



AUDIT COMMITTEE

1 July 2015

PRESENT:

Directors

George Clark (Chair)
 Robert Buckley
 Mick Davison
 Helen Hall
 Joachim Moussounda Mouanda
 Peter Mole

Advisers

Jon Mallen-Beadle	Managing Director
Neil Bouch	Director of Customers and Communities
Natalie Hewitt	Head of Corporate Services
Phil Gallagher	Head of Investment and Development
Kevin Johnson	Head of Customer Services
Stuart Gibson	Governance and Risk Officer

Also in attendance

David Johnson	Chief Internal Auditor, Gateshead Council
Jane Wright	Audit and Risk Manager, Gateshead Council
Nick Plumb	KPMG
James Morgan	KPMG

Apologies

Tracy Harrison

13 MINUTES

The minutes of the meeting of the committee held on 22 April 2015 were approved as a correct record.

14 REPORT ON THE STATEMENT OF INTERNAL CONTROL – 2014/15

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 2015.
- (ii) That Helen Hall be provided with a copy of the Langlands Report.
- (iii) That the committee place on record its congratulations to all employees for receiving a clean bill of health.

15 DRAFT DIRECTORS' REPORT AND FINANCIAL STATEMENTS – 2014/15

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

The financial result for the period was a surplus of £546,000 (2014: £621,000 deficit).

The fourth quarter management accounts indicated that the financial result was an expected surplus of £413,000, however it was subsequently agreed that the Repairs and Maintenance budget surplus of £158,000 would be returned to the Council.

This was then offset by an additional £21,000 of repairs costs that required accruing and an increase in the FRS 17 adjustment from Aon Hewitt in relation to Pension Scheme Finance Costs (£500,000).

The company achieved a pre-tax and interest surplus in the year of £44,000 prior to interest receivable of £2,000 and pension scheme finance income of £500,000 (2014: interest receivable of £4,000; finance costs of £50,000).

The balance sheet has been increased due to the surplus, resulting in closing revenue reserves excluding net pension provisions of £1,066,000 (2014: £830,000). 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 £11.71m as at 31 March 2015 (£7.75m as at 31 March 2014) as calculated by the Pension Fund's actuary.

The committee queried why less interest had been generated than last year despite there being more money in the bank. The Managing Director agreed to look into this and report back to the committee.

The committee asked for an explanation why the pension fund was so different during the last two years. It was noted that there was no simple explanation, however it was primarily due to the gild yield in each year.

RESOLVED – That the Board be recommended to approve the Directors Report and Financial Statements for the year ended 31 March 2015.

16 KPMG MANAGEMENT REPORT – YEAR ENDED 31 MARCH 2015

The committee received the external auditor, KPMG's management report on the financial statements for the year ended 31 March 2015.

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.

When KPMG presented its management report for the year ended 31 March 2014, the committee requested that future reports also include a glossary of terms/abbreviations. It was agreed that this would be added to the report.

- RESOLVED –
- (i) That the management report for the year ended 31 March 2015 be approved, subject to the inclusion of a glossary of the terms/abbreviations.
 - (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 the financial performance be presented in a more understandable format in future reports.
 - (iv) That the committee place on record its thanks to the TGHC Finance Team for receiving such a good bill of health with only one minor recommendation.

17 OPERATIONAL RISK REGISTER

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

The following risk has been added to the register following a recommendation made by Internal Audit during its audit of VAT arrangements: -

Finance

- Incorrect treatment of VAT could lead to fines and interest payments to HMRC

The following risk has been updated to a green risk and will be monitored internally: -

Investment Works

- Increase in complaints from customers, councillors and other stakeholders.

The following risk has been deleted from the register as it is no longer considered an issue: -

Lettings

- Lack of availability of properties in demand.

The committee expressed concern about the residual scores of the some of the repairs risks relying on the BARIS interface given that no date was provided for implementation. It was noted that while a work around is in place and testing of the Baris interface was ongoing the benefits of integration had not yet been realised. The Company is continuing to work with the Council's Construction Services and ICT supplier on the solution.

RESOLVED – That the updated operational risk registers for the Corporate Services and Customers & Communities Directorates be approved.

18 ICT SECURITY POLICY

The Board approved an ICT Security Policy in 2008 to ensure that all users of the Company's ICT systems were aware of the security risks that were always present.

Following an internal audit report in March 2012, and in the face of changing technology and working practices, it was found that TGHC needed to review its ICT Security Policy.

