



Cynulliad National
Cenedlaethol Assembly for
Cymru Wales

Audit Committee

Financial Audit of Central Government and
NHS bodies in Wales: 2006

Committee Report (2) 12-06
December 2006

THE NATIONAL ASSEMBLY FOR WALES

AUDIT COMMITTEE

Report presented to the National Assembly for Wales on 20
December 2006 in accordance with section 102(1) of the
Government of Wales Act 1998

Financial Audit of Central Government and NHS bodies in Wales: 2006

Contents	Paragraphs
Summary	1
Recommendations	15
Financial Audit of Central Government and NHS bodies in Wales: 2006	
Standards of financial management remain good, but further improvements are necessary in some areas	16
A number of key financial and risk management developments will need to work well as part of the process of improvement	32
Good advances have been made in procurement and in developing Freedom of Information systems, but the management of EU projects still has some problems	46

ANNEXES

- Annex A Relevant proceedings of the Committee – Minutes of evidence (Thursday 6 July 2006)
- Annex B Additional information supplied by Sir Jon Shortridge KCB, Permanent Secretary, National Assembly for Wales
- Annex C Additional information supplied by Mrs Ann Lloyd, Head of Department for Health and Social Services, Welsh Assembly Government

Summary

1. Standards of financial control across audited bodies throughout Wales remain good, and continue to improve. Audited bodies have made good progress against the demands placed on them in areas such as faster closing of accounts, corporate governance arrangements and Freedom of Information requirements.
2. However, improvements are still required in some areas including grants, asset management and the quality of accounts preparation. The financial management of NHS bodies also presents some particular concerns, for example in meeting their statutory financial duties. Payment performance standards remain variable and, although there are signs of improvement, audited bodies still need to do more to strengthen their financial management of European funded projects.
3. Structural and legislative reforms are bringing significant changes to the way the Assembly manages and controls its budget and to the audit environment. The expanded governance arrangements within the Welsh Assembly Government will have an important part to play in meeting the challenges ahead, as will securing better management information, and having in place effective arrangements for procurement (an area where Assembly Government initiatives are continuing to have a good impact).
4. On the basis of a report from the Auditor General for Wales published in June 2006¹, we examined matters arising from the audit of the 2004-05 accounts of central government and NHS bodies in Wales, and other related issues. We took evidence from Sir Jon Shortridge KCB, Permanent Secretary at the National Assembly, Mr Peter Ryland, Chief Accountant, Welsh Assembly Government, Mrs Ann Lloyd, Head of the Department for Health and Social Services, Welsh Assembly Government, and Dr Christine Daws, Director of Resources, Department for Health and Social Services, Welsh Assembly Government. We concluded that:

¹ Auditor General for Wales (June 2006) *Financial audit of central government and NHS bodies in Wales: 2006*.

- a. standards of financial management remain good, but further improvements are necessary in some areas;
- b. a number of key financial and risk management developments will need to work well as part of the process of improvement; and
- c. good advances have been made in procurement and in developing Freedom of Information systems, but the management of EU projects still has some problems.

Standards of financial management remain good, but further improvements are necessary in some areas

- 5. The prompt preparation of annual accounts represents an area of continuing improvement following previous recommendations by the Audit Committee. We welcome the close interest given to this matter by the Permanent Secretary, but have a remaining concern that the faster preparation of accounts is not being matched by commensurate improvements in their quality.
- 6. We were disappointed to see that the monitoring and control of grant expenditure had been raised as an issue in the Auditor General's report, as this is a problem that has also concerned us in the past.² The Assembly Government is currently bringing in a new system to help manage its grants' expenditure, but more still appears to be required to secure all of the necessary improvements in control.
- 7. The Assembly Government has now almost completed its preparation of a unified asset management plan. This is an area where the NHS has had established procedures for some years. However, we note that the NHS now has a large amount of capital to spend in a short time and has therefore revised its capital guidance. We expect to see careful monitoring of compliance with this new guidance. All audited bodies must give proper attention to the required accounting controls over the

² Auditor General's report, para 2.3 and Figure 2

assets held, including the need to review assets annually for any evidence of impairment, and changes in values and useful lives.³

8. Performance against the prompt payment target in 2004-05 was variable, and there was a falling-off in performance by the central government sector.⁴ We recognise that many organisations have complex payment responsibilities, but expect that good systems should be able to deal with almost any volume of payments effectively. We endorse the development work being undertaken currently within the NHS to improve payment performance, and will wish to monitor its results closely.

A number of key financial and risk management developments will need to work well as part of the process of improvement

9. We acknowledge the considerable challenge being faced by the Permanent Secretary and his staff in making the Assembly's structural reforms work well, and agree that this will not be achieved overnight. The creation of the new sub-Accounting Officer posts should assist the Permanent Secretary in managing the recently enlarged functions of the Assembly Government.⁵ It will be important, however, that sound financial management arrangements are also put in place to support the new devolved structure.
10. The Welsh Assembly Government intends to implement accruals-based accounting systems for its own operations by March 2007.⁶ We agree that it will be important for staff to have a good understanding of the new systems, and for the new processes to be applied uniformly across the organisation. We would also expect the Assembly Government to ensure that the new systems achieve their intended objectives, and to have robust contingency plans in place for dealing with any mishaps that may arise during the implementation stages.
11. Audited bodies continue to make good progress in developing their arrangements for risk management.⁷ This is essential to ensure the

³ Auditor General's report, para 2.3 and Figure 2

⁴ Auditor General's report, paras 2.7- 2.13, and Figures 3 and 4

⁵ Auditor General's report, paras 3.8- 3.13

⁶ Auditor General's report, para 3.21

⁷ Auditor General's report, paras 3.14- 3.16 and Case Study 2

proper conduct of public business. We consider it also important that mechanisms are in place to ensure that good practice is rolled out more widely. The Committee will be looking for examples of good practice being rolled out in the NHS and, where appropriate, throughout central government. The common standards for risk management developed within the NHS could, for example, also inform the development of arrangements within the Assembly Government's new, enlarged departments.

Good advances have been made in procurement and in developing Freedom of Information systems, but the management of EU projects still has some problems

12. Value Wales (Procurement) continues to have a beneficial financial impact on the costs of public sector procurement.⁸ The next step will be to ensure that economies can be sustained on a long-term basis. We can see that the greatest potential for savings lies in an increased engagement by the public sector in collaborative procurement exercises. However, it remains important that quality, as well as cost, be a key factor in purchasing decisions. This helps in securing improved value for money overall, and can also provide increased potential opportunities for local businesses.
13. The Freedom of Information Act 2000 came into force fully on 1 January 2005. The results of the Auditor General's work showed that all of the bodies examined had made good progress in meeting the requirements of the Act, and in developing appropriate policies and effective systems.⁹ It is essential, however, that requests are recorded and processed efficiently, and that the costs of dealing with them are monitored. The reasons why requests can take so long to address must also be properly analysed and controlled, given the strict legislative requirements in this area.
14. Lessons are being learned from the closure process for the 1994-99 EU programmes, which has now almost been completed. The financial management of EU projects is showing some signs of improvement,

⁸ Auditor General's report, paras 4.1- 4.6 and Figure 5

⁹ Auditor General's report, paras 6.1- 6.7

although the quality of internal controls over individual projects remains an issue.¹⁰ It is clearly important that all of the various public, voluntary and private-sector organisations involved understand fully the financial and accounting rules applying to the receipt of grants. Although guidance and training is available, we believe that more still needs to be done here.

Recommendations

15. We make a number of recommendations to improve further financial management in a number of areas:

Further improvements required arising from the audits of the 2004-05 accounts

- (i) We acknowledge the positive progress achieved by all bodies in meeting the required faster deadlines for the preparation of their annual accounts. We remain concerned, however, that auditors are still finding deficiencies in the quality of those accounts and that supporting information is not always accurate or complete. **In drawing up timetables and overall project plans for the preparation of its annual accounts, the Assembly Government should make adequate provision for management to review and confirm the quality of the accounts and supporting schedules prior to their submission for audit. This should also apply to the other bodies covered by this report. Where deficiencies in the quality of accounts preparation are identified by management or auditors, they should be addressed through training or system improvements as necessary.**
- (ii) It is essential that expenditure on grants is properly monitored and controlled to ensure that it meets the purposes intended. This applies not only to the Assembly Government itself, but also to many of its sponsored bodies who are also responsible for managing significant grant expenditure programmes. **The Assembly Government should satisfy itself that its grant control arrangements, including controls surrounding the new computerised grants system, address fully the**

¹⁰ Auditor General's report, paras 5.1- 5.8, and Figures 6 and 7

concerns that have been raised by both the internal and external auditors. It should also seek a confirmation from Accounting Officers of relevant sponsored bodies that they have robust controls (including up-to-date written procedures) in place for the management of their grants expenditure, or are otherwise implementing the necessary improvements.

- (iii) The Assembly Government has now almost completed the preparation of its asset management plan, but this is an area that will need further attention in the future to ensure that value for money is obtained from the assets owned. **In developing its asset management arrangements, the Assembly Government should draw on the considerable practical experience gained by the NHS in this area. The Assembly Government should also remind both central government and NHS bodies of the need for each of them to review annually their fixed assets for evidence of impairment, and for changes in values and useful economic lives.**
- (iv) Payment performance figures are revealing that good practice is being shown by some bodies, but this is being offset by weaker results at others. Any deficiencies in payment performance must reflect either the quality of the internal systems in place, or the way in which those systems are being operated by management. **Where particular strengths in payment systems are being demonstrated by organisations, the Assembly Government should publicise these more widely as examples of good practice. It should also ask bodies to review what further improvements may be required to their payments systems in the light of their performance to date. Where bodies fail consistently to meet the expected standard of payment performance they should be required to prepare improvement plans identifying the weaknesses in systems or operations and how these will be addressed.**

Current financial and risk management developments

- (v) The creation of sub-Accounting Officers will help in managing the Assembly's enlarged functions, and should provide clear lines of accountability for its different business areas. **To realise the full benefits of the new structure, robust financial management arrangements will be required to support the sub-Accounting Officers in carrying out their roles. These should include, for example, effective arrangements for budgetary control, the provision of timely and clear management information, and arrangements for regular reporting of financial performance against business objectives.**
- (vi) The forthcoming implementation of an accruals-based accounting system by the Assembly Government is to be welcomed, but it will be important that the value of the considerable investment in this area is maximised. **The Assembly Government should use its clearly-defined business needs to determine the essential financial information that must be produced routinely by the system. The Assembly Government should also have contingency plans in place to ensure business continuity, in the event that any problems emerge during the early phases of operating the new system.**
- (vii) We welcome the continuing good work by the bodies audited by the Auditor General in developing and enhancing their risk management arrangements. It is important, however, that good practice is rolled out more widely, an area to which the NHS in particular has given attention. **The Assembly Government is well placed to encourage all audited bodies to implement relevant good practice identified in this area. For example, good practice identified within the NHS should also be made available to the central government bodies, as appropriate (and vice versa). The Assembly Government should also foster sound risk management arrangements within its new, enlarged departments. The risk management standards adopted by the NHS could usefully inform this development work.**

Other key areas

- (viii) All bodies examined have made good progress in meeting the requirements of the Freedom of Information (Fol) Act, but management information about Fol compliance does need to be improved in some areas. This is particularly important where a significant volume of requests is being received. **The Assembly Government should enhance its information systems to enable it to track progress on responding to Fol requests, analyse the factors leading to any delays, and monitor whether time extensions have been sought in accordance with the legislation. It should also record and monitor the costs of dealing with requests. Better management information in this area should also assist in evaluating what improvements in document management arrangements might be required, both now and in the future, to help in processing requests more efficiently.**
- (ix) Whenever the auditors find failings in internal control at grant recipients it must increase the risk that funds are not being properly applied. We believe that the central issue here is that any organisation in receipt of EU grant funding must be able to demonstrate that it has a proper understanding of the standards of systems and audit trails required to safeguard the use of public funds. **We recognise that both WEFO and the Assembly Government have undertaken much good work in making training and guidance available to organisations. We consider it essential, however, that a precondition for making any award of EU grant to an organisation should be that it is able to confirm in its grant application that its project managers are fully aware of the technical and accounting requirements involved and have acceptable systems in place. Otherwise, training must be insisted on to ensure that this is the case. In order to maintain an 'accreditation' arrangement of this nature, a fresh confirmation should be required from an organisation whenever changes are made to the key personnel responsible for managing its EU-funded projects.**

Standards of financial management remain good, but further improvements are necessary in some areas

