

## **Item: 7.2**

**Monitoring and Audit Committee: 21 September 2023.**

**Internal Audit Report: Orkney College Archaeology Institute.**

**Report by Chief Internal Auditor.**

### **1. Purpose of Report**

To present the internal audit report on procedures and controls operating within the Orkney College Archaeology Institute.

### **2. Recommendations**

The Committee is invited to scrutinise:

#### **2.1.**

The findings contained in the internal audit report, attached as Appendix 1 to this report, relating to procedures and controls operating within the Orkney College Archaeology Institute, in order to obtain assurance that action has been taken or agreed where necessary.

### **3. Background**

#### **3.1.**

Orkney College is one of the 12 academic partners forming the University of the Highlands and Islands (UHI). Orkney leads research in three areas – Agronomy, Archaeology and Northern Studies. Three Research and Business Units have been set up to develop and undertake research and commercial activities and provide teaching in these areas.

#### **3.2.**

The Corporate Director for Education, Leisure and Housing requested a review of the business aspects of the three units as a result of concerns over finance and staffing issues.

#### **3.3.**

The Archaeology Institute is a teaching and research organisation dedicated to advancing the understanding of the historic environment through the creation, interpretation, and dissemination of archaeological knowledge. Through Orkney Research Centre for Archaeology it offers commercial archaeological services.

### **3.4.**

The objective of this audit was to review the business unit to determine if it was operating in accordance with the Council's objectives, policies and procedures and the requirements of UHI and that it was operating within the unit's own terms of reference.

## **4. Audit Findings**

### **4.1.**

The audit provides limited assurance over the procedures and controls relating to the business aspects of the business unit.

### **4.2.**

The internal audit report, attached as Appendix 1 to this report, includes four high priority recommendations regarding budget setting, procurement, invoicing and adherence to financial regulations and contract standing orders. There are seven medium priority recommendations regarding budget setting, monitoring and reporting, contracts, VAT treatment, drafting a business plan and risk register, and there is one low priority recommendation regarding employment contracts.

### **4.3.**

The Committee is invited to scrutinise the audit findings to obtain assurance that action has been taken or agreed where necessary.

## **5. Corporate Governance**

This report relates to the Council complying with governance and scrutiny and therefore does not directly support and contribute to improved outcomes for communities as outlined in the Council Plan and the Local Outcomes Improvement Plan.

## **6. Financial Implications**

### **6.1.**

There are no financial implications associated directly with the recommendations in this report.

### **6.2.**

The audit report makes a number of recommendations designed to improve the financial governance and performance of the Orkney College Archaeology Institute.

## **7. Legal Aspects**

Complying with recommendations made by the internal auditors helps the Council meet its statutory obligations to secure best value.

## **8. Contact Officer**

Andrew Paterson, Chief Internal Auditor, extension 2107, email [andrew.paterson@orkney.gov.uk](mailto:andrew.paterson@orkney.gov.uk).

## **9. Appendix**

Appendix 1: Internal Audit Report: Orkney College Archaeology institute.



## Internal Audit

### Audit Report - Orkney College Archaeology Institute 2022/23

Draft issue date: 8 August 2023

Final issue date: 4 September 2023

<b>Distribution list:</b>	<b>Corporate Director for Education, Leisure and Housing</b> <b>Head of Education</b> <b>Service Manager Secondary &amp; Tertiary Education</b> <b>Principal of Orkney College</b> <b>Assistant Principal of Orkney College</b> <b>Director of Archaeology Institute</b> <b>Budget Holder – Archaeology Teaching</b> <b>Budget Holder – ORCA</b> <b>Orkney College Finance Manager</b> <b>Service Manager Accounting</b> <b>Service Manager Human Resources Operations</b>
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### Contents

Audit Opinion .....	1
Executive Summary .....	1
Introduction .....	3
Audit Scope.....	5
Audit Findings .....	6
Action Plan.....	14
Key to Opinion and Priorities.....	19

## Audit Opinion

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

**Limited**

**There are significant weaknesses in the framework of governance, risk management and control such that it could be or become inadequate and ineffective.**

A key to our audit opinions and level of recommendations is shown at the end of this report.

