



Orkney Integration Joint Board

Annual Audit Report to the Members of Orkney Integration Performance and Audit Committee and the
Controller of Audit for the year ended 31 March 2024

26 November 2024

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About this report

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

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

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

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

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

Complaints

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

Executive summary

Audit conclusions

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

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

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

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

Wider Scope.

Details of current year and prior year recommendations are included on pages 21 to 27 of this report.

Scope and responsibilities

Purpose of this report

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

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

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

Accountable officer responsibilities

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

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

Audit status

Our audit is complete.

Auditor responsibilities

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

Scope

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

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

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

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

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

Audit conclusions

Audit opinion

Our work on the financial statements of the IJB is complete. We issued an unqualified opinion on the truth and fairness of the state of the IJB's affairs as at 31 March 2024, and the result for the year then ended.

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

Financial reporting framework, legislation and other reporting requirements

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

Statutory reports

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

Other communications

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

Audit misstatements

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

Written representations

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

Materiality and summary of risk areas

Materiality

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

We used a materiality of £2.2 million for the IJB's financial statements. This equates to approximately 2.99% of gross expenditure. We designed our procedures to detect errors in specific accounts at a lower level of precision than our materiality. For the IJB, our performance materiality was £1.65 million. We report all misstatements greater than £110 thousand.

Forming our opinions and conclusions

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

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

Financial statements preparation

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

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

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

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

Significant risks (page 7 of this report):

- management override of controls fraud risk.
- fraudulent revenue recognition (rebutted).

Other focus areas (page 11 of this report):

- financial sustainability (also a wider scope area).

Wider scope areas (page 9 – 15).

Significant risks

Significant risk	Our Response	Audit conclusion
Fraud risk from management override of controls Professional standards require us to communicate the fraud risk from management override of controls as a significant risk; as management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.	- Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we evaluate the design and implementation of the controls in place for the approval of manual journals posted to the general ledger to ensure that they are appropriate. - We analysed all journals through the year and focus our testing on those with a higher risk, such as journals impacting revenue or expenditure recognition around year-end, or journals linked to our other recognised significant risks. - We assess the appropriateness of changes compared to the prior year to the methods and underlying assumptions used to prepare accounting estimates. - We review the appropriateness of the accounting for significant transactions that are outside the Board's normal course of business, or are otherwise unusual. - We assess the controls in place for the identification of related party relationships and test the completeness of the related parties identified. We verify that these have been appropriately disclosed within the financial statements.	Our work did not identify any instances of override of control, or matters that required adjustment in the annual accounts or which require to be brought to attention.
Fraud risk from income revenue recognition and expenditure 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.	- We consider that the Board's significant income streams, which include funding requisitions from both the Orkney Island Council and NHS Orkney. These are agreed in advance of the financial year, with any changes arising from changes in need, requiring approval from each body. There is no estimation or judgement in recognising this stream of income and we do not regard the risk of fraud to be significant. - The Board works with both bodies in order to deliver services delegated by the Board. The Board makes these decisions based on its budget agreed in advance of the financial year. There is no estimation or judgement in recognising expenditure to these bodies, and we do not regard the risk of fraud to be significant.	We have rebutted the fraud risk from income revenue and expenditure recognition in the financial statements. We have not identified any issues of fraudulent income or expenditure recognition in the accounts.

Management reporting in financial statements

Report	Summary observations	Audit conclusion
Management commentary	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 CIPFA disclosure checklist IJB accounts.	The information contained within the management commentary is consistent with the annual accounts. We reviewed the contents of the management commentary against the guidance contained in the Local Government finance circular 5/2015 and are content with the proposed report.
Remuneration report	The remuneration report was included within the unaudited annual accounts and supporting reports and working papers were provided.	The information contained within the remuneration report is consistent with the underlying records and the annual accounts and all required disclosures have been made in line with the 2014 regulations. Our independent auditor's report confirms that the part of the remuneration report subject to audit has been properly prepared.
Annual governance statement	The statement for 2023/24 outlines the corporate governance and risk management arrangements in operation in the financial year. It provides detail on the IJB's governance framework, review of effectiveness, continuous improvement agenda, and analyses the efficiency and effectiveness of these elements of the framework. We consider the annual governance statement to ensure that management's disclosure is consistent with the annual accounts, and that management have disclosed that which is required under the delivering good governance in local government framework.	We consider the governance framework and annual governance statement to be appropriate for the IJB and that it is in accordance with guidance and reflects our understanding of the IJB. We were satisfied with the proposed disclosure over the governance arrangements.

