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# THE NATIONAL ASSEMBLY FOR WALES

## AUDIT COMMITTEE

Committee Report (2) 08-04 presented to the National Assembly for Wales on Thursday 4 November 2004 in accordance with section 102(1) of the Government of Wales Act 1998

### The General Report of the Auditor General for Wales 2004

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## Introduction

1. In this report, we examine the findings reported by the Auditor General for Wales in his General Report for 2004. The Auditor General, Sir John Bourn KCB, is responsible for the examination and certification of the annual accounts of the National Assembly for Wales and its related public bodies. For the 2002-03 financial year the Auditor General, supported by staff of the National Audit Office Wales, audited 32 such accounts in accordance with UK Auditing Standards issued by the Auditing Practices Board.
2. The Auditor General publishes annually a General Report summarising the results of his financial audit and his 2004 report<sup>1</sup>, covering his work on the 2002-03 accounts and related matters, was published on 11 June 2004. We took evidence on the basis of this report from Sir Jon Shortridge KCB, the Assembly's Permanent Secretary and Principal Accounting Officer, who was supported by Mr David Richards (Principal Finance Officer) and Mr Laurie Pavelin (Head of Financial Accountability Division). A transcript of the evidence is at **Annex A**. We would like to thank the witnesses for their constructive and helpful answers to our questions.
3. In making this report and our recommendations, the Committee warmly welcomes the conclusion reached by the Auditor General in his 2004 General Report that "overall...standards of financial management and probity remain high in Wales"<sup>2</sup>. Expanding on this theme in his introductory remarks at the Committee's evidence session, the Auditor General told us that the Welsh public sector was well up to the standard of the rest of the United Kingdom and, indeed, in some respects was in advance of it<sup>3</sup>. Accordingly, the Committee wishes to acknowledge the considerable efforts of officials at all levels throughout the public services in Wales for achieving this result. Given the size of the £11 billion Welsh block budget, and the ever-increasing demands for strong and effective financial management being placed on public bodies, it is important that continuing efforts are made to maintain and improve upon the high standards that have been set.
4. In this report, we examine four important themes brought out from the Auditor General's findings which we consider have a widespread application across Welsh public bodies:

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<sup>1</sup> Auditor General for Wales: *The General Report of the Auditor General for Wales 2004*, presented to the National Assembly for Wales on 11 June 2004.

<sup>2</sup> AGW General Report 2004, page 1.

<sup>3</sup> Annex A, Q2.

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- Securing further improvements in standards of financial management;
  - Matters arising from audit of the 2002-03 accounts;
  - Procurement arrangements at Assembly Sponsored Public Bodies; and
  - Expenditure financed by the European Structural Funds.

## **Securing further improvements in standards of financial management**

5. Whilst recognising that standards of financial management and probity are high in Wales, we were interested to find out from the witnesses what key actions could be taken to secure further improvements. As Principal Accounting Officer, Sir Jon Shortridge considered that it was important firstly to build on the systems and arrangements already in place. These included the role played by his Corporate Governance committee, the meetings that he holds twice yearly with individual Accounting Officers, the work of his Internal Audit Unit and the letters that he regularly sent out to Accounting Officers on a range of issues. On this latter point, he noted that he had written out on 15 June 2004 to all Accounting Officers in response to the findings of the Auditor General's General Report<sup>4</sup>. An enormous amount of activity takes place, we were informed, to ensure that the systems are as good as possible, and when issues of a systemic nature come to light they are looked at collectively to see how systems could be improved and lessons learned and embedded<sup>5</sup>.
6. In a subsequent note to the Committee, the Permanent Secretary set out his main objective for the Assembly's Second Term: to strengthen further the Assembly's reputation for sound financial management and to help improve the governance of those public sector organisations for which the Assembly has responsibility. His specific objectives over the coming year included further improving the standards of financial management within the Assembly itself through a further embedding of risk management and continuation of the much more comprehensive and systematic approach to financial training introduced last year for all key personnel. The Permanent Secretary added that, with the impending mergers of certain sponsored bodies with the relevant Assembly sponsor Departments, he was looking to appoint some of his Heads of Department as Sub-Accounting Officers<sup>6</sup>.

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<sup>4</sup> Annex B

<sup>5</sup> Q3

<sup>6</sup> Annex D

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7. The Permanent Secretary also informed us that his other key objectives over the coming year included improving efficiency and value for money within the services provided by the Assembly; ensuring that all accounts for which he has direct responsibility are prepared on time and without qualification; and to ensure that high risk projects - such as completion of the new Assembly building - are managed effectively and well. Finally, the Permanent Secretary told us that over the next twelve months he intended to strengthen the Assembly's financial management relationship with its sponsored bodies<sup>7</sup>.
  8. Our particular concern was to establish that officials of sponsored bodies do have sufficient expertise to control their large budgets, including aggregate annual expenditure under many different grant schemes of some £800 million. The Permanent Secretary confirmed that he needed to satisfy himself that the people involved in spending such sums of money understood the requirements placed on them in carrying out this task. He outlined to us a range of training provisions that were being made available to the sponsored bodies, including the piloting of a course involving both sponsoring staff within the Welsh Assembly Government and staff of the sponsored bodies. He emphasised that such training represented an engagement between finance staff at the Assembly, the staff of sponsor divisions and the staff of sponsored bodies so that together they could learn and increase their mutual understanding of what was required<sup>8</sup>.
  9. We are pleased to note the extensive range of controls and procedures that the Permanent Secretary has deployed in striving to secure further improvements in financial management. We also acknowledge his prompt action in writing to the Accounting Officers of all sponsored bodies concerning the issues raised in the Auditor General's report and note his intention to meet with them in October to discuss these points in further detail<sup>9</sup>. We recognise that no absolute assurances concerning standards of financial management can be provided because from time to time individuals would get things wrong, but agree with the Permanent Secretary that his responsibilities in this regard are twofold: firstly, to minimise the opportunities for error, and secondly, where systemic issues are identified, to ensure that

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<sup>7</sup>Annex D, Q3

<sup>8</sup>Qs 4 and 5

<sup>9</sup>Q7

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training on these specific matters becomes part of the overall armoury for dealing with it in future<sup>10</sup>.

10. **We recommend that the Welsh Assembly Government strives to make early progress in identifying and introducing further improvements in its financial and risk management procedures, supported by comprehensive staff training arrangements and processes for dissemination of good practice.**
11. In examining ways to secure improved financial management, we also noted that the Auditor General had found that public sector bodies in Wales are not yet making full use of resource-based financial management as a business tool for planning and controlling expenditure<sup>11</sup>. Resource-based financial management enables information on income and expenditure to be captured when the transactions actually occur, rather than when cash is later received or paid. This enables organisations to have a much more accurate picture of their planned and actual resource consumption.
12. The Permanent Secretary told us that, in his judgement, recording information accurately on a monthly basis in resource terms would be a labour-intensive and difficult business for the Welsh Assembly Government. He relied most heavily on cash-based activity information for his monthly monitoring of in-year spend against budgets<sup>12</sup>. He accepted our point that, in a very literal sense, this meant that the significant investment in new accounting systems made by bodies such as the Assembly and ELWa - The National Council for Education and Training for Wales (the National Council) was being partially wasted. However, he contended that the nature of the majority of spending decisions that he faced throughout the year in an organisation like the Welsh Assembly Government could be taken as readily on a cash basis as a resource basis. He thought that the greatest value of resource accounting and budgeting was in looking at year-on-year changes in the Assembly's balance sheet: the way in which it was using its assets, and the way in which it was or was not replacing those assets<sup>13</sup>.
13. Mr Pavelin added that some improvements were already being realised from the Assembly's new accounting system, which was now operational. Assembly Government officials had

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<sup>10</sup> Q5

<sup>11</sup> AGW General Report 2004, paragraphs 4.3-4.5 and Figure 8.

<sup>12</sup> Q21

<sup>13</sup> Q22

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known at the outset, however, that this process would take several years and that there would be further developments to make to the system. The area in which they had experienced most difficulty was in tracking grant expenditure; it was difficult to determine when grant commitments would materialise into actual claims for payment and for what amounts<sup>14</sup>. As part of the new Merlin contract, officials were examining how the grants process might be streamlined within the Assembly Government, including the development of a grants information system<sup>15</sup>.

14. We are concerned at the apparent complacency that may exist within the Welsh Assembly Government concerning the implementation of resource-based financial management procedures. Whilst acknowledging the specific problems posed by grants expenditure, we consider it unacceptable that an organisation responsible for over £11 billion of public expenditure continues to manage its operations largely through cash-based information. As a result, many of the potential benefits of the IT investment in resource-based financial management information systems currently remain unrealised. We note that the approach being adopted by Assembly officials also appears to be out of step with developments in the public sector elsewhere in the United Kingdom, where improvements in systems for capturing and using resource-based information are seen as being essential to the successful implementation of the Treasury's initiative for the faster closing of accounts.
15. **We recommend that the Welsh Assembly Government should ensure that it makes full use of the capabilities available within its new computerised financial system, using resource-based information both within its in-year financial management processes and also in support of the preparation of its annual accounts. This should include the provision of appropriate training to senior managers and other staff outside of the Finance function where necessary. The Welsh Assembly Government should also seek to draw on emerging best practice in financial management arrangements from elsewhere within the central government sector.**

## **Matters arising from the audit of the 2002-03 accounts**

16. The Auditor General gave unqualified opinions to all but one of the 32 accounts that he audited for the 2002-03 financial year. (The one exception was the Summarised Account of the Health Authorities in Wales, which we have considered in our separate report on the

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<sup>14</sup> Q22

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Finances of NHS Wales 2004<sup>16</sup>.) The Auditor General also issued substantive reports, without qualifying his audit opinion, on the 2002-03 accounts of the National Council and the Higher Education Funding Council for Wales<sup>17</sup>. We are pleased to note that the National Council received an unqualified audit opinion from the Auditor General for the first time since its establishment, and that he had concluded that satisfactory progress was being made by the National Council's management on the serious issues that had resulted in two appearances by its Accounting Officer before this Committee in 2003<sup>18</sup>.

### **Adequacy of actions taken in response to Management Letter recommendations**

17. The primary aim of financial audit is to enable the Auditor General to form an opinion on the account. However, as part of its work the National Audit Office Wales offers appropriate and constructive advice on the design and operation of accounting systems, procedures and controls, and recommendations on potential improvements that can be made to the efficiency and effectiveness of the clients' operations. Much of this advice is given orally, but each year the more significant issues arising from audit work are raised formally at the end of each audit in the form of a 'Management Letter' addressed to the Accounting Officer of the audited body<sup>19</sup>.
18. In total, the National Audit Office Wales made 160 recommendations to the management of audited bodies in Wales as a result of the work carried out on audited bodies' accounts and operations for the 2002-03 financial year<sup>20</sup>. In our report on the 2002 General Report of the Auditor General, we noted that, in a small number of cases, management had not actioned key recommendations and urged that such cases should be pursued with vigour<sup>21</sup>. The findings from this year's review by the Auditor General indicated that still more needed to be done by senior management at some audited bodies to ensure that agreed actions in response to audit recommendations are actually taken, and implemented in a timely manner. The Auditor General reported that thirteen audited bodies still had actions outstanding from

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<sup>15</sup> Q23

<sup>16</sup> NAW Audit Committee Report (2) 07-04 (October 2004).

<sup>17</sup> AGW General Report 2004, paragraphs 2.17 and 2.18

<sup>18</sup> AGW General Report 2004, paragraph 2.21

<sup>19</sup> AGW General Report 2004, paragraphs 3.2 and 3.3

<sup>20</sup> AGW General Report 2004, paragraph 3.7 and Figure 6

<sup>21</sup> NAW Audit Committee Report 01-03 (February 2003), paragraph 13

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recommendations that had arisen on their 2001-02 accounts, and that two bodies still had actions outstanding relating to recommendations from the 2000-01 audit<sup>22</sup>.

19. We raised these continuing concerns with the witnesses and The Permanent Secretary told us that as Principal Accounting Officer he personally took this matter very seriously indeed<sup>23</sup>. He noted that sometimes there were legitimate reasons why implementation of audit recommendations might take slightly longer than a year, and that he himself only received the management letters for the previous financial year in the following January. However, he had taken two measures to address the delays that had been criticised by the Auditor General and previously by this Committee: in the case of the Assembly-sponsored bodies, he had drawn our concerns to the attention of their Chief Executives in writing and he intended also to discuss this issue at his next meeting with all Accounting Officers in October 2004; in the case of the Assembly Government itself, he had made his own assessment of the reasonableness of the explanations he had received for instances of repeated delays in the implementation of Management Letter recommendations. As a result, he had written to the heads of the divisions concerned and asked personally to see the officials most directly involved. He had made clear to heads of divisions that in such cases he wanted the circumstances taken into account in performance appraisals, and had sought assurances that there would be no grounds for further criticism of the Assembly's procedures in the following year<sup>24</sup>.
20. We sought assurance that no problems existed between the senior management of the various bodies and their own Audit Committees that might hinder their working effectively together to ensure that standards of performance in addressing audit recommendations were being maintained and that the necessary improvements to systems of control were being put in place. The Permanent Secretary assured us that the Audit Committees of the sponsored bodies do actively tackle these issues<sup>25</sup>. Each Audit Committee had a process under which the material from both the external and internal auditors was considered, actions requested and followed-up. None of the Assembly-sponsored bodies had reported concerns to him

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<sup>22</sup> AGW General Report 2004, paragraphs 3.14-3.16

<sup>23</sup> Q8

<sup>24</sup> Q7

<sup>25</sup> Qs 9 and 10

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about any failure of staff at those bodies to take action in response to audit recommendations<sup>26</sup>.

21. We note the actions taken by the Permanent Secretary in response to the previous concerns of this Committee over delays in the timely implementation of Management Letter recommendations. Whilst we accept that some points raised in Management Letters will necessarily take time to implement, we do consider the excessive delays noted by the Auditor General to be unacceptable. We are deeply dissatisfied that the overall position seems little improved since we last examined this topic in 2002, and we remain concerned that problems seemingly persist despite the scrutiny afforded to the adequacy of management responses by their Audit Committees.
22. **We recommend that the Welsh Assembly Government should make it clear to the Chairs of Assembly-sponsored bodies that the prompt implementation of agreed audit recommendations should be regarded as a performance issue for their senior management teams. We also recommend that this Audit Committee report, together with the response of the Welsh Assembly Government to it, should be copied to the Chairs and Chief Executives of each Assembly-sponsored body by the Principal Accounting Officer, together with a request that both documents be placed on the agenda of each organisation's Audit Committee at the earliest opportunity.**

### **Timeliness of annual accounts preparation**

23. The vast majority of the bodies audited by the Auditor General prepare their accounts promptly each year in accordance with timetables agreed with the National Audit Office Wales. However, the Auditor General reported that around a fifth of organisations failed to meet the agreed timetables for submission of their 2002-03 accounts, and that in one case the delay had been so severe that the body concerned actually missed the statutory deadline for the signature of its accounts by the Accounting Officer<sup>27</sup>. As well as representing a key annual element of effective financial stewardship, the Auditor General has noted that the need for prompt preparation of accounts after the financial year-end is assuming ever greater importance as the Treasury's 'faster closing' initiative and the introduction of Whole of

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<sup>26</sup> Annex C

<sup>27</sup> AGW General Report 2004, paragraphs 3.17 and 3.18

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Government Accounts are together imposing stricter future deadlines on government departments for the preparation of their annual accounts<sup>28</sup>.

24. We were concerned over the late submission of nearly 20 per cent of 2002-03 Welsh accounts to the Auditor General for his audit, and we consider it completely unacceptable that in one instance a statutory deadline was missed. Accounts are important, and we suspect that such delays may indicate a greater level of financial management risk more generally within the organisations concerned. The Permanent Secretary told us that this he shared our concern, particularly as a number of the delayed accounts were the direct responsibility of officials within the Assembly. His staff had experienced particular difficulties this year due to the consequences of the transition from cash to accruals-based accounting and the resulting need for timely information on debtors and creditors. He also noted that in preparing consolidated accounts it was vital to be able to reconcile the debtor and creditor balances in one public body with those of other bodies. He told us that he found delays of a week or two in the submission of draft accounts for audit to be regrettable, but both explicable and understandable. However, he conceded that there had been a much more serious delay in the case of the Welsh European Funding Office, whose accounts he understood to have been some five weeks late<sup>29</sup>. In this regard, we note the Permanent Secretary's intention to ensure that all the accounts for which he is directly responsible are prepared on time and without qualification<sup>30</sup>.
25. Given that 2003-04 is the first year for which the 22 new NHS Local Health Boards will be required to prepare annual accounts, we asked the Permanent Secretary whether he was aware of any problems that might arise in the prompt delivery of those accounts for audit. In response, he noted that the local health boards were close to the top of his own personal risk register in respect of accounts preparation concerns. Mr Pavelin added that Assembly Government officials had been working with the local health boards to ensure that the required management and accounting information were likely to be available at the right time. He was not aware of any reported problems to that point, but advised us that as these were new organisations, some difficulties could be expected<sup>31</sup>.

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<sup>28</sup> AGW General Report 2004, paragraph 7.13

<sup>29</sup> Qs 11 and 12

<sup>30</sup> Annex D

<sup>31</sup> Q14

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26. **We recommend that the Welsh Assembly Government should strengthen its oversight of the accounts preparation process, in particular by ensuring that any slippage against agreed timescales is brought to the attention of senior management at the earliest opportunity so that prompt corrective action can be taken. We further recommend that greater priority is afforded to bringing forward the preparation of accounts wherever possible to ensure compliance with the Treasury's 'faster closing' initiative and to facilitate the timely production of Whole of Government Accounts.**
27. **We further recommend that senior NHS and Assembly Government officials should ensure that realistic timetables are agreed and adequate resources deployed in relation to the preparation of the accounts of the new local health boards in order that these should not put at risk the achievement of the timely production of Whole of Government Accounts.**

#### **Whole of Government Accounts**

28. In his previous General Reports, the Auditor General had commented favourably on the performance of the National Assembly for Wales in meeting the various Treasury deadlines for submission of accounting information as part of the Whole of Government Accounts project. However, the Auditor General reported this year that the final dry run account had seen a significant drop in the Assembly's performance in this regard, such that the Assembly was the very last UK department to submit its dry run 2002-03 Central Government Accounts to the Treasury<sup>32</sup>.
29. The Permanent Secretary confirmed to us that it had been the fault of Assembly Government officials that the return was late and added that he was both personally embarrassed and totally dissatisfied at the outcome of the 2002-03 dry run accounts process<sup>33</sup>. He noted that the delay had arisen mainly because of the difficulty his staff had experienced in reconciling debtor and creditor information held by the Welsh European Funding Office holds with the equivalent information recorded by some of the Assembly's sponsored bodies. Mr Pavelin added that another complicating factor had been the accounting implications of the transfer of responsibility for the management of European Social Fund grants to the Assembly itself<sup>34</sup>.

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<sup>32</sup> AGW General Report 2004, paragraph 7.11

<sup>33</sup> Qs 15 and 16

<sup>34</sup> Q15

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30. To address our concerns regarding this serious decline in what had previously been a very impressive performance by the Assembly in meeting the Treasury deadlines, the Permanent Secretary stated that he was focussing on ensuring a much better outcome for the 2003-04 Whole of Government of Wales account, which was to be published for the first time. Mr Pavelin noted that there was a much tighter timescale in place this year for the agreement of the Assembly's balances, not just within Wales but with other public bodies across the UK, and the exercise was scheduled to be completed by 7 July 2004. Additional resources had been applied to this process and a range of procedures put in place to help identify and agree the relevant balances, although Sir Jon informed us that in his opinion the local health board accounts remained the largest risk to the project<sup>35</sup>.
31. We acknowledge the additional measures that the Welsh Assembly Government have implemented with the intention of avoiding any recurrence of the problems encountered in preparing the final dry run Central Government accounts for 2002-03. **We recommend that all possible efforts are made to ensure that the National Assembly for Wales is able to publish the first live set of Whole of Government of Wales accounts for 2003-04 in a timely manner and that it meets all of the Treasury's deadlines for the submission of information for the UK Central Government Accounts, thereby avoiding any risks of external criticism that could give rise to reputational damage.**

### Payment performance

32. We were disappointed to note from the Auditor General's report that Welsh public bodies do not generally appear able to make a sustained and significant improvement in their levels of payment performance, and that in some cases they are actually getting worse. Whilst ten bodies demonstrated evidence of improvement in 2002-03, twelve were found not to have reached the same level of payment performance as achieved in 2001-02, and the Auditor General found that almost half of audited bodies failed to achieve a standard of making at least 95 per cent of payments within 30 days of the receipt of bills. The Auditor General noted that delays in payment can in particular adversely affect the cash flows of small businesses that provide goods and services to Welsh public bodies<sup>36</sup>.
33. Sir Jon told us that he did not fully understand why improvements in payment performance were not being sustained. He noted that in many cases the annual movements were fairly

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<sup>35</sup> Qs 15 and 16

<sup>36</sup> AGW General Report 2004, paragraphs 3.24-3.27 and Figure 7

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marginal and that this could probably be expected. However, he had found that there were three bodies in particular - the National Council, the Higher Education Funding Council for Wales, and the Wales Tourist Board - whose performance by any standards was unacceptable. He had drawn this to the attention of Accounting Officers in his recent letter to them and made clear that he expected a considerably better performance for this year<sup>37</sup>.

