Item: 8

Orkney and Shetland Valuation Joint Board: 26 September 2024.

Audit Report to those charged with Governance.

Report by Treasurer of the Board.

1. Purpose of Report

To consider the External Auditor's Annual Audit Report to those charged with governance of the Board's Financial Statements.

2. Recommendations

The Board is invited to note:

2.1.

That KPMG, as the Board's external auditor, has concluded its audit of the Orkney and Shetland Valuation Joint Board's Annual Accounts for the year ended 31 March 2024.

2.2.

That KPMG expect to provide an unqualified audit opinion on the Orkney and Shetland Valuation Joint Board's Annual Accounts for the year ended 31 March 2024.

2.3.

That an unqualified opinion means that the Annual Accounts have been properly prepared in accordance with applicable law, accounting standards and other reporting requirements.

2.4.

That KPMG deemed that, as a result of the issues identified in the 2021/22 annual audit report in relation to governance and decision making, it remains appropriate to apply expanded wider scope requirements, specifically to follow-up on the recommendations made in the 2021/22 annual audit report covering financial sustainability and governance and transparency.

2.5.

That, during the course of the audit, one adjusted audit difference (per p19 of Appendix 2), together with a small number of presentational adjustments within the financial statements, were identified, which have been adjusted in the final accounts.

It is recommended:

2.6.

That the Orkney and Shetland Valuation Joint Board's Letter of Representation to KPMG in connection with its audit of the financial statements of the Orkney and Shetland Valuation Joint Board for the year ended 31 March 2024, attached as Appendix 1 to this report, be approved.

The Committee is invited to scrutinise:

2.7.

The Annual Audit Report to the Board and the Controller of Audit in respect of the Orkney and Shetland Valuation Joint Board's Annual Accounts, attached as Appendix 2 to this report.

3. Audit Work

3.1.

The main elements of audit work carried out by the Board's external auditor, KPMG, during financial year 2023/24 are as follows:

- Audit of the financial statements and provision of an opinion on whether:
  - They give a true and fair view of the financial position of Orkney and Shetland Valuation Joint Board as at 31 March 2024 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 Local Government in Scotland Act 2003.

3.2.

An annual report to the Board and the Controller of Audit is also produced to summarise all significant matters arising from the audit and overall conclusions about the Orkney and Shetland Valuation Joint Board's management of key risks.

4. Audit Findings

4.1.

In terms of the International Standard on Auditing 260 (ISA 260), auditors are required to report specific matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action.

4.2.

As part of the completion of the audit, KPMG seeks written assurances from the Treasurer to the Board on aspects of the financial statements and judgements and estimates made. The Board's Letter of Representation is attached as Appendix 1 to this report.

4.3.

The auditors have reported in their draft independent auditor's report, which was issued on 16 September 2024, that they expect to issue an unqualified audit opinion on the Board's Annual Accounts for the year ended 31 March 2024. This means that they have concluded that the accounts have been properly prepared in accordance with applicable law, accounting standards and other reporting requirements.

4.4.

KPMG's Report to the Board and Controller of Audit on the 2023/2024 Audit, attached as Appendix 2 to this report, includes the following key messages:

- Financial sustainability:
    - That the inflation rate used within the Medium-Term Financial Plan (MTFP) for 2024/25 onwards had been assumed at 2%.
    - That the containment of the inflationary pressure through generation of efficiency savings is premised on the reduction of staff levels which may have an adverse effect on the provision of services.
    - That the MTFP identifies a funding gap over the 3-year period 2024/25 to 2026/27 of £65k based on a most "Likely Case" scenario. But no quantified plans have been put in place to bridge this gap.

5. Financial Implications

The audit fee for the audit of the Board's Financial Statements and other activities was £9,330.

6. Governance Aspects

6.1.

The Local Authority Accounts (Scotland) Regulations 2014 require the Board to approve the audited Annual Accounts for signature no later than 30 September each year and publish the accounts on the Board's website by 31 October.

6.2.

The content and implications of this report have been reviewed and, at this stage, it is deemed that the Board **DOES NOT** require external legal advice in consideration of the recommendations of this report.

7. Contact Officer

Erik Knight, Treasurer to the Board, Email erik.knight@orkney.gov.uk.

8. Appendices

Appendix 1 – Orkney and Shetland Valuation Joint Board’s Letter of Representation to KPMG.