Audit dimensions introduction

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

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

Financial management

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

Budget setting

The 2023/24 budget of £61.3 million was approved by the Board in April 2023. Net expenditure of £73.2 million represents an overspend of £5.6 million. This overspend is charged to the constituent local authorities and utilisation of reserves to achieve a year end balanced position. A budget overrun report was presented to the Board to explain the nature and cause of the overspend.

The 2024/25 budget of £66.7 million was approved by the Board on 19 June 2024 representing an 8.8% increase as compared to 2023/24. We note that delayed approval of the budget has resulted in the Board operating without an approved budget for a period of more than two months after the start of the relevant financial year. Furthermore, there is a risk in relation to achievement of balance in the short term based on the approved budget, keeping in view the actual outturn for 2023/24. A draft recovery plan was presented to the Board dated 19th June 2024. We understand that the recovery plan has not yet been approved and is fundamental to achievement of balance in the short and medium term.

Recommendation one

Budget Monitoring

Finance reports are submitted to the Board on a periodic basis and highlight the financial position and projections to the year end, together with any significant variances and areas of concern.

Financial regulations

As part of previous year audit, we noted that a copy of the IJB's financial regulations are uploaded on the website, however these were approved in March 2016 with review scheduled for 2017 which is past due. The review and refresh has been undertaken in the current year.

Fraud prevention mechanisms

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

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

Internal controls

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

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

Going Concern

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

Conclusion

The 2024-25 budget was set in June 2024 with 8% increase as compared to prior period.

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

There is a risk in relation to achievement of financial balance which must be supported through a recovery plan.

Financial regulations have been reviewed and updated.

Financial sustainability

Medium term financial plan

The Board had developed a Medium Term Financial Plan (MTFP), to look beyond the single year budget in the previous year, which was approved in June 2022. The plan relates to financial planning for three years from 2022 to 2025.

Three scenarios have been calculated which highlight potential fluctuation which could exist within each model. The analysis indicates adverse variances between £0.6 million to £7.9 million over the three-year period based on different scenarios.

While the plan includes consideration of different alternatives to bridge the gap, Orkney IJB is yet to develop a quantified analysis of the saving options. As a last resort making difficult choices is also considered which may require decommissioning of certain services.

As part of the previous year we noted that the latest available plan relates to period from 2022 to 2025 and has not been rolled forward in the current year and is limited to 3 years. We were given to understand that a process for updating the MTFP on an annual basis will be implemented. However, we have not seen any evidence of review and refresh of the medium term financial plan.

Prior year recommendation

Savings Plans

No additional recurring savings target has been set against the NHS Orkney delegated service budgets for 2024/25, the Orkney IJB is expected to deliver, as a minimum, £2.4 million of the unachieved recurring savings for NHS Orkney commissioned services over the next five years, which commenced in 2023/24 on its delegated budgets.

In regard to financial year 2024/25 for services commissioned from Orkney Islands Council, savings in respect of a reduction in its employer's pension contribution rates (£335k) and a 1% reduction in staff budgets (£216k) to reflect vacancy management have been applied to the budget.

For Orkney Islands Council commissioned services, to assist in achieving balanced budgets for 2025/26, 2026/27 and 2027/28, indicative efficiency targets of £469k, £704k and £938k respectively have been set. There are no quantified savings plans in place.

Prior year recommendation

Conclusion

MTFP is in place and takes into account scenario planning.

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

MTFP has not been rolled forward in the current year.

Vision, leadership and Governance

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

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

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

The Orkney IJB's Code of Conduct, which was reviewed and approved by Orkney IJB in April 2022 and subject to approval by Scottish Government, is applicable to all Members of the Orkney IJB and requires them to exercise leadership in establishing specific operating principles and values, ensuring they are communicated and understood throughout the organisation.

Leadership capacity

An induction pack, which gives an overview of the Orkney IJB and where to find out more detailed information to enable all Members to fulfil their role and the different elements of the Orkney IJB, was presented to the Board at its meeting held on 29 June 2022.

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

Strategy and Risk Management

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

The Risk Management Strategy was updated and approved on 19 April 2023. The revised Risk Register was reviewed by the Board on 21 June 2023.