The timeliness of accounts preparation continues to improve, but more needs to be done to improve the quality of the accounts

16. The Auditor General gave unqualified audit opinions on all 65 of the accounts that he certified in respect of the 2004/2005 financial year. The 65 accounts included, for the first time this year, the 22 Local Health Boards and 14 NHS Trusts. This reflects the Auditor General's role since April 2005 as the statutory external auditor of all NHS bodies in Wales.¹¹
17. Most audited bodies were successful in meeting their agreed accounts preparation timetables in 2004/2005. We were especially pleased to see that the Treasury had awarded the Assembly its most improved organisation award for the timely submission of Whole of Government Accounts information.¹² We wanted to pick up, however, on the further improvements in the quality of accounts that are still seen to be required. These will also need to be implemented in the context of the faster closing times required by the Treasury.¹³
18. We were told that the Assembly had submitted its draft core account for 2005-06 just about on time, subject to one or two gaps that still remained to be filled. The expectation of officials was that other closing deadlines for preparation of 2005-06 accounts would also be met. For the 2006-07 accounts, the preparation deadline was being brought forward by a fortnight.¹⁴ The Assembly's accounts will also incorporate for the first time next year the sponsored bodies that had been merged in.¹⁵ These developments will impose further demands, but Sir Jon confirmed that one of his financial management priorities was to secure the required faster closing of accounts, and expected that this would be achieved.¹⁶

¹¹ Auditor General's report, paras 1.2, 1.11 and Figure 1

¹² Auditor General's report, Case Study 1

¹³ Auditor General's report, paras 2.3- 2.4 and Figure 2; Annex A, para 24

¹⁴ Annex A, paras 27- 29

¹⁵ Annex A, para 163

¹⁶ Annex A, para 163

19. We welcome the close scrutiny and monitoring by the Permanent Secretary and his senior officials of the accounts preparation process but do have a remaining concern that the faster preparation of accounts is not being matched by improvements in their quality. It will be important, in this regard, that benefits are realised quickly from the forthcoming introduction of an accruals-based accounting system to assist with this process.¹⁷

Improving controls over grant expenditure must be a priority for the Assembly Government and its sponsored bodies

20. We were concerned to find that the Auditor General's report had raised as an issue the control of grant expenditure, which is a problem that has also concerned us in the past.¹⁸ We questioned whether there were still areas where there were not proper written financial procedures in place. Sir Jon did not believe that this was the case, although he told us that grant management continued to be an issue of concern for him.¹⁹
21. Sir Jon summarised the significant recommendations made by his internal audit unit following a review of grant management at the Assembly carried out at his request. The review had concluded that, while controls in a number of areas were effective (including the adequacy and consistency of application of the general control environment), improvements were needed in the areas of reconciliation and management of grant balances, and in training and written guidance.²⁰
22. Internal Audit had also assessed that the planned implementation of new systems should eradicate the majority of those weaknesses identified in grant accounting and expenditure monitoring.²¹ In particular the 'E-grants' system, which was scheduled to be in place by December 2006, would become the Assembly Government's accruals-based system for managing and controlling grant expenditure. We were told that guidance on grants management had been revised and enhanced to reflect the

¹⁷ Annex A, paras 28- 33

¹⁸ Auditor General's report, para 2.3 and Figure 2

¹⁹ Annex A, paras 37- 38

²⁰ Annex A, para 38 and Annex B

²¹ Annex B

new grants system, and that the training programme covered requirements for grant appraisal, payment and monitoring.²²

23. It concerned us, however, that Sir Jon did not see the new system as representing the whole solution in this area.²³ We accept that systems can always be improved, but the basic controls required for the proper management of grants expenditure are essentially the same irrespective of the precise system within which they operate, and it is important that they are in place. This also applies to those Assembly-sponsored bodies which have significant grant management responsibilities.

The management of capital assets by the Assembly Government and NHS continues to develop and improve, but accounting arrangements need to be strengthened

24. Sir Jon told us that not as much attention was being given to asset management as he would like. However, progress was being made: the preparation of a unified asset management plan for the whole of the Assembly was now virtually complete, and over the last year, they had also completed a review of all their estate. Sir Jon expected this estate strategy to be embedded in the asset management plan.²⁴
25. In response to our enquiry, Mrs Lloyd told us that the NHS had always been at the forefront of asset management. The requirements of capital charging had brought a sharper focus to the need to manage assets well and to ensure that value for money was secured from the NHS estate. Mrs Lloyd added that the NHS also now had a much-increased capital programme and, alongside it, well-established and up to date capital investment procedures and expertise.²⁵
26. In developing its asset management processes we would expect the Assembly Government to learn, where necessary, from the considerable experience of the NHS in this area. We also note that the focus of the Auditor General's findings was on the physical and accounting controls required over assets, including the need to ensure that asset values and

²² Annex B

²³ Annex A, para 39

²⁴ Annex A, para 45

²⁵ Annex A, paras 46- 47

useful economic lives are properly stated in the annual accounts, and that assets are reviewed regularly for any evidence of impairment.²⁶ These matters do need to be given fuller attention by audited bodies.

Further improvements in systems are required to ensure that payment performance is satisfactory across the board

27. The Auditor General's report showed that all 22 local health boards met the required standard of making 95 per cent of all their payments within 30 days, but also that only just over half of the 14 NHS trusts achieved this level of performance. The figures reported for central government bodies represented a decline this year with just under half of bodies meeting the performance standard, compared with two-thirds who did so in 2003/2004.²⁷
28. We recognise that the NHS trusts deal with significantly more invoices than the local health boards, and that their payment responsibilities are fairly complex. But the target is only measured against undisputed invoices and, if the system in place is robust enough, then it should be able to deal with any volume of payments effectively. The weaknesses in payment performance must therefore either be down to poor internal systems or to management shortcomings. It is right that the trusts recognise that this is an important matter, particularly for local traders.²⁸
29. We considered that the strong payment performance achieved by the local health boards could offer lessons to the NHS trusts. In this respect, we welcome the shared services development project being undertaken in North Wales across local health boards, trusts and their partners. The project aims to insert best practice into a shared structure, so that there would also be benefits from economies of scale. The project would be evaluated, we were told, to see whether there would be merit in extending this concept throughout Wales.²⁹
30. We were particularly concerned that in 2004-05 there was a decline in payment performance approaching 20 per cent across the Welsh central

²⁶ Auditor General's report, para 2.3 and Figure 2

²⁷ Auditor General's report, paras 2.7- 2.13, and Figures 3 and 4

²⁸ Annex A, paras 51- 52, and 57- 58; Annex C

²⁹ Annex A, paras 49, 51 and 59

Government sector, after three years of steady improvement. The Assembly Government itself had also failed narrowly to achieve the payment performance target. Sir Jon told us that additional risks were currently being faced by the Assembly Government in this area: ELWa and the Wales Tourist Board, with their poor payment performance track records, had now merged with the Assembly; and the introduction of a new payment system and its associated training requirements had also created some processing problems.³⁰

31. We share Sir Jon's disappointment at the Assembly's payment performance in 2004-05, and welcome his assurance that it will not fall below the 95 per cent payment performance target this year.³¹ It will be important that the business areas formerly represented by ELWa and the Wales Tourist Board now achieve the more commercial targets of the Welsh Assembly Government. It is also essential that managers at the Assembly-sponsored public bodies review what further improvements are required to their payments systems where they are failing to meet the prompt payment target.

A number of key financial and risk management developments will need to work well as part of the process of improvement

The Assembly Government and NHS are implementing significant structural and financial management changes and reforms

32. Structural reforms took a significant step forward on 1 April 2006, when a number of former Assembly-sponsored public bodies were merged into the Assembly Government.³² Sir Jon told us that he saw it as his main financial management priority to manage the governance of risks associated with the mergers. The transition to the new, enlarged Assembly Government had been, he believed, a huge achievement for all concerned, with 1,600 staff from four different organisations coming into the organisation at the same time.³³

³⁰ Annex A, paras 65- 74

³¹ Annex A, para 66

³² Auditor General's report, paras 3.1- 3.7

³³ Annex A, paras 13 and 161

33. Sir Jon added that he was not complacent about staff morale issues during this process, but that he had been impressed by the attitude, commitment and skills of staff. We acknowledge the considerable challenge being faced by the Permanent Secretary and his staff in making the merger process work well, and agree that this will not be achieved overnight.³⁴ We recognise also the importance of managing successfully the financial and governance issues associated with the additional structural changes arising from the 2006 Government of Wales Act.³⁵
34. To help manage the recent enlargement of the Assembly Government's functions, the Permanent Secretary has recently appointed sub-Accounting Officers who head the major departments within the organisation. Each sub-Accounting Officer has a departmental Corporate Governance Committee and a discrete business unit to assist them and they have been issued with guidance on their roles and responsibilities.³⁶ Sir Jon told us that he felt that this new arrangement was settling in well, and was a significant improvement on what had previously existed. It would, he believed, sharpen up the quality of accountability within the relevant parts of the organisation.³⁷
35. We welcome the creation of the new sub-Accounting Officer posts, and agree that it should strengthen both financial and risk management within the Assembly Government. It will also be important, however, that effective financial management arrangements are developed to support the new devolved structure. The availability of good quality management information will be a particularly important factor in this regard.
36. The Auditor General's report had commented that progress in implementing accruals-based financial systems was still patchy.³⁸ We asked, therefore, whether the Assembly was on course to implement its resource-based systems by March 2007. Sir Jon told us that he was

³⁴ Annex A, paras 16- 20

³⁵ Annex A, para 162

³⁶ Auditor General's report, paras 3.8- 3.13

³⁷ Annex A, paras 21- 22

³⁸ Auditor General's report, paras 3.17- 3.22

determined to implement the accrual accounting system on time, and wanted the system – based on ‘E-grants’ and ‘E-procurement’ – in place across the whole organisation by the end of 2006. This would also assist with the preparation of the 2006-07 accounts.³⁹

37. We were informed that the new system was being rolled out on a gradual basis, department by department, linked with the provision of training to staff. The approach was designed to help ensure that lessons could be learned as they went along.⁴⁰ We agree that this is a sensible approach, but recognise that the new accounting system is being brought in at a time of significant change throughout the organisation. It will be essential that sufficient attention can be given to making the system work well so that it can provide enhanced financial management support to the Assembly Government’s business objectives. We would also expect proper contingency plans to be in place for dealing with any mishaps that may arise during the implementation process.
38. Significant change is also affecting the NHS, and Mrs Lloyd told us how important it was that the service came forward with reconfiguration proposals that would facilitate the efficient and effective provision of health and social services for the future. This will include ensuring that staffing structures are fit for purpose under ‘Agenda for Change’. There are a number of various pressures on the service, we were told, and the various NHS organisations must collaborate to ensure that they spread competence and capacity better than in the past.⁴¹
39. Mrs Lloyd told us that one of the key risks she was managing was the potential for financial failure within the NHS. This could result in it being unable to manage its finances within the limits of available resources and potentially lead to a failure to properly risk-assess decisions taken. This could have consequences for staff or patients, or both.⁴² We share the concerns raised by Mrs Lloyd, and consider that they reinforce the

³⁹ Annex A, paras 89- 90 and 163

⁴⁰ Annex A, paras 90- 95

⁴¹ Annex A, paras 166- 168

⁴² Annex A, para 165

importance of strong financial management arrangements being in place at all levels across the service.

