



RESOURCES, AUDIT AND PERFORMANCE COMMITTEE

8 July 2020

(This meeting was delivered virtually via Microsoft Teams)

PRESENT:

Directors

George Clark (Chair)
Elizabeth Bird
Sheila Bouitieh
Brenda Clelland
Alan Guest
Tracy Harrison

Advisers

Neil Bouch	Interim Managing Director
Ian Price	Director of Property and Assets
Debbie Worrall	HR and Governance Manager
John Turvey	Finance Business Partner
Mark Banks	Finance Manager
Craig Oakes	Chief Internal Auditor
Lynsey Dawson	Senior Internal Auditor
Tara Stonehouse	KPMG
Daniel Gibson	KPMG
Stuart Gibson	Governance and Risk Lead

1 MINUTES

The minutes of the meeting of this committee held on 26 May 2020 were approved as a correct record.

2 KPMG MANAGEMENT REPORT – YEAR ENDED 31 MARCH 2020

The company's external auditors KPMG carried out an audit of the report and financial statements for 2019/20 during June 2020.

A report presenting their findings was submitted. There were no significant issues raised in the report and three low level audit recommendations were identified, which will be followed up by the Company. In respect of these, it was noted that these had been brought forward from last year but KPMG was satisfied that this did not impact on the reputation of the company by not completing them last year.

As part of KPMG's testing, they identified an adjustment that resulted in a reduction in turnover of £193,000. KPMG informed the committee that it was satisfied that it did not need to carry out further sample tests.

KPMG confirmed that it was an unqualified audit report but there remained an outstanding issue regarding going concern, which they need to receive a letter of support from the Council until the company was reintegrated back into the Council. It was noted this was not an issue for the Regulator who the Council was in regular contact with and was aware of the current position.

The committee made the point that there was no reference to Covid-19 in the report. It was reported that uncertainty about the future of company had overridden this factor at the point of reports production.

There was an impact from Covid-19 on the pension liability with a significant increase in net liability. KPMG's testing identified that Aon's report had incorrectly calculated the pension assets and a £1million adjustment was agreed with management and this was reflected in the final accounts.

The Board asked if the company could influence the investments made by the Tyne and Wear Pension Scheme and suggested that it should invest in helping to rebuild and regenerate the North East in what could be years of economic recession following Covid-19. The Interim Managing Director advised that he would raise this with the Council's Corporate Management Team to explore what options existed to obtain support from the Council along with the other local authorities in the scheme.

KPMG explained that auditing standards required them to consider if management performed an effective control to assess the reasonableness of the actuarial assumptions adopted by AON who was the expert, and if so, if this was documented to a high standard. The recommendation was wider than just morbidity and related to all key assumptions. In addition, KPMG assessed the reasonableness of the assumptions in line with its range of central assumptions purely for audit purposes and found these to be reasonable.

It was noted that the Board received a copy of the report from Aon in 2019 and it would be helpful if it received this every year to understand how the assumptions had been made if it was to try and challenge these. It was also noted that a working group within the Council considered the assumptions. The Committee felt that having sight of its findings could help TGHC's assessment. It was noted that pension assessment would form part of due diligence process linked to the outcome of the housing review.

The Board challenged the fact that KPMG's fees were £30,000 in the accounts and £35,000 in the management report. The committee was advised that an additional £5,000 identified in the management report was for work they provided to Mazars in relation to the group accounts in Council.

- RESOLVED – (i) That the management report for the year ended 31 March 2020 be approved.
- (ii) That the Board be recommended to authorise the Chair of the Board and the Company Secretary sign the management representation letter on behalf of the Board.

- (iii) That the committee place on record its appreciation to KPMG for the work they have done producing this report.

3 DRAFT DIRECTORS' REPORT AND FINANCIAL STATEMENTS – 2019/20

The draft report and financial statements for the year ended 31 March 2020 were submitted.

The financial result for the period 2019/20 was a deficit of £4,626,000 (2019: £11,798,000 deficit). This consisted of pension adjustments of £3,390,000 for operating costs and £1,080,000 for pension finance cost, leaving an underlying deficit of £161,000 which had been deducted from TGHC Reserves.

The company achieved a pre-tax and interest deficit in the year of £3,551,000 prior to interest receivable of £5,000 and pension scheme finance costs of £1,080,000 (2019: interest receivable of £5,000; finance costs of £1,040,000).

