to you in March 2024, we outlined that we intended to rebut the presumed risk of fraudulent revenue recognition, as we considered that there are limited incentives and opportunities to manipulate the way income is recognised in a material way. We continue to rebut this presumed risk. We also reported that we had not at the planning stage of our audit rebutted the risk around expenditure recognition, and noted that this was most likely to occur through the completeness of recognition of expenditure.

Following completion of all our risk assessment activities, we have concluded there is a significant risk in respect expenditure recognition in the incorrect accounting period (cut-off) risk over the completeness (understatement) of accrued expenditure and payables.

Our response

We performed the following procedures designed to specifically address the significant risk:

- We evaluated the design and implementation of the controls in place for manual expenditure accruals;
- We performed a search for unrecorded liabilities by selecting a sample of expenditure items paid from the Council's bank accounts in the period following year-end, and confirming that those relating to 2023/24 expenditure was accrued appropriately at year- end.

Our findings

We have not identified any fraudulent expenditure recognition during our testing. We have not identified any material misstatements from our completed procedures.

Auditing Standards requires where we have identified a significant audit risk, for management to have a review control in place (MRC) to respond to the risk. We have not identified such a MRC that is designed and implemented in such a way to provide the level of precision, response, investigation, and follow up needed by the Auditing Standards. However, the Council has a number of year end processes including a journal approval process which authorises the year end accruals as they are entered into the General Ledger; and budgetary controls that assist in identifying unusual or unexpected variances from budget. Management considers these arrangements are sufficient to address the Council face.

Orkney Islands Council

Audit Risks and our audit approach

4 Management override of controls

Significant Audit risk

Risk: Liabilities 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 financial statements 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.

Our response

- Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we evaluated the design and implementation and, where appropriate, tested the operating effectiveness of the controls in place for the approval of manual journals posted to the general ledger to ensure that they are appropriate;
- We analysed all journals through the year and focused our testing on those with a higher risk, such as journals with unusual expenditure code combinations;
- We assessed the appropriateness of changes compared to the prior year to the methods and underlying assumptions used to prepare accounting estimates;
- We reviewed the appropriateness of the accounting for significant transactions that are outside the Council's normal course of business, or are otherwise unusual; and
- We assessed the controls in place for the identification of related party relationships and tested the completeness of the related parties identified. We verified that these have been appropriately disclosed within the financial statements.

Our findings

- We identified 18 journal entries and post closing journal meeting our high-risk criteria
- our examination did not identify any inappropriate entries.
- We evaluated accounting estimates and did not identify any indicators of management bias. See page 15 to 16 for further discussion.
- We did not identify any significant unusual transactions.
- We did not identify any issues from our related parties testing.

Key accounting estimates – Overview

Our view of management judgement

Our views on management judgements with respect to accounting estimates are based solely on the work performed in the context of our audit of the financial statements as a whole. We express no assurance on individual financial statement captions. Cautious means a smaller asset or bigger liability; optimistic is the reverse.

Asset/ liability class	Our view of management judgement	Balance (£m)	YoY chan ge (£m)	Our view of disclosure of judgements & estimates	Further comments
Assets					
Valuation of other land & buildings and Investment Properties		£339m (2022/23 - £344m)	-£5m		<p>The Assumptions used by the Council Valuer in determining the obsolescence rates used in valuing the depreciated replacement costs are optimistic.</p> <p>The allowance made for external works (areas surrounding assets) is also generally optimistic.</p> <p>We recommended enhancement to the sensitivity disclosure in the accounts.</p> <p>As outlined in Note 4 Assumptions – sensitivity analysis is provided to the reader for every 1% change in obsolescence.</p>

Key accounting estimates – Overview

Our view of management judgement (continued)

Asset/ liability class	Our view of management judgement	Balance (£m)	YoY change (£m)	Our view of disclosure of judgements & estimates	Further comments
Liabilities					
LGPS Defined Benefit Obligation		£349m (2022-23 £311m)	+£38m		<p>KPMG actuaries have reviewed the actuarial valuation for the Orkney Pension Fund, considered the disclosure implications and compared the actuarial valuation to our internal benchmarks. Overall we consider the assumptions adopted to be balanced.</p>

Other estimates

We have also reviewed the following non-significant estimates as part of our audit work

- Depreciation

Group involvement – significant component audits

Involvement in group components

The Council management have assessed on the basis of materiality and significant influence that the Group financial statements are made up of the following components:

We have assessed from a Group perspective the following:

- Orkney Islands Council (Parent) (**significant**);
- Orkney Integration Joint Board (**significant**);
- Orkney Ferries Limited (**non-significant – testing of specific balances**);
- Pickaquoy Centre Trust (**non-significant**); and
- Hammers Hill Energy Limited (**non-significant**).

As communicated in our audit plan we determined that the parent Council and the Orkney Integrated Joint Board were significant components. We performed testing of specific balances for Orkney Ferries Limited and we have performed risk assessment procedures over the remaining components in order to confirm that there were not material balances within the other entities that could cause a material error and did not identify any exceptions.

We did not identify any errors as a result of the procedures set out above.

Other matters

Annual report

The Local Authority Accounts (Scotland) Regulations 2014 require the inclusion of a management commentary within the annual accounts, similar to the Companies Act requirements for listed entity financial statements. The requirements are outlined in the Local Government finance circular 5/2015.

We are required to read the management commentary and express an opinion as to whether it is consistent with the information provided in the annual accounts. We also review the contents of the management commentary against the guidance contained in the local government finance circular 5/2015.

- We have not identified any inconsistencies between the contents of the Management Commentary and the financial statements.
- We have not identified any material inconsistencies between the knowledge acquired during our audit and the Management Commentary. As a Council you confirm that you consider that the annual report and accounts taken as a whole are fair, balanced and understandable and provide the information necessary for stakeholders to assess the Council's performance, business model and strategy.
- We consider the governance framework and annual governance statement to be appropriate for the Council and that it is in accordance with guidance and reflects our understanding of the Council.

Independence and Objectivity

ISA 260 also requires us to make an annual declaration that we are in a position of sufficient independence and objectivity to act as your auditors, which we completed at planning and no further work or matters have arisen since then.

Audit Fees

The base fee for the audit was £238,260. (£246,280 2022-23)

We have not completed any non-audit work at the Council during the year.

Wider Scope and Best Value

Financial Management

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

2023/24 budget and performance

In March, 2023 the Council agreed its 2023/24 budget based on the recommendation from the Policy and Resources Committee dated 23 February 2023. General fund revenue budget was set at £101.7 million.

When setting the budget and Council Tax levels for 2023/24, the Council delegated powers to the Head of Finance, in consultation with the Chief Executive and the Section 95 Officer, to prepare and distribute a detailed budget incorporating all the budget adjustments agreed by the Council, and any settlement updates and/or clarifications unknown as at 23 February 2023.

Following above a detailed budget was presented to the Policy and Resources Committee dated 20 June 2023 and was recommended for approval to the Council. The Council approved the detailed budget in its meeting dated 4 July 2023.

The final revised amount of the budget, as reported in the annual financial statements, amounted to £103.6 million. Actual expenditure was £105.9 million. Variance has been analysed as follows:

- **Orkney Health & Care** – The continuation of recruitment pressures have resulted in the ongoing requirement to use agency staff to cover essential posts, which costs a premium. Costs for children requiring specialist placements outwith Orkney have also increased.
- **Roads and Transport** – Winter maintenance costs for 2023/24 were high. Income in respect of car parks was less than anticipated. Increase cost of internal air contracts, as higher fuel costs were passed on by the operator.
- **Other Services** – Underspend on loan charges due to slippage on the planned delivery of the capital programme. Increased interest on revenue balances.

The Council's financial performance shows a surplus on the provision of services of £11.3 million as opposed to the budgeted deficit of £4 million. The annual accounts provide a reconciliation between the planned and actual surplus/deficit, including the accounting adjustments to arrive at the amount of surplus as per the financial statements.

