

REPORT TO: SCRUTINY COMMITTEE – 6 DECEMBER 2023

REPORT ON: DUNDEE INTEGRATION JOINT BOARD INTERNAL AUDIT REPORT

REPORT BY: CHIEF INTERNAL AUDITOR

REPORT NO: 269-2023

1.0 PURPOSE OF REPORT

To submit to Members of the Scrutiny Committee, for information only, the Dundee Integration Joint Board (IJB) internal audit report for Viability of External Providers.

2.0 RECOMMENDATIONS

Members of the Committee are asked to note, for assurance purposes, the information contained within this report.

3.0 FINANCIAL IMPLICATIONS

None

4.0 MAIN TEXT

- 4.1 As stated in the Integrated Resources Advisory Group (IRAG) Finance Guidance, the IJB is responsible for establishing adequate and proportionate internal audit arrangements for reviewing the adequacy of the arrangements for risk management, governance and control of the delegated resources. This includes determining who will provide the internal audit service for the IJB and nominating a Chief Internal Auditor. In line with the IRAG Finance Guidance, the Dundee IJB appointed the Chief Internal Auditor of Fife, Tayside and Forth Valley Audit and Management Services (FTF) / NHS Tayside, as its Chief Internal Auditor. In practice, the resources required to deliver the IJB Internal Audit Plan are provided by the internal audit services within NHS Tayside and Dundee City Council.
- 4.2 The IRAG Finance Guidance specifically recommends that IJB Internal Audit Plans and annual reports are shared with the parent bodies and that, to avoid duplication of efforts and determine areas of reliance from the work of each team / service, the Chief Internal Auditor / Chief Audit Executive for each of the respective bodies should share information and co-ordinate activities with each other and with other external providers of assurance and consulting services. To address and formalise the sharing of internal audit related information in general, a Tayside-wide Internal Audit Output Sharing Protocol, covering key internal audit work across NHS Tayside, the 3 IJBs, and the 3 local authorities was developed and is in place. The Protocol enables the sharing of internal audit outputs beyond the organisation that commissioned the work, in particular where the outputs are considered relevant for assurance purposes.
- 4.3 Under the arrangements detailed at paragraph 4.1 above, a review of the Viability of External Providers was undertaken by Dundee City Council Internal Audit team in conjunction with FTF on behalf of the IJB. The overall scope of the audit was to reviewed the arrangements in place to monitor the financial viability and operational sustainability of external service providers and manage the ongoing relationship between DHSCP and the provider.
- 4.4 The final internal audit report was issued on 12 July 2023 and submitted to the Dundee IJB's Performance and Audit Committee on 27 September 2023.
- 4.5 Dundee IJB audit reports are presented to the Performance and Audit Committee for scrutiny purposes and are shared, in accordance with these approved arrangements, with NHS Tayside and the Council's Scrutiny Committee. The final report is attached at Appendix A.

5.0 POLICY IMPLICATIONS

This report has been subject to the Pre-IIA Screening Tool and does not make any recommendations for change to strategy, policy, procedures, services or funding and so has not been subject to an Integrated Impact Assessment. An appropriate senior manager has reviewed and agreed with this assessment.

6.0 CONSULTATIONS

The Council's Leadership Team have been consulted in the preparation of this report.

7.0 BACKGROUND PAPERS

None

Cathie Wyllie, Chief Internal Auditor

DATE: 14 November 2023

FTF Internal Audit Service

Viability of External Providers Report No. D05/22

Issued To: **D Berry, Chief Finance Officer**
V Irons, Chief Officer

C Wyllie, Chief Internal Auditor
D Vernon, Acting Senior Manager Internal Audit and distribution to Dundee City Staff

K Sharp, Service Manager (Strategic Planning, Health Improvement & Commissioning)
L Menzies, Senior Contracts Officer

Performance and Audit Committee
External Audit

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Draft Report Issued	24 August 2022
Management Responses Received	26 June 2023
Performance & Audit Committee	27 September 2023
Final Report Issued	12 July 2023