The point was made that this £5,000 interest reduced the TGHC Reserves from £161,000 to £156,000. It was agreed that this would be made clearer in the report to the Board.

The balance sheet had decreased due to the deficit excluding pension adjustments, resulting in closing revenue reserves excluding net pension provisions of £647,000 (2019: £803,000). The directors and management continued to implement efficiency savings ahead of targets and as a result 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 £50.7m as at 31 March 2020 (£45.447m as at 31 March 2019) as calculated by the Pension Fund's actuary.

In respect of a Pension Scheme Adjustment cost (2018/19) of £8,420,000 relating to employees TUPE transferred from Gateshead Council in 2017, it was noted that this was a notional cost and the numbers would transfer to the Council.

It was noted that there was now a requirement for the strategic report to include a statement in respect of S172 of the Companies Act. This amendment would be made to the report before it was presented to the Board for approval.

Overall, the committee felt that the company had done well to only make a £161,000 deficit given everything that had happened in the last financial year and congratulated officers for producing an unqualified set of accounts.

RESOLVED – (i) That the Board be recommended to approve the Directors Report and Financial Statements for the year ended 31 March 2020 to the Board, subject to the following amendments: -

- Reference to surplus on the management accounts in paragraph 8 of the covering report be amended to read 'deficit'.
- It be made clear in the covering report that the £161,000 reducing in reserves includes £5,000 interest figure so the actual reduction is £156,000.
- The accounts be amended so that J Coulter signs them as Chair of the Board and references to S Boutieh for this purpose be removed
- The total comprehensive loss be consistent throughout the covering report and accounts
- A statement be included in the strategic report in relation to S172 of the Companies Act

(ii) That the committee place on record it thanks to all employees within the company for the work they have done during the Covid-19 pandemic.

4 REPORT ON THE STATEMENT OF INTERNAL CONTROL – 2019/20

It was a requirement under the UK Corporate Governance Code (2018) 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 was published as part of the financial statements.

The statement of internal control for the year ended 31 March 2020 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.

The committee received clarification that the mini-governance review that was carried out in 2017 resulted in an additional meeting of Customers and Communities Committee for annual reports to reduce the size of these agendas at that time. The committee felt that a lot of improvements had been made to the way that information was presented to board members with more focus now on what they needed to know.

In respect of monitoring of performance by tenants, it was acknowledged that this was also reported via social media and it was agreed to update this in the report before it goes to the Board. It was noted that going forward, the company's tenant engagement structures would be reviewed as part of the housing review.

RESOLVED – That the Board be recommended to approve the Statement of Internal Control contained within the Financial Statements for the year ended 31 March 2020, subject to reference to social media being included as part of the monitoring of performance by tenants.

5 INTERNAL AUDIT ANNUAL REPORT 2019/20

The committee was informed of the work undertaken by the Internal Audit Service for 2019/20 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 133% of the audit plan, in terms of actual audit hours against planned hours (113% for 2018/19).

The 2019/20 Internal Audit Plan provided for 23 audits to be carried out in the year. To date 16 final reports have been issued, one draft report has been issued and six audits were in progress. Of the 16 final reports issued, 11 concluded that systems and procedures in place were operating well or satisfactory and five had significant weaknesses.

Due to the ongoing impact of Covid-19 COVID-19, the progress of audit assurance work has been limited due to the availability of key employees who were either in critical roles, being redeployed into critical roles or unable to provide information within social distancing arrangements.

The Board noted that the six outstanding audits were almost complete, and the Chief Internal Auditor was confident that this would not impact on the delivery of this year's plan. The Board felt that Internal Audit had done well to achieve what it had given the current circumstances.

During 2019/20, the Internal Audit Service was externally assessed against Public Sector Internal Audit Standards. This independent assessment, required at least once every five years, was undertaken by Mazars. The outcome of the assessment was positive and concluded that the Internal Audit Service was substantially compliant with the requirement of the PSIAS and the CIPFA Application Note, with several minor areas for continued improvement identified.

RESOLVED – That the Internal Audit Annual Report 2019/20 be noted.

6 DATE AND TIME OF NEXT MEETING

The next meeting of Resource, Audit and Performance Committee would be held on Wednesday, 2 September 2020 at 2pm

7 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.