

Item: 7.4

Monitoring and Audit Committee: 21 September 2023.

Internal Audit Report: Orkney College Agronomy 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 Agronomy 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 Agronomy 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 Agronomy Institute, founded in 2002, is a plant-based research partner of the University of the Highlands and Islands.

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 adequate assurance that procedures and controls relating to the business aspects of the business unit are well controlled and managed.

4.2.

The internal audit report, attached as Appendix 1 to this report, includes four medium priority recommendations regarding budget setting, monitoring, and reporting, and drafting a business plan and risk register. There are two low priority recommendations regarding employment contracts and updates to the contracts register. There are no high priority recommendations made as a result of this audit.

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

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

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

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9. Appendix

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



Internal Audit

Audit Report - Orkney College Agronomy Institute 2022/23

Draft issue date: 7 August 2023

Final issue date: 4 September 2023

Distribution list:	Corporate Director for Education, Leisure and Housing Head of Education Service Manager Secondary & Tertiary Education Principal of Orkney College Assistant Principal of Orkney College Director of Agronomy Institute: Orkney College UHI Finance Manager: Orkney College Service Manager Accounting Service Manager Human Resources Operations
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Audit Opinion

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

Adequate

Some improvements are required to enhance the effectiveness of the framework of governance, risk management and control.

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

Executive Summary

Orkney College contains three highly regarded and academically successful Research Business Units (RBUs); the Agronomy Institute, Archaeology Institute, and the Institute for Northern Studies. 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.

Individual reports have been produced in respect of each unit, with this report focusing on the Agronomy Institute.

There is adequate assurance that some of the controls in place are operating well. However, improvements are required to ensure the unit is operating in accordance with Council policies and procedures.

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

- The work undertaken by the Institute indicates that it is operating in line with its purpose.
- Processes and procedures are being followed by the Institute in accordance with the Council's procurement regulations.
- The budget setting process is generally consistent when compared to actual over/underspend results.

The report includes four medium and two low recommendations which have arisen from this audit. However, some of these findings apply across all three business units.

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.

Total	High	Medium	Low
0	0	4	2

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

Introduction

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, 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. Orkney College is unique in being the only college in Scotland fully owned by a local authority and as a partner in the UHI, the three business units make an important contribution to the research profile of the university.

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.

Founded in 2002, the Agronomy Institute is a plant-based research partner of the University of the Highlands and Islands (UHI). Its mission statement is “to establish an internationally recognised centre for the research, development and promotion of northern temperate plants and their products which contributes significantly to the sustainable, economic, social and environmental well-being of the Highlands and Islands.”

In collaboration with farmers and commercial companies, the Agronomy Institute has a wide-ranging portfolio which includes growing bere, specifically for Bruichladdich Distillery on Islay, and identifying new product development for local distillers and small business ventures including the tea plantation on Shapinsay.

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 small overspends.

The results for the Institute are set out below in Table 1. These results show that the Institute has generated both net losses and net profits in recent years, albeit on a comparatively small scale. In the most recent financial year, the Institute had an underspend of £29.6k, whilst the College had an overspend of £672k.

	2019/20	2020/21	2021/22	2022/23**
	£	£	£	£
Agronomy Institute				
Budget (Surplus) / Deficit	(15,000)	0	800	4,400
Actual (Surplus) / Deficit	(13,830)	7,168	2,584	(25,199)
Over/(Under) Spend Against Budget *	1,170	7,168	1,784	(29,599)

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

*Underspend against Budget is shown in brackets

**Provisional figures

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

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

Recommendation 1

(This recommendation is shared across the RBUs).

- 1.7. 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 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 approved by the full Council on 4 July 2023, and accordingly the College Management Council Sub-committee was disestablished.

1.8. 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.

2 Budgeting

Budget Setting

- 2.1 The draft OC budget for 2022/23 was presented to OCMC 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 College shows budgeted under or overspends 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 RBUs 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.
- 2.4 The Institute is a small unit which is reflective of the number of employees and the collaboration work with a few selected local growers and commercial companies. Income is generated from two main sources – research income and commercial income (sales of bere in collaboration with Bruichladdich Distillery). The business unit identifies when research income will be received, and this is allocated monthly. The nature of their commercial income means this is generally predictable and can be identified at certain times of the year - for example harvest season upon bere production. Budget planning therefore is generally consistent when comparing to the resulting over/underspend.
- 2.5 The draft OC 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.
- 2.6 Of the £620k shortfall for 2022/23, the Agronomy Institute provided a net surplus of £29,599. In the prior financial year, the College had a net surplus of £375k, with the Agronomy Institute contributing a very small deficit of £1,784.

Budget monitoring and reporting

- 2.7 The RBUs are part of the Council budget monitoring process whereby monthly reports of actual vs 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 College Management Council Sub-committee members.

- 2.8 Every quarter, additional REM reports are prepared showing high level budget vs 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.
- 2.9 Although there are some notable differences between budgeted results and actual results, trends are generally consistent with actual results broadly reflecting budgeted results. Any variances reported to committee are justified (for example, sales income from bere production was received earlier than budgeted) and indicative of the financial position when reports are presented quarterly to committee.
- 2.10 Our audit found that at the Education, Leisure and Housing Committee of 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.
- 2.11 With more accurate reporting measures in place and closer monitoring, any problems that arise can be identified sooner rather than later.
- 2.12 The College Principal should ensure that explanations of variances reported to the Education, Leisure and Housing Committee includes sufficient detail to give members a full picture of the underlying situation giving rise to the variance.

