



The Gateshead Housing Company

Working with Gateshead Council

AUDIT COMMITTEE

3 July 2019

PRESENT:

Directors

George Clark (Chair)
Robert Buckley
Helen Hall
Leigh Kirton

Advisers

Neil Bouch	Interim Managing Director
Ian Price	Director of Property and Assets
Craig Oakes	Chief Internal Auditor, Gateshead Council
Lynsey Dawson	Senior Audit and Risk Officer, Gateshead Council
Tara Stonehouse	KPMG
Daniel Gibson	KPMG
Phil Watt	Compliance Officer
Sandra Watson	Development Manager, Gateshead Council
Stuart Gibson	Governance and Risk Lead

Apologies

Brenda Clelland
Mick Davison

1 MINUTES

The minutes of the meeting of the committee held on 24 April 2019 were approved as a correct record.

2 REPORT ON THE STATEMENT OF INTERNAL CONTROL – 2018/19

It was 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 was designed to provide assurance that the information, as stated within the statement of internal control, was accurate and reliable and could be published as part of the financial statements.

RESOLVED – That the Board be recommended to approve the Statement of Internal Control contained within the Financial Statements for the year ended 31 March 2019.

3 DRAFT DIRECTORS' REPORT AND FINANCIAL STATEMENTS – 2018/19

A report including the financial statements as agreed with the external auditors, KPMG, was submitted.

The financial result for the period 2018/19 was a deficit of £7,528,000 (*2018: £23,460,000 deficit*). This consisted of pension adjustments of £2,740,000 for operating costs, £3,860,000 for past service costs and £1,040,000 for pension finance cost, leaving an underlying surplus of £112,000 which had been added to TGHC Reserves.

The fourth quarter management accounts indicated an expected deficit of £49,000 (excluding the £5,000 interest receivable) at the year end. This was reported to Resources Committee on 9 May 2019. It was subsequently agreed by the Council that they would provide additional management fee to cover the overspend on management and supervision which mainly related to Council tax on void properties, this resulted in an operating surplus of £107,000.

The company achieved a pre-tax and interest deficit in the year of £6,493,000 prior to interest receivable of £5,000 and pension scheme finance costs of £1,040,000 (*2018: interest receivable of £3,000; finance costs of £870,000*).

The directors' report was reporting that the balance sheet had decreased due to the pension deficit but closing revenue reserves excluding net pension provisions had increased to £803,000 (*2018: £691,000*). The covering report was reporting that the balance sheet had increased due to the surplus excluding pension adjustments. It was agreed that the covering report be amended so that both reports were consistent.

The directors and management continued to implement efficiency savings ahead of targets and as a result believed the company was in a strong financial position to deliver its strategic and operational goals.

In line with last year's accounts, it had been necessary under FRS 102 (a financial reporting standard) to adjust the accounts for the pension fund liability attributable to the company's employees. The net pension liability was £40.98m as at 31 March 2019 (£38.09m as at 31 March 2018) as calculated by the Pension Fund's actuary.

The current management agreement with the Council ends on 31 March 2020. As such the draft accounts currently highlighted the need for an update on the management agreement in order to satisfy the "going concern" test. The committee noted that a report was going to the Council's Cabinet on 16 July 2019

proposing an amendment to the management agreement. Subject to this being agreed, KPMG would update the accounts accordingly.

KPMG raised for discussion two recent rulings, which affect the valuation of pension liabilities, these are

- the Guaranteed Minimum Pension (GMP) High Court ruling, which requires equalisation of benefits between male and female pension scheme participants;
- the McCloud and Sergeant judgements regarding age discrimination arising from public sector pension scheme transition arrangements.

Initially no allowance was made for the potential increases in pension liabilities as a result of these judgements, however following professional advice from the National Audit Office, CIPFA, KPMG and Mazars the Council and TGHC were advised to go back to their Actuary (Aon) to obtain updated calculations on the potential impact of these rulings. This has now been completed and the accounts have been updated accordingly, the pension liability has increased by £4,270,000m to £45,285,000 as a result.

The committee challenged the life expectancy assumptions in the directors' report which impacted on the pension contribution. The committee suggested that these should be lower from a regional context and also asked if any consideration had been given to the new retirement age requirements. It was noted that these were based on information provided by Aon. It was agreed to approach Aon and ascertain what these assumptions were based on.

It was agreed to add a table to the directors' report explaining how the management accounts were reconciled to the statutory accounts.

RESOLVED – That the Board be recommended to approve the Directors' Report and Financial Statements for the year ended 31 March 2019, subject to: -

- (a) removal of the going concern when the company receives confirmation of an amendment to its management agreement with the Council;
- (b) clarification from Aon what the life expectancy assumptions were based on;
- (c) an additional table explaining how the management accounts were reconciled to the statutory accounts.

4 KPMG MANAGEMENT REPORT – YEAR ENDED 31 MARCH 2019

The company's external auditors KPMG carried out an audit of the report and financial statements for 2018/19 during June 2019. A report presenting their findings was submitted.

