



Item: 10

Monitoring and Audit Committee: 26 September 2024

Internal Audit – UHI Orkney Business Units – Follow Up Audit

Report by Chief Internal Auditor

1. Overview

- 1.1. The internal audit plan 2024/25 included a follow up review of UHI Orkney Business Units, this audit has been completed and the internal audit report is attached as Appendix 1 to this report.
- 1.2. Internal Audits of the three Orkney College Business Units were carried out in 2023/24 and presented to this Committee for scrutiny in September 2023.
- 1.3. The Corporate Director for Education, Leisure and Housing requested that a follow up audit be carried out and the subsequent report be presented to the Monitoring and Audit Committee for further scrutiny.
- 1.4. The objective of this follow-up audit was to determine whether the agreed actions have been implemented and whether they have effectively mitigated the risks identified in the original audits.
- 1.5. The audit opinion is that the recommendations from the original audits have been partially implemented, with twelve of the original fifteen recommendations having been implemented satisfactorily, two partially implemented and one still to be implemented.
- 1.6. The internal audit follow-up report, attached as Appendix 1 to this report, includes one medium priority recommendation and two high priority recommendations from the original audits with updated actions and timescales.

2. Recommendations

- 2.1. It is recommended that members of the Committee:
 - i. Scrutinise the findings contained in the internal follow-up audit report, attached as Appendix 1 to this report, relating to UHI Orkney Business Units, in order to obtain assurance that action has been taken or agreed where necessary.

For Further Information please contact:

Andrew Paterson, Chief Internal Auditor, Extension 2107, email andrew.paterson@orkney.gov.uk.

Implications of Report

- 1. Financial:** None directly related to the recommendations in this report.
- 2. Legal:** None directly related to the recommendations in this report.
- 3. Corporate Governance:** In terms of the Scheme of Administration, consideration of Internal Audit findings and recommendations and to review actions taken on recommendations made, is a referred function of the Monitoring and Audit Committee.
- 4. Human Resources:** None directly related to the recommendations in this report.
- 5. Equalities:** An Equality Impact Assessment is not required in respect of Internal Audit reporting.
- 6. Island Communities Impact:** An Island Communities Impact Assessment is not required in respect of Internal Audit reporting.
- 7. Links to Council Plan:** The proposals in this report support and contribute to improved outcomes for communities as outlined in the following Council Plan strategic priorities:
 - Growing our Economy.
 - Strengthening our Communities.
 - Developing our Infrastructure.
 - Transforming our Council.
- 8. Links to Local Outcomes Improvement Plan:** The proposals in this report support and contribute to improved outcomes for communities as outlined in the following Local Outcomes Improvement Plan priorities:
 - Cost of Living.
 - Sustainable Development.
 - Local Equality.
- 9. Environmental and Climate Risk:** None directly related to the recommendations in this report.
- 10. Risk:** Internal Audit evaluates the effectiveness and contributes to the improvement of the risk management processes.
- 11. Procurement:** None directly related to the recommendations in this report.
- 12. Health and Safety:** None directly related to the recommendations in this report.
- 13. Property and Assets:** None directly related to the recommendations in this report.
- 14. Information Technology:** None directly related to the recommendations in this report.

15. Cost of Living: None directly related to the recommendations in this report.

List of Background Papers

Internal Audit Plan 2024/25.

Audit Report – Orkney College Archaeology Institute

Audit Report – Orkney College UHI Institute for Northern Studies

Audit Report – Orkney College Agronomy Institute

Appendix

Appendix 1: Audit Follow Up Report – UHI Orkney Business Units.



Internal Audit

Audit Report – Orkney College Business Units Follow Up

Draft issue date: 21 August 2024

Final issue date: 13 September 2024

Distribution list:	Corporate Director for Education, Leisure and Housing Head of Education Service Manager Secondary & Tertiary Education Principal of UHI Orkney Director of Agronomy and Agriculture Institute UHI Orkney Director of UHI Archaeology Institute Director of UHI Institute for Northern Studies Support Services Manager: UHI Orkney Finance Manager: UHI Orkney Service Manager Human Resources
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Audit Opinion

Based on our findings in this follow up review we have given the following audit opinion.

Partially Implemented

Some recommendations have been implemented, but further actions are needed to fully address the risks.

