



Report to the Audit Committee

1 July 2015

Title: Report on the Statement of Internal Control – 2014/15

Report of: Managing Director

Purpose of Report

1. To consider the report on the statement of internal control for the year ended 31 March 2015 and recommend approval to the Board.

Background

2. 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.

Statement of Internal Control

3. The statement of internal control is published as part of the financial statements and is included in the Appendix.
4. This 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.
5. This review of the effectiveness of internal control has been carried out.

Governance and Risk Management

6. We carry out an annual review of governance which has resulted in significant improvements in the way we are governed.
7. Previous governance reviews have been specifically linked to Codes of Governance that were considered to be best practice at that time, namely: -
 - The Independent Commission for Good Governance in the Public Sector; and
 - The Langlands Report

8. Action Plans were formulated following these reviews to ensure identified development needs were addressed.
9. Other changes to the way we are governed, following governance reviews, included a new Board and Committee structure, payment to Directors and an updated Code of Conduct for Directors.
10. The Board agreed in March 2013 to adopt the National Housing Federation: Excellence in Governance as the company's Code of Governance. An action plan was developed and all the actions have now been implemented.
11. The company has adopted the principles of risk management to protect the health, safety and welfare of its employees and the people it serves, to protect its property, assets and other resources and to maintain its reputation and good standing in the wider community.
12. The company has reviewed its risk management arrangements and introduced an updated policy. A risk manager and risk owners regularly review the company's operational risks and these are scrutinised in detail by the Audit Committee. Operational risks are escalated to the Strategic Risk Register as appropriate and these are scrutinised in detail by the Audit Committee and the Board.
13. The company's appetite for taking risk is low, however there may be occasions when it may increase, for example in consideration of specific projects or new ventures. Any such increase would be subject to Board approval.

Performance Management

14. We have a performance management framework in place which is underpinned by the appraisal and development process and 1-2-1 progress meetings for all employees.
15. The appraisal process sets out the individual objectives for the year, including development and training needs. This is reviewed after six months to measure progress and re-evaluate targets and development needs.
16. The 1-2-1 progress meetings are held at least every three months, or more regularly if required, to measure progress on key tasks and provide support where needed to enable employees to achieve their individual objectives.
17. A range of performance indicators and service standards enable us to assess performance, identify trends, compare ourselves with others and highlight areas where corrective action is needed.
18. The Gateshead Housing Company and Gateshead Council agree top-line Performance Indicators (PI's) that Gateshead Council uses to assess the company's performance. They include a number of agreed local indicators, giving an overview of customer satisfaction and areas of operational service delivery.
19. Performance is monitored and reported as follows:

- To Gateshead Council – monthly. Company officers meet with the Council to review performance and to agree any action to improve services.
 - To Gateshead Council – quarterly. Strategic employees of the company and Council meet to review progress against performance indicators.
 - To the Board – Quarterly.
 - To Tenants - through the tenants newspaper and the company website.
 - To the Corporate Management Teams - monthly.
20. Performance against milestones in agreed action plans is monitored regularly through the performance management framework and by lead officers. Overall progress reports are provided on a monthly basis to managers.
21. We are members of Housemark and participate in the National ALMO Benchmarking Club which helps us to compare our performance with others.

Financial Management

22. The Company sets its budgets using a zero based budget approach and all efficiency savings generated are re-invested in front-line services.
23. Monthly management accounts are prepared by the finance department and provided to budget holders to enable them to review spend against budgets. Quarterly management accounts are reported to Resources Committee for scrutiny, as well as to the Council. Annually the financial statements are scrutinised by Audit Committee prior to being approved for Board sign-off.
24. Budget holders are responsible for providing assurance that their budgets have been used to provide services in line with the company's memorandum of association.
25. The finance department and Head of Corporate Services are responsible for ensuring that the company's standing orders and financial regulations are followed and bring to the attention of the Audit Committee any issue they may be aware of. There is a fraud and whistle blowing policy in place. No issues are raised or noted in relation to the financial controls in place.