## Executive Summary

Orkney College incorporates the highly regarded and academically successful Archaeology Institute, a Research and Business unit (RBU). The Corporate Director for Education, Leisure and Housing requested a review of the business aspects of the unit as a result of concerns over finance and staffing issues.

The unit carries out two main areas of operations although there is some crossover between the areas. Archaeology teaching carries out Higher Education teaching activities, at undergraduate and postgraduate level, together with research. The Orkney Research Centre for Archaeology (ORCA) offers commercial archaeological services both in the County and wider together with community engagement activities. There is a third cost centre (Archaeology Institute) which relates to grants received by the unit which are specifically for an individual person or project.

The situation of the unit, being part of Orkney College and owned by a local authority, but with responsibility for academic matters to the University of the Highlands and Islands (UHI) results in a complex operating and reporting environment.

Areas of good practice were identified during this audit, including:

- The work carried out by the unit is in accordance with UHI, OIC and Orkney College aims and objectives and is consistent with their own stated purposes.
- The key risks for the unit are identified within the Orkney College Risk Register, and risk management actions have been identified.
- The business unit Director and budget holders are aware of the continuing challenges to the unit and actively considering future activity.

However, our audit also found that:

- The method of budgeting adopted carries a high level of risk that assumed levels of income will not be realised.
- The quality of reporting to Committee needs to improve to provide a full picture of the financial position of the unit.
- More than 50% of the number of invoices billed in the year were billed in the final month of the Financial Year 22/23.
- Monitoring meetings between the Principal, Finance Manager, business unit Directors and Budget Holders should be reinstated.

- The business unit has no specific business plan or risk register in place.
- There has been a failure to apply Procurement procedures to both recharges from UHI and arrangements for self-employed archaeologists.
- There have been examples of charges being split over invoices to avoid the authorisation limits.

The report includes 12 recommendations which have arisen from the audit. The number and priority of the recommendations are set out in the table below. The priority headings assist management in assessing the significance of the issues raised.

Responsible officers will be required to update progress on the agreed actions via Pentana Risk.

<b>Total</b>	<b>High</b>	<b>Medium</b>	<b>Low</b>
<b>12</b>	<b>4</b>	<b>7</b>	<b>1</b>

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

## Introduction

Orkney College (OC) is one of the 12 academic partners forming the University of the Highlands and Islands (UHI). Orkney leads research in three areas, Agronomy, Archaeology and Northern Studies, and three Research and Business Units (RBUs) have been set up to develop and undertake research and commercial activities and provide teaching in these areas.

The RBUs are highly regarded and academically successful. The Corporate Director for Education, Leisure and Housing requested a review of the business aspects of the units as a result of concerns over finance and staffing issues.

The Archaeology Institute is a teaching and research organisation dedicated to advancing understanding of the historic environment through the creation, interpretation, and dissemination of archaeological knowledge. Through Orkney Research Centre for Archaeology (ORCA) it offers commercial archaeological services.

The Institute consists of three cost centres: Archaeological teaching, ORCA and a third cost centre (Archaeology Institute) which relates to grants received by the Institute which are specifically for a person or a project, so are not readily matched to expenditure. The main sources of income for the Institute are teaching, research activity and commercial activities.

Research income in higher education in the UK is quality assessed through the Research Excellence Framework. A proportion of university funding, the Research Excellence Grant is determined from the quality indicators from the Framework. The strength of research is therefore important both for the grant income and the reputation of the UHI, College and the Institute. In addition, teaching income is directly linked to numbers of students, and associated funding from the Scottish Funding Council via UHI.

In line with the Council's requirement from 2011, that the College should set a 'balanced budget, whereby all expenditure is at the very least offset, in full, by income on an ongoing basis, for all its activities', there was an expectation that the business units will, at a minimum, break even financially. However, more recently the focus has moved to a balanced budget for the College overall, with the unit having a budgeted overspend.

The results for the cost centres are set out below in Table 1. These results indicate that the Institute has generated both net losses and net profits over recent years. There are significant net losses in the most recent financial year, both for the College itself (£672k) and for the Institute (£104k). The losses in the College have taken up the reserves built up in prior years (£480k) and will require the Council to provide a loan to the College.