Appendix 2 – KPMG’s Report to the Board and Controller of Audit (ISA 260 Report).

Orkney & Shetland Valuation Joint Board

8 BROAD STREET, KIRKWALL, ORKNEY, KW15 1NX

Our Ref:
Your Ref:

26th September 2024

KPMG LLP
319 St Vincent Street
Glasgow
G2 5AS

Dear Sirs,

This representation letter is provided in connection with your audit of the financial statements of Orkney and Shetland Valuation Joint Board ("the VJB"), for the year ended 31st March 2024 for the purpose of expressing an opinion:

i. as to whether these financial statements, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2022-23 give a true and fair view of the state of the VJB's affairs as at 31st March 2024 and of the VJB's income and expenditure for the financial year then ended;

ii. whether the VJB financial statements have been properly prepared in accordance with UK adopted international accounting standards, as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2023-24; and

iii. whether the financial statements 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.

These financial statements comprise the following: The Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, Balance Sheet and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

I confirm that the representations it makes in this letter are in accordance with the definitions set out in Appendix 1 to this letter.

I confirm that, to the best of my knowledge and belief, having made such Inquiries as I considered necessary for the purpose of appropriately informing myself:

Financial statements

1. I have fulfilled my responsibilities, as set out in the terms of the audit engagement letter dated 18 March 2022, for the preparation of financial statements that:

Robert Eunson, MLE, MRICS
Assessor & Electoral Registration Officer
Tel No: (01856) 876222 E-mail: assessor@orkney.gov.uk or ero@orkney.gov.uk Internet: www.orkney-shetland-vjb.co.uk

i. give a true and fair view of the state of the VJB’s own affairs as at the end of its financial year and of the VJB’s own income and expenditure for that financial year;
ii. have been properly prepared in accordance with UK adopted international accounting standards, as interpreted, and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2023-24; and
iii. 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.

The financial statements have been prepared on a going concern basis.

2. The methods, the data and the significant assumptions used by me in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in the context of the applicable financial reporting framework.

3. All events subsequent to the date of the financial statements and for which IAS 10 *Events after the reporting period* requires adjustment or disclosure have been adjusted or disclosed.

Information provided

4. I have provided you with:

- access to all information of which I am aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
- additional information that you have requested from me for the purpose of the audit; and
- unrestricted access to persons within the VJB from whom you determined it necessary to obtain audit evidence.

5. All transactions have been recorded in the accounting records and are reflected in the financial statements.

6. I confirm the following:

I have disclosed to you the results of my assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Included in Appendix 1 to this letter are the definitions of fraud, including misstatements arising from fraudulent financial reporting and from misappropriation of assets.

7. I have disclosed to you all information in relation to:

a) Fraud or suspected fraud that I am aware of and that affects the VJB and involves:
    - management;
    - employees who have significant roles in internal control; or
    - others where the fraud could have a material effect on the financial statements; and

b) allegations of fraud, or suspected fraud, affecting the VJB's financial statements communicated by employees, former employees, analysts, regulators or others.

In respect of the above, I acknowledge my responsibility for such internal control as I determine necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

8. I have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

9. I have disclosed to you and have appropriately accounted for and/or disclosed in the financial statements, in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

10. I have disclosed to you the identity of the VJB's related parties and all the related party relationships and transactions of which I am aware. All related party relationships and transactions have been appropriately accounted for and disclosed in accordance with IAS 24 *Related Party Disclosures.*

Included in the Appendix to this letter are the definitions of both a related party and a related party transaction as I understand them and as defined in IAS 24.

11. I confirm that:

- The financial statements disclose all of the key risk factors, assumptions made and uncertainties surrounding the VJB's ability to continue as a going concern as required to provide a true and fair view and to comply with IAS 1 Presentation of Financial Statements.
- No material events or conditions exist that may cast significant doubt on the ability of the VJB to continue as a going concern.

This letter was tabled and agreed at the meeting of the Orkney and Shetland Valuation Joint Board on 26 September 2024.

Yours faithfully,

Erik Knight
Treasurer

26 September 2024

Appendix 1 to the Board Representation Letter of Orkney and Shetland Valuation Joint Board: Definitions

Financial Statements

IAS 1.10 states that "a complete set of financial statements comprises:

- a statement of financial position as at the end of the period;
- a statement of profit or loss and other comprehensive income for the period;
- a statement of changes in equity for the period;
- a statement of cash flows for the period;
- notes, comprising a summary of significant accounting policies and other explanatory information;
- comparative information in respect of the preceding period as specified in IAS 1 paragraphs 38 and 38A; and
- a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements in accordance with IAS 1 paragraphs 40A-40D.