Scrutiny, challenge and transparency

We had noted in the previous year that the status of progress of audit recommendations and action points should be regularly reported to the Board/committee. We were given to understand that the half yearly reporting on outstanding external and internal audit recommendations will be introduced. However, we have not seen any evidence of interim reporting in relation to external and internal audit recommendations.

Prior year Recommendation

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

The Communication and Engagement Strategy was updated and approved in April 2023. This is to ensure the voices of the most vulnerable people in Orkney are heard, and that the proactive involvement of service users, their families, carers, staff and partners are recognised as a key priority in informing and guiding the work that the Orkney IJB will commission from the Parties.

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

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

Vision, leadership and Governance(continued)

Internal Audit

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

The annual programme of internal audit work is based on a strategic risk assessment and is approved by the Performance and Audit Committee. The internal audit function for financial year 2023/24 was provided by Orkney Islands Council's Chief Internal Auditor as the Chief Internal Auditor of the Orkney IJB. This appointment is for the period 2021 to 2026.

The Audit Committee approved the Internal Audit Strategy and Plan for 2023/24 on 22 March 2023.

Internal Audit Annual Report and Opinion, relating to 2023/24, was presented to the Performance and Audit Committee dated 26 June 2024. The report noted that on the basis of the audit work performed in 2023/24:

- the IJB has a framework of controls in place that provides adequate assurance regarding the organisation's governance framework, related internal controls, and the management of key risks.
- the actions identified during the audit work did not impact on the overall governance arrangements of the IJB.
- they confirm that there were no instances of fraud identified from the audit work conducted during the year.

The report further notes that as at the end of the financial year there were no outstanding audit actions from previous years' internal audits.

Conclusion

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

The IJB's governance and arrangements are appropriate with scope for some continued improvements.

Use of resources to improve outcomes

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

The updated Performance Management Framework, which was presented and approved at the December 2022 meeting of the Orkney IJB Performance and Audit Committee, act as a framework for the IJB to undertake an improved scrutiny function, and for the Orkney Health and Social Care Partnership to enhance its performance culture focused on quality and continuous improvement, this being critical when demand for services is growing and resources are tightening.

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

Prior year recommendation

We noted that the annual performance report for 2023/24 has been uploaded to the IJB's website for public access. However it will be pertinent to note that it includes data for 19 out of the 23 indicators included in the performance management framework. The data included therein is limited to the previous years in a number of cases based on the availability of the underlying data.

Orkney performed poorly in two of nine indicators related to national health and wellbeing outcomes when compared to other HSCPs throughout Scotland these being (1) the percentage of adults supported at home who agreed that they had a say in how their help, care, or support was provided and (2) the percentage of adults supported at home who agreed that their health and social care services seemed to be well co-ordinated.

LGBF performance is identified and reported as part of the annual performance reporting process. As per the latest published report Orkney HSCP's performance in LGBF is reported for 7 out of 11 indicators. The reported performance ranking has deteriorated, improved and remained unchanged for 4, 2 and 1 metrics respectively.

Conclusion

The updated Performance Management Framework was approved in December 2022 to act as a framework for IJB to undertake an improved scrutiny function. Annual performance report for 2023/24 has been uploaded to the IJB's website for public access and reports performance in relation to national health and well-being outcomes as well as LGBF.

Performance reporting is not being carried out to relevant committee on quarterly basis.

Best Value

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

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

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

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

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

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

The IJB has a performance and audit committee which has met regularly in 2023-24. There is evidence of scrutiny and sufficient challenge in relation to the matters being considered at these meetings. The minutes of the meeting of the performance and audit committee are regularly presented at the IJB meetings.

The minutes of the meetings of IJB and performance and audit committee, including performance related information therein, is publicly available on the Orkney Islands Council's website. The annual performance report for 2023/24 has been uploaded to the IJB's website for public access and that the LGBF performance is identified and reported as part of the annual performance reporting process.