Internal Audit reviewed the ICT Security Policy, the Computer Security Policy and the Internet and Email Policy and found conflicting statements in relation to the disposal of data storage equipment and also in relation to the use of personal email and internet. This was resolved and an updated Policy was rolled out to all employees in September 2012.

In June 2015, the TGHC ICT Development Team was realigned to better meet the needs of the company and responsibilities redefined, with ownership of the ICT Security Policy now lying with the ICT Development Manager.

The ICT Security Policy has therefore been reviewed and the updated ICT Security Policy was submitted.

As part of a wider schedule of information governance, the ICT Security Policy will be reviewed and updated annually.

RESOLVED – That the Board be recommended to approve the updated ICT Security Policy, which is attached as an Appendix to these minutes, and the policy be reviewed annually.

19 SENIOR INFORMATION RISK OFFICER (SIRO) ANNUAL REPORT

Following an internal audit report in November 2013, it was found that TGHC needed to manage risks associated with its information assets in the same manner that other corporate risks were managed. To ensure the ongoing management of information risk, a Senior Information Risk Officer (SIRO) role was created and delegated to Andrew Curtis, ICT Development Manager.

It was also agreed that the SIRO would work with the TGHC Governance Officer to ensure that any risk management procedures were compatible with the current corporate approach and incorporated into existing policies and procedures. Risks would be identified and assessed and added into the current risk register.

A review of information risks across TGHC was carried out by the SIRO and Governance Officer. 16 Information Assets were identified and agreed as risks across TGHC, details of which were reported.

A risk assessment was carried out for each risk using the four scale matrix, to assess impact and likelihood, in line with other TGHC Risk Registers.

A summary of the information asset risk scores in consideration of pre and post mitigation measures and details of the Information Asset Owner for each Information Asset were submitted.

The Risk Assessment Task List for areas where further mitigation has been identified was also submitted. Each outstanding task has been delegated to a specific task owner with a forecasted completion date.

RESOLVED – That the Information Asset Risk Register be approved and updates be brought back to future committees.

20 INTERNAL AUDIT ANNUAL REPORT 2014/15

The committee received details of the work undertaken by the Internal Audit Service for 2014/15 and 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 132% of the audit plan, in terms of actual audit hours against planned hours (123% for 2013/14). Details of other relevant performance information were also reported.

The 2014/15 Internal Audit Plan agreed 20 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 report stage.

Of the 20 planned audits for 2014/15, 18 concluded that systems and procedures in place were operating well or satisfactory, one audit was a follow-up audit and an opinion was not required and one audit is still issued in draft.

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.

The committee noted that the one audit report still in draft was around insurance and in particular an issue around responsibility of land which needed to be agreed at a strategic level. The Chief Internal Auditor reported that Internal Audit could take a similar report to the Council's Audit Committee to try and speed up resolution of the issue. The Managing Director agreed to look into the issue.

The Chief Internal Auditor has in place a quality review process which appraises external assessment against Public Sector Internal Audit Standards (PSIAS), self-assessment against the CIPFA Statement on the Role of the Head of Internal Audit, reliance placed upon Internal Audit by the Council's external auditor and assessment of the effectiveness of the Audit Committee and relevant performance information.

For the year ended 31 March 2015, the Internal Audit Service has been externally assessed against Public Sector Internal Audit Standards. This assessment was undertaken by external audit.

The outcome of the assessment was positive and found that the Internal Audit Service is 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.

RESOLVED – (i) That the committee is satisfied with the Internal Audit Annual Report 2014/15.

(ii) That the committee placed on record its thanks to the Council's Internal Audit Service for its work during the year.

21 2015/16 INTERNAL AUDIT PLAN – PROGRESS REPORT

Progress made by the Internal Audit Service against the audit plan for the financial year 2015/16 was reported.

As at 19 June 2015, one final report has been issued and two further audits were in progress.

RESOLVED – That the committee is satisfied with progress to date with the 2015/16 Internal Audit Plan.

22 FORWARD PLAN

A forward plan of reports which will be presented to Audit Committee during the next year was submitted.

RESOLVED – That the forward plan be noted.

23 DATE AND TIME OF NEXT MEETING

The next meeting of the committee will be held on Wednesday, 14 October 2015 at 2pm in Room S21, Gateshead Civic Centre, Regent Street, Gateshead.

24 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.