A key to our follow up opinions and priority of recommendations is shown at the end of this report.

Executive Summary

Audits of the three UHI Orkney Business Units were carried out during financial year 2023/24. Due to the nature and level of the audit findings the Corporate Director for Education, Leisure and Housing requested a follow up audit and subsequent report to the Monitoring and Audit Committee.

The objective of this follow-up is to determine whether the agreed actions have been implemented and whether they have effectively mitigated the risks identified in the original audits of the UHI Orkney Business Units.

The original audits contained a total of 27 recommendations some of which were specific to one business unit, others applied to two of the units and some to all three. In this report we have amalgamated these into 15 recommendations, reviewed the management actions taken and provided an overall opinion on the status of implementation of agreed actions.

Overall, good progress has been made with 12 of the original 15 recommendations having been fully implemented, 2 partially implemented and 1 still to be implemented.

The number and priority of the original recommendations are set out in the table below, together with their implementation status as at the date of the follow- up audit.

Priority	Number of Recommendations	Satisfactorily Implemented	Partially implemented	Not Implemented
High	4	2	2	
Medium	9	8		1
Low	2	2		

The assistance provided by officers contacted during this audit is gratefully acknowledged.

Introduction

The 'Research and Business Units (RBUs)' of UHI Orkney, formerly known as Orkney College, being; the UHI Institute for Northern Studies (INS), the Agronomy and Agriculture Institute and the Archaeology Institute, were audited over June to August 2023. The final audit reports submitted to the Monitoring and Audit Committee on 21 September 2023 contained a number of findings, with corresponding action points recommended for each finding. Management agreed to implement these action points within specific timelines.

We have been asked by the Corporate Director for Education, Leisure and Housing to conduct a follow up audit in respect of the action points arising from the original audits and report back to the Monitoring and Audit Committee.

As a comparator to the original audits, we have provided a summary of spend against budget for each of the Business Units in the table below.

	2022/23	2023/24
Business Unit	£	£
Archaeology Institute		
<u>Archaeology Teaching</u>		
Budget	186,900	142,300
Actual	197,550	147,300
Over/(Under) Spend	10,650	5,000
<u>Orkney Research Centre for Archaeology (ORCA)</u>		
Budget	(2,600)	9,700
Actual	96,068	78,044
Over/(Under) Spend	98,668	68,344
<u>Archaeology Institute</u>		
Budget	0	0
Actual	(5,085)	14,895
Over/(Under) Spend	(5,085)	14,895
TOTAL Over/(Under) Spend Against Budgets (Archaeology)	104,233	88,239
UHI Institute for Northern Studies		
Budget	(16,300)	(18,100)
Actual	42,830	31,741
Over/(Under) Spend Against Budget	59,130	49,841
Agronomy Institute		
Budget	4,400	(5,100)
Actual	(25,199)	(42,827)
Over/(Under) Spend Against Budget	(29,599)	(37,727)
Over/(Under) Spend Against Budget (all Business Units)	133,764	100,353
TOTAL Orkney College Over / (Under) Spend	672,000	414,000

The table above does not include Higher Education (HE) Resource Allocation Model (RAM) and Micro RAM income, which would offset the deficit recorded above for the business units.

	2022/23	2023/24
	£	£
Ram & Micro Ram Allocation to INS	(96,900)	(97,605)
Ram & Micro Ram Allocation to Archaeology	(48,500)	(137,314)

Audit Scope

The objective of this audit is to determine whether the agreed actions have been implemented and whether they have effectively mitigated the risks identified in the original audits.

The scope included the following points:

- Verify the implementation status of each action point.
- Assess the effectiveness of the implemented actions.
- Identify any residual risks or issues.
- Provide recommendations for further improvement if necessary.

The areas covered included the following:

- Governance.
- Budget setting, monitoring and reporting.
- Recruitment and staffing.
- Risk management.
- Procurement.

This review was conducted in conformance with the Public Sector Internal Audit Standards.

