

**Annual Accounts**

**of the**

**National Council for Education and  
Training for Wales**

**for the**

**period ending 31 March 2002**



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## Foreword

The National Council for Education and Training for Wales (the Council) was established under the Learning and Skills Act 2000 which received Royal Assent on 28 July 2000. The Council is a sponsored body of the National Assembly for Wales (NAW) and became quorate on 10 October 2000, with the appointment of the Chairman and Chief Executive. These financial statements cover the period from 10 October 2000 to 31 March 2002.

On 1 April 2001 the Council took over the majority of the functions of the Further Education Funding Council for Wales (FEFCW) and significant elements of activity that were previously carried out by the four Welsh Training and Enterprise Councils (TECs). Control of the TEC companies together with the Council of Welsh TECs also transferred to the National Council at that date. The Council has powers and duties to fund post-16 education and training in Wales, ( apart from higher education) and from 1 April 2002 school sixth forms. The FEFCW ceased to exist on 31 March 2001 and all its assets and liabilities were transferred to the Council, as were most of the fixed assets of the TECs.

These accounts have been prepared under, and comply with, the direction made by the National Assembly for Wales in accordance with paragraph 14(2) of schedule 4 to the Learning and Skills Act 2000. A copy of the direction can be obtained from the Council. The accounts are presented both for the "Council" and the "Group" comprising the consolidation of the accounts of the Council and the four TEC companies and the Council of Welsh TECs.

The accounts are prepared in accordance with the requirements of the Companies Acts and Accounting Standards issued or adopted by the Accounting Standards Board, so far as these requirements are appropriate.

### **The responsibilities of the National Council for Education and Training for Wales**

The Council is responsible for securing the provision of post -16 education and training and the administration of funds made available by the National Assembly for Wales and others. In so doing, it is required to secure a high quality, cost-effective system which plays its part in meeting the social and economic needs of Wales.

Higher Education funding is the responsibility of the Higher Education Funding Council for Wales (HEFCW). The two separate organisations operate under the umbrella name of Education and Learning Wales ( ELWa ) and share the services of one joint management team supported by staff who work for either one or both of the councils.

### **Review of activities and developments**

The Group deficit for the period was £ 9,399,000. The Council's expenditure was planned on the basis of the funds available to it through annual receipts of grant in aid and other income sources. The financial statements record an operating deficit as a result of the timing of funding of private training providers and further education colleges, and one-off costs of the Council's restructuring programme. Grant in aid funding in order to pay creditors at the year end is drawn down in the subsequent financial year. Government accounting rules preclude the anticipation of this income which therefore results in a deficit balance. Expenditure on fixed assets amounted to £1,106,000 in the year.

These statements cover the first reporting period of the Council.

**Vision** The Council's vision for learning in Wales is:

### ***Making Learning Work for You / Mynnwch Elwa ar Ddysg***

Success in achieving this vision will mean that:

- every person in Wales has the *essential skills* needed for work, home and leisure;
- every person in Wales is motivated to *learn throughout life* and has the opportunity to learn in a way which suits their needs;
- the *knowledge* which exists and which is generated within Wales is used to create a successful, sustainable economy which is both prosperous and inclusive;
- every *business* in Wales values the benefits of learning, continually invests in developing its workforce, and can access the training it needs to move forward; and
- all *communities* in Wales value learning as a means of enabling everyone to play an active role in society.

- The Council believes that success will only be achieved by adopting shared principles and working in partnership

### ***Adopting Shared Principles***

If our shared vision is to be attained we believe learning must:

- be learner-focused;
- be flexible and responsive to individual, business and community need;
- be accessible to all, with parity of esteem between vocational and academic learning;
- be responsive to the social and economic needs of Wales;
- be benchmarked against the best in the world;
- give the confidence to understand and manage risk;
- inspire innovation, creativity and entrepreneurship; and
- enable people to contribute as active citizens towards Wales' diverse communities and cultures.

### ***Working in Partnership***

The Council's work is vital to Wales' future success, but will not be sufficient on its own. We believe that all those engaged in providing learning need to:

- commit themselves to the shared vision;
- adopt the principles;
- be willing to change; and
- show mutual trust and respect for others' contributions.

Wales needs partnerships with shared vision, thinking and action, which will challenge traditional approaches to the development of people. Successful collaboration is not always easily realised but we believe it is crucial. We will work wholeheartedly to achieve co-ordinated policy development and implementation.

### **Mission and role**

The distinctive role of the Council in achieving the vision '**Making Learning Work for You / Mynwch Elwa ar Ddysg**' is defined by our mission which is:

To promote lifelong learning and provide world-class learning opportunities for all in Wales to fulfil their potential.

The Council is responsible for the *effective deployment* of NAW funds for post-16 learning (excluding higher education) and will ensure that all activities which we develop, support and fund are in line with our mission. This will require robust evaluation and research.

We will *plan and invest in the learning infrastructure* (the people, the buildings and the learning environment – in schools, colleges, businesses and communities). We will ensure that there is parity of esteem for academic and vocational learning. We will require all learning provision which we fund to be of a high quality and to equip the people of Wales with the relevant education and skills which will enable them to realise their full potential at home, work and in their communities.

We will *develop and promote the learning culture* in Wales. All our activities will be underpinned by the learning needs of our customers. We will pilot and develop new ways to widen and increase participation in learning.

We will provide *leadership for post-16 education and training* (excluding higher education). We will work in support of the NAW's priorities including their ambition to make Wales' learning system one of the best in the world. To do this we need to develop a shared understanding of what constitutes excellence in the field of learning and how we can achieve that standard. We must work in partnership with others, and with urgency, on this key aspect of our mission.

## **Foreword** *(continued)*

We will ensure that we *complement, not duplicate*, the private and voluntary sector provision, which is independent of public funding. We will aim to increase private and other public investment in learning.

### **The key elements of our strategy**

#### ***Our Goals***

Our Corporate Strategy describes our five goals, each of which is of equal importance. All are ultimately inter-dependent and we must succeed in each one if we are to achieve our vision.

*Essential skills* – throughout their lives everyone in Wales must be able to develop and apply the essential skills, such as communication, team building, problem solving and the ability to learn.

*Creating lifelong learners* – many more people need to be encouraged to embrace lifelong learning and, to achieve this, they require new and better ways to access learning. People should be able to move naturally from one learning opportunity to another throughout their lives.

*Developing the ability to apply knowledge* – we need to be more effective at working together to exploit the knowledge which already exists within Welsh businesses, academic institutions and other organisations, and to ensure that we have rapid and easy access to knowledge worldwide.

*Skills for business* – businesses require skills at all levels and in all disciplines to help them develop. They need to invest continually in developing their workforce. Businesses and individual workers should be encouraged to seek new skills, and we need to provide innovative ways of giving them those skills. We need to encourage learning providers and industry to work more closely together to plan for future needs.

*Learning communities* – people within our communities need the ability to acquire new skills and to become active citizens. This is vital if we are to have a society which values and includes everybody, and is culturally rich and diverse.

#### ***Cross-Cutting Themes***

Our Corporate Strategy also sets out our commitment to, and our understanding of, our four cross-cutting themes of **sustainability, equal opportunities, bilingualism and social inclusion**. These are central to our strategy and we will ensure that they are an integral part of all our activities.

#### **Achievements in 2001-2002**

The Council inherited the 2001-2002 operational plans of its predecessor organisations, the four Training and Enterprise Council companies and the FEFCW. The majority of the contracts to provide learning for this period were signed prior to April 2001 when the Council first became operational. Despite the fact that most programme expenditure had already been determined, the Council has started to shape its activities in line with its ambitions for education and learning in Wales.

Achievements during this first operational year include:

#### ***Results***

The delivery of performance against most 2001-2002 targets inherited from our predecessors, including support for:

- 70,000 students (full time equivalent) in further education;
- 25,000 young people undertaking vocational training;
- 38,000 adults in training; and
- 4,000 businesses with skills development.

## **Foreword** *(continued)*

The demonstration of our ability to respond effectively, by working in partnership:

- to meet the needs of rural areas following the outbreak of Foot and Mouth Disease; and
- to meet the needs of the individuals and communities affected by Corus and other redundancies.

### ***Evaluation and Research***

The Council has:

- developed an evaluation strategy and commenced the evaluation and reshaping of inherited programmes;
- started an open review of our inherited funding systems; and
- started the planning for the 2003 Future Skills Wales survey, which will be used as the evidence base for population and workforce skills.

### ***Strategy and Policy Development***

The Council has:

- undertaken the most comprehensive strategy consultation process ever within Wales to shape the Council's future policies and plans;
- developed a number of projects in communities and businesses aimed at widening participation in learning;
- started detailed work on the development of effective learning strategies, notably e-learning and a strategy for bilingualism; and
- developed and established pilots for networks of learning excellence.

### ***Partnership Activity***

The Council has:

- created a joint programme of activity with the Higher Education Funding Council for Wales, including the deployment of the Knowledge Exploitation Fund;
- established a memorandum of understanding and action plans with the Welsh Development Agency, Careers Wales and the Employment Service and started developing partnership arrangements with Wales Local Government, Arts Council Wales and the Voluntary Sector , laying the foundations for long term partnerships for success and
- worked with the Community Consortia for Education and Training to develop regional and local priorities for action, as reflected in the regional statement of needs and priorities, and to develop new approaches to drive up quality and widen participation.

### ***Organisational Developments***

The Council has:

- established four regional committees to guide our work locally and regionally;
- become recognised as an Investor in People;
- completed an evaluation and job sizing of every position within the Council and the development of one set of terms and conditions across the organisation to replace the five inherited sets, including plans for equal pay; and
- started the reshaping of our organisation.

## **Foreword** *(continued)*

### **Employee involvement**

Regular staff meetings and seminars ensure good internal communications and provide opportunities for staff to contribute to the workings of the Council. A Works Council, through which representatives can raise issues of concern to staff, meets on a regular basis.

The Council is committed to developing its Equal Opportunities Policy to ensure that all employees are treated fairly, irrespective of sex, age, marital status, disability, racial or ethnic origin.

The Council's policy on recruitment is based on the ability of a candidate to perform the job. Full and fair consideration is given to applications for employment from people with disabilities where they have the appropriate skills and abilities to perform the job. If disablement occurs during employment the Council makes every effort to maintain employment and to ensure the availability of adequate retraining and career development facilities.

### **CBI prompt payment code**

The Council is fully committed to the prompt payment of its suppliers' bills and supports the Confederation of British Industry's Prompt Payment Code. Unfortunately, several of the accounting systems inherited by the Council were unable to generate statistics concerning the percentage of invoices paid in accordance with agreed contractual conditions. A new, single, accounting system was introduced on 1 April 2002 and therefore prompt payment statistics will be available in future years. However of the transactions processed through the former FEFCW accounting system, 80 % of invoices were paid in accordance with agreed contractual terms or where no conditions existed within 30 days of presentation of a valid invoice. These invoices representing mainly recurrent expenditure, accounted for 67% of the Council's total spend. No penalty payments were made by the Council in respect of late payment of invoices.

### **Auditors**

The accounts of the Council are audited by the Auditor General for Wales as required by paragraph 14(4) of schedule 4 to the Learning and Skills Act 2000.

### **Council membership**

The following persons served as Council members during the reporting period:

Enid Rowlands	Chairman
Steve Martin	Chief Executive
Dr Rita Austin	
Sheila Drury OBE	
Dr Haydn Edwards	
Daniel Fellows OBE	
Dr Tim Jones	Deputy Chair
Keith McDonogh	
Dr Sonia Reynolds	
James Gibson Watt	
Professor Sir Adrian Webb	
John Davies	Appointed 31 March 2002
Alastair Robertson	Resigned 27 August 2001

### **Assessor appointed by the National Assembly for Wales**

Richard Davies     Director of Education and Training , National Assembly for Wales

### **Audit and Risk Committee**

The Council's Audit and Risk Committee was chaired by Keith McDonogh and its membership comprised of Dr Sonia Reynolds, Professor Sir Adrian Webb and Neil Mallett

### **Steve Martin**

**Chief Executive and Accounting Officer**

**December 2002**

## **Statement of Council's and Chief Executive's responsibilities**

Under paragraph 14(2) of schedule 4 to the Learning and Skills Act 2000, the National Council for Education and Training for Wales is required to prepare a statement of accounts for each financial period in the form and on the basis determined by the National Assembly for Wales. The accounts are prepared on an accruals basis and must show a true and fair view of the Council's state of affairs at the period end and of its income and expenditure and cash flows for the financial period.

In preparing the financial statements the Council is required to:

- observe the accounts direction issued by the National Assembly for Wales, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards have been followed, and disclose and explain any material departures in the financial statements;
- prepare the financial statements on the going concern basis, unless it is inappropriate to do so.

The Accounting Officer of the National Assembly for Wales has designated the Chief Executive of the National Council for Education and Training for Wales as the Accounting Officer. His relevant responsibilities as Accounting Officer, including the responsibility for the propriety and regularity of the public finances for which he is answerable and for the keeping of proper records, are set out in the National Assembly for Wales' Accounting Officers' Memorandum issued by the National Assembly for Wales.

## Statement on internal control

As Accounting Officer, I have personal responsibility for maintaining a sound system of internal control that supports the achievement of the Council's policies, aims and objectives whilst safeguarding the public funds and other assets provided to the Council for these purposes. My role and responsibilities as Accounting Officer for the National Council–ELWa are set out in the Memorandum, *The Responsibilities of an ASPB Accounting Officer*.

The system of internal control is designed to manage rather than eliminate the risk of failure to achieve policies, aims and objectives and, therefore, it can only provide reasonable and not absolute assurance of effectiveness.