34. We share the Permanent Secretary's concerns regarding the unacceptable prompt payment performance of certain Assembly-sponsored public bodies. **We recommend that Welsh Assembly Government officials in the relevant sponsor departments should include the prompt payment performance of these bodies within their explicit oversight arrangements and agree appropriate remedial action plans as necessary with the poorest performers.**

### **Procurement arrangements at Assembly sponsored public bodies**

35. On procurement, the Auditor General reported that the overall standards of controls operated by Assembly-sponsored public bodies in Wales during the 2002-03 year of account were of a good quality<sup>38</sup>. However, he concluded that more could be done to improve controls in this area and we sought specific assurances from the Permanent Secretary that the failures in control which had previously arisen at the National Council had since been rectified<sup>39</sup>.
36. In response, he told us that he would want to see the outcome of two further follow-up consultancy reviews being undertaken at the National Council before he would have all the assurance that he required. He noted that these reviews were looking not just at procurement but at all of the governance issues that had been identified at the National Council. Three members of his staff, including his most experienced head of division, were currently seconded to the National Council, and this reflected his own particular concern that the systems in place there had to be improved and stabilised<sup>40</sup>.
37. We also heard that the work of the Assembly's Welsh Procurement Initiative Team (the Team) is providing valuable advice and assistance on best practice and value for money to the Welsh public sector. The Auditor General had reported that in 2002-03 the work of the Team achieved reported savings of £7.2 million against a first 12-month target of £6

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<sup>37</sup> Qs 18 and 20

<sup>38</sup> AGW General Report 2004, paragraph 5.6

<sup>39</sup> Q26

<sup>40</sup> Q26

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million<sup>41</sup>. The Permanent Secretary informed us that most of these savings had arisen in the area of expenditure on telecommunications and that there were also savings relating to training and collaboration with the NHS on the procurement of medical equipment<sup>42</sup>. He added that improvements in procurement represented important opportunities for the whole of the public sector in Wales to reduce overhead costs and to release resources to the frontline delivery of services. The Team had now established some quite important foundations, and the Permanent Secretary wanted to build on these for the future to achieve a step change in the level of estimated savings that the Team should be expected to identify and help secure<sup>43</sup>.

38. We applaud the excellent start that has been made by the Welsh Procurement Initiative Team. **We recommend that the Welsh Assembly Government ensures that there is no loss of momentum in either the pace of the Welsh Procurement Team's activities or the rate of increase in identified potential savings. We should be grateful to receive an annual update on the work and achievements of the Team from the Auditor General. We further recommend that the Welsh Assembly Government ensures that appropriate steps are taken by the bodies concerned to realise the potential savings identified by the Team, thereby freeing up resources from within the finite Welsh block for redeployment elsewhere on frontline public service delivery.**
39. We also welcome the new 'procurement fitness checks' that are being performed by the Team at several Assembly-sponsored public bodies<sup>44</sup>. We were pleased to learn from the Permanent Secretary that the bodies concerned had found this process helpful, and Mr Richards added that there were three emerging issues from the reviews so far. These were the need to have properly qualified professional procurement staff in place; the importance of ownership of the procurement strategy at a senior level within each organisation; and for bodies to realise the wide range of opportunities for collaboration and joint procurement that can arise from the work of the Team. The Permanent Secretary confirmed to us that procurement fitness checks would be carried out at all bodies and that the Welsh Assembly

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<sup>41</sup> AGW General Report 2004, paragraph 5.7

<sup>42</sup> Q31

<sup>43</sup> Q32

<sup>44</sup> AGW General Report 2004, paragraph 5.9

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Government was also having its own procurement processes checked as part of that programme<sup>45</sup>.

40. **We recommend that the Welsh Procurement Initiative Team should complete its programme of procurement fitness checks across all Assembly-sponsored bodies as soon as possible and that the wider lessons and examples of best practice that may emerge from these exercises should be disseminated appropriately by the Principal Accounting Officer.**
41. **We also recommend that the Welsh Assembly Government should consider carefully the potential for the application of the Team's approach to securing improvements in procurement practice across the wider Welsh public sector.**

## **Expenditure financed by the European Structural Funds**

42. The closure statements prepared by the Assembly's Head of Internal Audit on the old European Programmes (1994 to 1999) had revealed significant problems in the management of projects, including inadequate documentation in support of expenditure and issues relating to the timeliness and quality of control visits to projects undertaken by the Welsh European Funding Office (WEFO). The Head of Internal Audit had qualified his opinion on 17 out of the 18 closure reports and had been unable to give an opinion on the remaining report covering programme expenditure of nearly £4 million<sup>46</sup>. Because of this, and pending the completion of the European Commission's own review of the closure process, there remains the risk of an as yet unquantified potential financial loss to the National Assembly for Wales<sup>47</sup>.
43. The Permanent Secretary told us that he considered this to be the most concerning part of the Auditor General's report, not least because he had now inherited the Accounting Officer responsibilities for WEFO. Whilst he provided to us some explanations for the closure report audit findings, he emphasised that these were not being put forward as excuses for what had occurred. One of the most significant causes of the closure report qualifications had been timing issues; over £150 million of the £230 million payments on the old Programmes were made after December 1999, and the timetable for making payments on WEFO projects had been extended by six months to January 2003 because of the foot and

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<sup>45</sup> Q34

<sup>46</sup> AGW General Report 2004, paragraphs 6.20-6.24 and Figure 15

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mouth disease outbreak across rural Wales. This end-loading of payments, together with the extension of the payment period had meant in turn that control visits had been carried out that much later than originally intended. The closure reports had still been required by the end of March 2003, but before these were prepared all the associated internal control visits had to be carried out to meet the Commission's requirements<sup>48</sup>.

44. The Permanent Secretary also made reference to a number of complex administrative issues underlying the qualifications. The Regulations governing control visits were not issued by the European Commission until autumn 1997, midway through the Programme itself, and these had been new and untested arrangements. The Assembly had needed to work with the Commission right through to 2003 on how to interpret and apply the Regulations in practice and this had contributed to the specific criticisms on risk and timeliness made by the Head of Internal Audit. The situation regarding agricultural grants was further complicated by a Commission decision half-way through the programme that the long-established Hill Livestock Compensatory Allowances and the Farmland Conservation Grants would enter the full European Structural Funds regime. As a result, these schemes suddenly became subject to the closure procedures as well. These factors contributed to the failings identified by the auditors in respect of the retention of all necessary documentation. Under 'Government Accounting' requirements, public bodies must retain records for seven years, but in order to be able to satisfy the new closure arrangements (which themselves were not introduced until 1997) it was subsequently identified that relevant records dating back to 1994 should have been retained<sup>49</sup>.
45. We were not entirely satisfied with the adequacy of these various explanations, not least because we could see no real justification in the age of e-mail communication for it to take an average of 300 days to produce the report associated with each control visit in 25 out of 56 cases<sup>50</sup>. The Permanent Secretary accepted that there had been an administrative failing, conceding that insufficient resources and too low a priority had been applied to this important work<sup>51</sup>. By way of subsequent corrective action, he told us that his first priority

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<sup>47</sup> AGW General Report 2004, paragraph 6.25

<sup>48</sup> Q37

<sup>49</sup> Q37

<sup>50</sup> AGW General Report 2004, paragraph 6.24

<sup>51</sup> Q38

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had been to minimise any potential risks to Welsh public funds and secondly to make sure that the lessons would be fully and properly learned for the new Programmes<sup>52</sup>.

46. The Permanent Secretary also informed us that the European Commission would be conducting its own validation audit on the closure reports submitted in respect of the old Programmes. If there were to be any resulting financial implications for Wales, his expectation was that these would total well under £1 million and indeed he hoped that such recovery actions could be avoided altogether. However, should this not prove to be the case, then the Assembly Government would look in appropriate circumstances to recover these sums from the relevant project sponsors, rather than bear itself the cost of any repayments required by the European Commission<sup>53</sup>.
47. We wish to receive an update note from the Principal Accounting Officer on this topic, once the process of closure for the 1994-99 European Programmes has finally been concluded with the European Commission. In the meantime, **we strongly recommend that the Welsh Assembly Government should develop a clear strategy with measurable objectives to avoid any repetition of problems in the management of projects that could impact adversely on the eventual closure process for the current Welsh European Structural Funds Programmes.**
48. Turning to his ongoing audits of individual European projects under the current Programmes, the Auditor General noted in his report that, in the nine months to 31 December 2003, the National Audit Office Wales had issued 31 audit certificates on European grant claims that it had examined. All but one of these certificates had been qualified, and an average of five separate audit observations made on each. The Auditor General had found that the variable quality of documentation in support of claimed expenditure remained a significant, although apparently improving, issue. As a result of these audit findings, the Assembly Government had withheld funding of over £230,000 from grant claimants<sup>54</sup>.
49. Asked to comment on these findings, the Permanent Secretary observed that the Assembly Government required the auditors of grant claims to certify that all development grants had been properly applied and that money had been spent for the purposes intended. The audit

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<sup>52</sup> Q39

<sup>53</sup> Qs 43-47

<sup>54</sup> AGW General Report 2004, paragraphs 6.28-6.30, 6.34 and Figure 16

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certificates provided independent assurance as part of the Assembly's overall management of the structural funds. He added that whilst he was disappointed by the numbers of audit qualifications these were providing him with important information on the corrective actions required by management, at a stage in the process before all expenditure had been incurred and before the final audits and any checks by the European Commission might be made. The Wales European Funding Office was learning lessons from the six generic issues it had identified arising from the various audit qualifications, and was currently disseminating bulletins to project sponsors so that lessons could be learned and embedded into the new systems<sup>55</sup>.

50. We were concerned that one of the main reasons why so many grant certificates were qualified had been insufficient documentation and whether this in turn meant that key papers had been either destroyed or lost, as had apparently happened in some cases under the old Programmes. The Permanent Secretary stated that he would have been very surprised if any public body had destroyed information within the seven year period prescribed in 'Government Accounting'. He acknowledged that there was potentially greater risks in this regard with project sponsors in the private and voluntary sectors who were not used to the importance ascribed in the public sector to the maintenance of good records. However, he told us that WEFO officials were being particularly vigilant in this area as a result of the problems experienced under the old Programmes<sup>56</sup>.
51. We acknowledge the benefits of the information that can be derived from audit qualifications on the nature and extent of corrective actions that are required for the future. However, we note that whilst qualifications of interim audit certificates will usually afford sufficient time before the completion of a particular project for effective remedial measures to be implemented, this does not apply in those cases where the final claims on completed projects receive qualifications. For final claims, reliance on audit certificates to identify problems means in effect that the stable door is bolted too late.
52. **We therefore recommend that the Welsh Assembly Government must be more proactive in making absolutely clear to project sponsors at the outset the standards of financial management that will be expected of them in order to secure full compliance with the onerous requirements of the Structural Funds Programmes, providing**

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<sup>55</sup> Q48

<sup>56</sup> Q49

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appropriate training and other support where necessary, and also ensure that sufficient resources are devoted to project monitoring by WEFO officials and internal auditors.

## **Recommendations**

53. In the light of these findings and conclusions, we recommend that:

### **On securing further improvements in standards of financial management**

- i. **the Welsh Assembly Government strives to make early progress in identifying and introducing further improvements in its financial and risk management procedures, supported by comprehensive staff training arrangements and processes for dissemination of good practice;**
- ii. **the Welsh Assembly Government should ensure that it makes full use of the capabilities available within its new computerised financial system, using resource-based information both within its in-year financial management processes and also in support of the preparation of its annual accounts. This should include the provision of appropriate training to senior managers and other staff outside of the Finance function where necessary. The Welsh Assembly Government should also seek to draw on emerging best practice in financial management arrangements from elsewhere within the central government sector;**

### **On matters arising from audit of the 2002-03 accounts**

- iii. **the Welsh Assembly Government should make it clear to the Chairs of Assembly-sponsored bodies that the prompt implementation of agreed audit recommendations should be regarded as a performance issue for their senior management teams.**
- iv. **this Audit Committee report, together with the response of the Welsh Assembly Government to it, should be copied to the Chairs and Chief Executives of each Assembly-sponsored body by the Principal Accounting Officer, together with a request that both documents be placed on the agenda of each organisation's Audit Committee at the earliest opportunity;**

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- v. **the Welsh Assembly Government should strengthen its oversight of the accounts preparation process, in particular by ensuring that any slippage against agreed timescales is brought to the attention of senior management at the earliest opportunity so that prompt corrective action can be taken.**
  - vi. **greater priority is afforded to bringing forward the preparation of accounts wherever possible to ensure compliance with the Treasury's 'faster closing' initiative and to facilitate the timely production of Whole of Government Accounts;**
  - vii. **senior NHS and Assembly Government officials should ensure that realistic timetables are agreed and adequate resources deployed in relation to the preparation of the accounts of the new local health boards in order that these should not put at risk the achievement of the timely production of Whole of Government Accounts;**
  - viii. **all possible efforts are made to ensure that the National Assembly for Wales is able to publish the first live set of Whole of Government of Wales accounts for 2003-04 in a timely manner and that it meets all of the Treasury's deadlines for the submission of information for the UK Central Government Accounts, thereby avoiding any risks of external criticism that could give rise to reputational damage;**
  - ix. **Welsh Assembly Government officials in the relevant sponsor departments should include the prompt payment performance of these bodies within their explicit oversight arrangements and agree appropriate remedial action plans as necessary with the poorest performers;**

**On procurement at Assembly-sponsored public bodies**

- x. **the Welsh Assembly Government ensures that there is no loss of momentum in either the pace of the Welsh Procurement Initiative Team's activities or the rate of increase in identified potential savings. We should be grateful to receive an annual update on the work and achievements of the Team from the Auditor General.**

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- xi. the Welsh Assembly Government ensures that appropriate steps are taken by the bodies concerned to realise the potential savings identified by the Team, thereby freeing up resources from within the finite Welsh block for redeployment elsewhere on frontline public service delivery;**
  - xii. the Welsh Procurement Initiative Team should complete its programme of procurement fitness checks across all Assembly-sponsored bodies as soon as possible and that the wider lessons and examples of best practice that may emerge from these exercises should be disseminated appropriately by the Principal Accounting Officer;**
  - xiii. the Welsh Assembly Government should consider carefully the potential for the application of the Team's approach to securing improvements in procurement practice across the wider Welsh public sector;**

**On expenditure financed by the European Structural Funds**

- xiv. the Welsh Assembly Government should develop a clear strategy with measurable objectives to avoid any repetition of problems in the management of projects that could impact adversely on the eventual closure process for the current Welsh European Structural Funds Programmes;**
- xv. the Welsh Assembly Government be more proactive in making absolutely clear to project sponsors at the outset the standards of financial management that will be expected of them in order to secure full compliance with the onerous requirements of the Structural Funds Programmes, providing appropriate training and other support where necessary, and also ensure that sufficient resources are devoted to project monitoring by WEFO officials and internal auditors.**

## **Concluding Comments**

- 54. Each year, the General Report of the Auditor General covers a wide range of issues, and highlights specific areas where improvements might be made in the way that the Welsh public sector manages the significant resources over which it exercises responsibility. As the Audit Committee of the National Assembly for Wales, we set considerable store by the

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Auditor General's overall conclusion that standards of financial management and probity remain high in Wales.

55. Nonetheless, there can never be an excuse for complacency and there is always scope for improvement. We remain concerned, for example, at the significant ways in which breakdowns in systems of control have given rise to problems such as the inability of some bodies to prepare their annual accounts on time or to pay their suppliers promptly. And we were disappointed to learn about the alarming level of instances of failures to cope adequately with the strict requirements placed on organisations who are in receipt of European grant funding. In this report, and whilst acknowledging the positive measures already being taken in each of these areas, we have therefore set out a series of recommendations that are designed to assist the senior managers of public bodies in the effective discharge of their Accounting Officer responsibilities.
56. We also wish to express a more general concern regarding the apparent lack of sophistication of certain of the management systems currently in place, for instance in the lack of urgency that we perceive may exist in responding to the challenges and opportunities presented by the availability of resource-based financial information. We suspect that this may stem from a general cultural resistance within the public sector to the need to move away from the era of cash-based government accounts introduced by Gladstone nearly 150 years ago. In an environment of ever-increasing financial complexity, and given the forthcoming absorption into the Assembly Government of several of its sponsored bodies, we consider that the Assembly officials must demonstrate a commitment to make best use of all the financial management tools available to them.



**Cynulliad Cenedlaethol Cymru  
Pwyllgor Archwilio**

**The National Assembly for Wales  
Audit Committee**

**Adroddiad Cyffredinol Archwilydd Cyffredinol Cymru 2004  
The General Report of the Auditor General for Wales 2004**

**Cwestiynau 1-51  
Questions 1-51**

**Dydd Iau 17 Mehefin 2004  
Thursday 17 June 2004**

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*Aelodau o'r Cynulliad yn bresennol: Janet Davies (Cadeirydd), Alun Cairns, Christine Gwyther, Denise Idris Jones, David Lloyd, Val Lloyd, David Melding, Leighton Andrews.*

*Swyddogion yn bresennol: Syr John Bourn, Archwilydd Cyffredinol Cymru, Mike Usher, Swyddfa Archwilio Genedlaethol Cymru, Ian Summers, Swyddfa Archwilio Genedlaethol Cymru, Ceri Thomas, Swyddog Cydymffurfio Dros Dro, Cynulliad Cenedlaethol Cymru.*

*Tystion: Laurie Pavelin, Pennaeth Is-adran Atebolrwydd Ariannol, Cynulliad Cenedlaethol Cymru, David Richards, Prif Swyddog Cyllid, Cynulliad Cenedlaethol Cymru, Syr Jon Shortridge, Ysgrifennydd Parhaol, Cynulliad Cenedlaethol Cymru.*

*Assembly Members present: Janet Davies (Chair), Alun Cairns, Christine Gwyther, Denise Idris Jones, David Lloyd, Val Lloyd, David Melding, Leighton Andrews.*

*Officials present: Sir John Bourn, Auditor General for Wales, Mike Usher, National Audit Office Wales, Ian Summers, National Audit Office Wales, Ceri Thomas, Acting Compliance Officer, National Assembly for Wales.*

*Witnesses: Laurie Pavelin, Head of Financial Accountability Division, National Assembly for Wales, David Richards, Principal Finance Officer, National Assembly for Wales, Sir Jon Shortridge, Permanent Secretary, National Assembly for Wales.*

*Dechreuodd y sesiwn cymryd tystiolaeth am 11.16 a.m.  
The evidence-taking session began at 11.16 a.m.*

[1] **Janet Davies:** I welcome everybody back after the break. We will now look at 'The General Report of the Auditor General for Wales 2004'. This report summarises the findings from the financial audit work of the Auditor General for Wales in respect of the 2002-03 year of account, and the main areas that we are considering today are matters arising from the audit of the accounts, the procurement procedures of Assembly sponsored public bodies and the European structural funds.

The demands placed on public bodies in Wales are increasing all the time, and this extends to the requirement for strong and effective financial management over considerable sums of money, for which they have responsibility. There are also strict requirements placed on bodies in

[1] **Janet Davies:** Croesawaf bawb yn ôl ar ôl yr egwyl. Yr ydym am edrych yn awr ar 'Adroddiad Cyffredinol Archwilydd Cyffredinol Cymru 2004'. Mae'r adroddiad hwn yn crynhoi'r canfyddiadau o waith archwilio ariannol Archwilydd Cyffredinol Cymru ar gyfrifon blwyddyn 2002-02, a'r prif feysydd yr ydym yn eu hystyried heddiw yw materion sy'n deillio o'r archwiliad o'r cyfrifon, gweithdrefnau caffael cyrff cyhoeddus a noddur gan y Cynulliad a chronfeydd strwythurol Ewropeaidd.

Mae'r gofynion a roddir ar gyrff cyhoeddus yng Nghymru yn cynyddu drwy'r amser, ac mae hyn yn ymestyn i'r gofyn am reolaeth ariannol gadarn ac effeithiol dros symiau sylweddol o arian, y mae ganddynt gyfrifoldeb amdanynt. Mae gofynion llym iawn hefyd ar gyrff

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receipt of European grant funding. It is crucial that this money is not put at risk because of inadequate financial systems. It is pleasing to note the overall conclusion of the Auditor General in his report that the standards of financial management and probity remain high in Wales, but the report highlights a number of areas where improvements can still be made. The general report does not normally disclose the names of individual organisations, but we will be looking today to see what important issues have a widespread application that needs to be brought out from the Auditor General's findings.

I ask the witnesses to introduce themselves, please.

**Sir Jon Shortridge:** I am Jon Shortridge, Permanent Secretary.

**Mr Richards:** I am David Richards, principal finance officer.

**Mr Pavelin:** I am Laurie Pavelin, chief accountant.

[2] **Janet Davies:** I should mention that Mick Bates has left the meeting and will not be returning, and that Dai Lloyd, who is standing in at the last minute, has an appointment at 11 a.m., which he cannot put off. He hopes to return later. He was asked to deputise very late.

I will bring Sir John Bourn in first. Do you wish to make some comments, Sir John?

**Sir John Bourn:** I would like to emphasise the point that you made, that the main conclusion of the report is that the standards of financial management and probity in Wales remain high. They are well up to the standard of the rest of the United Kingdom, and, in some

sy'n derbyn cyllid grant Ewropeaidd. Mae'n hanfodol nad yw'r arian hwn yn cael ei beryglu oherwydd systemau ariannol annigonol. Boddhad yw gweld casgliad cyffredinol yr Archwilydd Cyffredinol yn yr adroddiad hwn sef bod safonau rheolaeth a gonestrwydd ariannol yn parhau yn uchel yng Nghymru, ond mae'r adroddiad yn amlygu nifer o feysydd lle gellir gwneud gwelliannau o hyd. Nid yw'r adroddiad cyffredinol yn datgelu enwau sefydliadau unigol fel arfer, ond byddwn yn canolbwyntio heddiw ar faterion pwysig amlwg sydd angen eu gwyntyllu o ganfyddiadau'r Archwilydd Cyffredinol.

