

Orkney Islands Council

Annual Audit Plan 2020/21



 AUDIT SCOTLAND

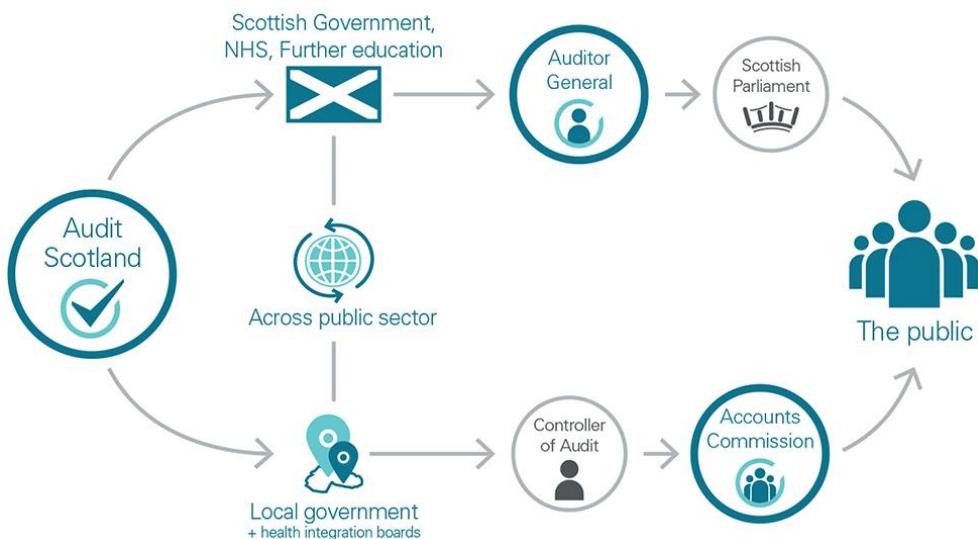
Prepared for Orkney Islands Council

April 2021

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.

Contents

Risks and planned work	4
Audit scope and timing	12

Risks and planned work

- 1.** This annual audit plan contains an overview of the planned scope and timing of our audit which is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and [guidance on planning the audit](#). This plan sets out the work necessary to allow us to provide an independent auditor's report on the annual accounts and meet the wider scope requirements of public sector audit including the audit of Best Value.
- 2.** The wider scope of public audit contributes to assessments and conclusions on financial management, financial sustainability, governance and transparency and value for money.
- 3.** The public health crisis caused by the coronavirus (Covid-19) pandemic has had a significant and profound effect on every aspect of Scottish society. Public services have been drastically affected, requiring immediate changes to the way they are provided. The impact on public finances has been unprecedented, which has necessitated both the Scottish and UK governments providing substantial additional funding for public services as well as support for individuals, businesses and the economy. It is likely that further financial measures will be needed and that the effects will be felt well into the future.
- 4.** Public audit has an important contribution to the recovery and renewal of public services. The Auditor General, the Accounts Commission and Audit Scotland are responding to the risks to public services and finances from Covid-19 across the full range of audit work including annual audits and the programme of performance audits. Audit Scotland views 2020/21 as a transitional year, leading in future to audit timetables which were possible before Covid-19. The well-being of audit teams and the delivery of high-quality audits remain paramount. Maintaining a pragmatic and flexible approach will enable change at short notice as new issues emerge, or current risks change in significance. Where this impacts on annual audits, an addendum to this annual audit plan may be necessary.

Adding value

- 5.** We aim to add value to Orkney Islands Council (the council) through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we intend to help the council promote improved standards of governance, better management and decision making and more effective use of resources.