Since the Council had no effective set up or shadow period of working, it has been necessary to develop a new framework of control during the year. Business continuity has been maintained through the operation of existing controls, which have been progressively replaced by the new framework. Key changes have included the development of a new framework of formal delegated authorities and the preparation of new financial regulations and procedures.

I have adopted a risk-based approach to the development of the framework of control. This represents a continuing process that aims to identify the principal risks to the achievement of the Council's policies, aims and objectives, evaluate the nature and extent of those risks and manage them efficiently, effectively and economically. The following steps have been taken to introduce this approach:

- formal *Opportunity and Risk Policy Guidelines*, approved by the Council, have been established and issued to all staff. These provide a coherent, consistent and understandable approach to risk management;
- appropriate organisational structures have been established to identify the Council's key risks, determine the necessary control strategy, and monitor the effectiveness of the strategy; and
- a formal risk register has been established to record the outcomes from the above steps and to facilitate monitoring by senior management and the Council.

In addition to this, the following actions have commenced in order to embed risk management into all aspects of the Council's work:

- corporate and operational processes are being prepared which will integrate planning and risk management;
- project management guidance is being prepared which will incorporate risk management as a key element;
- performance monitoring and reporting systems are being developed to include an assessment of the effectiveness of risk management; and
- workshops are being held for senior staff on the Council's *Policy Guidelines*. The content of these will be cascaded to all staff through team meetings.

I expect to have the procedures in place by March 2003 necessary to implement the requirements set out in DAO(GEN) 13/00.

As Accounting Officer, I also have responsibility for reviewing the effectiveness of the system of internal control. The following processes support this:

- the Council has a Risk Assurance Section which operates in accordance with the requirements of the Government Internal Audit Manual and the Government Internal Audit Standards; audit plans are based on an assessment of risk and the Head of Risk Assurance provides an independent opinion on the adequacy and effectiveness of the Council's internal system of control each year together with recommendations for improvement;
- the work of the Risk Assurance Section is overseen by the Audit and Risk Committee, which reports regularly to the Council on the findings and conclusions of audit work;

## Statement on internal control *(continued)*

- the Strategy and Organisation Board and the Council's Performance Board, comprised of senior management, meet regularly to consider plans and strategic direction, and performance respectively;
- the Council has established a Finance and Performance Committee to oversee and monitor these aspects of work; and
- as Chief Executive, I conduct quarterly performance monitoring meetings with senior management.

My review of the effectiveness of the Council's internal control system is informed by the work of the Risk Assurance Section, the executive managers who have responsibility for the development and maintenance of controls within their areas of operation, and by the work of the Council's external auditor, the Auditor General for Wales, who is supported by the National Audit Office.

The establishment of the Council in 2001-02 has involved fundamental change. It has been necessary to develop a new framework of internal control to reflect these changes, to harmonise arrangements across the organisation and to achieve operating efficiencies. During this development the control risks have been high and the work of the Council's Risk Assurance Section has been directed into areas of highest risk.

Procurement was identified as a key area and action was initiated to establish organisation wide controls, including the appointment of a new professional procurement manager and the introduction of new purchasing procedures along with the provision of associated training for all relevant staff. During the transitional period to the new arrangements problems were identified with the placing and management of 21 contracts. Applications for retrospective approval were made by the Council to the National Assembly for Wales, but as noted in the Auditor General for Wales' Report on these accounts, approval was withheld in respect of expenditure totalling £ 2,243,400 which is therefore irregular.

The work of the risk assurance section also identified a need for improved controls in respect of European funded projects. A taskforce was established to co-ordinate a programme of action to address the issues identified and establish, in conjunction with partner organisations, a more robust framework of control for future projects.

The National Assembly for Wales has been advised of these issues and in May 2002 carried out its own review into the Council's internal control system. This concluded that, *there are currently no evident weaknesses in the control environment within ELWa, which has been improved significantly over the course of the last year.* The Assembly's report identified areas where controls could be further improved and I have accepted, and taken action to implement, the recommendations made in this respect.

The National Council – ELWa faces a period of continual change as it seeks to deliver the Assembly's agenda for post – 16 education and training in Wales and, in particular, as it introduces a comprehensive new system for planning and funding. The control risks associated with this change are high and, therefore, the management of these risks will be a priority during the remainder of 2002 and 2003.

**Steve Martin**  
**Chief Executive and Accounting Officer**  
**20 December 2002**

## **The Certificate of the Auditor General for Wales to the Members of the National Assembly for Wales**

I certify that I have audited the financial statements on pages 11 to 34 in accordance with paragraph 14 (4) of Schedule 4 to the Learning and Skills Act 2000. These financial statements have been prepared under the modified historical cost convention and the accounting policies set out on pages 15 to 17.

### **Respective responsibilities of the National Council, the Chief Executive and Auditor**

As described on page 6, the National Council for Education and Training for Wales and the Chief Executive are responsible for the preparation of the financial statements in accordance with the Learning and Skills Act 2000 and National Assembly for Wales' directions made thereunder, and for ensuring the regularity of financial transactions. The National Council and the Chief Executive are also responsible for the preparation of the other contents of the Annual Report. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Learning and Skills Act 2000 and with the directions made thereunder by the National Assembly for Wales, and whether in all material aspects the expenditure and income have been applied to the purposes intended by the National Assembly for Wales and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the National Council has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements.

I review whether the statement on pages 7 and 8 reflects the National Council's compliance with Treasury's guidance 'Corporate Governance: statement on internal control'. I report if it does not meet the requirements specified by the Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements.

### **Basis of audit opinion**

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes an examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the National Council and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are appropriate to the National Council's circumstances, consistently applied and adequately disclosed.

**The Certificate of the Auditor General for Wales to the Members of the National Assembly for Wales**

*(continued)*

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by error, or by fraud or other irregularity and that, in all material respects, the expenditure and income have been applied to the purposes intended by the National Assembly for Wales and the financial transactions conform to the authorities which govern them. In forming my opinion I have also evaluated the overall adequacy of the presentation of information in the financial statements.

As stated in the Statement on Internal Control on page 7, the National Council identified certain shortcomings in the procedures followed for the procurement of certain goods and services. The National Council subsequently applied to the National Assembly for Wales for retrospective approval in respect of 19 contracts entered into during the period of account. The National Council also identified one further contract that it had let in breach of European procurement directives. The Assembly Compliance Officer withheld approval for 13 of these contracts, and the National Council has incurred irregular expenditure totalling £2,218,000 as a consequence. Further details of this matter are contained in my report on these financial statements.

**Qualified opinion**

In my opinion:

- The financial statements give a true and fair view of the state of affairs of the National Council for Education and Training for Wales and the Group at 31 March 2002 and of the deficit, total recognised gains and losses and cash flows for the period then ended and have been properly prepared in accordance with the Learning and Skills Act 2000 and directions made thereunder by the National Assembly for Wales; and
- Except for the irregular expenditure totalling £2,218,000 arising from the 13 contracts referred to above, in all material respects the expenditure and income have been applied to the purposes intended by the National Assembly for Wales and the financial transactions conform to the authorities which govern them.

My report on these financial statements is on pages 35 to 57.

***John Bourn***

**Auditor General for Wales**

**9 January 2003**

**3- 4 Park Place**

**Cardiff**

**CF10 3DP**

**Consolidated income and expenditure account**  
for the period from 10 October 2000 to 31 March 2002

	Note	Group		Council	
		£'000	£'000	£'000	£'000
<b>Gross income</b>					
Grant in aid	2	371,670		371,670	
Release of Deferred Government Grant	2	376		376	
European programmes	3	5,212		5,203	
Other income	4	12,129		11,790	
			<b>389,387</b>		<b>389,039</b>
<b>Expenditure</b>					
<i>Funding of further education, training and development:</i>					
Youth training	5	62,184		62,096	
Work based learning for adults	5	13,866		13,851	
Individual learning accounts	5	3,815		3,815	
Education business links	5	2,068		2,068	
Further education	5	216,678		216,678	
Modern skills diploma	5	706		706	
Business skills development	5	6,873		6,873	
Innovation and development	5	42,836		42,829	
Corus	5	1,796		1,796	
Other expenditure	5	15,509		15,509	
European programmes	5	7,820		7,785	
			<b>(374,151)</b>		<b>(374,006)</b>
<b>Administration expenditure</b>					
Staff costs	6, 7	14,084		14,037	
Depreciation		737		711	
Other administrative costs	8	8,146		8,006	
Notional charges – cost of capital	10	147		51	
			<b>(23,114)</b>		<b>(22,805)</b>
<b>Operating deficit before exceptional items</b>					
Exceptional items: Restructuring costs	18		<b>(7,878)</b>		<b>(7,772)</b>
			<b>(2,864)</b>		<b>(2,660)</b>
<b>Operating deficit after Exceptional items</b>					
Surplus/(deficit) on disposal of fixed assets	22		<b>(10,742)</b>		<b>(10,432)</b>
Interest receivable	9		14		14
Adjustment for notional charge (cost of capital)	10		1,089		165
			147		51
<b>Total operating deficit</b>					
Taxation	12		<b>(9,492)</b>		<b>(10,202)</b>
			<b>(265)</b>		<b>(33)</b>
<b>Deficit for the financial period</b>					
Transfers to and from reserves:			<b>(9,757)</b>		<b>(10,235)</b>
Revaluation adjustments acquired assets	22		335		335
Appropriations	11		23		23
<b>Deficit for the period transferred to reserves</b>					
	22		<b>(9,399)</b>		<b>(9,877)</b>

All activities are continuing.

The notes on pages 15 to 34 form part of these accounts.

**Consolidated balance sheet**  
at 31 March 2002

	<i>Note</i>	<b>Group</b>		<b>Council</b>	
		<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Fixed assets</b>					
Tangible assets	13		2,329		1,155
<b>Current assets</b>					
Debtors	14	3,401		3,657	
Loans	15	654		654	
Cash at bank and in hand		16,461		6,416	
		<hr/>		<hr/>	
<b>Creditors:</b> amounts falling due within one year	16	20,516		10,727	
		(18,016)		(12,469)	
		<hr/>		<hr/>	
<b>Net current assets/(liabilities)</b>			<b>2,500</b>		<b>(1,742)</b>
			<hr/>		<hr/>
<b>Total assets less current liabilities</b>			<b>4,829</b>		<b>(587)</b>
<b>Creditors:</b> amounts falling due after more than one year	17		(298)		-
<b>Provisions for liabilities and charges</b>	18		(5,943)		(2,660)
			<hr/>		<hr/>
<b>Net liabilities</b>			<b>(1,412)</b>		<b>(3,247)</b>
			<hr/> <hr/>		<hr/> <hr/>
<b>Financed by:</b>					
Deferred Government Grant Reserve	22		872		872
<b>Capital and reserves</b>					
Income and expenditure account	22		(3,221)		(5,056)
Revaluation reserve	22		937		937
			<hr/>		<hr/>
	27		<b>(1,412)</b>		<b>(3,247)</b>
			<hr/> <hr/>		<hr/> <hr/>

The notes on pages 15 to 34 form part of these accounts

These financial statements were approved by the Council on 21 November 2002 and were signed on its behalf by:

**Steve Martin**  
**Chief Executive and Accounting Officer**  
**20 December 2002**

**Consolidated cash flow statement**  
for the period from 10 October 2000 to 31 March 2002

	<i>Note</i>	<b>Group £'000</b>	<b>Council £'000</b>
<b>Cash flow statement</b>			
Net cash (outflow)/inflow from operating activities	24	(35,747)	2,940
<b>Returns on investments and servicing of finance</b>			
Interest received		1,112	188
<b>Taxation paid</b>		(265)	(33)
<b>Capital expenditure and financial investment</b>			
Payments to acquire tangible fixed assets		(1,106)	(1,106)
Receipts from sale of tangible fixed assets		14	14
		<hr/>	<hr/>
<b>Cash (outflow)/inflow before management of liquid resources and financing</b>		(35,992)	2,003
<b>Financing</b>			
Transfer of cash from former FEFCW on 1 April 2001	29	3,307	3,307
TEC funds at 1 April 2001	29	48,040	-
Deferred government grant		1,106	1,106
		<hr/>	<hr/>
<b>(Decrease)/increase in cash in the period</b>		<b>16,461</b>	<b>6,416</b>
		<hr/> <hr/>	<hr/> <hr/>
<b>Reconciliation of net cash flow to movement in net funds</b>			
<b>(Decrease)/increase in cash in the period (October 2000 – March 2002)</b>		<b>16,461</b>	<b>6,416</b>
Movement on deferred government grants		(872)	(872)
Movement on loans		654	654
		<hr/>	<hr/>
<b>Movement in net funds in the period</b>		<b>16,243</b>	<b>6,198</b>
<b>Net funds at the start of the period (10 October 2000)</b>		<b>-</b>	<b>-</b>
		<hr/>	<hr/>
<b>Net funds at the end of the period</b>	25	<b>16,243</b>	<b>6,198</b>
		<hr/> <hr/>	<hr/> <hr/>

The notes on pages 15 to 34 form part of these accounts.

