

AUDIT AND GOVERNANCE COMMITTEE 29/7/19

Present: Councillor John Brynmor Hughes (Chair)
Councillor Angela Russell (Vice-chair)

Councillors: Alwyn Gruffydd, Peredur Jenkins, Aled Wyn Jones, Charles Wyn Jones, Dewi Wyn Roberts, John Pughe Roberts, Paul Rowlinson and Gethin Glyn Williams.

Lay Member: Sharon Warnes

Others invited: Councillors Ioan Thomas (Cabinet Member for Finance - for items 5 - 7 on the agenda) and Edgar Owen (Ex-officio Member).

Also in Attendance: Dafydd Edwards (Head of Finance Department) Ffion Madog Evans (Senior Finance Manager - for items 5 and 6 on the agenda), Sian Pugh (Group Accountant - for items 5 and 6 on the agenda), Caroline Roberts (Investment Manager - for items 6 and 7 on the agenda), Delyth Wyn Jones-Thomas (Investment and Treasury Management Accountant - for items 6 and 7 on the agenda), Bethan Adams (Member Support Officer) and Ian Howse (Financial Audit Engagement Leader, Deloitte - for items 5 and 6 on the agenda).

Apologies: Councillors Aled Ll. Evans, R. Medwyn Hughes, Berwyn Parry Jones and Huw G. Wyn Jones.

1. DECLARATION OF PERSONAL INTEREST

No declarations of personal interest were received from any members present.

2. URGENT ITEMS

There were no urgent items.

3. MINUTES

The Chair signed the minutes of the previous meeting of this Committee, held on 13 June 2019, as a true record.

4. GWYNEDD COUNCIL'S STATEMENT OF ACCOUNTS 2018/19

The Senior Finance Manager set out the background and context of the report. Attention was drawn to a report submitted to the Committee on 13 June, which presented the end of year position in the form of a simple out-turn which summarised the financial situation for 2018/19, while the Accounts Statement was in standard form for external and governance purposes.

It was noted that the Finance Department had produced the 2018/19 statutory financial statements, and had released them to Deloitte, the Council's external auditors appointed by the Wales Audit Office, before 31 May. It was explained that it had been intended for the final accounts to be presented before the Committee at this meeting, following an audit. It was noted that, unfortunately, confirmation had recently been received from Deloitte to the effect that it had been unable to complete the audit and the External Auditors' ISA260 report for presentation at the meeting. It was confirmed that an extraordinary meeting of the Committee would be held on 13 September in order to present the accounts following the audit, for the Committee's approval.

Members were reminded that the final Harbours accounts had been submitted to the Committee on 13 June. It was noted that confirmation had been received from Deloitte that there were no amendments to be made to the Harbours accounts following the audit, and that there was therefore no need to submit them to the Committee.

The Senior Finance Manager expanded upon the content of the Statement of Accounts. She referred to 'Note 15 - Property, Plant and Equipment', noting that Deloitte, as part of the audit, had raised a matter concerning the value of Council car parks, and that discussions were ongoing between the Property Service and Deloitte to change the value of the car parks. Attention was drawn to the recommendation that the Committee accept and note the Statement of the Council's Accounts (subject to audit) for 2018/19.

The Head of Finance Department noted that Members had an opportunity to ask questions and familiarise themselves with the contents of the final accounts before final approval at the extraordinary meeting. He referred to the legal judgement on the McCloud case which meant that there would be greater transitional protection for members of public services pension schemes. He noted that the Supreme Court had refused the Government's application for the right to appeal against the decision. He explained that some employers were required to set a reserve liability fund, but due to the fact that Gwynedd Pension Fund had predicted actuarial pay inflation in accordance with the case, the Council was not required to amend the figures. He noted that there would be extra wording under 'Note 38 - Pension Costs' to reflect this.

The Deloitte Financial Audit Engagement Leader noted his appreciation that an extraordinary meeting would be held. He explained that the audit was progressing well and that there was a few days' work remaining. He apologised that the ISA260 report was not ready for submission to this meeting, and that lessons would be learnt in terms of completing the work. He noted that they were satisfied with the standard of the accounts, and that the issue surrounding the value of Council car parks was a matter of opinion and that an understanding would be reached.

The Cabinet Member for Finance explained that the Council had completed the final accounts, and noted his disappointment that Deloitte had failed to complete the work in accordance with the schedule. He expressed his appreciation of the Accounting Team's work.

A member of the Committee reiterated the observations made by the Cabinet Member for Finance, noting his appreciation of the team's work.