The structured approach to risk management in the NHS is providing lessons for elsewhere

40. The Auditor General has confirmed in his report that audited bodies continue to make good progress in developing their arrangements for risk management. This has included ensuring that risk registers are updated on a regular basis and reviewed by audit committees. Risk management is also becoming embedded within the day to day running of organisations through, for example, the use of operational plans, business plans, and the widespread creation of risk registers for specific projects.⁴³
41. We were aware of the lead taken by the NHS in developing risk management arrangements, and Mrs Lloyd made the point to us that such arrangements in the NHS were vital to patients and staff alike. They had set up Welsh Risk Pool management standards many years ago, and these had been refined over time. Mrs Lloyd mentioned that she was currently reviewing the suitability of the standards for transfer into a wider and broader-based risk management system. The intention was to deeply embed financial and corporate governance into clinical governance to bring them more closely together.⁴⁴
42. In developing risk management in the NHS in Wales, measurable minimum standards had been set, such that any good, well-performing organisation should be able to meet. These included the existence of a risk management policy and strategy and undertaking risk assessments in a proper manner. The standards were independently assessed and if bodies failed to achieve at least a 75 per cent compliance with them, they were required to put forward action plans to show how they would improve.⁴⁵ We were pleased to note that thirty- five of the thirty- six NHS bodies met their required governance targets for 2004/2005, and we fully

⁴³ Auditor General's report, paras 3.14- 3.16

⁴⁴ Annex A, paras 78- 79

⁴⁵ Annex A, paras 80-81, and 88

support the expectation that bodies should be able to meet a challenging range of other risk management standards as well as their core ones.⁴⁶

43. We consider it important that mechanisms are in place to ensure that good practice is rolled out more widely. One of the key factors in this is having an officer or organisation with special responsibility for the task. We were told that the Welsh Risk Pool, operated by Conwy and Denbighshire NHS Trust, had taken a lead in disseminating good practice and raising the profile of risk management throughout the NHS in Wales. It also helped, Mrs Lloyd believed, that the Welsh Risk Pool management standards were owned and operated by the service itself, and were generally published standards. A full assessment was made of where good practice was being demonstrated and this was rolled out every year.⁴⁷
44. For the central government sector, Sir Jon told us that he had a less directive approach, but an expectation that the chief executives of Assembly sponsored public bodies would make full use of all the guidance and best practice on risk management that was available to them. He added that he would intervene only if he had evidence that the individual sponsored bodies were not performing satisfactorily in this regard.⁴⁸
45. We are attracted to the idea of measurable minimum standards, and the structured way in which good practice is captured and disseminated within the NHS. We recognise that effective risk management is especially critical for the service, reflecting the nature of its business, but there would seem to be lessons here for such a large, diverse and complex business as the Assembly, and also for its sponsored bodies. There could be an opportunity, for example, to use the NHS standards to inform the development of risk management arrangements within the Assembly Government's new, enlarged departments.

⁴⁶ Auditor General's report, Case Study 2; Annex A, para 85

⁴⁷ Annex A, paras 83- 85, and 87- 88

⁴⁸ Annex A, para 86

Good advances have been made in procurement and in developing Freedom of Information systems, but the management of EU projects still has some problems

Participation in the activities of Value Wales (Procurement) continues to increase, but the next step is to achieve greater collaboration across public sector procurement

46. Value Wales (Procurement) continues to have a beneficial financial impact on the costs of public sector procurement. It has reported actual savings of £18 million across the whole of the Welsh public sector for 2005, and identified further savings of £63.7 million as being deliverable in 2006 against a target of £40 million. Identified savings continue to arise mainly from the collaborative purchasing of goods and services such as telecommunications. Procurement Fitness Checks have now been completed for 29 public bodies across Wales, including nine Assembly sponsored public bodies.⁴⁹
47. Participation by public bodies in the activities of Value Wales continues to increase, and we welcome the broad spread of organisations now involved across Wales. A total of 112 public sector organisations have registered on the “Buy4Wales” national procurement web-site, with 63 having advertised on it, and 109 organisations have participated in the Value Wales training programme. These figures also include a significant number of the bodies audited by the Auditor General and covered by his report.⁵⁰
48. We asked Mrs Lloyd whether the progress made by Value Wales had been mirrored by developments in procurement within the NHS. She told us that the NHS had a number of procurement initiatives and also a well-defined procurement practice centred on its common procurement arm, the NHS Wales supplies consortium. This organisation was owned by the NHS and had achieved regular savings in procurement expenditure. The NHS had modern procurement systems, but was working with Value Wales to see whether the service’s procurement

⁴⁹ Auditor General’s report, paras 4.1- 4.6 and Figure 5

⁵⁰ Annex B

practices should be improved upon, and if certain areas of procurement would be better provided via Value Wales.⁵¹

49. We could see that most of the public sector was now engaging constructively with Value Wales, but questioned what key improvements were still needed to ensure the achievement of economies on a long-term and sustainable basis. The main challenge, we were told, was to improve the level of engagement in collaborative procurement exercises; that was where the big savings would be made. At present this was considered to be patchy, with on average 30 per cent of the public sector engaged at any one time with collaborative procurements.⁵² We were interested in this regard to hear of initiatives in north Wales, where the health service and local government had entered into joint purchasing contracts because they purchased the same products in a number of areas.⁵³
50. It is pleasing to see the various steps currently being undertaken to improve public sector procurement. We also agree that it is important for purchasing organisations to develop a good evidence base to identify and source not just the cheapest, but the most cost-effective product. This not only helps in achieving the best value for money, but can also provide greater opportunities for participation by local businesses.⁵⁴

The response to the demands of the Freedom of Information Act has been positive, but improved information is required on the management of information requests

51. The Freedom of Information Act 2000 came into force fully on 1 January 2005. The results of the Auditor General's work showed that all of the bodies examined had made good progress in meeting the requirements of the Freedom of Information Act, and in developing appropriate policies and effective systems.⁵⁵ We wanted to know what impact the Act had

⁵¹ Annex A, paras 97- 100

⁵² Annex A, paras 107- 110

⁵³ Annex A, paras 102, and 111

⁵⁴ Annex A, paras 113- 114

⁵⁵ Auditor General's report, paras 6.1- 6.7

had within the Assembly, and whether there were systems in place sufficiently robust to meet demands in this area.⁵⁶

52. We were told that the Assembly Government had invested heavily in training and had put in place guidance to its staff. The two main impacts of the Act had been in terms of the numbers of requests received, and the amount of staff time it took to deal with these. Since the beginning of 2005, the Assembly had received 1,273 requests for information under the Act, of which 1,108 had been completed. They had received 36 complaints, mainly about the length of time that it took to reply.⁵⁷
53. We acknowledge that answering requests for information can be very time-consuming, but are also aware that the legislation allows for a reasonable extension to the normal 20 days deadline to be applied for in cases where a request is especially complex and/or voluminous.⁵⁸ We were concerned that, while figures were available on the number of information requests taking more than 20 days to meet, it was not possible to have statistics provided on the number or proportion of these relating to cases where formal extensions had been secured.⁵⁹
54. We noted that during the 12 month period ending 30 June 2006, around a third of requests where action had been completed had taken in excess of 20 days to provide a response.⁶⁰ In order to secure efficiency in this area, and to safeguard against any risk to the Assembly's reputation, it is important that the reasons why requests take so long to address are properly analysed and controlled. It is also important that compliance with the legislation's requirements for seeking extensions is being properly monitored.
55. We were told that the Assembly Government did not have an electronic document management system to help in processing freedom of information requests, and would not have one for some time.⁶¹ Having to

⁵⁶ Annex A, para 135

⁵⁷ Annex A, paras 136- 137 and 140

⁵⁸ Annex B

⁵⁹ Annex A, paras 141- 142

⁶⁰ Annex B

⁶¹ Annex A, para 140

deal currently with information requests on a manual basis must inevitably be less efficient, but does reinforce the need for robust systems to monitor and track requests as they are being processed. It is also important in this respect to record and monitor the costs of dealing with requests.

56. We understood the reasons why information requests to the health department were often highly complicated and time-consuming. The information requested might relate to individuals and, in all such cases, permission would have to be sought from those individuals before that information could be released to a third party. We were told that a small team had been set up within the health department to ensure that a standard approach was being applied to requests. Mrs Lloyd confirmed that she monitored how well Freedom of Information requirements were being managed within the service. She added that many of the working practices that the Act required were already embedded within the service, since it was well-used to dealing with similar issues relating to complaints.⁶²

57. We questioned whether the Freedom of Information Act had affected what information was now being retained. Sir Jon did not think that it was preventing officials from committing their advice to paper and that, whilst he had to remain vigilant in this respect, there was no evidence that decisions were not being properly recorded. We welcome Sir Jon's stated intention of seeking to ensure that the Act's requirements will not have any adverse affect on standards of administration and governance.⁶³

It is essential that organisations spending EU grants have a full understanding of the rules they must follow

58. The European Commission has, since last year, agreed to the closure of a further eight of the 1994-1999 EU Structural Funds programmes, making 17 (out of 18) in total. The aggregate amount that has been required to be repaid to the EU has remained at just over £476,000, or

⁶² Annex A, paras 145- 146, and 152- 153

⁶³ Annex A, paras 154- 159

less than 2 per cent of the total funding received. The Commission has yet, however, to complete its deliberations on the remaining programme: 'Industrial South Wales'.⁶⁴

59. It is important that lessons are learned from the closure process for the old programmes, not least to minimise the risk of grant funding being reclaimed by the European Commission, and we asked how this was being taken forward. Sir Jon considered that lessons had been learned not just from the closure process itself, but also from the substantial experience they now had of implementing structural funds in Wales going back over a number of years. They wanted to reflect this experience in arrangements for the next round of structural funds, starting in 2007.⁶⁵
60. The closure of the 1994-99 Programme had been, we were told, a labour-intensive and highly demanding process. A number of lessons had been learned from it, including the importance of adequately resourcing the teams dealing with the closure process and the need to have systems that facilitate the effective sharing of good practice. A working group had been established to oversee and manage activity on closing the 2000-06 Programmes. Assembly Government officials were also looking at a number of matters, including how the timeliness of the process could be improved. The closure of one small programme had already been undertaken.⁶⁶
61. We welcome the structured approach that is being put in place by the Assembly Government to manage the closure of the current programmes, and we will want to review progress in this area at a future date. We noted that the Auditor General had also reported that some improvements were now appearing in the way in which individual EU-funded projects were being managed, but that concerns often remained over the systems of internal control that were in place.⁶⁷ Sir Jon told us grant recipients included bodies not only in the public sector, but also in

⁶⁴ Auditor General's report, paras 5.1- 5.4 and Figure 6

⁶⁵ Annex A, paras 116- 118

⁶⁶ Annex B

⁶⁷ Auditor General's report, paras 5.5- 5.8 and Figure 7

the voluntary and private sectors. Some of these organisations were less used to maintaining information systems and audit trails in respect of public money to the standards required for EU funding.⁶⁸

62. We did not entirely endorse Sir Jon's view that the internal control issues were often of a nature that would not put structural funds at risk.⁶⁹ Whenever the auditors find failings in internal control at grant recipients it must surely increase to some extent the risk that funds are not being properly applied and might be subject to disallowance or clawback. We questioned whether the central issue was a need for project sponsors and managers to undertake training and also note that the Assembly is empowered to make this a precondition for the awarding of grant funding.⁷⁰ Sir Jon felt that many project sponsors do have significant expertise in delivering European-funded projects and that a blanket requirement for training would not therefore be appropriate. In developing plans for the next round of Structural Funds, his officials were considering how best to further develop the delivery capacity of grant recipients.⁷¹
63. We remain concerned about the extent to which the various organisations understand the financial and accounting rules applying to the receipt of grants. We acknowledge that it is a very difficult problem to resolve, but training must be a fundamentally important issue here. Sir Jon added that in response to our previous report on this topic he had since written to the Chief Executives of all public bodies in receipt of structural funds, stressing the need to ensure compliance with EU regulations. The Assembly Government was also holding training sessions and workshops and had put guidance in place that was constantly being reviewed and improved.⁷²
64. Finally, we asked what the latest position was in respect of the closure of the final 1994-99 programme and on any potential financial loss to

⁶⁸ Annex A, para 120

⁶⁹ Annex A, para 120

⁷⁰ Annex A, para 121 and Annex B

⁷¹ Annex B

⁷² Annex A, paras 123 and 133

Wales. Sir Jon considered that the situation was some way off from being resolved. His officials were aware of certain concerns expressed by the EU auditors and were currently seeking to address them. Discussions were taking place with the EU auditors, but it was ultimately for those auditors to determine when they wanted to conclude these matters, including a decision on any financial penalties.⁷³

⁷³ Annex A, paras 126- 131



**Cynulliad Cenedlaethol Cymru
Y Pwyllgor Archwilio**

**The National Assembly for Wales
The Audit Committee**

**Dydd Iau, 6 Gorffennaf 2006
Thursday, 6 July 2006**

Cofnodir y trafodion hyn yn yr iaith y llefarwyd hwy ynddi yn y pwyllgor. Yn ogystal, cynhwysir cyfieithiad Saesneg o gyfraniadau yn y Gymraeg.

These proceedings are reported in the language in which they were spoken in the committee. In addition, an English translation of Welsh speeches is included.

Aelodau o'r Cynulliad yn bresennol: Janet Davies (Cadeirydd), Leighton Andrews, Mick Bates, Jocelyn Davies, Mark Isherwood, Denise Idris Jones, Christine Gwyther, Catherine Thomas.