Audit risks

- 6.** Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following significant risks for the council. We have categorised these risks into financial statements risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

Exhibit 1

2020/21 Significant audit risks

 Audit Risk	Source of assurance	Planned audit work
Financial statements risks		
1 Risk of management override of controls International Auditing Standards require that audits are planned to consider the risk of material misstatement in the financial statements caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of fraud due to the management override of controls.	Owing to the nature of this risk, assurances from management are not applicable in this instance.	<ul style="list-style-type: none"> Detailed testing of journal entries. Review of accounting estimates and judgements. Focused testing of accruals and prepayments. Evaluation of significant transactions that are outside the normal course of business Evaluate systems for timely notification of significant transactions from all functions to Finance.
2 Risk of fraud in the recognition of income As set out in ISA (UK)240, there is a presumed risk of fraud in the recognition of income. There is a risk that income may be misstated resulting in a material misstatement in the financial statements. The council receives a significant amount of income from a variety of sources including grants, council tax, housing rents and fees (including harbour dues and college fees) and charges. Our work will focus on the completeness and occurrence of fees and charges and service specific grant income. We consider the risk to be most prevalent in these areas due to increased incentive and opportunity for fraudulent recognition.	Effective systems for the completeness and timely receipt of accounts receivable. Effective budget monitoring and reporting by management.	<ul style="list-style-type: none"> Consider the design of the system of control and conclude on whether key controls are operating effectively. Analytical procedures on income streams. Detailed testing of revenue transactions focusing on the areas of greatest risk.
3 Risk of fraud over expenditure As most public-sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. During the year significant additional grants, relating to Covid-19 support, have been disbursed by the council. There is a risk that expenditure may be misstated resulting in a material misstatement in the financial statements.	Clear procedures in place for staff. Financial authorisation limits are being reviewed and updated for authorising and approving expenditure. Budget monitoring and review with significant variances investigated and discussed with budget holders.	<ul style="list-style-type: none"> Consider the design of the system of control and conclude on whether key controls are operating effectively. Review of work performed on the National Fraud Initiative matches. Focused substantive testing of non-pay expenditure and housing benefit transactions.

 Audit Risk	Source of assurance	Planned audit work
	<p>We consider this risk to be the most prevalent where there is incentive and opportunity for fraudulent manipulation. We therefore focus on the completeness of non-pay expenditure.</p>	
4 Estimation and judgements	<p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of non-current assets (including vessels), provisions and pension liabilities. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<p>Valuations carried out by independent external experts every 5 years for all assets (as part of rolling revaluation programme). Detailed discussions between valuers and Orkney Islands Council estates team. Annual impairment reviews are conducted by the council. Pension liability figures are provided by an independent and appropriately qualified actuary. Regular liaison between Monitoring Officer and Head of Finance for the identification of provisions and contingent liabilities.</p> <ul style="list-style-type: none"> • Ensuring a good understanding of the business through review of board and committee minutes • Review the appropriateness of the council's accounting policies in these areas. • Completion of 'review of the work of an expert' in accordance with ISA 500 for the professional valuer and the actuary. • Focused substantive testing of asset valuations and asset useful lives. • Use of an auditor's expert to assess the competence of the actuary and evaluate the results of their work. • Liaison with Monitoring Officer to determine completeness of contingent liabilities and provisions.
5 Provision for decommissioning costs	<p>The council have a significant provision for recognising their legal obligation to contribute a set amount to the decommissioning costs of the Flotta Oil Terminal. The decommissioning agreement outlines an index linked capped amount which the council will contribute, with the balance being the responsibility of the operator. Economic conditions and oil terminal operations can change significantly, and management must remain alert to any changes in the risk profile associated with decommissioning obligations.</p>	<p>Continue to evaluate the level of provision required in accordance with the Decommissioning Agreement. An updated estimate of the full terminal decommissioning costs is to be sought from the Terminal Operator. An annual review of the ongoing financial viability of the Terminal Operator will be conducted. Effective communication is being maintained with the Terminal Operators regarding repurposing and extension of the Terminal operating life.</p> <ul style="list-style-type: none"> • Review on the appropriateness of the annual assessment undertaken and accounting treatment. • Focused substantive testing of provisions. • Evaluate systems for timely notification of potential liabilities from all functions to Finance