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

	2019/20	2020/21	2021/22	2022/23**
	£	£	£	£
<b>Archaeology Institute</b>				
<u>Archaeology teaching</u>				
Budget	15,000	235,000	232,400	186,900
Actual	36,587	172,108	114,023	197,550
<b>Over/(Under) Spend *</b>	<b>21,587</b>	<b>(62,892)</b>	<b>(118,377)</b>	<b>10,650</b>
<u>ORCA</u>				
Budget	(15,000)	0	13,500	(2,600)
Actual	(15,803)	(16,532)	(6,243)	96,068
<b>Over/(Under) Spend</b>	<b>(803)</b>	<b>(16,532)</b>	<b>(19,743)</b>	<b>98,668</b>
<u>Archaeology Institute</u>				
Budget	0	0	0	0
Actual	(746)	135	383	(5,085)
<b>Over/(Under) Spend</b>	<b>(746)</b>	<b>135</b>	<b>383</b>	<b>(5,085)</b>
<b>TOTAL Over / (Under) Spend Against Budget</b>	<b>20,038</b>	<b>(79,289)</b>	<b>(137,737)</b>	<b>104,233</b>
<b>TOTAL OC Over / (Under) Spend</b>	<b>(58,200)</b>	<b>(43,900)</b>	<b>(374,000)</b>	<b>672,000</b>

Table 1: Archaeology Institute Over / (Under) Spend 2019 – 2023

\*Underspend against Budget is shown in brackets

\*\*Provisional figures



## Audit Scope

The scope of this audit was to review the following:

- a) Review the governance structure of the units by examining in particular the roles of UHI and the Education, Leisure and Housing Committee (EL&H).
- b) Review the effectiveness of the governance and control arrangements.
- c) Determine the purpose and authority of the business units and their role in meeting the Council's objectives.
- d) Examine whether the business units are following Council and UHI policies, regulations and procedures.
- e) Examine the budget setting process with particular emphasis on income.
- f) Examine the budget monitoring process.
- g) Examine all reports to the College Management Council Sub-committee (CMC) and EL&H Committee relating to the business units.
- h) Review business unit costs.
- i) Review any plans for the future.
- j) Review risk management processes.
- k) Review performance reporting processes.

The audit work focussed on the period from April 2019 to June 2023.

## Audit Findings

### 1.0 Research and Business Unit Governance

- 1.1 Each of the business units is led by a Director, who reports to the senior management of the college. In the first instance this would be the College Principal, with support from the Business or Finance Manager. The College Principal and Assistant Principals attended meetings of the Orkney College Management Council Sub-committee, a Sub-committee of the Education, Leisure and Housing Committee. Recommendations and reports from the College Management Council Sub-committee were submitted to the Education, Leisure and Housing Committee which in turn reports and makes recommendations to the full Council.
- 1.2 The College Management Council Sub-committee had responsibility for “the governance of Orkney College, the quality of education provided by the College, the estates strategy and its annual budget”, from the Sub-committee’s inception in March 2009 throughout the period to 31 March 2023.
- 1.3 UHI operates as a collegiate partnership with Orkney College being one of 12 academic partners. Accordingly, the relationship between Orkney College and UHI is governed by a series of Partnership Agreements, in particular the Academic Partnership Agreement. An updated and revised agreement was recently negotiated with UHI and its solicitors by the College Principal and officers from the Education and Legal Services. This agreement has been presented and agreed by a recent Member / Officer Working Group, then recommended for approval by the Education, Leisure and Housing Committee on 7 June 2023 and approved by the General Meeting of the Council on 4 July 2023.
- 1.4 Management monitoring within the College which was previously in place has not been maintained over the period of review.
- 1.5 There have also been changes in the finance operations within the College management team. The role of Business Manager has been split into Finance Manager and Support Services Manager. At present it appears that the split of responsibility of the College Finance Manager and Budget Holders for budget drafting and active budget monitoring is unclear.
- 1.6 Following approval at the General Meeting of the Council held on 10 March 2022, a short life Working Group was set up with a remit to consider the Strategic Review, the Options Appraisal and the UHI Branding and Positioning project, together with any other relevant pertaining issues, with a view to informing a draft detailed business review and strategic five-year plan for Orkney College. The outcome of this review included a recommendation to disestablish the formal College Management Council Sub-committee and establish a stakeholder group which “affords the opportunity for open and frank discussions without being restricted by the governance processes and procedures of a formal Sub-committee”. This recommendation was accepted by the full Council on 4 July 2023, and accordingly the College Management Council Sub-committee was disestablished.
- 1.7 During its existence the Council has held governance responsibility for the College with a working partnership with the Court of UHI. This has been strengthened as a result of the inclusion of two representatives from UHI within the stakeholder group and the appointment of the Chair of the Education, Leisure and Housing Committee to UHI’s partnership forum.

