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Agenda Item: 8.

Performance and Audit Committee

Date of Meeting: 22 March 2023.

Subject: Internal Audit – IJB Adjustments.

1. Purpose

1.1. To present the IJB Adjustments Audit Report for members scrutiny.

2. Recommendations

The Performance and Audit Committee is invited to:

2.1. Scrutinise and seek assurance on the IJB Adjustments Audit Report, attached as Appendix 1 to this report.

3. Background

3.1. In an agreed amendment to the 2022/23 Internal Audit Plan for NHS Orkney, a review of engagement and communication of additional costs incurred by the IJB which came to light during NHS Orkney's post year end accounts preparation process, was undertaken.

3.2. Internal Auditors considered how the process aligned with agreed protocol and good practice. The review was commissioned by NHS Orkney, with engagement with IJB agreed by both parties as vital to gaining an appropriate understanding of actions to be taken forward.

4. Audit Findings

4.1. The additional expenditure and associated impact on reserves that has resulted in a late adjustment to the NHS Orkney financial statements appears to have been incurred to address staff shortages as a result of COVID-19 and as such has been used for an appropriate purpose.

4.2. There is little doubt that the complexities, pressures and challenges facing all public bodies has made it particularly challenging in managing all aspects of the arrangements and delivery.

4.3. Issues have been noted relating to communicating and timeliness of oversight by the IJB of the likely costs being incurred, as well as the impact of the delayed communication regarding engagement with Scottish Government to ensure that opportunities to maximise funding for the delivery of health and social care services.

4.4. Following correspondence from Scottish Government, the surplus unspent COVID-19 reserves money was returned.

4.5. Three recommendations have been identified in relation to communication and engagement across partners.

5. Contribution to quality

Please indicate which of the Orkney Community Plan 2021 to 2023 visions are supported in this report adding Yes or No to the relevant area(s):

Resilience: To support and promote our strong communities.	No.
Enterprise: To tackle crosscutting issues such as digital connectivity, transport, housing and fuel poverty.	No.
Equality: To encourage services to provide equal opportunities for everyone.	No.
Fairness: To make sure socio-economic and social factors are balanced.	No.
Innovation: To overcome issues more effectively through partnership working.	No.
Leadership: To involve partners such as community councils, community groups, voluntary groups and individuals in the process.	No.
Sustainability: To make sure economic and environmental factors are balanced.	No.

6. Resource and financial implications

6.1. There are no risk or equality implications directly arising as a result of this report.

7. Risk and equality implications

7.1. There are no risk or equality implications directly arising as a result of this report.

8. Direction required

Please indicate if this report requires a direction to be passed to:

NHS Orkney.	No.
Orkney Islands Council.	No.

9. Escalation required

Please indicate if this report requires escalated to:

NHS Orkney.	No.
Orkney Islands Council.	No.

10. Authors and contact information

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10.2. Matthew Swann (Director), Azets. Email: matthew.swann@azets.co.uk, telephone: 01612451000.

11. Supporting documents

11.1. Appendix 1: Internal Audit – IJB Adjustment.



NHS Orkney

Internal Audit Report 2022/23

IJB Adjustment

November 2022



NHS Orkney

Internal Audit Report 2022/23

IJB Adjustment

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Audit Sponsor	Key Contacts	Audit team
<i>Michael Dickson, Chief Executive</i>	<i>Mark Doyle, Director of Finance</i> <i>Keren Somerville, Head of Finance</i> <i>Stephen Brown, Chief Executive – Orkney Islands Integrated Joint Board</i> <i>Pat Robinson, Chief Financial Officer - Orkney Islands Integrated Joint Board</i>	<i>David Eardley, Chief Internal Auditor</i> <i>Matthew Swann, Director</i> <i>Sharon Smith, Assistant Audit Manager</i>

Executive Summary

Conclusion

The most significant, notable issue creating the challenge of dealing with the additional care staffing costs in 2021/22 appears to be the timing of communication to NHS Orkney from health and social care partners.

The additional costs of £405,576 (and related impact on reserve movements) from spend by Orkney Islands Council (OIC) relate to staffing costs for overtime and agency staff who had to be utilised to address staff sickness shortfalls. Delays in the identification and quantification of that spend impaired the ability of both OIJB and NHS Orkney to discuss potential additional funding to address such COVID pressures. (Such funding may have been available from Scottish Government if more time had been available for discussion and negotiation). A request (but not guarantee) of further funding to recuperate some or all of these costs could have been submitted to the Scottish Government had this issue been overtly discussed across partners by around the end of February 2022 (for example)

