



## AUDIT COMMITTEE

3 July 2013

### PRESENT:

#### Directors

George Clark (Chair)  
 Robert Buckley  
 Mick Davison  
 Peter Mole  
 Joachim Moussounda Mouanda  
 Eileen Gill

#### Advisers

Jon Mallen-Beadle	Managing Director
Neil Bouch	Director of Customers and Communities
Natalie Hewitt	Head of Corporate Services
Jim Farquhar	Chief Internal Auditor, Gateshead Council
Deborah Clark	Audit and Risk Manager, Gateshead Council
Mick Thompson	KPMG
James Morgan	KPMG
Stuart Gibson	Governance and Risk Officer

### 10 MINUTES

The minutes of the meeting of the committee held on 15 May 2013 were approved as a correct record.

### 11 MATTERS ARISING – APPOINTMENT OF DEPUTY CHAIR

RESOLVED – That the appointment of a Deputy Chair continue to be deferred until there is a full composition of members on the committee.

### 12 REPORT ON STATEMENT OF INTERNAL CONTROL – 2012/13

It is a requirement under the UK Corporate Governance Code that companies undertake, at least annually, a review of the effectiveness of their systems of internal control. A company's board should undertake this review for the purposes of making its public Statement of Internal Control, which is published as part of the financial statements.

The statement of internal control as published as part of the financial statements was submitted, covering the following areas: -

- Governance and Risk Management

- Performance Management
- Financial Management
- Internal Audit
- External Audit

The report is designed to provide assurance that the information as stated within the statement of internal control is accurate and reliable and can be published as part of the financial statements.

- RESOLVED – (i) That the Board be recommended to approve the Statement of Internal Control contained within the Financial Statements for the year ended 31 March 2013.
- (ii) That evidence that the Internal Audit is operating effectively and in compliance with the Code of Practice for Internal Audit be sent to all members of the committee and appended to future annual reports.

### **13 DRAFT DIRECTORS' REPORT AND FINANCIAL STATEMENTS – 2012/13**

The draft directors' report and financial statements for the year ended 31 March 2013 were submitted.

The financial result for the period was a deficit of £87,000 (2012: £99,000 deficit). The fourth quarter management accounts indicated that the financial result was an expected surplus of £28,000, however, a bad debt provision has been created in respect of uncertain insurance claims. A explanation of how the management accounts are reconciled to the statutory accounts was submitted.

The increase from a surplus of £28,000 in the management accounts to an operating surplus of £333,000 (2012: £19,000 deficit) in the statutory accounts is due to receiving a one-off VAT rebate.

The Company has also made a £115,000 provision against amounts due as a result of fire damage that, following advice from the Company's insurers, are now unlikely to be recovered although it will continue to discuss this situation to see if it can recover the monies.

The Company registered a pre-tax and interest deficit in the year of £58,000 prior to interest receivable of £1,000 and pension scheme finance costs of £30,000 (2012: interest receivable of £2,000; finance income of £160,000).

The balance sheet has been reduced due to the deficit for the year and the actuarial losses in the pension scheme, however closing revenue reserves excluding net pension provisions have increased to £921,000 (2012: £588,000). The directors and management continue to implement efficiency savings ahead of targets and as a result believe the company is in a strong financial position to deliver its strategic and operational goals.

In line with last year's accounts, it has been necessary under FRS 17 (a financial reporting standard) to adjust the accounts for the pension fund liability attributable to the company's employees. The net pension liability was £14.59m as at 31 March 2013 (£13.85m as at 31 March 2012) as calculated by the Pension Fund's actuary.

External Audit explained to the committee what experience adjustments on pension scheme liabilities meant. External Audit also gave a reassurance that the pension liabilities shouldn't be a concern for the Board.

The Board was informed that provision for insurance claims is reviewed annually.

RESOLVED – That the Board be recommended to approve the Directors Report and Financial Statements for the year ended 31 March 2013 to the Board, subject to a minor amendment to the 'The Board and Executive Officers' section.

#### **14 KPMG MANAGEMENT REPORT – YEAR ENDED 31 MARCH 2013**

During May 2013, the company's external auditors (KPMG) carried out an audit of the report and financial statements for 2012/13. A report presenting their findings was submitted.

There were no significant issues raised in the report and all of the recommendations have been responded to by the Company.

As part of the audit, KPMG require the letter to be signed by the Chair and the Company Secretary on behalf of the Board. The letter was attached at Appendix 4 in the KPMG management report.

- RESOLVED –
- (i) That the management report for the year ended 31 March 2013 be approved.
  - (ii) That the Board be recommended to authorise the Chair and the Company Secretary to sign the management representation letter on behalf of the Board.
  - (iii) That representatives from KPMG, Jon Mallen-Beadle, Natalie Hewitt and Mark Banks be thanked for their work for such a positive report being produced.

#### **15 OPERATIONAL RISK REGISTER – CORPORATE SERVICES AND CUSTOMERS AND COMMUNITIES DIRECTORATES**

An updated Operational Risk Register for the Corporate Services and Customers & Communities Directorates were submitted.