- 1.8 The role and responsibilities of the business unit Budget Holders and College staff in respect of engaging with budget drafting should be clearly defined. Once set, business unit Budget Holders should actively manage the ratified budget.

### **Recommendation 1**

(This recommendation is shared across the RBUs)

## **2.0 Budgeting**

### **Budget Setting**

- 2.1 The draft College budget for 2022/23 was presented to the Sub-committee in February 2022, and states that there is a requirement to set a balanced budget, with an “inherent risk that the assumed income levels will not be achieved. If this is the case, then compensatory reduction in expenditure will be required”. There is also a specific note to the effect that within Research Business Units, sufficient research and commercial activity will be sourced to cover budgeted expenditure.
- 2.2 However, the 2022/23 budget for the College shows budgeted under or over-spends for all business units, and the focus is on balancing the budget for the College as a whole.
- 2.3 Due to the nature of its activities, budget setting within the Council is focussed on expenditure rather than income. For the business units this means that the expenditure budget is set based on the prior year budget with adjustments made for pay awards, other inflationary increases and identifiable one-off costs or savings. Where possible, budgeted income is identified and includes known and projected income based on work in progress, predictions of industry requirements and projected student numbers. However, at the stage of budget setting there are many uncertainties regarding the source and amount of future income. To achieve a balanced budget overall for the College at the budget setting stage, income yet to be identified is included as a balancing figure.
- 2.4 Setting balanced budgets in the manner described above does not make it easy to set realistic budgets. Best practice budget setting for businesses is based on estimated revenue, with expenditure being budgeted at a level which returns a profit overall. This matches income with the costs associated in earning this income. In the absence of a plan linking spending to revenue it is very easy to outspend revenue over time.
- 2.5 The risk of outspending revenue is particularly acute when part of that revenue consists of income which has yet to be identified at the time that the budget was set. As income is identified and confirmed it is transferred from the relevant budget line to an appropriate revenue line. Effectively, then, the budget lines for these income sources represent a potential shortfall which is then reduced by confirmed income. At the time of the 2015-16 audit, this income was described as ‘miscellaneous income’ and identified separately. This income is also now included within other cost code lines such as fees and charges and other grants. This makes it more difficult to readily identify income still to be identified, in effect, a potential future shortfall.
- 2.6 The draft College 2022/23 budget set in February 2022 showed total income of £5,849k. The income achieved for 2022/23 amounted to £5,523k, approximately 94% of the budgeted amount. The net shortfall for 2022/23, per the draft 2022/23 Council Annual Accounts amounted to £620k, which utilised the college’s reserves of £481k, and required a ‘soft loan’ from the Council of £139k.

- 2.7 Of the £620k shortfall for 2022/23, the Archaeology Institute contributed a shortfall of £104k. In the prior financial year, the College had a net surplus of £375k, with the Archaeology Institute providing a surplus of £138k.
- 2.8 The total income in the business unit budget should be prudently drawn up based on a variety of sources including confirmed future income, past revenue received and the unit's business intelligence such as market demand. Once a realistically achievable level of income has been identified, the level of expenditure should be included in the budget which allows the College to accord with the Council policy requiring a balanced budget to be set. Where the budget setting process gives rise to a risk or concern that a potential budget shortfall could arise, particularly in respect of the level of revenue yet to be identified, measures for addressing the shortfall need to be identified.
- 2.9 Since early identification of potential issues allows more time for solutions to be implemented, it is important that full engagement and discussion with the Council's finance function is undertaken before the budget setting process, to allow a realistic budget to be set.