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

Conclusion

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

Appendices

Appointed auditor's responsibilities

AREA	APPOINTED AUDITOR'S RESPONSIBILITIES	HOW WE HAVE MET OUR RESPONSIBILITIES
Statutory duties	Undertake statutory duties, and comply with professional engagement and ethical standards.	Appendix two outlines our approach to independence.
Financial statements and related reports	Provide an opinion on audited bodies' financial statements and, where appropriate, the regularity of transactions. Review and report on, as appropriate, other information such as annual governance statements, management commentaries, and remuneration report.	Page 5 summarises the opinion. Page 8 reports on the other information contained in the financial statements, covering the annual governance statement, management commentary and remuneration report.
Financial statements and related reports	Notify the Auditor General or Controller of Audit when circumstances indicate that a statutory report may be required.	Reviewed and concluded on the effectiveness and appropriateness of arrangements and systems of internal control, including risk management, internal audit, financial, operational and compliance controls.
Wider audit dimensions	Demonstrate compliance with the wider public audit scope by reviewing and providing judgements and conclusions on the audited bodies': - Effectiveness in the use of public money and assets; - Suitability and effectiveness of corporate governance arrangements; - Financial position and arrangements for securing financial management and sustainability; - Effectiveness of arrangements to achieve best value; and	We have concluded on pages (10 to 15) on the arrangements in place.

Auditor independence

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

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

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

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

General procedures to safeguard independence and objectivity

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

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

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

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

Summary of fees

Audit Scotland has completed a review of funding and fee setting arrangements for 2023-24. An expected fee is calculated by Audit Scotland to each entity within its remit. This expected fee is made up of four elements:

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

Entity	2023/24	2022/23
Auditor Remuneration**	£35,540	£33,530
Pooled Costs	£1,300	£-
PABV Contribution	£7,590	£6,380
Audit Support Costs	£0	£1,270
Sectoral Cap Adjustment	-£11,070	-£9,710
Additional Fee Agreed	-	£4,650
TOTAL AUDIT FEES (Incl. VAT)	£33,360	£36,120

There were no non-audit services provided during the year to our ethics and independence

Independence and objectivity considerations relating to other matters

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

Confirmation of audit independence

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

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

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

Yours faithfully,

KPMG LLP

Required communications with the IJB

Type		Response
Our draft management representation letter		We have not requested any specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 March 2024.
Adjusted audit differences		Page 20 of this report
Unadjusted audit differences		There are no unadjusted audit differences.
Related parties		There were no significant matters that arose during the audit in connection with the entity's related parties.
Other matters warranting attention by the Audit Committee		There were no matters to report arising from the audit that, in our professional judgment, are significant to the oversight of the financial reporting process.
Control Deficiencies		We have not identified any internal control weakness during our audit to date. Management retains the responsibility for maintaining an effective system of internal control.
Actual or suspected fraud, non-compliance with laws and regulations or illegal acts		No actual or suspected fraud involving group or component management, employees with significant roles in internal control, or where fraud results in a material misstatement in the financial statements were identified during the audit.

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

Audit Differences

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

No unadjusted misstatements to report.

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

Adj.	Adjusted AuditDifferences
1	Comprehensive Income and Expenditure and related notes Result based on the reported amounts in the income and expenditure account did not align with the movement in the reserves. The amounts were adjusted to tie with the amount of surplus impacting the reserves.

Recommendations - follow-up

The table below summarises the outstanding recommendations from prior years.

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

Priority rating for recommendations			
1	Priority one: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	2	Priority two: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.
3	Priority three: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.		
Rating	Finding(s) and risk(s)	Management update	Agreed management actions
Governance and Transparency			
	The Medium term Financial Plan identified a cumulative funding gap of between £0.6 million to £7.9 million based on different assumed scenarios. There are no proposed actions included in the plan and the OIJB is yet to develop savings options. There is a risk that the IJB does not achieve financial balance across the medium term.	There is ongoing discussions on how to ensure that services can be delivered within the available financial envelope. Ongoing work with Heads of Service and Financial Sustainability Office. These plans will be detailed within future iteration of Medium Term Financial Plan.	Ongoing. An updated recovery plan will be presented to the IJB in November 2024. A new updated MTFP will be developed and presented to the IJB in February 2025
	A number of the governing documents have not been reviewed since 2018 and are difficult to find on the website. There is a risk that the governing documents do not reflect current arrangements nor meet the OIJB's commitment to openness and transparency.	There is an action log to highlight all documents to ensure they are updated and will be put on the Orkney Islands Council's website.	Agreed. IJB will work with the OIC communication team to ensure full transparency of IJB governing documents on the Council's website

Recommendations – follow-up (continued)

Rating	Finding(s) and risk(s)	Management update	Agreed management actions
	Governance and Transparency		
	The OIJB should have effective arrangements for scrutinising performance, monitoring progress towards their strategic objectives and holding partners to account. However, performance management information was not provided to those charged with governance throughout the financial year. There is a risk that performance failures are not identified in sufficient time to take corrective action. 2022/23: Performance reporting is not taking place regularly at the relevant committee meeting	A performance management framework has been developed. The Terms of Reference of the Performance and Audit Committee has been updated to include performance within its remit. The Performance and Audit Committee meet quarterly with a performance report brought to every committee. The IJB are working to ensure the content of the performance report is meaningful and useful for members.	Complete. During 2023/24 there were regular performance reports presented at the relevant committee meetings.