A member drew attention to the recommendation, noting that it would be unwise to vote in favour of it as it stood. He enquired about the Council's banking over-indebtedness position. He referred to an article in the press regarding North Wales Councils' response to a freedom of information request connected to pension fund investments. He elaborated on this, noting that Gwynedd Pension Fund money was being invested in companies producing weaponry. He noted that this was a moral issue and that he would personally avoid investments of this kind. He added that the Council did not appear to make sufficient enquiries regarding investments, and that there was a need to take action to ensure that the Pension Fund's money was not being invested in companies of this kind.

In response to the above observations, the Head of Finance Department noted the following:

- In terms of the recommendation, it was possible that the wording was unfortunate, but the recommendation was to accept and note the Statement, subject to the audit. He suggested a possible amendment to the wording for the Committee to consider, namely "To accept the pre-audit version of the Council's Statement of Accounts for 2018/19, and to note that the final version would be submitted to the Committee at its extraordinary meeting on 13 September 2019."

- That it was a cash-flow issue which was highlighted by the bank over-indebtedness on 31 March, where the Council was to receive grants to reconcile the situation early in April. Had the Council borrowed money, there would have been related costs, and so this was the most cost-effective way to fund specific costs.
- That the Council had responded to the press on the pension investments issue. He explained that the pool investments included a number of companies, some of whom - such as Airbus, Siemens and Volkswagen - undertook a small proportion of their work in the defence sector. He emphasised that the Council did not target investments of this kind, but with the Pension Fund's asset managers investing across the stock market, it was inevitable that some companies would have elements of work involving the defence sector. He noted that those who had submitted a Freedom of Information request had misled the press in its findings.

The member asked further whether the Council was taking every possible step to prevent investments of this kind. In response, the Head of Finance noted that the Pensions Committee, in its meeting on 8 November 2018, had approved an Investment Strategy Statement which included amended investment principles. He noted that the Pensions Committee, at its meeting in the afternoon, would consider allocating 12% of the Pension Fund to a low carbon permissive equity fund. He emphasised that it was impossible to predict the Pensions Committee's decision, but that there was a clear move towards more responsible investment. The member noted that he welcomed the move towards more ethical investment.

A member noted, following the decision on the McCloud legal case and the rejection of the Government's appeal, that the Government was looking again at the public services pension schemes situation with associated costs of around £4 billion. It was likely that there would be implications. In response, the Head of Finance noted that the Governmental review was ongoing, and that all Gwynedd Pension Fund employers were fortunate not to have to identify reserve liability.

In response to a question by a member regarding payments made to the former Head of Highways and Municipal, the Head of Finance noted that a redundancy package had been given to the former Head as part of the Council's managerial review. This in turn had achieved a considerable amount of financial savings.

RESOLVED to accept the pre-audit version of the Council's Statement of Accounts for 2018/19, and to note that the final version would be submitted to the Committee at its extraordinary meeting on 13 September 2019.

5. GWYNEDD PENSION FUND FINAL ACCOUNTS 2018/19 AND RELEVANT AUDIT

The Head of Finance submitted the statutory financial statements of the Pension Fund for approval by the committee. He expanded upon the content of the Statement of Accounts. He made reference to two of the Fund's key strategies, namely the finance strategy statement and the investment strategy statement. Attention was drawn to an increase of £143 million in the Fund's net assets over the 2018-2019 year, which brought the value of the Fund to over £2 billion.

He noted that the costs of managing investments had been higher during the 2018-19 financial year as it had been a period of high turnover in companies managing equity assets and associated investments, with accompanying costs. He went on to note that this was mainly following the transfer of most assets from the Fund's appointed managers, namely Fidelity and Veritas, to the Wales Pensions Partnership for joint investment. He noted that, in the long term, it was anticipated that the fees would fall and returns, if not improved, would be more robust due to the dispersal of investment risk.

The Deloitte Financial Audit Engagement Leader submitted the ISA 260 audit report. He noted that the Auditor General intended to issue an unqualified audit opinion on the financial statements.

The following main observations were made:

- In terms of the equalisation of Guaranteed Minimum Pensions (GMPs) in relation to the McCloud case, this was not a material sum when considering the Fund in its entirety. He was therefore satisfied that there was no need to amend any aspect of the accounts;
- No misstatements had been corrected in the financial statements;
- Assurance had been received from the external auditors at Carmarthenshire County Council, the host authority for the Wales Pension Partnership Joint Committee; and there were no matters arising;
- That most of the recommendations raised in previous years had been addressed;
- That the accounts were of an excellent standard.