### **Recommendation 2**

(This recommendation is shared with another RBU)

### **Budget monitoring and reporting**

- 2.10 The business units are part of the Council budget monitoring process whereby monthly reports of actual versus budget spend to date for the fiscal year are issued to budget holders. Revenue expenditure monitoring reports (REMR) are circulated as briefing reports each month to Sub-committee members.
- 2.11 Every quarter, additional REM reports are prepared showing high level budget versus actual results for each cost centre for the period to date. These are the figures which go forward to the monitoring committees. Any material variances which fulfil the appropriate criteria are identified as Priority Actions and budget holders are required to explain them and identify corrective action.
- 2.12 Our audit found that at Education, Leisure and Housing Committee on 16 February 2022, an elected member had described the details on overspends and underspends from the College within these reports as 'sadly lacking' and 'less anodyne' explanations were requested.
- 2.13 On 8 February 2023 a report was presented to the Education, Leisure and Housing Committee advising of the revenue expenditure position of each RBU on 31 December 2022. This showed an underspend of £24.6k for the Archaeology Institute overall which did not trigger an item within the REMR.
- 2.14 However, as noted at 2.3, 2.4 and 2.5 above, the budgeted revenue used to assess the variance includes income which has not yet been identified and confirmed, and an assumption that all budgeted revenue income would be received. This can result in the users of the REMR not being made aware of the true financial position. For example, the underlying records show that of the £376.5k budgeted miscellaneous income for the Orkney Research Centre for Archaeology cost centre, £93.7k had been shown as received in the 9 months to December 2022, leaving a potential shortfall of £282.8k at that point. There was no certainty at that point that all this income would be received, and the potential shortfall was not shown or mentioned in the REMR. The closing position for 2022/23 was that there was a final revenue shortfall of £56.6k.

- 2.15 Therefore, there was no transparency regarding the true position of the business unit when reporting to the Committee or Council. The REMR for the Archaeology Institute showed underspends for the first three quarters of the year, resulting in no corrective actions being included in the Budget Action Plan, thereby giving the report users a misleading level of confidence.
- 2.16 The College Principal should ensure that explanations of variances reported quarterly to the Education, Leisure and Housing Committee include sufficient detail to give Members a full picture of the underlying situation giving rise to the variance. In addition, it is essential that quarterly reporting on the business units include a clear and unequivocal statement of the amount of 'income yet to be identified and confirmed' to allow potential shortfalls to be identified in a timely manner and remedial action taken where required.

### **Recommendation 3**

(This recommendation is shared with another RBU)

- 2.17 As part of the budget monitoring, budgeted income and expenditure is profiled, i.e., allocated to the anticipated month of receipt. Where there is more uncertainty, the profile adopted for anticipated receipts varies. For the Archaeology teaching cost centre, this income is profiled to arise equally over the year, however, for the Orkney Research Centre for Archaeology cost centre, this income is profiled to be received in March at the end of the financial year.
- 2.18 This latter method of income profiling means that the budget monitoring reported to the Members is operating on the assumption that the entire amount shown as 'income to find' in the original budget will be received. This masks any potential issues with shortfalls in income, which are only revealed at the end of the financial year.
- 2.19 Adopting a budget profile which allocated income to earlier months would highlight sooner whether the unit is on track to generate income sufficient to meet its commitments on expenditure. It would result in more accurate budget reporting, providing a clearer basis for decision making, and allowing for any actions required to be implemented within the financial year.
- 2.20 The budget profile for income yet to be identified mirrors the current practice of invoicing in March for work done throughout the year. For 2022/23 more than 50% of the invoices issued were issued in the final month. This practice distorts the income flow of the unit and impairs the reporting of an accurate financial position via the REMR process throughout the year.
- 2.21 Following the finalisation of the cost centre budgets, Budget Holders may continue to adjust their budget profiles to reflect variations in timings of income and expenditure that occur during the year. Our audit identified few, if any, such adjustments. This could result in 'artificially' high under and overspends in successive periods. In addition, a substantial variance in early months of the financial year could cloud the results for the later months, making the true financial position of the cost centres, and business unit difficult to determine.
- 2.22 There should be a return to the prior practice of issuing invoices throughout the year at the earliest opportunity in line with commercial best 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.