The Council continues to incur significant capital investment with £17.3 million being spent in 2023-24. Funding of capital expenditure mainly included £0.2 million from capital receipts, £9 million of grants with the balance of £8 million being met through internal funding and borrowing.

The Council reported an underspend of £28.5 million due to the expenditure not meeting the profile assumed in the capital programme. Capital overrun reports were presented periodically to the Policy and Resources Committee.

Wider Scope and Best Value

Financial Management (continued)

The net assets of the Council have increased by £10.4 million from £812.3 million as at 31 March 2023 to £822.7 million as at 31 March 2024. The main contributors were:

- Long term assets – The increase reflects the reduction in the long term pension fund liabilities.
- Current assets – The increase is mainly due to a gain in the value of externally managed investments of the Strategic Reserve Fund.
- Long term liabilities – The increase in long term liabilities reflects additional external borrowings to fund the capital programme.
- Current liabilities – The increase in current liabilities reflects debt due to be repaid in the next twelve months.
- Usable Reserves – The increase on usable reserves can be attributed to the gains on the Strategic Reserve Fund, offset by a reduction on both earmarked and unearmarked reserves.
- Unusable Reserves – The increase on unusable reserves can be attributed to the revaluation gain on the pension asset.

2024/25 budget

On 11 March 2024, when setting the budget and Council Tax levels for 2024/25, the Council delegated powers to the Head of Finance, in consultation with the Chief Executive and the Section 95 Officer, to prepare and distribute a detailed budget incorporating all the budget adjustments agreed by the Council, and any settlement updates and/or clarifications unknown on 27 February 2024. General fund revenue budget was set at £112.4 million.

The approved budget exceeds the previous budget by £11.5 million. The main contributing factor to this relate to settlement adjustment and service pressures amounting to £6.5 million and £6.6 million respectively.

The detailed revenue budget incorporates budgets for the following services:

- General Fund Services.
- Housing Revenue Account.
- Scapa Flow Oil Port.
- Miscellaneous Piers and Harbours.
- UHI Orkney.
- Corporate Holding Accounts.
- Strategic Reserve Fund.
- Orkney Islands Council Pension Fund.

Wider Scope and Best Value

Financial Management (continued)

Budget Monitoring

Periodic revenue expenditure monitoring reports are presented to Individual Service committees. Additionally annual expenditure monitoring reports are presented to the Policy and Resources Committee. Annual monitoring reports in relation to 2022/23 were presented to the committee dated 19th September 2023. Annual monitoring reports in relation to 2023/24 is planned to be presented to the committee dated 24th September 2024.

Internal Audit

Internal Audit charter for the periods covering 2022 to 2024 was presented to the Monitoring and Audit Committee dated 9 June 2022 and was approved.

The annual report for 2022/23 was presented to the committee dated 31st August 2023 and noted that the Council has a framework of controls in place that provides adequate assurance regarding the organisation's governance framework, internal controls, and the management of key risks. 24 out of 29 planned audits were reported as complete. Three audits were deferred to 2023/24 and one audit was deferred to 2024/25. Roads operations audit was deferred second year in row.

The annual report for 2023/24 was presented to the committee dated 28th August 2024 and noted that the Council has a framework of controls in place that provides adequate assurance regarding the organisation's governance framework, internal controls, and the management of key risks.

26 out of 32 planned audits were reported as complete. Three audits were deferred to 2024/25 and three audits were reported as not required. Roads operations audit was deferred third year in row.

Of the completed audits limited opinion was expressed in relation to four audits which implies that there are significant weaknesses in the framework of governance, risk management and control such that it could be or become inadequate and ineffective.

The report notes that throughout this financial year a common theme has emerged, which is non-compliance with the Council's Financial Regulations and Contract Standing Orders. These are control frameworks which are in place to ensure the proper use of resources and public money. In ten of the audits performed this year internal audit have found non-compliance with one or both of these frameworks. Non-compliance issues included instances of procuring goods or services without going through a proper tendering process, splitting invoices to avoid financial limits, not issuing purchase orders, incorrect procedures for postal receipts, incomplete asset inventories, ineffective petty cash procedures, and no segregation of duties.

Recommendation one

The report further notes that at the financial year end there were 32 recommendations which were past the agreed target date for completion. Of these none were high priority, 22 were medium and 10 were low priority

Wider Scope and Best Value

Financial Management (continued)

A self assessment in relation to compliance with the public sector Internal Audit standards was presented to the committee dated 21 September 2023 which did not report any partial or non-compliance.

Internal controls

As part of our audit, we identify and assess the key internal controls relevant to our audit. Our objective is to plan and seek assurance, where relevant, that the body has controls around recording and processing transactions to provide a sound basis for the preparation of the financial statements. Overall financial systems of internal control operated effectively, with the exception of the control weaknesses identified in the relevant section of this report.

Fraud prevention mechanisms

The Council is responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption. Furthermore, it is responsible for ensuring that its affairs are managed in accordance with proper standards of conduct by putting effective arrangements in place.

There are established procedures for preventing and detecting any breaches of these standards including any instances of corruption enacted through the anti fraud and corruption policy and whistleblowing policy. We had noted as part of previous year audit that the policy notes that it is subject to review every three year however was last reviewed and updated in 2019. We recommend periodic review and update of this policy. The due date provided for this was November 2024. As per the report presented to the Monitoring and Audit Committee dated 6th June 2024, this action has been reported as green i.e. the agreed action is likely to meet or exceed its target.

The National Fraud Initiative (NFI) is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud. We note that the Council recognised the need for and participates in the initiative.

Financial regulations

The standing financial regulations are comprehensive and available on the website for public access. As part of the previous year audit we noted that the publicly available policy was last updated July 2019. We recommended periodic review and update of this policy. The regulations were reviewed by the Policy and Resource Committee dated 18th June 2024.

Wider Scope and Best Value

Financial Management (continued)

Going Concern

The Council's Group Accounts have been prepared on a "going concern" basis as it is expected that future local government finance settlements, aligned with the budget process, which drives through efficiency savings, will provide sufficient resources to finance future liabilities.

Conclusion

- The 2024-25 budget was set in March 2024 and financial balance is achieved in the short term.
- A budget monitoring system is in place.
- Overall financial systems of internal control are operating effectively. There are established procedures for preventing and detecting fraud. An established Internal Audit system is in place.
- Compliance with the Council's Financial Regulations and Contract Standing Orders should be ensured.

Wider Scope and Best Value

Financial Sustainability

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

Medium term financial strategy (MTFS)

The Council's latest financial strategy update covers the period 2023/24 to 2027/28. The plan with the latest update was presented to the Policy and Resources Committee and the Council and was approved dated 20 June 2023 and 4 July 2023 respectively. The strategy identifies the following key financial risk areas faced by the Council over the medium term:

- Scottish Government funding reductions.
- Pay awards.
- General inflation (including energy costs).
- Ageing population.
- Housing shortages.
- Recruitment and retention.
- Increasing levels of need.
- Increased cost of borrowing.

Strategy notes that the potential funding gap faced by the Council may amount to £27.1 million over the period covered by the MTFS and recognises the need for delivering savings to achieve financial balance.

The projections produced contain several assumptions which are considered most likely by the Council:

- Staff costs – 2% increase over the forecast period assuming wage increases will fall back in line with projected inflation.
- Property costs – 15% in 2024/25 representing known pressure re energy costs followed by 3% per annum over the remaining period
- Budget uplifts – 3% increase on annual basis.
- CPI on charges – 7%, 4% and 2% for 2024/25, 2025/26 and remaining forecast period respectively.

The Medium-Term Financial Strategy includes an analysis of best and worst case scenarios as part of the financial planning. The risks associated with the assumptions in the MTFS include forecast error, economic performance (including inflation assumptions), changes to Scottish Government spending, political pressure, and demand-led need. The best and worst case scenario result in a funding gap of £25.8 million and £28.5 million. The Council's Medium-Term Financial Strategy and the Long-Term Financial Plan require updating to reflect recent performance, current assumptions, efficiency targets, and Strategic Reserve Fund draws.

