

Item: 9

Monitoring and Audit Committee: 13 November 2025.

Internal Audit – Use of Consultants.

Report by Chief Internal Auditor.

1. Overview

- 1.1. The internal audit plan 2024/25 included a review of Use of Consultants. This audit has been completed and the internal audit report is attached as Appendix 1 to this report.
- 1.2. The Council uses consultancy services for various reasons. They can be used when existing staff do not have the capacity to carry out work or when staff do not have the knowledge or skills to do it. Consultants can be used to support short projects with a known end point, or for longer term activities through contracted-out services.
- 1.3. The objective of this audit was to evaluate the Council's use of consultants to ensure that engagements are justified, cost-effective, aligned with strategic objectives, in line with Financial Regulations and Contract Standing Orders and monitored against contractual terms.
- 1.4. The audit provides adequate assurance that procedures and controls relating to the use of consultants are well controlled and managed.
- 1.5. The internal audit report, attached as Appendix 1 to this report, includes four medium priority recommendation regarding ledger coding, spend reporting and compliance with Financial Regulations and Contract Standing Orders and one low priority recommendation regarding consultant approval processes.

2. Recommendations

- 2.1. It is recommended that members of the Committee:
 - i. Scrutinise the findings contained in the internal audit report, attached as Appendix 1 to this report, relating to the procedures and controls around the use of consultants, in order to obtain assurance that action has been taken or agreed where necessary.

For Further Information please contact:

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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 the review of actions taken on recommendations made, are referred functions 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.
 - ☐ Improving Population Health.
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.

Appendix

Appendix 1: Internal Audit Report – Use of Consultants.



Internal Audit

Audit Report

Use of Consultants

Draft issue date: 22 October 2025

Final issue date: 3 November 2025

Distribution list:	Chief Executive Director of Enterprise and Resources Director of Infrastructure and Organisational Development Director of Education, Communities and Housing Chief Officer, Orkney Health and Social Care Partnership Head of Finance Head of Corporate Governance
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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

The purpose of this review is to give assurance that appropriate controls are in place around the appointment of consultants to ensure appropriate use, quality and value for money for each appointment.

Consultancy spend shown on the general ledger for 2023/24 was £2,683,345.19 and for 2024/25 was £3,179,783.27.

The objective of this audit is to evaluate the Council's use of consultants to ensure that engagements are justified, cost-effective, aligned with strategic objectives, in line with Financial Regulations and Contract Standing Orders and monitored against contractual terms.

Several areas of good practice were identified during this audit including:

- There is evidence that the higher profile, large spend consultancy contracts have been well managed.
- Approval for most of the consultancy work in our sample was in line with the Contract Standing Orders.
- Procurement processes were followed for most of the consultancy spend in our sample.

The report includes five 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 the Ideagen Risk Management system.

Total	High	Medium	Low
5	0	4	1

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

Introduction

The Management Consultancies Association (MCA) defines consulting as “the creation of value for organisations, through the application of knowledge, techniques, and assets to improve performance. This is achieved through the rendering of objective advice and/or the implementation of business solutions”.

The Scottish Government (SG) uses a Three-Part Test to determine whether a service is defined as consultancy. The three tests are:

1. There must be an ongoing exchange of intellectual or professional information concerning the planning and/or delivery of the project or objectives between the SG and the supplier; and
2. The commission/contract ends at the completion of an agreed output(s) rather than the end of a set period of time (subject to the required project timescales); and
3. The day-to-day task management remains with the supplier. However, a regular reporting arrangement should be agreed with the SG contact to ensure that progress is recorded, that issues/risks are identified early, and that resolutions are agreed and delivered, where necessary.

The Council uses consultancy services for various reasons. They can be used when existing staff do not have the capacity to carry out work or when staff do not have the knowledge or skills to do it. Consultants can also be used to support short projects with a known end point, or for longer term activities through contracted-out services.

The appointment of consultants is subject to the Council's Contract Standing Orders (CSO). Paragraph 51.1 of the CSOs state that 'Due to their specialist and fixed term nature consultancy appointments are closely scrutinised. Therefore, prior to the commencement of a procurement exercise, the Relevant Officer shall obtain specific Committee approval to appoint a consultant unless this applies to construction or engineering projects'.

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

Audit Scope

The scope of this audit included:

- Consultant hiring policies and procedures.
- Justification and approval processes.
- Contracting, deliverables, and performance evaluation.
- Financial controls, including cost-effectiveness and budget adherence.
- Compliance with Financial Regulations, Contract Standing Orders and legal and regulatory requirements.

Audit Findings

1.0 Approval Procedures

- 1.1 The Contract Standing Orders (CSO) require that consultancy appointments are approved by the relevant Committee apart from consultancies for construction or engineering projects.
- 1.2 There is also a requirement that any contract over £10,000 has to have an approved procurement plan which provides sufficient information to ensure that all relevant Council Policies have been followed, including the governance, identified budget, Contract Standing Orders, the Financial Regulations and the Sustainable Procurement Policy requirements.
- 1.3 Construction and engineering consultancy accounts for around 60% of the annual spend with the remainder made up of numerous small consultancy contracts. The requirement for Committee approval in addition to the process to approve a procurement plan seems to be disproportionate to the spend for some of the smaller contracts.
- 1.4 The procurement plan process, which was recently updated in 2024, ensures that there is suitable governance and oversight of all procurement over £10,000. This includes the majority of consultancy appointments.
- 1.5 In order to reduce bureaucracy and streamline the process to approve consultancy spend, we consider that the need for Committee approval is no longer required and Contract Standing Orders should be updated to reflect the new procedures.

