

Orkney Islands Council

Annual Audit Plan 2016/17



 AUDIT SCOTLAND

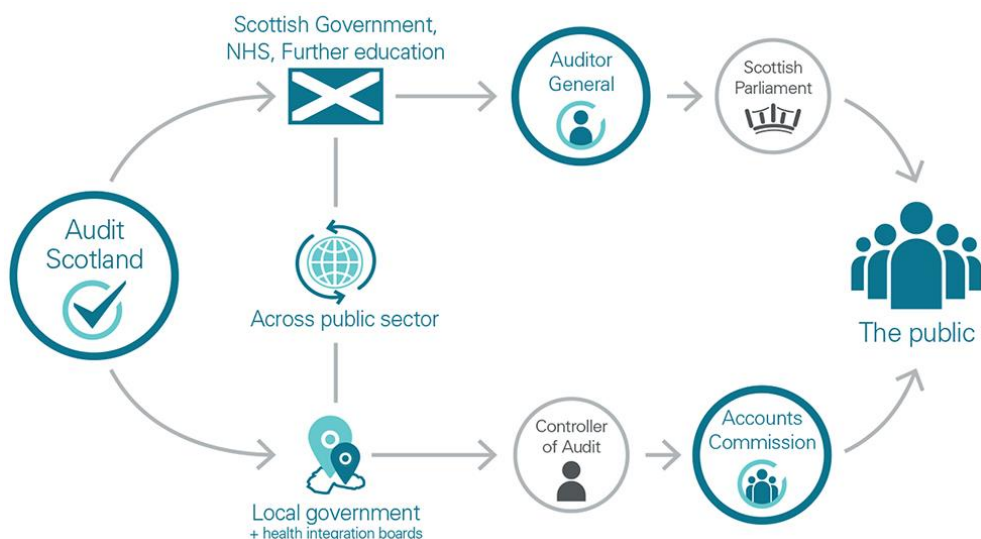
Prepared for Orkney Islands Council

10 February 2017

Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit and is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and any other relevant guidance. This plan identifies our audit work to provide an opinion on the financial statements and related matters and meet the wider scope requirements of public sector audit - including the new approach to Best Value. The wider scope of public audit contributes to conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

Audit risks

2. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following main risk areas for Orkney Islands Council. We have categorised these risks into financial risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

Exhibit 1

Audit Risk	Source of assurance	Planned audit work
Financial statement issues and risks		
<p>1 Risk of management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>		<ul style="list-style-type: none"> • Detailed testing of journal entries. • Review of accounting estimates. • Focused testing of accruals and prepayments. • Evaluation of significant transactions that are outside the normal course of business.
<p>2 Risk of fraud over income</p> <p>Orkney Islands Council receives a significant amount of income in addition to Scottish Government funding. The extent and complexity of income means that, in accordance with ISA240, there is an inherent risk of fraud.</p>	<p>Effective budget monitoring and reporting by management.</p>	<ul style="list-style-type: none"> • Analytical procedures on income streams. • Detailed testing of revenue transactions focusing on the areas of greatest risk.
<p>3 Risk of fraud over expenditure</p> <p>Practice Note 10: Audit of financial statements of public sector bodies in the United</p>	<ul style="list-style-type: none"> • The council participates in the NFI scheme. • There are a range of measures in place to 	<ul style="list-style-type: none"> • Audit work on the National Fraud Initiative matches. • Specific audit work on benefits and grants.