Recommendation two

Orkney Islands Council

Wider Scope and Best Value

Financial Sustainability (continued)

The strategy identifies that following options are available to bridge the funding gap:

- Increasing Council Tax to national average during term of this Council.
- Fee income generation.
- Access external funding streams.
- Lobby for fairer settlement, in total and in focused areas.
- Efficiency measures, and reduction in bureaucracy.
- Service redesign.
- Capacity building within communities – working with NHS Orkney and 3rd sector.
- Recycle in year savings, other reserves, and balances, for example advance use of wind farm revenues from Strategic Reserve Fund.

We noted as part of the previous year audit that although the strategy has identified the options available to bridge the gap, detailed plans at operational/service level are required to be developed and implemented to ensure achievement. The 2023/24 budget as well the medium term strategy identify the use of reserves to bridge the funding gap however pressures on investment returns and strategic reserve fund and falling general fund balances make this approach untenable on an ongoing basis. The MTFs was set with the understanding that Council Tax levels would increase to national average over the life of the MTFs. The recent Scottish Government announcement that all Council Tax levels for 2024/25 be frozen will put further pressure on the Council to identify options to bridge the gap over the medium to longer term and increasing the risk to financial sustainability.

We recommended that the Council needs to continue to develop specific plans to bridge the gap in a sustainable manner. Due date agreed by the management for this was March 2026. As per the report presented to the Monitoring and Audit Committee dated 6th June 2024, this action has been reported as green i.e. the agreed action is likely to meet or exceed its target.

Prior year recommendation

As part of prior year audit we noted that the Island Communities Impact Assessment was not carried out as part of MTFs development as it was considered unlikely to have an impact by the Council. We recommended that the Council should review the applicability of this assessment as part of the development of all plans, ensuring it is completed in respect of service redesign arising from the MTFs. As per the report presented to the Monitoring and Audit Committee dated 6th June 2024, this action has been reported as green i.e. the agreed action is likely to meet or exceed its target and has been reported as complete as part of follow-up on prior year recommendations.

The Council plan identifies securing a new fleet of green ferries as one of the biggest challenges, under the developing our infrastructure theme, in light of the ageing fleet. Further associated performance measures and action points have been identified as part of the Council plan and Council delivery plan respectively. The Scottish Government has agreed to the further funding of a business case to investigate replacing Orkney's internal ferry fleet. The agreement was reported to be reached.

Wider Scope and Best Value

Financial Sustainability (continued)

This now requires the Council to build an agreed business case for ferry replacement, providing the resources required for work to scope out options and to carry out physical investigative works around Orkney's pier and harbours infrastructure including assessment of the impact on the future budgets and the medium term financial strategy. As per the latest update provide to the Policy and Resource Committee, dated 18th June 2024, as part of the performance reporting against the Council Delivery Plan, the Council continues to liaise with Transport Scotland around way ahead for funding and proposals.

Capital Projections

As part of our previous year audit we noted that the Council has a capital programme in place. We further noted that the 2021/22 Annual Audit report recommended minimisation of recurring capital slippage which continues to occur in 2022/23. The Council delivery plan, which is a key document in relation to implementation of the Council plan, identifies the action plan in relation to capital program under the theme of "Developing our Infrastructure". The action plan identifies the objective to finalize and approve the new capital program in 2024/25 along with the monitoring of the current capital programme.

Slippage has continued to occur in 2023/24. A report, titled "Review of Capital Programme: Capital Slippage", was presented to the Policy and Resource Committee dated 18th June 2024. The report noted that The Council has seen slippage in the delivery of capital projects for a number of years which has continued into 2023/24. A capital out-turn report presented to the Policy and Resources Committee in September 2023 indicated an approximate 20% underspend on the combined General/Non-General Fund capital programmes. The report recommended the amendment to the capital programme through consideration of the redeployment of a number of project budgets.

Reserves Strategy

The General Fund Reserves Strategy was reviewed by the Policy and Resources Committee in February 2024, in the context of setting revenue budget for 2024/25.

The report recommended:

- That the non-earmarked General Fund Balance for 2024/25 be set at 2% of the net revenue budget for 2024/25, with a minimum balance of approximately £2,250,000 as a contingency for in-year pressures.
- That, should the Council return an overspend position for 2023/24, any uncommitted balances held within earmarked funds should be returned to non-earmarked General Fund reserves, to meet in-year overspends and retain the 2% contingency balance for non-earmarked General Fund balances.
- That powers be delegated to the Head of Finance, in consultation with the Chief Executive and Corporate Directors, to make the adjustments to reserves balances, taking account of the 2023/24 year-end position and ongoing budget pressures for 2024/25.

The Committee resolved to recommend the above to the Council.

Orkney Islands Council

Wider Scope and Best Value

Financial Sustainability (continued)

Strategic Reserve Fund (SRF)

The purpose of the Strategic Reserve Fund is to provide for the benefit of Orkney and its inhabitants including the development of one-off strategic capital projects. The Strategic Reserve Fund is also supporting the level of General Fund Services as part of an agreed Medium Term Financial Strategy. For the financial year 2023-24 £8.26M from the Strategic Reserve Fund was used as a funding source to supplement the General Fund Services revenue budget. The approved contribution from the Strategic Reserve Fund for 2023/24 was set, together with indicative budgets for 2024/25 and 2025/26, at £6.35m.

A report, titled “Strategic Reserve Fund – Budget Review and Long-Term Forecast”, was presented to the Policy and Resource Committee dated 27th February 2024. The purpose of the report was to review the level of disbursements from the Strategic Reserve Fund used to support General Fund Services and other Council priorities for financial year 2024/25 onwards. The report recommended that a financial contribution of up to £20,000,000 from the Strategic Reserve Fund to the General Fund be used as a planning assumption as part of the Council’s budget setting process for financial year 2024/25.

The report further noted that indicative General Fund contributions from the Strategic Reserve for 2025/26 and 2026/27 should be fixed at £18,000,000 and £15,000,000 respectively to tie in with the saving targets on General Fund Services, subject to annual review as part of the Council’s budget setting process. The increased level of proposed disbursements were approved by the Committee.

One of the key principles of the medium term financial strategy is to ensure sustainable use of strategic reserves keeping in view the fund’s commitment in relation to long term decline and potential decommissioning cost to the Council of the Flotta Oil terminal in future amounting to £36.5 million as per the latest financial statements. The fund is currently operating below the floor value set by the Policy and Resources Committee. Keeping this in view the contribution from the Strategic Reserve Fund had been limited to £6.35 million over the period of the medium term financial strategy. However, as indicated above this has been increased significantly in the current year.

While there is a level that can be utilised, overuse of strategic reserve fund, as previously noted, is not sustainable as part of the longer term financial plans and strategy. We recommend that the Council should carry out detailed analysis to develop a strategy in relation to sustainable use of the strategic reserve fund taking into account the long term commitments/plans of the Council which are expected to be settled/implemented through the use of the fund balance.

Prior year Recommendation

Orkney Islands Council

Wider Scope and Best Value

Financial Sustainability (continued)

Savings Plans

The strategy includes an action plan for addressing the identified funding gaps over the period of the forecast. The Council plans to bridge funding gaps through a mix of savings, use of reserves, funding and new charges. MTFS included target specifically related to savings, through efficiencies and service redesign, over the period of MTFS amounting to £4.8 million. The targets are monitored as part of budget monitoring reports.

The MTFS recognises that no closures of cuts are proposed immediately however ultimately savings generated through “efficiencies and service redesign” will incorporate some closures or cuts brought forward by services. The Council and its partners have limited officer capacity and has limited ability to increase workforce capacity to deliver the required changes within the service delivery plans.

In 2024/25 each service has been allocated savings targets which it is recommended forms part of their budget, and budget monitoring. Each Directorate has a Directorate Delivery Plan (DDP), within which the efficiency savings identified by services during the 2024/25 budget setting process should form the starting point for the detailed operational service plans to put finances on a more sustainable footing. Services will be required to build on and develop full recovery plans to meet savings targets which amount to £9.0M over the three year period 2025/26 to 2027/28.