	Audit Risk	Source of assurance	Planned audit work
6	Management commentary	<p>The management commentary that accompanies the financial statements should explain the results in simple terms and provide clarity to readers in order to help them understand how the council and its group has performed against budget.</p> <p>We identified the need for improvements to be made to the management commentary in the 2019/20 accounts. There is an ongoing risk that the performance of the council and its group is not transparent in the 2020/21 annual accounts.</p>	<ul style="list-style-type: none"> Review and comment on the appropriateness of the council's updated management commentary.
7	Valuation of investments	<p>The council held investments of £217.86 million as part of their Strategic Reserve Fund at 31 March 2020. There is a significant degree of subjectivity in the classification of investments, particularly those which are defined as level 3 by IFRS 13 and are based on significant unobservable inputs. At 31 March 2020 the council investment portfolio included £28.98 million of financial assets which were defined as level 3. Investments of this nature are complex, difficult to value and include a significant degree of judgement from the investment manager.</p> <p>Prices are collected by the Fund Manager from a number of sources and this data is checked.</p> <p>Investments listed on Stock Exchanges are included at their official closing price on the last business day of the reporting period</p>	<ul style="list-style-type: none"> Completion of 'review of the work of an expert' in accordance with ISA 500, for significant unquoted investments. Confirmation of valuations to valuation reports and/ or other supporting documentation.
8	Orkney College account	<p>The council provides further and higher education provision through the Orkney College. The Orkney College trading results are reflected within the council's Comprehensive Income and Expenditure Statement.</p> <p>The council rely on the University of Highlands and Islands (UHI) to provide supporting documentation for the annual accounts in respect of the college. In March 2021 there was a cyber-attack on UHI which may impact its ability to produce the back-up required for the council annual accounts.</p>	<ul style="list-style-type: none"> We will continue to liaise with the council regarding implications for the year end timetable. We will monitor the situation and establish whether there is an impact on our assessed risks and audit approach.

 Audit Risk	Source of assurance	Planned audit work
Wider dimension risks		
9 Longer term savings options For a number of years the council has identified a funding gap, the most recent long-term financial strategy showing a cumulative funding gap of £65.7 million, based on realistic assumptions. However, there are currently no options developed to allow the council to close the gap. In April 2016 the council approved a change programme which would generate £3.8 million in efficiency savings between 2017/18 and 2020/21 following an evaluation of business processes. The Improvement Support Team was refreshed in February 2020 but with new challenges in 2020, there has been no update on progress in meeting the savings targets. It is not clear how the change programme will lead to the generation of the savings required over the long term. There is a risk that the council does not take a long-term view when creating savings plans.	The council plan to provide a range of options/choices for members to consider. These will provide a range of short, medium and long terms savings options.	<ul style="list-style-type: none"> Review and comment on the appropriateness of process implemented to generate the council's option appraisals. We will review the operation and scrutiny of the revised change programme. We will review emerging long-term financial strategies to see how a balanced budget is to be achieved.
10 Changes in senior management The council has an interim Chief Executive in place and has implemented interim arrangements to cover a vacancy within the senior management team. The council are taking steps to recruit key members of staff, however, there is a risk that the council is unable to attract candidates of the right calibre.	A recruitment campaign is ongoing for the Chief Executive post. The responsibilities of the Director of Corporate Services have been reallocated to other members of the senior management team	<ul style="list-style-type: none"> We will monitor progress with the recruitment process and consider the governance processes around the appointment. We will consider whether the induction and handover processes are appropriate. We will consider the impact of interim arrangements on governance processes.
11 Financial management The council has a history of slippage in its capital programme due to unrealistic timescales and budgets. The original approved limit for capital expenditure during 2020/21 was £26.4 million, however, capital expenditure to date is £8.3 million. The projected underspend for the year is £4.6 million, however, this may increase due to Covid-19 restrictions.	Action to improve Capital Programme delivery is being undertaken, including the reprofiling of the programme with more realistic delivery timescales.	<ul style="list-style-type: none"> Monitor and comment on capital slippage and assess any actions taken to reduce slippage.