Yr wyf yn gofyn i'r tystion gyflwyno eu hunain.

**Syr Jon Shortridge:** Fi yw Jon Shortridge, yr Ysgrifennydd Parhaol.

**Mr Richards:** Fi yw David Richards, y prif swyddog cyllid.

**Mr Pavelin:** Fi yw Laurie Pavelin, y prif gyfrifydd.

[2] **Janet Davies:** Dylwn grybwyll fod Mick Bates wedi gadael y cyfarfod ac ni fydd yn dychwelyd, a bod gan Dai Lloyd, sy'n cymryd ei le ar fyr-rybudd, apwyntiad am 11 a.m., na ellir ei ohirio. Mae'n gobeithio dychwelyd yn ddiweddarach. Gofynnwyd iddo ddirprwyo'n hwyr iawn.

Yr wyf am ofyn i Syr John Bourn gyfrannu gyntaf. A ydych am wneud unrhyw sylwadau, Syr John?

**Syr John Bourn:** Hoffwn bwysleisio'r pwynt a wnaethoch, mai prif gasgliad yr adroddiad yw fod safonau rheolaeth a gonestrwydd ariannol yng Nghymru'n parhau yn uchel. Maent i gyd yn cyrraedd safon gweddill y Deyrnas Unedig, ac, mewn rhai ffyrdd, maent yn perfformio'n

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respects, are in advance of it. There are some particular examples of good practice mentioned in the report. One is the development of proper procedures for risk assessment and management—an important area, which has really been gripped and where advance has been made. Another area that is dealt with is the good co-operation between internal and external auditors, so that they do not duplicate each other's work, and yet, at the same time, there are no gaps between what they do. Another area of success is collaborative working between Assembly sponsored bodies and the Assembly's Welsh procurement initiative team. That initiative has been working well in Wales, and, indeed, I drew it to the attention of Sir Peter Gershon, who has been responsible for procurement improvements throughout the United Kingdom, and there was a lot of interest in practice in Wales. I know that the Permanent Secretary has had a number of inquiries about the translation of the Welsh system into other parts of the United Kingdom. So, those are some of the very good areas in which Wales is right at the forefront.

Inevitably, and, as you said, Chair, there are examples where improvements can be made, one of which is the arrangement for the oversight of grants. Grants are given to a large number of bodies on the basis that they do something with them and that you then have a clear idea of what they have done and that performance can be evaluated. There are examples in which it almost seems that the grant has been handed over without much oversight. That does not mean to say that in every case the money has not been used properly, but it is important, if it is a grant, that the procedures for its oversight and evaluation should be done properly.

Another area where there is scope for progress is in the full best use of the

well na'r safon hon. Mae rhai enghreifftiau penodol o arfer da yn cael eu crybwyll yn yr adroddiad. Un ohonynt yw datblygiad gweithdrefnau cywir ar gyfer asesu a rheoli risg—maes pwysig, yr aethpwyd i'r afael ag ef a lle gwelwyd cynnydd. Maes arall sy'n cael sylw yw'r cydweithredu da rhwng archwilwyr allanol a mewnol, er mwyn sicrhau nad ydynt yn dyblygu gwaith ei gilydd, ac eto, ar yr un pryd, nid oes bylchau rhwng yr hyn y maent yn ei wneud. Maes llwyddiannus arall yw'r cydweithredu rhwng cyrff a noddir gan y Cynulliad a thîm menter gaffael Cymru y Cynulliad. Mae'r fenter honno wedi bod yn gweithio'n dda yng Nghymru, ac, yn wir, tynnais sylw Syr Peter Gershon, sydd wedi bod yn gyfrifol am welliannau caffael ledled y Deyrnas Unedig, at hyn ac yr oedd llawer o ddiddordeb mewn arfer yng Nghymru. Gwn fod yr Ysgrifennydd Parhaol wedi derbyn nifer o ymholiadau am drosglwyddo system Cymru i rannau eraill o'r Deyrnas Unedig. Felly, mae Cymru yn flaenllaw mewn llawer o'r meysydd da iawn.

Yn anochel, ac, fel y dywedaso, Gadeirydd, mae enghreifftiau lle y gellir gwneud gwelliannau, ac un ohonynt yw'r trefniadau i oruchwylio grantiau. Mae grantiau'n cael eu rhoi i lawer o gyrff ar y sail eu bod yn gwneud rhywbeth gyda'r arian ac wedyn bod gennych syniad clir o'r hyn y maent wedi'i wneud ac y gellir gwerthuso perfformiad. Ymddengys mewn rhai enghreifftiau fod y grant wedi'i roi heb lawer o oruchwyliaeth. Nid yw hynny'n golygu nad yw'r arian wedi'i ddefnyddio'n iawn ym mhob achos, ond mae'n bwysig, os yw'n grant, bod y gweithdrefnau ar gyfer ei oruchwylio a'i werthuso'n cael eu gwneud yn iawn.

Maes arall lle mae cyfle am gynnydd yw yn y defnydd llawn gorau o'r systemau

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computerised financial systems that bodies have. Essentially, what you are looking to gain out of such systems is a system of financial management and control so that the body is able to produce analyses of the costs of alternatives, the costs of exactly what activities consume in terms of resources, and to produce the annual accounts as a matter of direct operation of the system. Still in Wales, but I can say, Chair, that this is not just in Wales, very often, the accounts are still essentially kept on a cash rather than accrual basis, and a frantic exercise at the end of the year takes place so that they become accrual accounts and we can audit them. So, that is an area where there is scope for some improvement.

ariannol cyfrifiadurol sydd gan gyrff. Yn y bôn, yr hyn yr ydych am ei gael mewn systemau o'r fath yw system o reolaeth ariannol er mwyn i'r corff allu dadansoddi costau dulliau amgen, yr union gostau y mae gweithgareddau'n eu defnyddio o ran adnoddau, ac i gynhyrchu cyfrifon blynyddol fel mater o weithredu'r system yn uniongyrchol. Gan barhau yng Nghymru, ond hoffwn ddweud, Gadeirydd, nad yng Nghymru yn unig y mae hyn, yn aml iawn, cedwir y cyfrifon ar sail arian parod yn hytrach na chronnus, ac mae ymarfer gwyllt ar ddiwedd y flwyddyn i'w troi'n gyfrifon cronnus fel y gallwn eu harchwilio. Felly, mae hwn yn faes lle gellir ei wella i raddau.

The final area that I would mention is that of the management of the European grants. This is a case where, as it were, the money is almost handed over by Brussels. Wales had it, but sometimes, unless you get all the bureaucracy of Brussels properly into line, you will not get the money. Perhaps I should not say it, but I will: I think that sometimes we do feel that Brussels bureaucracy has reached such a level of sophistication as to defeat almost anybody. Nonetheless, we have to follow it if we are to get the money. As I think that we have said in the report, some improvements have been made, but there is still a way to go to make sure that the money which was on offer is gathered in.

Rheoli grantiau Ewropeaidd yw'r maes olaf yr wyf am ei grybwyll. Mae hyn yn digwydd pan fo'r arian, fel petai, yn cael ei drosglwyddo bron iawn gan Frwsel. Derbyniodd Cymru'r arian, ond weithiau, os nad ydych yn cael holl fiwrocratiaeth Brwsel mewn trefn, ni fyddwch yn cael yr arian. Efallai na ddylwn ddweud hyn, ond yr wyf am wneud: credaf ein bod yn teimlo weithiau fod biwrocratiaeth Brwsel wedi cyrraedd y fath lefel o soffistigedigrwydd fel y gallai drechu unrhyw un bron iawn. Fodd bynnag, mae'n rhaid i ni ei ddilyn os ydym am gael yr arian. Fel y credaf ein bod wedi ei nodi yn yr adroddiad, mae rhywfaint o welliannau wedi'u gwneud, ond mae gwaith i'w wneud o hyd i sicrhau bod yr arian a gynigiwyd yn cael ei gasglu.

So, Chair, those are some general points that I wanted to make, but I do want to emphasise the commitment that the financial staff here, and their colleagues throughout the system, are bringing to this, which has, overall, produced results as good as those of any public bodies in the United Kingdom, and better than many.

Felly, Gadeirydd, dyna rai pwyntiau cyffredinol yr oeddwn am eu gwneud, ond yr wyf am bwysleisio'r ymrwymiad y mae'r staff ariannol yma, a'u cydweithwyr drwy'r system gyfan, yn ei gyfrannu at hyn, sydd, ar y cyfan, wedi arwain at ganlyniadau cystal â rhai unrhyw gyrff cyhoeddus yn y Deyrnas Unedig, a gwell na llawer ohonynt.

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[3] **Janet Davies:** Thank you, Sir John. The European Commission says that it will simplify the bureaucracy, but we will have to hope that that does not mean simply sophistication.

[3] **Janet Davies:** Diolch, Syr John. Mae'r Comisiwn Ewropeaidd yn dweud y bydd yn symleiddio'r fiwrocratiaeth, ond bydd yn rhaid i ni obeithio nad yw hynny'n golygu symleiddio soffistigedigrwydd.

Sir Jon Shortridge, the Auditor General has just said that financial management and probity is high in Wales, but what key actions do you believe could make the standards even higher, and what blocks do you see preventing that from happening?

Syr Jon Shortridge, mae'r Archwilydd Cyffredinol wedi dweud fod rheolaeth a gonestrwydd ariannol yn uchel yng Nghymru, ond pa gamau gweithredu allweddol a allai wneud y safonau yn uwch hyd yn oed yn eich barn chi, a pha rwystrau yr ydych chi'n meddwl a fydd yn atal hynny rhag digwydd?

**Sir Jon Shortridge:** I will first of all say, if I may, how grateful I am to Sir John for his comments. As accounting officer, I have a personal responsibility for the £11 billion that the Assembly has responsibility for and spends. The one point that I would like to emphasise is that the fact that the Auditor General has been able to conclude that management and probity remain high in Wales has not arisen as a result of good luck or by accident. An enormous amount of work is undertaken by colleagues in the public sector across Wales to make that happen, and I take this opportunity to pay tribute to them. At the same time, as he says, and as was implied in your question, you are never going—or we have not yet managed—to get everything right, and you are always having to look at how systems can be improved.

**Syr Jon Shortridge:** Yr wyf am ddweud i ddechrau, os y caf i, pa mor ddiolchgar ydwyf i Syr John am ei sylwadau. Fel swyddog cyfrifo, mae gennyf gyfrifoldeb personol am yr £11 biliwn y mae'r Cynulliad yn gyfrifol amdano ac yn ei wario. Un pwynt yr wyf am ei bwysleisio yw nad yw'r ffaith fod yr Archwilydd Cyffredinol wedi gallu dod i'r casgliad fod rheoli a gonestrwydd yn parhau yn uchel yng Nghymru yn deillio o lwc dda na drwy ddamwain. Mae llwyth o waith yn cael ei wneud gan gydweithwyr yn y sector cyhoeddus ledled Cymru i wneud i hynny ddigwydd, a hoffwn fanteisio ar y cyfle hwn i dalu teyrnged iddynt. Ar yr un pryd, fel y dywedodd, ac fel a grybwyllwyd yn eich cwestiwn, ni ellir byth—neu nid ydym wedi gallu eto—wneud popeth yn iawn, ac mae angen i chi ystyried ffyrdd o wella systemau drwy'r amser.

Your question was on what more I could be doing for the future. I think that part of the answer to that is that I should build on the systems and arrangements that are already in place. At some point during this hearing, if Members would like, I can give you some detail about the systems and arrangements that we have in place, because there is an enormous

Yr oedd eich cwestiwn yn gofyn beth mwy y gallwn ei wneud ar gyfer y dyfodol. Credaf mai rhan o'r ateb i hynny yw y dylwn adeiladu ar y systemau a'r trefniadau sydd ar waith yn barod. Rhywbryd yn ystod y gwrandawriad hwn, os y dymunai Aelodau, gallwn roi manylion i chi am y systemau a'r trefniadau sydd gennym ar waith,

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infrastructure that Members might not normally see. It covers things like my corporate governance committee, the meetings that I have twice a year with accounting officers, the work of my internal audit unit, and the letters that I send out to accounting officers on a regular basis when things happen and, certainly, on the basis of reports to this committee. So, an enormous amount of activity takes place to ensure that our systems are the best that we can make them and, when we become aware of systemic issues—it is particularly systemic issues that I worry about rather than the individual mistake that someone might have made—we collectively look at them to see how our systems can be improved. So, part of the answer is that we should be doing more of that, and we should make use of those arrangements and make sure that the lessons are being learned and embedded.

In terms of the next 12 months and the things on which I am most focused, we are in the process of refreshing the management statements and financial memoranda of all the sponsored bodies, and I am looking to use these statements, when they are in place, to strengthen our financial management relationship with the sponsored bodies. I have put in place over the last 12 to 18 months very extensive financial training because, when problems arise, you can have the best systems in the world, but if you have people who do not understand how to operate them, things go wrong. So, we have put in place a very extensive set of arrangements for training our own staff and the staff of sponsored bodies. I want more of this in areas such as procurement and basic financial management.

The other thing that I am focusing a lot on at the moment—and I am grateful for

oherwydd mae seilwaith enfawr na fyddai Aelodau yn ei weld fel arfer. Mae'n cynnwys pethau fel fy mhwyllgor llywodraethu corfforaethol, y cyfarfod yr wyf yn ei gynnal ddwywaith y flwyddyn gyda swyddogion cyfrifo, gwaith fy uned archwilio mewnol, a'r llythyrau yr wyf yn eu hanfon allan at swyddogion cyfrifo yn rheolaidd pan fo pethau'n digwydd ac, yn sicr, ar sail adroddiadau i'r pwyllgor hwn. Felly, mae llawer iawn o weithgarwch yn cael ei wneud i sicrhau bod ein systemau ni gyda'r gorau posibl ac, wrth i ni ddod i wybod am faterion systematig—yr wyf yn poeni'n benodol am faterion systematig yn hytrach na chamgymeriadau y gallai unigolion fod wedi'u gwneud—yr ydym yn edrych arnynt gyda'i gilydd i weld sut y gellid gwella ein systemau. Felly, rhan o'r ateb yw y dylem fod yn gwneud mwy o ran hynny, a dylem ddefnyddio'r trefniadau hynny a sicrhau bod y gwersi'n cael eu dysgu a'u rhoi ar waith.

O ran y 12 mis nesaf a'r pethau yr wyf yn canolbwyntio fwyaf arnynt, yr ydym yn y broses o ddiweddarau datganiadau rheoli a memoranda ariannol yr holl gyrff a noddir, ac yr wyf yn gobeithio defnyddio'r datganiadau hyn, pan fyddant ar waith, i gryfhau ein perthynas reoli ariannol gyda'r gyrff a noddir. Yn ystod y 12 i 18 mis diwethaf yr wyf wedi rhoi ar waith hyfforddiant ariannol eang iawn oherwydd wrth i broblemau godi, gellwch gael y systemau gorau yn y byd, ond os oes gennych bobl nad ydynt yn deall sut i'w gweithredu, gall pethau fynd o chwith. Felly, yr ydym wedi rhoi cyfres eang iawn o drefniadau ar waith ar gyfer hyfforddi ein staff ein hunain a staff gyrff a noddir. Yr wyf am weld mwy o hyn mewn meysydd fel caffael a rheolaeth ariannol sylfaenol.

Y peth arall yr wyf yn canolbwyntio llawer arno ar y funud—ac yr wyf yn

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Sir John's kind words on this—is the fact that there is more that we have to do within the Assembly, and more widely across the public sector, in terms of risk management and, as a subset of risk management, improved project management, because it is when you have big capital projects that you are running quite substantial financial risks, and it is only by having well-trained and well-qualified project managers who know how to define risks and then manage and mitigate them, that you can ensure that public money is being spent wisely.

ddiolchgar i Syr John am ei eiriau caredig ar hyn—yw fod yn rhaid i'r Cynulliad wneud mwy, ac yn fwy eang ar draws y sector cyhoeddus, o ran rheoli risg ac, fel is-set o reoli risg, rheoli prosiectau yn well, oherwydd pan fo gennych brosiectau cyfalaf mawr yr ydych yn wynebu risgiau ariannol eithaf sylweddol, a dim ond drwy gael rheolwyr prosiect cymwys sydd wedi'u hyfforddi'n dda sy'n gwybod sut i ddiffinio risgiau ac yna'u rheoli a'u lliniaru, y gellwch sicrhau bod arian cyhoeddus yn cael ei wario'n ddoeth.

[4] **Janet Davies:** Turning to paragraphs 3.10 and 3.12, in 2002, this committee was told that Assembly Government officials would be working with Assembly sponsored public bodies to see whether further training was needed. What happened about this, and are you now satisfied that the officials of sponsored bodies have sufficient expertise to control their large budgets? I notice that you have written a letter to ASPBs pointing out some of the problems noted in this report.

[4] **Janet Davies:** Gan droi at baragraffau 3.10 a 3.12, yn 2002, dywedwyd wrth y pwyllgor hwn y byddai swyddogion Llywodraeth y Cynulliad yn gweithio gyda chyrff cyhoeddus a noddir gan y Cynulliad i weld a oedd angen hyfforddiant pellach. Beth a ddigwyddodd ynglŷn â hyn, ac a ydych yn fodlon yn awr fod gan swyddogion cyrff a noddir ddigon o arbenigedd i reoli eu cyllidebau mawr? Sylwaf eich bod wedi ysgrifennu llythyr at gyrff cyhoeddus a noddir gan y Cynulliad yn nodi rhai o'r problemau a nodir yn yr adroddiad hwn.

**Sir Jon Shortridge:** As I said earlier, I think that I am never satisfied when it comes to training because you have new staff coming in all the time, who need to be trained properly, and, anyway, the world is changing, so you need refreshment training. We have substantially enhanced our training over the last 18 months or so. In terms of sponsored bodies, we encourage them to invite our compliance office to put on training days for their boards, and then the National Audit Office and the sponsor division also attend those training sessions. We also participate in the induction sessions for new staff to ASPBs. We are piloting a sponsorship

**Syr Jon Shortridge:** Fel y soniais yn gynharach, credaf nad wyf byth yn fodlon gyda hyfforddiant oherwydd bod gennych staff newydd yn dod i mewn drwy'r amser, sydd angen eu hyfforddi'n iawn, a, beth bynnag, mae'r byd yn newid, felly mae angen hyfforddiant gloywi. Yr ydym wedi gwella ein hyfforddiant yn sylweddol yn ystod y 18 mis diwethaf. O ran y cyrff a noddir, yr ydym yn eu hannog i wahodd ein swyddfa gydymffurfiaeth i gynnal dyddiau hyfforddi ar gyfer eu byrddau, ac i'r Swyddfa Archwilio Genedlaethol a'r is-adran noddi hefyd fynychu'r sesiynau hyfforddi hynny. Yr ydym hefyd yn cymryd rhan mewn sesiynau ymsefydlu

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course involving the Assembly sponsors and ASPB staff, which is an adaptation of a Civil Service College course, and we are in the process of evaluating that with the NAO. We continue to run courses on financial aspects of ASPB sponsorship with our staff and with ASPB staff. So, I think that, as compared with your earlier recommendations on this matter, we have substantially enhanced the training arrangements that are in place. This is training very largely by financial staff here. I am not a great believer in buying in sheep-dip sort of training and then assuming that you have done it. The training is an engagement between finance staff here, the staff of sponsor divisions and the staff of ASPBs, so that, together, we can learn what is required and increase people's understanding.

ar gyfer staff newydd i gyrff cyhoeddus a noddir gan y Cynulliad. Yr ydym yn treialu cwrs nawdd sy'n cynnwys noddwyr y Cynulliad a staff cyrff cyhoeddus a noddir gan y Cynulliad, sy'n addasiad o gwrs Coleg y Gwasanaeth Sifil, ac yr ydym wrthi'n gwerthuso hynny gyda'r Swyddfa Archwilio Genedlaethol. Yr ydym yn parhau i gynnal cyrsiau ar elfennau ariannol nawdd cyrff cyhoeddus a noddir gan y Cynulliad gyda'n staff a chyda staff cyrff cyhoeddus a noddir gan y Cynulliad. Felly, credaf, o'i gymharu â'ch argymhellion cynharach ar y mater hwn, yr ydym wedi gwella'r trefniadau hyfforddi sydd ar waith yn sylweddol. Mae hwn yn hyfforddiant gan staff ariannol yn bennaf yma. Nid wyf yn gredwr mawr mewn darparu hyfforddiant carlam ac yna rhagdybio eich bod wedi'i wneud. Mae'r hyfforddiant yn ymrwymiad rhwng staff cyllid yma, staff yr is-adrannau nawdd a staff cyrff cyhoeddus a noddir gan y Cynulliad, fel ein bod, gyda'n gilydd, yn gallu dysgu'r hyn sydd ei angen a chynyddu dealltwriaeth pobl.

[5] **Janet Davies:** So, do you feel through this, Sir Jon, that you have an assurance that systems are operating as they are meant to operate? It is one thing to have people trained but you still have to keep an eye on what is happening.

[5] **Janet Davies:** Felly, a ydych o'r farn, Syr Jon, bod gennyich sicrwydd drwy hyn fod systemau yn gweithredu fel y bwriedir iddynt weithredu? Un peth yw hyfforddi pobl ond mae'n rhaid i chi gadw llygad ar yr hyn sy'n digwydd.