Audit Risk	Source of assurance	Planned audit work
<p>Kingdom and the Code of Audit Practice requires consideration of risk of fraud over expenditure (excluding payroll costs which are already a core part of all annual audits). The council incurs significant expenditure on benefits and grants which require audit coverage.</p>	<p>prevent and detect fraud, including Standing Financial Instructions, Standing Orders and a Code of Conduct for Staff which incorporates both whistleblowing and fraud policies.</p>	<ul style="list-style-type: none"> • Evaluation of the effectiveness of internal controls for expenditure recognition and recording.
<p>4 Estimation and judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of non current assets and provisions. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<ul style="list-style-type: none"> • Effective budget monitoring and management. • Development and approval of appropriate accounting policies. 	<ul style="list-style-type: none"> • Completion of 'review of the work of an expert' for the professional valuer. • Focused substantive testing of key areas.
<p>5 Orkney College</p> <p>The college is responsible for managing its own finances and aims to achieve a surplus each financial year. For a number of years now, the college has not achieved this and relies on financial support from the council's reserves. In 2015/16, support from the council amounted to £0.110 million. The council has no obligation to fund the college and although the college assumed a balanced budget for 2016/17, their recent history of poor financial results suggests the council may be expected to provide further financial support.</p> <p>There is a risk that the council may be expected to provide further financial support which could be significant.</p>	<ul style="list-style-type: none"> • Management plans to undertake a review of the viability of the college's business units. • Management plans to use the findings to establish a clear framework for how the council may provide future financial support to the college. 	<ul style="list-style-type: none"> • We will monitor progress in establishing a clear framework for how the council may provide future financial support to the college. • Include comment in our annual audit report 2016/17.
<p>6 Strynd Houses and Common Room</p> <p>In reviewing a sample of title deeds for property assets in 2016, we found that the council does not hold the title for seven properties, commonly referred to as the Strynd Houses and Common Room. These properties were obtained by Orkney Heritage Property Trust, a subsidiary of Orkney Heritage Society in the 1960s and 1970s. After refurbishment, the properties were transferred to the management of the council for housing purposes. There is</p>	<p>Work has been underway for some months to establish a lease with Orkney Heritage Property Trust for Strynd Houses and Common Room. The terms of lease have been agreed and the lease is with the Trust for signing. It was due to be signed by the Trust at a meeting in January 2017 but not everyone who needed to sign on behalf of the Trust was present. The lease runs for 100 years.</p>	<ul style="list-style-type: none"> • We will monitor progress in establishing a lease with Orkney Heritage Property Trust • Consideration and evaluation systems of internal control to ensure completeness of income. • Include comment in our annual audit report 2016/17.

Audit Risk	Source of assurance	Planned audit work
<p>no legal agreement in place that settles a lease or other type of arrangement for the properties.</p> <p>Without a legal agreement in place there is a risk that ownership of the properties may be subject to dispute.</p>		
<p>7 Integration Joint Board</p> <p>The IJB transactions will be consolidated into the accounts of the council for the first time in 2016/17.</p> <p>The council needs to agree a timetable and approach to obtaining the IJB figures for consolidation, and assurances required for the group governance disclosures.</p> <p>As this is the first year, there is a risk that the timetable may not be achieved. There is also an increased risk of errors in accuracy and disclosure.</p>	<p>Finance officers plan to liaise with their health board colleagues regarding the timetable for draft accounts.</p>	<ul style="list-style-type: none"> • We will consider the timetable and process for consolidation of the group accounts. • We will consider the assurances obtained by the council's S95 officer for the group governance disclosures. • We will confirm that the consolidation adjustment is accurate and correctly disclosed. • We will confirm that any balances relating to IJBs have been agreed by the partner bodies.
Wider dimension risks		
Financial sustainability		
<p>8 Financial planning</p> <p>The 2016/17 Scottish Budget outlined significant reductions for councils' revenue grants. The financial settlement for Orkney Islands Council was a reduction of 3.9 per cent, significantly greater than the 'worst' case scenario of a 2.5 per cent reduction outlined in the medium term financial strategy. The strategy has not been updated in light of these reductions.</p> <p>There is a risk that the council may take future spending decisions based on incomplete information.</p>	<p>Managers are revising the medium-term resource strategy to reflect recent changes in the financial settlement and extend the period covered whilst also recognising that the council has been operating on single-year settlements.</p>	<ul style="list-style-type: none"> • We will monitor the council's financial position via revenue budget reports presented to full Council and meetings with officers. • We will perform a review of the council's revised Medium Term Resource Strategy.
<p>9 Change programme and financial planning</p> <p>The council's Change Programme aims to deliver significant savings towards the identified funding gap of £12 million between 2017/18 and 2021/22. To date the wider service reduction options</p>	<p>The Senior Management Team has set out some of the planning scenarios in Service workforce plans and will draw on this work in setting out wider savings options to address the funding gap and these will be considered by the next Council.</p>	<ul style="list-style-type: none"> • We will review and assess the savings programmes in place. • Include comment in our annual audit report 2016/17.