Swyddogion yn bresennol: Christine Daws, Cyfarwyddwr, y Gyfarwyddiaeth Adnoddau; Ian Gibson, Dirprwy Swyddog Cydymffurfiaeth, Cynulliad Cenedlaethol Cymru; John Hill-Tout, Cyd-gyfarwyddwr, y Gyfarwyddiaeth Perfformiad a Gweithrediadau, yr Adran Iechyd a Gwasanaethau Cymdeithasol; Ann Lloyd, Pennaeth yr Adran Iechyd a Gwasanaethau Cymdeithasol; David Powell, Swyddog Cydymffurfiaeth, Cynulliad Cenedlaethol Cymru; Peter Ryland, Prif Gyfrifydd, Cynulliad Cenedlaethol Cymru; Syr Jon Shortridge, Ysgrifennydd Parhaol, Cynulliad Cenedlaethol Cymru

Eraill yn bresennol: Gillian Body, Swyddfa Archwilio Cymru; Jeremy Colman, Archwilydd Cyffredinol Cymru; Geraint Morgan, Swyddfa Archwilio Cymru; Rob Powell, Swyddfa Archwilio Cymru; Mike Usher, Swyddfa Archwilio Cymru.

Gwasanaeth y Pwyllgor: Kathryn Jenkins, Clerc; Dan Collier, Dirprwy Glerc.

Assembly Members in attendance: Janet Davies (Chair), Leighton Andrews, Mick Bates, Jocelyn Davies, Mark Isherwood, Denise Idris Jones, Christine Gwyther, Catherine Thomas.

Officials in attendance: Christine Daws, Director, Resources Directorate; Ian Gibson, Deputy Compliance Officer, National Assembly for Wales; John Hill-Tout, Co-director, Performance and Operations Directorate, Department of Health and Social Services; Ann Lloyd, Head of Department of Health and Social Services; David Powell, Compliance Officer, National Assembly for Wales; Peter Ryland, Chief Accountant, National Assembly for Wales; Sir Jon Shortridge, Permanent Secretary, National Assembly for Wales.

Others in attendance: Gillian Body, Wales Audit Office; Jeremy Colman, Auditor General for Wales; Geraint Morgan, Wales Audit Office; Rob Powell, Wales Audit Office; Mike Usher, Wales Audit Office.

Committee Service: Kathryn Jenkins, Clerk; Dan Collier, Deputy Clerk.

Cyflwyniad, Ymddiheuriadau, Dirprwyon a Datgan Buddiannau Introduction, Apologies, Substitutions and Declarations of Interest

[1] **Janet Davies:** Prynhawn da. **Janet Davies:** Good afternoon. I Croeso i aelodau'r pwyllgor a'r cyhoedd welcome committee members and the i'r cyfarfod. public to the meeting.

[2] I remind everyone that the committee operates bilingually, and that headsets are available for the translation of Welsh into English, as well as to amplify the sound.

[3] Atgoffaf bawb i ddiffodd eu ffonau symudol, *paggers*, neu unrhyw ddyfais electronig arall, gan eu bod yn ymyrryd â'r offer cyfieithu a darlledu. Os bydd rhaid gadael yr ystafell mewn argyfwng, dylid gadael drwy'r drws agosaf atoch a dilyn cyfarwyddyd y tywyswyr. I remind everyone to switch off their mobile phones, pagers, or any other electronic device, as they interfere with the translation and broadcasting equipment. If we have to leave the room in an emergency, you should leave via the nearest exit and follow the ushers' directions.

[4] I have had apologies from Alun Cairns and I also understand that Carl Sargeant and Irene James will not be attending. Christine Gwyther will substitute for one of them. Do any Members need to make a declaration of interest? I see that you do not.

Archwiliad Ariannol o Lywodraeth Ganolog a Chyrff y GIG yng Nghymru: 2006 Financial Audit of Central Government and NHS Bodies in Wales: 2006

[5] **Janet Davies:** We now move on to the Auditor General for Wales's 2006 report on the financial audit of central Government and NHS bodies in Wales. The report summarises the findings from the financial audit work of the auditor general on the 2004-05 accounts. This year, for the first time, the auditor general's report also reflects his role since April 2005 as the external auditor of NHS bodies in Wales. This enables his findings to cover a broader spectrum of public sector activity. It is a welcome development, and also means that this committee can more comprehensively consider the cross-cutting themes, issues and best practice identified by the auditor general's financial audit work.

[6] The main areas of the report that we will be considering today are matters arising from the audit of the 2004-05 accounts, financial and risk management at audited bodies, how the requirements of the Freedom of Information Act 2000 are being addressed and aspects of the Assembly Government's recent structural reforms. The report, by convention, does not normally disclose the names of individual organisations, but we will look to see what important issues have a wide-spread application that needs to be brought out from its findings.

[7] Therefore, we are taking evidence today from Sir Jon Shortridge, the Permanent Secretary of the National Assembly for Wales, and from Mrs Ann Lloyd, the director of NHS Wales. Each of them has an official with them. I ask you to introduce yourselves for the Record, please. In addition—I should have said this before—please do not touch your mikes; they are slightly temperamental, and we must not touch them.

[8] **Sir Jon Shortridge:** I am Jon Shortridge, the Permanent Secretary.

[9] **Ms Lloyd:** I am Ann Lloyd; I am the Head of the Health and Social Services Department and the chief executive of NHS Wales.

[10] **Dr Daws:** I am Christine Daws, the director of resources at the Health and Social Services Department.

[11] **Mr Ryland:** I am Peter Ryland, the Chief Accountant.

[12] **Janet Davies:** Thank you. As usual, I will start. Paragraphs 3.1 to 3.13, refer to the Assembly's new structural reforms and accountability arrangements. My question is to Sir Jon Shortridge. Structural reforms took a significant step forward on 1 April, when a number of former Assembly sponsored public bodies came into the Assembly. How well do you think that this process has gone and have you had time, as yet, to see whether there are any emerging issues?

[13] **Sir Jon Shortridge:** I distinguish between what I call the transition to the new, enlarged Assembly Government on the one hand, and the success of the mergers on the other. So, the transition effectively took place on 3 April and the week following that, and, in my judgment, it was fairly successful. I qualify it a bit, but it was a huge achievement for all concerned—we are talking about 1,600 staff from four different organisations effectively coming into an enlarged organisation overnight. The organisation had to be on a common financial system and other systems and it immediately had to be able to conduct business in exactly the same ways. There have been no adverse public comments, so, at one level, that indicates that it was a successful transition, and, as I said, it is a huge achievement for all those who were involved in making it or affected by it.

[14] I think that the second half of your question was, essentially, how it is going. Is that right?

[15] **Janet Davies:** Yes, as far as you have had time to see.

[16] **Sir Jon Shortridge:** It really is too early to say, at one level. The view that I have taken is that successful mergers, which means having the two new departments operating successfully, by definition will take six to 18 months. We need those new departments—in one case, that is 1,500 people plus—to have established their new culture and their new working arrangements, and to have taken full benefit from the mergers. I do not think that one can expect to see full success for, as I said, six to 18 months. We are at a critical stage, at the moment, as we are halfway through the first six months. You can almost say that the euphoria of the initial success of the transition is wearing off. There are certain teething problems in terms of the internal administration—I am not talking about the outward performance. Those are things that I have identified from my trips around offices in Wales. I am vigilant about ensuring that those issues are being dealt with, and that the staff who are affected are informed of how we are dealing with them. In summary, I would say so far so good.

[17] **Janet Davies:** Comments have been made about the morale of the organisations that have come in. Are these internal teething problems having any effect on their morale, or are they things that they accept that are bound to happen?

[18] **Sir Jon Shortridge:** I am very disappointed when I hear unsubstantiated comments about morale within parts of my organisation. I can only speak from my own personal experience and I have spent quite a lot of time talking to the staff

affected, particularly in north Wales, where you think there might be a double morale problem in that they could feel disassociated from what is going on in Cardiff, in addition to the fact that they have come into an enlarged organisation. I have also spoken to staff in Cardiff. I have been incredibly impressed at the positive attitude of virtually all the staff that I have spoken to, and I have been even more impressed at the quality of the skills that they have and their commitment and determination to provide a service for Wales. One should not be complacent about morale issues, but the key responsibility for addressing those issues in the two new departments lies with the heads of those departments and I have great confidence in the way in which they are performing at the moment.

[19] **Jocelyn Davies:** It is possible that morale could be affected without you knowing about it, but are you quite happy to say that you are not aware of any evidence that there are widespread problems with morale?

[20] **Sir Jon Shortridge:** I am talking about my own personal experience from talking to the staff concerned. When I talk to staff, I encourage them to be very open with me. I think that I indicated in my answer that there were some pockets of staff who were less happy about the situation than others; in particular, that includes staff who have central-service roles, where their position is more ambiguous as they move into a larger organisation, because a lot of them then have to be integrated with existing central services and therefore move away from the new department that was their old organisation. There are issues, and I would not want to suggest that there are not, but, overall, my impressions are very positive.

[21] **Janet Davies:** Turning to a different topic in the same area of the report, you recently appointed sub-accounting officers. Do you think that those arrangements are bedding in well? Will you have to make any other changes to the Assembly's financial management structures?

[22] **Sir Jon Shortridge:** On the sub-accounting officers, I think that the new arrangements are operating well. I did that in a careful and proportionate way. Before I appointed individual heads of department as sub-accounting officers, I had to be satisfied that they were properly ready. They did their own self-assessment for me, which was moderated by internal audit. So, I am satisfied that the way in which they took over their responsibilities was robust. They all have their own corporate governance committees on which an internal audit unit and Wales Audit Office representative sits. I receive quarterly reports from those corporate governance committees and all the evidence that I have at the moment suggests that this is a significant improvement on what we had before. The main improvement for me is that I have dispersed more widely the personal responsibility that goes with being an accounting officer. I had to rely on these people in the past, before they were sub-accounting officers, to exercise my accounting officer responsibilities on my behalf, but they did not have the personal responsibility that went with it. I have given them that personal responsibility and I think that that sharpens up the quality of accountability within their parts of their organisation.

[23] In terms of what other financial management improvements may take place in the future, I never really rest on financial management issues and I am always looking for ways in which we can make improvements. Some of those may emerge under

other questioning, but I have nothing in mind at the moment of the same scale and significance as the creation of sub-accounting officer roles.

[24] **Leighton Andrews:** Sir Jon, I am sure that we are pleased to see that the Treasury awarded the Assembly its most improved organisation award. I will pick up on a couple of points in figure 2 of paragraph 2.4 about further improvements in the quality of accounts that are seen to be required. These will obviously need to be implemented in the context of faster closing times by the Treasury. Are you geared up for that?

[25] **Sir Jon Shortridge:** How do I see faster closing going?

[26] **Leighton Andrews:** Are you geared up for delivering the further improvements that are required in the context of faster closing?

[27] **Sir Jon Shortridge:** On progress so far with the 2005-06 accounts, we submitted our draft core account to the Wales Audit Office for audit just about on time—the Estyn element of it was a week late. We were conscious that, in submitting it, one or two gaps needed to be filled. However—and the auditor general may wish to comment on this—in general terms, we submitted it sufficiently on time for the audit office to be able to do its work, and for us not to be holding it up at all. Therefore, it is so far, so good for this year.

[28] I have monthly meetings with my accountants, throughout the year, on the preparation of the accounts, and then the learning that you take from the account process. Therefore, the intelligence that I have from my accountants is that, at present, they can see no impediment to their delivering the closing deadlines for this year. For example, that means that we have to have the consolidated accounts to the Wales Audit Office on 17 August, and signed on 24 August.

[29] For next year, we essentially have to bring that deadline forward by a fortnight, which will impose further demands on us. One thing that we may come to is the introduction of the accrual accounting system, which I want to introduce by the end of this calendar year; that should assist us with that faster closing for the 2006-07 accounts. Therefore, generally, we are on course.

[30] **Leighton Andrews:** Will you also be able to meet the conditions of the requirements specified in figure 2, in terms of the quality of the accounts and the other improvements that are recognised there?

[31] **Sir Jon Shortridge:** Are you referring to the last segment of figure 2?

[32] **Leighton Andrews:** A series of issues remain, including grant monitoring, and so on, but, yes, it is the complete documentation, and so on.

[33] **Sir Jon Shortridge:** These are the requirements on us, which I expect my accountants and the people on whom they rely to meet. I have no reason to suppose that we shall not be compliant with any of that.

[34] **Leighton Andrews:** Are you satisfied that the final accounts of the former

Assembly sponsored public bodies have been prepared on time, and are of good quality?

