worcestershire county council

Audit and Governance Committee
Friday, 20 March 2015, County Hall, Worcester - 10.00 am

	Minutes
Present:	Mrs S Askin, Mr N Desmond, Mr L C R Mallett (Vice Chairman), Mr R J Sutton and Mr P A Tuthill
Available papers	The members had before them: A. The Agenda papers (previously circulated); and B. The Minutes of the meeting held on 12 December 2014. (previously circulated) A copy of document A will be attached to the signed minutes. Mr L C R Mallett, Vice-Chairman in the Chair.
332 Named Substitutes (Agenda item 1)	None.
333 Apologies/ Declarations of Interest (Agenda item 2)	Apologies were received from Mr S J Clee and Mr W P Gretton.
334 Public Participation (Agenda item 3)	None.
335 Confirmation of Minutes (Agenda item 4)	**RESOLVED that the minutes of the meeting held on 12 December 2014 be confirmed as a correct record and signed by the Chairman.**
336 Use of Agency Workers (Agenda item 5)	The Committee considered the updated approval mechanisms to ensure appropriate governance arrangements were in place for the use of agency workers within the Council. The report indicated that the engagement of agency workers was managed via the Matrix System. This system was procured and the current contract for service was due to expire in November 2015 with an option to extend for two further years. The introduction of Matrix

provided an on on-line end-to-end process of engagement of agency workers in order to achieve maximum cost savings and process efficiencies.

Following the publication of an audit report, the Head of Human Resources and Organisational Development had reviewed and updated the guidance ensuring that recruiting managers were fully aware of their responsibilities for both the process of engagement and managing agency workers on site.

The Head of Human Resources and Organisational Development had also strengthened the approval mechanisms for:

- the setting up of users in the system,
- seeking extensions to a placement and
- requests for increasing pay rates.

All of which now required the approval of the appropriate Director or Head of Service.

There were 2 levels of Matrix Users:

Client Owner – authorises placements and approves any extensions to placements

Client Manager – approves agency worker timesheets

The Council normally expected the Client Owner and Client Manager to be two different people i.e. the line manager of the agency worker would be the Client Manager and expected to manage the agency worker on a day-to-day basis and approve weekly timesheets. The line manager's manager would be the Client Owner. It was accepted that there might be occasions where the Client Owner and Client Manager might be one and the same person. The Director or Head of Service would need to confirm the need for this in their approval when the user was initially set up.

In the ensuing debate, the following principal points were raised:

- What was the definition of an agency worker and how did it differ from that of a consultant? The HR Service Centre Manager commented that consultants were self-employed. Agency workers were employed through an agency and paid tax through the PAYE system. The Council's contract was through Matrix with the agency

- How far up the organisation would a worker be employed through an agency rather than as a consultant? The HR Service Centre Manager advised that agency staff could be employed at any level of the organisation however the majority of staff employed on this basis were social workers and currently there were no staff employed at a senior level
- How did Matrix as service provider fit into the Council's recruitment process? The HR Service Centre Manager explained the recruiting manager would recruit the worker based on a selection of candidates provided by the recruitment agency
- In terms of the daily rate paid to an agency worker, did Matrix receive a percentage as its fee? The HR Service Centre Manager stated that set fees had been established with Matrix on the basis of a percentage each time an agency worker was employed. This arrangement would not change as a result of the proposed contract changes
- After the initial 12 week placement, was the Council required to pay agency workers the same rate as employees and therefore did this cost more when the agency fees were taken into account? The HR Service Centre Manager stated that the Council did pay fees to agencies however agency staff did not receive other benefits that employees would be entitled to. These additional benefits could add as much as an extra 28% to the employment costs of a permanent employee
- How many agency staff were currently employed by the Council and at what cost? The HR Service Centre Manager explained that as at the 4 March 2015, the Council employed 240 agency workers. The cost of agency workers for 2013/14 totalled £6.9m
- What was the trend in terms of the number of agency workers employed over the last 4 years? The HR Service Centre Manager commented that number of agency workers employed by the Council had been high but since the introduction of the managed service provision, numbers had reduced. She would make the exact details available to members of the Committee
- Of the 240 agency workers currently employed by the Council, how many worked in social services? The HR Service Centre Manager stated that 161 agency workers were employed in front-line social work