It is important for partners to work collaboratively and with timely communication to limit both the likelihood and impact of a similar issue emerging in the future. It is not simply within the gift of NHS Orkney to make the necessary improvements unilaterally; we acknowledge this is predicated on partnership-wide behaviours and processes, with OIJB crucial to this. Key areas which would benefit from improvement are:

- **Appropriate, timely monitoring of costs of services commissioned by OIJB in a holistic manner, considering the impact of known variables such as increased sickness levels to the extent they will impact costs. This reflects good risk and sensitivity analysis of key and variable cost drivers (such as sickness absence impact).**
- **Establishment of clear escalation processes to ensure actual and potential increased costs are identified and shared with partners in a timely manner, with agreed processes to work to resolution.**

Background and scope

In an agreed amendment to the 2022/23 Internal Audit Plan, we performed a review of engagement and communication of additional costs incurred by the OIJB which came to light during NHS Orkney's post year end accounts preparation process. We considered how this aligns with agreed protocol and good practice. The review was commissioned by NHS Orkney, with engagement with OIJB agreed by both parties as vital to gaining an appropriate understanding of actions to be taken forward. Our conclusions have been subject to discussion with both NHS and OIJB management where relevant, and so the actions may have implications across both bodies.

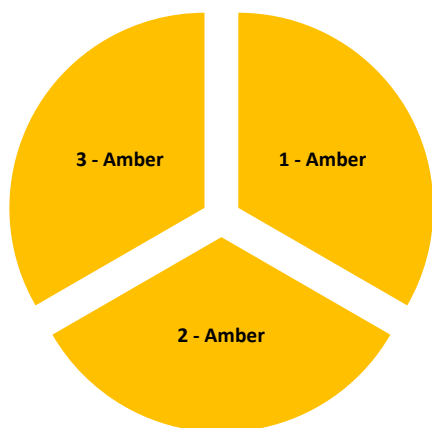
The Orkney Integration Scheme between Orkney Islands Council and NHS Orkney states that: *"The funding available to the Board will be dependent on the funding available to the Local Authority and the Health Board and the corporate priorities of both."* (The Board in this case referring to the OIJB). The OIC and NHS Orkney prepare an integrated budget, and the OIJB is responsible for monitoring its financial position. There is

therefore a need for all three stakeholders to share financial information to ensure a sufficient understanding of budgets and how the OIJB is progressing throughout the year.

The OIJB had an approved budget of £66.437 million for 2021/2022, of which 66% (£44.100 million) was funded by NHS Orkney. The Scottish Government made a further allocation of £3.746 million to the OIJB in late February 2022, with the instruction that it was not used to fund recurring expenditure given the non-recurring nature of covid funding.

The budget for the integrated services is pooled by the OIJB and because it does not operate a bank account, transactions are settled on behalf of the OIJB by the two funding partners. The net difference between payments into and out of the OIJB results in a balancing cash payment between OIC and NHS Orkney. The transfer of £405,576 by NHS Orkney to the OIC in May 2022 to reimburse the additional covid staff spend is an example of such a balancing cash payment.

Control assessment



- 1. The extent to which agreed protocols have been established to identify budget variations in relation to the IJB and communicate these to partners to inform planning and reporting processes.
- 2. The timeline of key events related to the agreement of budgets, subsequent monitoring, and communication/agreement with partners.
- 3. The impact of events related to the delivery of NHS Orkney's statutory financial metrics and related best value.

Impact on risk register

The NHS Orkney corporate risk register (dated August 2022) included the following risk relevant to this review:

- Risk 510: Corporate Finance Risk (Score: 20). Key mitigations include scrutiny by Finance and Performance Committee of budgets and ongoing monitoring of financial performance.

The above risk rating appears to be accurate based on our findings and observations. Although NHS Orkney has an established budget management protocol in place, this is dependent on collaborative working with key partners and related frequent updates on the most up to date financial position.

Acknowledgements

We would like to thank all staff consulted during this review for their assistance and co-operation.

Timeline of events

We consulted with NHS Orkney and OIJB Management to confirm the circumstances that led to the £405,576 additional expenditure and associated financial impact on reserves. The following represents a summary timeline of key events:

Date	Event
Up to beginning February 2022	OIC had a significant number of staff off sick due to covid. This peaked at 16 staff members being absent at the same time. As a result, the OIC deployed agency staff and existing staff worked overtime to address shortfalls in staffing. The OIC informed the OIJB of a need to cover staff absence but did not quantify the value at that stage.
25 February 2022	The Scottish Government issued a letter stating that further funding of £3.746 million would be allocated to the OIJB for further non-recurring covid costs, and that any underutilised fund at the end of 2021/2022 would be carried forward to 2022/2023.
End February 2022	Monthly agency invoices and staff overtime claims were paid but were not allocated to the correct covid cost code by OIC and were therefore not collated and reported. At this stage these costs were not traced and reallocated to the correct cost code.
22 March 2022	<p>The OIJB met and part of the discussion included consideration of budgets, where the following was reported regarding the impact of sickness at the OIC:</p> <p><i>“Social work services have been experiencing high levels of sickness absence for a considerable length of time.” ...Some of this is related to the need for staff members to remain at home due to initial COVID-19 restrictions. However, it is anticipated some sickness absence will be long term and combined with significant recruitment challenges which are proving difficult to remedy, this has resulted in the need to employ locum staff.”</i></p> <p>There was no specific further indication of potential additional costs shared across partners at this stage.</p>
24 March 2022	The Finance and Performance Committee for NHS Orkney met to discuss finances as part of the routine reporting every two months, where the OIJB’s Chief Officer and Chief Financial Officer were present. The potential additional costs were not communicated by the OIJB at this stage.
End March 2022	More agency invoices and overtime claims were received that were captured against the wrong cost code.
20 April 2022	The OIJB met and reported that <i>“The carry forward figures are unknown at present”</i> when referring to their reserves, including covid.
20 May 2022	The OIJB’s Chief Financial Officer (CFO) notified NHS Orkney of the additional staff costs due to covid and that a further claim on the covid reserves held by NHS Orkney would be needed.

Date	Event
25 May 2022	The OIJB's CFO confirmed the total overspend of £405,576, instructed NHS Orkney to transfer this amount to the OIC and reduce the OIJB's covid reserves from £2.769m to £2.363m. The OIC had reallocated the costs to the correct covid cost code and the OIJB calculated this final amount - nearly three months after being initially aware of the additional expenditure.
30 May 2022	The Scottish Government responded to the OIJB's Chief Financial Officer's request to fund the £405,576 overspend, indicating that any overspends would " <i>have to be managed within the available resource</i> ". This appeared to close off any potential which may have existed for additional funding to have been pursued earlier in the period.

Based on our review, there were initial indications of increased sickness levels impacting the ability of staff delivering services for the OIJB towards the end of 2021. By February 2022, this had translated into use of both overtime and agency support to address shortfalls. Whilst it may not have been possible to initially confirm either the exact volume of staff impacted or the precise quantum of additional costs being incurred, there was an opportunity to share the potential impact significantly earlier than information was passed to NHS Orkney. This could have given an estimate or range of the quantum and related impact, to enable partners to work on a joint solution. Delays in the identification and quantification of that spend impaired the ability of both OIJB and NHS Orkney to discuss potential additional funding to address such COVID pressures. (Such funding may have been available from Scottish Government if more time had been available for discussion and negotiation). A request (but not guarantee) of further funding to recuperate some or all of these costs could have been submitted to the Scottish Government had this issue been overtly discussion across partners by around the end of February 2022 (for example)

Whilst we acknowledge that whilst it may not have been possible for OIJB to exactly quantify the value of additional staff costs as a result of covid, there appear to have been several opportunities to:

- Share with partners that due to increased sickness levels alternative methods of resourcing were being employed. Both the Chief Officer and Chief Finance Officer of the OIJB attend the NHS Orkney Finance and Performance Committee (FPC) and had multiple opportunities to raise potential issues of additional costs being incurred.
- Develop an estimate and/or range of potential costs based on known variables, including known need to address staffing issues via overtime and agency working.
- Whilst the increased costs may not have been exactly quantifiable by OIJB, a lack of increased costs could have prompted follow up with OIC to understand the nature and timing of the impact of overtime and agency staffing.

Communication, oversight and scrutiny of the cost of services being commissioned is an integral part of service provision and cross-organisational working, particularly in resource-constrained and complex environments.

OIJB meeting papers confirm quarterly discussions of financial performance. The relevant reports include spend variances under each of the delegated services. However, extant quarterly monitoring is too infrequent in this context and for the purposes of identifying late budget variances towards period end, and then providing for the taking the necessary corrective action before the close of the financial year.

We reviewed information presented to three quarterly OIJB meetings and noted that for the two most recent meetings, the budget information that was considered was more than two months old. This impairs timely scrutiny of recent financial performance with the meeting of 23 March 2022 not considering the additional staff costs that were being incurred due to covid. This is as detailed in the table below:

Date of IJB Meeting	Reporting Period
29 June 2022	1 April 2021 – 31 March 2022
23 March 2022	1 April 2021 – 31 December 2021
15 December 2021	1 April 2021 – 31 October 2021

At the end of 2021/2022, the OIJB had initially reported an underspend of £2.769 million against the covid reserve. However, the £405,576 additional expenditure in covid staffing costs reduced this to £2.363 million.