There were no significant issues raised in the report and no new audit recommendations were identified.

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 as an appendix to the management report.

There were no significant issues raised in the report and four low level audit recommendations were identified, which would be followed up by the company. The committee asked if the company was satisfied with the control observations identified by KPMG. It was agreed that an additional column be added to show management's response to the observations.

- RESOLVED – (i) That the management report for the year ended 31 March 2019 be approved, subject to an additional column being added to the control observations showing management's response.
- (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 Finance Team be thanked for making the process easy for KPMG to carry out the audit and for receiving a clean bill of health.

5 STRATEGIC AND OPERATIONAL RISK REGISTER

The committee agreed updated operational risk registers at its last meeting on 24 April 2019 for the Customers & Communities, Property & Assets and Business & Development Directorates.

The committee considered a new risk around excessive levels of vacant properties and agreed that it should be escalated to the strategic risk register. This operational risk had been reviewed and the proposed strategic risk was submitted.

The committee noted at its last meeting that a Compliance Risk Register was currently being developed with the Council and it was agreed to come back with these risks and the detail accompanying each of the risks.

A new Health and Safety Risk Register that would sit within the Property and Assets Directorate had been developed. This included a suite of 11 new operational risks that would sit under the existing strategic risk. The new register, including the updated strategic risk, was submitted.

An additional column for named officer had been added to each of the planned controls and it was proposed that this was monitored via the Senior Management Group.

- RESOLVED – (i) That the Board be recommended to approve the new strategic risk and detail around excessive levels of vacant properties.
- (ii) That the new Health and Safety Operational Risk Register within the Property and Assets Directorate be approved, subject to clarification of the title of the strategic risk.
- (iii) That an additional column for named officer be added to the planned controls and this be monitored by Senior Management Group.

6 REVIEW OF CREDIT CARD ACCEPTABLE USE POLICY

A TGHC 'Credit Card Acceptable Use Policy and Procedures' was developed and was approved by Audit Committee on the 26 October 2016.

Following an internal audit report in April 2019, it was found that the Credit card policy had not been updated to reflect the changes within the Company's Organisational structure and did not consider the fact that the company currently had one credit card.

The responsibilities within the policy that were previously allocated to the Managing Director had been re allocated to the Interim Managing Director or TGHC Finance Manager.

The policy had been amended to reference the card held by the TGHC Finance Team and that other cards would be available to all directors of the Company should they request a card to be set up.

The updated version of the policy was submitted.

It was noted that references in the policy to the 'Finance Manager' were referring to the 'TGHC Finance Manager'. It was agreed to make this clearer in the policy.

The committee challenged the control mechanisms in place for monitoring any transactions made by the TGHC Finance Manager or if an employee suspected a misuse or fraudulent use by the TGHC Finance Manager. It was agreed that the policy be further reviewed and submitted to Board for approval.

RESOLVED – That the Board be recommended to approve the updated Credit Card Acceptable Use Policy and Procedures, subject to amending the policy as outlined above.

7 INTERNAL AUDIT ANNUAL REPORT 2018/19

The committee was informed of the work undertaken by the Internal Audit Service for 2018/19 and received an overall assessment of the adequacy of the company's internal control systems based on this work.

The position for the year highlighted the completion of 113% of the audit plan, in terms of actual audit hours against planned hours (127% for 2017/18).

The 2018/19 Internal Audit Plan provided for 23 audits to be carried out in the year. All audits have now been fully completed with the exception of two which were currently at the draft report stage awaiting management completion of the action plan. 19 audits concluded that systems and procedures in place were operating well or satisfactory and two had significant weaknesses.

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

During 2014/15, the Internal Audit Service was externally assessed against Public Sector Internal Audit Standards. This assessment, required at least once

every five years, was undertaken by external audit. The next external assessment takes place later this year.

RESOLVED – That the information be noted.

8 2019/20 INTERNAL AUDIT PLAN – PROGRESS REPORT

Progress made by the Internal Audit Service against the audit plan for the financial year 2019/20 was reported.

To date, one final report had been issued and three were in progress.

RESOLVED – That progress to date against the 2019/20 Internal Audit Plan be noted.

9 INFORMATION GOVERNANCE – ANNUAL REPORT 2018/19

The committee received an overview of arrangements for information Governance across the company to ensure compliance with the General Data Protection Regulations.

The committee would be provided with an update on whether the company took any action against the employee who misplaced one its iPads.

RESOLVED – That the committee is satisfied with the information governance annual report 2018/19.

10 FORWARD PLAN

A forward plan of reports which would be presented to this committee during the next year was submitted.

RESOLVED – That the forward plan be noted.

11 DATE AND TIME OF NEXT MEETING

The next meeting of Audit Committee would be held on Wednesday, 16 October 2019 at 10am in the Whickham Room, Gateshead Civic Centre, Regent Street, Gateshead.

12 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.