	Audit Risk	Source of assurance	Planned audit work
	<p>There is a risk that ineffective direction and control of the capital investment programme may lead to rescheduling of projects which impact of service delivery intentions.</p>	<p>The 2020 lockdown has however further delayed programme delivery as contractors have lost several months over the spring and summer and further slippage on original timescales is therefore a strong possibility.</p>	
12	<p>Financial sustainability of group bodies</p> <p>The council group has a number of subsidiaries, associates and joint ventures including the Pickaquoy Centre Trust and Orkney Ferries Limited. These bodies have been significantly impacted by a loss of income due to Covid-19.</p> <p>There is a risk that the bodies become increasingly reliant on funding from the council to support their ongoing operation.</p>	<p>The council monitors the financial position of group bodies through its arrangements for following the public pound.</p>	<ul style="list-style-type: none"> • We will consider the financial statements of all group bodies as part of our work on the group financial statements. • We will seek assurances over the going concern of group bodies from component auditors. • We will consider any accounting implications of any additional support provided by the council to its group bodies.
13	<p>Compliance with procurement regulations</p> <p>The council recently made a significant purchase. The council's contract standing orders, financial regulations and sustainable procurement guidelines were not followed when making this purchase. In addition, the council is in breach of EU public procurement regulations.</p> <p>The purchasing activity was not carried out via open tendering and therefore is not in line with the principals of openness and transparency. The use of open tendering, as outlined in the council's contract standing orders and EU regulations, is designed to ensure the council obtains value for money. In addition, there is a risk that the council can not demonstrate that this contract delivers the best value in relation to overall cost combined with quality.</p>	<p>Internal audit have conducted an investigation into the purchase of the stone and made several recommendations. Management have an agreed action plan in place.</p>	<ul style="list-style-type: none"> • We will consider the outcome of the internal audit findings and monitor management actions. • We will consider the content of the governance statement and ensure disclosures appropriately reflect the internal audit findings. • We will consider contract award processes at the council to ensure this was an isolated incident.

Reporting arrangements

7. 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.

8. 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 officers to confirm factual accuracy.

9. We will provide an independent auditor's report to Orkney Islands Council and the Accounts Commission setting out our opinions on 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 during the audit. All dates below may be subject to change due to uncertainty and additional challenges arising from remote working.

Exhibit 2 2020/21 Audit outputs

Audit Output	Target date	Committee Date
Annual Audit Plan	30 April 2021	1 April 2021
Management Report	30 June 2021	10 June 2021
Annual Audit Report	31 October 2021	23 September 2021
Signed Independent Auditor's Report	31 October 2021	23 September 2021

Source: Audit Scotland

The audit of trusts registered as Scottish charities

10. Members of the council are sole trustees for one charitable trust, registered as a Scottish charity, with total assets of £0.05 million. The preparation and audit of financial statements of registered charities is regulated by the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006.

11. The Charities Accounts (Scotland) Regulations 2006 require charities to prepare annual accounts and require an accompanying auditor's report where any legislation requires an audit. The Local Government (Scotland) Act 1973 specifies the audit requirements for any trust fund where some or all members of a council are the sole trustees. Therefore, a full and separate audit and independent auditor's report is required for each registered charity where members of the council are sole trustees, irrespective of the size of the charity.

12. Based on our discussions with staff and initial planning work we have not identified any risks in relation to the charitable trust other than management override of control, which is defined by ISA (UK) 240 as being applicable to all bodies. As set out in ISA(UK) 240, there is a presumed risk of fraud in revenue recognition. We have rebutted this risk in 2020/21 due to the low value of revenue transactions at the charitable trust.