Conclusion

- MTFS is in place and takes into account scenario analysis and planning.
- Options to bridge the identified funding gaps have been identified as part of the MTFS.
- The 2024/25 budget as well the medium term financial strategy identify the use of reserves to bridge the funding gap however pressures on investment returns and strategic reserve fund and falling general fund balances make this approach untenable in the medium term.
- The Council has a capital programme in place.
- The Council has a reserves strategy in place
- In the previous year, the approved contribution from the Strategic Reserve Fund for 2024/25 and 2025/26 amounted to £12.7 million. This has now been increased to £38 million for these years with further £15 million contribution for 2026/27.
- The Council should carry out detailed analysis to develop a strategy in relation to sustainable use of the strategic reserve fund taking into account the long term commitments/plans of the Council which are expected to be settled/implemented through the use of the fund balance.

Wider Scope and Best Value

Vision, leadership and Governance

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

The governance framework is the system by which the Council leads, directs and controls its functions and relates to the community and other stakeholders. It includes the systems, processes, cultures and values through which the Council strives to adhere to the principles of good governance of openness, inclusivity, integrity and accountability. The Council's corporate governance is underpinned by the CIPFA/Solace Framework 'Delivering Good Governance in Local Government'. A revised edition of the Framework was published in early 2016 and the Local Code of Corporate Governance was updated to reflect the 2016 edition of the Framework. The Council adopted the revised Local Code of Corporate Governance in 2017. Review was carried out and revisions to the code were approved in October 2022. The updated code is published on the Council's website for public access. The Council has adopted a code of conduct for its employees and councillors which has been published on the website for awareness and public access. Arrangements are in place to ensure Members and officers are supported by appropriate learning and development.

Strategy

The overarching strategic vision of the Council is detailed in the Council's Plan which sets out the key outcomes the Council is committed to delivering with its partners. The plan extends for 5 years from 2023 to 2028. The plan is available for public's access on the Council's website. The Council plan is accompanied by a delivery plan. This Delivery Plan complements and supports Orkney Islands Council's strategic plan for the current Council term. The Delivery Plan describes some of the projects, services and policies which will progress priorities of the Council plan and achieve tangible outcomes for Orkney. The Council's Performance Management Framework sets out the process for monitoring performance against the strategic objectives. Priorities under the strategic plan are aimed to be delivered through service delivery plans. We noted as part of the previous audit that the Directorate Delivery plans and the performance management framework aligned with the new Council plan are in the process of development. These have now been developed and presented to their service committees.

Involvement of Stakeholders

Consultation relating to this plan was carried out in two stages. As part of the first stage the Council conducted a consultation exercise under the banner 'Orkney Matters'. This exercise included a questionnaire, a series of online meetings, and dedicated sessions for schools and community groups, which used art to engage with people less likely to respond through regular channels. The second stage was a public consultation on the draft plan itself before the plan was finalised.

Wider Scope and Best Value

Vision, Leadership and Governance (continued)

The Council acknowledges the vulnerabilities of the remote communities like the ferry-linked isles as part of the development of the Council plan and have community specific performance measures and actions plans as part of the Council plan and Council delivery plan respectively.

Equalities Impact Assessment and Island Communities Impact Assessment were carried out as part of the development of the plan and presented for consideration along with the presentation of the Council plan for approval to the Policy and Resources Committee.

Setting and reporting of operational performance

In order to monitor and review progress the Council plan lays out performance measures and specified targets for each theme, to be achieved by the conclusion of the Council plan, which includes the three priority themes and the overall theme of transforming the Council. Some performance measures and targets are taken from the Orkney Partnership's Community Plan and some are taken from the Local Government Benchmarking Framework (LGBF).

Governance statement

As part of our audit process we review the Annual Governance Statement in the annual report and accounts. Governance statement is reviewed and approved by the relevant committees of Council ahead of being published as part of the annual accounts. The arrangements are appropriate and operated effectively during 2023/24.

Standing Orders, Schemes of Delegation and Financial Regulations

The Council operates within an established procedural framework. The roles and responsibilities of Elected Members and officers are defined within the Council's Standing Orders and Scheme of Administration, Contract Standing Orders, Scheme of Delegation and Financial Regulations. These are subject to regular review.

Risk Management

In order to manage and monitor its risks, the Council has an approved risk management strategy for the periods from 2022 to 2024.

Wider Scope and Best Value

Vision, Leadership and Governance (continued)

The policy requires the review and maintenance of risk registers (corporate and directorate). Corporate risk registers were presented to the Policy and Resources Committee periodically however directorate risk registers were last presented in June 2021. Additionally, the Internal Audit report on corporate governance and risk management, dated 26th January 2023, identified action points for improvement. We recommend that the risk management actions as identified in the risk management strategy should be implemented in full. Development of risk registers has been reported as complete as part of the follow-up in prior year recommendations.

The overall opinion expressed by Internal audit was adequate.

Scrutiny, challenge and transparency

Status of progress of audit recommendations and action points are regularly reported and considered by the Audit Committee. Committee minutes and related documents are available on the website for public scrutiny. The Council maintains a website where users can find further wide range of information about the Council including documents relating to strategies, policies and performance.

Alternative models of Governance

A reported titled "Alternative models of Governance" was presented to the Policy and Resources Committee dated 19th September 2023. Purpose of the report was to consider the scope of work, together with the resources required, to explore options for alternative models of governance that would provide greater fiscal security and economic opportunity for the Islands of Orkney. This was in pursuance of a notice of motion on alternative governance arrangement presented to the Council on 4 July 2023.

The Council had resolved:

- that the Notice of Motion be supported, in that options for alternative models of governance, that would provide greater fiscal security and economic opportunity for the islands of Orkney, be explored.
- that the Chief Executive should submit a report, to the Policy and Resources Committee, detailing the scope of work, together with the resources required, to address the matters raised in the Notice of Motion.
- that, in addition, the Constitutional Reform Consultative Group be reinvigorated, with officer support, to pursue, amongst other things, opportunities from the National Islands Plan, the Islands (Scotland) Act 2018 (such as the ability to request additional powers), and to develop the Single Islands Authority work, continuing to hold to account the national governments on the commitments they made to empower the islands and level up, as well as exploration of options for alternative models of governance as referred to in the Motion.

Orkney Islands Council

Wider Scope and Best Value

Vision, Leadership and Governance (continued)

It was proposed that the scope of works be progressed as a project and delivered in a staged approach.

The key stages are as follows:

- Agreeing the scope of work for the Constitutional Reform Consultative Group;
- Progression of selected options with further scoping of political, legal, and financial implications and consultation and engagement with the Orkney public;
- Development of the chosen option or options including addressing financial and legal implications; and
- Delivery of the approved option.

The reports estimates that the dedicated staff resources initially required will be 1 full time equivalent post for the first stage, and it is proposed to meet this from within existing resources. Additionally, investigation, reporting and subsequent public consultation will require further resource in terms of officer time during the first stage.

Conclusion

- Council has effective strategic planning in place. Service plans to support the delivery of strategic plans and objectives are in the process of development.
- Several Directorate Delivery plans have been developed.
- Governance arrangements are appropriate and operated effectively.
Arrangements are in place in relation to security, challenge and transparency
- Alternative models of governance are being considered and will require significant analysis to assess the potential financial and legal impacts both of the alternatives and additional powers that may be available to the Council and the value it obtains from spending in pursuit of their consideration.

Orkney Islands Council

Wider Scope and Best Value

Use of resources to improve outcomes

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

The Council's Strategic Planning and Performance Framework describes the elements that make up the Council's strategic planning and performance arrangements, and its role in the strategic planning and performance arrangements of the Orkney Partnership. The framework goes on to describe the Council's arrangements for service and corporate self-assessment, service planning, workforce planning, and the management of risk, performance and business continuity. As noted earlier this was set in 2019 and needs to be updated to align with the new Council plan. Public Performance Reporting is a requirement carried out largely through the Council's Public Performance Reporting (PPR) webpages of the Council's website. The PPR webpages contain a wide variety of performance reports, for example, the Council's Annual Performance Report, six-monthly Council Plan Monitoring Reports and six-monthly service plan performance reports. Further a sub-section of the performance section of the webpage relates to "Public Performance Reports within Particular Council Areas" which is aimed towards providing easy access to the various Council reports and publication containing performance information which may be of interest to the general public.