Audit Risk	Source of assurance	Planned audit work
<p>necessary to meet the remainder of the funding gap have not been consolidated.</p> <p>Risk: There is a risk that the planned budget savings will not be achieved by 2021/22.</p>		
Financial management		
<p>10 The council has a number of significant capital projects underway including the development of new social housing, new schools and its harbour infrastructure. Undertaking multiple capital projects of different types and sizes requires careful oversight. Unrealistic timescales and budgets are likely to result in slippage in completion dates or overspends and therefore delaying or reducing the benefits expected from investment. In addition the council does not have a long-term capital investment strategy that identifies the needs and constraints for local capital investment.</p> <p>There is a risk that ineffective direction and control of the capital investment programme may lead to further slippage in completion dates, overspends on projects or a reduction in the expected benefits from investment.</p>	<ul style="list-style-type: none"> • Management plans to implement procedures to identify potential slippage early in the financial year and take action to minimise its impact on individual projects or the programme as a whole. • Management plans to develop a long-term capital investment strategy to outline the plans for investment over the next 10 to 15 years. 	<p>We will monitor the council's capital position and comment in our annual audit report 2016/17.</p>
Governance and transparency		
<p>11 Members</p> <p>Council elections are to be held in May 2017 and there are indications that a number of elected members are or may be standing down. This will represent a loss of skills and experience amongst members. To ensure members fully understand their roles and have the necessary skills to make informed decisions and provide effective scrutiny, appropriate development and training will be required.</p>	<ul style="list-style-type: none"> • Training and support for current members is available and they are reminded regularly of opportunities and support available from officers. • Seminars are organised on relevant topics on a regular basis and individual requests are taken into consideration and appropriate support provided. • Training and induction is under preparation and will be provided to new 	<ul style="list-style-type: none"> • We will monitor the council's arrangements for developing members and preparations for inducting newly elected members.