Group accounts

13. The council prepares group accounts which incorporates three subsidiaries, one associate and two joint ventures. In addition to the council we deem the following bodies to be significant in the context of the group audit:

- Orkney Ferries Limited
- Pickaquoy Centre Trust
- Hammars Hill Energy Ltd
- Orkney IJB
- Orkney Research and Innovation campus

14. In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process. To support our audit work on the Council's group accounts, we seek to place reliance on the work of the auditors of the significant components. We will liaise with the auditor of each of the bodies to obtain assurance over the component figures included in the consolidation.

15. As part of our audit we will perform analytical procedures at a group level and review the consolidation working papers to ensure the group accounts accurately reflect the activities of the council and its component bodies.

Audit fee

16. The proposed audit fee for the 2020/21 audit of Orkney Islands Council is £196,350 (2019/20: £190,990). Included in the fee is the sum of £1,000 (2019/20: £1,000) for the audit of Orkney Islands Council General Charitable Trust.

17. 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 and planned deadlines assume receipt of the unaudited annual accounts, with a complete working papers package, by 30 June 2021.

18. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual accounts, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises out with our planned audit activity.

Responsibilities

Monitoring and Audit Committee and Accountable Officer

19. 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.

20. The audit of the annual accounts does not relieve management or the Monitoring and Audit Committee, as those charged with governance, of their responsibilities.

Appointed auditor

21. Our responsibilities as independent auditor are established by the 1973 Act for local government, and the Code of Audit Practice (including supplementary guidance) and guided by the Financial Reporting Council's Ethical Standard.

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

Audit scope and timing

Annual accounts

23. The annual accounts, which include the financial statements, will be the foundation and source for most 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.

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

- give a true and fair view in accordance with applicable law and the 2020/21 Code of the state of affairs of the council and its group as at 31 March 2021 and of the income and expenditure of the council and its group for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2020/21 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.



Other information in the annual accounts

25. We also review and report on other information published within the annual accounts including the management commentary, annual governance statement and the remuneration report. We give an opinion on whether these have been compiled in accordance with the appropriate regulations and frameworks in our independent auditor's report.

26. We also review the content of the annual report for consistency with the financial statements and with our knowledge. We report any uncorrected material misstatements in statutory other information.

Materiality

27. We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any uncorrected misstatements, on the financial statements and in forming our opinions in the independent auditor's report.

28. We calculate materiality at different levels as described below. The calculated materiality values for the council and its group are set out in [Exhibit 3](#).

Exhibit 3

Materiality values

Materiality	Council	Group
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure of the latest audited accounts for 2019/20.	£1.66 million	£1.72 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 50% of planning materiality.	£0.83 million	£0.86 million
Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 3% of planning materiality.	£0.05 million	£0.05 million

Source: Audit Scotland

29. We also set separate materiality levels for the council charitable trust accounts as set out in [Exhibit 4](#).

Exhibit 4

Orkney Islands Council General Charitable Trust Materiality values

Materiality	Amount
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 1% of net assets of the latest audited accounts for 2019/20.	£520
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 50% of planning materiality.	£260
Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 10% of planning materiality.	£50

Source: Audit Scotland

Timetable

30. To support the efficient use of resources it is critical that the annual accounts timetable is agreed with us to produce the unaudited accounts. We have included an agreed timetable at [Exhibit 5](#). All dates below may be subject to change due to uncertainty and additional challenges arising from remote working.