The Council's Annual Performance Reports are structured around Council priorities, and use various measures to show how well the Council performed during particular years. The annual performance reports for 2023/24 and earlier years are available for public access on the Council's website. The performance report reports achievement against the action points identified in the Council delivery plan aimed towards satisfaction of the key themes identified in the Council plan 2023-28 and best value. This is based on performance reporting, against the delivery plan, reported to the Policy and Resources Committee on a periodic basis. The performance is reported as follows:

- BLUE = Completed.
- RED = Overdue/Significant underperformance with a medium to high risk of failure to meet the target.
- AMBER = Minor underperformance, with a low risk of failure to meet the target.
- GREEN = On target.

Out of 36 action points 33 were reported as green and 3 were reported as amber.

Wider Scope and Best Value

Use of resources to improve outcomes (continued)

The Council Plan 2023 to 2028 also lists performance measures in order to monitor and review progress on the delivery of the strategic priorities. This report provides the most recent data and status for each performance measure listed under each strategic priority as either:

- RED = The performance measure is experiencing significant underperformance, with a medium to high risk of failure to meet its target (17 measures).
- AMBER = The performance measure is experiencing minor underperformance, with a low risk of failure to meet its target (13 measures).
- GREEN = The performance measure is likely to meet or exceed its target (7 measures).

Report notes that given the fact that Council is in the early stages of the Council Plan, a higher number of measures are expected to be red. It is looking to improve these measures by the end of the current council period in 2028.

The Local Government Benchmarking Framework (LGBF) brings together a wide range of information about how all Scottish Councils perform in delivering services to local communities. The LGBF assists Councils in benchmarking their performance in key areas and creates opportunities to identify and share good practice. The link to LGBF dashboard is provided on the Council's website as well as the annual accounts, which allows visualization of the Council's performance by service areas and indicators.

Taking into account all indicators, as per the latest published data the Council's performance has improved or stayed the same as compared to the prior year and base year in relation to 57% and 49% of the indicators. The percentage of indicators in top 2 quartile improved from 54% to 56%.

The lowest percentages in relation to indicators in the top 2 performance quartiles related to cost indicators, corporate services and housing services categories i.e. 32%, 20% and 20% respectively. Performance against cost indicators has improved as compared to base year.

As part of the previous audit we had recommended that a root cause analysis should be carried out to monitor the observed trend in performance. A detailed report was presented to the Policy and Resource Committee, dated 18th June 2024. to provide an overview of performance in relation to LGBF and to scrutinise the performance against measures specific to Orkney Council.

Conclusion

Performance management arrangements provide a sound base for improvement.

Wider Scope and Best Value

The Publication of Information (Standards of Performance) Direction 2021 Statutory Performance Indicators

The Accounts Commission issued a new Statutory Performance Information (SPIs) Direction in December 2021 which applies for the three years from 2022/23

Direction requires a Council to report its:

- performance in improving local public services (including those provided with its partners and communities), and progress against agreed desired outcomes (SPI 1). The Commission expects this reporting to allow comparison both over time and with other similar bodies (drawing on Local Government Benchmarking Framework and/or other benchmarking activities).
- own assessment and audit, scrutiny, and inspection body assessments of how it is performing against its duty of Best Value, and how it has responded to these assessments (SPI 2).

Details of how the Council complies with requirements of SP1, along with the related recommendations, are included in the “Use of resources to improve outcomes” slide.

The Council has a system in place to report regular updates in relation to the achievement of strategic objectives to the Service Committees and the Policy and Resources Committee in the form of monitoring of the Council delivery plan. The latest reporting is accessible through accessing the minutes of the relevant committees.

Progress against action points emanating from external and internal assessments is reported to and monitored by the Policy and Resources Committee and are accessible by public through the minutes of the meetings of the relevant committee. Additionally, the performance section of the website includes a sub-section relating to best value which provides documents/ links to relevant sections of the website in relation to internal and external assessments with respect to best value. The Council Plan 2023-28 was published for consultation, which also included the performance measures mapped against the desired outcomes and key themes. This enabled the respondents to consider and comment on the meaningfulness of the performance indicators. The plan was updated in light of the responses and presented to the Policy and Resources Committee dated 21 February 2023. The Council has made arrangements related to self-evaluation of services.

Conclusion

Council has made arrangements to comply with the SPI Directions.

Wider Scope and Best Value

Best Value

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

Under the new Code of Audit Practice, the audit of Best Value in Councils is fully integrated within the annual audit work performed by appointed auditors and their teams. Auditors are required to evaluate and report on the performance of Councils in meeting their Best Value duties.

There are the following four aspects to auditors' work:

- Follow-up and risk-based work
- Service improvement and reporting.
- Thematic reviews.
- Contributing to Controller of Audit reports.

Thematic reviews

Auditors are required to report on Best Value or related themes prescribed by the Accounts Commission. The thematic work for 2023/24 relates to "Workforce Innovation - how councils are responding to workforce challenges". In carrying out the overview, auditors are required to answer the following questions:

- How effectively are the council's workforce plans integrated with its strategic plans and priorities?
- How effectively has digital technology been used to support workforce productivity and improve service quality and outcomes?
- How effectively is the council using hybrid and remote working and other innovative working practice such as a four-day week to achieve service and staff benefits?
- What innovative practice is the council using to develop its future workforce capacity and skills needs and manage staff reductions in line with its priorities?
- What progress has the council made with sharing roles or functions across its services and/or with other councils and partners?
- How effectively is the council measuring the impact of its workforce planning approach?

Wider Scope and Best Value

Best Value (continued)

As required by guidance we have issued a separate management report. A summary of our findings are as follows:

The People Plan is in place; it supports the council's priorities however improvements can be made to align workforce planning with the overall strategic and financial plans.

The Council has a plan in place with respect to digital modernisation and is yet to realise the workforce benefits through its use of digital technology.

The Council has work underway to promote remote working as a staff benefit; it needs to demonstrate the impact, of the same, on service performance on a periodic basis.

The Council has action plans in place for future skill and capacity development of the workforce.

The Council has shared some key posts with other partners in the community planning partnership. The Council is considering alternate modes of governance to reduce bureaucracy. Dependence of agency staff continues to be a challenge for the Council.

The council actively monitors progress with its workforce strategy and plans.

Recommendations, in addition in this report, are reported in the Best Value thematic report and relate to:








- Frequency of progress reporting against the People Plan ; and
- Alignment of the period covered by the People Plan with the Council Plan and underlying service plans.



Appendices

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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 2024.
Adjusted audit differences	 Appendix Three identifies one adjusted audit differences in excess of £200,000. These result in no overall charge to the CIES. There are three presentational differences.
Unadjusted audit differences	 We have identified one unadjusted audit difference. See appendix Three.
Related parties	 There were no significant matters that arose during the audit in connection with the entity's related parties.
Other matters warranting attention by the Audit and Risk Committee	 There were no matters to report arising from the audit that, in our professional judgment, are significant to the oversight of the financial reporting process.
Control deficiencies	 We communicate to management in this report 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.
Actual or suspected fraud, noncompliance with laws or regulations or illegal acts	 No actual or suspected fraud involving group management, employees with significant roles in internal control, or where fraud results in a material misstatement in the financial statements was identified during the audit.

Mandatory communications

Type	Statement
Significant difficulties	<input checked="" type="radio"/> OK No significant difficulties were encountered during the audit.
Modifications to auditor's report	<input checked="" type="radio"/> OK None.
Disagreements with management or scope limitations	<input checked="" type="radio"/> OK The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.
Other information	<input checked="" type="radio"/> OK No material inconsistencies were identified relating to other information in the Management Commentary. The Commentary is fair, balanced and comprehensive, and complies with the requirements of the Code.
Breaches of independence	<input checked="" type="radio"/> OK No matters to report. The engagement team have complied with relevant ethical requirements regarding independence.
Accounting practices	<input checked="" type="radio"/> OK Over the course of our audit, we have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. In general, we believe these are appropriate.
Significant matters discussed or subject to correspondence with management	<input checked="" type="radio"/> OK The significant matters arising from the audit were discussed, or subject to correspondence, with management.