[35] **Sir Jon Shortridge:** Yes. I do not have information on that in front of me, but I have no reason to suppose that the final accounts of the ASPBs have not been prepared on time. We need them in order to meet our wider requirements in relation to the consolidated account. To the best of my knowledge—and I will bring in Peter to confirm this—those have all been completed satisfactorily.

[36] **Mr Ryland:** I would not add much to that. The accounts have been prepared, substantially, on time. I am in regular contact with Mike Usher's team in the Wales Audit Office. We also use the resource accounting project board, as a point of contact within the sponsor department, so that we know what is happening in the ASPBs, and we are on track.

[37] **Leighton Andrews:** I will focus some more on figure 2. Sir Jon, one issue that is raised there is the control of grant expenditure, which is a problem that has concerned us in the past. Would it be true to say that there are still areas where there are not proper written financial procedures in place?

[38] **Sir Jon Shortridge:** I am not aware of a failure to have proper written financial procedures in place. Again, Peter may want to comment if he has knowledge of that, but I would be disappointed if that were the case. Grant management continues to be an issue of concern for me. In our last management letter, the WAO commented on that, but what it said—if I can summarise correctly—is not that there was any systemic problem with our grant management systems as a whole, but that there was a need to strengthen controls on some of our smaller schemes. In parallel with that, I had asked my internal audit unit to do a review of grant management—it reported in December, and it had some significant recommendations in its report in terms of the improvements that it expected to see, and I took that seriously.

[39] Going forward, part of the solution is the introduction of the e-grant system, which we are rolling out across the organisation. The system will be in place by December, and will be our accruals-based system for managing and controlling grant expenditure. However, I do not see that as the whole solution. In the longer term, I want to introduce a standardised grant system that is information-technology enabled, which can then be applied to every grant scheme that we operate in the Assembly Government. I think that greater standardisation, on a single IT grants platform, ideally, will drive up the quality of the service that we provide and give me greater assurance. However, that is a long-term project.

[40] **Leighton Andrews:** Would it be possible to have a short note on what your internal audit team recommended?

[41] **Sir Jon Shortridge:** Absolutely; that is not a problem.

[42] **Leighton Andrews:** I will move on to asset management. Last year, you described to us what was being done in that particular area. Are you, through that process, ensuring that the useful lives of assets, or the risks of changes in value, are being kept under regular review?

[43] **Sir Jon Shortridge:** Are you talking about asset management within the Assembly Government or across the wider public sector?

[44] **Leighton Andrews:** I am talking about it within the Assembly, which I assume means a bit more than just the Government.

[45] **Sir Jon Shortridge:** I am still concerned that we are not giving as much attention to asset management issues as I would like to. When I spoke to you last year, I said that we were in the process of preparing a unified asset management plan for the whole of the Assembly. I am told that that plan is virtually complete, and I will be receiving it possibly as early as next week so that I can look at it and comment on it later this month. That shows that there is progress in terms of process, but because I have not had the opportunity to read it, to comment on it or to make my own evaluation of it, I cannot give you a full assurance in terms of the actual progress that we have made. However, I do know that, over the last year, we have completed a review of all our estate, which is quite big and diverse. Therefore, we have our estate strategy going forward, and I would expect the outcome of that work to be embedded in this asset management plan that I will be receiving shortly.

[46] **Leighton Andrews:** Okay. I guess that we might want to return to that. Mrs Lloyd, how well developed is asset management planning within the national health service?

[47] **Ms Lloyd:** The NHS has always been at the forefront of asset management, even back in the early 1990s, because of capital charging, which brought to a sharp focus the need to manage the assets well. As you know, we had little capital in Wales during those years. We now have a much-increased capital programme, and this committee has tested me, on at least two occasions, on the way in which we manage our estate, its depreciation and how we sell it. I am glad to say that, with the mergers, some incredibly excellent help has come from our new director of enterprises, who is lending his support and that of his staff to our being able to dispose of our surplus land and buildings in a more professional way than was the case in the past. Therefore, we have well-established capital investment procedures, and now that we have a large amount of capital to spend in a short time and many schemes that have been on the stocks for a long time, we have revised the capital investment guidance. We have also revised the way in which business cases will be managed and developed, and, as part of the capital expenditure, we have been investing in people who are experts in the field to help people to prepare those business cases and their estates plans. We have also taken a leaf out of England's book, in terms of a quasi LIFT scheme, for which we have preferred providers that manage the whole package for us and for the NHS. The estate plans and the assets registers have always been essential for us, particularly as we have capital charging in the NHS, so we have to ensure that we get value for money from our estate.

[48] **Janet Davies:** We will now turn now to payment performance.

[49] **Mick Bates:** I would like to start with page 12, and paragraph 2.8 and figure 3. You will see that in 2004-05, all 22 local health boards met the required standard of making 95 per cent of all payments within 30 days. Conversely, paragraphs 2.9 and

2.10 and figures 3 and 4 show that less than half of the 14 NHS trusts or central Government bodies achieved this level of performance. Mrs Lloyd, what issues have been affecting the payment performance of trusts, and are there any lessons to be learnt from the approach taken in this area by the local health boards?

[50] **Ms Lloyd:** Might I just correct an assumption first? It was just over half the trusts that actually met the target; it is not good enough, but they did meet their targets and they have now improved much more. I will come back to that.

[51] The scale of differential that we are dealing with has to be recognised. Trusts have to pass 1.14 million invoices, and LHBs have to pass 102,000, so there is a bit of a difference in scale. The LHBs have largely used the business services centre to undertake the payments of their invoices, and we have learnt from that that it would seem to be an effective and efficient way to do it. As a consequence, Christine has been leading a project in north Wales to look at a major shared services project across LHBs, trusts and their partners, to ensure that the good practice in the business services centre can be made more effective by trusts joining in.

[52] The trusts have worked hard on this and their performances have improved during this last year, with only three failing. Two failed at 94 per cent, so with just a bit of a push they would have been there, and only one, which is one of the north Wales trusts, was at 90 per cent. They are well aware that this is an important matter, particularly for local traders. There is legitimacy about failing to pass some invoices. If there really is a question mark about the way in which an invoice has been calculated, I think that it is appropriate to challenge it. It is a key issue and we are going to evaluate the north Wales shared service project, when it starts later this year, to see whether there would be validity in rolling it out throughout Wales. That would mean that the business services centre work could be rolled into it.

[53] **Mick Bates:** To follow that up, I take the point that you made about the figures, but in 2003-04 there was a slight improvement, if you look at that, but less than half—

[54] **Ms Lloyd:** In 2003-04, nine failed and five met the target; in 2004-05, eight met the target and six failed; and this time, 11 passed and three failed. So, they have made quite an improvement.

[55] **Mick Bates:** That is good to hear because the improvement agenda is what we are all about.

[56] **Ms Lloyd:** Yes, that is right.

[57] **Mick Bates:** Would it be possible to say a little more about the north Wales project? Although I take the point that Mrs Lloyd made about the difference in the volume of invoices that the trusts and health boards have to deal, one would look towards the robustness of that system, which would then be able to deal with any volume effectively. Is the weakness down to the internal system or the management?

[58] **Dr Daws:** We have already seen the fact that an NHS trust deals with 10 times the volume of invoices dealt with by an LHB, but it is also about the nature of those

invoices. A large proportion of local health boards' invoices are paid to NHS trusts. LHBs are not buying consumables in the same way that NHS trusts are, and, obviously, they are across a lot of sites and, therefore, it is a fairly complex system. The improvement that we have seen is really quite significant in that sense.

[59] Looking to shared services in north Wales, one thing that I want to do is standardise processes across the organisations. You are absolutely right that we would be looking for best practice, so we would try to standardise the best process across whichever kind of organisation it was, and pull that into one place, so that we can get the economies of scale as well as best practice. What we are doing at the moment is developing a balanced scorecard that identifies the key performance indicators now before the shared service is initiated, and then we will track and have a balanced scorecard and we will be looking for continuous improvement once the centre is up and running. That is quite important, because people will be saying, when the centre is up and running, 'Oh, this does not work as well', but we will have the key evidence. So, it is really important for us to benchmark before and afterwards.

[60] **Mick Bates:** Let us hope that we see a further improvement.

[61] **Jocelyn Davies:** I will just ask Mrs Lloyd a follow-up question on that, if I may. You mentioned that not all the invoices will be entirely accurate when they are received, or they may be invalid for some reason. What sort of proportion of the invoices received by trusts do you expect there to be a problem with rather than there being a problem with the payment of the invoice?

[62] **Ms Lloyd:** On the basis of the estimate made by the accountants and the people who have to deal with these payments, we have set the level at 95 per cent. We think that that is reasonable. We also track the amount of money, because it might be that you pay 95 per cent of your invoices but it is 20 per cent of your cash, so we have to ensure that not just the numbers but also the volume of resource are being paid expeditiously.

[63] **Jocelyn Davies:** So, the failure to meet 95 per cent is not because the invoices are invalid, because that is accounted for in the 5 per cent. Is that right?

[64] **Ms Lloyd:** We believe so, yes. I think that they just need to smarten up their processes a bit more.

[65] **Mick Bates:** My question is for Sir Jon this time. Figure 4 shows that the figures fell slightly below the level of required payment performance in 2004-05. Given the increased payment volumes that it has responsibility for following the merger of the sponsored bodies, what improvements are you proposing in this area?

[66] **Sir Jon Shortridge:** As I think I told the committee last year, I was very disappointed that we had got to 94.5 per cent in 2004-05. Last year, we got up to 97.2 per cent and I will be very keen to maintain that level. I have two particular risks that I am managing around that. One is that the two former sponsored bodies that were the worst performers have now merged with us, so I have inherited organisations that had a poor performance on pay, and I have to address that. Secondly, because I am rolling out a new payment system as part of our accrual accounting, there is a big training job

to be done where people are having to switch from one system to the other. One can foresee that that could give rise to certain processing problems in terms of the timing of processing. So, I am having to manage those two risks, but I made it clear to Peter and everyone else involved that we will not drop below 95 per cent this year.

[67] **Mick Bates:** That is very encouraging.

[68] **Leighton Andrews:** Just for the record, you said that two bodies merging in are the two worst payers. Are we talking about the Welsh Development Agency and Education and Learning Wales?

[69] **Sir Jon Shortridge:** You have got one out of two. [*Laughter.*] We are talking about ELWa and the Wales Tourist Board. I should say that, in the case of the Wales Tourist Board, it made a significant improvement in 2005-06 against its performance in 2004-05, but it needed to do that. Its performance was at 78 per cent in 2005-06.

[70] **Leighton Andrews:** We hope that it achieves the more commercial targets of the Welsh Assembly Government.

[71] **Janet Davies:** Thank you, Leighton. Mark, did you want to come in?

[72] **Mark Isherwood:** To clarify, figure 4 shows that, across the Welsh central Government sector, there was a decline in payment performance approaching 20 per cent after three years of improvement. Would that be your responsibility or, if not, whose responsibility would it be? Could you shed some light on how that has occurred and what remedies you have put in place to prevent it in future?

[73] **Sir Jon Shortridge:** I suppose that you could say that, ultimately, it is my responsibility, and I would not want to evade that. On the other hand, on a day-to-day basis, it is the responsibility of the accounting officers of the individual Assembly sponsored public bodies to secure the performance, because they are the chief executives, essentially. Over a number of years, I have addressed the ASPB chief executives on this. Over the last 12 months, I have written two letters to them, most recently following this report, expressing my concern about performance. It is a regular item that we discuss when we have our meetings of accounting officers. So, they are in no doubt as to my views on the fact that they must improve their performance.

[74] In terms of 2005-06, and the year after this report, 12 bodies were above the 95 per cent mark as against the eight bodies for 2004-05, but that is not quite as good as it sounds, because, in 2005-06, it was 12 out of 18 bodies, whereas, in 2004-05, it was eight out of 15 bodies. So, there has been a slight improvement, but not sufficiently significant yet.

[75] **Janet Davies:** Okay, thank you. Mrs Lloyd, I am sorry about this—I am feeling a bit thick at the moment—but I am not quite sure whether I understood your last answer. When you said that the payment performance is set at a level of 95 per cent, did you mean that the other 5 per cent is nominally considered to be the amount of bills that are challenged, and that the 95 per cent should be met, because they would not be challenged?

[76] **Ms Lloyd:** Yes.

[77] **Janet Davies:** Right, thank you. We will go on to risk management.

[78] **Jocelyn Davies:** The auditor general reports that the NHS has led the way in developing risk management arrangements. Could you outline what the key factors have been in this?