Audit Risk	Source of assurance	Planned audit work
<p>12 Asset management plans</p> <p>The council's Corporate Asset Management Plan (2013-18) highlighted plans to develop detailed asset management plans across six main asset types. At the time of planning our audit, only three were complete.</p> <p>There is a significant risk that the council is unable to gain a comprehensive understanding of the condition and maintenance requirements of its estate. The council may also be unable to meet the objectives of their Corporate Asset Management Plan without detailed plans in place.</p>	<p>members.</p> <p>Managers had planned to develop asset management plans for the three remaining asset types by 31 March 2017. These will be clearly linked to the Corporate Asset Management Plan and other asset type plans to give a comprehensive assessment of asset management across the council.</p> <p>The ICT Asset Management Plan 2016 to 2020 was presented and to, and approved by the Asset Management Sub-committee on 10 November 2016 and approved by Council on 13 December 2016</p> <p>Formal reporting of The Roads asset and maintenance plan has however been delayed until the June cycle of committee meetings.</p> <p>Managers in Infrastructure Services have developed a new approach to both the Governance and the day to day programme management of property resulting in reduction in overspends in property maintenance work. This approach is being rolled out to all project managers by 31 March 2017.</p>	<p>We will review and assess progress in developing the remaining asset management plans in relation to:</p> <ul style="list-style-type: none"> • ICT • Open spaces and heritage • Roads and Infrastructure. <p>Include comment in our annual audit report 2016/17.</p>
<p>13 ICT strategy</p> <p>The council's current ICT strategy covers the period to the end of March 2017. Work has started on the revised strategy but it is uncertain if it will be completed and approved by April 2017.</p> <p>There is a risk that this affects the delivery of council services for the people of Orkney and the council change programme designed to improve performance and secure budget savings.</p>	<p>Progress on delivering the current ICT Strategy was reviewed by members of Asset Management Sub-committee at their meeting on 10 November 2016.</p> <p>Work on the ICT Strategy for 2017 - 2020 has started and is on track to bring the new Strategy to Asset Management Sub-committee in June 2017.</p>	<ul style="list-style-type: none"> • We will discuss progress in preparing a new ICT strategy with officers. • We will review new strategy when available.
<p>14 Workforce planning</p> <p>It was reported to the Monitoring and Audit Committee in June 2016, that the council did not have an organisation-wide workforce plan in place, but</p>	<p>Individual Service Workforce Plans, as well as a Council wide workforce Plan, are being presented to the February 2017 cycle of Council meetings.</p>	<ul style="list-style-type: none"> • We will review and assess progress in developing workforce plans. • Include comment in our annual audit report 2016/17.

Audit Risk	Source of assurance	Planned audit work
<p>work on developing service workforce plans was underway. The council's HR strategy 2014/18 outlines the priorities for workforce planning but does not consider workforce needs reflecting financial constraints and skills.</p> <p>Lack of workforce planning means that the council will find it difficult to identify and address its future staffing and skills needs as well as deliver planned workforce savings.</p>		
<p>15 Pickaquoy Centre Trust</p> <p>The Service Agreement for the Trust covered the period 1 April 2012 to 31 March 2015. A review of the agreement by the council has not yet taken place.</p> <p>There is a risk that the existing, expired agreement no longer meets the requirements of the council.</p>	<p>An internal audit review has been completed of the current arrangements between the council and the Trust. The findings of this audit can now inform the review of the service agreement for the Trust.</p> <p>As part of this, Management plans to review and agree the business objectives and the financial, performance and reporting requirements of the Trust.</p>	<p>We will monitor progress in reviewing the service agreement between the council and the Trust providing comment in our annual audit report 2016/17.</p>

Reporting arrangements

3. Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs as detailed in [Exhibit 2](#), and any other outputs on matters of public interest, will be published on our website: www.audit-scotland.gov.uk.
4. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officer(s) to confirm factual accuracy.
5. We will provide an independent auditor's report to Orkney Islands Council and to the Accounts Commission summarising the results of the audit of the annual accounts. We will provide the Accountable Officer and the Accounts Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen in the course of the audit.

Exhibit 2

2016/17 Audit outputs

Audit Output	Target date	Audit Committee Date
Interim Audit Report	30 June 2017	8 June 2017
Annual Audit Report including ISA 260 requirements	30 September 2017	28 September 2017

Audit Output	Target date	Audit Committee Date
Signed Independent Auditor's Report	30 September 2017	N/A

Audit fee

6. The proposed audit fee for the 2016/17 audit of Orkney Islands Council is £181,590 (2015/16; £187,024). The proposed fee for the 2016/17 audit of Orkney Islands Council General Charitable Trust is £1,000 (2015/16; £1,000). In determining the audit fee we have taken account of the risk exposure of Orkney Islands Council, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited financial statements, with a complete working papers package, on 30 June 2017.

7. Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises outwith our planned audit activity.

Responsibilities

Audit Committee and Accountable Officer

8. Audited bodies have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.

9. The audit of the financial statements does not relieve management or the Monitoring and Audit Committee, as those charged with governance, of their responsibilities.