Internal Audit

26. The Internal Audit Service has undertaken audit work throughout the year based on a risk-based audit plan agreed by the Audit Committee on 16 April 2014. Progress against this plan has been reported through the Committee on a quarterly basis. The Internal Audit Service has been externally assessed against compliance with Public Sector Internal Audit Standards (PSIAS) and found to be substantially compliant with the standards in all significant aspects and that there are no areas of concern that the Internal Audit Service is unable to form a judgement as to the proper and effective working of the system of internal control.
27. The Internal Audit Service issued 21 final reports during 2014/15. Of these, 7 reports concluded that the control environment was operating well and 11 reports that it was operating satisfactorily. The remaining 3 reports did not require an opinion. A report will be submitted to the Audit Committee as part of today's agenda providing more information in this area. Based on the evidence arising

from Internal Audit activity during 2014/15, the opinion of the Chief Internal Auditor is that the Company's internal control systems are considered to be effective.

External Audit

28. External assurance is provided through the audit of the financial statements which includes the statement of internal control. The main purpose of the audit, which is carried out in accordance with International Standards on Auditing (ISA's) issued by the Auditing Practices Board, is to issue an opinion on whether the financial statements:
- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice (UKGAAP), of the state of The Gateshead Housing Company Limited's affairs as at the financial year end and of the results for the year then ended; and
 - have been properly prepared in accordance with the Companies Act 2006.
29. The external auditors (KPMG) are wholly independent of the Housing Company and ensure that the objectivity of the partner and audit staff are not impaired. KPMG produce a management report following the audit highlighting any issues raised with management and any issues found during the audit process. No significant weaknesses were found or highlighted.

Link to values

30. This report is in line with the following values of the company :-
- Fair
 - Customer Focused
 - Open and Honest
 - Accountable

Impact on tenants

31. Appropriate financial monitoring and control will ensure efficiencies are maximised and redirected to services that directly impact on tenants.

Risk Management Implications

32. Risk management implications are contained within the report and Appendix.

Financial Implications

33. The financial implications are contained within the report and Appendix.

Equality and Diversity Implications

34. There are no equality or diversity implications arising from this report.

Health Implications

35. There are no direct health implications arising from this report.

Value for Money implications

36. There are no direct value for money implications arising from this report.

Environmental Implications

37. There are no direct environmental implications arising from this report.

Consultation carried out

38. None directly for this report.

Recommendation

39. The Committee is requested to recommend to the Board approval of the Statement of Internal Control contained within the Financial Statements for the year ended 31 March 2015.

Statement of the Board on Internal Controls

The Board acknowledge their ultimate responsibility for ensuring that the Company has in place a system of controls that is appropriate to the various business environments in which it operates. These controls are designed to give reasonable assurance with respect to:

- the reliability of financial information used within the Company or for publication;
- the maintenance of proper accounting records; and
- the safeguarding of assets against unauthorised use or disposal.

It is the Board's responsibility to establish and maintain systems of internal control. Such systems can only provide reasonable and not absolute assurance against material financial misstatement or loss. Key elements include ensuring that:

- formal policies and procedures are in place, including the documentation of key systems and rules relating to the delegation of authority, which allow the monitoring of controls and restrict the unauthorised use of the Company's assets;
- experienced and suitably qualified staff take responsibility for important business functions. Annual appraisal procedures have been established to maintain standards of performance;
- forecasts and budgets are prepared which allow the Board and managers to monitor the key business risks and financial objectives and progress towards financial plans set for the year and the medium term; regular management accounts are prepared promptly, providing relevant, reliable and up-to-date financial and other information and significant variances from budgets are investigated as appropriate;
- all significant new initiatives, major commitments and investment projects are subject to formal authorisation procedures by the Board following scrutiny by the relevant Board committees;
- the Board reviews reports for management, from internal auditors, from the external auditors and from its own Audit Committee to provide reasonable assurance that control procedures are in place and are being followed. This includes a general review of the major risks facing the Company; and formal procedures have been established for instituting appropriate action to correct weaknesses identified from the above reports.