An entity may use titles for the statements other than those used in this Standard. For example, an entity may use the title 'statement of comprehensive income' instead of 'statement of profit or loss and other comprehensive income'."

Additionally, the financial statements contain the VJB's Statement of Financial Position, Statement of Movement in Reserves and related notes.

Material Matters

Certain representations in this letter are described as being limited to matters

that are material. IAS 1.7 and IAS 8.5 state that:

"Material omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor."

Fraud

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation.

Error

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

- was available when financial statements for those periods were authorised for issue; and
- could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

Management

For the purposes of this letter, references to "management" should be read as "management and, where appropriate, those charged with governance".

Related Party and Related Party Transaction Related party:
A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to in IAS 24 *Related Party Disclosures* as the "reporting entity").

1. A person or a close member of that person's family is related to a reporting entity if that person:
   - has control or joint control over the reporting entity;
   - has significant influence over the reporting entity; or
   - is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
2. An entity is related to a reporting entity if any of the following conditions applies:
   - The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
   - One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
   - Both entities are joint ventures of the same third party.
   - One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
   - The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
   - The entity is controlled, or jointly controlled by a person identified in (1).
   - A person identified in (1) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

- The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

A reporting entity is exempt from the disclosure requirements of IAS 24.18 in relation to related party transactions and outstanding balances, including commitments, with:

- a government that has control or joint control of, or significant influence over the reporting entity; and
- another entity that is a related party because the same government has control or joint control of, or significant influence over, both the reporting entity and the other entity.

Related party transaction:

A transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charge.

Appendix 2

Orkney & Shetland Valuation Joint Board

Annual Audit Report to the Members of the Board and the Controller of Audit for the year ended 31 March 2024

16 September 2024

DRAFT

Contents

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 and Shetland Valuation Joint Board ("the VJB") 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 VJB, telephone 0141 300 5890, email: michael.wilkie@kpmg.co.uk who will try to resolve your complaint. If your problem is not resolved, you should contact Tim Cutler, either by writing to him at 1 St Peter's Square, Manchester, M2 3AE, by telephoning 0161 246 4774 or email tim.cutler@kpmg.co.uk. We will investigate any complaint promptly and do what we can to resolve the difficulties. After this, if you are still dissatisfied with how your complaint has been handled you can refer the matter to Diane McGiffen, Audit Scotland, 4th Floor, 102 West Port, Edinburgh, EH3 9DN.

Executive summary

Audit conclusions

Our work on the financial statements of the VJB is substantially progressed. We plan to issue an unqualified audit opinion on the annual accounts of Orkney and Shetland Valuation Joint Board ("the VJB"), following their approval by the Orkney and Shetland Valuation Joint Board.

We identified two significant risks in the audit of the VJB, which relate to fraud risk from management override of controls and a risk of an inappropriate amount is estimated and recorded for defined benefit obligations. As documented on pages 7 to 8, we have concluded satisfactorily in respect of the significant risks and audit focus areas identified in the audit strategy document.

We concur with management's assessment that the entity prepares its financial statements on a going concern basis in line with the CIPFA code of Local Authority Accounts 2023-24.

The annual accounts were received at the start of the audit fieldwork. We have no matters to highlight in respect of adjusted audit differences or our independence. We have made no recommendations on our work to date.

Wider Scope and Best Value (11 to 14)

We have concluded the VJB to be assessed as a less complex body for Widerscope and Best value.

We have concluded that the Board have adequate arrangements in place to provide the Board with financial sustainability and to achieve best value.

Scope and responsibilities

Purpose of this report

The Accounts Commission has appointed KPMG LLP as auditor of Orkney and Shetland Valuation Joint Board ("the VJB") 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 VJB 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 VJB.

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 VJB'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 substantially progressed. Following are the details of the ongoing work:

- RI review of workpapers
- Review of final set of financial statements including other information
- Few queries in progress in relation to reported amounts

Should any matters arise from this we will highlight to you.

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 Board, throughout the year, discharges the requirements of ISA 260.

Audit conclusions

Audit opinion

Our work on the financial statements of the VJB is substantially progressed. We expect to issue an unqualified opinion on the truth and fairness of the state of the VJB's affairs as at 31 March 2024, and the result for the year then ended.