Audit Findings

1.0 Recording of roles and responsibilities re budgeting within the College (All RBUs)

- 1.1 The recommendation was that the roles and responsibilities of budget holders and UHI Orkney finance staff in respect of engaging with budget drafting be clearly defined. Once set RBU budget holders should actively manage the ratified budget.
- 1.2 The Service have responded on Ideagen with a comment on ongoing discussions to align the job description of college staff with those agreed nationally, this was further updated on 2 July with – this is now subject to signing a formal agreement.
- 1.3 We have seen evidence of budget setting meetings between budget holders and the Finance Manager, which indicates that budget holders have been involved in discussing and amending budgets for their cost centres to arrive at final budgets.
- 1.4 Further to this, written guidance has been produced and circulated by the College Principal that sets out the responsibilities of budget holders within the College.
- 1.5 This recommendation has been implemented satisfactorily.

2.0 Budget setting for income (Archaeology and INS)

- 2.1 The original recommendation was that budgets should be drawn up based on a realistic assessment of income, and expenditure included in the budget to balance this figure. The Education Service have closed this action as complete, with the comment that there has been more involvement of the College with the budget setting process and that budget holders were aware that they would be contributing to the process.
- 2.2 The Finance Manager: UHI Orkney has provided details in respect of the Archaeology Institute and UHI Institute for Northern Studies showing that the budget for FY 24/25 has been based on:
 - The actual income achieved in FY 23/24, and
 - discussions with Budget Holders around future orders or known income sources.
- 2.3 In addition, changes have been made to the original draft budget expenditure lines to ensure that the budget was balanced.
- 2.4 This recommendation has been implemented satisfactorily.

3.0 Variance Reporting to Committees (All RBUs)

- 3.1 The original recommendation was that the commentary on variances reported to the Education, Leisure Housing (ELH) Committee included sufficient detail to give a full picture, and that 'income yet to be identified and confirmed' is highlighted in the reporting to the ELH Committee.
- 3.2 Budget analysis spreadsheets have been created for each cost centre, and regular meetings between the budget holders, Finance Manager and a member of the senior management team have taken place (See 4.1 below).
- 3.3 These actions have enabled more detailed commentaries on the Budget Action Plans produced quarterly. Reporting to the ELH Committee has been improved for the Budget

Monitoring Reports, both in terms of the written details within the Budget Action Plan and in verbal explanations given to Elected Members.

3.4 This recommendation has been implemented satisfactorily.

4.0 Adjustments to Budget Profiles (INS)

4.1 The original audit recommended that adjustments to budget profiles or virements be used to reflect any substantial variances which had already happened in the year.

4.2 We have reviewed the Budget and Profile Statement 2023/24 which has shown that profile adjustments have been made throughout the financial year to the budgets for UHI Institute for Northern Studies in the following areas: Other Grants and Reimbursements, Rents and Lettings, Fees and Charges, and Miscellaneous Income.

4.3 This recommendation has been implemented satisfactorily.

5.0 Reinstatement of Monitoring Meetings (All RBUs)

5.1 The original recommendation was that monitoring meetings between the College Principal, Finance Manager and Budget Holders be reinstated. Prior to the appointment of the new College Principal, monitoring meetings had been held with the Head of Education for both the Institute of Archaeology and the UHI Institute for Northern Studies in August, September and October 2023 and February 2024. No minutes or meeting notes were kept.

5.2 Written guidance has been produced and circulated by the College Principal that sets out the responsibilities of budget holders and the requirements around budget monitoring meetings.

5.3 This recommendation has been implemented satisfactorily.

6.0 Budget Holder Training (All RBUs)

6.1 The original recommendation was that all Budget Holders should undertake the newly revised Budget Holder training.

6.2 Training has been carried out for all College budget holders.

6.3 This recommendation has been implemented satisfactorily.

7.0 Copies of signed contracts / letters of variation (All RBUs)

7.1 The original recommendation was for the Council's Human Resources service to ensure that signed copies of contracts or letters of variation were retained on file. We were informed that many documents are not returned to the Human Resources service.

7.2 As a result, an alternative wording has been added to all contracts and variation letters to confirm the legal position of acceptance of contract or variation by default in the absence of a returned contract.

7.3 An alternative to the original recommendation, which addresses the risk highlighted, has been implemented satisfactorily.

8.0 Business Plans and Risk Registers (All RBUs)

8.1 The original recommendation was that UHI Orkney Business Units should draw up business plans and formal risk registers which should address issues such as succession planning

and should align with objectives from the business plans. This is now intended to be addressed as part of the UHI Orkney response plan, which will be presented to the ELH Committee later this year.

- 8.2 This recommendation is still open, and the timescale has been revised to 30 June 2025 to allow this further work to be completed.