**Sir Jon Shortridge:** I obviously have a greater assurance. One of the things that I have to do as accounting officer in taking personal responsibility for all this money is to have satisfied myself that the people who are spending it on my and your behalf have, at the very least, had the opportunity to understand what the requirements are on them when they spend it. So, this is the reason for the big investment in training. What I cannot do—and I always try to draw back from doing this—is to give this committee

**Syr Jon Shortridge:** Mae gennyf fwy o sicrwydd yn amlwg. Un o'r pethau sy'n rhaid i mi ei wneud fel swyddog cyfrifo wrth gymryd cyfrifoldeb personol am yr holl arian hyn yw bodloni fy hun fod y bobl sy'n ei wario ar eich rhan chi a minnau wedi cael y cyfle, o leiaf, i ddeall beth yw'r gofynion iddynt wrth ei wario. Felly, dyma'r rheswm am y buddsoddiad mawr mewn hyfforddiant. Yr hyn na allaf ei wneud—ac yr wyf yn ceisio ymatal rhag gwneud hyn bob tro—yw rhoi sicrwydd llwyr i'r pwyllgor hwn,

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absolute assurances, because we are dealing here with human beings and human nature, and I would guess that we are talking about tens of thousands of people—officials—across Wales who are taking decisions in relation to parts of this £11 billion. From time to time, individuals will get things wrong. My job is to minimise their opportunities for getting things wrong and, certainly, if I have identified a systemic issue, to make sure that training in relation to this issue is part of the armoury for dealing with it in the future.

[6] **Janet Davies:** I think that we recognise those issues. David, do you wish to pursue this?

[7] **David Melding:** Sir Jon, I will be looking at paragraphs 3.14 to 3.18, perhaps following through on some of the issues relating to systems that are in place. We have heard that, in general, standards are good and, obviously, that is reassuring. However, an audit procedure is important to ensure best practice and to improve—shortcomings usually exist in any type of organisation, whatever its level of competence. I am slightly concerned about the somewhat dilatory attitude that some organisations seem to have. In paragraph 3.15, the Auditor General says that, at 31 March, 13 audited bodies still had actions outstanding from recommendations in 2001-02 accounts and that two of these bodies still had actions left over from their management letter of 2000-01. What are we doing to ensure that the points that are emphasised for action are followed through thoroughly? It is surprising that these matters are not followed up. These organisations must realise that they are going to be revisited and that they will be called to account on these issues. For their own sake, you would think that they would cover themselves and ensure that they spent some of the time that year

oherwydd ein bod yn delio â phobl a'r natur ddynol yma, ac mae'n debyg ein bod yn siarad am ddegau o filoedd o bobl—swyddogion—ledled Cymru sy'n gwneud penderfyniadau o ran rhannau o'r £11 biliwn hwn. O bryd i'w gilydd, bydd unigolion yn gwneud camgymeriadau. Fy swydd yw sicrhau eu bod yn cael cyn lleied o gyfleoedd â phosibl i wneud camgymeriadau ac, yn sicr, os wyf yn dod ar draws mater systematig, i wneud yn siŵr fod hyfforddiant mewn perthynas â'r mater hwn yn rhan o'r dulliau o fynd i'r afael â hyn yn y dyfodol.

[6] **Janet Davies:** Credaf ein bod yn cydnabod y materion hynny. David, a ydych am fynd ar drywydd y mater hwn?

[7] **David Melding:** Syr Jon, byddaf yn edrych ar baragraffau 3.14 i 3.18, ac efallai'n rhoi sylw pellach i rai o'r materion sy'n ymwneud â'r systemau sydd ar waith. Yr ydym wedi clywed fod safonau, yn gyffredinol, yn dda ac, yn amlwg, mae hynny'n galonogol. Fodd bynnag, mae gweithdrefn archwilio yn bwysig i sicrhau arferion gorau ac i wella—mae diffygion yn bodoli fel arfer mewn unrhyw fath o sefydliad, beth bynnag yw lefel ei gymhwysedd. Yr wyf ychydig yn bryderus ynglŷn â'r agwedd rywfaint yn araf sydd gan rai sefydliadau. Ym mharagraff 3.15, mae'r Archwilydd Cyffredinol yn dweud, ar 31 Mawrth, fod gan 13 corff a archwiliwyd gamau i'w cymryd o hyd o'r argymhellion yng nghyfrifon 2001-02 a bod gan ddau o'r cyrff hyn gamau i'w cymryd o hyd o'u llythyr rheoli yn 2000-01. Beth yr ydym yn ei wneud i sicrhau bod y pwyntiau a bwysleisir ar gyfer gweithredu yn cael eu cyflawni'n drylwyr? Mae'n rhyfedd na weithredwyd ar y materion hyn. Mae'n rhaid i'r sefydliadau hyn sylweddoli y byddwn yn ail ymweld â hwy ac y byddant yn cael eu galw i gyfrif ar y materion hyn. Er eu lles eu hunain, byddech yn meddwl y byddent yn

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addressing those points.

amddiffyn eu hunain a sicrhau eu bod yn treulio rhywfaint o amser y flwyddyn honno'n mynd i'r afael â'r pwyntiau hynny.

**Sir Jon Shortridge:** I think that the first thing to say is that, sometimes, these issues will take a bit longer than a year to sort out, not least because I get the management letter for the previous financial year around about January. So, these matters are drawn to my attention in January and, as the new financial year starts in April, there may just not be time, depending on its nature, to have resolved the issue within the space available. However, I do two sets of things in this regard. In the case of the sponsored bodies, I have, in letters that I have sent to them, drawn their attention to the concerns of the Auditor General and the Audit Committee. On the basis of this report, I wrote to all the chief executives of ASPBs this week, drawing their attention to this particular issue, among others, and saying that they must be more vigilant in terms of making sure that these things are followed through. At my next meeting with the accounting officers, which actually will not take place now until October, I will be discussing this issue with them to really try to make sure that it is embedded. In my own case—I can tell you what I did on the basis of last year's report—I made my own assessment of where I could not think of a reasonable explanation as to why there had been a repeat problem, and I called in the heads of divisions concerned, or rather I wrote to them. Without going into too much detail of the individual case, I said that I would be grateful if they would ensure that those directly involved in our failure to meet the NAO's requirements on this matter would come to see me so that they could account directly to me for their handling of it, that I would want the circumstances to be taken into account in their performance appraisals for this year

**Syr Jon Shortridge:** Credaf mai'r peth cyntaf i'w ddweud yw y bydd y materion hyn, o bryd i'w gilydd, yn cymryd ychydig mwy na blwyddyn i'w datrys, ac un rheswm am hyn yw fy mod yn derbyn y llythyr rheoli ar gyfer y flwyddyn ariannol flaenorol tua mis Ionawr. Felly, mae'r materion hyn yn dod i'm sylw ym mis Ionawr ac, erbyn i'r flwyddyn ariannol newydd gychwyn ym mis Ebrill, efallai na fydd amser, yn dibynnu ar ei natur, i fod wedi datrys y mater yn yr amser sydd ar gael. Fodd bynnag, yr wyf yn gwneud dau beth ynghylch hyn. Yn achos y cyrff a noddir, yr wyf, yn y llythyrau a anfonir atynt, yn tynnu eu sylw at bryderon yr Archwilydd Cyffredinol a'r Pwyllgor Archwilio. Ar sail yr adroddiad hwn, ysgrifennais at holl brif weithredwyr cyrff cyhoeddus a noddir gan y Cynulliad yr wythnos hon, gan dynnu eu sylw at y mater penodol hwn, ymhlith pethau eraill, gan ddweud bod yn rhaid iddynt fod yn fwy gwyliadwrus wrth sicrhau eu bod yn mynd i'r afael â'r pethau hyn. Yn fy nghyfarfod nesaf â'r swyddogion cyfrifo, na fydd yn digwydd bellach tan fis Hydref, byddaf yn trafod y mater hwn gyda hwy i geisio sicrhau yn bendant eu bod yn gwneud hyn. Yn fy achos i—gallaf ddweud wrthyhch yr hyn a gyflawnais ar sail adroddiad y llynedd—cyflawnais fy asesiad fy hun o lle nad oeddwn yn gallu meddwl am esboniad rhesymol dros broblem yn codi ei phen eto, a gofynnais i benaethiaid yr is-adrannau dan sylw ddod at ei gilydd, neu'n hytrach ysgrifennais atynt. Heb fanylu'n ormodol ar achosion unigol, dywedais y byddwn yn ddiolchgar pe baent yn sicrhau y byddai'r bobl sy'n cyfrannu'n uniongyrchol at fethu â diwallu gofynion y Swyddfa Archwilio

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and that I would want an assurance that there would be no further Audit Committee criticism of our procedures in the following year's accounts. So, I personally take this very seriously and I have sent, through my behaviour, a very strong signal to my organisation that I think that it is unacceptable. In terms of the arm's-length organisations, as I say, I am in dialogue with them, and I have already written to them on this point.

Genedlaethol ar y mater hwn yn dod i'm gweld er mwyn iddynt allu esbonio'r ffordd y maent wedi delio â'r mater yn uniongyrchol i mi, y byddwn am i'r amgylchiadau gael eu hystyried yn eu harfarniadau perfformiad ar gyfer y flwyddyn hon ac y byddwn am dderbyn sicrwydd na fyddai beirniadaeth bellach gan y Pwyllgor Archwilio am ein gweithdrefnau yng nghyfrifon y flwyddyn ganlynol. Felly, yn bersonol yr wyf yn ystyried y mater hwn yn un difrifol ac yr wyf, drwy fy ymddygiad, wedi rhoi arwydd cryf iawn i'm sefydliad fy mod yn credu ei fod yn annerbyniol. O ran y sefydliadau hyd-braich, fel y dywedais, yr wyf mewn trafodaethau gyda hwy, ac yr wyf wedi ysgrifennu atynt yn barod ynglŷn â'r mater hwn.

[8] **David Melding:** Sir Jon, I am not entirely satisfied with your answer, partly because you chose to start with a qualification about the timeliness of the response and its perhaps not being possible within a particular year. I am sure that the Auditor General would have taken all that into account. I will quote from point 3.16, in which he concludes that

'more needs to be done by the senior management of many of the bodies that I audit to ensure that agreed actions in response to audit recommendations are actually taken and taken in a timely manner.'

I was careful to say that, in general, standards are good; that is the conclusion of this report. However, that is a serious sentence, I think, to have in such a document. Is there a problem between senior management and the audit committees and in terms of how they monitor and ensure that standards are maintained and improvements are made that stops them from working effectively? What is happening? Why is senior management not ensuring that a full and proper response is given?

[8] **David Melding:** Syr Jon, nid wyf yn hollol fodlon gyda'ch ateb, yn rhannol oherwydd eich bod yn dewis cychwyn gydag amod am brydlondeb yr ymateb ac nad yw efallai'n bosibl o fewn blwyddyn benodol. Yr wyf yn sicr y byddai'r Archwilydd Cyffredinol wedi ystyried hynny i gyd. Yr wyf am ddyfynnu o bwynt 3.16, lle mae'n dod i'r casgliad

'fod angen i uwch reolwyr mewn llawer o'r cyrff a archwilir gennyf wneud rhagor i sicrhau bod y camau y cytunwyd arnynt mewn ymateb i argymhellion archwiliad yn cael eu cymryd yn amserol.'

Yr oeddwn yn dweud yn ofalus, ar y cyfan, fod safonau'n dda; dyna gasgliad yr adroddiad hwn. Fodd bynnag, mae hon yn frawddeg ddifrifol iawn, yn fy marn i, i'w chael mewn dogfen o'r fath. A oes problem rhwng uwch reolwyr a'r pwyllgorau archwilio ac o ran sut y maent yn monitro a sicrhau bod safonau'n cael eu cynnal a bod gwelliannau'n cael eu gwneud sy'n eu rhwystro rhag gweithio'n effeithiol? Beth sy'n digwydd? Pam nad yw uwch reolwyr yn sicrhau bod ymateb llawn a chywir yn cael ei roi?

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**Sir Jon Shortridge:** Well, I am sorry if you felt that my response was less direct or more conditional than it should be. Let me just say unambiguously that I take this matter very seriously indeed, and I think that, within my organisation, what I have done to address it has sent a very powerful signal to people. It is not usual for officials to be, in effect, summoned to their accounting officer—to account personally to me—for a failing that they have made. I did that quite deliberately because of the seriousness that I attach to this issue.

In the case of the sponsored bodies, I am operating through other accounting officers. We received this report last week, and I have written to the chief executives concerned about this and certain other matters this week. So, I would like to feel that I am doing as much, or nearly as much, as I reasonably can on this matter, and I will be having a discussion with the accounting officers at my next meeting to really make sure that I have a better understanding as to why, within their organisations, things are possibly not being taken as seriously as this committee would like and as I would like.

[9] **David Melding:** On the various sponsored bodies, are you confident that the relationship between senior management and the various audit committees and those procedures are effective or is there a problem there that that relationship is not a terribly robust one at the moment?

**Sir Jon Shortridge:** Well, I do not have sufficient evidence either way on that for all the sponsored bodies. I mean, I am familiar with the audit committees of some sponsored bodies, and I have been really impressed with the chairs of the audit committees. A few, for example,

**Syr Jon Shortridge:** Wel, mae'n ddrwg gennyf os oeddech yn teimlo fod fy ymateb yn llai uniongyrchol neu'n fwy amodol nag y dylai fod. Gadewch i mi ddweud yn glir fy mod yn ystyried y mater hwn yn ddifrifol iawn, a chredaf, o fewn fy sefydliad, bod yr hyn yr wyf wedi'i wneud i fynd i'r afael ag ef wedi anfon neges bwerus iawn i bobl. Nid yw'n arferol, mewn gwirionedd, i swyddogion gael eu galw gerbron eu swyddog cyfrifo—i fod yn atebol yn bersonol i mi—am fethu â gwneud rhywbeth. Bu i mi wneud hynny'n fwriadol oherwydd difrifoldeb y mater.

Yn achos y cyrff a noddir, yr wyf yn gweithredu drwy swyddogion cyfrifo eraill. Derbyniais yr adroddiad hwn yr wythnos diwethaf, ac yr wyf wedi ysgrifennu at y prif weithredwyr dan sylw ynglŷn â hyn a materion eraill penodol yr wythnos hon. Felly, hoffwn deimlo fy mod yn gwneud cymaint, neu bron cymaint, ag y gallaf yn rhesymol ynglŷn â'r mater hwn, a byddaf yn trafod hyn gyda'r swyddogion cyfrifo yn fy nghyfarfod nesaf i sicrhau bod gennyf well dealltwriaeth ynglŷn â pham nad yw pethau, o fewn eu sefydliadau, yn cael eu hystyried mor ddifrifol o bosibl ag y dymunai'r pwyllgor hwn a minnau.

[9] **David Melding:** O ran y gwahanol gyrff a noddir, a ydych yn hyderus fod y berthynas rhwng uwch reolwyr a'r pwyllgorau archwilio amrywiol a'r gweithdrefnau hynny'n effeithiol neu a oes problem yno nad yw'r berthynas yn un gryf iawn ar hyn o bryd?

**Syr Jon Shortridge:** Wel, nid oes gennyf ddigon o dystiolaeth y naill ffordd na'r llall gan yr holl gyrff a noddir. Yr wyf yn gyfarwydd â phwyllgorau archwilio rhai cyrff a noddir, ac mae cadeiryddion y pwyllgorau archwilio wedi gwneud argraff fawr arnaf. Bydd rhai, er

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will come to me if they have concerns about what is going on in their organisation. However, I think that the Auditor General is right to bring this point out in the report, and I will be making sure that his views and recommendations, and any supplementary recommendations from this committee, are taken up with the relevant accounting officers, and I shall be seeking an assurance from them about their procedures.

[10] **David Melding:** I think that if I were on an audit committee, on the board of an ASPB, and there were a couple of issues in the management letter that had not been addressed, this is something that I would find fairly significant. I just wonder whether there is some evidence that these audit committees have been concerned about this issue.

**Sir Jon Shortridge:** As I, personally, do not attend audit committees, I cannot help you on that this morning. If the committee would like a short note, in which I can gather up some relevant evidence, I will submit that to you.

[11] **David Melding:** I think that that would be helpful. On paragraph 3.18, a significant percentage of audited bodies within the jurisdiction of the Auditor General are not preparing their annual accounts within the proper limits. Again, despite, presumably, the standard of the accounts still being regarded as high, there is a certain laxity about this procedure, and that is a little troublesome, is it not? Accounts are important, and I just wonder whether you feel that that may indicate a greater level of risk. If people are slightly less vigilant about these matters, then that might extend to other practices.

**Sir Jon Shortridge:** This is a matter that I am also very concerned about. Perhaps I

enghraifft, yn dod ataf os oes ganddynt bryderon ynglŷn â'r hyn sy'n digwydd yn eu sefydliad. Fodd bynnag, credaf fod yr Archwilydd Cyffredinol yn iawn i gynnwys y pwynt hwn yn ei adroddiad, a byddaf yn sicrhau bod ei safbwyntiau a'i argymhellion, ac unrhyw argymhellion ategol gan y pwyllgor hwn, yn cael eu trafod gyda'r swyddogion cyfrifo perthnasol, a byddaf yn gofyn am sicrwydd ganddynt am eu gweithdrefnau.

[10] **David Melding:** Pe bawn ar bwyllgor archwilio, ar fwrdd corff a noddir gan y Cynulliad, a bod ambell fater yn y llythyr rheoli nad yw wedi'i drafod, credaf y byddai hyn yn rhywbeth arwyddocaol iawn i mi. Tybed a oes tystiolaeth fod y pwyllgorau archwilio hyn wedi bod yn bryderus ynglŷn â'r mater hwn.

**Syr Jon Shortridge:** Oherwydd nad wyf, yn bersonol, yn mynychu pwyllgorau archwilio, ni allaf eich cynorthwyo gyda hynny y bore yma. Pe bai'r pwyllgor yn hoffi nodyn byr, lle gallaf gasglu tystiolaeth berthnasol, gallaf gyflwyno hynny i chi.

[11] **David Melding:** Credaf y byddai hynny'n ddefnyddiol. Ar baragraff 3.18, nid yw canran sylweddol o gyrff a archwilir o fewn awdurdodaeth yr Archwilydd Cyffredinol yn paratoi eu cyfrifon blynyddol o fewn y terfynau cywir. Eto, er, mae'n debyg, fod safon y cyfrifon yn cael eu hystyried yn uchel, mae diofalwch penodol am y weithdrefn hon, ac mae hynny'n rhywfaint o broblem, onid ydyw? Mae cyfrifon yn bwysig, ac a ydych yn teimlo eu bod yn nodi lefel risg uwch o bosibl? Os yw pobl ychydig yn llai gwyliadwrus o'r materion hyn, yna efallai y gallai hynny ledaenu i arferion eraill.

**Syr Jon Shortridge:** Mae hwn yn fater yr wyf innau hefyd yn bryderus iawn

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should say that a number of these accounts were Assembly accounts or sub-accounts. I have monthly meetings throughout the year with Mr Pavelin and his accounting team, so I am following very closely the way in which the audit process is going and how any follow-up action for the audit process is going. We had particular difficulties, I think, this year, because we are still in the process of picking up all the consequences of the transition from cash to accrual accounting. Accrual accounting does mean that we need information on things like debtors and creditors, in a form and with a timeliness—Sir John mentioned this—which we have not had to have before.

It also means that, as we move into having consolidated accounts, there is a need to be able to reconcile the debtors and creditors in one public body with the corresponding debtor and creditor in the other public body, and, because of the different timescales and the different way in which debtors and creditors are perceived, and depending on whether you are the recipient or the provider, there can be quite serious issues in terms of reconciling this information to our satisfaction. So that was, to a significant extent, what the problems were this year. However, to put it in context, I think that we are talking about two accounts that were a week late and one account that was two weeks late. Then there was a much more serious delay in the case of the Wales European Funding Office account, which was somewhere between three and five—I think it was five—weeks late, and our consolidated account, which is referred to in chapter 7 of the report, was 12 weeks late, which was a serious deficiency, albeit that this was a dry-run account and was, therefore, an experimental account—it was not a real

amdano. Efallai y dylwn ddweud fod nifer o'r cyfrifon hyn yn gyfrifon y Cynulliad neu'n is-gyfrifon. Yr wyf yn cynnal cyfarfodydd misol gydol y flwyddyn gyda Mr Pavelin a'i dîm cyfrifo, felly yr wyf yn dilyn hynt a helynt y broses archwilio ac unrhyw gamau gweithredu dilynol yn agos iawn. Cawsom anawsterau penodol eleni, credaf, am ein bod yn y broses o fynd i'r afael â holl ganlyniadau y newid o gyfrifo arian parod i gyfrifo croniadol. Mae cyfrifo croniadol yn golygu ein bod angen gwybodaeth am bethau fel dyledwyr a chredydwyr, ar ffurf a chyda phrydlondeb—crybwyllodd Syr John hyn—nad ydym wedi gorfod ei gael yn y gorffennol.

Mae hyn hefyd yn golygu, wrth i ni symud tuag at gyfrifon cyfnerthedig, mae angen gallu dod â'r dyledwyr a'r credydwyr at ei gilydd mewn un corff cyhoeddus gyda'r dyledwr a'r credydwr cyfatebol mewn corff cyhoeddus arall, ac, oherwydd y gwahanol derfynau amser a'r ffordd wahanol yr ystyrir dyledwyr a chredydwyr, a chan ddibynnu ar ai chi yw'r derbynnydd neu'r darparwr, gall fod materion eithaf difrifol o ran casglu'r wybodaeth hon i'n boddhad. Felly dyna oedd y broblem eleni, i raddau helaeth. Fodd bynnag, i'w roi mewn cyd-destun, credaf ein bod yn siarad am ddau gyfrif a oedd wythnos yn hwyr ac un cyfrif a oedd bythefnos yn hwyr. Yna yr oedd oedi llawer mwy difrifol yn achos cyfrif Swyddfa Cyllid Ewropeaidd Cymru, a oedd rhwng tair a phump—credaf mai pump—wythnos yn hwyr, ac yr oedd ein cyfrif cyfnerthedig, y cyfeirir ato ym mhennod 7 yr adroddiad, 12 wythnos yn hwyr, a oedd yn ddiffyg difrifol, er ei fod yn gyfrif ffug-rediad ac a oedd, felly, yn gyfrif arbrofol—nid oedd yn gyfrif go iawn.