**Statement of total recognised gains and losses**  
*for the period from 10 October 2000 to 31 March 2002*

	<b>Group £'000</b>	<b>Council £'000</b>
<b>Deficit for the financial period</b>	<b>(9,399)</b>	<b>(9,877)</b>
Unrealised surplus on revaluation of fixed assets and loans	1,272	1,272
	<hr/>	<hr/>
Total recognised gains and losses relating to the financial period	<b>(8,127)</b>	<b>(8,605)</b>
	<hr/> <hr/>	<hr/> <hr/>

**Note of historical cost results**  
*for the period from 10 October 2000 to 31 March 2002*

	<b>Group £'000</b>	<b>Council £'000</b>
<b>Total operating deficit</b>	<b>(9,492)</b>	<b>(10,202)</b>
Difference between historical cost depreciation charge and actual depreciation charge calculated on revalued amount	335	335
	<hr/>	<hr/>
<b>Historical cost deficit before taxation</b>	<b>(9,157)</b>	<b>(9,867)</b>
	<hr/> <hr/>	<hr/> <hr/>
<b>Historical cost deficit after taxation</b>	<b>(9,422)</b>	<b>(9,900)</b>
	<hr/> <hr/>	<hr/> <hr/>

The notes on pages 15 to 34 form part of these accounts

## **Notes**

*(forming part of the financial statements)*

### **1 Accounting policies**

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the group's financial statements except as noted below. The group has adopted FRS 17 'Retirement benefits', FRS 18 'Accounting policies' and FRS 19 'Deferred tax' in these financial statements.

#### ***Basis of preparation***

Under Section 91 of the Learning and Skills Act 2000, the Further Education Funding Council for Wales was dissolved on 1 April 2001, and its property, rights and liabilities transferred to the National Council for Education and Training for Wales. Section 93 of this Act also provided for certain assets to be transferred from the Training and Enterprise Councils to the National Council on 1 April 2001, in accordance with the Transfer of property, rights and liabilities Scheme 2001 drawn up by the National Assembly for Wales. The TECs currently remain in existence under the control of the National Council. Their results for the period 1 April 2001 to 31 March 2002 have been incorporated into these consolidated accounts which have been prepared in accordance with an Accounts Direction issued by the National Assembly for Wales on 30 April 2002. This direction issued with the consent of the Treasury, exercises the powers conferred by paragraph 14 (2), schedule 4 of the Learning and Skills Act 2000 along with all other relevant guidance.

The accounts have been prepared under the modified historic cost convention in accordance with applicable accounting standards and the historical cost accounting rules so far as these requirements are appropriate. With the exception of land and buildings, fixed assets are valued at historic cost less depreciation and have not been revalued as in the opinion of the Council such adjustments would not be material

#### ***Basis of consolidation***

The consolidated financial statements cover the period 10 October 2000 to 31 March 2002 and include the financial statements of the National Council, and of the National Council and the TECs (forming the Group) up to 31 March 2002. The National Council has complied with Financial Reporting Standard No. 6 by adopting the acquisition method of accounting.

#### ***Leases***

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. Operating lease rentals are charged to the profit and loss account on a straight-line basis over the period of the lease.

#### ***Grants for EU projects***

Income: The Council received grant income relating to EU projects from two sources. Grant income from the National Assembly for Wales in support of Knowledge Exploitation Fund projects is credited to the account in the year in which it is allocated. EU income is credited to the account in the year in which expenditure is incurred.

Expenditure: As the applicant for European projects contracting with third parties for the delivery, the Council's liability arises when a valid claim from the grant recipient is received.

#### ***Grant in Aid***

Grant in aid was received from the National Assembly for Wales for operating expenditure and capital expenditure. Where Grant in aid expenditure has been used for the purchase of tangible fixed assets, the grant is treated as deferred Government Grant and released to the Income and Expenditure Account over the estimated useful economic lives of the relevant fixed assets on a basis consistent with the depreciation policy.

## Notes (continued)

### 1 Accounting policies (continued)

#### Grants payable

Grants payable in respect of programme funds are recorded as expenditure at the invoice date.

Those grants of a recurring nature, mainly the recurrent and capital funding provided to Further Education Institutions, are brought to account when paid. In the opinion of the Council this treatment achieves in all material respects a match between grant funding brought to account and the pattern of financial activity at the Further Education Institutions.

All other running costs are charged to the Income and Expenditure Account at the date the service is provided.

#### Derivatives

The Council has no borrowings and relies primarily on departmental grants for its cash requirements, and is therefore not exposed to liquidity risks. It also has no material deposits and all material assets and liabilities are denominated in sterling, so it is not exposed to significant interest rate risk or currency exchange risk.

#### Tangible fixed assets and depreciation

Fixed assets are valued at historic cost less depreciation except for those transferred to the National Council by the former TEC companies, which were included in these financial statements at their fair value to the Council on acquisition.

Equipment costing more than £5,000 (either individually or in the combined purchase of similar items) is capitalised.

Depreciation is provided to write off the cost or valuation less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Property	-	50 years
Fixtures, fittings and equipment	-	3 to 5 years
Motor vehicles	-	4 years

A full year's depreciation is charged in the year of acquisition.

Assets purchased as part of programme operations are expensed in the year.

#### Notional charges

As directed by the National Assembly for Wales a notional capital charge reflecting the cost of capital employed is included in operating costs and calculated at 6% of capital employed.

#### Taxation

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Advance Corporation Tax recoverable by deduction from future corporation tax is carried forward within deferred taxation or as ACT recoverable within debtors as appropriate.

## **Notes** *(continued)*

### **1 Accounting policies** *(continued)*

#### ***Post-retirement benefits***

The Council participates in the Principal Civil Service Pension Scheme (PCSPS) providing benefits based on final pensionable pay. As permitted by FRS 17 'Retirement benefits', the Council accounts for the scheme as if it were a defined contribution scheme. As a result the amount charged to the Income and Expenditure Account represents the contributions payable to the scheme in respect of the accounting period.

The group also participated in other schemes; both defined benefit and defined contribution schemes. The assets of these schemes are held separately from those of the group in independently administered funds.

#### ***Income***

All income and operating results for the period arise from the provision of training and support for enterprise in the region. This is wholly attributable to the group's principal activity arising in the United Kingdom and is stated net of Value Added Tax.

Income other than Grant in Aid received from the National Assembly is credited to the Income and Expenditure Account at the date the service is provided, consistent with the normal accruals convention.

#### ***Bad Debts***

The National Council provides fully for all debts still outstanding 6 months from date of invoice

## Notes (continued)

### 2 Reconciliation of Grant in Aid

The following note reconciles the cash amounts received from the National Assembly for Wales as grant in aid for the period with the financial statements.

(a) Revenue grant in aid received:

	<b>Period ended 31 March 2002</b>
	<b>Group and Council</b>
	<b>£'000</b>
Grant in aid received	372,776
Less amounts used for capital expenditure	(1,106)
<b>Grant in aid per Income and Expenditure Account</b>	<b>371,670</b>

(b) Deferred grant in aid:

	<b>Period ended 31 March 2002</b>
	<b>Group and Council</b>
	<b>£'000</b>
Balance at 10 October 2000	-
Transfer from former FEFCW on 1 April 2001	142
Capital grants received in period	1,106
Less amounts released to income and expenditure account	(376)
<b>Balance as at 31 March 2002</b>	<b>872</b>

### 3 European income

	<b>Period ended 31 March 2002</b>	
	<b>Group</b>	<b>Council</b>
	<b>£'000</b>	<b>£'000</b>
ESF grants	4,278	4,269
ERDF grants	934	934
	<b>5,212</b>	<b>5,203</b>

## Notes (continued)

### 4 Other income

	Period ended 31 March 2002	
	Group	Council
	£'000	£'000
Access funds	9,998	9,998
Match funding of European projects by HEFCW	957	957
Other	1,174	835
	<u>12,129</u>	<u>11,790</u>

### 5 Funding of further education, training and development

	Period ended 31 March 2002	
	Group	Council
	£'000	£'000
<i>Programme costs</i>		
<b>Youth training</b>		
Youth training/skill build	17,280	17,275
National traineeships	21,923	21,912
Training credits	901	901
Apprenticeships	18,607	18,535
Youth training support	2,140	2,140
Youth marketing	1,333	1,333
	<u>62,184</u>	<u>62,096</u>
<b>Work based learning for adults</b>		
Work based learning for adults	7,500	7,485
Adult allowance weeks	5,811	5,811
Adult training support	288	288
Adult marketing	267	267
	<u>13,866</u>	<u>13,851</u>
<b>Individual learning accounts</b>		
Individual learning accounts	3,736	3,736
Individual learning accounts marketing	79	79
	<u>3,815</u>	<u>3,815</u>

## Notes (continued)

### 5 Funding of further education, training and development (continued)

	Period ended 31 March 2002	
	Group	Council
	£'000	£'000
<b>Education business links</b>		
Education expenses	2,052	2,052
Education marketing	16	16
	<hr/>	<hr/>
	2,068	2,068
	<hr/> <hr/>	<hr/> <hr/>
 <b>Further Education Funding - Institutions</b>		
Aberdare College	2,402	2,402
Barry College	7,426	7,426
Bridgend College	11,337	11,337
Coleg Sir Gâr	12,707	12,707
Coleg Ceredigion	3,026	3,026
St David's 6th Form College	3,082	3,082
Deeside College	8,943	8,943
Coleg Meirion-Dwyfor	4,823	4,823
Coleg Glan Hafren	11,124	11,124
Gorseinon College	6,057	6,057
Coleg Gwent	30,353	30,353
Coleg Harlech / Workers ' Education Association, North Wales	1,884	1,884
Welsh College of Horticulture	2,502	2,502
Coleg Llysfasi	2,124	2,124
Coleg Menai	8,883	8,883
Merthyr Tydfil College	3,599	3,599
Neath Port Talbot College	14,177	14,177
Pembrokeshire College	8,396	8,396
Pontypridd College	11,027	11,027
Coleg Powys	5,429	5,429
Coleg Llandrillo	13,141	13,141
Swansea College	12,871	12,871
Workers' Education Association, South Wales	1,350	1,350
Coleg Yâl	12,546	12,546
YMCA	300	300
Ystrad Mynach College	7,515	7,515
<b>All Other Further Education Expenditure</b>	9,654	9,654
	<hr/>	<hr/>
<b>Total Expenditure on Further Education</b>	216,678	216,678
	<hr/> <hr/>	<hr/> <hr/>
<b>Modern Skills Diploma</b>	706	706
	<hr/> <hr/>	<hr/> <hr/>
<b>Business Skill Development</b>		
Investors in People	1,329	1,329
Investors in People marketing	175	175
Business enterprise	4,685	4,685
Business marketing	684	684
	<hr/>	<hr/>
	6,873	6,873
	<hr/> <hr/>	<hr/> <hr/>

## Notes (continued)

### 5 Funding of further education, training and development (continued)

	Period ended 31 March 2002	
	Group	Council
	£'000	£'000
<b>Innovation and Development</b>	<b>42,836</b>	<b>42,829</b>
	<hr/>	<hr/>
<b>Corus</b>	<b>1,796</b>	<b>1,796</b>
	<hr/>	<hr/>
<b>Other expenditure</b>		
Adult continuing education	4,721	4,721
Adult continuing education marketing	8	8
Other marketing costs	735	735
Other expenditure	10,045	10,045
	<hr/>	<hr/>
	<b>15,509</b>	<b>15,509</b>
	<hr/>	<hr/>
<b>European Programmes</b>	<b>7,820</b>	<b>7,785</b>
	<hr/>	<hr/>
<b>Total Programme Expenditure</b>	<b>374,151</b>	<b>374,006</b>
	<hr/>	<hr/>

#### *Further Education Expenditure*

Included in these accounts are grants to institutions which are subject to audit by the recipients' external auditors that they have been used for their intended purposes. The financial year of further education institutions ends on 31 July and audited accounts are expected to be received by the National Council by 31 December. Any adjustments arising from the audit of institutions 2001-02 accounts and student numbers will be made by the National Council in future years.

The National Council confirms that grants received from the National Assembly for Wales have been used for their approved purposes.

#### *European Expenditure*

The amounts relating to the grant payments made under the ESF and ERDF are subject to separate audits. At the time of the completion of these accounts no audit certificate had yet been received. Once these figures have been certified any amendments will be incorporated into the 2002-03 balances.

## Notes (continued)

### 6 Staff costs

The average number of persons employed by NCETW (including members of Council) during the period was 569.

The breakdown of this figure by regional office was as follows:

Bedwas	222
Swansea	104
Newtown	59
St. Asaph	108
Llanishen	76
	<hr/>
	569
	<hr/> <hr/>

The aggregate payroll costs of these persons were as follows:

	Period ended 31 March 2002	
	Group 2002 £'000	Council 2002 £'000
Wages and salaries	11,813	11,774
Social security costs	872	869
Payments for unfunded pensions	1,524	1,519
	<hr/>	<hr/>
Total Staff costs	14,209	14,162
Less Staff costs charged to Programme	(125)	(125)
	<hr/>	<hr/>
Staff costs – Administration Expense	14,084	14,037
	<hr/> <hr/>	<hr/> <hr/>

The above noted £125,000 of payroll costs relates to six heads equivalent employed to support Corus funding charged to programme expenditure.

## Notes (continued)

### 7 Salary and pension disclosures

		Age	Salary Emoluments £'000	Pension contribution £'000	Pension Real increase (range) £'000	Accrued Comm pension (range) £'000	Days F
Enid Rowlands	Chairman	47	48	Nil	0-2.5	0-2.5	
Dr Rita Austin	Council member		7	Not	Applicable	N/a	
Sheila Drury OBE	Council member		13	Not	Applicable	N/a	
Dr Haydn Edwards *	Council member		6	Not	Applicable	N/a	
Daniel Fellows OBE	Council member		13	Not	Applicable	N/a	
Dr Tim Jones	Council member		13	Not	Applicable	N/a	
Keith McDonogh *	Council member		6	Not	Applicable	N/a	
Dr Sonia Reynolds	Council member		7	Not	Applicable	N/a	
Alastair Robertson	Council member		3	Not	Applicable	N/a	
James Gibson Watt	Council member		13	Not	Applicable	N/a	
Professor Sir Adrian Webb	Council member		7	Not	Applicable	N/a	
<b>Senior management</b>							
Steve Martin	Chief Executive	49	105	19	5-7.5	35-40	Ful
Robin Beckman	Regional Director	43	44	7	0-2.5	0-2.5	Ful
Katie Blackburn	Regional Director	34	52	9	0-2.5	0-2.5	Ful
Linda Bloomfield	Operations Director	51	77	14	0-2.5	0-2.5	Ful
Richard Hart	Regional Director	50	54	9	2.5-5	5-10	Ful
Richard Hirst	Finance Director	48	68	12	2.5-5	20-25	Ful
Paul Humpherson	HR Director	55	65	12	0-2.5	0-2.5	Ful
Grenville Jackson	Strategy Director	52	65	12	0-2.5	0-2.5	Ful
George McKechnie	Participation Director	55	58	10	0-2.5	0-2.5	Ful
David Morgan	Regional Director	54	63	12	0-2.5	0-2.5	Ful

\* These emoluments are paid directly to the employer organisations rather than to the individuals.