Appointed auditor

10. Our responsibilities as independent auditor are established by the Local Government (Scotland) Act 1973 Act, (LG bodies) and the Code of Audit Practice, and guided by the auditing profession's ethical guidance.

11. Auditors in the public sector give an independent opinion on the financial statements. We also review and report on the arrangements within the audited body to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

Audit scope and timing

Financial statements

12. The statutory financial statements audit will be the foundation and source for the majority of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of Orkney Islands Council and the associated risks which could impact on the financial statements
- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how Orkney Islands Council will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

13. We will give an opinion on the financial statements on whether:

- they give a true and fair view of the state of affairs of the council and its group as at 31 March 2017 and its income and expenditure for the year then ended
- the accounts have been properly prepared in accordance with the Local Government (Scotland) Act 1973 and the 2016/17 Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

Materiality

14. Materiality defines the maximum error that we are prepared to accept and still conclude that that our audit objective has been achieved. It helps assist our planning of the audit and allows us to assess the impact of any audit adjustments on the financial statements. We calculate materiality at different levels as described below. The calculated materiality values for Orkney Islands Council are set out in [Exhibit 3](#).



Exhibit 3

Materiality values

Materiality level	Amount
Planning materiality - This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 2016 based on the latest audited accounts for 2015/16.	£1.259 million
Performance materiality - This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at 75% of planning materiality.	£0.944 million
Reporting threshold - We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 1% of planning materiality.	£0.013 million

15. We review and report on other information published with the financial statements including the management commentary, annual governance report and the remuneration report. Any issue identified will be reported to the Monitoring and Audit Committee.

Timetable

16. The Local Authority Accounts (Scotland) Regulations 2014 require that the unaudited annual accounts are submitted to the appointed external auditor no later than 30 June each year. The authority (or a committee whose remit includes audit or governance) is required to consider the unaudited annual accounts at a meeting by 31 August.

17. Local authorities must publish the unaudited accounts on their websites and give public notice of the inspection period.



18. The 2014 regulations require the local authority (or a committee whose remit includes audit or governance) to meet by 30 September to consider whether to approve the audited annual accounts for signature. Immediately after approval, the annual accounts require to be signed and dated by specified members and officers and then provided to the auditor. The Controller of Audit requires audit completion and issue of an independent auditor's report (opinion) by 30 September each year.

19. Orkney Islands Council is required to publish on its website its signed audited annual accounts, and the audit certificate, by 31 October. The council is also required to publish a copy of the accounts of its subsidiaries. The annual audit report is required to be published on the website by 31 December.

20. To support the efficient use of resources it is critical that a financial statements timetable is agreed with us for the production of the unaudited accounts. An agreed timetable is included at [Exhibit 4](#) which takes account of submission requirements and planned Monitoring and Audit Committee dates:

Exhibit 4

Financial statements timetable

 Key stage	 Date
Consideration of unaudited financial statements by those charged with governance	31 August 2017
Latest submission date of unaudited financial statements with complete working papers package	30 June 2017
Latest date for final clearance meeting with Head of Finance	24 August 2017
Agreement of audited unsigned financial statements; Issue of Annual Audit Report including ISA 260 report to those charged with governance	30 September 2017
Independent auditor's report signed	28 September 2017

Internal audit

21. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carry out an assessment of the internal audit function. Internal audit is provided by the Internal Audit section of Orkney Islands Council.

Adequacy of Internal Audit

22. In previous years we have concluded that overall the internal audit service operates in accordance with Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.

23. We plan to place formal reliance on aspects of the work of internal audit in the following areas, to support our audit opinion on the financial statements:

24. To support our audit opinion on the financial statements we plan to place formal reliance on the following planned internal audit reviews:

- Housing rents
- Grant Claims.

25. In respect of our wider dimension audit responsibilities we also plan to consider other areas of internal audit work including:

- Capital Projects (Appraisal & Management)
- Grants to funded bodies/third sector (OHAC)
- Procurement
- Statutory Performance Indicators
- Stock Checks
- Corporate Governance/Risk Management.