### **Recommendation 4**

(This recommendation is shared with another RBU)

- 2.23 In previous years, internal monitoring within the College involved regular meetings between business unit directors and the College Business Manager and College Principal to review and update a spreadsheet which detailed potential income. This critical management monitoring has ceased.
- 2.24 The Unit has continued to produce the spreadsheet. In February 2023, the Teaching and Archaeology Institute cost centres had billed 85% and 94% respectively of their expected income for the financial year, whilst ORCA had billed 22.2% of the expected income.
- 2.25 The reinstatement of monitoring meetings between RBU directors and the College Principal and OC Finance Manager, and the inclusion of the Budget Holders who are not RBU Directors, would both assist the Finance Manager to have a clearer and more timely picture of the situation for the RBUs and provide support to the Budget Holders if required in operating within OIC's financial system. The College Principal should ensure that all Budget Holders undertake the newly revised Budget Holder training.

### **Recommendation 5**

(This recommendation is shared across the RBUs)

## **3.0 Recruitment and Staffing**

- 3.1 Staff employed at Orkney College, including all academic staff, are currently subject to OIC's recruitment and HR policies and procedures. There is a National Recognition and Procedures Agreement which applies to the Scottish College Sector, which has previously been considered by Committee. At present a report of the detailed implications of signing up to the Agreement is being prepared.
- 3.2 Our audit identified that historically, signed copies of initial employment contracts have not been returned to HR, and that there is no process in place within HR to monitor or chase up these documents. Going forward, with Talentlink online recruitment system now in place, the individual now accepts employment by clicking on link and thus handling of paperwork by HR is reduced.
- 3.3 Changes to contract by way of a variation letter are still printed and posted out to the employee which should be signed by the employee and returned by the employee to HR to be retained on file.
- 3.4 Whilst it is best practice that copies of signed contracts are retained on record, if the employee has commenced employment following an offer, or continues to work following the issue of a variation to a contract, they are deemed to have accepted the contract or variation and a legal contract of employment is in place.
- 3.5 In line with best practice, OIC's HR department should ensure that procedures exist to wherever possible, aim to have copies of signed acceptances of contracts or variations retained on record.

### **Recommendation 6**

(This recommendation is shared across the RBUs)

## **4.0 Risk Management**

- 4.1 The Archaeology Institute has a strategy for research priorities, but there is no business plan in place.
- 4.2 Orkney College holds a risk register, but at present the business units do not have departmental risk registers in place.
- 4.3 The audit found no evidence of consideration of the Orkney College risk register by either the Sub-committee or the Education, Leisure and Housing Committee. Whilst the Committees do review budget monitoring variances as set out in 2.13 above, there is no consideration of the other identified risks or actions undertaken.
- 4.4 Education, Leisure and Housing holds a Directorate risk register which is held on Pentana, but this omits any reference to Orkney College and the business units.
- 4.5 The Institute should draw up both a business plan focussed on income generation, 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 Education, Leisure and Housing Committee to ensure that it remains an active, responsive document addressing the latest position of the College.

### **Recommendation 7**

(This recommendation is shared with other RBUs and the College)

## **5.0 Procurement**

- 5.1 The College and business units are required to comply with the Council Financial Regulations and Contract Standing Orders in respect of procurement of supplies and services, which apply to contracts with a value of £10,000 or over. Below the £10,000 limit, purchases are covered by the Purchase2Pay system and authorisations subject to the limit assigned to the individual's role. The budget holders for ORCA and Archaeology Teaching have limits of £5,000 each, whilst the business unit Director has a limit of £10,000.
- 5.2 Between 2022 and 2023, several invoices were raised by UHI in respect of lecturing staff. These invoices were raised to recover staff costs including relocation costs. The invoices do not contain a breakdown of costs and we have not been able to obtain details from UHI.
- 5.3 Financial Regulation 2.2.4 sets out that transactions are deemed to be cumulative for these purposes, to avoid splitting transactions into smaller events to avoid financial limits. Over the period from March 2022 to March 2023 this amounts to over £111,000. There was no written contract in respect of these arrangements. The Procurement Service were not made aware of these arrangements.
- 5.4 The cumulative value of the contracts means that ordinarily they would have fallen within the Public Contracts (Scotland) Regulations 2015, the Procurement Reform (Scotland) Act 2014 and the Procurement (Scotland) Regulations 2016. They also potentially fall within section 18 of OIC's Contract Standing Orders and should be subject to tendering via the Single Procedure Document process. However, where the services required are linked to a particular person's expertise, the Contract Standing Orders recognise that a tendering process may not be appropriate.