The salaries of the Chief Executive and Director of Finance (Richard Hirst) have been included in the accounts on an apportioned basis (four-fifths NCETW and one-fifth to the Higher Education Funding Council for Wales). The figures in the table above represent their full annual salary.

The Chairman has a three year contract and the Chief Executive has a permanent contract.

Other members of the Council have been appointed for fixed terms as follows:

Dr. Austin and Dr Reynolds February 2003	from 8 February 2001 to 28 February 2003
Dr. Edwards, Mr Fellows, Mr McDonogh, Mr. Gibson Watt February 2004	from 8 February 2001 to 29 February 2004
Mrs Drury, Dr. Jones, Professor Webb February 2005	from 8 February 2002 to 28 February 2005
Mr John Davies was appointed to Council February 2005	from 31 March 2002 to 28 February 2005

Mr Martin received £3,900 performance related pay based on the achievement of a range of objectives established by the National Assembly. These objectives included the establishment and development of the new organisations' mission, strategy and core values along with the successful implementation of policies procedures and controls.

No member of council or senior management receive any other remuneration or benefits in kind.

No accrued pension exists for those senior management who have less than two years service as at the period end.

Mr. Martin is an ordinary Member of the Principal Civil Service Pension Scheme.

## Notes (continued)

### 8 Other administrative costs

	Period ended 31 March 2002	
	Group £'000	Council £'000
Associated staff costs	2,004	2,004
Council Members travel and subsistence	50	50
Office costs	1,374	1,330
Accommodation costs	1,645	1,516
Information Technology costs	484	484
Bought in services	1,357	1,373
Auditors' remuneration:		
- Audit	96	80
- Certification of European Grant Claims	65	65
- Additional assurance report work ( On behalf of the National Assembly for Wales)	10	10
All other expenditure	1,061	1,094
	<hr/>	<hr/>
	8,146	8,006
	<hr/>	<hr/>

### 9 Interest receivable and similar income

	Period ended 31 March 2002	
	Group £'000	Council £'000
Bank interest receivable	1,060	136
Loan interest receivable	29	29
	<hr/>	<hr/>
Total interest receivable	1,089	165
	<hr/>	<hr/>

### 10 Notional charges

	Period ended 31 March 2002	
	Group £'000	Council £'000
Cost of capital – 6% of capital employed	147	51
	<hr/>	<hr/>

Notional charges have been calculated from 1 April 2001 in accordance with the accounting policy in note 1 and at rates issued by the Treasury.

## Notes (continued)

### 11 Appropriations

	Period ended 31 March 2002	
	Group £'000	Council £'000
Receipts surrendered to the National Assembly for Wales	23	23
	<u>23</u>	<u>23</u>

### 12 Taxation

Analysis of charge in period

	Period ended 31 March 2002	
	Group £'000	Council £'000
<i>UK corporation tax</i>		
Current tax on income for the period (at 20% - 30%)	282	33
Adjustments in respect of prior periods	(17)	-
	<u>265</u>	<u>33</u>

The tax charge for the period relates to provisions for UK Corporation tax on interest received. The level of provision within the group ranged between 20% - 30% determined by the amounts actually received by the reporting entity.

### 13 Tangible fixed assets

Group	Long Term Leasehold land and property £'000	Fixtures, fittings and equipment £'000	Motor vehicles £'000	Total £'000
<i>Cost or valuation</i>				
At beginning of period	-	-	-	-
Transfer from former FEFCW on 1 April 2001	-	142	-	142
Valuation at 1 April 2001	1,200	-	-	1,200
Fair Value Adjustment on transfer of TEC assets		553	79	632
Additions at cost	-	1,106	-	1,106
Disposals at cost / valuation	-	-	(14)	(14)
<b>At end of period</b>	<b>1,200</b>	<b>1,801</b>	<b>65</b>	<b>3,066</b>
<i>Depreciation</i>				
Charge for period	26	674	37	737
<b>At end of period</b>	<b>26</b>	<b>674</b>	<b>37</b>	<b>737</b>
<i>Net book value</i>				
<b>At 31 March 2002</b>	<b>1,174</b>	<b>1,127</b>	<b>28</b>	<b>2,329</b>

## Notes (continued)

### 13 Tangible fixed assets (continued)

<b>Council</b>	<b>Fixtures, fittings and equipment £'000</b>	<b>Motor vehicles £'000</b>	<b>Total £'000</b>
<i>Cost or valuation</i>			
At beginning of period	-	-	-
Transfers from former FEFCW on 1 April 2001	142	-	142
Fair value adjustment on transfer of TEC assets	553	79	632
Additions at cost	1,106	-	1,106
Disposals at cost / valuation	-	(14)	(14)
<b>At end of period</b>	<b>1,801</b>	<b>65</b>	<b>1,866</b>
<i>Depreciation</i>			
Charge for period	674	37	711
<b>At end of period</b>	<b>674</b>	<b>37</b>	<b>711</b>
<i>Net book value</i>			
<b>At 31 March 2002</b>	<b>1,127</b>	<b>28</b>	<b>1,155</b>

On 1 April 2001 the fixed assets of the former FEFCW were transferred to the ownership of the National Council at their net book value. Also at that date, the fixed assets of the four TEC companies and the Council of Welsh TECS were transferred to the National Council at their written down value reported in the 2000-01 accounts of these companies. On acquisition the National Council made a fair value adjustment of £ 632,000 in respect of these acquired TEC assets which were of continued use to the National Council.

## Notes (continued)

### 14 Debtors

	<b>Group 2002 £'000</b>	<b>Council 2002 £'000</b>
Trade debtors	585	400
Income tax recoverable	14	-
VAT recoverable	19	8
Amounts owed by group undertakings	-	985
Other debtors	50	-
Prepayments and accrued income	2,733	2,264
	<hr/>	<hr/>
	<b>3,401</b>	<b>3,657</b>
	<hr/> <hr/>	<hr/> <hr/>

### 15 Loans

	<b>Group 2002 £'000</b>	<b>Council 2002 £'000</b>
At beginning of period	-	-
Loans transferred at fair value 1 April 2001	654	654
	<hr/>	<hr/>

The loans relate to two secured loans made to Coleg Yâl and one unsecured loan made to the North Wales Tourism Alliance by the North Wales Training and Enterprise Council Limited. The three loans were transferred to the NCETW on 1 April 2001 for nil consideration, and were subject to a fair value adjustment to introduce them at their value to the company.

The loans to Coleg Yâl are for £ 287,500 and £ 341,785 and long term. ( between 5 and 7 years ). The Loan to the North Wales Tourism Alliance is for £ 25,000 and is a short-term loan.

Interest is charged at 6 % per annum. No repayments were received in the period.

The loan debtor's figure includes £443,000 due after more than one year.

### 16 Creditors: amounts falling due within one year

	<b>Group 2002 £'000</b>	<b>Council 2002 £'000</b>
Trade creditors	637	450
Corporation tax payable	267	33
Other taxes and social security	272	269
Other creditors	588	97
Accruals and deferred income	11,809	11,620
Due to National Assembly for Wales	1,630	-
Accruals for closure costs	2,813	-
	<hr/>	<hr/>
	<b>18,016</b>	<b>12,469</b>
	<hr/> <hr/>	<hr/> <hr/>

The National Council cannot draw on remaining TEC companies bank balances which will be used to satisfy outstanding liabilities and any outstanding balance to be surrendered to the National Assembly for Wales.

## Notes (continued)

### 17 Creditors: amounts falling due after more than one year

	<b>Group 2002 £'000</b>	<b>Council 2002 £'000</b>
Accruals and deferred income	298	-

### 18 Provisions for liabilities and charges

	<b>Group 2002 £'000</b>	<b>Council 2002 £'000</b>
At beginning of period	-	-
Provisions established by TECs prior to 1 April 2001	5,213	-
Additional provisions for the period charged to the Income and Expenditure Account	2,864	2,660
Provisions utilised during period	(2,134)	-
<b>At end of period</b>	<b>5,943</b>	<b>2,660</b>

Included in the charge to the Income and Expenditure Account for the period is a provision of £2,660,000 relating to the estimated costs of redundancies associated with the Council's reorganisation plans which were announced in March 2002.

Group provisions additionally include £1,993,000 repayable to the National Assembly on wind up of the TEC companies and £ 1,290,000 to cover other anticipated wind up costs including legal expenses and repayment of grant funding to European bodies.

### 19 Capital commitments

	<b>Group 2002 £'000</b>	<b>Council 2002 £'000</b>
Contracted	63	63

## Notes (continued)

### 20 Financial commitments

	<b>Group and Council 2002 £'000</b>
Revenue grants (a)	163,456
European projects (b)	15,787
	<hr/>
	<b>179,243</b>
	<hr/> <hr/>

(a) These amounts will be funded by the National Assembly for Wales

(b) European projects will be funded as follows:

	<b>Group and Council 2002 £'000</b>
ESF/ERDF grants	7,488
Knowledge Exploitation Funds from the National Assembly for Wales	2,913
Grant in aid	360
Match funding from the HEFCW	4,027
Other match funding	999
	<hr/>
	<b>15,787</b>
	<hr/> <hr/>

It is not possible to quantify the totality of future European project commitments as many of the projects inherited from the TEC companies and now managed by the Council are currently subject to re-profiling. The reported figure relates only to projects inherited from the former FEFCW.

Annual commitments under non-cancellable operating leases are as follows:

<b>Group and Council</b>	<b>Land and Buildings 2002 £'000</b>	<b>Other 2002 £'000</b>
Operating leases which expire:		
Within one year	-	12
In the second to fifth years inclusive	261	27
Over five years	353	-
	<hr/>	<hr/>
	<b>614</b>	<b>39</b>
	<hr/> <hr/>	<hr/> <hr/>

## Notes (continued)

### 21 Losses and special payments

	<b>Group 2002 £'000</b>	<b>Council 2002 £'000</b>
Ex gratia payments	2	-
Fruitless payments	2	2
Bad/irrecoverable debts	25	4
	<u>29</u>	<u>6</u>

### 22 Statement of movement on reserves

<b>Group</b>	<b>Deferred Government Grant £'000</b>	<b>Income and expenditure account £'000</b>	<b>Revaluation reserve £'000</b>	<b>Total £'000</b>
At beginning of period	-	-	-	-
Reserves transferred from former FEFCW on 1 April 2001	142	4,821	-	4,963
Reserves of the TEC companies at 1 April 2001	-	1,357	-	1,357
Fair Value Adjustment Fixed Assets and Loans	-	-	1,286	1,286
Capital Grant In Aid received in period	1,106	-	-	1,106
Amounts released - Depreciation	(376)	-	(335)	(711)
Amounts released – Asset Sale	-	-	(14)	(14)
Deficit for the period	-	(9,399)	-	(9,399)
<b>At end of period</b>	<u><b>872</b></u>	<u><b>(3,221)</b></u>	<u><b>937</b></u>	<u><b>(1,412)</b></u>

  

<b>Council</b>	<b>Deferred Government Grant £'000</b>	<b>Income and expenditure account £'000</b>	<b>Revaluation Reserve £'000</b>	<b>Total £'000</b>
At beginning of period	-	-	-	-
Reserves transferred from former FEFCW on 1 April 2001	142	4,821	-	4,963
Fair Value Adjustment Fixed Assets and Loans	-	-	1,286	1,286
Capital Grant In Aid received in period	1,106	-	-	1,106
Amounts released - Depreciation	(376)	-	(335)	(711)
Amounts released – Asset Sale	-	-	(14)	(14)
Deficit for the period	-	(9,877)	-	(9,877)
<b>At end of period</b>	<u><b>872</b></u>	<u><b>(5,056)</b></u>	<u><b>937</b></u>	<u><b>(3,247)</b></u>

## Notes (continued)

### 23 Contingent liabilities

There were no contingent liabilities as at 31 March 2002.