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

Financial reporting framework, legislation and other reporting requirements

The VJB 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 2023-24 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

To be confirmed and updated on conclusion

Written representations

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

Materiality and summary of risk areas

Materiality

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

We used a materiality of £27,000 for the VJB's financial statements. This equates to approximately 2.74% of gross expenditure. We designed our procedures to detect errors in specific accounts at a lower level of precision than our materiality. For the VJB, our performance materiality was £20,000. We report all misstatements greater than £1,350.

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 with no identified misstatements to us in accordance with the normal timeframes.

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 (pages 7 to 8 of this report):

- management override of controls (fraud risk).
- Fraudulent revenue recognition (rebutted)
- Estimated liability for defined benefit obligation

Other focus areas (page 12 of this report):

- financial sustainability and reserves (also a wider scope area).

Wider scope areas (pages 11 to 14).

Significant risks

Significant risk	Our Response	Audit conclusion
Fraud risk from management override of controls Professional standards require us to communicate the fraud risk from management override of controls as a significant risk; as management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.	— Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we evaluated the design and implementation of the controls in place for the approval of manual journals posted to the general ledger to ensure that they are appropriate. — We analyse all journals through the year and focus our testing on those with a higher risk, such as journals impacting revenue or expenditure recognition around year-end, or journals linked to our other recognised significant risks. — We assess the appropriateness of changes compared to the prior year to the methods and underlying assumptions used to prepare accounting estimates. — We review he appropriateness of the accounting for significant transactions that are outside the Board's normal course of business, or are otherwise unusual. — We assess the controls in place for the identification of related party relationships and test the completeness of the related parties identified. We will verify that these have been appropriately disclosed within the financial statements.	Our work did not identify any instances of override of control, or matters that required adjustment in the annual accounts or which require to be brought to attention.
Fraud risk from income revenue recognition and expenditure (rebutted) Under ISA 240 there is a presumed risk that income may be misstated due to improper recognition of income. This requirement is modified by Practice Note 10, issued by the FRC, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.	— We consider that the Board's significant income streams, which include funding requisitions from both Island Councils. These are agreed in advance of the financial year, with any changes arising from changes in need, requiring approval from each body. There is no estimation or judgement in recognising this stream of income and we do not regard the risk of fraud to be significant. — The Board works with both Island Councils in order to deliver services delegated by the Board. The Board makes these decisions based on its budget agreed in advance of the financial year. There is no estimation or judgement in recognising expenditure to these bodies, and we do not regard the risk of fraud to be significant.	We have rebutted the fraud risk from income revenue and expenditure recognition in the financial statements. We have not identified any issues of fraudulent income or expenditure recognition in the accounts.

Significant risks

Significant risk	Our Response	Audit conclusion
Risk: An inappropriate amount is estimated and recorded for the defined benefit obligation The valuation of the Local Government Pension Scheme (Shetland Pension Fund) relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Board's overall valuation. There are financial assumptions and demographic assumptions used in the calculation of the Board's valuation, such as the discount rate, inflation rates, mortality rates etc. The assumptions should also reflect the profile of the participating members, and should be based on appropriate data. The basis of the assumptions should be derived on a consistent basis year to year, or updated to reflect any changes. There is a risk that the assumptions and methodology used in the valuation of the Board's pension obligation are not reasonable. This could have a material impact on the net pension liability accounted for in the financial statements. *We do not consider there to be a significant level of estimation uncertainty over the valuation of the LGPS assets in year end valuation on the basis that this calculation is completed using an appropriate roll forward method. As a result procedures performed over this element of the valuation are not detailed in our audit plan.*	*Control design:* – We have evaluated the design and implementation of controls over the management's review of assumptions, to calculate the pension obligation. *Benchmarking assumptions:* – We have challenged, with the support of our own actuarial specialists, the key assumptions applied, being: the discount rate; inflation rate; and mortality/life expectancy against externally derived data. – We have evaluated the competency, capability and objectivity of management specialist. – We have challenged the rate of increase in pensionable salaries assumption, by comparing it to other evidence such as business and transformation plans and our understanding of Government and staff expectations. *Assessing transparency:* – We have considered the adequacy of the disclosures in respect of the sensitivity of the liabilities to these assumptions. – We have assessed if the disclosures within the financial statements are in accordance with the 2023-24 Code's requirements. Our work with respect to pensionable payroll is in WIP.	We have concluded that the assumptions that the Actuary of the Pension Fund has used are balanced (See Page 10). We have identified items in the Actuary report which were not in line with the actual values leading to an adjusted misstatement (appendix four). The disclosures in the financial statements are complete and in line with the CIPFA code. We have concluded that the estimated and recorded defined benefit obligation is fairly stated and appropriately disclosed in the financial statements. Management do not have a management review control for assessing and challenging the Actuarial assumptions, which is recommend however management are comfortable with the current arrangement and we understand the rationale.