- 5.5 Instead, such transactions are subject to the Non-Competitive Action procedures, which require that the Service Manager (Procurement) should be approached for advice and guidance prior to an application for authorisation by the Chief Executive or their designated substitute.
- 5.6 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 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.

#### **Recommendation 8**

(This recommendation is shared with another RBU)

- 5.7 Of the 8 invoices raised noted at 5.2 above, 3 have had VAT charged on them, whilst the others have had no VAT charged on them.
- 5.8 VAT advice should be taken to clarify the VAT status of the services supplied, and any invoices subsequently raised which do not accord with this status should be addressed with UHI.

#### **Recommendation 9**

(This recommendation is shared with another RBU)

- 5.9 Rather than use temporary contracts, some field archaeologists are self-employed and invoice the unit for the work they have undertaken. There are no contracts for services in place in respect of these individuals. These individuals work alongside employees undertaking identical work and are subject to the same mileage and subsistence rates. In the event of dispute, this could give rise to uncertainty regarding their employment status, potentially giving rise to liabilities for the unit, either arising from employment rights claimed or from tax authorities requiring the payment of employers National Insurance Contributions.
- 5.10 A standard contract for services should be drawn up and signed by all self-employed archaeologists.

#### **Recommendation 10**

- 5.11 The audit work identified invoices submitted to ORCA for archaeology services. Over the period reviewed, the invoices totalled over £10,000 for each of four projects. There is no formal contract for services, and nothing recorded on the Contracts Register.
- 5.12 Section 16 of the Contract Standing Orders requires that for any contract with a value of over £10,000 a procurement plan is completed by the service lead, submitted to the Service Manager (Procurement) for authorisation, then passed to the relevant Head of Service and Corporate Director for approval. This procedure was not followed.
- 5.13 Where contract values for self-employed workers for a single project are approaching £10,000, a Procurement Plan should be completed and appropriately authorised.



## **Recommendation 11**

- 5.14 Audit work has identified three instances of potential 'invoice splitting' where it appears that purchase orders and associated invoices in respect of one contract activities have been split to avoid the authorisation limit of £5,000.
- 5.15 Budget Holders must consider and adhere to the Financial Regulations and Contract Standing Orders in respect of payments for services, and the authorisation limits applicable. The College Principal with assistance from the OC Finance function should regularly review invoices paid to ensure that 'invoice splitting' practice ceases.

## **Recommendation 12**

## Action Plan

Recommendation	Priority	Management Comments	Responsible Officer	Agreed Completion Date
<p>1 The role and responsibilities of the RBU Budget Holders and OC staff in respect of engaging with budget drafting should be clearly defined. Once set RBU Budget Holders should actively manage the ratified budget.</p>	Medium	Agreed	College Principal	31 October 2023
<p>2 The total income in the RBU budget should be prudently drawn up based on a variety of sources including confirmed future income, past revenue received and RBUS business intelligence such as market demand. Once a realistically achievable level of income has been identified, the level of expenditure should be included in the budget which allows OC to accord with the Council policy requiring a balanced budget to be set. Where the budget setting process gives rise to a risk or concern that a potential budget shortfall could arise, particularly in respect of the level of revenue yet to be identified, measures for addressing the shortfall need to be identified.</p> <p>Since early identification of potential issues allows more time for solutions to be implemented, it is important that full engagement with OIC finance function is undertaken before the budget setting process to allow a realistic budget to be set.</p>	High	Agreed	College Principal  Service Manager Accounting	31 December 2023