[79] **Ms Lloyd:** Risk management in the NHS is vital to patients and staff alike, and we have always therefore tried to propose and put into place robust governance arrangements, because of the impact of our governance not being good. We set up Welsh Risk Pool management standards many years ago, and they have been refined over time. At the moment, I am reviewing their suitability for transfer into a wider and broader-based risk management system, in an attempt to put in place really good integrated governance proposals, which will be built into improved health care standards and which will be reviewed by Healthcare Inspectorate Wales. We want to deeply embed financial and corporate governance into clinical governance to bring them more closely together. However, we are not going to get rid of the Welsh Risk Pool management standards until I am absolutely assured that we have something at least more comprehensive, and which can be better assessed for the future.

[80] The way in which we developed risk management in Wales was to get measurable standards, some of which are core and which people must meet—and I can come back to those if you wish. They represent minimum standards that any good, well-performing organisation should meet. If they do not meet them, it would have an impact on the way in which they conduct their business. We have always had audit committees and standards, and we have been quite prescriptive about the arrangements that we expect to see. We have produced NHS finance and governance manuals, alongside best practice. An accounting officer's responsibilities are clearly set out, and we train our accountable officers. At the moment, I am auditing the way in which those officers conduct themselves, because I have many more of them than I used to have with local health boards. As you will know, David Richards, your principal finance officer, has been seconded to me for the next 18 months to conduct an independent review on my behalf, working with the auditor general, to see whether we can improve governance arrangements and training in the NHS.

[81] Our core standards cover the main risks, and that is very much about asking organisations whether they have a risk management policy and strategy, and whether they do their risk assessments properly. Do they report adverse incidents, and what do they do about them? Do they report their hazards and, if there are main hazards coming through, are they disseminated properly? What are their governance arrangements, and how do they manage their money and the rest of their assets? All organisations have to meet those core standards to 75 per cent, and they are all independently assessed.

[82] We are trying to see whether self-assessment will give us as robust an assurance, because we are trying to reduce the burden, as you know. However, we have to make jolly sure that we maintain the standards that have been set and start to raise them further.

[83] **Jocelyn Davies:** You mentioned good practice, so I would like to ask both of you about the rolling out of good practice. On this committee, we have often found isolated examples of good practice, but there has then been a failure to roll it out. What mechanisms are in place to ensure that good practice is actually rolled out?

[84] **Ms Lloyd:** One of the advantages of the Welsh Risk Pool management standards is that they are owned and operated by the service itself, and there is nothing like the service taking a bit of ownership for it to roll out good practice. These are generally published standards, and the results are published, too, and our regional offices follow them up every year with organisations. There is a very full assessment of who has done something creative and innovative, and of who really is the epitome of good practice, and that is rolled out every year.

[85] The percentage against which we expect people and organisations to perform increases, and the standards get more prescriptive and more wide. We expect them now to meet not only their core standards, but also the vast majority of their other standards, of which there are about 45—it is quite onerous. We have also built in continuous improvement, so that they are very carefully monitored on this. The Welsh Risk Pool, operated by Conwy and Denbighshire NHS Trust, has taken a really positive lead in disseminating good practice throughout the NHS in Wales, with John Bowles, its manager with specific responsibility for this. Given that governance is so important to the service, and the failure of governance is usually such a disaster, I have found that chief executives with accountable-officer status are only too keen to ensure that their services can come up to the standards required.

[86] **Sir Jon Shortridge:** I have a less directive approach, I suppose, which reflects the different nature of my relationship with ASPB chief executives from Ann's relationship with the health service that she runs. My expectation is that the chief executives of the sponsored bodies make full use of all the guidance and best practice on risk management that is available. I certainly ensure that it is made available to them, and we have discussions at our regular meetings on these issues. I then look to the assurance that I get from the auditor general in the special assurance reports that I ask him to undertake in addition to his management letters. So, I intervene only if I have evidence before me that the individual sponsored bodies are not performing satisfactorily in this regard. In paragraph 3.15, the auditor general is saying that he is encouraged by the progress that is being made.

[87] **Jocelyn Davies:** Mrs Lloyd, would you say that one of the key factors there is actually having an officer that leads that, with special responsibility for rolling out good practice?

[88] **Ms Lloyd:** Yes, I think so. The other thing that we demand is that, if people fail the standards, they put forward their action plans to show how they will improve, and that is monitored carefully. It is a big credit to Conwy and Denbighshire trust that it has taken such a prominent lead in the improvement of patient safety generally throughout Wales in the last few years, as well as the encouragement lent by that particular chief executive to others to raise the profile of the real importance of risk management in the health service.

[89] **Jocelyn Davies:** I have another question for Sir Jon, if that is okay. Is the Assembly on course to implement its resource-based systems by March 2007?

[90] **Sir Jon Shortridge:** It certainly is at the moment, and that goes back to my earlier answer about introducing what we call 'e-grants' and 'e-procurement', which is our accrual accounting system. I want that in place across the whole organisation by the end of this calendar year. We are rolling it out department by department; we are currently on course with that, but it is not just a question of rolling out the system; it is a case of making sure that all the associated training goes along with it, so that people know how to operate that system. If we hit that deadline of the end of this calendar year, it means that in the last quarter of the financial year we will have had access to this accrual accounting information and, apart from the intrinsic value of it to me and my senior colleagues, it will assist with the closing of our 2006-07 accounts.

[91] **Jocelyn Davies:** In terms of the training issue that you have just mentioned, is that the main challenge that you face?

[92] **Sir Jon Shortridge:** I would not overstate it; I just have an expectation that Peter and the people rolling out the systems will ensure that the training is being done in an appropriate way. I think that one of the benefits of doing it on a rolling system is that you can take the lessons from how it went into one department and use that to improve the way in which you roll it out into the next one. So, it is a risk that we are managing, but I have an expectation that it is managed properly.

[93] **Jocelyn Davies:** Are there any other risks apart from training?

[94] **Sir Jon Shortridge:** I had better bring in Peter, but whenever you are developing and rolling out a new IT system, there are risks.

[95] **Mr Ryland:** This touches on the previous question to some extent. Training is the single biggest obstacle. I do not see any other very substantial risks involved in this. It is all about making sure that people understand what the process is for, what the changes are, and that they apply the new process uniformly across the organisation. I do not see any other substantial risks.

[96] **Janet Davies:** Thank you, Jocelyn. Going on to the issue of procurement, Mark would like to come in.

[97] **Mark Isherwood:** I refer you to paragraphs 4.1 to 4.6 and figure 5, which detail the work of Value Wales over the last year. I would like to ask Mrs Lloyd whether the progress there has been mirrored in developments within the NHS. If it has, what has that progress been; if not, could you please explain why?

[98] **Ms Lloyd:** The NHS has a number of procurement initiatives and a well-defined procurement practice, because we have had to group our procurement between organisations for very many years, because we have always found that if you can purchase in bulk, and some of our purchases are very specific, it is better if you have one organisation dealing with that. So, we established the NHS Wales supplies consortium some considerable time ago. Again, they are owned by the service.

[99] We are working with Value Wales at present to see whether or not our procurement practices should be improved upon, and whether there are certain areas of our current procurement that would be better provided via Value Wales, but we are sharing practice at present, as it happens. We have modern procurement systems. We capture information on which to build up the portfolio of how best to procure for the future. We have many initiatives going on. All our organisations have specialist procurement advisers and because we spend a huge amount of money we have always had to place a heavy investment on making sure that we really do get value for money. It is quite a sophisticated system that is used in the health service but we are working with Value Wales to see whether or not there are even better ways to procure for us and how we can learn from one another.

[100] **Dr Daws:** To add to that, Welsh Health Supplies has been ahead of the game for a number of years. Even in 2003-04 it was declaring savings of over £5 million in its annual report, and in the previous five years to that, it had savings in excess of £20 million. So, the NHS has been doing this for a number of years and we now need to up our game with Value Wales and see what we can do across more public sector organisations under 'Making the Connections'. However, do not think that the health service has been behind; the health service has been ahead. It is important that that is recorded.

[101] **Mark Isherwood:** In reference to a Welsh purchasing card, do you participate in that scheme and, if not, could you?

[102] **Dr Daws:** The Welsh NHS has its own purchasing card system and the question now is: what benefits come from working across the different public sector organisations? There are already examples in Welsh Health Supplies working in north Wales, which we want to build on in the shared initiatives in north Wales, where there have been joint contracts between the health service and local government on specific things, because we are purchasing the same things in a number of areas. We have to build on that kind of work. There are also huge opportunities in north-west Wales, where there are already joint contracts with the University of Wales, Bangor. So, that is where the big savings will be made and that has to be the next push under 'Making the Connections', namely the public sector in Wales getting its act together as one public sector body.

[103] **Mark Isherwood:** Box 5 tells us that 96 per cent of public sector organisations in Wales have participated in Value Wales training programmes. It also tells us that 62 public sector organisations have been involved in the Buy for Wales initiative. We know that 65 accounts in central Government and the NHS were audited by the Auditor General for Wales. On that basis, if 62 out of 65 participated, that almost matches the 96 per cent who have undertaken training. Is that a fair comparison, or am I missing something there?

[104] **Sir Jon Shortridge:** My arithmetic is not very good this afternoon. I think that we had better give you a note on that so that I do not give a spontaneous answer that could mislead you.

[105] **Mark Isherwood:** Can we have clarification on that?

[106] **Janet Davies:** Yes, of course, and Sir Jon has agreed to provide that.

[107] **Mark Isherwood:** Thank you. My next question is more specific to Sir Jon's area. Value Wales has focused on areas where quick procurement gains could be achieved with success, but what key improvements do you think are still needed to ensure continuing economies on a long-term sustainable basis?

[108] **Sir Jon Shortridge:** Is that question for me?

[109] **Mark Isherwood:** Yes.

[110] **Sir Jon Shortridge:** The main challenge is to improve the level of collaboration across the public sector. Most of the public sector has been brought into the concept of Value Wales, but we need to increasingly convert that buy-in into engagement with collaborative procurement exercises that are being put in place. At the moment, I would say that it is patchy. I have a statistic that demonstrates that, on average, 30 per cent of the public sector is engaged with collaborative procurements. That is not to say that only 30 per cent ever engage, but if you think of all the collaborations that are around, taking each in turn, it will probably result in a different 30 per cent, if you see what I mean. So, we need to build on the platform that we are establishing and I think that we are still in the position of capacity building here and I echo what Ann and Chris said. I think that the health service in Wales, is, for the most part, ahead of the game and we have to learn from it.

[111] **Dr Daws:** I was going to say that the next area that we are focusing on specifically in north Wales is taking the end-to-end process and looking at how you are purchasing better based on what the customer needs. So, by improving your processes and by sharing some of them in a central area, you can improve the end point for the customer. When you then start to purchase together, you get much better savings from that. So, some real process improvements can be made through the chain, as it were, as well as by all of us buying things together, which can result in big savings.

[112] **Mark Isherwood:** That has come just in time.

[113] **Dr Daws:** In part, yes, but it is also about quality and ensuring that, if many people buy different things in a trust, what we would begin to get is a catalogue, whereby you have an evidence base and source not the cheapest, but the most cost-effective product. Once you start to get all of the information on a catalogue together for one region, you can start to make better improvements in how you purchase. If you have a good catalogue, you can also be sensitive to local businesses. So, you get the best quality as well as the best value.

[114] **Janet Davies:** It is important to bear in mind the issue of local businesses.

[115] We move on now to part 5.

[116] **Mick Bates:** I turn to page 20 and part 5. In paragraph 3, we get an update on the closure of the 1994-99 European Union programmes. Only one programme now remains to be finalised. Paragraph 5.7 reports that some improvements are appearing

in the way in which projects are being managed, but that concerns remain over the systems of internal control that are in place. Sir Jon, given that the closure process for the old programmes is now almost finalised, how are lessons from this process being taken forward?

[117] **Sir Jon Shortridge:** It is not just from this process. We now have substantial experience going back over a substantial number of years—some 12 or so—in terms of implementing structural funds in Wales. I see the issue as being one of a process of continuous learning and improvement from everything that happens in relation to the implementation of those schemes. Obviously, what we learn from the EU auditors when they come along is important, but we do not want to wait until right at the end of the process to take up that learning, so, we take important learning from the capacity that we now have for article 4 monitoring, which is at the earlier stages of the application for grants, and our article 10 monitoring.