A member drew attention to the fact that the Council as an employer contributed £22.4 million towards the cost of pensions. The member noted that the Fund was healthy and well administered. The member enquired as to whether the triennial actuarial valuation reduced the Council's contributions as an employer, thus reducing the burden on taxpayers. In response, the Head of Finance noted that he was confident that improvements had been seen in terms of investments, it having been a positive three-year period without market decline. He expanded to note that the situation of the triennial actuarial valuation would be confirmed on the day of the annual meeting of the Pensions Fund on 24 October 2019. He noted that there was no way to predict the actuary's findings, but that he was hopeful that the valuation would lead to equal or lower contributions for the Council as an employer.

A member noted that the income of £14 million on the Fund's assets, which was 0.7% of the Fund's value of £2 billion, appeared low at first glance, considering the level of the dividend. In response, the Head of Finance explained the increase in the investments' capital value had to be considered along with the income from dividends. Expanding on the point, he noted that it was possible to invest in vehicles which would yield a high dividend, but that the value of the asset on the stock market might not increase. He noted that the income, along with the increase in the investments' value, meant an increase of £123 million, around 7% of the Fund's value, which was quite acceptable for the year.

In response to further enquiries by the member, the Head of Finance noted that asset managers were not given instructions about the exact investment, but that the intention was to maintain the Fund's value rather than to receive income via dividends for re-investment. He explained that investments of this kind were in keeping with the long term business plan, in which the value of investments would increase over time.

RESOLVED:

- (i) To approve the Gwynedd Pension Fund Statement of Accounts 2018/19 (post-audit);**
- (ii) To accept the Deloitte 'ISA260' audit report on behalf of the Auditor General for Wales;**
- (iii) To authorise the Head of Finance Department and the Chair of the Committee to sign the "letter of representation" in relation to Gwynedd Pension Fund accounts and submit it to the Auditor General for Wales.**

6. TREASURY MANAGEMENT 2018/19

The Investment Manager submitted the report on the Council's actual Treasury Management outcomes during 2018/19, against the strategy established for that financial year. She noted that the Council's borrowing activity was within the limits originally set, and £330,614 of interest had been received on investments, which was higher than the £130,000 within the budget. It was confirmed that none of the banks the Council had used for investments had failed to pay.

In response, the Head of Finance noted that the Council had taken advantage of new-found freedom in 2018/19 to invest in alternative options such as equity and property funds, which had improved return levels.

It was noted that the Investment Manager was commencing a period of flexible retirement, and that she would retire from the Council's service by January 2020. She was wished well on her retirement, and appreciation of her services to the Council and the former Meirionnydd District Council was noted.

RESOLVED to accept the report for information.

7. REPORT OF THE CONTROLS IMPROVEMENT WORKING GROUP

The report of the Chair of the Committee on a meeting of the above-mentioned working group held on 12 July 2019 was submitted. A failure to report on agreed actions at follow-up audits was considered for the following audits:

- a) Arrangements for Children Leaving Care
- b) Smallholdings
- c) Recycling Targets

The working group meeting also gave consideration to audits which had been given a restricted assurance level, namely -

- a) Diesel Tanks and Diesel Management
- b) Safeguarding Arrangements - Establishments
- c) General Data Protection Regulation

The relevant Cabinet Members and officers were invited to attend the meeting in order to discuss the matters arising.

In relation to the Smallholdings audit, a failure to invoice tenants in the past, and the weaknesses highlighted, a member noted a hope that there would be better arrangements in future. The Head of Finance explained that Smallholdings had received a considerable amount of attention lately, and that the matter had again been included in the Internal Audit Plan for 2019-20.

A discussion was held regarding the Recycling Targets audit. It was noted that changes to collection arrangements had come into force in the Dwyfor Area on 1 July, and that there had been an improvement in the standard of collection work. Attention was drawn to the fact that changes to collection dates had caused confusion, especially amongst older adults, and that an eye should be kept on the situation and an update received on the plan's implementation.

A member noted, in relation to the Diesel Tanks and Diesel Management audit, that it had become evident that site managers had not had responsibility for the condition of tanks in the past, and that he hoped that this situation would improve as site managers were now required to inspect tanks on a monthly basis. In response, the Head of Finance noted that the Internal Audit Service would conduct a follow-up audit.

RESOLVED to accept the report.

The meeting commenced at 10.00am and concluded at 11.25am.

CHAIR