Recommendation 1

2.0 Consultancy Policy

- 2.1 The Council does not have a clear policy for the use of consultants and the lack of a formal definition of a consultant as opposed to a contractor or agency staff can lead to inaccurate coding of the costs.
- 2.2 The extent of miscoding to the general ledger suggests that there is inconsistency and possibly confusion around the identification and coding of consultancy spend. During this audit we identified consultancy work coded variously as agency staff, third party payments, supplies and services and administration costs.
- 2.3 Data released in response to a Freedom of Information (FOI) request in April 2025 showed consultancy costs for financial year 2023/24 totalled £2,570,076.69, this figure was not taken from the general ledger which showed a spend of £2,683,345.19 but was instead based on a request to Council Officers for details of consultancy spend within their Services.
- 2.3 Testing carried out as part of this audit revealed that the figures provided for the FOI request and those contained in the general ledger are both inaccurate and that spend on consultancy during 2023/24 was approximately £3.9 million, although it is difficult to get an exact figure due to the extent of miscoding.
- 2.4 A briefing note should be circulated to all budget holders and the ledger subjective codes reissued to clarify how the use of consultants should be recorded. The briefing note should contain a formal definition of consultancy to avoid any future confusion.

Recommendation 2

- 2.5 There is no overall responsibility for the control and management of consultancy spend across the Council.
- 2.6 To ensure that there is clarity around the value of consultancy work across the Council we would recommend that the quarterly revenue expenditure monitoring reports to Policy and Resources Committee contain a section on consultancy spend for member scrutiny.

Recommendation 3

3.0 Compliance with Financial Regulations

- 3.1 The Council's Financial Regulations require that a purchase order must be issued in advance for all work, goods or services supplied to the Council.
- 3.2 This ensures that all orders are authorised prior to the purchase and that the authorising officer is satisfied that:
- There is sufficient budget provision (this must always take precedence).
 - The expenditure is lawful and within the power of the Council.
 - Best value has been achieved.
 - The timing of the order and the quantities ordered are appropriate.
 - The price, quantity, and details pertaining to delivery have been agreed.
 - The nature and quantity of goods or services to be supplied are clearly stated on the order.
 - Any additional documentation supplied with the order is accurate and appropriate.
 - Correct ledger codes have been provided.
 - The order is within their delegated authority limit.
 - The order does not contravene any other section of the Financial Regulations or the Contract Standing Orders.
- 3.3 From a sample of 60 payments made on Integra for consultancy services, purchase orders were issued in 21 cases. The remaining 39 payments (65%) had no purchase order issued prior to the purchase.
- 3.4 To ensure compliance with the Financial Regulations we recommend that a reminder of the purchase order procedure should be included as part of the briefing note mentioned at paragraph 2.4.

Recommendation 4

4.0 Procurement

- 4.1 This audit reviewed a random sample of consultants across the Council from both the FOI return and the General Ledger.
- 4.2 In general there are good controls around the procurement of consultants with most following the Contract Standing Orders, having a procurement plan and a formal contract in place.
- 4.3 A review of the general ledger confirmed that one consultancy firm from our sample had been awarded consultancy work totalling circa £18,000 over a two-year period from February 2023 without having a procurement plan completed or a contract awarded. This does not comply with the Council's Financial Regulations and Contract Standing Orders.

- 4.4 As part of the Procurement Audit carried out at the same time as this one, a recommendation was made regarding spend monitoring controls which compares data from Integra to the contracts register which would help to address this issue.
- 4.5 A retrospective review of the non-compliant spend mentioned in 4.3 should be undertaken and appropriate action taken to address this issue.

Recommendation 5

Action Plan

Recommendation	Priority	Management Comments	Responsible Officer	Agreed Completion Date
1 In order to reduce bureaucracy and streamline the process to approve consultancy spend, we consider that the need for Committee approval is no longer required and Contract Standing Orders should be updated to reflect the new procedures.	Low	Agreed	Head of Corporate Governance	31 March 2026
2 A briefing note should be circulated to all budget holders and the ledger subjective codes reissued to clarify how the use of consultants should be recorded. The briefing note should contain a formal definition of consultancy to avoid any future confusion.	Medium	Agreed	Head of Finance	30 November 2025
3 To ensure that there is clarity around the value of consultancy work across the Council we would recommend that the quarterly revenue expenditure monitoring reports to Policy and Resources Committee contain a section on consultancy spend for member scrutiny.	Medium	Agreed	Head of Finance	31 December 2025

Recommendation	Priority	Management Comments	Responsible Officer	Agreed Completion Date
4 To ensure compliance with the Financial Regulations we recommend that a reminder of the purchase order procedure should be included as part of the briefing note detailed at paragraph 2.4 above.	Medium	Agreed	Head of Finance	30 November 2025
5 A retrospective review of the non-compliant spend, detailed at paragraph 4.3 above, should be undertaken and appropriate action taken to address this issue.	Medium	This review has been completed and going forward advice will be sought from the Procurement Team.	Head of Strategic Housing, Housing Operations and Homelessness	Completed

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.