Following recommendations in the last internal audit report of risk management, the following columns been added to the operational risk register: -

- Residual likelihood after the future actions
- Residual impact after the future actions
- Impact of cost effectiveness of future actions (including any financial implications of implementing the actions)

The following risks have been deleted from the registers: -

- Equality and Diversity – Not meeting the requirements of the CRE Code of Practice
- Lettings – Reduced availability of properties
- Lettings – Potential loss of functionality and ability to cross reference data due to change to a sub-regional lettings scheme across Tyne and Wear
- Loss of/damage to furniture packages by tenants
- Improvement Team – Risk of complaints not being managed and used effectively
- Improvement Team – Risk of not achieving service standards
- Improvement Team – Risk of maximising use of customer data
- Tenancy and Estate Management – Reduction or removal of partnership work placements from ASB service

The following new risks have been added to the register: -

- Lettings – Properties becoming difficult to let
- Lettings – Lack of availability of properties in demand
- Gas Servicing – Customers installing their own cookers
- Gas Servicing – Customers installing their own cookers in high rise properties

The Board was informed of the reasons for having two separate risks for customers installing their own cookers in properties and in high rise properties.

RESOLVED – That the updated Operational Risk Registers for Corporate Services and Customers & Communities Directorates be approved, subject to: -

- The impact for FI1 – Increasing occurrence and cost of third party insurance claims – being increased from a '2' to a '3' given the increase in premiums
- The residual impact for FI5 – Service level agreements not reviewed – being reduced from a '3' to a '2' given the register was suggesting the impact had increased despite the proposed future actions

## 16 INTERNAL AUDIT ANNUAL REPORT 2012/13

The committee was informed of work undertaken by the Internal Audit Service for 2012/13 and gave an overall assessment of the adequacy of the company's internal control systems based on this work.

The position as at 31 March 2013, showed the completion of 120.7% of the audit plan, in terms of actual audit hours against planned hours (109% for 2011/12).

The 2012/13 Internal Audit Plan agreed 24 audits to be carried out in the year. All audits have now been completed with the exception of one which was carried forward to 2013/14.

The Chief Internal Auditor has in place a quality review process that involves all audit work being reviewed by the Audit & Risk Manager to ensure it is of a high and consistent quality. The Chief Internal Auditor sample checks this process and gives feedback to the auditors involved. An action plan is in place for the continued development of the Audit Service which accommodates these findings. The only issues raised by the reviews related to minor administrative procedures and training has taken place to address these.

Based on evidence arising from the internal audit activity during 2012/13, the opinion of the Chief Internal Auditor is that the Company's internal control systems are considered to be effective.

For 2012/13, all 23 audits concluded that systems and procedures in place were operating well or satisfactory.

All audit recommendations will be followed up by internal audit in line with approved timescales based on an assessment of risk; for those audits with significant weaknesses this will be within the next 12 months.

It is the responsibility of management to install and maintain effective internal control systems to ensure sustained and effective operations. The role of the Internal Audit Service is to assist managers in the effective discharge of this responsibility and in so doing, deliver the objectives of the Company and its associated partners.

Internal Auditors have received full co-operation from all employees involved in the areas under review and all audit recommendations have been satisfactorily addressed by management.

- RESOLVED – (i) That the information be noted.
- (ii) That training around the internal audit function be organised as soon as there is a full composition of members on the committee.

## **17 THE INTERNAL AUDIT STRATEGY STATEMENT 2013-16 AND ANNUAL PLAN**

The committee received further information in respect of the development of the Internal Audit Annual Plan for 2013/14, as requested at the last Committee on 15 May 2013.

The Chief Internal Auditor has produced a strategic 3-year plan and statement of how the work of Internal Audit contributes to the achievement of the Company's objectives, a copy of which was submitted.

The Chief Internal Auditor explained to the committee that the risk model for internal audit is separate to the operational risk register. This will be explained further during the training to committee members.

RESOLVED – That the approach and strategy that has supported the development of the 2013/14 Internal Audit Plan be noted.

## **18 2013/14 INTERNAL AUDIT PLAN – PROGRESS REPORT**

Progress made by the Internal Audit Service against the audit plan for the financial year 2013/14 was reported.

As at 30 June 2013, five audits are currently in progress although no reports have been issued to date. 15% of the audit plan in terms of actual audit days against planned days was achieved by the Internal Audit Service.

The committee expressed concern about a 100% target for audits completed against the annual plan given that six of the 2012/13 audits were carried over to 2013/14 before being completed and no audits having been completed in the 2013/14 audit plan to date.

RESOLVED – (i) That the information be noted.

(ii) That future progress reports also include the risk score for each audit.

(iii) That future targets for the number of audits completed against the annual plan be realistic and achievable even if this results in the target being less than 100%.

## **19 DATE AND TIME OF NEXT MEETING**

Wednesday, 16 October 2013 at 2pm.

## **20 EXCLUSION OF THE PRESS AND PUBLIC**

RESOLVED – That the press and public be excluded from the meeting during consideration of the remaining business in accordance with the indicated categories of the Company's Access to Information Rules.