Recommendations – follow-up (continued)

Rating	Finding(s) and risk(s)	Management Update 2022/23	Agreed management actions
Financial Management and Sustainability			
3	A copy of the IJB's financial regulations are uploaded on the website, however these were approved in March 2016 with review scheduled for 2017 which is long past due. There is a risk of obsolete and out of date policies and procedures. We recommend periodic review and update of all policy and procedures documents.	Management response: The revised Financial Regulations, along with a revised Reserves Policy and a revised Stakeholder Representatives Expenses policy was approved by the Integration Joint Board on 30 August 2023 and have now been loaded onto the IJB's section within the Council's website. The Matters Arising log, which is considered at each meeting of the board includes a section on regular reports required. Responsible officer: Chief Officer Chief Finance Officer Implementation date: Completed	Completed
2	The latest available MTFP relates to period from 2022 to 2025 and has not been rolled forward in the current year. There is a risk of loss of benefits associated with medium term planning We recommend that the MTFP is rolled forward on an annual basis.	Management response: Agreed. The Medium Term Financial Plan will be rolled forward on an annual basis and reported to the board. Responsible officer: Chief Finance Officer Implementation date: 31/March/2024	Ongoing. A new updated MTFP will be developed and presented to the IJB in February 2025

Recommendations – follow-up(continued)

Rating	Finding(s) andrisk(s)	Management Update 2022/23	Agreed management actions
Financial Management andSustainability			
2	The MTFP plan is limited to 3 years and does not include any financial forecasts to cover a longer term period. The plan should also seek to provide a longer term projection of the Board’s future budget position for the next ten years. This will allow longer term risks and issues to be identified. Although it is clear that the further away from the current date that projections go the less certain the projections become, they will nevertheless allow the Board to consider longer term views andoptions. There is a risk of failure to identify financial imbalance and inability to plan accordingly over a longer termperiod. We recommend that longer term forecasts/plans should also be developed	Management response: Identified longer-term risks and issues such as service pressures and delivery of service restructure initiatives will be noted within the medium term plan. It should be recognised that the IJB only receives annual budget settlement from the funding partners, who only receive annual budgets themselves. This hinders the IJB’s ability to accurately identify medium- or longer-term financial imbalance. Responsibleofficer: Chief Finance Officer Implementation date: 31/March/2024	Ongoing. Management will consider forecasting into longer term period when the MTFP is updated.

Recommendations – follow-up (continued)

Rating	Finding(s) and risk(s)	Management Update 2022/23	Agreed management actions
	Performance and progress reporting		
2	Despite performing better than national averages in 9 of 11 indicators, Orkney's score deteriorated in 7 out of 9 indicators in 2021/22 compared to 2019/20 related to national health and wellbeing outcomes. Further Orkney's ranking has gone down in relation to 5 of the 11 LGBF metrics as compared to the previous year. There is a risk of deteriorating outcomes and reputational damage. We recommend that a root cause analysis be carried out to investigate and develop and action plan against deteriorating performance <u>2023/24 update</u> As per the latest published report Orkney HSCP's performance in LGBF is reported for 7 out of 11 indicators. The reported performance ranking has deteriorated, improved and remained unchanged for 4, 2 and 1 metrics respectively.	Management response: A performance management framework has been developed. The Terms of Reference of the Audit Committee have been updated to include performance within its remit. The Performance and Audit Committee meet quarterly, and a performance report should be brought to every committee. The IJB are working to ensure the content of the performance report is meaningful and useful for members. Responsible officer: Chief Finance Officer Implementation date: On going	Ongoing. Performance reports to PAC will continue to analyse the data to check the root causes of the changes in performance rankings.