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CONTEXT AND SCOPE

1. Dundee Health and Social Care Partnership's (DHSCP) Risk Register includes Risk HSCP00d1 – Viability of external providers. The risk outlines the possibility of external providers becoming financially and/or operationally unsustainable which could ultimately lead to collapse. DHSCP relies on the use of external suppliers to meet the needs of service users, so were the risk to materialise, it would create pressure on internal services and adversely impact the provision and / or quality of services to end users.
2. Demands on Health and Social Care services have risen significantly across Scotland in recent years due to the demographic of the ageing population, and the increased strain placed on services because of the Covid-19 pandemic. Given its reliance on third party providers, there is heightened risk that should they become unviable, either financially or operationally, the DHSCP will be unable to fulfil their statutory duties to provide health and social care services to those requiring the services. There is a risk that the standard of care provided by third parties does not meet the standards the DHSCP is required to provide.
3. In addition to the immediate risk of being unable to fulfil service user requirements there is also a longer-term strategic risk that the continued use of external service providers may become unsustainable for the DHSCP. Total costs of using external service providers (excluding contracts with care homes) to meet demand totalled £37.1 million in 2020-21 and are projected to be £42.1 million and £44.3 million in 2021-22 and 2022-23 respectively. Projected costs for use of care home and respite services are estimated to be a further £30.6 million in 2021-22. There are also known issues in recruitment and leadership, exacerbated by the pandemic, which could lead to difficulties in sustaining a quality service.
4. To manage the associated risks with this spend and provision of service it is important that the Council and DHSCP have a robust control framework for managing and monitoring third party service providers. This includes frequent and continued communications with third party service providers, ensuring the quality of care is maintained when services are outsourced, ensuring service providers are, and are likely to remain, financially and operationally viable to provide the services required, and ensuring service level agreements are adhered to by all parties. This includes adherence to payment terms.
5. It is acknowledged that during the Covid-19 pandemic, care providers were subject to additional demands in relation to service provision, scrutiny, support and financial governance, the latter around the introduction of a system of financial sustainability payments by the Scottish Government and administered through Health and Social Care Partnerships. This resulted in a temporary change in the normal contract and financial monitoring processes usually applied, including a light touch approach to some elements as providers and Health and Social Care Partnership resources became stretched.
6. Our audit reviewed the arrangements in place to monitor the financial viability and operational sustainability of external service providers and manage the ongoing relationship between DHSCP and the provider.

AUDIT OPINION

7. The Audit Opinion of the level of assurance is as follows:

Level of Assurance		System Adequacy	Controls
Reasonable Assurance		There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.	Controls are applied frequently but with evidence of non-compliance.

A description of all definitions of assurance and assessment of risks are given in Section 3 of this report.

8. The main areas commented upon in the report are as follows:

Financial Monitoring:

- The Monitoring and Review Protocol does not include clear thresholds to assess financial sustainability and a defined escalation process if the financial viability of a provider is at risk.

Quarterly Monitoring Reports:

- There are inconsistencies across care providers and in the detail captured in quarterly monitoring reports used by DHSCP to assess the quality of care provided. Some of the reporting templates used do not contain a section for detailing quality assurance activities undertaken. A standard template should be introduced for monitoring all providers, and guidance provided regarding the quality of information to be included in these templates. This will also facilitate like for like comparisons between providers to be undertaken. Returns should be regularly reviewed to ensure consistency of approach.

Contracts with Care Providers

- None of the contracts with care providers reviewed were signed by both parties prior to the commencement of the contract and four were only signed in the final months of the contract. There is a risk that the contract is not valid or legally enforceable should any issues arise if it is not signed. It is recommended that all contracts with care providers are signed by both parties as soon as possible after the contracting period starts if there is a change to the financial elements of the contract, or no later than the date which the contract commences where any other changes are made. Internal monitoring should be introduced to ensure this is the case.

ACTION

9. The action plan at Section 2 of this report has been agreed with management to address the identified weaknesses. A follow-up of implementation of the agreed actions will be undertaken in accordance with the audit reporting protocol.

ACKNOWLEDGEMENT

10. We would like to thank all members of staff for the help and co-operation received during the course of the audit.

Barry Hudson BAcc CA
Regional Audit Manager

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Action Point Reference 1

Finding:

Financial Monitoring of Care Providers (Monthly Monitoring and Annual Accounts)

Financial Monitoring of Care Providers is carried out in two ways. Care Providers submit regular financial monitoring statements, using a standard template on a quarterly basis as part of the contract monitoring process. The financial monitoring statements are reviewed and discussed at contract monitoring meetings with the Care Providers. In addition, Care Providers also submit copies of audited annual accounts. These are reviewed to evaluate and assess the Care Providers financial position. Sample testing of 10 external care providers identified that for 5 of the providers, there was no evidence of receipt of annual accounts for the last two years and therefore no evidence of formal monitoring of the accounts.