- Given the large numbers employed on an agency basis, had a cap on social workers pay been introduced? The HR Service Centre Manager commented that as a result of the shortage of social workers, agency staff pay had increased. A cap of £24 per hour had therefore been agreed for the employment of social worker agency staff. If the Council recruited these staff from outside the Matrix system then the rate would increase to £30 an hour. The capping of salaries had helped to manage costs
- Was there a difference in the quality of staff employed by the Council compared to agency workers and what were the mechanisms for dealing with of agency staff who were not performing satisfactorily? The HR Service Centre Manager advised that recruitment agencies were responsible for bringing staff onto their books. The decision to recruit a member of staff rested with the relevant manager in the Council. This arrangement was not dissimilar from the arrangements for recruiting permanent staff. If an agency worker was not performing then the arrangement could be terminated with immediate effect. There was no need for an agency worker to give notice as agency staff were engaged rather than employed. The Head of Finance and Business Support added that as a recruitment manager, she would ask Matrix to find three candidates for a post. She would then interview the candidates and if they were not considered suitable then feedback would be given to Matrix. Such occurrences were rare because the staffing requirements that were sent to Matrix were very specific in nature
- In response to a query, The HR Service Centre Manager stated she anticipated that the updated guidance to managers following the audit report would be circulated by the end of the month as soon as all the checks and balances had been completed
- The Matrix contract was due to end in 2015, were there any changes to the contract that would need to be made and when would the contract be renewed? The HR Service Centre Manager indicated that work had already taken place with Matrix to put in place part of the guidance to ensure that managers were issued with more reports. The end to end system was working effectively whatever decision was taken with regard to renewing the contract or retendering.

Before a decision was made, managers would be consulted. The Head of Finance and Business Support added that from her perspective as a recruitment manager, there were a number of checks and balances in the authorisation process.

RESOLVED that the report be noted.

337 Retention and Disposal of Records (Agenda item 6)

The Committee considered the work to date and the plan for review of the Retention and Disposal of Records.

The report indicated the Council had a Disposal Schedule, which had been adopted as the principal source of information regarding the retention and disposal of records in all formats by the Chief Officers Management Board (COMB) in June 2001.

An overarching review of the Disposal Schedule had not been undertaken for some years; it was therefore planned to include a regular review process of the Disposal Schedule in the business plan for CIMU in the next financial year (2015-16). This was part of the ongoing work following the recommendations from the Information Commissioners Office (ICO) following their audit into Data Protection compliance.

A policy outlining the Council's approach to Information and Records Management, including the retention and disposal of records was currently in draft, supporting the Information Governance Strategy recently agreed by the Corporate Information Governance Board (CIGB).

In the ensuing debate, the following principal points were raised:

- In introducing the report, the Corporate Information Officer stated that she intended at a future date to undertake a review of the Disposal schedule
- How did the service respond to the difficult decision whether or not to update records to new computer systems? The Corporate Information Officer commented that although electronic storage of information was beneficial in terms of access, it did present additional complications. Some information needed to be kept for long periods of time and accessed safely in the future. Computer technology changed quickly which presented a challenge in terms of ensuring information was accessed in the right format. Processes were in place to try and maintain

continuity. Work continued with IT staff to ensure that the system was robust

- Did certain information need to be kept in paper form? The Corporate Information Officer indicated that as much information as possible was kept in an electronic form to provide easy access for staff
- In response to a query, the Corporate Information Officer explained that the Corporate Information Governance Board and been established in response to the Information Commissioner's Office recommendations. It had no direct relationship with this Committee
- It was agreed that a report be brought to the meeting of the Committee on 11 September on the outcome of the CIGB meeting in July that would be considering the ICO report.

RESOLVED that:

a) the work to date and the plan for review of the Retention and Disposal of Records be noted; and

b) an update report be received at the 11 September 2015 meeting following the review of the Disposal Schedule by Corporate Information Governance Board.