The Scottish Government has since issued a letter (on 12 September 2022) confirming that the surplus covid reserves across all IJBs will be reclaimed and redistributed across the sector to meet current covid priorities. The Scottish Government stated in the letter that *“The detail of how this will follow at an IJB level and the process and timetable will follow through further communications.”* Given that the OIJB has only budgeted to spend around £1 million in 2022/2023, the remaining £1.363 million in the covid reserve could be reclaimed by the Scottish Government and this could result in a further net loss of funding to support health and social care delivery to the people of Orkney.

Detailed commentary

Communication and oversight

The additional expenditure and associated impact on reserves that has resulted in a late adjustment to the NHS Orkney financial statements (as a result of late communication of the expenditure by health and social care partners) appears to have been incurred to address staff shortages as a result of covid and as such has been used for an appropriate purpose. There is little doubt that the complexities, pressures and challenges facing all public bodies has made it particularly challenging in managing all aspects of the arrangements and delivery.

However, significant issues have been noted related to communicating and timeliness of oversight by the IJB of the likely costs being incurred, as well as the impact of the delayed communication re engagement with Scottish Government to ensure that opportunities to maximise funding for the delivery of health and social care services for the people of Orkney. The late notification and communication to NHS Orkney of the issue and related details appears to be the most significant issue impacting the board's ability to engage and respond to seek alternative ways to deal with this (including potential for funding cover).

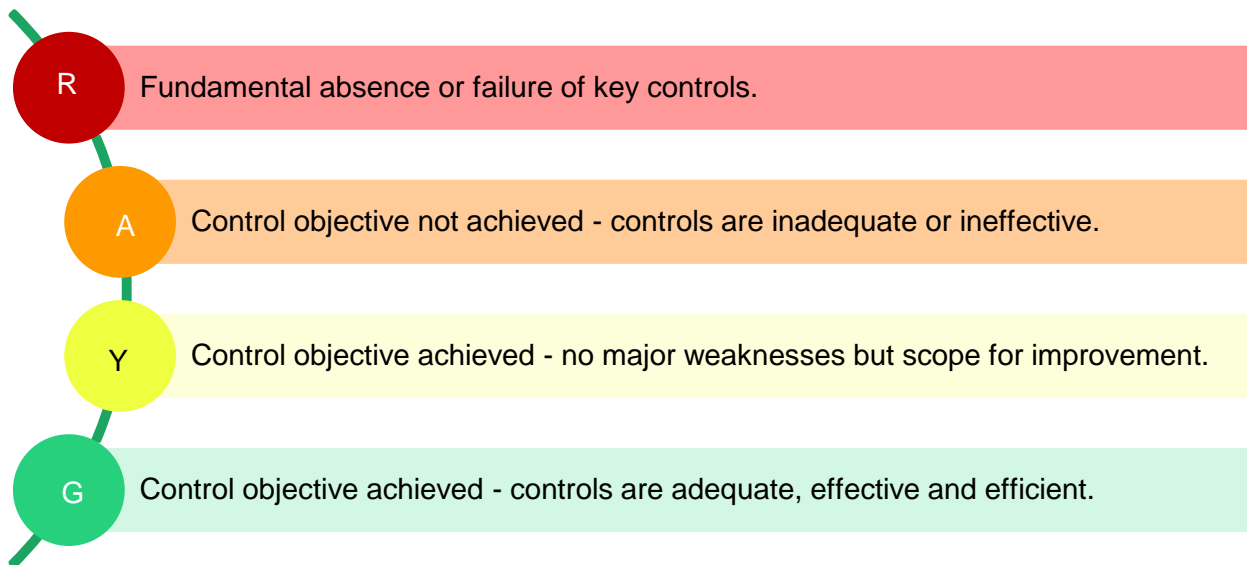
Way forward and reducing the opportunity for circumstances to recur

It is important for health and social care partners to work in as transparent manner and with timely communication to limit both the likelihood and impact of a similar issue emerging in the future. It is not simply within the gift of NHS Orkney to make the necessary improvements unilaterally; we acknowledge this is predicated on partnership-wide behaviours and processes. It is vital that there is engagement and appreciated across partners of "lessons learned" and reinforces the need (for OIJB in particular) to:

- Communicate actual and expected variations to expenditure in a timely manner (as defined/agreed across the parties) to enable appropriate scrutiny of expenditure, including assessment of value for money.
- Where relevant, establish the reporting needs of respective partners across the agreement, to enable effective information flows.
- Agree in more quantitative and qualitative terms what represents significant variations for escalation by OIJB to NHS Orkney to enable timely engagement with stakeholders including Scottish Government. Such a process may involve reflections on the level of detail and specifics in the Integration Scheme and supporting documentation, drawing on the specifics of this case.

Appendix A – Definitions

Control assessments



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