[118] I was talking to Bob Macey, the chief executive of the Welsh European Funding Office, earlier today, and he is of the view that it is his and his senior management team's constant role to learn from everything that happens in respect of the structural funds payments process, so that he can continuously improve that service. I think that he is looking in particular to build that learning into the arrangements that we have put in place for the next round of structural funds, starting next year.

[119] **Mick Bates:** That was quite a general response, so what were the key lessons that you are moving forward?

[120] **Sir Jon Shortridge:** I will have to give you a note on that, because Bob and his team are the experts, but, if you look at figure 7 and the auditor general's comments, the number of audit observations has been reducing. The main lesson from the combination of those two things is that we need to focus on the internal controls—not my internal controls, but those of grant recipients. So, we are not just talking about recipients in the public sector, but in the voluntary sector and also in the private sector. It is about getting people who are not perhaps as used as we are to maintaining information systems and audit trails in respect of public money to do that to the satisfaction of our auditors and also of that of the European auditors. That, for me, is the main issue that comes from this report. To put it into context, these internal control issues are often not of a nature that puts the grant at jeopardy; it is simply about improving the compliance in the way that funds and overheads have been apportioned and things such as that.

[121] **Mick Bates:** Fine. Perhaps you are really referring to the training that is needed for the project sponsors and managers. Should compulsory training be a condition of the awarding of the grant, for example?

[122] **Sir Jon Shortridge:** I cannot give you a straight answer to that; I would have to be clear on whether we had the powers to make that a condition of grant payment, and, on the face of it, we probably do not. However, I will give you a short note on that. Training is a fundamentally important issue and it is the one that we are focused on.

[123] Following my last Audit Committee appearance of this nature, I wrote to all accounting officers and chief executives of public bodies in receipt of structural funds, stressing the need to ensure compliance with EU regulations, and training is a part of that. Bob Macey, at his own level, as chief executive of the Welsh European Funding Office, wrote a similar letter. We are holding training sessions and workshops and seeking to improve the capacity of the grant recipients to comply with quite difficult requirements. That process will continue.

[124] **Mick Bates:** So, presumably, when we look at the—[*Inaudible.*]—programme, we will see internal controls figure much reduced, hopefully?

[125] **Sir Jon Shortridge:** I would hope so, and I would just say that we should not overstate the importance of that; it is an important issue in itself, but, to a significant extent, it is not putting structural funds at risk.

[126] **Mick Bates:** Finally, what is the latest position of the closure of the final programme and on any potential financial loss to Wales?

[127] **Sir Jon Shortridge:** I am not able to comment on whether or not there may be potential financial loss to Wales. We are way off that, as far as I am concerned. There are discussions taking place, as I understand it, between WEFO and EU auditors on what are, to a significant extent, a range of technical auditing issues, which they have picked up on in relation to this particular programme. Until those discussions have been concluded, I will not be in a position to take a view on the significance of it.

[128] **Mick Bates:** May I clarify an issue in the report? In paragraph 5.2, a specific amount is deducted from the 18 programmes. As yet, there are no financial figures for the particular industrial south Wales programme that we are referring to.

[129] **Sir Jon Shortridge:** There are no financial figures and we are in discussion about that. We are aware of concerns that the EU auditors have and we are seeking to satisfy those concerns.

[130] **Mick Bates:** Fine. Is there a time limit to that consideration?

[131] **Sir Jon Shortridge:** I think that it is entirely a matter for the EU auditors as to when they want to bring this to a conclusion. It is not in my control.

[132] **Janet Davies:** I will take you back a little bit, Sir Jon, to this issue of various organisations' understanding of the financial and accounting rules to which they need to keep. Clearly, 1994-99 is quite some time ago. We are coming now towards the end of the present round and we will then be going into another round of structural funding. My experience is that there is such a different culture in some organisations from the culture that you get in Government when it comes to public money that it is very difficult to get them to really understand the issues. Are there any good practice guides in Government to try to explain to them how important it is to keep to the rules and get things done on time?

[133] **Sir Jon Shortridge:** There is a lot of guidance. WEFO produces comprehensive guidance covering all aspects of structural funding from application

through to the claiming stage, and this is constantly reviewed and improved to address the problems that have arisen. There are specific guidance notes supplementing that on such things as overheads, in-kind match funding and so on. We are constantly building up the guidance, but I imagine, particularly if you are in a small organisation, that the sheer volume of the guidance itself becomes part of the problem. I do not think that one should underestimate or belittle the sorts of issues that we have to deal with here in trying, proportionately, to help the grant applicant to be able to engage with the system, not just to our satisfaction, but to the rigorous requirements of the EU auditors.

[134] **Janet Davies:** I thoroughly acknowledge that it is a very difficult issue to come to terms with, so I will leave it there and go on to Catherine Thomas who has a question on the Freedom of Information Act 2000.

[135] **Catherine Thomas:** Moving on to page 23, paragraph 6.5 concludes that, in general, Assembly sponsored public bodies have made good progress in putting in place systems that meet the requirements of the Freedom of Information Act 2000. Sir Jon, what impact has the Act had within the Assembly? Are there systems in place that are sufficiently robust to meet demands in this area?

[136] **Sir Jon Shortridge:** On the impact, since the beginning of last year—I cannot quite remember when it came in—we have received 1,273 freedom of information requests, and we have completed 1,108 of those. We have received 36 complaints, which are mainly about the length of time that it takes to reply; 10 of these have been referred to the information commissioner, but, as yet, only three have been resolved, largely to our satisfaction. Therefore, that is the impact in terms of statistics.

[137] On the impact on staff time and staff business, these things can be incredibly time consuming, which is why we have not often been able to meet the 20-day deadline. However, having said that, I do not want to give the impression that I regard freedom of information requests as a nuisance—it is fundamentally important in a democratic society that people should have the right to access this information. I try to give as much personal support and leadership as I can to providing a proportionate and appropriate response to every request that comes in.

[138] Could you remind me of the second part of your question—I do not believe that I have dealt with that, have I?

[139] **Catherine Thomas:** Are the systems that are in place sufficiently robust? The Act came in on 1 January 2005.

[140] **Sir Jon Shortridge:** Our systems have been robust enough to create the statistics and the quality of service that those statistics indicate. We have invested heavily in training, and so on, and we have guidance in place. The one system that we need, and do not yet have—and will not have for some time—is an electronic document management system. If you have one of those, it is easy to identify all the relevant papers; without that, you have to employ people to go through, often, tens, or sometimes hundreds, of files, to pick out the relevant material. That is a big deficiency. However, putting in place an electronic records management system across an organisation as complex as the Assembly, and having everyone understand

how to work it, is expensive and is a huge business systems development and change. It is in my to-do programme, but it will be some time before we have it in place.

[141] **Catherine Thomas:** If it is in your programme, what is your timescale for it? The efficient recording of requests is important so that you can monitor them. On the 20-day deadline, do you currently have the information to share that would tell us how many requests are not meeting that deadline?

[142] **Sir Jon Shortridge:** On deadlines, the answer is ‘yes’ and ‘no’. We know how many have not met the 20-day deadline, but, often, we will have secured an extension to the 20 days; I do not have information on the number where we have reached agreement to have an extension. Therefore, the bald statistic is that we complete 35 per cent within 20 working days. I cannot give you a statistic on the number, or the proportion, where we have not complied with the Act in terms of extensions.

[143] **Catherine Thomas:** If you have to go over the 20 days—and the majority of requests do—what is the maximum number of days that we are talking about?

[144] **Sir Jon Shortridge:** I do not have a figure here for the maximum, but I would not be surprised, with one or two complex and large requests, if we were talking about several months; for all I know, we might have a request that is up to one year old. However, if you want further information on that, I will have to give you a note.

[145] **Ms Lloyd:** I can add to that, as someone who Sir Jon monitors heavily on this. The FOI requests that we tend to get in the health department are highly complicated. Often, we have received FOI requests that are so discursive that we almost did not know where to start. There have been a number of occasions when we have had extensions to the 20-day rule, for a variety of reasons—to clarify precisely what information is being requested or because the information requested relates to individuals and we have to seek permission from those individuals to release the information to a third party. I have to admit that two of my FOI requests are outstanding from the first day that the Act came into being, because I have to contact 3,000 people, some of whom might not live where they did when the information was requested. It is very complicated. The Permanent Secretary has a very efficient system whereby he will tell me every month, ‘Oh dear, you have x outstanding; why is that?’. He holds us to account quite rigorously.

[146] We have had to set up a small team within my department to manage my FOI requests, because, on the whole, they relate to the treatment of individuals or to information that individuals have given to us or third parties. We have to be very careful, because patient confidentiality is written right the way through us and you breach that at your peril. Patient confidentiality is one of the things that we are just not allowed to breach, and that is quite right, too. So, the requests that we have to deal with are quite complicated and that is why I set up a small team to ensure that there was a standard approach to this matter, that we were not breaching confidentiality and that we maintained standards at all times. The Permanent Secretary monitors us very rigorously indeed.

[147] **Catherine Thomas:** As Assembly Members, we all understand the

importance of confidentiality. I have another question for Mrs Lloyd—

[148] **Leighton Andrews:** Could I just come in? Do you have a figure for the proportion of freedom of information requests that have come from the Welsh media?

[149] **Sir Jon Shortridge:** I do not have it with me. If I can easily produce that figure, or an indicative figure, without having to breach the 20-working-day rule, I will make sure that the committee has it.

[150] **Leighton Andrews:** Okay.

[151] **Catherine Thomas:** Mrs Lloyd, you touched on part of the question that I wanted to ask. Are you confident that NHS bodies are equipped to meet the requirements of the Act and how are you monitoring them?

[152] **Ms Lloyd:** Until recently, we had a member of the team who specifically looked at producing guidance and help for the NHS. Unfortunately, that person has now gone and we have not yet been able to recruit to fill that post, but we shall. For a long time, the NHS has had to cope with the issues that arise from the Freedom of Information Act 2000. I think that many of the working practices that the Act requires were already embedded within the service because, often, in dealing with complaints, you were actually dealing with the same set of issues.

[153] I have asked the regional offices to ensure, as part of their check on how organisations are managing with the pressures and strains on them, that they are not feeling overburdened and to find out whether they have got their training right. It is becoming hugely onerous, but no-one has complained to us that that is the case at the moment; it has not been reported to me anyway. I have also asked the regional offices to ensure that the organisations are confident, or gaining in confidence, that they are managing this Act effectively and are not being reported to the information commissioner. I have not been informed that that has been the case so far. We have had one complaint against us, but that was overturned by him; it was comforting that he said that we had already provided far more information than he thought was usual.

[154] **Jocelyn Davies:** Has the Freedom of Information Act 2000 affected what information is now being retained?

[155] **Ms Lloyd:** From a patient point of view, the openness of the availability of patients' records to the patients themselves caused a major change in the health service, seven or eight years ago, in the way in which information about patients and individuals was recorded. I think that that was where the major change came in the health service because, prior to that, there was a certain looseness, on occasion, in the way in which details about individuals were recorded. That was tightened up much more then.

[156] In terms of whether people will commit themselves and their advice to paper, I do not think that that is the case. I certainly have not noticed a change in the way in which my officials provide me with advice, or in the way in which I advise the Minister, because of the Freedom of Information Act 2000.

[157] **Sir Jon Shortridge:** I would go along with that. You could say that, increasingly over time, the Freedom of Information Act 2000 will drive up standards, in that it has put a stop, or is progressively putting a stop, to frivolous e-mails, inappropriate language and so on, and it is very good that that is happening. One of the things that Ann and I have to be rigorous about is that decisions are properly recorded and that the advice continues to be without fear and favour. I have seen no evidence to suggest that there has been a diminution in that respect.

[158] **Jocelyn Davies:** I just said that I wondered how it had affected it; I was not suggesting that you looked at information and said, 'Oh, I am going to bin this just in case somebody wants to look at it later'.

[159] **Sir Jon Shortridge:** It is a legitimate concern that has been around that it will affect standards of administration in governance, and I have a duty to ensure that it does not.

[160] **Janet Davies:** What do you think are your financial management priorities over the next year?

[161] **Sir Jon Shortridge:** I think that my main priority is to manage the governance of risks associated with the mergers. As I said at the outset, having 1,600 additional staff with lots of new responsibilities, turning the organisation into much more of a delivery organisation, is a huge change, and I am determined that it should be a change for the better and a successful change. However, no-one should doubt the fact that there are significant risks involved when you have a change of that scale, literally taking place overnight. This committee spent quite a lot of time talking about ELWa, as I recall. I am managing a situation that is, on one level, much riskier than that. So, that is my top priority, I suppose.