For the same sample, there was evidence of regular submission of quarterly returns for financial monitoring for 2022/23 with the exception of one provider, (British Red Cross Society), although in this case there was financial reconciliation spreadsheets provided which support evidence of financial monitoring.

The Monitoring and Review Protocol which sets out the requirements for financial monitoring, including responsibilities, does not include defined thresholds at which point concerns of financial viability arising from the review of the annual accounts or the quarterly financial monitoring should be escalated within DHSCP or directly with the Care Provider. There is also no documented approach for escalating concerns about a provider's financial position. This could result in DHSCP not taking appropriate action if a provider appears to be at risk of becoming financially unsustainable. Internal Audit were advised that should there be any concerns around financial viability, the Chief Finance Officer is advised who will arrange discussions with senior management in the Care Provider to resolve the situation.

Audit Recommendation:

It is recommended that the Monitoring and Review Protocol is enhanced to include a clear escalation process in the event that financial sustainability of a Care Provider is deemed to be at risk. This should include thresholds for each of the ratios considered in the financial monitoring template which would trigger escalation for enhanced monitoring, or other appropriate action, to ensure a consistent approach is taken.

To ensure sufficiently regular financial monitoring of annual accounts is conducted for each provider, a review should be performed at least annually, including ensuring that a copy of the Care Provider's recent annual accounts is held.

Overall assurance against this risk should then be reported to a pertinent Committee, or the IJB itself, and could include KPI reporting relating to the financial sustainability ratios.

Assessment of Risk:

Moderate



Weaknesses in design or implementation of controls which contribute to risk mitigation.

Requires action to avoid exposure to moderate risks to achieving the objectives for area under review.

Management Response/Action:	
<p>Agreed: The financial monitoring process will be strengthened through the redirection of financial management support from within existing HSCP Finance Team resources to focus on supporting contractual monitoring arrangements.</p> <p>Routes to reporting to relevant committee for assurance or escalation of risks to be confirmed following review. Options include reporting alongside Clinical Care and Professional Governance assurances to the Performance and Audit Committee or through the annual Care Inspectorate Gradings Report as a separate section on financial viability concerns.</p>	
Action by:	Date of expected completion:
Chief Finance Officer	31 December 2023

Action Point Reference 2**Finding:****Quarterly Monitoring Return**

Care quality inspections are carried out by the Care Inspectorate which undertakes periodic announced and unannounced visits of providers to assess the quality of care provided to service users. Providers are given a score out of five based on the Care Inspectorate's inspection and as the results are made publicly available DHSCP can take assurance over the quality of care being provided. The outcome of these inspections is reported to the Integration Joint Board through its Performance and Audit Committee.

However, in line with the Monitoring and Review Protocol, each contract for services contains elements that the care provider must report against in quarterly returns to DHSCP. These include qualitative and quantitative metrics such as performance, quality, staffing levels and financial information.


Sample testing of ten care providers identified that there is not a consistent template for quality monitoring returns used by all providers. Four of the ten suppliers use monitoring reports which do not contain a section for the care provider to detail the additional quality assurance activities that they undertake. Furthermore, one of the ten providers sampled had a return which did contain a section to record quality assurance activities, however it was left blank by the care provider. As these monitoring activities are designed to provide assurance that the care provider maintains a quality focus and appropriate standards in the periods between Care Inspectorate reports, there is a risk that a decline in the quality of care may not be identified by DHSCP.

Audit Recommendation:

It is recommended that a single standardised template is developed and implemented for quarterly monitoring to ensure an agreed minimum level of quality monitoring is undertaken in respect of performance, quality, staffing levels and financial information. The template should also contain a further section which can be tailored to include any metrics specific to the provider to enable tailored monitoring as needed, above the minimum expected monitoring activities.

To assist in suitably embedding the new template across all care providers, a Senior Officer within DHSCP should undertake a sample inspection each quarter to assess the quality of monitoring reports. Any monitoring reports identified which lack sufficient documentation of the quality assessment should be escalated and discussed with the Contracts Officer to ensure appropriate action is taken in conjunction with the provider.

When providers are subject to external review (e.g. through the Care Inspectorate), these findings should be triangulated with previous internal quality assessments to review whether pertinent issues were picked up, and therefore if the quality of the internal assurances is sufficiently robust or requires further improvement.