Recommendation 1

9.0 Recharging of staff costs (Archaeology and INS)

- 9.1 The original recommendation was that arrangements for recharging staff costs from UHI should be subject to the Regulated Procurement rules or the rules on Non-Competitive Actions. In addition, contract arrangements were required to be formalised and put in place between the business units and the Executive Office of UHI.
- 9.2 The Service had closed this action in error on Ideagen, with a comment that the contract had been drawn up. However, we were unable to obtain the contract, and the Procurement Service had no record of a contract, or relevant documentation on Regulated Procurements or Non-Competitive Actions in respect of these arrangements.
- 9.3 The combined recharges for the UHI Institute for Northern Studies and the Archaeology Institute, highlighted in the original audit amounted to over £385,000 for the period from March 2022 to March 2023. A further £264,955 of recharges were made in the period from April 2023 to April 2024.
- 9.4 A procurement plan and a Non-Competitive Action (NCA) have been drafted and UHI have supplied up to date numbers of staff and costs so that everything is in place for a Memorandum of Understanding to be completed. We recommend that these arrangements are formalised at the earliest opportunity.

Recommendation 2

10.0 VAT on staff cost recharges (Archaeology and INS)

- 10.1 The original recommendation was that VAT advice should be obtained to clarify the VAT status of the recharges noted in 9.1 above. We have seen evidence of the VAT advice from PwC.
- 10.2 Our audit testing of the invoices for the further charges from UHI made from April 2023 to April 2024 show that VAT has been correctly omitted from the charges.
- 10.3 This recommendation has been implemented satisfactorily.

11.0 Self-employed staff (Archaeology)

- 11.1 The original audit recommendation was that a standard contract for services should be drawn up and signed by all self-employed staff. This was done, and in addition, Legal and Procurement had advised that longer term framework agreements should be put in place, in respect of individuals with ongoing work with the unit. This had a deadline of the end of the 2023/24 financial year.
- 11.2 Subsequently it was decided that rather than put in place framework agreements, individuals with ongoing work with ORCA would be offered employment as relief archaeologists. This has been put in place for one individual to date.
- 11.3 This recommendation has been implemented satisfactorily.

12.0 Procurement Plans (Archaeology)

- 12.1 The original audit recommendation was that where contract values for self-employed workers for a single project were approaching £10,000, a procurement plan should be completed and appropriately authorised.
- 12.2 The Service completed this action in October 2023 with a note to the effect that training had been carried out for all College Budget Holders on procurement requirements. The Service Manager (Procurement) confirmed that they spoke at a meeting of College Budget Holders. In addition, a review was undertaken of entries on the appropriate cost line for FY 2023/24, and there was no expenditure in the year on self-employed individuals relating to single projects which required a procurement plan.
- 12.3 The Service Manager (Procurement) has clarified the process to be followed for ongoing research digs.
- 12.4 This recommendation has been implemented satisfactorily.

13.0 Invoicing Profile (Archaeology)

- 13.1 The original audit recommendation was that invoices should be issued by ORCA at the earliest opportunity throughout the year, in response to the position identified in the 2022/23 financial year, whereby more than 50% of the invoices issued were issued in the final month. In addition, a change to the budget profile was suggested to set the profile equally over 12 months, and adjustments to the profile put through to reflect any substantial variances which have already happened in the year.
- 13.2 The invoicing profile for the financial year 2023/24 was analysed and compared to that for 2022/23 (See Figures 1 and 2 below).