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[12] **David Melding:** How late they were—it is not really a saving grace is it, if times were out by a week or two weeks? An organisation works on its financial accounts all year, and targets are set and appropriate—and the effect that late accounts can have all the way down the line is obviously disruptive. Again, one account, if you look at paragraph 3.18—I do not know if it is the one to which you have just referred—failed to achieve the statutory deadline for signature. I think that you have, perhaps, partly answered this question, but when accounts are late, what sort of procedure do you then follow to indicate that that is not acceptable? Do you speak to the relevant accounting officers? What happens from your office?

**Sir Jon Shortridge:** I think that the first thing to say is that a lot of these deadlines are internally agreed with the NAO and so, to that extent, they themselves do not have a statutory force; it is us seeking to plan our work in a way that enables the NAO to plan its work, which enables all of us to achieve the statutory deadlines. I try to set pretty challenging deadlines for my staff. So, I think that to be a week out—while I do not like it—is explicable and more understandable.

What do I do? Every year, at the end of the accounts preparation process—and I have been having my monthly meetings with the accounting teams—I bring all my Assembly accounting officers together to review what happened. I discuss with them what went wrong, and where the fault—not so much the blame, because I am not a great believer in blame—lay, so that I have an understanding of it. We then agree what we are going to do to ensure that those

[12] **David Melding:** Pa mor hwyr yr oeddynt—nid yw'n un o'r cryfderau, os oedd amseroedd allan ohoni o wythnos neu bythefnos? Mae sefydliad yn gweithio ar ei gyfrifon ariannol gydol y flwyddyn, ac mae targedau'n cael eu pennu ac yn briodol—ac mae'r effaith y mae cyfrifon hwyr yn ei chael drwy'r broses yn amlwg yn achosi anhrefn. Eto, os edrychwch ar baragraff 3.18, methodd un cyfrif—nid wyf yn gwybod ai hwn yw'r un yr ydych newydd gyfeirio ato—â chyflawni'r terfyn amser statudol ar gyfer llofnodi. Credaf eich bod, efallai, wedi ateb y cwestiwn hwn yn rhannol, ond pan fo cyfrifon yn hwyr, pa fath o weithdrefn yr ydych yn ei dilyn wedi hynny i nodi nad yw hyn yn dderbyniol? A ydych yn siarad â'r swyddogion cyfrifo perthnasol? Beth sy'n digwydd o'ch swyddfa?

**Syr Jon Shortridge:** Credaf mai'r peth cyntaf i'w ddweud yw y cytunir ar lawer o'r terfynau amser hyn yn fewnol gyda'r Swyddfa Archwilio Genedlaethol ac felly, i'r graddau hynny, nid oes ganddynt hwy eu hunain rym statudol; ni sy'n ceisio cynllunio ein gwaith mewn ffordd sy'n galluogi'r Swyddfa Archwilio Genedlaethol i gynllunio ei gwaith, sy'n galluogi i ni gyd gyflawni'r terfynau amser statudol. Yr wyf yn ceisio gosod terfynau amser llawn her ar gyfer fy staff. Felly, credaf fod wythnos allan ohoni—er nad wyf yn hoffi hynny—yn esboniadwy ac yn fwy dealladwy.

Beth y gallaf ei wneud? Bob blwyddyn, ar ddiwedd y broses paratoi cyfrifon—ac yr wyf wedi bod yn cael cyfarfodydd misol gyda'r timau cyfrifo—yr wyf yn dod â holl swyddogion cyfrifo'r Cynulliad at ei gilydd i adolygu'r hyn a ddigwyddodd. Yr wyf yn trafod gyda hwy yr hyn a aeth o'i le, a beth oedd tarddiad y diffyg—nid cymaint y bai, oherwydd nid wyf yn credu mewn beio—er mwyn i mi ei ddeall. Wedi hynny yr ydym yn cytuno ar yr hyn yr ydym am ei

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lessons are put into practice for future years. If the issue is a serious one, I will regard it as a performance issue for the relevant person. That gets signalled through the organisation, because I believe that that is how it should be done.

[13] **David Melding:** Thank you.

[14] **Janet Davies:** Sir Jon, you mentioned difficulties arising from the change in the type of accounting that you are doing. For 2003-04, we will have had the change to 22 local health boards in the national health service. Are you aware of any problems that may arise in achieving time limits for the accounts of those local health boards that are coming in?

**Sir Jon Shortridge:** I am always, in relation to the accounts, along with Mr Pavelin, managing risks associated either with inherited problems that we know that we have, or with administrative changes that we know we are going to have to deal with. The local health boards is one of the things that is pretty close to the top of my own personal risk register in relation to this. At the moment, I am just aware of this as a potential cloud which could start to rain on me. Laurie, who is closer to it, may be able to give you a more up-to-date position on local health boards.

**Mr Pavelin:** I do not have any absolute up-to-date position, but I know that, during the past year, Christine Daws, whom you saw in the earlier session, has been working with the local health boards to ensure that the management information and the accounting information is likely to be available at the right time. She has employed consultants to come in to review the procedures that have been taking place in the centres that

wneud i sicrhau bod y gwersi hynny'n cael eu rhoi ar waith yn y dyfodol. Os yw'r mater yn un difrifol, byddaf yn ei ystyried fel mater perfformiad ar gyfer yr unigolyn perthnasol. Mae hynny'n cael ei ledaenu drwy'r sefydliad, oherwydd credaf mai dyna sut y dylid gwneud pethau.

[13] **David Melding:** Diolch.

[14] **Janet Davies:** Syr Jon, bu i chi grybwyll anawsterau yn deillio o'r newid yn y math o gyfrifo yr ydych yn ei wneud. Ar gyfer 2003-04, byddwn wedi newid i 22 bwrdd iechyd lleol yn y gwasanaeth iechyd gwladol. A ydych yn ymwybodol o unrhyw broblemau a allai godi wrth gyflawni terfynau amser ar gyfer cyfrifon y byrddau iechyd lleol newydd hynny?

**Syr Jon Shortridge:** Yr wyf bob amser, o ran y cyfrifon, ynghyd â Mr Pavelin, yn rheoli risgiau sy'n gysylltiedig naill ai â phroblemau a etifeddir y gwyddom sydd gennym, neu gyda newidiadau gweinyddol y gwyddom y bydd yn rhaid i ni ymdrin â hwy. Mae'r byrddau iechyd lleol yn un o'r pethau sy'n eithaf agos at frig fy nghofrestr risg bersonol i o ran hyn. Ar hyn o bryd, yr wyf yn ymwybodol bod hyn fel cwmwl posibl a allai dduo. Efallai y gallai Laurie, sy'n agosach at hyn, roi sefyllfa ddiweddaraf byrddau iechyd lleol i chi.

**Mr Pavelin:** Nid oes gennyf unrhyw sefyllfa cwbl gyfredol, ond gwn, yn ystod y flwyddyn ddiwethaf, bod Christine Daws, a oedd yn bresennol yn y sesiwn cynharach, wedi bod yn gweithio gyda'r byrddau iechyd lleol i sicrhau y bydd y wybodaeth reoli a'r wybodaeth gyfrifo yn debygol o fod ar gael ar yr amser iawn. Mae wedi cyflogi ymgynghorwyr i ddod i mewn i adolygu'r gweithdrefnau sydd wedi bod ar waith yn y canolfannau sy'n

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do the day-to-day accounting work. She has also been seeking assurances from the finance directors of all the local health boards that they have the necessary resources and arrangements in place to get the accounts done to timescale. I have not heard of any reported problems so far, but I do know, from practical experience, that the first time that you prepare accounts for a new organisation, where there are new staff in place and new arrangements for running the accounting procedures, there will always be some difficulties.

[15] **Christine Gwyther:** I would like to tease out some of the points mentioned in the last few minutes. Paragraph 7.11 describes how the Assembly was the very last UK department to submit its 2002-03 central Government accounts to the Treasury. That was a significant drop in performance from the previous year. In paragraph 7.11, it suggests that that was due to late Wales European Funding Office accounting. I thought that John Bourn was kind in reminding us of the impenetrability of the European Commission, but, in this case, was the lateness in the WEFO accounting our fault rather than Brussels's fault? Can you elucidate on that particular point, because it is not very clear to me whose fault that was?

**Sir Jon Shortridge:** I would say that it was very largely our fault, and it was largely for the reason that I outlined earlier, namely the difficulty that we had in reconciling the debtor and creditor information that WEFO holds and, say, the comparable debtor and creditor information that some of our sponsored bodies hold. WEFO makes a payment or grant promise to the National Council—ELWa, that then has to feature in the national council's books, and if it does

gwneud y gwaith cyfrifo o ddydd i ddydd. Mae hefyd wedi bod yn ceisio derbyn sicrwydd gan gyfarwyddwyr cyllid pob bwrdd iechyd lleol fod ganddynt yr adnoddau a'r trefniadau angenrheidiol ar waith i gyflawni'r cyfrifon o fewn y terfyn amser. Nid wyf wedi clywed am unrhyw broblemau hyd yma, ond gwn, o brofiad ymarferol, y bydd rhywfaint o anawsterau y tro cyntaf ichi baratoi cyfrifon ar gyfer sefydliad newydd, lle mae staff newydd a threfniadau newydd ar waith ar gyfer gweithredu'r gweithdrefnau cyfrifo.

[15] **Christine Gwyther:** Hoffwn drafod rhai o'r pwyntiau a grybwyllwyd yn yr ychydig funudau diwethaf. Mae paragraff 7.11 yn disgrifio mai'r Cynulliad oedd yr adran olaf yn y DU i gyflwyno cyfrifon Llywodraeth ganolog 2002-03 i'r Trysorlys. Yr oedd hynny'n gwmp sylweddol mewn perfformiad o'r flwyddyn flaenorol. Ym mharagraff 7.11, awgrymir bod hynny oherwydd bod Swyddfa Cyllid Ewropeaidd Cymru wedi cyflwyno ei chyfrifon yn hwyr. Yr oeddwn yn credu bod John Bourn yn garedig yn ein hatgoffa o ddryswch y Comisiwn Ewropeaidd, ond, yn yr achos hwn, ai ein bai ni oedd bod cyfrifon WEFO wedi'u cyflwyno'n hwyr yn hytrach na bai Brwsel? A ellwch esbonio'r pwynt penodol hwnnw, oherwydd nid yw'n glir iawn i mi pwy sydd ar fai?

**Syr Jon Shortridge:** Byddwn yn dweud mai ein bai ni oedd hyn yn bennaf, ac yr oedd hyn yn bennaf am y rheswm a amlinellais yn gynharach, sef yr anhawster a gawsom i gysoni'r wybodaeth sydd gan WEFO am ddyledwyr a chredydwyr ac, efallai, y wybodaeth gyffelyb am ddyledwyr a chredydwyr sydd gan rai o'n cyrff a noddir. Mae WEFO yn talu neu'n rhoi addewid grant i'r Cyngor Cenedlaethol—ELWa, sy'n gorfod cael ei gofnodi ar

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not feature in both sets of books in exactly the same way, you end up with two sets of accounts with big holes in the middle. That can happen because the different organisations are perceiving these transactions, quite legitimately, in different ways. It is a very big clerical, administrative task getting to the bottom of all of that and getting the material reconciled. This, essentially, was the sort of problem that we had.

**Mr Pavelin:** We had an additional problem last year, which was that responsibility for managing European social fund grants physically transferred to the Assembly. So, we took on a system and had great difficulties in extracting the relevant debtor and creditor information internally on that. What have we done to try to overcome that for this year, because this year is not a dry run, it is for real? In light of the problems that we had last year in agreeing balances between all of the public bodies—not just within Wales; we have to agree with public bodies across the United Kingdom, which means dealing with Whitehall departments—we have set a much tighter timeframe this year, and it ends on 7 July. We have put additional resources into that and have been tagging the Assembly's own accounting database, so that we can identify all of these balances, and that seems to be working better.

In terms of the ASPBs and trying to agree balances with them, we have come to a pragmatic and sensible arrangement with the National Audit Office, which audits all of the accounts, that the balance that is taken into each of the individual accounts of the ASPBs, which are prepared before the Assembly accounts, will be the balance that we will deal with as being

lyfrau'r cyngor cenedlaethol, ac os nad yw'n cael ei gofnodi'n union yr un peth yn y ddwy set o lyfrau, bydd gennyh ddwy set o gyfrifon gyda bylchau mawr yn y canol. Gall hynny ddigwydd oherwydd bod y gwahanol sefydliadau yn amgyffred y trafodion hyn, yn hollol gyfreithlon, mewn gwahanol ffyrdd. Mae'n dasg glerigol, weinyddol fawr iawn i gael at wraidd hynny i gyd a chysoni'r deunyddiau. Dyma, yn y bôn, oedd y math o broblem a oedd yn ein hwynebu.

**Mr Pavelin:** Yr oedd gennym broblem ychwanegol y llynedd, sef y cyfrifoldeb dros reoli grantiau cronfa gymdeithasol Ewropeaidd a drosglwyddwyd yn ffisegol i'r Cynulliad. Felly, etifeddwyd system a chawsom anawsterau mawr i gael gafael ar y wybodaeth berthnasol am ddyledwyr a chredydwyr yn fewnol. Beth yr ydym wedi'i wneud i geisio datrys hyn eleni, oherwydd nid ffug-rediad a gynhelir eleni, mae'n real? Yng ngoleuni'r problemau a gawsom y llynedd wrth gytuno ar falansau rhwng yr holl gyrff cyhoeddus—nid yn unig yng Nghymru; mae'n rhaid i ni gytuno gyda chyrrff cyhoeddus ledled y Deyrnas Unedig, sy'n golygu ymdrin ag adrannau Whitehall hefyd—yr ydym wedi gosod terfyn amser llawer llymach eleni, ac mae'n dirwyn i ben ar 7 Gorffennaf. Yr ydym wedi cyfrannu adnoddau ychwanegol at hynny ac wedi bod yn defnyddio cronfa ddata gyfrifo'r Cynulliad, fel y gallwn nodi'r holl falansau, ac mae hynny i'w weld yn gweithio'n well.

O ran y cyrrff cyhoeddus a noddir gan y Cynulliad a cheisio cytuno ar falansau gyda hwy, yr ydym wedi dod i drefniant pragmatig a synhwyrol gyda'r Swyddfa Archwilio Genedlaethol, sy'n archwilio'r holl gyfrifon, mai'r balans sy'n cael ei gymryd i holl gyfrifon unigol y cyrrff cyhoeddus a noddir gan y Cynulliad, sy'n cael eu paratoi cyn cyfrifon y Cynulliad,

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the correct balance, and we will replicate that in the Assembly's books. In essence, what we are talking about is the timing of payments, not the total amounts that are due between the various bodies. In that way, we hope that we can overcome the problems of consolidation, and we hope that we are not going to have to do that too much. We hope that the procedures that we have in place with the various bodies will counteract some of those problems.

[16] **Christine Gwyther:** I know that you are not going to promise an absolute, but how confident can you be that, this year, we will be able to produce a published whole of Government of Wales account within a decent timescale?

**Sir Jon Shortridge:** I am personally very embarrassed at the outcome of our dry run last year and am totally dissatisfied with it. The saving grace is that it was a dry run and did not actually affect anything in the real world. That, again, is part of my own assessment of risk at any one time—you have to think of the consequences. I am very focused on ensuring that we have a much better outcome this time. I think that the biggest risk that we are managing in these accounts goes back to the Chair's question: it will be what happens with the local health board accounts. These are new bodies with new staff, and they have had to manage the transition. That is the biggest uncertainty that we are facing, but I would be very disappointed were I to come back in a year's time with an outcome like we had last year.

[17] **Christine Gwyther:** Are all the local health boards using the same accounting system? We heard earlier, when we had the NHS Wales discussion,

fydd y balans y byddwn yn ymdrin ag ef fel y balans cywir, a byddwn yn ailadrodd hynny yn llyfrau'r Cynulliad. Yn y bôn, yr hyn yr ydym yn ei drafod yma yw amseriad y taliadau, nid y cyfansymiau sy'n ddyledus rhwng y cyrff amrywiol. Yn hynny o beth, yr ydym yn gobeithio y gallwn ddatrys y problemau cyfnerthu, a gobeithiwn na fyddwn yn gorfod gwneud hynny ormod. Yr ydym yn gobeithio y bydd y gweithdrefnau sydd gennym ar waith gyda'r cyrff amrywiol yn rhwystro rhai o'r problemau hynny.

[16] **Christine Gwyther:** Gwn nad ydych yn mynd i roi addewid diamod, ond pa mor hyderus ydych y byddwn, eleni, yn gallu cynhyrchu cyfrif Llywodraeth Cymru gyfan cyhoeddedig o fewn terfyn amser boddhaol?

**Syr Jon Shortridge:** Mae canlyniad ein ffug-rediad y llynedd yn embaras personol mawr i mi ac yr wyf yn hollol anfodlon gydag ef. Yr unig gysur yw mai ffug-rediad ydoedd ac nid oedd yn effeithio ar y byd go iawn mewn gwirionedd. Mae hynny, eto, yn rhan o'm hasesiad risg ar unrhyw adeg benodol—mae'n rhaid i chi feddwl am y canlyniadau. Yr wyf yn canolbwyntio ar sicrhau ein bod yn cael canlyniad llawer gwell y tro hwn. Credaf fod y risg fwyaf yr ydym yn ei rheoli yn y cyfrifon hyn yn mynd yn ôl at gwestiwn y Cadeirydd: sef yr hyn a fydd yn digwydd gyda chyfrifon y byrddau iechyd lleol. Mae'r rhain yn gyrff newydd gyda staff newydd, ac maent wedi gorfod rheoli'r trawsnewid. Dyna'r ansicrwydd mwyaf yr ydym yn ei wynebu, ond byddwn yn siomedig iawn pe bawn yn dod yn ôl mewn blwyddyn gyda chanlyniad debyg i'r llynedd.

[17] **Christine Gwyther:** A yw'r holl fyrddau iechyd lleol yn defnyddio'r un system gyfrifo? Bu inni glywed yn gynharach, wrth inni drafod GIG Cymru,

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that only 12 out of 15 trusts were using the Oracle system. Are they all talking the same language?

**Mr Pavelin:** They may have different accounting systems that underlie the accounts that they produce, but they all have to produce their accounts on a common and consistent basis. When they submit them to the Assembly, which is where we pick up, they have to fill in a basic format, which is common to all of them. Then we have to tie those figures back to the figures in the Assembly's books, so that there is a situation of reconciliation. So, the fact that some of them may be using different accounting systems should not affect the actual accounts that come out at the end of the day. Everything is done on a format basis. So that is for the consolidation of all of the local health board accounts into one account for the health service. In terms of consolidating those together with ASPBs, which, again, would have completely different accounting systems, there is a common standard format and chart of accounts that applies to all public sector bodies in Wales, which has been set down by the Treasury. Therefore, in consolidating all of the Wales accounts into the United Kingdom accounts, we are all operating on a common basis. The Auditor General actually signs off these consolidation packs that come in for whole of Government accounts, and it is all on a common basis. We feed in all of the Wales accounts centrally via the Assembly.

[18] **Christine Gwyther:** I will turn to late payments to companies for goods and services provided, if I may. We also discussed this with NHS Wales earlier this morning. Paragraph 3.26 and figure 7 put into context the performance achieved by our public bodies in paying bills promptly. We know that they are seeking to pay 95 per cent of bills within 30 days,

mai dim ond 12 o 15 ymddiriedolaeth a oedd yn defnyddio'r system Oracle. A ydynt i gyd yn siarad yr un iaith?

**Mr Pavelin:** Efallai fod ganddynt systemau cyfrifo gwahanol sy'n cynnal y cyfrifon y maent yn eu cynhyrchu, ond maent i gyd yn gorfod cynhyrchu eu cyfrifon ar sail gyffredin a chyson. Wrth eu cyflwyno i'r Cynulliad, lle yr ydym ni'n dechrau ar ein gwaith, mae'n rhaid iddynt lenwi fformat sylfaenol, sy'n gyffredin iddynt i gyd. Yna mae'n rhaid inni gysylltu'r ffigurau hynny â'r ffigurau yn llyfrau'r Cynulliad, er mwyn gallu cysoni. Felly, ni ddylai'r ffaith y gallai rhai ohonynt fod yn defnyddio gwahanol systemau cyfrifo effeithio ar y cyfrifon a gyhoeddir yn y pen draw. Mae popeth yn cael ei wneud ar sail fformat. Felly mae hynny ar gyfer cyfuno pob un o gyfrifon y byrddau iechyd lleol i un cyfrif ar gyfer y gwasanaeth iechyd. O ran cydgrynhoi'r rheini ynghyd â'r cyrff cyhoeddus a noddir gan y Cynulliad, a fyddai ganddynt, eto, systemau cyfrifo hollol wahanol, mae fformat safon cyffredin a siart o gyfrifon sy'n gymwys i'r holl gyrff sector cyhoeddus yng Nghymru, sydd wedi'i nodi gan y Trysorlys. Felly, wrth gyfuno holl gyfrifon Cymru i gyfrifon y Deyrnas Unedig, yr ydym i gyd yn gweithredu ar sail gyffredin. Mae'r Archwilydd Cyffredinol yn llofnodi'r pecynnau cyfuno hyn a gyflwynir ar gyfer cyfrifon y Llywodraeth gyfan, ac mae hyn i gyd ar sail gyffredin. Yr ydym yn cyflwyno cyfrifon Cymru i gyd yn ganolog drwy'r Cynulliad.