We set out above the significant risks identified in the audit, together with our conclusion. The audit opinion within the annual accounts includes a reference to the most significant assessed risks of material misstatement, which is the significant risk included in this annual audit report. This annual audit report does not constitute our audit opinion; the opinion is included within the annual accounts.

Management reporting in financial statements

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

Qualitative aspects and future developments

Level of prudence

0 Audit difference | 1 2 3 4 5 Cautious → Balanced → Optimistic | 6 Audit difference

Qualitative aspects

ISA 260 requires us to report to those charged with governance our views about significant qualitative aspects of the VJB 's accounting practices, including accounting policies, accounting estimates and financial statement disclosures. We consider the accounting policies adopted by the Council to be appropriate. There are no significant accounting practices which depart from what is acceptable under IFRS or the CIPFA Code. We considered the level of prudence within key estimates in the 2023-24 financial statements and accounting estimates. We set out our view below:

Subjective areas	2023-24	Commentary
Pension assumptions Net liability*:* *£310,000 (2022-23 £43,000)*	3	For defined benefit obligations, the estimate is calculated under IAS 19 (as calculated by the Board's actuary, Hymans Robertson, using agreed financial assumptions). We found the assumptions and accounting for pensions to be appropriate. We consider that the discount rate used (4.8%) to be balanced, the CPI inflation assumption (2.80%) to be balanced, and mortality – future improvements (CMI 2022 projections model, 1.5% long-term trend rate for males/females) to be cautious. Salary inflation assumptions are in line with Council expectations. We consider that the return on pension assets assumptions to be appropriate. Overall we consider pension assumptions to be balanced.

Future accounting and audit developments

IFRS 16 adoption has been deferred until 01/04/2024 unless bodies want to introduce earlier.

Audit dimensions introduction and conclusions

Wider Scope Approach

The Code of Audit Practice sets out four audit dimensions which, alongside 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. These include 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.

AQA specifies in supplementary guidance that a body with gross income, expenditure, assets and liabilities less than £10.2 million is likely to be a Less Complex Body unless:

- the auditor identifies any wider scope risks beyond financial sustainability
- AQA advises that, despite its size, the body is of strategic importance
- the body is subject to significant public scrutiny
- the body requests a full wider scope audit
- a statutory report was prepared in 2022/23 related to wider scope issues.

The Auditor General or the Accounts Commission permits an alternative audit approach where an audited body is less complex owing to its size and its limited financial activity. Based on the consideration of the quantitative and qualitative criteria we have assessed the entity to be less complex, therefore applying reduced scope as required by the code.

As part of our 2022/23 audit, due to a number of significant issues identified in 2020/21 audit report, the Controller of Audit reported to the Accounts Commission in March 2022 under section 102(1) of the Local Government (Scotland) Act 1973 which drew the Commission’s attention to the issues relating to governance, we concluded that it is appropriate to apply expanded wider scope requirements to specifically follow-up on the outstanding recommendations.

Our work therefore covered financial sustainability, review of annual governance statement and follow-up of recommendations relating to governance. As a result of this we identified that work was ongoing in relation to one of the recommendations from 2021/22 audit which was noted as a recommendation in our annual audit report relating to 2022/23.

Based on above our 2023/24 work therefore covers financial sustainability, review of annual governance statement and follow-up of recommendations from the previous years.

During our work we considered the work carried out by other scrutiny bodies to ensure our work meets the proportionate and integrated principles contained within the Code of Audit Practice.

Financial sustainability

Financial sustainability looks forward to the medium and longer term to consider whether the VJB is planning effectively to continue to deliver its services.

Budget setting

The 2023/24 budget of £1,032,200 was approved by the Board on 2 March 2023. Net expenditure chargeable to the Board of £1,003,262 represents an underspend of £28,938 or 2.8% relative to the budget.