[162] My second one is to ensure that the new Assembly and the new Assembly Government, if I can use those terms, are successfully established in May 2007, subject to Parliament, and there are all sorts of financial and governance issues associated with that.

[163] Thirdly, I am determined, as you heard earlier, to implement this accrual accounting system on time. Associated with that, I am also determined to secure the faster closing of accounts, and we have a particular complication with our accounts next year because it will be the first time that the Assembly's accounts incorporate the sponsored bodies that have been merged in. So, it will be less straightforward, and, anyway, there is the faster closing.

[164] I suppose that my bottom-line requirement is that the auditor general should continue to be able to state that the standards of financial management and probity within this part of the Welsh public sector remain high.

[165] **Ms Lloyd:** One of my key risks is the potential for financial failure within the NHS, where it is unable to manage its finances within the limits of resource and starts to make decisions that have not been properly risk-assessed and which have consequences for staff or patients, or both. That is a major concern of mine.

[166] A second concern is that it does not come forward effectively with reconfiguration proposals that will allow it to move the agenda on in terms of the effective provision of value-for-money health and social services for the future. It would therefore be running itself into a problem in 2009 when the European working time directive comes into effect, and it might find that it is unable to safely run its services. So, that is a major driver for me.

[167] A third risk would be that, in terms of the cost of the staff contracts for 'Agenda for Change', trusts do not use their benefits realisations effectively, and run with staffing structures that are no longer fit for purpose. As we know already, in 'Agenda for Change', there is a huge gap around the healthcare assistant grade, namely grade 4, which needs to be filled. They must look at reconfiguring their services well, and they need to do something in terms of the more experienced nursing or allied health professional grades. If they just sit on their staffing structures, they will not realise the benefits and they will be in trouble. If they do not use the Compass system that we have developed on consultant workloads, and if they do not use the quality assessment framework scores for general medical services properly, they will not realise the benefits of these massive improvements in staffing resources that we have provided to them. If they do not manage their waiting times, they will be penalised, and that will add to the financial pressures that they have.

[168] I could go on, but there are a number of various pressures on the service, and one of my big concerns is that the organisations out there must collaborate better to ensure that they spread the competence and the capacity better than they have in the past. They have worked in silos, and they have started to recognise that they must join together more effectively for the future, in order to realise the effectiveness of the resources that have been given to them, and to plan better across their borders to deliver care more appropriately.

[169] **Janet Davies:** Thank you. Seeing as you both have significant financial management challenges, our successor Audit Committee may have very interesting meetings next year. I thank Dr Dawes, Ms Lloyd, Sir Jon and Peter Ryland for their helpful answers. You will be sent a draft transcript of this meeting's deliberations before its publication. We will take a 15-minute coffee break now, and I think that we will see you back here afterwards, Ms Lloyd. I ask everyone to come back by 3.05 p.m..

Additional information supplied by Sir Jon Shortridge KCB, Permanent Secretary, National Assembly for Wales

Dr Kathryn Jenkins
Clerk to the Audit Committee
National Assembly for Wales
Cardiff Bay
Cardiff
CF99 1NA

31 July 2006

Dear Kathryn

Audit Committee of 6 July 2006: Financial Audit of central government and NHS Bodies in Wales 2006

At the hearing of 6 July I undertook to provide the Committee with notes on the following issues:-

The recommendations contained in the Internal Audit Services Report of December 2005 on grant management

The IAS report covered the following aspects of grant management:

- (i) controls over the reconciliation and management of grant balances within the Assembly accounts;
- (ii) controls over the management of grant schemes at divisional level;
- (iii) controls over the processing and payment of grant invoices;
- (iv) the adequacy of training and guidance available to Assembly Government officials on grant expenditure recording and monitoring; and,
- (v) the adequacy and consistency of application of the general control environment in meeting the standards of the Statement of Internal Control that I sign to accompany the annual Assembly Resource Account.

The Report concluded that controls in respect of (ii), (iii) and (v) were effective but improvements were needed in the areas of reconciliation and management of grant balances; and training and guidance.

The Report made the following key recommendations:-

- a review of all grant schemes to ensure grants are being correctly accounted for;
- more frequent reconciliation of expenditure monitoring on grant schemes in a way that facilitates better end-year expenditure forecasting on a resource basis; and,
- a more proactive approach by divisional management to training staff in the administering, recording and monitoring of grant schemes, with provision for regular mandatory training sessions for staff responsible for administering grant schemes; and enhanced written guidance.

These recommendations, together with individual scheme specific recommendations included in the Report have been broadly accepted. Implementation is being monitored in line with IAS normal procedures. IAS considered that the implementation of the “Procure to Pay” and “E grants” systems should eradicate the majority of those weaknesses identified in respect of grant accounting and expenditure monitoring.

With regard to training, guidance on grants management has been revised and enhanced to include the “E grants” system currently being piloted. A training module on grant appraisal, payment and monitoring is part of the Finance Department’s overall training programme. In addition a short “hot shot” seminar on grant management fundamentals is being arranged for 12 September for key Assembly Government staff. This will be evaluated in terms of its content and future potential.

A breakdown by category of the public sector organisations that have participated in the Value Wales training programme and that have participated in the Buy 4 Wales national procurement web-site

A breakdown is enclosed at Appendix 1. The Auditor General’s Report refers to 62 public sector organisations having advertised on “Buy4Wales”. Since the Audit Committee hearing the number has now risen to 63. A total of 112 organisations have registered on Buy for Wales with 109 (97 per cent of those registered) having participated in the training programme.

Key lessons learned from the closure process of the 1994-99 EU Structural Funds Programmes

The closure of the 1994-99 Programme has been a labour intensive and highly demanding process, not just for the Welsh Assembly Government but also for UK Government Departments and the other devolved administrations. The main lessons that we have learnt from the process to date are that:-

- teams dealing with closure need to be adequately resourced;
- other activities, particularly related to the new programmes can affect the production of the closure statements;
- there is a need for clear ownership of the closure process;
- there is a need for systems that facilitate the effective sharing of good practice and lessons learned.

A closure working group chaired by the Chief Executive of WEFO has been established to oversee and manage activity on closing the 2000-06 Programme. Assembly Government officials are also engaged in the following activities to build on the experience gained as a result of the 1994-99 closure process:-

- WEFO and Internal Audit Services are actively engaged at a UK level in the closure planning process to ensure consistency in implementation of the lessons learned;
- a series of audits has been undertaken during the 2000-06 Programme period to gain assurance and avoid back loading a substantial proportion of the assurance work to the end of the period as happened in respect of the 1994-99 Programme;
- WEFO has notified grant recipient organisations of the timetable for the last submission of audited grant claims. This gives adequate time for the closure activities, including all adjustments and scrutiny (including Article 15 scrutiny by Internal Audit Services) to be undertaken.

Closure of one small programme has already been undertaken. Lessons learned from this activity will also be drawn on in the wider closure activity.

In taking these steps the Assembly Government is capitalising on the lessons learned and is seeking to minimise both the organisational challenge for the 2000-06 Programme closure and the risk of grant reclamation by the European Commission.

The potential for making compliance training for EU project sponsors and managers a mandatory condition for the award of grant

I have been advised that training can be made a mandatory condition. As the designated managing authority WEFO is required to ensure the sound financial management of Structural Funds. European regulations and Assembly powers provide for the provision of grant conditions. If appropriate, these could relate to training requirements for those managing European projects.

Many project sponsors do, of course, have significant expertise in delivering European funded projects and a blanket requirement for training would not be

appropriate. In developing its plans for the next round of Structural Funds WEFO officials are considering how best to further develop the delivery capacity of grant recipients.

Statistics on the time taken to deal with FOI requests

During the 12 month period ending 30 June 2006, the Assembly Government received 602 requests for information. Action has been completed in respect of 482 requests to the following timescales:-

0 to 20 days	329
21 to 30 days	80
Over 30 days	73

As of 20 July 2006 the working days that have expired on the remaining 120 active requests were as follows:-

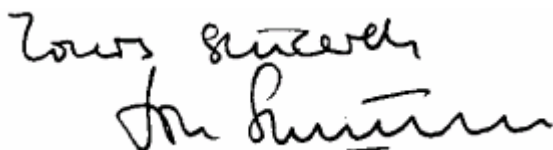
0 to 20 days	82
21 to 31 days	7
Over 30 days	31

The Freedom of Information Act 2000 (FOIA) and the Environmental Information Regulations 2004 (EIRs) set response times of up to 20 working days. The Data Protection Act 1998 requires responses to Subject Access Requests within 40 calendar days. The FOIA allows for a reasonable extension to the 20 working day deadline when considering a public interest exemption and the EIRs allow for an extension of a maximum of a further 20 working days if the request is complex and/or voluminous. It is not possible to give a general picture of when and where time limits have been extended to apply exemptions but details of individual releases are given in the Disclosure Log on the Assembly web-site

<http://www.information.wales.gov.uk/content/extrareports/index-e.htm>.

Figures relating to the proportion of FOI requests made by the Welsh media

Out of the 602 requests received during the 12 month period ending 30 June 2006, 69 (11 per cent) are recorded as being submitted by a media representative. The actual figures may be higher as the recorded figures are based on requesters of information volunteering the information that they work for the media. Of the 69 recorded requests, 56 originated from a media source within Wales and 13 originated from sources outside Wales.



JON SHORTRIDGE

Value Wales training programme and Buy4Wales participation

	Training participation	Registered on Buy4Wales	Advertised on Buy4Wales
Assembly, ASPBs and other central government bodies ¹	25	35	14
Higher Education Institutions	7	11	4
Further Education Institutions	19	21	10
NHS Bodies (inc LHBs) ¹	35	15	10
Local Government Bodies	22	22	21
Registered Social Landlords	1	8	4
Total	109	112	63

¹ Included in the 65 accounts audited by the Auditor General for Wales, 2004-05



Llywodraeth Cynulliad Cymru
Welsh Assembly Government

Dr Kathryn Jenkins
Clerk to the Audit Committee
National Assembly for Wales
Cardiff Bay
Cardiff CF99 1NA

Mrs Ann Lloyd
Head, Department for Health & Social Services
Chief Executive, NHS Wales
Pennaeth, Adran Iechyd a Gwasanaethau
Cymdeithasol
Prif Weithredwraig, GIG Cymru

Eich cyf / Your ref:
Ein cyf / Our ref: AJL/ FN

19th July 2006

Dear Kathryn

Audit Committee 6 July: Financial Audit of Central Government and NHS Bodies in Wales 2006.

Following the evidence session of 6 July on the Auditor General's Financial Audit Report I would like to correct a point of detail in the evidence I gave to the Committee on payment performance in the NHS.

The prompt payment definition set out in Welsh Health Circular (2003)39 issued on 9 April 2003 to all NHS bodies (and still in force) is as follows:-

"95 per cent within 30 days from, the later of, the receipt of a valid invoice or receipt of the goods."

The target relates to the number of invoices paid and includes all creditors. The target is only measured against **valid** invoices. Genuine disputes are adjusted for within the actual performance and any invoices paid outside the 95 per cent target should therefore only relate, to valid invoices that have genuinely failed to be paid within the required 30 day target.

In giving evidence, I told the Committee that the prompt payment threshold set for NHS bodies was 95 per cent within a 30 day period. This is the case. In answer to a follow up question from the Committee Chair, however, I inadvertently indicated that the remaining 5 per cent represented a notional calculation of bills subject to challenge and therefore not suitable for payment. As you will see from the more detailed explanation above, my statement was not correct and I would ask you to note this amendment.

Parc Cathays • Cathays Park
Caerdydd • Cardiff
CF10 3NQ

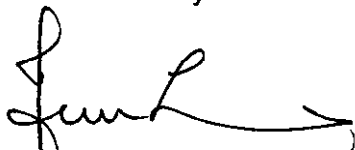


BUDDSODDWR MEWN POBL
INVESTOR IN PEOPLE

Ffôn • Tel: 029 2080 1182
GTN: 1208 1182
Ffacs • Fax: 029 2080 1160
E-bost • E-mail: ann.lloyd@wales.gsi.gov.uk

I hope this clarifies the issue and I apologise for any misunderstanding my original answer may have caused.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Ann Lloyd', with a long horizontal stroke extending to the right.

Mrs ANN LLOYD
Head, Department for Health & Social Services
Chief Executive, NHS Wales
Pennaeth, Adran Iechyd a Gwasanaethau Cymdeithasol
Prif Weithredwraig, GIG Cymru