Recommendations Current year

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.

#	Risk	Issue, Impact and Recommendation	Management response
1	2	<p>We challenged management in respect of the Beacon valuation compared to market sales evidence for certain categories, and the approach to Beacon valuations in general. We undertook additional risk assessment procedures and concluded there was no risk of material misstatement. We identified a control weakness related to the evidence supplied by the Council Valuer to support some of the judgements made.</p> <p>Recommendation We recommend that management discuss with the valuer:</p> <ul style="list-style-type: none"> - the approach to Beacon categories (consistency of property type in each Beacon) - how market sales evidence is considered in respect of each Beacon - how property valuations have been adjusted for the social rental compared to market price 	<p>Response Management to meet with valuer prior to commencement of 2024/25 valuation process.</p> <p>Officer Responsible: Service Manager Corporate Finance</p> <p>Date: 31 March 2025</p>

Recommendations Current year

#	Risk	Issue, Impact and Recommendation	Management response
2	2	<p>The Council's development plan was not reflected in the approach to valuations of certain investment properties. This contributed to the adjusted audit misstatement where development land included in the development plan was valued as agricultural land.</p> <p>Recommendation We recommend that management review the development plan alongside the valuation of land and buildings as part of the closedown procedures and share the same with the appointed valuer.</p>	<p>Response Where relevant, the Development Plan will be considered as part of the information drawn upon for the valuation of land and buildings.</p> <p>Officer Responsible: Service Manager Corporate Finance</p> <p>Date: 31 March 2025</p>

Recommendations Current year (Wider Scope)

#	Risk	Issue, Impact and Recommendation	Management response
1	<p>1</p>	<p>Internal audit noted non-compliance with the Council's Financial Regulations and Contract Standing Orders.</p> <p>There is a risk of improper use of resources and public money.</p> <p>Recommendation: We recommend root cause analysis is undertaken and corrective actions are put in place to ensure compliance with the relevant regulations.</p>	<p>The Council's Contract Standing Orders were updated in March 2024 and financial regulations were updated and approved at Policy and Resources Committee on 18th June 2024. This was circulated to all OIC staff by the Communications team on the 03rd July 2024. The Head of Finance and the Head of Legal and Governance reminded officers of the importance of adhering to the Financial Regulations and the Contract Standing Orders. This is reinforced by the Procurement Team who endeavour to ensure policies are followed by officers. The Corporate Leadership Team and Senior Management Teams will ensure it is applied. In addition, in April 2024, training in respect of the updated Contract Standing Orders was delivered by the Service Manager (Procurement) to officers within the Council who have authority for exercising procurement functions, in order to further enhance compliance."</p>

Recommendations Current year (Wider Scope)

#	Risk	Issue, Impact and Recommendation	Management response
2	<p>①</p>	<p>The Council's Medium-Term Financial Strategy and the Long-Term Financial Plan are not updated to reflect recent performance, current assumptions, efficiency targets, and Strategic Reserve Fund draws.</p> <p>There is a risk of outdated financial plans</p> <p>Recommendation: We recommend that the Council's Medium-Term Financial Strategy and the Long-Term Financial Plan are updated to reflect recent performance, current assumptions, efficiency targets and Strategic Reserve Fund draws.</p>	<p>It is acknowledged this an outstanding strategy and plan but it is difficult to predict when funding levels are set annually by the Scottish Government. Also in a time of political and economic climate the landscape is changing frequently and therefore at present any strategy and plans are very quickly outdated.</p>

Appendix two

Recommendations followed up and raised

We have followed up the recommendations raised in the prior year by Audit Scotland. Below is a table of the actions and implementation. We have disclosed below the recommendations that are still ongoing with the current management response.

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.
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Recommendations (followed up)

	Total number of recommendations	Number of recommendations implemented or superseded with new recommendations	Number outstanding/ongoing (repeated below):
Financial Statements Audit	4	3	1
Wider Scope	7	3	4
Best Value Thematic Report	7	3	4
Total	18	9	9

Recommendations 2022-23 (Financial Statements) follow up

#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date	Position as at September 2024
1	2	<p>In August 2022, Audit Scotland issued updated guidance in regards to the accounting of Infrastructure assets. Councils which did not meet this requirement could utilise two statutory overrides.</p> <p>For management to meet this requirement they will need to carry out a retrospective review of the methodology used to account for the infrastructure assets and update the methodology accordingly to ensure compliance with the guidance. This did not impact upon our planned audit approach</p>	<p>Noted –</p> <p>The Council intends to make use of the Scottish Government statutory override which is in place until 31 March 2024, to allow time for a permanent solution to be developed within the Accounting Code.</p> <p>The Council has applied both statutory overrides for infrastructure assets. The Council will be alert to guidance on accounting for infrastructure assets issued by CIPFA/LASAAC.</p> <p>Responsible officer: Head of Finance</p> <p>Due Date: 30 June 2024</p>	<p>The Council continued to make use of the Scottish Government statutory override in the preparation of the annual accounts for 2023/24.</p> <p>The Council awaits further guidance on this from CIPFA/LASAAC.</p>

Recommendations 22-23 (Wider scope)

#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date	Position as at September 2024
1	③	<p>The anti-fraud policy notes that it is subject to review every three years. However, it was last reviewed and updated in 2019.</p> <p>There is a risk of obsolete and out of date policies and procedures.</p> <p>Recommendation: We recommend timely review and update of all policy and procedures documents</p>	<p>The anti-fraud policy review has been overlooked but will be carried out over the next 12 months.</p> <p>Responsible officer: Corporate Director of Enterprise and Sustainable Regeneration Due Date: 30 November 2024</p>	<p>The anti-fraud policy has been updated and reviewed by the Corporate Director of Enterprise and Sustainable Regeneration, the Head of Finance and the Chief Internal Auditor.</p> <p>The updated policy will be presented to Policy and Resources Committee in November 2024.</p>

Recommendations 22-23 (Wider scope)

#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date	Position as at September 2024
2	①	<p>MTFS identifies the options available to bridge the identified funding gap. However, detailed plans at operational/service level are required to be developed and implemented to ensure achievement.</p> <p>There is a risk of inability to achieve financial balance.</p> <p>Recommendation:</p> <p>We recommend that the Council should continue to develop detailed service level medium terms plans to bridge the gap in a sustainable manner</p>	<p>The Council plans to achieve a sustainable financial position over the next 3 years through focusing on the following 5 areas.</p> <p>Income generation</p> <p>Service reduction and redesign – including cost reduction opportunities.</p> <p>Changes to ways of working (reducing bureaucracy, delivering efficiencies and improving use of ICT)</p> <p>Financial/budget smoothing Use of reserves</p> <p>Responsible officer:</p> <p>Corporate Directors</p> <p>Due Date: March 2026</p>	<p>As part of the development of a transformation portfolio to feed into the MTFS, Corporate Directors have commenced the initial identification of savings and income generation towards the Service targets as set by the Policy and Resources Committee in February 2024.</p> <p>A series of seminars for elected members is underway to go through proposals for each service area in detail with a consolidation session planned in November 2024 ahead of formal budget setting in Feb 2025.</p> <p>In-progress</p>

Recommendations 22-23 (Wider scope)