Exhibit 5 Annual accounts timetable

Key stage	Date
Consideration of unaudited annual report and accounts by those charged with governance	31 August 2021
Latest submission date of unaudited annual report and accounts with complete working papers package	30 June 2021
Latest date for receipt of assurances from Group's Component Auditors	30 June 2021
Latest date for final clearance meeting with the Head of Finance	31 August 2021
Agreement of audited unsigned annual accounts and issue of Annual Audit Report to those charged with governance	16 September 2021
Signed approval of accounts by key officers and members	23 September 2021
Independent auditor's report signed	23 September 2021

Internal audit

31. Internal audit is provided by the Internal Audit section of Orkney Islands Council overseen by a Chief Internal Auditor. As part of our planning process we carry out an annual assessment of the internal audit function to ensure that it operates in accordance with Public Sector Internal Audit Standards (PSIAS). We will report any significant findings to management on a timely basis.

Using the work of internal audit

32. International 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 to avoid duplication. We plan to consider the findings of the work of internal audit as part of our planning process to minimise duplication of effort and to ensure the total resource is used efficiently or effectively.

33. From our initial review of internal audit plans we plan to place formal reliance on internal audit work in the following area:

- Finance system controls

34. We will also review the findings of internal audit reports relevant to our wider code responsibilities.

Audit dimensions

35. Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 6](#).

Exhibit 6 Audit dimensions



Source: Code of Audit Practice

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

37. Our standard audits are based on four audit dimensions that frame the wider scope of public sector audit requirements. These are: financial sustainability, financial management, governance and accountability and value for money.

Financial sustainability

38. 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 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 there are arrangements in place to demonstrate the affordability and effectiveness of funding and investment decisions.

Financial management

39. 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 arrangements are in place to ensure systems of internal control are operating effectively

- the effectiveness of budgetary control systems in communicating accurate and timely financial performance can be demonstrated
- how Orkney Islands Council has assured itself that its financial capacity and skills are appropriate
- whether there are appropriate and effective arrangements in place for the prevention and detection of fraud and corruption.

Governance and transparency

40. 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 the governance arrangements in place are appropriate and operating effectively (including risk management and 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

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

- value for money in the use of resources
- there is a clear link between money spent, output and outcomes delivered
- that outcomes are improving
- there is sufficient focus on improvement and the pace of it.

Best Value

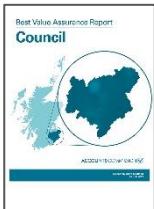
42. The Accounts Commission agreed the overall framework for a new approach to auditing Best Value in June 2016. The introduction of the new approach coincided with the new five-year audit appointments. Auditors started using the framework for their audit work from October 2016.

43. 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 ongoing annual audit work, and through discrete packages of work to look at specific issues.

44. The four councils on which a BVAR will be published during the fifth year of the new approach are listed in [Exhibit 7](#). Reports will be considered by the Accounts Commission in the period between March and November 2021.

Exhibit 7

2020/21 Best Value Assurance Reports

	Aberdeen City Council	Falkirk Council
	South Ayrshire Council	
	East Dunbartonshire Council	

Source: Audit Scotland

45. Orkney Islands Council received a Best Value Assurance Report in December 2017. The council's response to the Accounts Commission's recommendations, in the form of the Best Value Response Plan, was approved in April 2018.

46. The work planned in the council this year will focus on monitoring progress against the council's Best Value Response Plan, with particular regard to the key themes of leadership, governance and scrutiny, and the council's arrangements for resource management. The results of this work will be reported in the Annual Audit Report.

Independence and objectivity

47. Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. 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 robust arrangements in place to ensure compliance with these standards including an annual "fit and proper" declaration for all members of staff. The arrangements are overseen by the Director of Audit Services, who serves as Audit Scotland's Ethics Partner.

48. The engagement lead (i.e. appointed auditor) for Orkney Islands Council is Gillian Woolman, Audit Director. The engagement lead for the charitable trust is Claire Gardiner, Senior Audit Manager. 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 or the charitable trust.

Quality control

49. International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires a system of quality control to be 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.

50. 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 (and supporting guidance) issued by Audit Scotland and approved by the Accounts Commission. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) has been commissioned to carry out external quality reviews.

51. 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

Annual Audit Plan 2020/21

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