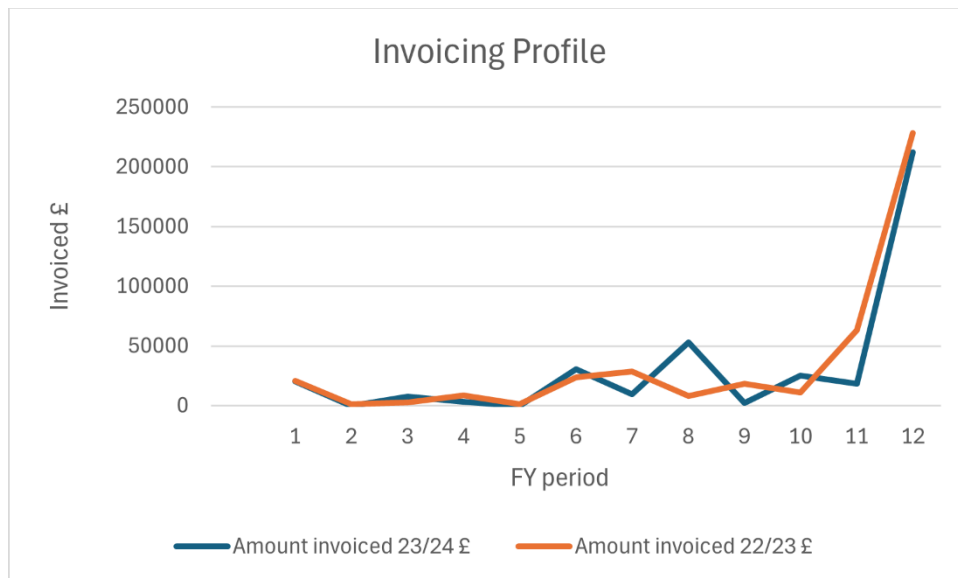


Figure 1. Invoicing profile by period in the financial year

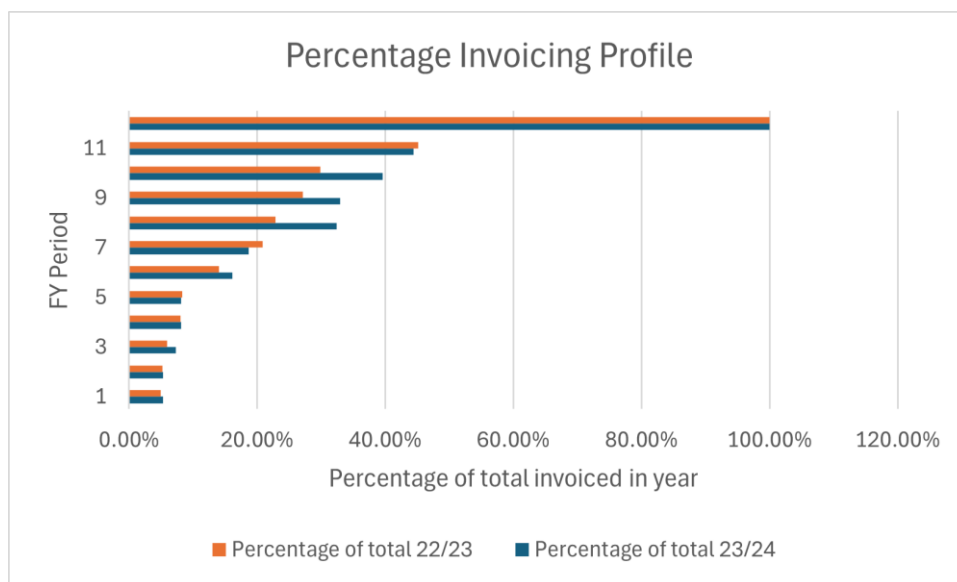


Figure 2. Percentages of total amounts invoiced by period in the financial year.

13.3 Whilst Figure 1 shows that the profile of invoices issued is broadly the same in FY 2023/24, i.e. that the majority of invoice value issued was in March 2024, Figure 2 shows that there was a measurable acceleration of invoicing in FY 2023/24.

13.4 Discussions with the relevant budget holder identified that a major constraint on issuing invoices earlier in the financial year was that grant issuing bodies required the issuing of relevant invoices in one tranche at the end of the financial year. Accordingly, whilst efforts will continue to accelerate the budgeting of invoices issued for ‘commercial’ work, it may not be possible to significantly alter the general profile.

13.5 The budget profile was initially set to equally over 12 months in line with the original audit recommendation but was then reverted to 100% income being recognised in month 12 (month 12 invoicing). This was because it was felt that an equal split over 12 months was giving rise to high negative variations in the early months.

13.6 Looking at the percentage invoicing profile in Figure 2, neither the original recommendation of an equal increase month on month, nor the current profile of month 12 invoicing adequately represent the pattern of invoicing throughout the year. The continued use of month 12 invoicing means that the results will always show a positive variance throughout the year, with the true position only becoming apparent at the year end. This limits the usefulness of budget monitoring and reporting throughout the year.