### 24 Reconciliation of operating deficit to operating cash flows

	<b>Group</b>	<b>Council</b>
	<b>2002</b>	<b>2002</b>
	<b>£'000</b>	<b>£'000</b>
Operating deficit (before financing and appropriations)	(7,878)	(7,772)
Notional charges	147	51
Depreciation charges	737	711
Deferred capital grants released to income	(376)	(376)
Decrease/(increase) in debtors	(3,401)	(3,657)
Debtors introduced on 1 April 2001	5,756	2,374
(Decrease)/increase in creditors	18,314	12,469
Creditors introduced on 1 April 2001	(46,912)	(860)
Movement on Provisions	(2,134)	-
	<u>(35,747)</u>	<u>2,940</u>
<b>Net cash (outflow)/inflow from operating activities</b>	<b><u>(35,747)</u></b>	<b><u>2,940</u></b>

### 25 Analysis of net funds

<b>Group</b>	At beginning of period £'000	At 1 April 2001 £'000	Cash flow £'000	Other non cash changes £'000	At end of period £'000
Cash in hand and at bank	-	48,040	(31,579)	-	16,461
Debtors – secured loans	-	-	-	654	654
Deferred government grants	-	(142)	(1,106)	376	(872)
	<u>-</u>	<u>47,898</u>	<u>(32,685)</u>	<u>1,030</u>	<u>16,243</u>
<b>Total</b>	<b><u>-</u></b>	<b><u>47,898</u></b>	<b><u>(32,685)</u></b>	<b><u>1,030</u></b>	<b><u>16,243</u></b>
	<u>-</u>	<u>47,898</u>	<u>(32,685)</u>	<u>1,030</u>	<u>16,243</u>
<b>Council</b>	At beginning of period £'000	At 1 April 2001 £'000	Cash flow £'000	Other non cash changes £'000	At end of period £'000
Cash in hand and at bank	-	-	6,416	-	6,416
Debtors – secured loans	-	-	-	654	654
Deferred government grants	-	(142)	(1,106)	376	(872)
	<u>-</u>	<u>(142)</u>	<u>5,310</u>	<u>1,030</u>	<u>6,198</u>
<b>Total</b>	<b><u>-</u></b>	<b><u>(142)</u></b>	<b><u>5,310</u></b>	<b><u>1,030</u></b>	<b><u>6,198</u></b>
	<u>-</u>	<u>(142)</u>	<u>5,310</u>	<u>1,030</u>	<u>6,198</u>

## Notes (continued)

### 26 Pension schemes

As explained in note 1, the Council is a member of a pension scheme providing benefits based on final pensionable pay. Because the Council is unable to identify its share of the scheme assets and liabilities on a consistent and reasonable basis, as permitted by FRS 17 'Retirement benefits' the scheme has been accounted for in these financial statements as if the scheme was a defined contribution scheme.

Pension benefits are provided through the Principal Civil Service Pension Scheme (PCSPS) to whom the conditions of the Superannuation Acts 1965 and 1972 and subsequent amendments apply. This is a statutory scheme which provides benefits on a "final salary" basis at a normal retirement age of 60. Benefits accrue at a rate of 1/80<sup>th</sup> of pensionable salary for each year of service. In addition, a lump sum equivalent to 3 years' pension is payable on retirement. Members pay contributions of 1.5% of pensionable earnings. Pensions increase in line with the Retail Price Index. On death, pensions are payable to the surviving spouse at a rate of half the member's pension. On death in service the scheme pays a lump sum benefit of twice pensionable pay and also provides a service enhancement on computing the spouse's pension. The enhancement depends on the length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill-health. In this case, pensions are brought into payment immediately without actuarial reduction and with service enhanced as for widow(er) pensions.

The PCSPS is an unfunded multi-employer defined benefit scheme but the Council is unable to identify its share of the underlying assets and liabilities. A full valuation was carried out at 1 March 1999. Details can be found in the resource accounts of the Cabinet Office – Civil Superannuation ([www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk))

Contributions amounting to £1,524,000 were paid on behalf of staff to the Paymaster General for the period ended 31 March 2002 at rates determined from time to time by the Government Actuary and advised by the Treasury. These ranged from 12% to 18.5% of gross pay for the period.

The group also operates several other schemes; both defined benefit and defined contribution, which are in the process of being wound up. No contributions were paid during the period. Further details of these schemes can be found in the individual statutory financial statements for ELW<sup>a</sup> Trading Limited, Mid Wales Training and Enterprise Council Limited, North Wales Training and Enterprise Council Limited, West Wales Training and Enterprise Council Limited and the Council of Welsh TECs.

### 27 Reconciliation of movements in funds

	<b>Group 2002 £'000</b>	<b>Council 2002 £'000</b>
<b>Deficit for the financial period</b>	<b>(9,399)</b>	<b>(9,877)</b>
Movement in deferred Government grant	730	730
Movement on revaluation reserve	937	937
	<hr/>	<hr/>
<b>Net reduction in funds</b>	<b>(7,732)</b>	<b>(8,210)</b>
Funds transferred from former FEFCW on 1 April 2001	4,963	4,963
TEC funds at 1 April 2001	1,357	-
	<hr/>	<hr/>
<b>Closing funds</b>	<b>(1,412)</b>	<b>(3,247)</b>
	<hr/> <hr/>	<hr/> <hr/>

## Notes ( continued)

### 28 Work Connect

These accounts do not include the National Council's one seventh share of the net assets of Work Connect, a joint venture between the North Wales Training and Enterprise Council, the Careers Company, the Welsh Development Agency, Conwy County Council, Denbighshire County Council, Gwynedd County Council and Ynys Mon County Council. Audited accounts of Work Connect for 2001-02 have not been made available to the National Council.

However in the opinion of the National Council, the exclusion of this balance is not material to an understanding of these accounts.

### 29 Balances transferred to the National Council

a) Balances transferred from the former FEFCW to the National Council on 1 April 2001 comprised the following:

	£000
Fixed assets	142
Debtors	2,374
Cash	3,307
Creditors	<u>(860)</u>
Net assets	<b><u>4,963</u></b>

Financed by:

	£000
Deferred Government Grant Reserve	142
Income and Expenditure Account	<u>4,821</u>
	<b><u>4,963</u></b>

b) TEC balances at 1 April 2001 comprised the following:

	Mid Wales, £000	North Wales, £000	ELWa Trading Ltd, £000	South West Wales, £000	Council of Welsh TECs, £000	TOTAL, £000
Fixed assets	-	-	1,200	-	-	<b>1,200</b>
Debtors	91	974	1,010	1,221	86	<b>3,382</b>
Cash	2885	8,392	27,384	9,004	375	<b>48,040</b>
Creditors	(2,976)	(7,330)	(28,394)	(7,048)	(304)	<b>(46,052)</b>
Net assets	-	2,036	1,200	3,177	157	<b>6,570</b>
Provisions for liabilities and charges	-	(2,036)	-	(3,177)	-	<b>(5,213)</b>
Income and Expenditure Account	-	-	(1,200)	-	(157)	<b>(1,357)</b>

## Notes (continued)

### 30 Related party disclosures

The National Assembly for Wales is regarded as a related party. During the period, the National Council had various material transactions with the National Assembly for Wales and with other entities for which the National Assembly for Wales is regarded as the parent department, such as the Higher Education Funding Council for Wales.

During the period the company also entered into a number of transactions in its ordinary course of business, with organisations in which those who were Board members or Senior Managers during the year had an interest. These can be summarised as follows:

<b>Council Member</b>	<b>Relationship/Transaction</b>	<b>Monetary Value NCETW Transactions £</b>
Enid Rowlands	Spouse Huw Vaughan Thomas is a -	nil
	Member HEFCW	546
	National Trustee RNID Wales	281,164
	Member Princes Trust - Cymru Council	27,045
Sheila Drury	Ms Rowlands is a member of S4c Authority	
	Board member Investors in People UK	68,676
	Council member University of Wales Bangor	2,910,249
	Governor North East Wales Institute	110,315
Dr Sonia Reynolds	Governor Coleg Yâl	16,678,938
	Director Dysg -Learning and skills development agency Wales	15,100
Dr. Haydn Edwards	Member UFI Cymru advisory committee	15,000
	Principal of Coleg Menai	11,135,905
James Gibson Watt	Director of Careers Wales North West	87,891
	Governor Gwernfed High School	6,306
Keith McDonogh	Director Careers Wales ( North East )	48,606
Professor Sir Adrian Webb	Vice Chancellor University of Glamorgan	427,534
	Non Executive Director of Pontypridd and Rhondda Health Trust	675
<b><u>Senior Managers</u></b>		
David Morgan	Member - Board Of Studies – University of Wales, Cardiff	873,800
Richard Hart	Spouse Employed by University Wales College Newport	725,353
Katie Blackburn	Member – RNID Wales Council	546

## **Report of the Auditor General for Wales**

### **Introduction**

1. The National Council for Education and Training for Wales (the National Council) was established on 10 October 2000, in accordance with Section 30 of the Learning and Skills Act 2000. Under Schedule 4, Paragraph 14(4) of that Act, I am required as Auditor General for Wales to examine, certify and report on the accounts of the National Council.
2. This is the National Council's first set of published accounts, covering the 17-month period from 10 October 2000 to 31 March 2002. My normal practice is to issue a narrative report on the first accounts of a new public body, explaining the statutory basis of the body and, where relevant, reviewing the transfer of assets, liabilities, staff and functions from its predecessor bodies. This material is set out in paragraphs 5 to 19 of my report.
3. Although I am satisfied that, in all material respects, the accounts give a true and fair view of the state of affairs of the National Council at 31 March 2002, and that the transactions are properly presented, I have qualified my audit opinion on the regularity of the expenditure included in the accounts. This is because of expenditure by the National Council totalling some £2.2 million incurred in respect of 13 contracts entered into during the period of account, for which the requisite approval of the National Assembly for Wales was not obtained and which was therefore irregular.
4. In addition to its standard content, this report therefore also sets out at paragraphs 20 to 72 the circumstances that gave rise to the irregular expenditure, the details of the irregular contracts themselves and the actions that the National Council has and is taking to address the shortcomings that have been identified. Finally, the report comments on the use of a confidentiality clause in a departure settlement agreed by the National Council with a member of its staff (paragraphs 73 to 80).

### **Creation of the National Council for Education and Training for Wales**

#### *Statutory background*

5. The National Council for Education and Training for Wales came into existence on 10 October 2000, under the Learning and Skills Act 2000. This Act also established the equivalent body in England, the Learning and Skills Council. The National Council is an Assembly Sponsored Public Body, funded by grant in aid of over £371 million in 2001-02. Together with the Higher Education Funding Council for Wales, it is responsible for the funding of all post-16 education and training in Wales. The two bodies operate under the umbrella name of 'ELWa', which means 'to gain' or 'to profit by' in Welsh and is also an acronym of **E**ducation and **L**earning **W**ales.

6. The creation of the National Council accorded with the recommendations of the Assembly's Post-16 Education and Training Committee following its review of the proposals made in the Education and Training Action Group Action Plan published in March 1999. This was endorsed by the Assembly in plenary on 1 February 2000. Preparations for the transfer of functions to the Council and other successor bodies were overseen by a Project Management Board and a Project Steering Group which were chaired by Assembly officials and comprised of representatives from all of the organisations directly involved, as well as wider 'customer' interests. The Project Management Board was assisted by 'Strand Groups', chaired by members of the Project Board, which advised on specific areas such as human resources and organisational structures, finance and funding, business continuity and wind-up.
7. The Chair and Chief Executive (who is also the Accounting Officer) of the new National Council were appointed by the National Assembly for Wales on 10 October 2000. The Chief Executive continued, until 31 March 2001, to carry out his duties as Chief Executive of the Further Education Funding Council for Wales. He also continued, during this period and subsequently, as Chief Executive of the Higher Education Funding Council for Wales. The remaining Council members were appointed in February 2001 and the Council was then able to hold its first meeting. The Directors of the National Council were appointed on 2 January 2001, although only temporary appointments were made to three posts. The remaining staff of 570, including the Heads of Finance and Risk Assurance, transferred to the National Council on 1 April 2001 from the predecessor bodies. The National Council told me that the effect of this was that it had a very limited lead-in time during which it could prepare to assume its responsibilities and that its staff, including the senior staff, were fully engaged in discharging their existing responsibilities until 31 March 2001.
8. The primary objective in establishing the National Council was to provide for strategic planning and funding of post-16 education and training in Wales, with the exception of higher education. Funding of functions that became the responsibility of the National Council had previously been administered by the Further Education Funding Council for Wales, the four Welsh TECs and the Local Education Authorities. The National Council's mission is to promote lifelong learning and provide world-class learning opportunities for all in Wales to fulfil their potential. It seeks to rationalise and improve the entire spectrum of post-16 education and training (apart from higher education) in Wales and was also required to secure savings in its annual running costs.

#### ***Further Education Funding Council for Wales***

9. The Further Education Funding Council for Wales was established as an executive Non-Departmental Public Body of the Welsh Office in 1992, and became an Assembly Sponsored Public Body on 1 July 1999. During 2000-01, it was mainly responsible for the administration of annual grant funding of some £217 million to 27 further education institutions. These institutions (which have since reduced to 26 on the merger of two institutions in August 2001)

provide a range of post-16 education and training courses, varying from basic skills to vocational qualifications, and courses designed to promote access to higher education. Under the Further and Higher Education Act 1992, as amended by the National Assembly for Wales (Transfer of Functions) Order 1999, I was the statutory external auditor of the Further Education Funding Council for Wales.

10. Under Section 91 of the Learning and Skills Act 2000 the Further Education Funding Council for Wales was dissolved on 1 April 2001 and all its staff, property, rights and liabilities were transferred to the National Council. The 2000 Act also transferred responsibility to the National Council for all activities previously carried out by the Further Education Funding Council for Wales, with the exception of a programme of quality assessment that was transferred to Estyn.