#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date	Position as at September 2024
3	2	<p>The Council recognises that overuse of strategic reserve fund is not sustainable as part of the longer term financial plans and strategy.</p> <p>There is a risk of financial imbalance and depleted reserves.</p> <p>Recommendation: We recommend that the Council should carry out detailed analysis to develop a strategy in relation to sustainable use of the strategic reserve fund taking into account the long-term commitments/plans of the Council which are expected to be settled/implemented through the use of the fund balance. It should determine a floor with a clear rationale and a policy/process for the approval of use of the fund.</p>	<p>The Council is aware that over reliance on the Strategic Reserve Fund is not a sustainable long- term strategy, however it is possible to take a regular contribution in line with the Investment Strategy for the Fund.</p> <p>The Policy and Resources Committee meeting of 19 December 2022 considered the contribution for 2023/24 and endorsed the long-term 10-year budget forecast as a financial planning document. An Investment Strategy Review of the Fund was carried out by Hymans Robertson in May 2021</p> <p>Responsible officers: Head of Finance</p> <p>Due Date: March 2025</p>	<p>Partially complete. Updated and revised Reserve Fund Investment Strategy is presented to Investment Sub-committee on 18 September.</p>

Recommendations 22-23 (Wider scope)

#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date	Position as at September 2024
4	③	<p>The policy requires the review and maintenance of risk registers (corporate and directorate). Corporate risk registers were presented to the Policy and Resources Committee periodically however directorate risk registers were last presented in June 2021. Additionally the internal audit report on corporate governance and risk management, dated 26th January 2023, identified action points for improvement.</p> <p>There is a risk of ineffective risk management.</p> <p>Recommendation: We recommend that risk management strategy should be implemented without exception.</p>	<p>As identified in the Council Plan, which was presented at Policy and Resources Committee on 21 February 2023, the Council has already committed to developing Directorate Risk Registers. These risk registers are being developed to support the Directorate Delivery Plans. The development of these plans and registers is in progress with one having already been presented at the Development and Infrastructure Committee on 14 November 2023 and another being presented at Policy and Resources Committee on 30 November 2023. The remaining will be presented to the relevant committees before 31 March 2024. The directorate risk registers will be regularly reviewed and updated in line with the Directorate Delivery Plan reporting. This action was further considered and agreed at Monitoring and Audit Committee on 8 June 2023 as part of the Local Code of Corporate Governance Improvement Plan and in the referenced 'corporate governance and riskmanagement' audit report which was presented at Monitoring and Audit Committee on 9 February 2023. Several improvement actions from the 'corporate governance and risk management' audanuary 2023, have been completed. All these improvement actions will be closed out by 31 March 2025.</p> <p>Responsible officers: Responsibility for the Risk Management Framework: Head of Property, Asset Management & Facilities. Each Director is responsible for their own Directorate Risk Register.</p> <p>Due Date: March 2025</p>	<p>The Corporate Risk Register was considered in June 2024 by Policy and Resources Committee. An updated Risk Management Plan and Strategy is going to be considered by Policy & Resources on 24 September. Directorate Risk Registers are the responsibility of the different Corporate Directors. Each Directorate has submitted a Directorate Delivery Plan to the relevant Committee and these will be reported on 6-monthly which will include a review of the Risk Register for the service.</p> <p>The NSI Directorate Delivery Plan and Risk Register was considered by D&I committee in March 2024 and is under review at the moment to make sure all mitigating actions are progressing as planned. The SPBS was considered at Policy and Resources in November 2023 and is reviewed by the service regularly and Policy and Resources Committee 6 monthly.</p> <p>The ESR Directorate Delivery Plan and Risk Register was considered by Development and Infrastructure Committee in March 2024.</p> <p>The ELH Risk Register was considered by the Education, Leisure and Housing Committee in June 2024 and the Directorate Delivery Plan by the same Committee in September 2024.</p>

Appendix two

Recommendations raised Best Value Thematic report – 22-23

#	Issue, Impact and Recommendation	Management response	Position as at September 2024
1	<p>Stakeholder engagement</p> <p>The Council used to operate a citizens panel under the title of Orkney Opinions. While there are other engagement activities including aspects of good practice, there is a risk that citizens do not have opportunity for engagement with the Council through a regular structured way throughout the year. A project to review the approach to Community Consultation and Engagement is underway and includes actions to consider engagement methods.</p> <p>We recommend the Council ensures that it considers, as part of this project, how ad hoc and in-year consultation is carried out effectively and that it seeks stakeholder views on the proposed and implemented approach.</p>	<p>Agreed</p> <p>The Council has identified and committed to this improvement area. A project has been initiated to review and refresh The Council's approach to Community Consultation and Engagement. A partnership approach is being taken with members of the project team being from across community planning partners.</p> <p>Review of the citizenship panel is in scope of the project brief. This action was further considered and agreed at Monitoring and Audit Committee on 8 June 2023 as part of the Local Code of Corporate Governance Improvement Plan - Explore the development of a modernised suite of community engagement and consultation tools including an online platform.</p> <p>Responsible officer / date</p> <p>Head of Improvement and Performance</p> <p>Full discovery completed: 31 December 2024</p> <p>Project completion: 31 March 2026.</p>	<p>The Community Engagement Project team continues to progress Phase one, involving selection of a suitable digital engagement platform, engagement with young people and Orkney Matters 2. Orkney Matters 2 meetings began in May and will conclude in October. An arts outreach programme connected with Orkney Matters 2 will begin in August and once this is concluded, work will begin on compiling a full report and analysis on the findings.</p> <p>The review of the citizenship panel forms part of the second phase of the project.</p>

Appendix two

Recommendations raised Best Value Thematic report – 22-23

#	Issue, Impact and Recommendation	Management response	Position as at September 2024
2	<p>Equality performance measures</p> <p>Indicators in the Council plan include a number in relation to reducing inequality. The Council presented on Equality Outcomes 2023-2027 to Policy and Resources Committee in September 2023 and Work is ongoing to develop associated KPIs and delivery plan.</p> <p>Until these are completed, there is a risk of inability to monitor and achieve inequality related objectives and outcome.</p> <p>We recommend development / highlighting of specific inequality related performance measures and delivery plan is set a target date and monitored.</p>	<p>Agreed</p> <p>Equality outcomes were presented at Policy and Resources Committee on 19 September 2023. As identified in the report a delivery plan, including equality KPIs, is now under development. This will include both internal and customer focused equality measures. In addition to this, many of the performance indicators in the Council Plan focus on reducing inequalities.</p> <p>Responsible officer / date</p> <p>Head of Human Resources and Organisational Development</p> <p>30 June 2024</p>	<p>The Delivery Plan for the Equality Outcomes has been drafted and agreed with relevant lead officers across the Council. The Delivery Plan will be published on the Council website and the first progress and performance monitoring report on it will be presented to Policy and Resources Committee in November 2024.</p>

Appendix two

Recommendations raised Best Value Thematic report – 22-23

#	Issue, Impact and Recommendation	Management response	Position at September 2024
3	<p>Climate change</p> <p>The objectives outlined in the previous carbon management programme have not yet been achieved.</p> <p>The council is working on developing the new climate related strategy and associated plans which will then need incorporating into other strategies.</p> <p>Until this is completed there is a risk of the Council plans and strategies not aligned to support the achievement of the climate related objectives and outcomes in a timely manner.</p> <p>The Council should expedite its ongoing development of climate related strategies and associated action and delivery plans. This should include incorporation of the impacts of the identified climate related initiatives in the future budgets and the medium-term financial plan.</p>	<p>Agreed</p> <p>Climate change continues to be a priority for the Council with increased focus within the Council Plan and Delivery Plan 2023-2028. In October 2023 the Council acknowledged the scale of the challenge of transitioning the Council and services to net zero and confirmed its commitment to urgent action, and endorses the developing strategic approach, including initial principles and timeline. It is included in risk registers.</p> <p>Development of the strategy and associated plans will be informed by an independent study. An officer working group met in November 2023 to commence practical actions and support.</p> <p>Responsible officer / date</p> <p>Head of Planning & Community Protection</p> <p>31 March 2025</p>	<p>The Officer Working Group to support strategy development and co-ordination is now up and running with progress being made as planned, through smaller task themed sub-groups. The external consultant to support the development of the OIC Climate Work programme including developing indicative Council transition pathways towards net zero has been appointed (August 2024) and work with them has started. A report on Climate Change and Net Zero will be considered by Policy & Resources on 24 September, this includes an overview of the Council's developing strategic approach to Climate Change and an updated vision statement for members consideration. The Annual Report for Scottish Government on how the Council is fulfilling its climate change duties will be considered at the November cycle of meetings.</p>