13.7 Accordingly, we recommend that a budget profile closer to the reality of the invoicing profile be adopted. This should be based on the recent analysis of previous years’ income by the UHI Finance Manager.

Recommendation 3

14.0 Adherence to Financial Regulations and Contract Standing Orders (Archaeology)

14.1 The audit contained a recommendation, in response to three instances of ‘invoice splitting’ to avoid authorisation levels, that Budget Holders consider and adhere to the Financial Regulations and Contract Standing Orders. In addition, we also recommended regular reviews of the invoices paid to ensure that there are no further instances of ‘invoice splitting’.

- 14.2 The Service closed this point with the comment that Budget Holders had been briefed on this as part of the procurement training in October 2023, and that regular monitoring of budgets and processes is now taking place.
- 14.3 A review of expenditure within the cost centres within the FY 2023/24 was undertaken to identify whether there were any further instances of invoice splitting. No further instances were identified.
- 14.4 This recommendation has been implemented satisfactorily.

15.0 Contracts with Agricultural Contractors (Agronomy)

- 15.1 The audit contained a recommendation that contracts, drawn up with agricultural contractors for the growing of bere, should be added to the contracts register maintained by the Service Manager (Procurement). In addition, copies of these contracts should be sent to the Director of Agronomy.
- 15.2 Our testing and discussions have confirmed that these contracts have now been added to the contracts register, and that copies of the contracts have been sent to the Director.
- 15.3 This recommendation has been implemented satisfactorily.

Action Plan

Original Recommendation	Original Priority	Current Status	Updated Action Agreed	Responsible Officer	Agreed Completion Date
1 The Institute should draw up both a business plan, and a formal risk register which should address issues such as succession planning and should be aligned with objectives from the business plan. This should be regularly updated and reviewed with senior management of the College. This should feed into the Orkney College Risk Register, which should be reviewed at least annually by the ELH Committee to ensure that it remains an active, responsive document addressing the latest position of the College	Medium	Time Extended	This is now intended to be addressed as part of the UHI Orkney response plan, which will be presented to the ELH Committee	College Principal	30 June 2025
2 Either the Regulated Procurement rules or the rules on Non-Competitive Action should be applied to the arrangement for recharging of staff costs from UHI. Contract agreements need to be formalised and put in place between the business unit (OIC) and the Executive Office of UHI in respect of these recharges, and the contracts added to the Contract Register. Alternatively, employment contracts should be drawn up for academic staff working for the Unit who are currently the subject of these arrangements.	High	Partially Implemented	A procurement plan and a Non-Competitive Action have been drafted and UHI have supplied staff figures and costs so that everything is in place for a Memorandum of Understanding to be completed. Accordingly, we recommend that these arrangements are formalised at the earliest opportunity.	College Principal	30 November 2024
3 There should be a return to the prior practice of issuing invoices throughout the year at the earliest opportunity in line with commercial best	High	Partially Implemented	Where internal changes can be made this will be done, for external bodies the budget profile will be	College Principal	30 November 2024

Original Recommendation	Original Priority	Current Status	Updated Action Agreed	Responsible Officer	Agreed Completion Date
<p>practice. To reflect this position within the budget, the profile should be set over 12 months in the first instance, and adjustments to the profile put through to reflect any substantial variances which have already happened in the year. These measures should improve the accuracy of budget monitoring and reporting throughout the financial year</p>			<p>amended to reflect the reality of the invoicing profile based on recent analysis of previous years' income by the UHI Finance Manager.</p>		

Key to Opinion and Priorities

Follow Up Opinion

Opinion	Definition
Fully Implemented	All recommendations have been implemented effectively, and the associated risks have been mitigated.
Partially Implemented	Some recommendations have been implemented, but further actions are needed to fully address the risks.
Not Implemented	Recommendations have not been implemented, or the actions taken are insufficient to address the risks.

Recommendations

Priority	Definition	Action Required
High	Significant weakness in governance, risk management and control that if unresolved exposes the organisation to an unacceptable level of residual risk.	Remedial action must be taken urgently and within an agreed timescale.
Medium	Weakness in governance, risk management and control that if unresolved exposes the organisation to a significant level of residual risk.	Remedial action should be taken at the earliest opportunity and within an agreed timescale.
Low	Scope for improvement in governance, risk management and control.	Remedial action should be prioritised and undertaken within an agreed timescale.