### ***Training and Enterprise Councils***

11. Prior to the establishment of the National Council, there were four TECs in Wales covering the South East, North, Mid and West Wales areas. They were private companies limited by guarantee, and received funding from the National Assembly for Wales under annual contracts to provide training programmes and give advice and support to local businesses. Each TEC had appointed a private sector firm of accountants as its external auditor. As Auditor General for Wales, I had audit access rights to the TECs in relation to my annual examinations of the funding of TEC programmes under their contracts with the National Assembly for Wales, but had no statutory remit to audit the activities of the TECs themselves.
12. In July 2000, the National Assembly for Wales issued notices of termination of these contracts to each TEC, effective at midnight on 31 March 2001, and subject to enactment of the Learning and Skills Bill. The notices stated that the new National Council would take over the skills-related functions of the TECs, and that the remaining functions would transfer to other successor bodies.
13. Section 93(2) of the Learning and Skills Act empowered the National Assembly for Wales to transfer property, rights and liabilities of the TECs to the National Council. The National Council for Education and Training for Wales (Transfer of Property, Rights and Liabilities) Scheme 2001 listed all of the property interests and the personnel employed by each TEC that would transfer to the National Council on 1 April 2001. The main principle in determining which assets and personnel should pass to the National Council was that these should follow the activities transferred to the National Council, specifically the TEC skills-related training and education activities.
14. Whilst the activities of the former Further Education Funding Council for Wales were transferred almost entirely to the National Council, the varied activities of the TECs relating to other than skills-related functions transferred to a range of successor bodies. These were:

- the **Careers Companies in Wales**, which assumed the Adult Guidance Initiative, Youth Gateway and the work/enterprise elements of the Education Business Links programmes;
  - the **Welsh Development Agency**, which assumed responsibility for the non-skills enterprise functions (Business Start Up, Sole Traders Initiative and Diagnostic and Consultancy programmes); and
  - the **Local Authorities**, which became responsible for the Youth Access Initiative.
15. As there was no statutory basis for the transfer of assets and/ or personnel from the TECs to these other successor bodies, the National Assembly for Wales arranged for these transfers to take place under separate contractual arrangements, supported by Deeds of Assignment, as appropriate.

#### ***Residual TEC Companies***

16. Following the transfer of assets and personnel to the successor bodies on 1 April 2001, the TECs themselves have remained in existence so that their affairs can be wound up in an orderly manner. With effect from 1 April 2001, the National Council assumed control of all the residual TEC companies and the Council of Welsh TECs through a series of changes to the TEC Memoranda and Articles of Association, and the resignation of the TEC directors in favour of directors nominated by the National Council.
17. With the exception of the former South East Wales TEC, which will continue to trade, albeit at a significantly reduced level, as the National Council's wholly-owned subsidiary company 'ELWa Trading Ltd', the National Council will wind up the TEC companies on completion of all outstanding business. (The business carried out by ELWa Trading Ltd relates to leasing and spot-hire of office and meeting room accommodation at an inherited property, the Technocentre, in Cardiff. The National Council told me that it intends to dispose of this property as soon as its sale can be arranged.) Until then, each TEC company is required to prepare annual financial statements, which are consolidated as part of the National Council's own consolidated accounts. As Auditor General for Wales, I have no statutory remit to audit the accounts of the TEC companies and this role continues instead to be performed by their existing appointed auditors. Paragraphs 33 to 37 of this report set out the accounting arrangements surrounding the transfer of assets to the National Council on 1 April 2001, and the consolidation of the results, assets and liabilities of the residual TEC companies as part of the National Council's group accounts at 31 March 2002.

#### ***Local Authorities***

18. On 1 April 2001, in accordance with Section 32 of the Learning and Skills Act 2000, the National Council acquired powers to fund the provision of most adult and continuing education in Wales, including that previously provided by Welsh local authorities. From 1 April 2002 the

Council also became responsible for the funding of school sixth forms, although the relevant fixed assets and staff remained with the local authorities.

#### ***Council of Welsh TECs***

19. On 1 April 2001, the Council of Welsh TECs also transferred to the control of the National Council, and has remained in existence so that its affairs can be wound up in an orderly manner. This body had been established in 1997 and was financed by the four TECs, its principal activity being the provision of marketing, public relations and communications strategies and support services to the TECs in Wales. On the transfer of TEC activities on 1 April 2001, the Council of Welsh TECs became dormant. Its staff were transferred via South East Wales TEC to the National Council on 1 April 2001, together with its residual assets and liabilities and these are also included in the National Council's consolidated accounts for the period ended 31 March 2002.

#### **Organisational structure of the National Council**

20. In determining its organisational structure, the National Council took the decision to operate with its Executive, including the senior staff, being located at the different offices across Wales that had been inherited by the Council, rather than from one single headquarters location. The National Council considered that this structure would enable the new body to respond flexibly to differing regional needs by being close to businesses, partner organisations and suppliers of education and training throughout Wales. The National Council told me that the regional offices had a particularly important role in relation to the Community Consortia for Education and Training, as well as in support of the work of the National Council's statutory regional committees.
21. The Council had to deliver the inherited business plans of its predecessor bodies and ensure that the needs of learners throughout Wales were met. With less than a year between the passing of the Learning and Skills Act 2000 and the National Council becoming fully operational there was no practical opportunity for shadow running, even though the Education and Training Action Group had recommended in its 1999 action plan the use of a 12-month shadow running period. Conscious of the over-riding need to ensure continuity of funding and services to suppliers of education and training, the National Council took the view that this could be best achieved by a policy of 'business as usual' in its first year of operation. The National Council told me that this decision had also been influenced by the Council's inability to exercise executive or managerial authority prior to 1 April 2001.
22. In practice, this meant that the financial systems, controls, operating procedures, desk instructions and working practices with which staff had been familiar in their previous organisations were brought into the National Council largely unchanged. The National Council

told me that it had been aware that this would create potentially significant differences in operation between the National Council's various offices in the period from 1 April 2001. However, the National Council had considered that any other approach would have made it impossible to deliver the plans that it had inherited from its predecessor organisations. It had, moreover, been of the view that it would use the 'business as usual' period to review its inherited procedures and structures, identify those of greatest use and then develop a coherent set of policies and procedures for subsequent implementation across all offices.

### ***Role of the Council***

23. The constitution of the National Council is set out in Section 30 of the Learning and Skills Act 2000. Schedule 4 of that Act empowers the body's Council to delegate functions to its Chair or to the Chief Executive. It also provides for further delegations, from the Chair to other Council Members, and from the Chief Executive to his or her staff. As with other Assembly Sponsored Public Bodies, the Management Statement defines the framework within which the National Council operates and, together with the Financial Memorandum, details the terms and conditions under which the Assembly provides finance to the National Council. The Management Statement and the Financial Memorandum also set out the limits of delegations and other rules, regulations and guidelines relevant to the exercise of the National Council's functions. The Financial Memorandum addresses, for example, the extent to which the National Council can transfer grant in aid funding from one budget heading to another without the need to obtain approval from Assembly officials.
24. The conduct of Council business is governed by Standing Orders setting out, for example, the list of matters reserved to the Council itself for decision, the extent to which it has delegated its functions to the Chairman and the Chief Executive, and the roles of its various committees. I note that the Council only gave formal approval (with retrospective effect) to the Standing Orders on 24 May 2002, some 15 months after the first meeting of the Council and that, as a consequence, there was no formal articulation during this period of how business was to be conducted.
25. The National Council told me that in its opinion this had not had a detrimental effect on the National Council's achievements during that period. This was because the Council had taken papers on corporate governance (for instance, setting out the respective roles and responsibilities of the Chair, Chief Executive and Accounting Officer and the Council as a whole) and the establishment of an Audit Committee (with a particular focus on risk management) at its initial meeting in February 2001. At that meeting the Council had also considered the management of joint National Council / Higher Education Funding Council for Wales business and a proposed scheme of delegation, although a formal scheme approved by the Council did not take effect until May 2002. Disciplinary procedures were also established in October 2001.

### ***Role of the Chief Executive***

26. Appointed as Accounting Officer for the National Council by the Permanent Secretary of the National Assembly for Wales, the Chief Executive is also a full Council member. His responsibilities are set out in the standard National Assembly for Wales guidance: 'The Responsibilities of an Assembly Sponsored Public Body (ASPB) Accounting Officer' and, from 24 May 2002, were further defined by the National Council's Standing Orders. He is responsible for the proper stewardship and expenditure of public funds, and the daily operations and management of the National Council. He must also ensure compliance with the Management Statement and Financial Memorandum issued to the National Council by the National Assembly for Wales.
27. In April 2001, the Chief Executive issued financial delegations to his Directors and other senior staff within the National Council. These delegations were formalised in the National Council's 'Procurement Procedures' issued in January 2002, and more recently incorporated into the 'Financial Regulations' formally approved by the Council on 25 July 2002, which were issued to all staff in September 2002. I comment further on the Council's financial management arrangements during 2001-02 in paragraphs 31 to 42 of this report.

### ***Relationship with the Higher Education Funding Council for Wales***

28. The Higher Education Funding Council for Wales is responsible for the funding of higher education in Wales. During 2001-02, it distributed funds totalling nearly £390 million to 14 higher education institutions in support of education, research and associated activities. Prior to 1 April 2001 it had enjoyed a close working relationship with the former Further Education Funding Council for Wales, sharing the same Chief Executive, and other staff providing joint administrative functions on behalf of both Councils. Following the establishment of the National Council, it continued to operate this shared executive with the Higher Education Funding Council for Wales. This was in line with the Assembly's intention to achieve coherent policy development within an integrated system of post-16 education and training, but meant that the Chief Executive, Director of Finance and Systems and several other directors and staff divided their time between the work of the two Councils.

### ***Role of Welsh Assembly Government sponsor department***

29. Within the Welsh Assembly Government, the Lifelong Learning Division was established on 1 April 2001 to act as the National Council's sponsoring division. It is the National Council's main liaison point with the National Assembly for Wales, and is responsible for monitoring the activities and performance of the National Council.

***AGW conclusion: On the organisational structure of the National Council***

30. This section of my report has summarised a number of weaknesses that were apparent in the organisational structure of the National Council in its early months. I consider it unsatisfactory that key pillars of sound corporate governance such as Standing Orders and Financial Regulations were not in place from 1 April 2001. Given the difficult task that the new body faced in bringing together six distinct public and private sector operating cultures at its various offices across Wales, a more comprehensive risk assessment would have been especially helpful in the period preceding 1 April 2001. It also appears that some of the risks of operating dispersed functions from several different offices were not given adequate consideration when the decision was taken by the National Council that it should initially operate on a 'business as usual' basis in its first year.

**Financial Management of the National Council**

***Accounting arrangements***

31. The establishment of the National Council represented a major reorganisation of the administration of post 16 education and training in Wales. On 1 April 2001, the National Council inherited five groups of staff at seven locations across Wales, together with five sets of accounting and operating systems. It also inherited the forward plans and commitments of its various predecessor bodies. National Council officials told me that, due to the extremely short lead-in time, the new body had no choice other than to continue to operate these distinct accounting systems and operating procedures at each location, whilst making plans to rationalise them as soon as possible.
32. The National Council's finance function was initially split on a geographical basis below the Director of Finance, with two Heads of Finance, one based in St Asaph covering North and Mid Wales, and another in Llanishen responsible for South Wales. Two posts were created as the National Council recognised that the rationalisation of the finance function was a significant task during its first year of operation. Each had substantial experience of the regulations governing the operation of an Assembly Sponsored Public Body, was responsible for the financial operations of the Regional Offices within their respective areas and also had other specific corporate financial responsibilities. Subsequently the National Council carried out its planned review of all its operations and structures and, since 1 April 2002, the financial administration of the National Council has been centralised in the Bedwas office under one Head of Finance.
33. The National Council's first set of published accounts cover the 17-month period from its formal establishment on 10 October 2000 to 31 March 2002. As the National Council did not become operational until 1 April 2001, with the transfer of various responsibilities from the TECs, the former Further Education Funding Council for Wales and local authorities, its

opening balance sheet at 10 October 2000 does not contain any assets or liabilities. The acquisition of various assets from the former Further Education Funding Council for Wales and TECs on 1 April 2001 and the transfer of liabilities from the former Further Education Funding Council for Wales have thus been accounted for as 'in-year' additions. In their 2000-01 financial statements, the TECs' Directors had written down the values of their fixed assets to zero at 31 March 2001, as it had been agreed that the assets would transfer to the National Council for no consideration. All assets received by the National Council from predecessor bodies were taken on at their fair value in ongoing use on 1 April 2001, as explained in Note 13 to the accounts.

34. As explained at paragraph 17 above, as wholly owned subsidiaries the 2001-02 accounts of the residual TEC companies have been consolidated within the National Council's own accounts. Those TEC accounts, which have been audited by private sector firms of auditors under the Companies Act 1985, all received unqualified audit opinions for the 2001-02 year of account.
35. The former South East Wales TEC will continue to trade for the foreseeable future as ELWa Trading Ltd, a wholly-owned subsidiary of the National Council, and its 2001-02 accounts were thus prepared on a going concern basis. The accounts for 2001-02 of the other three TEC companies were prepared on a 'realisation' basis, as these bodies will be liquidated once they have concluded all outstanding business. Any remaining cash balances will then revert to the National Assembly for Wales. National Council officials told me that the liquidation process would commence before the end of 2002 and that the process would also include the Council of Welsh TECs.
36. Note 28 to the accounts explains that the National Council has not consolidated into those accounts its share of the net assets of 'Work Connect', a joint venture between the former North Wales TEC, the WDA, the Careers Company and various local authorities in North Wales. On 1 April 2001, the North Wales TEC's interest in this joint venture was transferred to the National Council, but I note that this contravened paragraph 4(3)(b) of the Transfer Order referred to in paragraph 13 of this report. That Order explicitly stated that such interests in joint ventures should not transfer, but should instead remain with the relevant TEC company.
37. As a consequence of this transfer, the National Council has a one-seventh share in the net assets of 'Work Connect'. At 31 March 2002, the unaudited accounts of the joint venture indicate that this only amounted to some £15,000. I am satisfied that the omission of this balance from the National Council's accounts has no impact on my 'true and fair view' audit opinion. However, I recommend that the National Assembly for Wales should take appropriate action to regularise the National Council's position in respect of this joint venture before 31 March 2003.