<p>3 The College Principal should ensure that explanations of variances reported quarterly to the EL&amp;H committees include sufficient detail to give Members a full picture of the underlying situation giving rise to the variance. In addition, it is essential that quarterly reporting on the RBUs include a clear and unequivocal statement of the amount of 'income yet to be identified and confirmed' to allow potential shortfalls to be identified in a timely manner and remedial action taken where required.</p>	<p>Medium</p>	<p>Agreed</p>	<p>OC Finance Manager  Service Manager Accountancy</p>	<p>30 November 2023</p>
<p>4 There should be a return to the prior practice of issuing invoices throughout the year at the earliest opportunity in line with commercial best 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>High</p>	<p>Agreed</p>	<p>RBU Budget Holders</p>	<p>30 September 2023</p>
<p>5 The reinstatement of monitoring meetings between the College Principal, RBU directors and the OC Finance Manager, and the inclusion of the Budget Holders who are not RBU directors, would both assist the Finance Manager to have a clearer and more timely picture of the situation for the RBUs and provide support to the Budget Holders in operating within OICs financial system. The College Principal should ensure that all Budget Holders should undertake the newly revised Budget Holder training.</p>	<p>Medium</p>	<p>Agreed</p>	<p>College Principal</p>	<p>31 December 2023</p>

<p>6 In line with best practice, OIC's HR department should ensure that procedures exist to wherever possible, aim to have copies of signed acceptances of contracts or variations retained on record.</p>	<p>Low</p>	<p>Not having a signed contract on file provides no legal issue for the Council as where an individual has been issued with and is working under a contract or variation, there is legally an accepted contract of employment.</p> <p>Of the identified 9 files with no signed contract, 4 have acceptances on file. For the others, the employees have continued to work under the new conditions, as above, a 'de facto' acceptance of the variation in terms.</p> <p>As part of the ongoing work on Recruitment, processes will be revised to try and ensure wherever possible, and without causing unnecessary operational delays to recruitment that signed contracts are on file.</p> <p>Wording is being added to contracts and variation letters to</p>	<p>Service Manager Human Resources Operations</p>	<p>Follow up work on College files 30 September 2023</p>
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		highlight to employees that there will be deemed compliance with the contract and variations whether they are signed and returned or not.		
7 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 EL&H Committee to ensure that it remains an active, responsive document addressing the latest position of the College.	Medium	Agreed	College Principal RBU Directors	30 November 2023
8 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	Agreed	College Principal	31 December 2023
9 VAT advice should be taken to clarify the VAT status of the services supplied, and any invoices subsequently	Medium	Agreed	OC Finance Manager	30 September 2023

raised which do not accord with this status should be addressed with UHI.				
10 A standard contract for services should be drawn up and signed by all self-employed archaeologists.	Medium	Agreed	Budget Holder ORCA Legal	31 October 2023
11 Where contract values for self-employed workers for a single project are approaching £10,000, a Procurement Plan should be completed and appropriately authorised.	Medium	Agreed	Budget Holder ORCA	30 September 2023
12 Budget Holders must consider and adhere to the Financial Regulations and Contract Standing Orders in respect of payments for services, and the authorisation limits applicable. The Principal, with assistance from the OC Finance function, should regularly review invoices paid to ensure that 'invoice splitting' practice ceases.	High	Agreed	College Principal	30 September 2023

## Key to Opinion and Priorities

### Audit Opinion

Opinion	Definition
<b>Substantial</b>	The framework of governance, risk management and control were found to be comprehensive and effective.
<b>Adequate</b>	Some improvements are required to enhance the effectiveness of the framework of governance, risk management and control.
<b>Limited</b>	There are significant weaknesses in the framework of governance, risk management and control such that it could be or become inadequate and ineffective.
<b>Unsatisfactory</b>	There are fundamental weaknesses in the framework of governance, risk management and control such that it is inadequate and ineffective or is likely to fail.

### Recommendations

Priority	Definition	Action Required
<b>High</b>	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.
<b>Medium</b>	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.
<b>Low</b>	Scope for improvement in governance, risk management and control.	Remedial action should be prioritised and undertaken within an agreed timescale.