Recommendations – follow-up (continued)

Rating	Finding(s) and risk(s)	Management Update 2022/23	Agreed management actions
Performance and progress reporting			
3	As part of review of the minutes of the meeting, we could not identify evidence in relation to regular and periodic reporting of the status of the outstanding audit recommendations. There is a risk that action points are not addressed in a timely manner. We recommend that the status of progress of audit recommendations and action points should be regularly reported to the Board.	Management response: Progress on prior year external audit recommendations is included with the annual audit report which is considered annually by the Performance and Audit committee. Progress on outstanding and completed Internal audit recommendations are included within the Chief Internal Auditor's annual audit report and opinion, presented to the Performance and Audit Committee on 28 June 2023. Half yearly reporting on outstanding external and internal audit recommendations will be introduced. Responsible officer: Chief Finance Officer Implementation date: 31/March/2024	Ongoing. Half yearly reporting on outstanding external and internal audit recommendations has been introduced and will be monitored.

Recommendations - current year

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

Rating	Finding(s) and risk(s)	Recommendation	Agreed management actions
Performance and progress reporting			
1	1- The 2024/25 budget was approved by the Board on 19 June 2024. We note that delayed approval of the budget has resulted in the Board operating without an approved budget for a period of more than two months after the start of the relevant financial year. Furthermore, there is a risk in relation to inability to achieve balance in the short term based on the approved budget, keeping in view the actual outturn for 2023/24. A draft recovery plan was presented to the Board dated 19 th June 2024. We understand that the recovery plan has not yet been approved and is fundamental to achievement of balance in the short and medium term.	We recommend the implementation of recovery plan to ensure achievement of short and medium term financial balance. We further recommend timely approval of the budget ahead of the start of the relevant financial year.	Ongoing. An updated recovery plan will be presented to the IJB in November 2024. There are plans to ensure the budget for 2025/26 is approved by the board before the start of the financial year.

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

Ongoing impact of the revisions to ISA (UK) 240

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

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

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

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

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

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

ISA (UK) 315 Revised: changes embedded in our practices

Summary

In the prior period, ISA (UK) 315 Revised "Identifying and assessing the risks of material misstatement" was introduced and incorporated significant changes from the previous version of the ISA.

These were introduced to achieve a more rigorous risk identification and assessment process and thereby promote more specificity in the response to the identified risks. The revised ISA was effective for periods commencing on or after 15 December 2021.

The revised standard expanded on concepts in the existing standards but also introduced new risk assessment process requirements – the changes had a significant impact on our audit methodology and therefore audit approach.

What impact did the revision have on audited entities?

With the changes in the environment, including financial reporting frameworks becoming more complex, technology being used to a greater extent and entities (and their governance structures) becoming more complicated, standard setters recognised that audits need to have a more robust and comprehensive risk identification and assessment mechanism. The changes result in additional audit awareness and therefore clear and impactful communication to those charged with governance in relation to (i) promoting consistency in effective risk identification and assessment, (ii) modernising the standard by increasing the focus on IT, (iii) enhancing the standard's scalability through a principle based approach, and (iv) focusing auditor attention on exercising professional scepticism throughout risk assessment procedures.

Implementing year 1 findings into the subsequent audit plan

Entering the second year of the standard, the auditors will have demonstrated, and communicated their enhanced insight into their understanding of your wider control environment, notably within the area of IT. In year 2 the audit team will apply their enhanced learning and insight into providing a targeted audit approach reflective of the specific scenarios of each entity's audit. A key area of focus for the auditor will be understanding how the entity responded to the observations communicated to those charged with governance in the prior period. Where an entity has responded to those observations a re-evaluation of the control environment will establish if the responses by entity management have been proportionate and successful in their implementation. Where no response to the observations has been applied by entity, or the auditor deems the remediation has not been effective, the audit team will understand the context and respond with proportionate application of professional scepticism in planning and performance of the subsequent audit procedures.

What will this mean for our on-going audits?

To meet the on-going requirements of the standard, auditors will each year continue to focus on risk assessment process, including the detailed consideration of the IT environment.

Subsequent year auditor observations on whether entity actions to address any control observations are proportionate and have been successfully implemented will represent an on-going audit deliverable.

Each year the impact of the on-going standard on your audit will be dependent on a combination of prior period observations, changes in the entity control environment and developments during the period. This on-going focus is likely to result in the continuation of enhanced risk assessment procedures and appropriate involvement of technical specialists (particularly IT Audit professionals) in our audits which will, in turn, influence auditor remuneration.

KPMG's Audit quality framework

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

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

■ Commitment to continuous improvement

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

■ Performance of effective & efficient audits

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

■ Commitment to technical excellence & quality service delivery

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



■ Association with the right entities

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

■ Clear standards & robust audit tools

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

■ Recruitment, development & assignment of appropriately qualified personnel

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



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