338 Sales, fees and charges (Agenda item 7)

Further to Minute no. 314, the Committee received further information in relation to the Revenue Outturn (RO) returns in Adult Social Care where Worcestershire County Council's income was low in the table of comparator counties.

The report indicated that the initial high level analysis completed by Council officers showed that in respect of Adult Social Care, income generated through sales, fees and charges as a percentage of total service expenditure had increased from 10.3% in 2008/09 to 10.92% in 2012/13. However, it was noted that in terms of ranking with other local authorities, Worcestershire's 2012/13 ranking was 26th out of 27 authorities. In 2008/09 it was 19th out of 34 authorities.

A number of areas were investigated to determine potential reasons why Worcestershire should be ranked low in comparison to other comparator counties: consistency of return completion; charging policies/people paying higher rates; and collection rates.

The investigation had been very helpful in confirming the assertion that there were inconsistencies in return completion. In terms of Worcestershire's completion, the issue with incorrect code classification had been identified and resolved for this financial year. The investigation had confirmed that charges for care were not subsidised but the amount of income would be influenced by the numbers of people assessed as being able to contribute towards their services. Collection rates and methods were very good and the Council maximised income for this service area.

In the ensuing debate, the following principal points were raised:

- In response to a query, the Head of Finance and Business Support acknowledged that following her analysis of the comparator figures, there was a limited amount of weight that could be given to the outcomes from Revenue Outturn returns in Adult social Care
- What was the Council's desired level of performance in Adult Social Care? The Head of Finance and Business Support stated that the aim was to ensure that those people who could afford to pay were assessed properly and that income was collected on behalf of the Council. The Council needed to be certain that it was doing everything it legally could to maximise income whilst at the same time recognising that there was a limit to the amount that some people could afford to pay. The Chief Financial Officer emphasised that it was important to ensure that the Council collected all income that was due efficiently. The Council's policy framework would be kept under review
- There did not appear to be any comparators with organisations of a similar profile to this Council. The Head of Finance and Business Support explained that even where the demographics were the same, it was difficult to ascertain whether the figures were distorted by the number of people who arranged care themselves and not seek social care assistance
- The percentage rate for the collection of debt for 2012/13 and 2013/14 was very good. How much did the non-recovered debt amount to year end? The Head of Finance and Business Support stated that the total non-collected debt at year end for 2012/13 was £450,000 and for 2013/14, £253,000. She added that the key factor was to ensure that invoices were sent out in a timely

fashion. There would always be occasions where a user would not be able to pay

- At what point was a decision made about a bad debt? The Chief Financial Officer advised that a decision was taken in consultation with the social care team as to the ability of the service user to pay the debt. He would provide members with details of the process for debt collection. The Head of Finance and Business Support added that the decision to collect debt was made more challenging by the duty to meet the needs of the service user

RESOLVED that the report be noted.

339 External Audit Plans (Agenda item 8)

The Committee considered the External Audit Plans for the Council and its Pension Fund 2014/15.

Kyla Bellingall and Helen Lillington on behalf of Grant Thornton attended the meeting to discuss their reports. They highlighted the following main points:

- Significant risks had been identified in the revenue cycle included fraudulent transactions and the management over-ride of controls. It was not that there were any issues of concern but these were areas that Grant Thornton would focus on in line with auditing standards.
- In relation to revenue streams, there was a danger of misstatement of revenue due to improper recognition of revenue which could lead to fraud. However it was considered that there would be little incentive to manipulate revenue recognition, opportunities for manipulation were limited, and the Council's culture and ethical framework meant that all forms of fraud were seen as unacceptable
- Management over-ride of controls - No matter how good the control environment was, there would be a risk that management controls could be over-ridden in an individual transaction. Reviews and tests were being undertaken in this respect
- Operating expenses and employee remuneration had been identified as a risk. Tests were being undertaken to examine whether liabilities were being understated or not included in the accounts. Tests were being undertaken to check employee remuneration and benefit obligations and that expenses were not understated in the accounts
- A risk assessment had been undertaken to identify areas of risk to the Value for Money

conclusion. The results of the VFM audit work and the key messages would be reported in the audit findings report and in the Annual Audit Letter

