



# Orkney Integration Joint Board

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

3 October 2025

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## About this report

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

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

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

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

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

## Complaints

If at any time you would like to discuss with us how our services can be improved or if you have a complaint about them, you are invited to contact Michael Wilkie, who is the engagement leader for our services to the IJB, telephone 0141 300 5890, email: [michael.wilkie@kpmg.co.uk](mailto: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](mailto:tim.cutler@kpmg.co.uk). We will investigate any complaint promptly and do what we can to resolve the difficulties. After this, if you are still dissatisfied with how your complaint has been handled you can refer the matter to Owen Smith, Audit Scotland, 4th Floor, 102 West Port, Edinburgh, EH3 9DN.

# Executive summary

## **Audit conclusions**

Our work on the financial statements of the IJB is complete. We have 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 risk and audit focus areas identified in the audit strategy document.

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

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

## **Wider Scope.**

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

# 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, discharges 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 2025, and the results for the year then ended.

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

### Financial reporting framework, legislation and other reporting requirements

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

### Statutory reports

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

### Other communications

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

### Audit misstatements

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

### Written representations

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

# Materiality and summary of risk areas

### Materiality

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

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

### Forming our opinions and conclusions

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

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

### Financial statements preparation

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

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

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

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

Significant risks (page 7 of this report):

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

Wider-scope areas (pages 9 -15).

# Significant risks

Significant risk	Our Response	Audit conclusion
<p><b>Fraud risk from management override of controls</b></p> <p>Professional standards require us to communicate the fraud risk from management override of controls as a significant risk; as management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> <li>— 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.</li> <li>— 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.</li> <li>— We review the appropriateness of the accounting for significant transactions that are outside the Board's normal course of business, or are otherwise unusual.</li> <li>— 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.</li> </ul>	<p>Our work did not identify any instances of override of control, or matters that required adjustment in the annual accounts or which require to be brought to attention.</p>
<p><b>Fraud risk from income revenue recognition and expenditure</b></p> <p>Under ISA 240 there is a presumed risk that income may be misstated due to improper recognition of income. This requirement is modified by Practice Note 10, issued by the FRC, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.</p>	<ul style="list-style-type: none"> <li>— We considered that the Board's significant income streams, which include funding requisitions from both the Orkney Island Council and NHS Orkney. These are agreed in advance of the financial year, with any changes arising from changes in need, requiring approval from each body. There is no estimation or judgement in recognising this stream of income and we do not regard the risk of fraud to be significant.</li> <li>— 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.</li> </ul>	<p>We have rebutted the fraud risk from income revenue and expenditure recognition in the financial statements.</p> <p>We have not identified any issues of fraudulent income or expenditure recognition in the accounts.</p>

# Management reporting in financial statements

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

# Audit dimensions introduction

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

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



# Financial sustainability

### Medium term financial plan (MTFP)

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

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

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

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

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

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

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

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

### *Prior year recommendation*

### Savings Plans

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

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

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

### *Prior year recommendation*

#### Conclusion

MTFP is in place and takes into account scenario planning.

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

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

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

# Vision, leadership and Governance

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

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

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

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

### Leadership capacity

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

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

### Strategy and Risk Management

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

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

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

### Scrutiny, challenge and transparency

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

#### *Prior year Recommendation*

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

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

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

#### *Recommendation two*

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

# Vision, leadership and Governance(continued)

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

## Internal Audit

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

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

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

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

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

## Conclusion

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

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

# Use of resources to improve outcomes

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

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

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

### *Prior year recommendation*

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

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

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

### **Conclusion**

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

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

# Best Value

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

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

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

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

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

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

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

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

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

### Conclusion

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

# Appendices

# Appointed auditor's responsibilities

AREA	APPOINTED AUDITOR'S RESPONSIBILITIES	HOW WE HAVE MET OUR RESPONSIBILITIES
<b>Statutory duties</b>	Undertake statutory duties, and comply with professional engagement and ethical standards.	Appendix two outlines our approach to independence.
<b>Financial statements and related reports</b>	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.
<b>Financial statements and related reports</b>	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.
<b>Wider audit dimensions</b>	Demonstrate compliance with the wider public audit scope by reviewing and providing judgements and conclusions on the audited bodies':  <ul style="list-style-type: none"> <li>- Effectiveness in the use of public money and assets;</li> <li>- Suitability and effectiveness of corporate governance arrangements;</li> <li>- Financial position and arrangements for securing financial management and sustainability;</li> <li>- Effectiveness of arrangements to achieve best value; and</li> </ul>	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 2024-25. An expected fee is calculated by Audit Scotland to each entity within its remit. This expected fee is made up of four elements:

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

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

There were no non-audit services provided during the year

### Independence and objectivity considerations relating to other matters

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

### Confirmation of audit independence

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

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

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

Yours faithfully,

KPMG LLP

# Required communications with the IJB

Type	Response
<b>Our draft management representation letter</b>	 We have not requested any specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 March 2025.
<b>Adjusted audit differences</b>	 Page 20 of this report
<b>Unadjusted audit differences</b>	 There are no unadjusted audit differences.
<b>Related parties</b>	 There were no significant matters that arose during the audit in connection with the entity's related parties.
<b>Other matters warranting attention by the Audit Committee</b>	 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.
<b>Control Deficiencies</b>	 We have not identified any internal control weakness during our audit. Management retains the responsibility for maintaining an effective system of internal control.
<b>Actual or suspected fraud, non-compliance with laws and regulations or illegal acts</b>	 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
<b>Significant difficulties</b>	 No significant difficulties were encountered during the audit.
<b>Modifications to auditor's report</b>	 There are no expected modifications to the auditor's report.
<b>Disagreements with management or scope limitations</b>	 The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.
<b>Other information</b>	 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.
<b>Breaches of independence</b>	 No matters to report. The engagement team have complied with relevant ethical requirements regarding independence.
<b>Accounting practices</b>	 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.
<b>Key audit matters discussed or subject to correspondence with management</b>	 The key audit matters (summarised on Page 5) from the audit were discussed with management.

# Audit Differences

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

No unadjusted misstatements to report.

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

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

# Recommendations - follow-up

The table below summarises the outstanding recommendations from prior years.

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

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

# Recommendations – follow-up(continued)

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

# Recommendations – follow-up(continued)

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

# Recommendations – follow-up(continued)

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

# Recommendations – follow-up(continued)

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

# Recommendations – follow-up(continued)

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

# Recommendations – follow-up(continued)

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

# Recommendations - current year

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

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

# KPMG's Audit quality framework

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

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

## ■ Commitment to continuous improvement

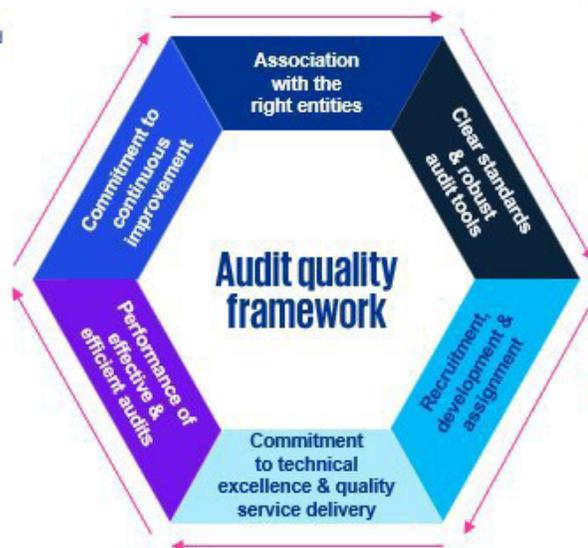
- Comprehensive effective monitoring processes
- Significant investment in technology to achieve consistency and enhance audits
- Obtain feedback from key stakeholders
- Evaluate and appropriately respond to feedback and findings

## ■ Performance of effective & efficient audits

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

## ■ Commitment to technical excellence & quality service delivery

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



## ■ Association with the right entities

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

## ■ Clear standards & robust audit tools

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

## ■ Recruitment, development & assignment of appropriately qualified personnel

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



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