



## AUDIT COMMITTEE

30 June 2014

### PRESENT:

#### Directors

George Clark (Chair)  
 Robert Buckley  
 Mick Davison  
 Eileen Gill  
 Helen Hall  
 Joachim Moussouanda Mouanda

#### Advisers

|                   |   |
|-------------------|---|
| Jon Mallen-Beadle | Managing Director                         |
| Neil Bouch        | Director of Customers and Communities     |
| Kevin Johnson     | Head of Customer 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               |

#### Apologies

Peter Mole

### 13 MINUTES

The minutes of the meeting of the committee held on 16 April 2014 were approved as a correct record.

### 14 REPORT ON THE STATEMENT OF INTERNAL CONTROL – 2013/14

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.

The committee expressed concern that although there was only one high priority recommendation following the audit of Human Resources it concluded that the service had significant weaknesses yet other audits where there are a number of medium priority recommendations conclude that the service is satisfactory.

RESOLVED – That the Board be recommended to approve the Statement of Internal Control contained within the Financial Statements for the year ended 31 March 2014.

## **15 DRAFT DIRECTORS' REPORT AND FINANCIAL STATEMENTS – 2013/14**

The committee received the report and financial statements for the year ended 31 March 2014, as agreed with the auditors, KPMG.

The financial result for the period was a deficit of £621,000 (2013: £87,000 deficit). The fourth quarter management accounts indicated that the financial result was an expected deficit of £95,000.

The Company achieved a pre-tax and interest deficit in the year of £675,000 prior to interest receivable of £4,000 and pension scheme finance income of £50,000 (2013: interest receivable of £1,000; finance costs of £30,000).

The balance sheet has been reduced due to the deficit, resulting in closing revenue reserves excluding net pension provisions of £830,000 (2013: £921,000). 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 £7.75m as at 31 March 2014 (£14.59m as at 31 March 2013) as calculated by the Pension Fund's actuary.

RESOLVED – That the Board be recommended to approve the Directors Report and Financial Statements for the year ended 31 March 2014.

## **16 KPMG MANAGEMENT REPORT – YEAR ENDED 31 MARCH 2014**

The committee received the external auditor, KPMG's management report on the financial statements for the year ended 31 March 2014.

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, a copy of which was submitted.

- RESOLVED – (i) That the management report for the year ended 31 March 2014 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 future reports also include a glossary of terms/abbreviations.
- (iv) That the committee place on record its thanks to everyone from KPMG and the Company involved in such a clean set of accounts.

## **17 OPERATIONAL RISK REGISTER – CORPORATE SERVICES AND CUSTOMERS & COMMUNITIES**

The committee received an updated Operational Risk Register for the Corporate Services and Customers & Communities Directorates.

At the meeting of this committee, held on 14 April 2014, it was requested that the risk register summary sheets include the residual impact and likelihood and this has been updated accordingly.

At that meeting, the committee also asked that further consideration be given to those risks where the likelihood was rated as a '2' and whether these should actually be rated as a '1'. As a consequence, a number of the risks have been reduced.

In addition, six risks have been reduced to 'green' risks and will be removed from the register and monitored internally.

The committee discussed the risk around the overspend on the repairs budget and the potential impact on the Company's reserves in the future. It was noted that a more realistic repairs budget had been set for the next year and that more jobs were now being batched. It was further noted that the Board would be receiving a presentation on the HRA Business Plan at its next Board Meeting.

RESOLVED – That the updated operational risk register be approved.

## **18 INTERNAL AUDIT ANNUAL REPORT 2013/14**

The committee was informed of the work undertaken by the Internal Audit Service for 2013/14 and received an overall assessment of the adequacy of the Company's internal control systems based on this work.

The position for the year highlights the completion of 123% of the audit plan, in terms of actual hours against planned hours (121% in 2012/13). The 2013/14 Internal Audit Plan agreed 22 audits to be carried out in the year. All audits have now been fully completed with the exception of one which is currently at the draft stage.

Based on evidence arising from the internal audit activity during 2013/14, the opinion of the Chief Internal Auditor is that the Company's internal control

systems are considered to be effective. This opinion is based on all audit activity throughout the year, which has been reported to the Audit Committee on a quarterly basis.

For 2013/14, 20 audits concluded that systems and procedures in place were operating well or satisfactory, with only one audit identifying significant weaknesses.

RESOLVED – That the information be noted, subject to report being amended to report ‘Number of audit recommendations implemented **by due date**’.

## **19 2014/15 INTERNAL AUDIT PLAN – PROGRESS REPORT**

Progress made by the Internal Audit Service against the audit plan for the financial year 2014/15 was reported.

As at 17 June 2014, three draft reports had been issued and one further audit was currently in progress.

RESOLVED – That the information be noted, subject to an additional column being added to future reports identifying when the last audit was completed and if the timing of the audit is dictated by an audit being carried out by the Council.

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

The next meeting of Audit Committee will be held on Wednesday, 15 October 2014 at 2pm at Gateshead Civic Centre, Civic Centre, Regent Street, Gateshead.

## **21 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 Category 4 of the Company’s Access to Information Rules.