Assessment of Risk:	
Significant	 <p>Weaknesses in design or implementation of key controls i.e. those which individually reduce the risk scores. Requires action to avoid exposure to significant risks to achieving the objectives for area under review.</p>
Management Response/Action:	
<p>Agreed: Given the range of services contracted out to care providers not one size template fits all in terms of service outcomes and performance. The qualitative aspects of service monitoring are derived from a range of areas including the Care Inspectorate, service user consultation and care planning. Therefore, the template itself is not considered in isolation.</p> <p>Each contract has an allocated lead officer who is a senior officer within the HSCP. They are responsible for monitoring the quality of services and taking action if the service is not delivering what they are contracted to do. Any risks would be escalated to the Clinical Care and Professional Governance Group of the HSCP which reports into the IJB's Performance and Audit Committee, therefore there is low risk of a decline in care not being identified.</p> <p>The Contracts team will however review the current templates in use and consider how various aspects of the templates can be standardised for future. A process of peer review will be developed to assess the quality of monitoring reports.</p>	
Action by:	Date of expected completion:
Chief Finance Officer	Work to full implementation for 30 April 2024

Action Point Reference 3

Finding:

Contracts with Care Providers

Sample testing of ten care provider contracts identified that none of the contracts had been signed by both parties at the beginning of the contract period. All contracts were signed at least four months after the beginning of the contracted period. In four cases, it was identified that the contract had been signed only within two months of the contract end date and for one care provider the contract was signed by the provider but not by DHSCP. As e-signatures are used, we can conclude that the absence of timely and signed contracts was not as a result of practicalities throughout the COVID-19 pandemic.

Where contracts are not signed by both parties there is a risk that the contract is not valid or legally enforceable should any issues arise.

The majority of social care contracts are by their very nature rolling contracts to minimise the disruption to the care of service users. Therefore, for the majority of contracts in place, the change in annual contracts is largely around the financial elements of the contract as the service specification and contract terms will usually be consistent from year to year

Audit Recommendation:

It is recommended that all contracts with care providers are signed by both parties as soon as possible after the contracting period starts if there is a change to the financial elements of the contract, or no later than the date which the contract commences where any other changes are made. To enable internal monitoring of this, the contracts register should be reviewed regularly to ensure contracts approaching renewal are suitably prepared and they can be signed in sufficient time for the new contract commencing.

Assessment of Risk:

Significant



Weaknesses in design or implementation of key controls i.e. those which individually reduce the risk scores.

Requires action to avoid exposure to significant risks to achieving the objectives for area under review.





Management Response/Action:

Agreed: Note that the provider and the contractor know what is expected from the contractual arrangement each year. Given the IJB is unable to set its annual budget until the end of March each year as it is dependent on the local authority and NHS Tayside to set their budgets, it is impossible for these contractual agreements to be put in place by the 1st April each year. This situation has recently been exacerbated by an additional declaration having to be signed by care providers to confirm they will pay the Scottish Living Wage to their adult social care staff for that contract period. Contracts are issued as timeously as they can during April and contracts officers follow up on any outstanding unsigned contracts in their portfolios.

Action by:	Date of expected completion:
Chief Finance Officer	30 April 2024





Definition of Assurance

To assist management in assessing the overall opinion of the area under review, we have assessed the system adequacy and control application, and categorised the opinion based on the following criteria:

Level of Assurance		System Adequacy	Controls
Substantial Assurance		A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.	Controls are applied continuously or with only minor lapses.
Reasonable Assurance		There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.	Controls are applied frequently but with evidence of non-compliance.
Limited Assurance		Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.	Controls are applied but with some significant lapses.
No Assurance		Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.	Significant breakdown in the application of controls.

Assessment of Risk

To assist management in assessing each audit finding and recommendation, we have assessed the risk of each of the weaknesses identified and categorised each finding according to the following criteria:

Risk Assessment		Definition	Total
Fundamental		Non Compliance with key controls or evidence of material loss or error. Action is imperative to ensure that the objectives for the area under review are met.	None
Significant		Weaknesses in design or implementation of key controls i.e. those which individually reduce the risk scores. Requires action to avoid exposure to significant risks to achieving the objectives for area under review.	Two
Moderate		Weaknesses in design or implementation of controls which contribute to risk mitigation. Requires action to avoid exposure to moderate risks to achieving the objectives for area under review.	One
Merits attention		There are generally areas of good practice. Action may be advised to enhance control or improve operational efficiency.	None