### *Accounts preparation*

38. Paragraph 14 of Schedule 4 to the Learning and Skills Act 2000 requires the National Council to submit signed accounts to the National Assembly for Wales and the Auditor General for Wales by 31 August following the financial year-end. Although the Accounting Officer discharged this statutory obligation, he recognised that not all aspects of the accounts had been finalised and that adjustments would be required. A contributory factor was that his staff had experienced significant operational difficulty in supplying the National Audit Office Wales with draft accounts for audit until very shortly before the end of August statutory deadline for the accounts to be signed. (The accounts production timetable originally agreed with the National Audit Office had called for the draft accounts to be made available for audit scrutiny in July 2002.) Consequently, the signed accounts were withdrawn and revised accounts prepared and re-signed by the Accounting Officer on 20 December 2002, and I certified them on 9 January 2003.
39. These difficulties and delays were largely the result of the considerable problems that the National Council encountered in compiling a set of accounts from the five different accounting systems inherited from the predecessor bodies and the need also to consolidate the 2001-02 statutory accounts of all the TECs and the Council of Welsh TECs. The National Council told me that it was confident that the timeliness and completeness of accounts submitted for audit in future years would be much improved. This will be facilitated by the National Council's new accounting system, covering all its sites, which went live on 1 April 2002, together with the completion of the reorganisation of the finance function.

### *Statement on internal control*

40. The preparation of the National Council's annual accounts is governed by the Accounts Direction issued by the National Assembly for Wales in accordance with Schedule 4 to the Learning and Skills Act. This Direction specifies the format and content of the accounts, including the requirement for the Chief Executive to make an annual statement on the Council's system of internal control.
41. The content of the Statement on Internal Control is set out in guidance issued by the Treasury. This specifies that each public sector organisation should undertake a thorough and regular evaluation of the nature and extent of the material risks (both financial and other) to which it is exposed. It should then seek to manage those risks by maintaining a sound system of internal control that supports the achievement of the organisation's policies, aims and objectives. Responsibility for reviewing the adequacy and effectiveness of an organisation's system of internal control rests with the Accounting Officer.
42. In his Statement on Internal Control, published within the National Council's accounts, the Chief Executive has acknowledged that the fundamental changes faced by the Council in its first

period of operation gave rise to considerable business risks. He notes that a comprehensive risk assessment was prepared in April 2001 as the basis for planning organisational change and prioritising management's response to these business risks. From that assessment, financial policies and procedures were identified as a key area and reviews of the National Council's Financial Regulations and procurement procedures were planned. In addition, the risk assessment informed the preparation of the internal audit plan for the 2001-02 financial year, in which procurement was scheduled for early review. The Statement on Internal Control notes the continuing need to harmonise arrangements across the organisation and to achieve operating efficiencies. It also makes specific reference to the actions taken by the National Council in response to the identified weaknesses in controls over procurement, which I examine in paragraphs 43 to 72 below.

## **Procurement**

### ***Introduction***

43. In paragraph 31 above, I commented on the significant challenge faced by the National Council in bringing together five different sets of operating and financial systems at 1 April 2001. I also noted the Council's decision not to rationalise those systems in the short term, in the interests of business continuity and to ensure that funding and services provided to suppliers of education and training were not disrupted.
  
44. In reaching its decision to continue to operate five sets of accounting and operating systems, Assembly officials told me that the National Council would have taken assurance from an earlier examination of the financial control systems operated by the predecessor organisations. This had been undertaken by the 'Finance and Funding Strand Group' convened during 2000-01 as part of the overall Education and Training Action Plan transition project to establish the new body (referred to in paragraph 6 of this report). The Group ensured that the different financial control systems operating in each of the predecessor organisations were reviewed by Directors of Finance (or equivalent) prior to the transfer of functions. The objective was to test whether there were any reasons why the respective areas of business could not be transferred as going concerns to the National Council and other successor bodies. It was not to prescribe how these businesses should be absorbed into the management arrangements of the successor bodies, since it was recognised that this was a matter for the successor bodies themselves to determine. The Group, which included Assembly officials, concluded that there were sufficient existing controls to safeguard the financial integrity of the predecessor organisations until 31 March 2001. Assembly officials also commissioned reports on the financial positions of each of the TECs, which the Assembly and the National Council considered did not reveal any significant problems. As a consequence of this work, the National Council did not separately undertake a detailed review of the controls built into each of the five sets of accounting and operating systems which it inherited to establish whether they were sufficiently robust to ensure from the

outset the value for money, regularity and propriety with which public funds were being used, although the programme of internal audit work approved by the National Council's Audit and Risk Committee in July 2001 was directed into these areas of high risk.

45. I consider that such a review would have been particularly important in the case of the TECs since, as private companies, they were unaccustomed to the accountability framework required of public sector organisations and the ways in which public sector business is conducted. In particular, they were not expected to comply with the requirements of 'Government Accounting', their Chief Executives were not designated as Accounting Officers and there were no Financial Memoranda governing their relationship with the National Assembly for Wales. Although receiving and dispensing public funds, as private companies they were not obliged to have their external auditors examine and provide an annual audit opinion as to the regularity of their expenditure.

#### *Procurement requirements*

46. One area where practice varied between TECs was in the procurement of goods and services. The annual contracts between the National Assembly for Wales (and, before that, the Welsh Office) and the TEC companies prior to 1 April 2001 had not referred specifically to procurement, simply stating that the TECs had a "general obligation to provide value for money in the expenditure of all funds which derive from the Assembly and to implement competitive tendering procedures, where appropriate". The operating procedures established by the TECs were designed to achieve this through a general requirement for competitive procurement above specified thresholds, and through a variety of differing arrangements for procurement authorisation and variations, such as single tenders. However, three of the four sets of procedures were silent in the areas of contract extensions and compliance with European procurement directives. I note that European regulations place the onus on public bodies to notify private companies such as TECs of the need to comply with these directives where they are in receipt of more than 50 per cent of their annual funding from public sources.
47. The systems inherited from the former Further Education Funding Council for Wales had addressed all of these key areas of procurement in order to ensure compliance with the Financial Memorandum and Management Statement issued by the National Assembly for Wales.
48. The Financial Memorandum issued to the National Council in April 2001, together with supplementary guidance issued to all staff, required the National Council to operate to the same standards of financial control as all Assembly sponsored public bodies, including the former Further Education Funding Council for Wales. In the area of procurement these requirements included, for example, that:
- Contracts should be placed on a competitive basis;

- the most economically advantageous tender should be accepted, unless there were good reasons to the contrary;
- the National Council should seek approval from the Assembly for any single tender action over a £25,000 threshold; and
- the National Council should appraise the financial standing of any firm or other body with which it intended to enter into a contract.

I comment on the action taken by the National Council in response to these requirements in paragraph 64 of this report.

#### ***Findings of Internal Audit review***

49. In September 2001, the National Council's Internal Audit Unit commenced a review of procurement throughout the National Council. This review formed part of the Internal Audit Unit's planned programme of work for 2001-02, which was approved by the Accounting Officer and the Audit and Risk Committee, and was based on an assessment of potential risk areas within the National Council's internal system of control. The review included a follow up of recommendations by the South East Wales TEC's own internal auditors (who had previously identified a high incidence of single tender procurements), which had been made available to the National Council in June 2001. Weaknesses of this nature had not been found in internal or external work undertaken previously on the former Further Education Funding Council for Wales.
50. The review was based on an examination of a sample of contracts awarded by the National Council since 1 April 2001, covering all of the Council's offices. In reporting the results of their review, the Internal Audit Unit concluded that they could not provide "*positive assurance that the Council's overall system of procurement has been adequate, reliable and effective during the period of review*". More specifically, the Internal Audit Unit identified four instances from its testing where the National Council had let high-value contracts without complying with its own procurement framework. Examples of non-compliance included failures to obtain Assembly approval for single or restrictive tender action, and failures to follow European Union procurement rules. The review also identified weaknesses in contract management, specifically the monitoring and control of costs.
51. These findings, and the results of subsequent work carried out by the Internal Audit Unit were brought first to the Council's Audit and Risk Committee on 4 March 2002 and then to the full Council for consideration on 21 March 2002. The Chief Executive informed me that he had himself alerted Council members to the emerging internal audit findings in February 2002. Having considered the issues raised, the Council decided to commission an independent review of the procurement failures identified by the Internal Audit Unit. On 19 April 2002 a private

sector firm of accountants, Bentley Jennison, was appointed following a competitive tender exercise to undertake this work.

### ***Bentley Jennison Report***

52. The terms of reference drawn up for Bentley Jennison required the firm to:
- “Liase with [the Head of Internal Audit] to identify contracts where breaches have been identified as incurring risk to the National Council;
  - “For each of these,...conduct a light touch investigation of the processes and procedures adopted,...identify the circumstances and the detail of breaches identified, and...the actions involved in the contract process. In considering and reporting on these issues,...have full regard to the circumstances in which the breaches have taken place;
  - “Where the investigation of the individual contracts leads to general conclusions on the control environment, including governance arrangements and management relationships, produce a headline report of those conclusions; and
  - “Indicate in summary form what action the Council and the Chief Executive are advised to consider in the light of your conclusions.”
53. Bentley Jennison reviewed six contracts, including four of those included in Table 1 of this report. In conducting its review, Bentley Jennison relied on information provided to it by the Internal Audit Unit, and was not required to attempt to identify any further procurement breaches. The firm also carried out its own reviews of various documents.
54. In its report to the Council issued on 10 May 2002, Bentley Jennison set out a number of common themes that it had identified from the six contracts examined, which it suggested would require further consideration:
- **Awareness of rules** - although the majority of staff would have had an understanding of the procedures operated by their predecessor organisations, they lacked a complete awareness of the key requirements of the public sector procurement process and, as a consequence, were unaware that they had failed to comply with the necessary rules;
  - **Contract specifications** - in most cases examined the contract specification was insufficiently detailed, making it possible for the work to be extended into areas that had not been envisaged at the outset;
  - **Project management** - although there was control of overall departmental budgets, the failure properly to identify requirements and to specify exact costs for any deviations from the original work meant that the monitoring of costs against contract budgets was virtually impossible;

- **Contract extensions** - staff generally had no awareness of the requirements for contract extension, including the need to objectively review the contractor's performance and conduct an assessment of whether the extension would provide value for money;
- **Adequacy of information provided to support decisions** - where contracts were being let outside the usual tender process, the written justification for each case was generally the need for urgency and that the contractor was known to the National Council. However, these papers tended not to include the estimated costs involved in each contract when seeking authorisation;
- **Consultant-produced briefs** - in two cases, the job specification and pre-tender estimate had been prepared by the contractor in consultation with National Council officials, rather than by the National Council itself, and so the process lacked independence.
- **Authorisation thresholds** - these were not always applied. Although a majority of the contracts examined required the prior approval of the Chief Executive, such approvals had not been documented; and
- **Contract letters** - these did not always state the value of the contract, potentially exposing the organisation to additional or unexpected costs.

*Actions taken by the Council of the National Council*

55. On 16 May 2002, the Council of the National Council considered the Bentley Jennison report in closed session. In light of the report's findings, the Council decided that an independent Investigating Officer should be appointed to consider in detail whether any further action was necessary in respect of any of the National Council's staff who had been involved in the various procurement breaches examined by the Internal Audit Unit and Bentley Jennison. The Council also convened a special meeting on 24 May 2002 to ratify the Standing Orders and approve interim Financial Regulations for the National Council, together with a schedule of delegated financial authorities, and resolved that training in procurement procedures should become a mandatory requirement for all staff with budget-holder responsibilities.
56. The Investigating Officer, from a Manchester-based legal firm, concluded his review on 3 September 2002 and submitted his findings and recommendations to a Disciplinary Panel convened by the Council, comprising the Chairs of the Human Resources Committees of both the National Council and the Higher Education Funding Council for Wales. The Panel considered carefully the results of the work of the Investigating Officer, and four of the National Council's staff were the subject of disciplinary hearings that were concluded in November 2002.

*Application for retrospective approval*

57. In the light of the emerging Internal Audit findings, in January 2002 the Chief Executive initiated an organisation-wide review of contracts and procurement since 1 April 2001. Each executive director was required to check compliance with the procurement procedures in their respective areas of responsibility. The review identified additional cases where prior approval for single tender action should have been sought from the National Assembly. In April 2002, the National Council's Director of Finance wrote to the Council's sponsor division within the National Assembly for Wales, requesting retrospective approval for 13 contracts where either single or restricted tender action had been taken. A further application was made in May 2002 in respect of three additional cases, bringing the total to 16. In each case, the National Council had exceeded its delegated authority from the Assembly, although in three instances the relevant expenditure had been incurred in respect of the extension by the National Council of contracts taken on from the TECs on 1 April 2001. My audit of the National Council's 2001-02 accounts identified three further cases where retrospective Assembly approval was necessary for the extension of a contract on a single tender basis. These cases, together with a further instance of contract extension that occurred in July 2002, were referred to the Assembly in October 2002, bringing the total to 20 applications. In November 2002, one additional contract that had been awarded by the National Council in September 2001 was found to be in breach of European procurement directives, giving a final total of 21 contracts.
58. **Table 1** shows the value and purpose of each of these 21 contracts, the grounds on which retrospective Assembly approval was required to be obtained, and the final adjudication of the Assembly Compliance Officer on each.