- The audit fees were set and charged by the Audit Commission. Grant Thornton effectively then invoice the Council on its behalf. Full details of all fees charged for audit and non-audit work would be reported in the audit findings report
- The key challenge facing the Pension Fund related to the impact on it of the new governance arrangements and pension regulations, particularly with the introduction of a local Pension Board. Grant Thornton would continue a dialogue with the Council and share good practice. No separate Value for Money audit opinion was required for the pension fund
- The LGPS had moved from a final salary scheme to a career average scheme one year ahead of other public sector schemes. It was important to ensure that the recording of data was accurate throughout the process
- Two significant risks had been identified for the Pension Fund, the revenue cycle including fraudulent transactions and the management over-ride of controls. This was the same as for the main county fund. The Council Pension Fund had recently begun investing in level 3 (private equity) investments. These types of investments were more judgemental in nature and therefore represented a significant risk to the Council and testing was to be undertaken around how the valuation of these types of investment had been reached
- Investment income, investment values – level 2 investments, contributions, benefits payable and member data has been identified as risks to the Pension Fund
- Member data – There was a risk that if benefits were not being paid according to the right data then this could cause difficulties going forward
- It was noted that there were a number of out of date documents held on the Council's website
- The scale fee for the Pension Fund remained the same however there were proposed fee variations associated with IAS 19 Assurances and the change in risk profile investments. Grant Thornton were required to ask the Audit Commission whether they considered the fee variations were appropriate.

In the ensuing debate, the following principal points were raised:

- A significant amount of time and money had been spent to respond to the objections to the accounts with respect to the waste contract. How did this cost link into the Value for Money audit? Kyla Bellingall responded that reference had been made to the waste disposal contract in the Value for Money opinion in the accounts this financial year. This was separate from the objections made to the accounts for the previous year. Grant Thornton had now issued a Provisional view on the objection relating specifically to the waste contract and the objectors and the County Council had been invited to comment by 6 April 2015. In terms of the fee for the work associated with the objections, it would not be possible to comment at this stage as work was still progressing on a response to the objections. If it was felt appropriate, a Public Interest Report could be produced and the Provisional view withdrawn. The Chief Financial Officer added that the Council was in receipt of Grant Thornton's Provisional view on the accounts. He expected that an update on the accounts would be available at the next meeting of the Committee as to date the Accounts had not been fully concluded. He would keep the Chairman and Vice-Chairman of the Committee updated in the interim
- When did the process of addressing the objectors' comments come to an end? Kyla Bellingall responded that objections could be raised on the accounts until they were closed and the auditors would be required to consider all such objections on their merits. However there would be a point where the issues raised were not new and the accounts would be closed accordingly
- How were the Council's level 3 investments apportioned? The Chief Financial Officer explained that 90% of the level 3 investments were in equities (50% of which were index-linked). The other 10% was invested in infrastructure and property. All these investments had been approved by the Pensions Committee
- What would be the rate of return for level 3 investments in comparison to level 1 and 2 investments? The Chief Financial Officer stated that the targeted return for level 3 investments was 7.7%. It was important to establish a diverse range of investments and ensure the best ratio of return

- In response to a query, the Chief Financial Officer indicated that level 3 investments required a degree of judgement therefore the risks associated to them related to the potential for misstatement in the accounts. Helen Lillington added that these investments were recognised as significant risks to the audit opinion. It was necessary for the auditors to use management experts to test the valuations of such investments. The Council had not previously used level 3 investments but they were not unusual in local government
- Why had the Council been slow in adopting the use of level 3 investments compared to other councils? The Chief Financial Officer stated that each council decided what risks it wished to take to ensure the best return on its investments. Previously it had not been necessary to use level 3 investments but circumstances had changed
- What was the scale of the outdated documentation on the Council's website and what were the implications for the Council? Helen Lillington commented that there had been a significant number of changes to the Pension Scheme and the Council's website was the first port of call for its members therefore it was important that the site was accurate to reflect the changes in the LGPS in relation to final salary payments. The Council had consulted its members about the changes but had not updated the site accordingly. The Annual Report also made reference to the website. The Chief Financial Officer added that the majority of the website had been updated but acknowledged that certain areas needed to be updated
- The Committee asked that it be noted that some aspects of the Council's web site did not reflect the changes to the Pensions scheme therefore it was requested that the web site be updated as soon as possible
- Did the change from a final salary pension to a career average pension scheme present a particular challenge to the Council? The Chief Financial Officer responded that the Council's records were all held electronically and were easy to track and update.