[18] **Christine Gwyther:** Yr wyf am droi at daliadau hwyr i gwmnïau am nwyddau a gwasanaethau a ddarperir, os y caf. Yr ydym hefyd wedi trafod hyn gyda GIG Cymru yn gynharach y bore yma. Mae paragraff 3.26 a ffigur 7 yn rhoi perfformiad ein cyrff cyhoeddus o ran talu biliau yn brydlon yn ei gyd-destun. Gwyddom eu bod yn ceisio talu 95 y cant

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as a payment benchmark. Can you explain why Welsh public bodies do not seem able to make a sustained improvement on those performance levels, and why, in some cases, they are actually getting worse?

**Sir Jon Shortridge:** No, I do not fully understand why that is, but, to prepare myself for this session, I asked for, and obtained, a table setting out the performance of all the public bodies in Wales, including the Assembly. In quite a lot of cases, the changes year on year are pretty marginal, and you would expect there to be some changes year on year. There are a small number of bodies where the performance, by any standards, is unacceptable. This, again, is one of the things that I drew to the accounting officers' attention in the letter that I sent earlier this week, and I said that I expect a considerably better performance this year. This, again, is a matter that I will want to discuss with them at my meeting in October, so that I can get a much better understanding of what is going on. The real problems, as I see them, rest with a very few organisations. Most organisations are currently in the 90 per cents and—I am just scanning down the list—most are above 95 per cent. There are three in particular where there is an issue, which I do not understand.

[19] **Christine Gwyther:** Can I ask which three?

**Sir Jon Shortridge:** If the Chair is happy for me to do so, I will name them.

[20] **Janet Davies:** I am happy for you to do so.

**Sir Jon Shortridge:** The organisations

o filiau o fewn 30 diwrnod, fel meincnod talu. A allwch egluro pam nad yw cyrff cyhoeddus Cymru yn gallu gwneud gwelliannau cynaliadwy i'r lefelau perfformio hynny, a pham, mewn rhai achosion, eu bod mewn gwirionedd yn gwaethygu?

**Syr Jon Shortridge:** Na, nid wyf yn hollol sicr o'r rhesymau dros hynny, ond, wrth baratoi ar gyfer y sesiwn hon, gofynnais am, a derbyniais, dabl yn nodi perfformiad pob corff cyhoeddus yng Nghymru, gan gynnwys y Cynulliad. Mewn cryn dipyn o achosion, mae'r newidiadau o flwyddyn i flwyddyn yn eithaf bach, a byddech yn disgwyl rhai newidiadau o flwyddyn i flwyddyn. Mae perfformiad nifer fach o gyrff, yn ôl unrhyw safonau, yn annerbyniol. Mae hyn, eto, yn un o'r pethau y bu i mi dynnu sylw'r swyddogion cyfrifo yn y llythyr yr anfonais atynt yn gynharach yn yr wythnos, a dywedais fy mod yn disgwyl perfformiad gwell o lawer eleni. Mae hyn, eto, yn fater y byddaf am ei drafod gyda hwy yn fy nghyfarfod ym mis Hydref, er mwyn i mi gael gwell dealltwriaeth o lawer o'r hyn sy'n digwydd. Mae'r problemau gwirioneddol, fel yr wyf i'n eu gweld hwy, yn bodoli mewn ychydig iawn o sefydliadau. Mae'r mwyafrif o sefydliadau ar hyn o bryd yn cyflawni dros 90 y cant ac mae'r mwyafrif—wrth edrych yn gyflym ar y rhestr—yn uwch na 95 y cant. Mae tri yn arbennig lle mae achos i bryderu, ac nid wyf yn deall hynny.

[19] **Christine Gwyther:** A gaf fi ofyn pa dri?

**Syr Jon Shortridge:** Os yw'r Cadeirydd yn fodlon i mi eu henwi, gwnaf hynny.

[20] **Janet Davies:** Yr wyf yn fodlon i chi wneud hynny.

**Syr Jon Shortridge:** Y sefydliadau yr

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that I am worrying about are the national council—where we do not have records, and where, because of past experience, I would be surprised if it were well up into the nineties—the Wales Tourist Board and the Higher Education Funding Council Wales for Wales. Those are the ones that I am most concerned about.

[21] **Carl Sergeant:** Paragraph 4.4 and figure 8 highlight the advantages to organisations of resource-based financial management. Many public bodies still rely heavily on a cash-based approach to managing their financial affairs. Given that most organisations are now operating account systems that support the production of resource-based information, why is more not being done to realise the benefits of this information and to use it for taking management decisions?

**Sir Jon Shortridge:** That is a matter to which Sir John Bourn referred earlier in his opening remarks. In my judgment, recording information accurately on a monthly basis, in resource terms, is a labour-intensive business—for us here anyway. In terms of being able to record accurately the position on grant debtors and creditors, for example, to do so on a monthly basis in resource terms is not easy. You have to make a whole series of assumptions about expectations of draw-down and so on. We have found it just too difficult to do in this organisation, and I suspect, although I have not had a discussion with my accounting officer colleagues on this particular point, that my accounting officer colleagues also find it too difficult. For the time being, within the Assembly, I have to acknowledge—and this reflects what Sir John was saying earlier—that I rely most heavily for my monthly monitoring on cash monitoring. You have certain

wyf yn bryderus amdanynt yw'r cyngor cenedlaethol—lle nad oes gennym gofnodion, a lle, oherwydd ein profiadau yn y gorffennol, y byddwn yn synnu pe baent yn cyflawni 90 y cant neu dros hynny—Bwrdd Croeso Cymru a Chyngor Cyllido Addysg Uwch Cymru. Dyna'r sefydliadau yr wyf yn fwyaf pryderus yn eu cylch.

[21] **Carl Sergeant:** Mae paragraff 4.4 a ffigur 8 yn amlygu'r manteision i sefydliadau o gael rheolaeth ariannol ar sail adnoddau. Mae llawer o gyrff cyhoeddus yn dibynnu'n drwm o hyd ar ddull ar sail arian parod i reoli eu materion ariannol. O ystyried bod y mwyafrif o sefydliadau bellach yn gweithredu systemau cyfrifo sy'n cynnal cynhyrchu gwybodaeth ar sail adnoddau, pam nad oes mwy yn cael ei wneud i wireddu buddiannau y wybodaeth hon ac i'w defnyddio i wneud penderfyniadau rheoli?

**Syr Jon Shortridge:** Mae hynny'n fater y cyfeiriodd Syr John Bourn ato'n gynharach yn ei sylwadau agoriadol. Yn fy marn i, mae cofnodi gwybodaeth o ran adnoddau yn gywir, yn fisol, yn fusnes llafurus—i ni yma beth bynnag. O ran gallu cofnodi sefyllfa debydwyr a chredydwyr yn gywir, er enghraifft, nid yw'n hawdd gwneud yn fisol yn nhermau adnoddau. Mae'n rhaid i chi wneud cyfres o ragdybiaethau ynglŷn â disgwyliadau tynnu i lawr ac ati. Mae wedi bod yn rhy anodd inni allu ei wneud yn y sefydliad hwn, a thybiaf, er nad wyf wedi trafod hyn yn benodol gyda fy nghyd swyddogion cyfrifo, ei fod hefyd yn rhy anodd i'm cyd swyddogion cyfrifo. Am y tro, yn y Cynulliad, mae'n rhaid i mi gydnabod—ac mae hyn yn adlewyrchu yr hyn a ddywedodd Syr John yn gynharach—yr wyf yn dibynnu'n arw ar gyfer y monitro misol ar fonitro arian parod. Mae gennych ragdybiaethau safonol penodol i drosi arian parod i

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standard assumptions to convert cash to resource where you think it is necessary, as opposed to forensically seeking to convert all the cash figures on a monthly basis into resource. We have just found that to be too difficult. If you want a fuller explanation of that, Mr Pavelin, I am sure, will help you.

[22] **Carl Sargeant:** Given your answer then, would you agree that the significant investment that has been made by bodies such as the Assembly and ELWa in new accounting systems is really being partially wasted?

**Sir Jon Shortridge:** Again, I will invite Laurie to comment on that. In a very sort of literal way, I would probably agree with you, but I feel that, in terms of the nature of the decisions that I as a manager have to take throughout the year in an organisation like the Assembly, at the moment I can take them pretty much as well on the basis of cash as I could on resource. I then have to ask, 'Well, what added value am I going to get from investing really quite a lot of money in terms of additional staff resource to get it onto a resource basis?'. Where I, personally, see the best value from resource accounting and budgeting is in looking at the year-on-year change in the Assembly's balance sheet: the way in which it is using its assets, and the way in which it is, or is not, replacing its assets. That is where I am getting most benefit from resource accounting and budgeting at the moment. However, I will invite Mr Pavelin to answer you on the narrow point.

**Mr Pavelin:** I do not think that we have wasted money; we have invested in a new accounting system, which is operational. We knew at the outset that it would take a number of years and that there would be further developments to make to the

adnoddau lle yr ydych yn credu bod hynny'n angenrheidiol, yn hytrach na cheisio trosi, mewn modd fforensig, holl ffigurau'r arian parod yn adnoddau, yn fisol. Mae hynny wedi bod yn rhy anodd i ni. Os ydych am dderbyn esboniad llawnach am hynny, gall Mr Pavelin, yr wyf yn sicr, eich cynorthwyo.

[22] **Carl Sargeant:** O ystyried eich ateb, a fydddech yn cytuno bod y buddsoddiadau sylweddol sydd wedi'u gwneud gan gyrff fel y Cynulliad ac ELWa mewn systemau cyfrifo newydd yn cael ei wastraffu'n rhannol mewn gwirionedd?

**Syr Jon Shortridge:** Eto, yr wyf am wahodd Laurie i roi sylwadau ar hynny. Mewn rhyw ffordd lythrennol iawn, byddwn yn cytuno â chi yn ôl pob tebyg, ond credaf, o ran natur y penderfyniadau sy'n rhaid i mi fel rheolwr eu gwneud gydol y flwyddyn mewn sefydliad fel y Cynulliad, ar y funud gallaf eu gwneud cystal ar sail arian parod ag y gallaf ar sail adnoddau. Mae'n rhaid i mi ofyn wedyn, 'Wel, pa werth ychwanegol byddwn yn ei gael o fuddsoddi llawer o arian o ran adnoddau staff ychwanegol i allu gweithredu ar sail adnoddau?'. Yr wyf i, yn bersonol, yn ystyried mai drwy edrych ar y newid o flwyddyn i flwyddyn ym mantolen y Cynulliad y ceir y gwerth gorau o ran cyfrifo cyllideb ar sail adnoddau: y ffordd y mae'n defnyddio ei asedion, a'r ffordd y mae yn, neu nad yw'n, amnewid ei asedion. Dyna lle yr ydwyf yn cael y budd mwyaf o gyfrifo a chyllidebu adnoddau ar hyn o bryd. Fodd bynnag, yr wyf am wahodd Mr Pavelin i ateb y pwynt manwl hwn.

**Mr Pavelin:** Nid wyf yn credu ein bod wedi gwastraffu arian; yr ydym wedi buddsoddi mewn system gyfrifo newydd, sydd ar waith. Gwyddem o'r cychwyn y byddai'n cymryd llawer o flynyddoedd ac y byddai'n rhaid datblygu'r system

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system. So, for example, we are now able to pick up ordinary trade debtors and creditors and to allocate them to the correct period of the year. To take just one major area where there are major contracts, colleagues in the Transport Directorate take a direct feed from us of the payments that have been made and, as part of their own systems, are tracking the information on commitments that they have made and how they are making progress against those. The area where we have the greatest difficulty is in respect of grants. A grant commitment is made to an organisation, and we know what commitment has been made, but exactly when that organisation will come in and make a claim for that grant, and the amount that it is going to put into that claim when it does come in for the grant, we cannot determine. All that we can do—and each part of the department maintains an estimate of the commitments that it has—is to seek to manage our budgets against that overall.

In terms of benefits that are coming out, I think that the major change that has taken place is a cultural change, and a very important practical change, in that, with the introduction of resource accounting and budgeting, we now have to take account of the whole-life cost of assets. So whole-life costing does take place, and that goes back to the fundamentals of the decision in the first instance of whether to go ahead, and the profiling of that expenditure over time. We do look each year at our debtors and creditors at the end of the year compared with last year. In many areas, as we recognise in our own private lives paying our electricity bills, it tends not to vary too much from year to year, it tends to be a fixed amount and, therefore, to quite an extent, we can take it as read that opening and closing will be the same. So what we are focusing

ymhellach. Felly, er enghraifft, yr ydym bellach yn gallu nodi dyledwyr a chredydwyr masnach arferol a'u dyrannu i'r cyfnod cywir o'r flwyddyn. I gymryd un maes pwysig yn unig lle ceir contractau enfawr, mae cydweithwyr yn y Gyfarwyddiaeth Drafnidiaeth yn cael gwybodaeth uniongyrchol gennym ni am y taliadau sydd wedi'u gwneud ac, fel rhan o'u systemau eu hunain, maent yn olrhain y wybodaeth am ymrwymadau y maent wedi'u gwneud a sut y maent yn gwneud cynnydd yn erbyn y rheini. Grantiau yw'r maes lle yr ydym yn cael y trafferthion mwyaf. Gwneir ymrwymiad grant i sefydliad, ac yr ydym yn gwybod pa ymrwymiad sydd wedi'i wneud, ond ni allwn bennu pryd yn union y bydd y sefydliad hwnnw yn gwneud cais am y grant hwnnw, a'r cyfanswm y bydd yn gwneud cais amdano pan fydd yn ymgeisio am y grant. Yr unig beth y gallwn ei wneud—ac mae pob rhan o'r adran yn cadw amcangyfrif o'r ymrwymadau sydd ganddo—yw ceisio rheoli ein cyllidebau yn erbyn hynny yn gyffredinol.

O ran y buddiannau sy'n deillio o'r system, credaf mai newid diwylliannol yw'r prif newid sydd wedi digwydd—ac mae'n newid ymarferol pwysig iawn—oherwydd wrth gyflwyno cyfrifo a chyllidebu ar sail adnoddau, mae'n rhaid inni yn awr ystyried cost oes gyfan asedion. Felly mae prisio oes gyfan yn digwydd, ac mae hynny'n mynd yn ôl at hanfodion y penderfyniad yn y lle cyntaf i fynd ymlaen ai peidio, a phroffilio'r gwariant hwnnw gydag amser. Yr ydym bob blwyddyn yn edrych ar ein dyledwyr a chredydwyr ar ddiwedd y flwyddyn o'i gymharu â'r flwyddyn flaenorol. Mewn nifer o feysydd, fel yr ydym yn ei gydnabod yn ein bywydau preifat ein hunain wrth dalu biliau trydan, nid yw'n tueddu i newid llawer o flwyddyn i flwyddyn, mae'n tueddu i fod yn swm penodol ac felly, i ryw raddau, gellir

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on are areas where there could be a significant change and that, in practice, relates to a small number of major grant schemes and it relates to capital projects, where we need to watch very more closely to fit the expenditure within the budgets that are available to the Assembly.

[23] **Carl Sargeant:** Okay, on that basis of recognising what you are doing within the Assembly itself, and understanding that it is a long process, if we accept that there are advantages to the organisation of having this financial management, how long do we expect it will be until we are actually fully on board within the Assembly itself?

**Mr Pavelin:** Well, we have been having discussions, as part of the new Merlin contract, as to how we can streamline the grant process within the Assembly. That will mean, as one major element of that, developing a grants database, if I can call it that, or a grants information system, which will be used right the way across the Assembly, and that will provide us with a feed of information, and provide managers with a feed of information. We then come down to the almost technical, but very practical, issue of when is something a grant creditor. Is it when we receive a claim, which is the only time that we can really identify it against the commitment to pay the grant? With a more detailed grant system in place, we will, in fact, be able to do that logging, and to understand what our commitments are. What we do not know is, across the years, in some grant schemes, exactly how many grant applicants to whom we have made a commitment are going to come in for the grant and when they are going to come in. All we can do there is to look at trends and that is the basis on

cymryd yn ganiataol y bydd agor a chau yr un peth. Felly yr ydym yn canolbwyntio ar feysydd lle y gellid gweld newid sylweddol ac mae hynny, yn ymarferol, yn ymwneud ag ychydig o gynlluniau grant pwysig ac mae'n ymwneud â phrosiectau cyfalaf, lle mae angen inni arolygu'n llawer agosach i sicrhau bod y gwariant o fewn y cyllidebau sydd ar gael i'r Cynulliad.

[23] **Carl Sargeant:** Iawn, ar sail cydnabod yr hyn yr ydych yn ei wneud o fewn y Cynulliad ei hun, a deall ei bod yn broses hir, os ydym yn derbyn bod manteision i'r sefydliad o gael y rheolaeth ariannol hon, pa mor hir y disgwyliwn iddi fod tan inni ei gweithredu'n llawn yn y Cynulliad ei hun?

**Mr Pavelin:** Wel, yr ydym wedi bod yn cynnal trafodaethau, fel rhan o gontract newydd Merlin, ynglŷn â sut y gallwn hwyluso'r broses grantiau yn y Cynulliad. Bydd hynny'n golygu, fel un elfen bwysig o hynny, datblygu cronfa ddata grantiau, os y gallaf ei galw'n hynny, neu system wybodaeth grantiau, a fydd yn cael ei defnyddio drwy'r Cynulliad i gyd, ac a fydd yn cyflenwi gwybodaeth i ni, a chyflenwi gwybodaeth i reolwyr. Yr ydym wedyn yn arwain at y cwestiwn technegol bron iawn, ond ymarferol iawn, sef pryd fo rhywbeth yn gredydwr grant. A yw pan fyddwn yn derbyn cais, sef yr unig adeg y gallwn ei nodi yn erbyn yr ymrwymiad i dalu'r grant? Gyda system grant fwy manwl ar waith, byddwn, mewn gwirionedd, yn gallu gwneud y gwaith cofnodi hwnnw, a deall yr hyn yw ein hymrwymadau. Yr hyn nad ydym yn ei wybod, ar draws y blynyddoedd, mewn rhai cynlluniau grant, yw faint yn union o geisiadau grant yr ydym wedi ymrwymo iddynt a fydd yn gwneud cais am y grant a phryd y byddant yn gwneud hynny. Yr unig beth y gallwn ei wneud yw edrych ar

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which our budgets have built up because we know that, in practice, there is a certain percentage of slippage on the major schemes. On the smaller grant schemes, they are sufficiently small that we can manage without worrying about them, and, indeed, at the present time, under resource accounting, because it would be too large a task to try to deal with grant debtors and creditors, we only actually accrue for grants where a scheme has a budget of £5 million or more.

[24] **Carl Sargeant:** Thank you.

[25] **Janet Davies:** Okay, thank you. Dai, you wanted to look at the part about procurement?

[26] **David Lloyd:** Yes, thank you, Chair. Under procurement, and specifically paragraphs 5.4 to 5.6 of the report, which consider the findings of the review of procurement procedures carried out by Assembly sponsored public bodies, can I just ask, have the weaknesses in the procurement arrangements at the National Council for Education and Training for Wales now been fully rectified?

**Sir Jon Shortridge:** Well, I would like to think so, but there are two further follow-up consultancy reviews to be done of the national council during the rest of this year, not just on procurement, but on all its governance issues, and, really, until I have seen the outcome of those reviews, I will not have all the assurance that I personally require. However, having said that, I am not picking up any intelligence from within the organisation that is giving me particular cause for concern at the moment. The committee may like to know that, currently, I have three members of my staff, including my most experienced head of division, seconded into the National Council—ELWa, which

dueddiadau ac ar y sail hon y mae'n cyllidebau wedi cynyddu oherwydd ein bod yn gwybod, yn ymarferol, bod canran benodol o lithriant gyda'r cynlluniau mawr. O ran y cynlluniau grant llai, maent yn ddigon bach i ni allu eu rheoli heb boeni amdanynt, ac, yn wir, ar hyn o bryd, dan gyfrifo adnoddau, oherwydd y byddai'n dasg rhy fawr i geisio delio â dyledwyr a chredydwyr grant, dim ond grantiau gyda chyllideb o £5 miliwn neu fwy yr ydym yn eu cronni mewn gwirionedd.

[24] **Carl Sargeant:** Diolch.

[25] **Janet Davies:** Iawn, diolch. Dai, yr oeddech am drafod y rhan am gaffael?

[26] **David Lloyd:** Ydwyf, diolch, Gadeirydd. Dan gaffael, ac ym mharagraffau 5.4 i 5.6 yr adroddiad hwn yn benodol, sy'n ystyried canfyddiadau'r adolygiad ar weithdrefnau caffael a gyflawnwyd gan gyrff cyhoeddus a noddir gan y Cynulliad, a gaf fi ofyn, a yw'r diffygion yn y trefniadau caffael yng Nghyngor Cenedlaethol Cymru dros Addysg a Hyfforddiant wedi'u cywiro yn llawn bellach?