Recommendation 2

(This recommendation is shared across the RBUs).

- 2.14 In previous years, internal monitoring within the College involved regular meetings between RBU Directors, the College Business Manager and the College Principal to review and update a spreadsheet which detailed potential income. This critical management monitoring has ceased.
- 2.15 The reinstatement of monitoring meetings between the College Principal, RBU Directors and the College Finance Manager, with 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 any underlying situation for the RBUs and provide support to the Budget Holders in operating within the Council's financial system. The College Principal should ensure that all Budget Holders undertake the newly revised Budget Holder training.

Recommendation 3

(This recommendation is shared across the RBUs).

3 Recruitment and Staffing

- 3.1 Staff employed at Orkney College, including all academic staff, are currently subject to the Council's recruitment and HR policies and procedures. There is a National Recognition and Procedures Agreement which applies to the Scottish Colleges Sector, which has previously been considered by Committee. At present, a report of the detailed implications of signing up to this agreement is being prepared.
- 3.2 This audit identified that historically, signed copies of employment contracts had 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 (an online recruiting portal), the individual accepts employment by clicking a link in the job offer email, thus reducing paperwork for HR.

- 3.3 However, changes to contract by way of a variation letter continue to be printed and posted out to the employee, a copy of which should be signed and returned by the employee to HR and 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, the Council'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 4

(This recommendation is shared across the RBUs).

4 Risk Management

- 4.1 The Agronomy Institute Director has a good understanding and awareness of the risks which could potentially affect the business unit (for example catastrophic crop failure). There was a strategic plan originally in place from 2006 – 2010 to which there has been no further update. There is also no business plan in place for the unit.
- 4.2 Orkney College holds a risk register, but at present the RBUs do not have risk registers in place.
- 4.3 This audit identified that there was no direct input from the unit to the College risk register, and in turn there was no consideration for this register by the College Management Council Sub-committee, particularly in respect of those risks pertaining to research viability and the loss of staff at.
- 4.4 Education, Leisure and Housing holds a Directorate risk register, held on Pentana Risk but this omits any reference to Orkney College and the Business Units.
- 4.5 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 updated regularly and reviewed with senior management of the College. This should feed into the Orkney College risk register, which needs to be reviewed by the Education, Leisure and Housing Committee at least annually and ensure that it remains an active, responsive document addressing the latest position of the College.

Recommendation 5

(This recommendation is shared across the RBUs and the College).

Procurement

- 5.1 The College and Business Units are required to comply with the Council's 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 All contracts should be maintained on a central register by the Service Manager (Procurement).

- 5.2 Contracts are drawn up between the Council (on behalf of the Agronomy Institute) and the contractors. The agreement is then signed by the contractor, in the presence of a witness and this is then authorised by the Head of Legal and Governance.
- 5.3 However, these contracts have not been added to the contracts register which is maintained by the Service Manager (Procurement).
- 5.4 This audit identified that in 2019/20 these contracts had not been processed and were not signed nor dated by either party. From 2020/21 onwards, however, this problem has since been rectified with contracts being completed every year thereafter. With input into this process, completed agreements used to be sent to the business unit Director but over the years this practice has since been discontinued.
- 5.5 Ensure the business unit Director receives a copy of the agreed contract as had been done previously and ensure that contracts drawn up and agreed are added to the contracts register.

Recommendation 6

- 5.6 As these are low value contracts and below the £10,000 threshold, consideration is placed on local growers close to the College, thereby reducing overheads such as transport costs while also reducing their carbon footprint. The business unit has demonstrated the importance of ensuring these contracts represent value for money for the Council and adhering to the Contract Standing Orders.

Action Plan

Recommendation	Priority	Management Comments	Responsible Officer	Agreed Completion Date
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.	Medium	Agreed	College Principal	31 October 2023
2 The College Principal should ensure that explanations of variances reported quarterly to the Education, Leisure and Housing Committee should include sufficient detail to give members a full picture of the underlying situation giving rise to the variance.	Medium	Agreed	OC Finance Manager Service Manager Accountancy	30 November 2023
3 The reinstatement of monitoring meetings between the College Principal, RBU Directors and the College Finance Manager, with 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 any underlying 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 undertake the newly revised Budget Holder training.	Medium	Agreed	College Principal	31 December 2023
4 In line with best practice, OIC's HR department should ensure that procedures exist to wherever	Low	Not having a signed contract on file provides no legal issue for the Council as where an	Service Manager Human	30 September 2023

<p>possible, aim to have copies of signed acceptances of contracts or variations retained on record.</p>		<p>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 highlight to employees that there will be deemed compliance with the contract and variations whether they are signed and returned or not.</p>	<p>Resources Operations</p>	
<p>5 The Institute should draw up both a business plan and a formal risk register which should address issues</p>	<p>Medium</p>	<p>Agreed</p>	<p>College Principal</p>	<p>30 November 2023</p>

<p>such as succession planning and should be aligned with objectives from the business plan. This should be updated regularly and reviewed with senior management of the College. This should feed into the Orkney College risk register, which needs to be reviewed by the EL&H Committee at least annually and ensure that it remains an active, responsive document addressing the latest position of the College.</p>			RBU Director	
<p>6 Ensure the Director receives a copy of the agreed contract as had been done previously and ensure that contracts drawn up and agreed are added to the contracts register.</p>	Low	Agreed	College Principal	30 November 2023

Key to Opinion and Priorities

Audit Opinion

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