Audit dimensions

26. Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 5](#).

Exhibit 5

Audit dimensions



27. In the local government sector, the appointed auditor's annual conclusions on these four dimensions will contribute to an overall assessment and assurance on best value.

Financial sustainability

28. As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on the body's financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years) sustainability. We will carry out work and conclude on:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps
- whether Orkney Islands Council can demonstrate the affordability and effectiveness of funding and investment decisions it has made.

Financial management

29. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. We will review, conclude and report on whether Orkney Islands Council:

- has arrangements in place to ensure systems of internal control are operating effectively
- can demonstrate the effectiveness of its budgetary control system in communicating accurate and timely financial performance

- has established appropriate and effective arrangements for the prevention and detection of fraud and corruption.

We will also review, conclude and report on how Orkney Islands Council has assured itself that its financial capacity and skills are appropriate

Governance and transparency

30. Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information. We will review, conclude and report on:

- whether Orkney Islands Council can demonstrate that governance arrangements in place are appropriate and operating effectively (including services delivered by, or in partnership with, others such as ALEOs)
- whether there is effective scrutiny, challenge and transparency on the decision-making and finance and performance reports
- the quality and timeliness of financial and performance reporting.

Value for money

31. Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether Orkney Islands Council can:

- provide evidence that it is demonstrating value for money in the use of its resources.
- demonstrate that there is a clear link between money spent, output and outcomes delivered.
- demonstrate that outcomes are improving.

We will also review, conclude and report on whether there is sufficient focus on improvement and the pace of it.

Best Value

32. The Accounts Commission agreed the overall framework for a new approach to auditing Best Value in June 2016. The introduction of the new approach coincides with the new five year audit appointments. As such, auditors will use the framework for their audit work from October 2016.

33. A key feature of the new approach is that it integrates Best Value into the wider scope annual audit, which will influence audit planning and reporting. Best Value will be assessed comprehensively over the five year audit appointment, both through the on-going annual audit work, and also through discrete packages of work to look at specific issues. Conclusions and judgements on Best Value will be reported through:

- the Annual Audit Report for each council, that will provide a rounded picture of the council overall
- an Annual Assurance and Risks report that the Controller of Audit will provide to the Accounts Commission that will highlight issues from across all 32 council annual audit reports
- a Best Value Assurance Report (BVAR) for each council that will be considered by the Accounts Commission at least once in a five year period.

34. The first six councils on which a BVAR will be published during the first year of the new approach are listed in [Exhibit 6](#) below. Reports will be considered by the Accounts Commission in the period between May 2017 and March 2018.

Exhibit 6

2016/17 Best Value Assurance Reports

Clackmannanshire Council	Orkney Islands Council
East Renfrewshire Council	Renfrewshire Council
Inverclyde Council	West Lothian Council

35. The work planned in Orkney Islands Council this year will focus on the council's arrangements for demonstrating Best Value in governance including ICT, management of resources, partnership working, and equal opportunities arrangements.

36. The work will involve us gaining an understanding of how effective the council's self evaluation processes are in driving improvement across the council. The results of this work will be reported in the Annual Audit Report.

Independence and objectivity

37. Auditors appointed by Audit Scotland must comply with the Code of Audit Practice. When auditing the financial statements auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has in place robust arrangements to ensure compliance with these standards including an annual "fit and proper" declaration for all members of staff. The arrangements are overseen by the Assistant Auditor General, who serves as Audit Scotland's Ethics Partner.

38. The engagement lead and appointed auditor for Orkney Islands Council is Gillian Woolman, Assistant Director. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of Orkney Islands Council.

Quality control

39. International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances.

40. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews, internal quality reviews and is currently reviewing the arrangements for external quality reviews.

41. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision.

We welcome feedback at any time and this may be directed to the engagement lead.

Orkney Islands Council

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