We noted that Board was provided and considered regular reports on progress against the budget clearly setting out the variances and proposed actions.

The 2024/25 budget of £1,012,500 was approved by the Board on 7 March 2024 representing an 2% decrease as compared to the 2023/24 budget. The key assumption underpinning the budget include the following:

- Staff Costs include a 6.5% increase to reflect the 2023/24 pay settlement award and an allowance of 2% for 2024/25.
- Staff Costs also include a saving in pension contributions, with the rate falling from 36% in 2023/24 to 27.7% in 2024/25.
- Property Costs have been increased by £5,000 to represent the new commitment to business rates as a result of NDR revaluations and lowering of rates relief thresholds. Other property costs are inflated by a factor of 15%, which again for 2024/25 is to cover the additional energy costs.
- Apportioned Costs include an inflation factor of 7% to match the allowance for the pay award.
- All other costs are inflated by a factor of 3% in an attempt to cover increased cost pressures across all budget areas.

Budget setting continued

We noted that the ongoing inflationary pressures and negotiations on public sector pay continue to be the main driving factors in relation to the budget setting process with 81% of the budget relating to staffcost.

Based on the above, we are satisfied that the financial balance is achieved in the short term.

Going Concern

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

This obliges the two local authorities to make available the resources that are requisitioned from them by the Board.

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Financial sustainability (continued)

Financial sustainability

The Board had developed a Medium Term Financial Plan (MTFP) in an attempt to look beyond the single year budget in the previous year. This has been rolled forward in the current year and to 2026/27 including projections for 10 year long term forecast to 2033/34. This was presented to the Board in the meeting dated 20th June 2024.

The financial plan undertakes some sensitivity analysis to provide a picture of best case, worst case and likely case in terms of financial projections. This allows the Board to see the risk associated with the range of variables within the financial issues/pressures identified.

The plan also seeks 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 longerterm views and options.

Key assumptions underlying the plans and longer term forecasts are as follows:

- No further budget changes/ burdens / efficiencies have been included for 2025/26 onwards at this stage
- It is assumed that general inflationary pressures will be contained wherever possible through the generation of efficiency savings within the financial envelope of the Boards revenue budget, noting that 81% of the budget is staff costs.
- It is further assumed that constituent council's will continue to support the Board financially through the annual requisition mechanism to manage the full financial implications associated with the revised pay and grading model that was implemented in 2021, including incremental draft and career progression

The plan notes that with many activities being statutory requirements with mandatory .timetables for completion, and with approximately 81% of the Board's expenditure being on staff costs, it is considered that any savings of significance would require reductions in staffing levels. This may lead to failure to meet demand, loss of experience as well as failure to fulfil statutory duties.

We note that the inflation rate for 2024/25 and beyond,in most likely scenario, has been assumed as 2%. The medium term financial plan further carries out scenario analysis based on a range of inflation rates.

A key assumption in relation to containment of the inflationary pressure through generation of efficiency savings is premised on the reduction of staff levels which may have an adverse effect on the provision of services.

We note that the plan identities a funding gap over the three-year period 2024/25 to 2026/27 of £65k based on a most "Likely Case" scenario as well as a larger gap over the 10 year longer term forecast period and notes that the MTFP will provide a practical framework within which choices can be identified, debated and approved. However we have not seen any quantified plans being put in place to bridge this gap. Prior year recommendation.

Conclusion

The 2024-25 budget was set in March 2024 with staff cost being the main expense category.

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

Financial balance is achieved in the short term.

The entity has rolled forward the medium term financial plan in the current year including forward looking forecast to 2033/34. A key assumption underlying he future forecasts is the ability to reduce staffing levels which may have an adverse effect on the services being provided.

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 Less Complex Bodies, auditors should consider how the work carried out on areas such as financial sustainability will also meet the Best Value responsibilities.

We have included our consideration and reporting of the same throughout this report.

We further noted that best value progress report and performance report are presented to the Board for consideration. The latest reports relating to 2023/24 were presented at the Board meeting dated 20 June 2024. The purpose of the reports are as follows

Best value performance report

To present to the Board, the annual performance related targets and outcomes in relation to the statutory valuation function.

Best value progress report

To present a progress update, as required by the Board's Best Value Regime

We noted that the above information is made available on the website as part of Board minutes.

Conclusion
The VJB has implemented appropriate arrangements to secure Best Value.