**Syr Jon Shortridge:** Wel, hoffwn gredu hynny, ond mae dau adolygiad ymgynghori dilynol pellach i'w cyflawni ar y cyngor cenedlaethol yn hwyrach eleni, nid yn unig ar gaffael, ond ar ei holl faterion llywodraethu, ac, mewn gwirionedd, hyd nes y byddaf wedi gweld canlyniadau'r adolygiadau hynny, ni fydd gennyf yr holl sicrwydd sydd ei angen arnaf. Fodd bynnag, ar ôl dweud hynny, nid wyf yn derbyn unrhyw wybodaeth gan y sefydliad sy'n rhoi achos pryder penodol i mi ar hyn o bryd. Efallai yr hoffai'r pwyllgor wybod, ar hyn o bryd, bod tri aelod o'm staff, gan gynnwys y pennaeth cyfadran mwyaf profiadol, wedi'u secondio i'r Cyngor

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reflects my own personal concern about the need that that organisation has had to have its systems improved and stabilised. So, I have a lot of intelligence about how the council is going, and I am much more confident than I was six or 12 months ago, but I will want to see the results of those assurance reports.

**Mr Pavelin:** I will just add one rider to that, if I may. I sit as an observer member of the national council's audit committee, and, going back to an earlier question about the roles that audit committees play, I can assure you, from what I have seen, that the audit committee of the national council, which comprises an outside accountant member and members of the board, subjects officials to what I would describe as very serious grilling, and, as a matter of practice, responsible officials are asked to come and appear before the audit committee and to answer for how the work is going, rather than just leaving it to a questioning of the chief executive. Now, that does not mean to say that everything will be perfect, but its first response on procurement was to employ a procurement professional. It has subsequently decided that it needed to employ two more procurement professionals, and it now has three procurement professionals in place. As part of the overall procurement fitness of Assembly sponsored public bodies, there is a procurement fitness check that is going on among all of our ASPBs at the present time, over a period of about 18 months. The national council has been one of the first to be looked at, and we are awaiting the report on that at present.

[27] **Christine Gwyther:** I will be very brief. You have already told us that the

Cenedlaethol—ELWa, sy'n adlewyrchu fy mhryder personol fy hun am yr angen i'r sefydliad wella a sefydlogi ei systemau. Felly, mae gennyf lawer o wybodaeth am y ffordd y mae pethau'n digwydd yn y cyngor, ac yr wyf yn llawer mwy hyderus nag yr oeddwn chwech neu 12 mis yn ôl, ond yr wyf am weld canlyniadau'r adroddiadau gwarantu hynny.

**Mr Pavelin:** Yr wyf am ychwanegu un atodiad at hynny, os ydych chi. Yr wyf yn eistedd fel aelod arsylwi ar bwyllgor archwilio'r cyngor cenedlaethol, a, gan fynd yn ôl at gwestiwn cynharach am swyddogaethau'r pwyllgorau archwilio, gallaf eich sicrhau, o'r hyn yr wyf wedi ei weld, fod pwyllgor archwilio'r cyngor cenedlaethol, sy'n cynnwys cyfrifydd fel aelod allanol ac aelodau'r bwrdd, yn sicrhau bod swyddogion yn destun yr hyn a fyddwn yn ei ddisgrifio fel cwestiynau difrifol iawn, ac, fel ymarfer, gofynnir i swyddogion cyfrifol ymddangos gerbron y pwyllgor archwilio i ateb ynghylch sut mae'r gwaith yn mynd yn ei flaen, yn hytrach na'i adael fel cwestiwn ar gyfer y prif weithredwr. Yn awr, nid yw hynny'n golygu y bydd popeth yn berffaith, ond ei ymateb cyntaf ar gaffael oedd cyflogi swyddog caffael proffesiynol. Yn dilyn hynny mae wedi penderfynu ei fod angen cyflogi dau swyddog caffael proffesiynol arall, ac mae tri swyddog caffael proffesiynol mewn swydd ar hyn o bryd. Fel rhan o addasrwydd caffael cyffredinol cyrff cyhoeddus a noddir gan y Cynulliad, cynhelir archwiliad o addasrwydd caffael ym mhob corff cyhoeddus a noddir gan y Cynulliad ar hyn o bryd, dros gyfnod o tua 18 mis. Un o'r cyntaf yr edrychwyd arno oedd y cyngor cenedlaethol, ac yr ydym yn disgwyl yr adroddiad ar hynny ar hyn o bryd.

[27] **Christine Gwyther:** Byddaf yn gryno iawn. Yr ydych chi wedi dweud

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national council, along with the Higher Education Funding Council for Wales and the Wales Tourist Board, are underperforming with regard to late payments for goods and services from other companies. Have you made any assessment as to what sanctions it might face, because, obviously, that will impact on its overall economic performance, will it not?

**Mr Pavelin:** In terms of late payments?

[28] **Christine Gwyther:** Yes.

**Mr Pavelin:** We have been assured that its payment performance has improved significantly. It has changed its accounting staff. The only element of its performance that it could affect is making grant payments, which is where the majority of its funds go. Those processes seem to be running an awful lot better at the present time.

[29] **Janet Davies:** Thank you. Val, you would like to continue with procurement?

[30] **Val Lloyd:** Yes. I would like to look, in particular, at paragraph 5.7, which gives details of the Welsh procurement team. Sir Jon, we have already heard from the Auditor General in his opening remarks about the success of the Welsh procurement initiative team and, pleasingly, the interest that its operation has stimulated. The team identified savings of £7.2 million for 2002-03. How were these achieved?

**Sir Jon Shortridge:** Sorry, did you say £17 million?

[31] **Val Lloyd:** I said £7.2 million.

**Sir Jon Shortridge:** Sorry. Most of the £7 million is in telecommunication savings, and there are other savings relating to training and collaboration with

wrthym eisoes fod y cyngor cenedlaethol, ynghyd â Chyngor Cyllido Addysg Uwch Cymru a Bwrdd Croeso Cymru, yn tanberfformio o ran taliadau hwyr am nwyddau a gwasanaethau gan gwmnïau eraill. A ydych wedi gwneud unrhyw asesiad ynglŷn â pha sancsiynau y gallai eu hwynebu, oherwydd, yn amlwg, bydd hynny'n effeithio ar ei berfformiad economaidd cyffredinol, oni fydd?

**Mr Pavelin:** O ran taliadau hwyr?

[28] **Christine Gwyther:** Ie.

**Mr Pavelin:** Rhoddwyd sicrwydd i ni fod ei berfformiad taliadau wedi gwella'n sylweddol. Mae wedi newid ei staff cyfrifo. Yr unig elfen o'i berfformiad y gallai effeithio arni yw gwneud taliadau grant, sef i ble y mae mwyafrif o'i gronfeydd yn mynd. Ymddengys bod y prosesau hynny'n cael eu gweithredu'n llawer gwell ar hyn o bryd.

[29] **Janet Davies:** Diolch. Val, yr ydych am barhau gyda chaffael?

[30] **Val Lloyd:** Ydwyf. Hoffwn edrych, yn benodol, ar baragraff 5.7, sy'n rhoi manylion tîm caffael Cymru. Syr Jon, yr ydym wedi clywed yn barod gan yr Archwilydd Cyffredinol yn ei sylwadau agoriadol am lwyddiant tîm menter caffael Cymru ac, yn ddymunol, y diddordeb y mae ei weithredu wedi'i sbarduno. Nododd y tîm arbedion o £7.2 miliwn ar gyfer 2002-03. Sut y cyflawnwyd hyn?

**Syr Jon Shortridge:** Mae'n ddrwg gennyf, a ddywedasoch £17 miliwn?

[31] **Val Lloyd:** Dywedais £7.2 miliwn.

**Syr Jon Shortridge:** Mae'n ddrwg gennyf. Cafwyd y mwyafrif o'r £7 miliwn mewn arbedion telathrebu, ac mae arbedion eraill sy'n ymwneud â

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the NHS on the procurement of medical equipment.

[32] **Val Lloyd:** Thank you. It is surprising that there was so much in one particular area. The team's estimated target, if you like, was £6 million, and it overshot that quite considerably. Was the target set too low, possibly, and what is the current estimate for this year?

**Sir Jon Shortridge:** I do not think that I have the estimate for this year with me. One of my colleagues may be able to help on that. My own view is that improvements in procurement represent a very important opportunity for the whole of the public sector in Wales to reduce overhead costs and to release resources much more to the front-line delivery of services. So, the Welsh procurement initiative was established on the basis of a report, which our procurement officer at the time did, and that contained certain recommendations, and the initiative team has been established as a joint team with local government to make it all happen. The initiative has now established some quite important foundations. My own personal view is that those foundations are ones that we need to build on much more strongly for the future, and I would like to see, really, a step change in the level of estimated savings that that team should be incentivised to identify, because, at the moment, all that it is doing, for the most part, is identifying where it has evidence that those savings can be procured. It is then down to the individual public bodies to act on those recommendations and to capture them. So, I think that we need to be much more ambitious than we were originally, for good reasons, with the initiative.

[33] **Denise Idris Jones:** In paragraph 5.9, some of the key areas of the work currently in hand by the team are

hyfforddiant a chydweithredu â'r GIG ar gaffael cyfarpar meddygol.

[32] **Val Lloyd:** Diolch. Mae'n synod bod cymaint mewn un maes penodol. Targed amcangyfrifedig y tîm, os dymunwch, oedd £6 miliwn, ac aeth llawer yn uwch na hynny. A osodwyd y targed yn rhy isel, o bosibl, a beth yw'r amcangyfrif presennol ar gyfer eleni?

**Syr Jon Shortridge:** Nid wyf yn credu fod gennyf yr amcangyfrif ar gyfer eleni gyda mi. Efallai y gall un o'm cydweithwyr gynorthwyo gyda hynny. Yn fy marn i, mae gwelliannau mewn caffael yn cynrychioli cyfle pwysig iawn i'r sector cyhoeddus cyfan yng Nghymru ostwng costau cyffredinol a rhyddhau adnoddau llawer mwy ar gyfer darpariaeth rheng flaen gwasanaethau. Felly, sefydlwyd menter caffael Cymru ar sail adroddiad, a gyflawnwyd gan ein swyddog caffael ar y pryd, ac yr oedd hynny'n cynnwys argymhellion penodol, a sefydlwyd y tîm menter fel tîm ar y cyd gyda llywodraeth leol i sicrhau bod hyn i gyd yn digwydd. Mae'r fenter bellach wedi sefydlu rhai sylfeini pwysig iawn. Yn fy marn i, y sylfeini hynny yw'r rhai y mae'n rhaid i ni adeiladu arnynt yn llawer cryfach ar gyfer y dyfodol, a hoffwn weld, mewn gwirionedd, newid sylweddol yn lefel yr arbedion a amcangyfrifir y dylid cymell y tîm i'w nodi, oherwydd, ar hyn o bryd, yr unig beth y mae'n ei wneud, i raddau helaeth, yw nodi lle y mae ganddo dystiolaeth y gellir caffael yr arbedion hynny. Cyfrifoldeb y cyrff cyhoeddus unigol, wedyn, yw gweithredu ar yr argymhellion hynny a'u dal. Felly, credaf fod yn rhaid i ni fod yn llawer mwy uchelgeisiol nag yr oeddem yn wreiddiol, am resymau da, gyda'r fenter.

[33] **Denise Idris Jones:** Ym mharagraff 5.9, amlygir rhai o feysydd allweddol y gwaith a gyflawnir gan y tîm ar hyn o

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highlighted, including the carrying out of checks of a number of ASPBs. What are the emerging themes from the fitness checks being carried out at these ASPBs?

**Sir Jon Shortridge:** I might have to ask David Richards to help me a bit with this. At my last meeting with all the accounting officers, which took place in April, we had a short discussion of this matter, because, at that time, I think that there were three bodies that had been through the assessment process. I cannot quite recall whether they knew at the time what the results were, although we did, but, basically, what they were saying was that they had found this to be an incredibly helpful exercise—on the one hand they were getting a lot of assurance from it in terms of what they were doing well, but they were also having the opportunity to learn quite a lot as to what they could be doing differently. I am not able, this morning, to pinpoint particular good practices that were identified or particular practices that needed to be improved. If either of my colleagues can help on that, then fine.

**Mr Richards:** I have not had a formal report on it, but the emerging issues that I am picking up are three things: the need to have properly qualified professional procurement staff in place, the need for ownership of a procurement strategy at a senior level, so that this is not seen as something that is done when you come to buy the stationery or the paper clips, but that there is an organisational strategy for procurement, and a need for bodies to realise how many opportunities are coming out of the work of the WPI team, both for collaboration and joint procurement and for simply picking up some of the initiatives like the procurement card that is coming out. So, it is internal in terms of how you need to

bryd, gan gynnwys cynnal archwiliadau ar nifer o gyrff cyhoeddus a noddir gan y Cynulliad. Beth yw'r themâu newydd sy'n deillio o'r archwiliadau addasrwydd a gyflawnir yn y gyrff cyhoeddus hyn a noddir gan y Cynulliad?

**Syr Jon Shortridge:** Efallai y bydd yn rhaid i mi ofyn i David Richards roi peth cymorth i mi gyda hyn. Yn fy nghyfarfod diwethaf gyda'r holl swyddogion cyfrifo, a gynhaliwyd ym mis Ebrill, cawsom sgwrs gryno am y mater hwn, oherwydd, bryd hynny, credaf fod tri chorff a oedd wedi bod drwy'r broses asesu. Ni allaf gofio'n iawn a oeddent yn ymwybodol o'r canlyniadau ar y pryd, er ein bod ni, ond, yn syml, yr hyn yr oeddent yn ei ddweud oedd eu bod yn ystyried hyn yn ymarfer defnyddiol iawn—ar un llaw yr oeddent yn cael llawer o sicrwydd ohono o ran yr hyn yr oeddent yn ei wneud yn dda, ond yr oeddent hefyd yn cael y cyfle i ddysgu llawer am yr hyn y gallent ei wneud yn wahanol. Nid wyf yn gallu, y bore yma, nodi arferion da penodol a nodwyd neu arferion penodol a oedd angen eu gwella. Pe gallai un o'm cydweithwyr gynorthwyo â hynny, mae hynny'n iawn.

**Mr Richards:** Nid wyf wedi derbyn adroddiad ffurfiol ar hyn, ond, hyd y gwelaf, mae tri mater yn dod allan o hyn: yr angen i gael staff caffael proffesiynol â chymwysterau iawn, yr angen am berchnogaeth ar strategaeth gaffael ar lefel uwch, fel nad yw hyn yn cael ei ystyried fel rhywbeth sy'n cael ei wneud wrth brynu offer swyddfa neu glipliau papur, ond bod strategaeth gyfundrefnol ar gaffael, a'r angen i gyrff sylweddoli faint o gyfleoedd sy'n deillio o waith tîm menter caffael Cymru, o ran cydweithio a chaffael ar y cyd ac ar gyfer manteisio ar rai o'r mentrau fel y cerdyn caffael newydd sy'n cael ei gyflwyno. Felly, mae'n fewnol o ran sut mae angen ichi symud caffael i fyny'r agenda ond hefyd

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move procurement up the agenda but also in terms of making use of ideas from outside and how they could be taken on board.

[34] **Denise Idris Jones:** You mentioned that three bodies have already gone through this process. Will it be carried out with all the bodies?

**Sir Jon Shortridge:** Yes, and, currently, the National Assembly is having its own procurement checked, so there is a rolling programme of these checks, and I think that there are probably three or four going through it at the moment. It is certainly our intention that all the executive ASPBs should go through this process. As I say, the discussion that I had at my meeting with accounting officers was a warm discussion, where everyone welcomed this initiative.

[35] **Denise Idris Jones:** Good. So do you think that the Assembly Government is doing more to increase the participation of bodies in the team's activities?

**Sir Jon Shortridge:** That is an issue that is being considered in depth by officials and Ministers in the Assembly Government at the moment, namely how, across Wales, we can exploit the size of Wales to get smarter procurement and better value for money out of it. So, I would not be at all surprised if, at some point in the not too distant future, there was quite a significant reinforcement of the work that is already going on.

[36] **Janet Davies:** We will now turn to European structural funds, and I would like to make the point that we are looking at the last round of programmes, not the present programmes.

[37] **Leighton Andrews:** Sir Jon, I draw

o ran gwneud defnydd o syniadau o'r tu allan a sut y gellid eu rhoi ar waith.

[34] **Denise Idris Jones:** Bu i chi grybwyll bod tri chorff wedi dilyn y broses hon yn barod. A fydd yn cael ei gyflawni gyda phob corff?

**Syr Jon Shortridge:** Bydd, ac, ar hyn o bryd, mae caffael y Cynulliad Cenedlaethol ei hun yn cael ei archwilio, felly mae rhaglen dreigl ar gyfer yr archwiliadau hyn, a chredaf fod tri neu bedwar, mae'n siŵr, yn cael eu harchwilio ar hyn o bryd. Ein bwriad yn sicr yw i'r holl gyrff cyhoeddus gweithredol a noddir gan y Cynulliad ddilyn y broses hon. Fel y dywedais, yr oedd y cyfarfod a gefais gyda'r swyddogion cyfrifo yn drafodaeth gynnes, lle yr oedd pawb yn croesawu'r fenter hon.

[35] **Denise Idris Jones:** Da iawn. Felly a ydych yn credu fod Llywodraeth y Cynulliad yn gwneud mwy i gynyddu cyfranogiad cyrff yng ngweithgareddau'r tîm?

**Syr Jon Shortridge:** Mae hynny'n rhywbeth sy'n cael ei ystyried yn drylwyr gan swyddogion a Gweinidogion yn Llywodraeth y Cynulliad ar hyn o bryd, sef yn bennaf sut, ledled Cymru, y gallwn elwa ar faint Cymru i gael gwell caffael a gwell gwerth am arian allan ohoni. Felly, ni fyddwn yn synnu, ar ryw adeg yn y dyfodol agos, pe bai'r gwaith sy'n cael ei wneud eisoes yn cael ei atgyfnerthu'n sylweddol.

[36] **Janet Davies:** Yn awr yr ydym am droi at gronfeydd strwythurol Ewropeaidd, a hoffwn wneud y pwynt ein bod yn edrych ar y cylch diwethaf o raglenni, nid y rhaglenni cyfredol.

[37] **Leighton Andrews:** Syr Jon, tynnaf

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your attention to paragraphs 6.20 to 6.24 and to figure 15, which relate to the findings of the Assembly's head of internal audit on the closure reports for the old European programmes. On 17 out of the 18 closure reports, the head of internal audit qualified his report, and he was unable to give an opinion on the remaining report, where expenditure amounted, as I understand it, to almost £4 million. There are also significant problems illustrated throughout this section of the report in respect of the lack of documentation and of the timeliness and quality of the control visits. For example, no visits were carried out under the old Welsh Office—these only commenced following the creation of WEFO. In terms of the timeliness of reports, for 25 of the 56 control visits undertaken for eight programmes for which WEFO was responsible, it took an average of 300 days, or 10 months, to produce the associated report. What are your observations on that?

**Sir Jon Shortridge:** This is the most concerning part of the whole report. I have no doubt about that. It is a particular concern for me, because I have now inherited the accounting officer responsibilities for WEFO, so I am much more directly responsible for this, and I have been making a whole series of inquiries about it, as you would expect.

There are some explanations, and I will give them to you, but I preface this by saying that I am not giving them to you as excuses. This is a serious matter.

You have asked a whole range of questions. Let me just respond to a number of them, and then if you want to pick up on particular points, you will obviously do so. In terms of the closure statements that our head of internal audit was required to make, I think that he did

eich sylw at baragraffau 6.20 i 6.24 ac at ffigur 15, sy'n ymwneud â chanfyddiadau pennaeth archwilio mewnol y Cynulliad ar yr adroddiadau terfynu ar gyfer yr hen raglenni Ewropeaidd. Ar 17 o'r 18 adroddiad terfynu, bu i'r pennaeth archwilio mewnol amodi ei adroddiad, ac ni allodd roi barn ar yr adroddiad a oedd yn weddill, lle yr oedd gwariant yn cyfrif, o'r hyn a ddeallaf, am bron i £4 miliwn. Dangosir problemau difrifol hefyd gydol yr adran hon o'r adroddiad o ran y diffyg dogfennaeth ac amseroldeb ac ansawdd yr ymweliadau rheoli. Er enghraifft, ni chynhaliwyd unrhyw ymweliadau dan yr hen Swyddfa Gymreig—dim ond ar ôl creu WEFO y dechreuodd y rhain. O ran amseroldeb adroddiadau, am 25 o'r 56 ymweliad rheoli a gyflawnwyd ar gyfer wyth o'r rhaglenni yr oedd WEFO yn gyfrifol amdanynt, cymerodd gyfartaledd o 300 diwrnod, neu 10 mis, i gynhyrchu'r adroddiad cysylltiedig. Beth yw eich sylwadau ar hynny?

**Syr Jon Shortridge:** Dyma'r rhan sy'n achosi'r pryder mwyaf yn yr adroddiad cyfan. Nid oes gennyf amheuaeth am hynny. Mae'n bryder penodol i mi, oherwydd yr wyf yn awr wedi etifeddu cyfrifoldebau'r swyddog cyfrifo am WEFO, felly yr wyf yn llawer mwy uniongyrchol gyfrifol am hyn, ac yr wyf wedi bod yn gwneud cyfres gyfan o ymholiadau am hyn, fel y byddech yn ei ddisgwyl.

Mae rhai esboniadau, a byddaf yn eu rhoi i chi, ond cyn hynny yr wyf am ddweud nad wyf yn eu rhoi i chi fel esgusodion. Mae hwn yn fater difrifol.