**Table 1: Contracts for which the National Council sought retrospective approval from the National Assembly for Wales**

<b>Contract</b>	<b>Purpose of contract</b> (* = contract examined by the Internal Audit and Bentley Jennison reviews)	<b>Date contract awarded</b>	<b>Value (£)</b> (a): Actual (e): Estimated <b>final</b>	<b>System failures</b> (see key below)	<b>Retrospective approval granted</b> by NAW (✓/X)	<b>Irregular expenditure (£)</b>
1	Corporate Strategy and Corporate Plan preparation process	September 2001	29,000 (e)	A, D	<b>X</b>	29,000
2	* Organisation reshaping and running cost reduction	October 2001	430,872 (a)	B, C, D	<b>X</b>	430,872
3	Developing in house software	April 2001	31,000 (a)	A, F, G, H	✓	0
4	* Job Sizing, Market Positioning and Reward Structuring Review	April 2001	152,768 (a)	C, D	<b>X</b>	152,768
5	* National Funding system	November 2001	242,283 (e)	B, C	<b>X</b>	242,283
6	* Management of Innovation and Development Fund Programme	December 2001	106,509 (a)	A, F	<b>X</b>	106,509
7	MAYTAS Trainee Tracking System	June 2001	82,988 (a)	A, H	✓	0
8	Marketing	April 2001	18,000 (e)	I	<b>X</b>	18,000
9	Marketing and participation: website development	April 2001	42,300 (a)	A, D	<b>X</b>	42,300
10	Broadcast advertising	Throughout 2001-02	27,000 (a)	A, F, H	✓	0
11	Advertising coverage	July 2001	112,000 (e)	A, H	✓	0
12	Advertising coverage	Throughout 2001-02	108,000 (a)	A, F, H	✓	0
13	Advertising (through media buying agency)	August 2001	596,000 (a)	B, C, D, E	<b>X</b>	596,000
14	Recruitment of agency staff 1	April 2001	198,000 (e)	A, F, H	✓	0
15	Recruitment of agency staff 2	September 2001	61,000 (e)	A, F, H	✓	0
16	IT system	February 2001	73,825 (a)	A, D	<b>X</b>	73,825
17	Operating lease for photocopiers	August 2001	208,453 (e)	B,C,D,E	<b>X</b>	208,453
18	Professional legal services	April 2001	62,454 (e)	A,H,I	<b>X</b>	62,454

19	Provision of dedicated internet access 1	July 2001	28,740 (a)	A	<b>X</b>	28,740
20	Provision of dedicated internet access 2	July 2002 (and therefore falling outside the period of account)	25,850 (e)	E	<b>X</b>	25,850
21	Marketing and communications	September 2001	226,400 (e)	C,D	<b>X</b>	226,400

**Key**

<b><u>Non-compliance with procurement regulations</u></b>	
A	Single tender action in excess of the National Council's delegated authority limit without prior Assembly approval
B	Restricted tender (less than three effective tenders) procedure employed without prior Assembly approval
C	European procurement directives not followed
D	Expenditure to contract completion exceeding approved amount
E	Extension of the remit of the original contract without proper approval
F	Contract splitting (failure to aggregate expenditure into one contract by use of multiple smaller purchase orders)
<b><u>Weaknesses in contract management</u></b>	
G	Decision-making process not adequately documented
H	Approved/ budgeted contract value not specified
I	Open-ended commitment incurred, as no termination date specified in contract

59. Of the 21 contracts, with a total value of £2.863 million, the Assembly declined to give retrospective approval for 14 contracts, accounting for expenditure of £2.243 million, and which is therefore irregular. All bar one of these contracts (contract 20 in the Table, for some £26,000) were relevant to the period of account.
60. I note, however, that these 21 contracts comprise only those where regularity was an issue. I have not sought to examine whether any of the contracts entered into by the National Council represented good value for money for the public purse. This is because such value for money examinations do not form part of my financial audit of accounts, which is performed in accordance with United Kingdom auditing standards prescribed by the Auditing Standards Board.
61. The National Council told me that the work procured was crucial to taking forward its agenda and had been of great urgency and value in important areas of its business and organisation. It considered that value for money had been sought by negotiating reduced rates with contractors and by securing discounts for advertising costs through the use of a media buying agency. Despite reductions in the National Council's running costs, the organisation intended to put more resources into the areas of project control and evaluation.

***Review by the National Assembly for Wales***

62. On 20 May 2002, because of the concerns raised amongst Assembly officials by the applications for retrospective approval, the Permanent Secretary commissioned a review of the overall control environment within ELWa. This review, covering both the National Council and the Higher Education Funding Council for Wales, was carried out by Adam Peat, a senior Assembly official, and focussed on five key areas:
- procurement;
  - financial procedures;
  - internal audit;
  - arrangements for the delegation of functions; and
  - the adequacy of financial and management information.
63. The Assembly review was conducted swiftly and reported to the Permanent Secretary on 31 May 2002. It acknowledged the challenges faced by the National Council, the Chief Executive, his management team and staff, commenting that much had been achieved during 2001-02 including the delivery of the great majority of the specific targets with which the Council had been charged. The review also commented that the requirement to secure significant year-on-year savings in running costs together with the need to create a unified organisation with a staffing structure that was fit for purpose meant that the Chief Executive faced a very considerable task of organisational development.

64. The Assembly report summarised the actions taken by the Council during 2001-02 to strengthen the overall control environment. These included the appointment of a Procurement Manager, who had been responsible for drawing up a unified set of procurement procedures covering both the National Council and the Higher Education Funding Council for Wales. The report noted that these unified procedures had been put into effect in January 2002 and that training had been provided for all staff with a role in procurement. It also commented that the breaches of procurement procedure identified by the Internal Audit Review had occurred prior to the implementation of these unified procedures. There was evidence that ELWa staff were making good use of the expertise provided by the Procurement Manager.

65. In commenting specifically on the control environment within each of the five areas examined, the Assembly report concluded:

- On **procurement** - that the current control environment was sound;
- On **financial procedures** - that financial control had progressed with the centralisation of the finance function and the provisional approval of unified financial regulations;
- On **internal audit** - that ELWa has an active internal audit function, whose activities appear to be appropriately prioritised, resourced, and supervised;
- On **delegations of functions** - that the National Council has now clearly set out the conduct of future proceedings of the Board, the extent to which it has delegated its functions to the Chairman and to the Chief Executive, and the role of its committees; and
- On **financial and management information** - that the financial and performance information systems inherited by the National Council were of variable quality and as a result were less than satisfactory for the purposes of the new organisation, but that much progress has now been made, and the Council and its Executive are firmly focused on the need to achieve further improvement in management information.

The Assembly report's overall conclusion was that "*there are currently no evident weaknesses in the control environment within ELWa*".

66. Whilst recognising the improvements that had already been made to the Council's control environment, the Assembly report made specific recommendations that the Council should extend its unified procurement procedures to incorporate, for example, guidance on conflicts of interest, and that the National Council and the HEFCW should adopt the same financial regulations.

67. The Minister for Education and Lifelong Learning made a statement to the Assembly's Education and Lifelong Learning Committee on 22 May 2002 about the control environment issues within the National Council. A copy of the Assembly's report and relevant correspondence was made available to the Committee's members on 26 June 2002.

### ***Corrective action***

68. The National Council informed me that the recommendations contained within the Assembly's report have all been accepted and are being implemented in full. Staff compliance with the procurement procedures has been monitored by the National Council's Internal Audit Unit in a follow up review that commenced in June 2002. The National Council's Audit and Risk Committee will review these procedures at regular intervals. The National Council also informed me that it is supplementing its new Financial Regulations with detailed desk instructions to cover the financial accounting processes other than procurement, where it considers that comprehensive instructions are already in place. The National Council expects to complete this process by the end of January 2003.
69. As regards the 17 other procurement cases set out in Table 1 which were not considered by the Investigating Officer and the Council's Disciplinary Panel (paragraph 56 refers), these have since been the subject of an independent review by the Council's Head of Internal Audit. His review applied the principles and precedent established by the Investigating Officer as the basis for determining whether *prima facie* evidence of other breaches of discipline had occurred. The review concluded that procurement practices had fallen short of the standards expected in an Assembly Sponsored Public Body. However, the Head of Internal Audit informed the National Audit Office that in his view no breaches of discipline had occurred since he considered that officers had acted, to the best of their understanding, in the interests of the business. The National Council's Chief Executive informed me that he concurred with this judgement.

### ***AGW Conclusion: On financial management and procurement***

70. It is a matter of concern that a body charged with conducting public business should demonstrate the shortcomings reported at the National Council during its first year of operation. The failures and weaknesses set out in this report extend beyond initial contract awards and encompass both project management and potential risks to the achievement of good value for money. Robust procurement procedures are basic to the proper conduct of public business and I consider that the weaknesses in the procedures inherited by the National Council from the TEC companies were matters which management should have addressed from the outset.
71. Notwithstanding the difficulties of preparing accounts on a consolidated basis, I am also concerned at the National Council's inability to provide the National Audit Office Wales with complete draft accounts for audit until shortly before the 31 August statutory deadline for those accounts to be signed by the Accounting Officer. As a result the signed accounts had to be withdrawn and revised accounts prepared and re-signed. I look to the National Council to deliver on its commitment to avoid any recurrence.
72. I recognise that corrective action has now been taken by the management of the National Council to strengthen its financial and other operating procedures and controls. But during the first year of the National

Council's operation, it has been unable in all cases to demonstrate the achievement of good value for money. I propose to review carefully the implementation of controls improvements introduced at the National Council as part of my audit of the Council's 2002-03 accounts, and staff of the National Audit Office are continuing to provide assistance and advice on best practice to National Council officials.

#### **Use of a confidentiality clause in settlement payment to former TEC Chief Executive**

73. Those senior staff of the TECs who had not secured employment within the National Council received redundancy settlements from the TECs on or before 31 March 2001.
74. The former Chief Executive of North Wales TEC, Mr Anthony Drew, was engaged by the National Council on a short-term 12 month contract from 1 April 2001. The National Council told me that this appointment was made to assist during the transitional period of the new body, because of initial gaps in senior staffing and the need to ensure business continuity. Rather than accepting a redundancy settlement from the TEC on 31 March 2001, it was agreed that Mr Drew would instead be made redundant from the National Council on 31 March 2002, and would receive a redundancy compensation payment from the National Council on broadly the terms applying to the staff of the TECs.
75. The National Council told me that this arrangement had been entered into at Mr Drew's request, because of his concern that there should be no public perception that he had gained any material improvement over the terms to which he had previously been entitled to receive from the TEC. The Council also sought to ensure that Mr Drew should not be disadvantaged by accepting further employment for a twelve-month period. Assembly approval was sought and obtained for this action, in accordance with the National Council's Financial Memorandum.
76. In the event, the National Council later decided for operational reasons to make Mr Drew redundant on 31 December 2001, some three months prior to the end of his contract. The terms of his consequent redundancy settlement were set out in a 'Compromise Agreement' between the National Council and Mr Drew. Acting on the advice of the National Council's solicitors, this legal agreement included a clause requiring Mr Drew to keep the terms of the agreement strictly confidential and not to disclose the terms to any third party who did not have a legitimate interest. (The agreement listed the Inland Revenue, National Assembly for Wales and National Audit Office as examples of third parties with legitimate interests.) The clause does not prevent the Council from disclosing the terms and conditions of the settlement with Mr Drew.
77. The use of 'confidentiality clauses' within departure settlement agreements has previously been considered by the National Assembly for Wales Audit Committee. In its report on the National Museum and Galleries of Wales, '*Report on an irregular payment made to a former Assistant Director of the National Museum and Galleries of Wales*', published in May 2000, the Committee stated that "*such departure agreements should not contain confidentiality clauses*". In the Committee's view, this practice does not allow the openness and

transparency required in the public sector and might be warranted only in exceptional circumstances where, for instance, a need to protect commercial confidentiality could be fully justified. In response to the Audit Committee's report, the Cabinet accepted this position.

78. My staff have brought the Committee's recommendation to the attention of the National Council, which has since told me that it fully accepts the Committee's view and acknowledges its oversight in this regard. The Chief Executive informed me that he intends to write to Mr Drew to release him from the obligation imposed by the agreement. I am satisfied that Mr Drew has acted entirely properly throughout this matter.

79. The terms of the settlement between the National Council and Mr Drew were consistent with the terms of his employment at the time he transferred from the TEC, and contained the following features:

- Continued use by Mr Drew, under the terms of the TEC's company car scheme, of his fully expensed company vehicle (an S-registration Land Rover Discovery V8) to 31 March 2002;
- Reimbursement by the National Council of Mr Drew's business telephone expenses for the period 1 January to 31 March 2002;
- An agreement by the National Council to sell to Mr Drew his company vehicle for the guaranteed sum of £9,500 (agreed by both parties to be the market value of the vehicle at 31 December 2001), this option to be exercisable by Mr Drew by 7 April 2002;
- Funding by the National Council of outplacement counselling for Mr Drew, an employee on a 12-month fixed term contract, to a maximum value of £2,000; and
- Reimbursement by the National Council of Mr Drew's legal expenses in connection with the Compromise Agreement, up to a maximum of £500.

The National Council told me that these terms were negotiated with Mr Drew as part of the early termination of his contract, following the completion of the transitional projects for which he was employed. The National Council also told me that Mr Drew had been paid in lieu of his contract running its full term.

80. As part of the ongoing restructuring of the organisation since 1 April 2002, the National Council has substantially completed a programme under which 104 employees are being made redundant. The National Audit Office Wales has noted that the redundancy settlement agreed with each employee was based on a generic 'Compromise Agreement' template, which again included a confidentiality clause. The National Council told me that its Chief Executive also intends to write to these former employees to release them from the obligations imposed by this confidentiality clause. I intend to review this redundancy programme in detail as part of my audit of the 2002-03 accounts of the National Council, and will consider at that stage whether to bring any further issues to the attention of the Audit Committee of the National Assembly for Wales at a later date.

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9 January 2003