Appendix two

Recommendations raised Best Value Thematic report – 22-23

#	Issue, Impact and Recommendation	Management response	Position at September 2024
4	<p>Impact assessments</p> <p>Equalities Impact Assessment and Island Communities Impact Assessment were carried out as part of the development of the Council plan.</p> <p>However, these have not been published on the designated section of the website (alongside older assessments) but rather with the associated committee meeting reports were they were considered.</p> <p>There is a risk that stakeholders cannot readily access the latest assessments.</p> <p>We recommend that the Council add a note to this effect on the website and consider how assessments can be most readily accessed / overviewed by the public.</p>	<p>Agreed</p> <p>There has been an intentional move away from keeping all impact assessments in the same place as this separated them from the policy, strategy, or plan to which they were related.</p> <p>The Council will consider how to ensure an overview of completed assessments is made clearly available.</p> <p>Responsible officer / date</p> <p>Head of Improvement and Performance 30 June 2024</p>	<p>The approach has been considered including benchmarking against other Councils. A new unified area for impact assessments is being developed and will be completed by December 2024.</p>

Appendix three

Audit Differences

Adjusted audit differences (£'000s)

Under UK auditing standards (ISA (UK) 260) we are required to provide the Audit and Risk Committee with a summary of adjusted audit differences (including disclosures) in excess of £250,000 identified during the course of our audit. The adjustments below have been included in the financial statements.

Adjusted audit differences (£'000s) – Financial Statements (Council and Group)

Detail	CIES Dr/(Cr)	Balance Sheet Dr/(Cr)	Comments
Dr Investment Properties		2,715	Being the adjustment to the valuation of development land held as an investment property.
Cr Financing and Investment Income and Expenditure	(2,715)		
Dr MIRS	2,715		
Cr Capital Adjustment Account		(2,715)	
Total	2715	2715	

Adjusted audit differences (£'000s) – Financial Statement Disclosures

Statement / Disclosure	CIES Dr/(Cr)	Comments
Remuneration Report Councillor's pension contributions value	3.168	Correction of pension contributions value.
Pension disclosure Surplus methodology	N/A	Adding in disclosure on pension surplus to state the assumptions made and the sensitivity of the assumptions.
Note 28 Capital Expenditure – Kirkwall Care Facility Value	234	Increase in the KCF approximate value.

Audit Differences

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

Unadjusted audit differences (£'000s)

No	Detail	CIES Dr/(Cr)	Balance Sheet Dr/(Cr)	Comments
	Dr Pension Assets		2,388	Being the additional rate of return between the Actual Rate of Return and the Estimated Rate of Return by the Actuary as at 31.3.2024
	Cr Rate of Return	(2,388)		
	Dr MIRS	2,388		
	Cr Pension Reserve		(2,388)	
	Total	2388	2388	

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 Partner and audit staff is not impaired.

To the Audit Committee members

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

Professional ethical standards require us to provide to you with 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 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.

Independence and objectivity considerations relating to the provision of non-audit services

Summary of non-audit services

We have not provided any non-audit services in year.

Confirmation of Independence (continued)

We have considered the fees charged to the Council for professional services provided during the reporting period. Total fees charged can be analysed as follows:

Entity	2023/24	2022/23
Auditor Remuneration**	£220,890	£229,890
Pooled Costs	£8,050	£0
PABV Contribution	£49,800	£42,940
Audit Support Costs	£0	£7,900
Sectoral Cap Adjustment	-£40,480	-34,450
TOTAL AUDIT FEES (Incl VAT)	£238,260	£246,280
Fees for non-audit services	-	-

(** the average of tender values which may differ from what KPMG receives)

Source: Audit Scotland

Application of the FRC Ethical Standard 2019

We communicated to you previously the effect of the application of the FRC Ethical Standard 2019. That standard became effective for the first period commencing on or after 15 March 2020, except for the restrictions on non-audit and additional services that became effective immediately at that date, subject to grandfathering provisions.

We confirm that as at 15 March 2020 we were not providing any non-audit or additional services that required to be grandfathered.

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 the Audit 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

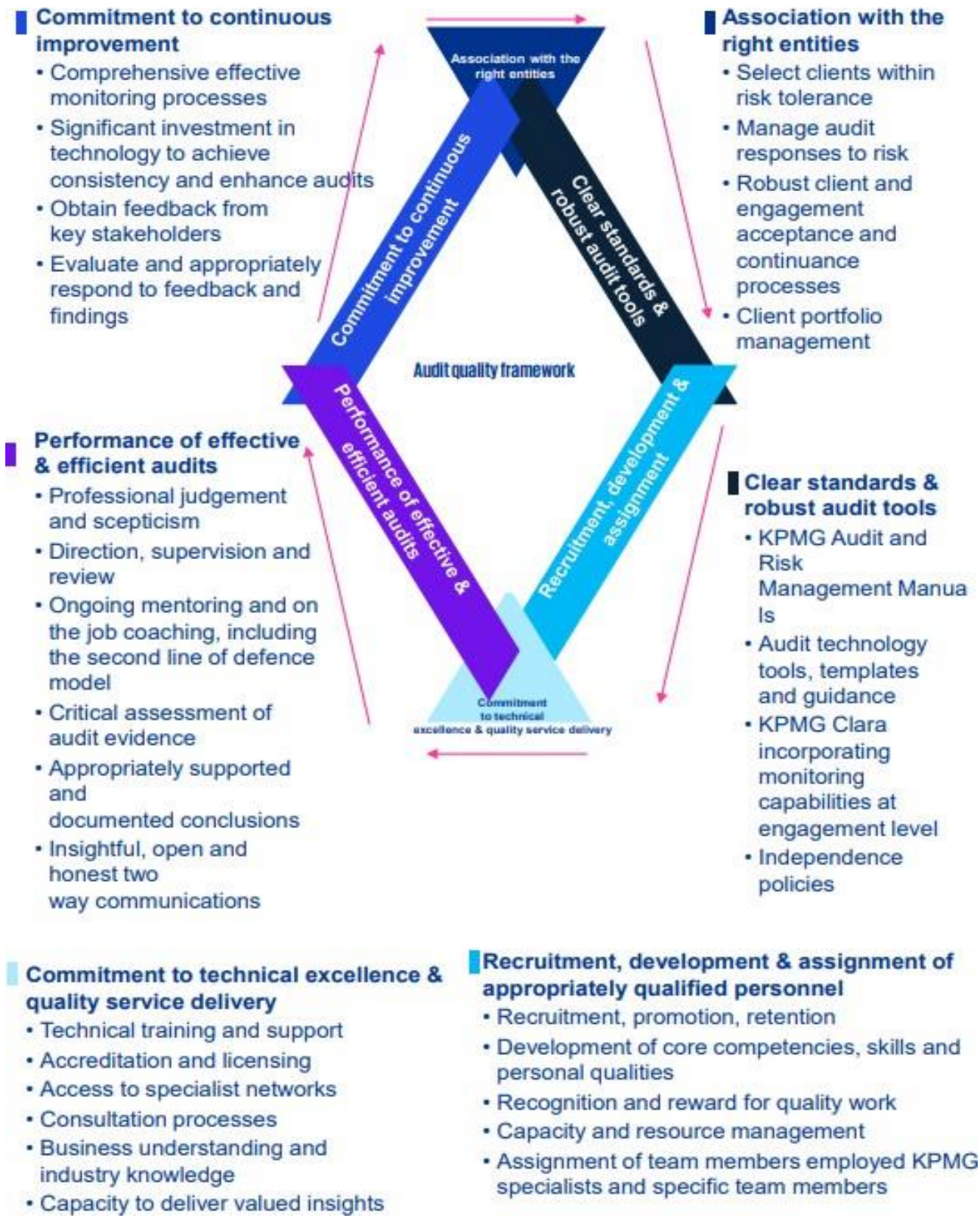
KPMG LLP



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.





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