RESOLVED that:

a) **the Audit Plans for Worcestershire County Council and its Pension Fund for 2014/15 be** noted as set out at Appendices 1 and 2 in the report; and

b) **it was noted that some aspects of the Council's web site did not reflect the changes to the Pensions scheme therefore it was requested that the web site be updated as soon as possible.**

340 Internal Audit Progress Report 2014/15 (Agenda item 9)

The Committee considered the draft Internal Audit progress report 2015/15.

In the ensuing debate, the following principal points were raised:

- Despite the explanation set out in the report, the basis that the Superfast Broadband Project was audited on the number of users who switched provider was not satisfactory. It was agreed that a report be brought to a future meeting of the Committee to explain how the Superfast Broadband Project was tracking performance and assessing customer feedback
- In response to a query, the Senior Manager – Internal Audit and Assurance explained that following discussions with senior Human Resources managers it had been concluded that Flexible and Mobile working was sufficiently embedded in the organisation and therefore the planned audit work would not add any value at this particular point in time
- The Senior Manager – Internal Audit and Assurance asked the Committee to consider what approach it would wish to take in relation to publishing the School Procurement -Follow Up audit report which contained exempt information. It was agreed that the report be circulated to members of the Committee rather than published on the Council's website.

RESOLVED that:

a) **the content of the draft Internal Audit progress report attached as an appendix to the report be approved; and**

b) **a report be brought to a future meeting of the Committee to explain how the Superfast Broadband Project was tracking performance and assessing customer feedback.**

341 Internal Audit Commissioning Update (Agenda item 10)

The Committee received an update on the Commissioning arrangements for the internal audit function.

The report indicated that a Business Case had been written which showed the main options and consequences of setting up a shared service hosted by Warwickshire County Council. Both councils were in the process of agreeing a set of underlying commercial principles which covered a number of areas including contract period, level of audit coverage, payments, TUPE and the sharing of costs.

It was emphasised that the proposal needed to be formally agreed by both Councils before the shared service could be confirmed. Warwickshire would formally consider the proposal at their 24 March Council meeting. Worcestershire anticipated the decision would be taken by the relevant Cabinet member under delegated powers and consequently there was more flexibility over timing of the approval at Worcestershire.

It was intended that once appropriate due diligence and staff consultation had been completed and formal approval had been obtained that the new arrangements would commence on 1 May 2015.

In the ensuing debate, the Chief Financial Officer stated that the Committee would receive an updated report at its next meeting. In the meantime, he would keep the Chairman and Vice-Chairman updated on progress. It was anticipated that the transfer to Warwickshire would see a reduction in the cost of internal audit. To date feedback from internal audit staff had been positive in response to the proposed changes.

The Chief Financial Officer informed the Committee that Dave Jenkins, the Senior Manager – Internal Audit and Assurance would be retiring as soon as the transfer arrangements had been completed. This would be the last meeting Dave attended and he would personally like to thank him for all his work over a number of years in internal audit.

The Committee expressed their appreciation to Dave Jenkins for the work he had undertaken on behalf of the Committee over a number of years.

RESOLVED that the content of the Internal Audit Commissioning update report be noted.

342	**Work programme (Agenda item 11)**	The Committee considered its work programme. In the ensuing debate, following advice from the Chief Financial Officer, it was agreed that the approval of the shared service arrangements for Internal Audit be included in the timetable for the work programme on an annual basis. **RESOLVED that the following changes be made to the work programme:** **a) An update report on Internal Audit Commissioning be brought to the meeting on 26 June; and** **b) The approval of the shared service arrangements for Internal Audit be timetabled on an annual basis.**

The meeting ended at 12.05 pm

Chairman …………………………………………….