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Appendices

Appointed auditor's responsibilities

AREA	APPOINTED AUDITOR'S RESPONSIBILTIES	HOW WE HAVE MET OUR RESPONSIBILITIES
Statutory duties	Undertake statutory duties, and comply with professional engagement and ethical standards.	Appendix two outlines our approach to independence.
Financial statements and related reports	Provide an opinion on audited bodies' financial statements and, where appropriate, the regularity of transactions. Review and report on, as appropriate, other information such as annual governance statements, management commentaries, and remuneration report.	Page 5 summarises the opinion we expect to provide. Page 9 reports on the other information contained in the financial statements, covering the annual governance statement, management commentary and remuneration report
Financial statements and related reports	Notify the Auditor General or Controller of Audit when circumstances indicate that a statutory report may be required.	Reviewed and concluded on the effectiveness and appropriateness of arrangements and systems of internal control, including risk management, internal audit, financial, operational and compliance controls.
Wider audit dimensions	Demonstrate compliance with the wider public audit scope by reviewing and providing judgements and conclusions on the audited bodies': - Effectiveness in the use of public money and assets; - Suitability and effectiveness of corporate governance arrangements; - Financial position and arrangements for securing financial management and sustainability; - Effectiveness of arrangements to achieve best value; and	We have carried out a risk assessment of the Board against the less complex wider scope guidance - Page 11. We have concluded that the less complex approach is appropriate for the VJB in 2023-24 and we have concluded on pages (12 to 14) on the arrangements in place.

Auditor independence

Assessment of our objectivity and independence as auditor of Orkney and Shetland Valuation Joint Board (“the VJB”)

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

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

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

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

Summary of fees

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

— Auditor remuneration (** average of Tender values)

— Audit Scotland Pooled costs

— Audit Scotland Audit Support Costs

— Audit Scotland sectoral cap adjustment

Entity	2023/24	2022/23
Auditor Remuneration **	£20,790	£19,610
Pooled Costs	£760	£-
PABV Contribution	£-	£-
Audit Support Costs	£-	£740
Sectoral Cap Adjustment	-£12,220	-£11,550
TOTAL AUDIT FEES (Incl VAT)	**£9,330**	**£8,800**

There were no non-audit services provided during the year to 31 March 2024.

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 VJB.

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 VJB 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 VJB

Type	Response
Our draft management representation letter	We have not requested any specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 March 2024.
Adjusted audit differences	Page 19 of this report
Unadjusted audit differences	There are no unadjusted audit differences.
Relatedparties	There were no significant matters that arose during the audit in connection with the entity's relatedparties.
Other matters warranting attention by the VJB	There were no matters to report arising from the audit that, in our professional judgment, are significant to the oversight of the financial reporting process.
Control Deficiencies	We have not identified any internal control weakness during our audit to date.Management retains the responsibility for maintaining an effective system of internalControl.
Actual or suspected fraud, non-compliance with lawsand regulationsor illegal acts	No actual or suspected fraud involving group or component management, employees with significant roles in internal control, orwhere fraud results in a material misstatement in the financial statements were identified duringthe audit.

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

Audit Differences

Under UK auditing standards (ISA (UK) 260) we are required to provide the VJB 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 audit differences to report based on work performed to date.

Under UK auditing standards (ISA (UK) 260) we are required to provide the VJB with a summary of adjusted audit differences (including disclosures) identified during the course of our audit. The adjustments below have been included in the financial statements.

Below adjusted audit differences to report based on work performed to date.

1. Valuation for OSJVB's pension assets and liabilities were overstated by £71k. This was mainly because fund actuary used estimated benefits while valuing the assets and liabilities. We were able to confirm the actual benefits post year end from the fund administrator.

Recommendations - prior year follow up

Priority rating for recommendations					
❶	**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.	❷	**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.	❸	**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.

The table below summariess the outstanding recommendations from prior years.

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

Grade	Finding(s) and risk(s)	Management update 2022/23	Management update 2023/24
	Governance and Transparency		
❷	The VJB should review its internal governance documents, ensuring that its Constitution is appropriately tailored and up to date, and supported by VJB-specific Financial Regulations, Contract Standing Orders and other governance documents as appropriate.	**Management response:** The Board has agreed revised Standing Orders at its meeting on 30 June 2022 and a Scheme of Delegation at its meeting in December 2022. The Board formally adopted OIC's Financial Regulations and Contract Standing Orders as an interim measure. Tailored Financial Regulations and Contract Standing Orders will now be developed with a target of 31 December 2023. This action remains ongoing. **Responsible officer:** Karen Greaves **Implementation date:** 31 December 2023	Completed - The Board had agreed revised Standing Orders at its meeting on 30 June 2022 and a Scheme of Delegation at its meeting in December 2022. The Board formally adopted OIC's Financial Regulations and Contract Standing Orders as an interim measure. Tailored Financial Regulations and Contract Standing Orders have been approved by the Board in June 2024.

Recommendations - prior year follow up

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

Grade	Finding(s) and risk(s)	Management update 2022/23	Update 2023/24
	Financial Sustainability		
2	We note that the plan identities a funding gap over the three-year period 2023/24 to 2025/26 of £42k based on a most "Likely Case" scenario as well as a larger gap over the 10 year longer term forecast period and notes that the MTFP will provide a practical framework within which choices can be identified, debated and approved. However we have not seen any quantified plans being put in place to bridge this gap. **2023/24 update** We note that the plan identities a funding gap over the three-year period 2024/25 to 2026/27 of £65k based on a most "Likely Case" scenario as well as a larger gap over the 10 year longer term forecast period and notes that the MTFP will provide a practical framework within which choices can be identified, debated and approved. However we have not seen any quantified plans being put in place to bridge this gap.	**Management response:** This will be considered when reviewing the MTFP for 2024 budget setting **Responsible officer:** Robert Eunson **Implementation date:** 1 April 2024	Completed - The updated MTFS has removed the previous wording, and acknowledges that there are very limited actions which can be taken by Officers or the Board to bridge the gap and continue to deliver the service. No additional plans are being considered.
3	We note that the inflation rate for 2024/25 and beyond has been assumed as 2% which is not in line with the current inflation rate	**Management réponse:** At the time of preparing the MTFP forecast inflationary figures were predicting inflation returning to government policy levels. Appropriate rates will continue to be applied when preparing forecasts. **Responsible officer:** Erik Knight **Implementation date:** 1 April 2024	Completed - Sensitivity analysis, carried out based on a range of inflationary rates, has been incorporated in the latest update to the medium term financial plan.

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

Ongoing impact of the revisions to ISA (UK) 240

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

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

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

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

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

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

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

Summary

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

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

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

What impact did the revision have on audited entities?

With the changes in the environment, including financial reporting frameworks becoming more complex, technology being used to a greater extent and entities (and their governance structures) becoming more complicated, standard setters recognised that audits need to have a more robust and comprehensive risk identification and assessment mechanism.

The changes result in additional audit awareness and therefore clear and impactful communication to those charged with governance in relation to (i) promoting consistency in effective risk identification and assessment, (ii) modernising the standard by increasing the focus on IT, (iii) enhancing the standard's scalability through a principle based approach, and (iv) focusing auditor attention on exercising professional scepticism throughout risk assessment procedures.

Implementing year 1 findings into the subsequent audit plan

Entering the second year of the standard, the auditors will have demonstrated, and communicated their enhanced insight into their understanding of your wider control environment, notably within the area of IT.

In year 2 the audit team will apply their enhanced learning and insight into providing a targeted audit approach reflective of the specific scenarios of each entity's audit.

A key area of focus for the auditor will be understanding how the entity responded to the observations communicated to those charged with governance in the prior period.

Where an entity has responded to those observations a re-evaluation of the control environment will establish if the responses by entity management have been proportionate and successful in their implementation.

Where no response to the observations has been applied by entity, or the auditor deems the remediation has not been effective, the audit team will understand the context and respond with proportionate application of professional scepticism in planning and performance of the subsequent audit procedures.

What will this mean for our on-going audits?

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

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

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

KPMG's Audit quality framework

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

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

Commitment to continuous improvement

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

Performance of effective & efficient audits

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

Commitment to technical excellence & quality service delivery

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

Association with the right entities

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

Clear standards & robust audit tools

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

Recruitment, development & assignment of appropriately qualified personnel

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

The contacts at KPMG in connection with this report are:

MichaelWilkie

Director

Tel: +44 (0)7795 370106

michael.wilkie@kpmg.co.uk

Matthew Moore

Senior Manager

Tel: +44 (0)7468 369807

matthew.moore@kpmg.co.uk

Taimoor Alam

Manager

Tel: +44 (0)7731 348596

Taimoor.alam@kpmg.co.uk