Yr ydych wedi gofyn amrywiaeth eang o gwestiynau. Gadewch i mi ymateb i nifer ohonynt, ac yna os ydych am drafod pwyntiau penodol, byddwch yn amlwg yn gwneud hynny. O ran y datganiadau terfynu yr oedd yn ofynnol i'n pennaeth archwilio mewnol eu gwneud, credaf

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an outstandingly good piece of work. He did a very forensic, detailed study, and I think that he is being commended in Europe for the helpfulness of his reports. However, the issues that we were facing at that time were that, for a large chunk of this expenditure, we had our payments deadline for the individual projects extended from December 2001 to June 2002. This was in rural Wales and in recognition of the problems associated with foot and mouth disease and not being able to get out and about to see what was going on. This meant that the timetable for making payments on WEFO projects was extended by six months through to January 2003. The closure reports had to be in place by the end of March. Before you could make the closure reports, you had to do all the associated internal control visits to meet the requirements. So, we had a timing issue there, which was one of the most significant reasons for the qualifications that my head of internal audit felt obliged to make. That was reinforced by the fact that, because of the way in which these programmes were managed and operated, the payments process was end-loaded, so that over £150 million of £230 million was made after December 1999. So, if you make the payments late, then the control visits are that much later and things get squeezed.

There were then some administrative issues. The regulations that were governing these control visits were not issued until autumn 1997, which was midway through the programme, and these were new, untested arrangements that had not been used in similar programmes in the past. We were having to interpret how they were to be applied and the EU itself was having to interpret how they were to be applied. This

iddo wneud gwaith rhagorol. Cyflawnodd astudiaeth fanwl, fforensig iawn, a chredaf ei fod yn cael ei ganmol yn Ewrop am ddefnyddioldeb ei adroddiadau. Fodd bynnag, y materion yr oeddem yn eu hwynebu bryd hynny oedd, am gyfran fawr o'r gwariant hwn, fod ein terfyn amser talu ar gyfer prosiectau unigol wedi'i ymestyn o Ragfyr 2001 i Fehefin 2002. Yr oedd hyn yng nghefn gwlad Cymru ac yn cydnabod y problemau a oedd yn gysylltiedig â chlwy'r traed a'r genau a methu â gallu mynd ar ymweliadau i weld beth a oedd yn digwydd. Yr oedd hyn yn golygu bod yr amserlen ar gyfer gwneud taliadau i brosiectau WEFO wedi'i hymestyn o chwe mis hyd at Ionawr 2003. Yr oedd yn rhaid i'r adroddiadau terfynu fod yn barod erbyn diwedd mis Mawrth. Cyn i chi allu cyflawni'r adroddiadau terfynu, yr oedd yn rhaid cyflawni'r holl ymweliadau rheoli mewnol cysylltiedig i fodloni'r gofynion hynny. Felly, yr oedd elfen o amseru yma, sef un o'r rhesymau pwysicaf dros y cymwysterau y teimlai fy mhennaeth archwilio mewnol bod dyletswydd iddo'u cyflawni. Atgyfnerthwyd hynny, oherwydd y ffordd yr oedd y rhaglenni hyn yn cael eu rheoli a'u gweithredu, gan y ffaith bod y broses daliadau yn talu gormod tua'r diwedd, fel bod dros £150 miliwn o'r £230 miliwn wedi ei wneud ar ôl Rhagfyr 1999. Felly, os ydych yn talu'n hwyr, mae'r ymweliadau rheoli yn llawer hwyrach ac mae amser yn brin.

Yr oedd rhai materion gweinyddol hefyd. Ni chyhoeddwyd y rheoliadau a oedd yn llywodraethu'r ymweliadau rheoli hyn tan hydref 1997, a oedd hanner ffordd drwy'r rhaglen, ac yr oedd y rhain yn drefniadau newydd, heb eu profi nad oedd wedi'u defnyddio mewn rhaglenni cyffelyb yn y gorffennol. Yr oeddem yn gorfod dehongli'r ffordd yr oeddent yn cael eu defnyddio ac yr oedd yr UE ei hun yn gorfod dehongli'r ffordd yr

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interpretation of what was meant was going on right into 2003. So, these were new, untried and untested arrangements, which led to the sorts of specific criticisms on risk and timeliness that my head of internal audit identified.

On the timeliness, which I agree is unacceptable, if you turn it around, you may have inquiries with the paying agent or the grant recipient about an aspect of this, and you ask them about it and you get a reply, with which you are not that satisfied, and you can see how the thing can run on. In the case of the agricultural grants, the situation was even more complicated in some respects because what happened halfway through this programme was that the EU decided that the long-established hill livestock compensatory allowances and the farmland conservation grants would enter into the full structural fund regime. So, these grants, which had their own administrative process, and were being audited and were meeting the satisfaction of the EU, were suddenly, midway through the process, being applied to a new regime. We were slow to pick up on what the consequences of that could be, because we suddenly had closure procedures that we had never had before. That then led, in part but also more generally, to the issue of not having the documentation. Under *Government Accounting* rules, you keep records for seven years and then they are disposed of. Not just here, but across the UK, people just had not spotted that you needed to keep records right back to 1994 in order to be able to satisfy these new closure arrangements, which were not introduced anyway until 1997. So, the point that I am trying to make is that it was not straightforward. We should have done better, and I am not excusing what happened, but I would also say that I do not think that what happened in Wales

oeddent yn cael eu defnyddio. Yr oedd y dehongli hyn o'r hyn a olygwyd yn digwydd hyd at 2003. Felly, yr oedd y rhain yn drefniadau newydd, heb eu profi, a arweiniodd at y mathau o feirniadaeth benodol ar risg ac amseroldeb a nododd fy mhennaeth archwilio mewnol.

O ran yr amseroldeb, y cytunaf sy'n annerbyniol, os ydych yn newid hyn, efallai y bydd gennyh ymholiadau gyda'r asiantaeth sy'n talu neu'r derbynnydd grant ar agwedd ar hyn, a'ch bod yn gofyn iddynt am hyn a'ch bod yn cael ateb, nad ydych yn fodlon ag ef, a gallwch weld sut y gall pethau fynd ymlaen ac ymlaen. Yn achos y grantiau amaethyddol, yr oedd y sefyllfa yn fwy cymhleth hyd yn oed o ran rhai agweddau oherwydd hanner ffordd drwy'r rhaglen hon penderfynodd yr UE y byddai'r cynllun lwfansau iawndal da byw tir uchel a'r grantiau cadwraeth tir ffermio hirsefydlog yn cael eu cynnwys yn y drefn gyllido strwythurol lawn. Felly, yr oedd y grantiau hyn, a oedd â'u proses weinyddol eu hunain, ac a oedd yn cael eu harchwilio ac a oedd yn bodloni'r UE, yn sydyn, hanner ffordd drwy'r broses, yn cael eu defnyddio mewn trefn newydd. Yr oeddem yn araf yn sylweddoli canlyniadau posibl hynny, oherwydd yn sydyn yr oedd gennym weithdrefnau terfynu nad oeddem wedi eu cael o'r blaen. Arweiniodd hynny wedyn, yn rhannol ond hefyd yn fwy cyffredinol, at y mater o beidio â chael y ddogfennaeth. Dan reolau *Government Accounting*, yr ydych yn cadw cofnodion am saith mlynedd ac yna fe'u gwaredir. Nid yma'n unig, ond drwy'r DU, nid oedd pobl wedi sylweddoli bod angen i chi gadw cofnodion yn ôl at 1994 er mwyn gallu bodloni'r trefniadau terfynu hyn, na chyflwynwyd beth bynnag tan 1997. Felly'r pwynt yr wyf yn ceisio'i wneud yw nad oedd hyn yn fater syml. Dylem fod wedi gwneud yn well, ac nid wyf yn gwneud esgusodion am yr hyn a

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was dissimilar at all from what happened elsewhere in the United Kingdom, for the sorts of reasons that I have outlined.

[38] **Leighton Andrews:** Okay, you have to have the control visits before you produce the closure reports, but if the reports linked to the control visits are taking 10 months to produce, your ability to sign off, ultimately, will be reduced in terms of the timescale for getting that to the commission. I accept your point that there can be a need to go back and forth on these things, but we are living in the age of e-mail and not the age of a coach and horses, and it seems to me to be extraordinary that that should happen in 25 out of 56 cases—that is about 40 per cent plus.

**Sir Jon Shortridge:** I am not seeking to excuse it; this was an administrative failing. There was not sufficient resource put into this, nor was sufficient priority given to it, and people clearly had their eyes on different balls at the time.

[39] **Leighton Andrews:** What happens then, Sir Jon? Are these dealt with as a collective administrative failing or are they—I mean, earlier on, I heard you talking about the way in which you had sought to address some separate issues with regard to performance review and so on. How would you address these issues?

**Sir Jon Shortridge:** In the first instance, the way in which I would address this is—I got this audit report in April last year, and I asked for a whole series of things to be done in order to ensure that we had corrected matters in a way that would satisfy the European Union. In

ddigwyddodd, ond byddwn hefyd yn dweud nad wyf yn credu fod yr hyn a ddigwyddodd yng Nghymru yn annhebyg i'r hyn a ddigwyddodd mewn mannau eraill yn y Deyrnas Unedig, am y mathau o resymau yr wyf wedi'u hamlinellu.

[38] **Leighton Andrews:** Iawn, mae'n rhaid cynnal yr ymweliadau rheoli cyn y gallwch gynhyrchu'r adroddiadau terfynu, ond os yw'r adroddiadau sy'n gysylltiedig â'r ymweliadau rheoli yn cymryd 10 mis i'w cynhyrchu, bydd eich gallu i lofnodi, yn y pen draw, yn cael ei ostwng o ran y terfyn amser ar gyfer cyflwyno hynny i'r comisiwn. Yr wyf yn derbyn eich pwynt efallai fod angen cyfeirio'n ôl ac ymlaen o ran y pethau hyn, ond yr ydym yn byw yn oes yr e-bost ac nid yn oes coets a cheffyl, ac mae'n rhyfeddol y dylai hynny ddigwydd mewn 25 o 56 achos—mae hynny yn fwy na 40 y cant.

**Syr Jon Shortridge:** Nid wyf yn ceisio'i esgusodi; yr oedd hyn yn fethiant gweinyddol. Ni neilltuwyd digon o adnoddau ar gyfer hyn, ac ni roddwyd digon o flaenoriaeth iddo, ac yr oedd pobl yn amlwg yn canolbwyntio ar bethau eraill ar y pryd.

[39] **Leighton Andrews:** Beth sy'n digwydd wedyn Syr Jon? A yw'r rhain yn cael eu trin fel methiant gweinyddol cyfunol neu a ydynt—yn gynharach, fe'ch clywais yn siarad am y ffordd yr oeddech wedi ceisio mynd i'r afael â materion ar wahân o ran adolygu perfformiad ac ati. Sut y byddech yn mynd i'r afael â'r materion hyn?

**Syr Jon Shortridge:** Yn y lle cyntaf, y ffordd y byddwn yn mynd i'r afael â hyn fyddai—derbyniais yr adroddiad archwilio hwn fis Ebrill y llynedd, a gofynnais am gael gwneud cyfres gyfan o bethau er mwyn sicrhau ein bod wedi cywiro materion mewn ffordd a fyddai'n

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other words, my first priority was to minimise the risk to Welsh public funds, and that has happened. A lot of work has been done, and we currently have the EU auditors in, who are doing their own cross checks on the work that David McNeil, our auditor, did. My understanding is that the number of outstanding issues have now been reduced down to a very small number and that they are outstanding issues in relation to the sample that he audited. So, that does not necessarily give me absolute assurance in terms of what the EU auditors might say, although I do know that the EU auditors have found his report very helpful because he was so forensic about it. He identified particular instances, so he was not making general statements; he was making very specific statements. Our approach—and that of the other parts of the United Kingdom—to this was to produce our closure statements warts and all, because we thought that that was the best way to maximise our chances of making best use of the European funding.

I understand that when other member states did it, they simply stripped out the things that they were not satisfied with and were, therefore, losing that amount of European funding. The approach that we have taken has been a very professional approach, but it has uncovered just the sorts of administrative failings to which you have drawn attention.

On what I will do about it, the first thing is to minimise the risk to public funds and the second is to make sure that the lessons are fully and properly learned for the new programmes, and I have had a number of discussions with the people concerned. I am well aware of the sorts of lessons that are being learned. Whether or not I decide that this is a performance

bodloni'r Undeb Ewropeaidd. Mewn geiriau eraill, fy mlaenoriaeth gyntaf oedd lleihau'r risg i gronfeydd cyhoeddus Cymru, ac mae hynny wedi digwydd. Mae llawer o waith wedi'i wneud, ac ar hyn o bryd mae gennym archwilwyr UE yn rhan o'r gwaith, sy'n gwneud eu croeswiriadau eu hunain ar waith y gwnaeth David McNeil, ein harchwilydd. O'r hyn a ddeallaf, mae nifer y materion sydd heb eu datrys wedi eu gostwng i nifer fach iawn ac maent yn faterion heb eu datrys o ran y sampl yr archwiliodd. Felly, nid yw hynny o reidrwydd yn rhoi sicrwydd llwyr i mi o ran yr hyn a allai archwilwyr yr UE ei ddweud, ond gwn fod archwilwyr yr UE yn credu bod yr adroddiad hwn yn ddefnyddiol iawn oherwydd ei fod mor ffrensig yn ei gylch. Nododd ddigwyddiadau penodol, felly nid oedd yn gwneud datganiadau cyffredinol; yr oedd yn gwneud datganiadau penodol iawn. Ein dull—a dull rhannau eraill o'r Deyrnas Unedig—oedd cynhyrchu ein datganiadau terfynu gyda'u holl ffaeleddau, oherwydd ein bod yn credu mai dyna'r ffordd orau o wneud y defnydd gorau bosibl o gyllid Ewropeaidd.

Deallaf pan wnaeth aelod wladwriaethau eraill hyn, eu bod wedi cael gwared o'r pethau nad oeddent yn fodlon â hwy ac yr oeddent, felly, yn colli'r swm hynny o gyllid Ewropeaidd. Mae'r dull yr ydym wedi'i ddefnyddio yn ddull proffesiynol iawn, ond mae wedi datgelu y mathau o fethiannau gweinyddol yr ydych wedi tynnu sylw atynt.

O ran beth a wnaaf am hyn, y peth cyntaf i'w wneud yw lleihau'r risg i gronfeydd cyhoeddus a'r ail yw sicrhau y dysgir y gwersi yn iawn ac yn llawn ar gyfer y rhaglenni newydd, ac yr wyf wedi cael nifer o drafodaethau gyda'r bobl dan sylw. Yr wyf yn ymwybodol o'r mathau o wersi sy'n cael eu dysgu. Mae a fyddaf yn penderfynu fod hyn yn fater o

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issue is something that I will need to consider further, because we are addressing issues here that go back several years and, in some cases, go back either to the Welsh European Programme Executive Ltd, or the Welsh Office or whatever it may be, and it may be that, under these circumstances, rather than actually pinpoint individuals, I will want this to be a corporate learning experience, which is often a better way to deal with issues when they go wrong.

berfformiad yn rhywbeth y bydd angen i mi ei ystyried ymhellach, oherwydd yr ydym yn mynd i'r afael â materion yma sy'n mynd yn ôl am flynyddoedd lawer ac, mewn rhai achosion, yn mynd yn ôl naill ai at Gweithrediaeth Rhaglenni Ewropeaidd Cymru Cyf, neu'r Swyddfa Gymreig neu beth bynnag, ac efallai, dan yr amgylchiadau hyn, yn hytrach na chyfeirio at unigolion, y byddaf am i hyn fod yn brofiad dysgu corfforaethol, sy'n ffordd well fel arfer o ddelio â materion sy'n mynd o chwith.

[40] **Leighton Andrews:** I know that Alun has further questions on this, so I will stop now. Given that we are part of the way through a process here, I would like this committee to return to this area when the final process has been concluded with the European Commission.

[40] **Leighton Andrews:** Gwn fod gan Alun gwestiynau pellach ar hyn, felly yr wyf am roi'r gorau iddi yn awr. O ystyried ein bod rhywfaint o'r ffordd drwy'r broses yma, hoffwn i'r pwyllgor hwn ddod yn ôl at y maes hwn ar ôl cyflawni'r broses derfynol gyda'r Comisiwn Ewropeaidd.

[41] **Janet Davies:** We will note that, and see where we can put it in the programme. Thank you.

[41] **Janet Davies:** Nodwn hynny, a gweld lle y gellir ei roi yn y rhaglen. Diolch.

[42] **Alun Cairns:** Sir Jon, bearing in mind that 17 of the 18 closure reports were qualified, what are the implications of this?

[42] **Alun Cairns:** Syr Jon, o gofio bod 17 o'r 18 adroddiad terfynu yn amodol, beth yw goblygiadau hyn?

**Sir Jon Shortridge:** Do you mean the financial implications for the Assembly?

**Syr Jon Shortridge:** A ydych yn golygu'r goblygiadau ariannol ar gyfer y Cynulliad?

[43] **Alun Cairns:** The implications in general, as well as specifically financial.

[43] **Alun Cairns:** Y goblygiadau yn gyffredinol, yn ogystal ag ariannol yn benodol.

**Sir Jon Shortridge:** Administratively, the implications are that we have had to do all this follow-up action, and the European Union is coming in to do its own validating audit. That work is going on at the moment, and I think that it will probably be September when we see the European auditors' report. I will not know whether there are any significant implications for us or not until that point.

**Syr Jon Shortridge:** Yn weinyddol, y goblygiadau yw ein bod wedi gorfod gwneud yr holl weithredu dilynol hyn, ac mae'r Undeb Ewropeaidd yn dod i mewn i wneud ei archwiliad dilysu. Mae'r gwaith hwnnw'n cael ei wneud ar hyn o bryd, a chredaf na fydd adroddiad yr archwilydd Ewropeaidd yn cael ei weld tan fis Medi. Ni fyddaf yn gwybod a oes unrhyw oblygiadau arwyddocaol i ni ai

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In terms of financial implications for the Assembly, my present hope and expectation is that if there are any financial implications, they will be very small.

[44] **Alun Cairns:** Are we talking about small in consideration of the project or of the whole programme, or are we talking small in another context? How small is small? Can you give us your best guesstimate?

**Sir Jon Shortridge:** No, I am not going to give you a figure. What I have seen at the moment suggests that we might be talking—in terms of grants that have been wrongly used, and therefore we are into recovery or whatever it may be—about a figure, I would have thought, of well under £1 million. That is from what I have seen at the moment. However, there is the caveat to that that, if the European auditors come in and look at a different sample, there may be different conclusions. So, I cannot, and I would not want to, be held to a particular figure. However, in terms of repayment of grant, I think that the figure—if there is one at all; I will be hoping to avoid it altogether—will be small.

[45] **Alun Cairns:** Can you clarify, to help the committee, which parties are likely to suffer the greatest losses? Will it be the Assembly, because of the commitments made, or the project sponsors?

**Sir Jon Shortridge:** My understanding is that, if a project sponsor has misapplied European funds, and it cannot satisfactorily correct that, we would be into recovery. The European Union may well then say, 'This is our money that has been recovered, and we must have it back'.

[46] **Alun Cairns:** Being realistic,

peidio hyd hynny. O ran goblygiadau ariannol i'r Cynulliad, yr wyf yn gobeithio ac yn disgwyl ar hyn o bryd y bydd unrhyw oblygiadau ariannol yn rhai bach, os o gwbl.

[44] **Alun Cairns:** A ydym yn siarad am fach o ystyried y prosiect neu'r rhaglen gyfan, neu a ydym yn trafod bach mewn cyd-destun arall? Pa mor fach yw bach? A allwch roi eich amcangyfrif gorau?

**Syr Jon Shortridge:** Na, nid wyf am roi ffigur i chi. Mae'r hyn yr wyf wedi'i weld hyd yma yn awgrymu efallai ein bod yn siarad—o ran grantiau sydd wedi'u defnyddio'n anghywir, ac felly yr ydym yn siarad am adennill neu beth bynnag y gall fod—am ffigur, yn fy marn i, sy'n llawer is na £1 miliwn. Mae hynny o'r hyn yr wyf wedi'i weld ar hyn o bryd. Fodd bynnag, mae cafeat i hynny, sef os yw'r archwilwyr Ewropeaidd yn dod i mewn ac yn edrych ar sampl wahanol, gellir cael gwahanol ganlyniadau. Felly, ni allaf, ac ni fyddwn yn dymuno, gael fy ymrwymo i ffigur penodol. Fodd bynnag, o ran ad-dalu grant, credaf y bydd y ffigur—os bydd un o gwbl; byddaf yn gobeithio ei osgoi yn llwyr—yn un bach.

[45] **Alun Cairns:** A allwch egluro, er mwyn cynorthwyo'r pwyllgor, pa bartion sy'n debygol o wynebu'r colledion mwyaf? Ai'r Cynulliad, oherwydd yr ymrwymadau sydd wedi'u gwneud, neu noddwyr y prosiect?

**Syr Jon Shortridge:** O'r hyn yr wyf yn ei ddeall, os yw noddwr prosiect wedi camdefnyddio cronfeydd Ewropeaidd, ac nad yw'n gallu cywiro hynny'n foddhaol, y byddem yn cychwyn ar y broses o adennill yr arian. Gallai'r Undeb Ewropeaidd ddweud wedyn, 'Ein harian ni sydd wedi'i adfer, ac mae'n rhaid i ni ei gael yn ôl'.

[46] **Alun Cairns:** Yn realistig, byddai

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recovery of many projects would be almost impossible, so it is fair to assume that the Assembly would have to cover that cost.

**Sir Jon Shortridge:** Yes.

[47] **Alun Cairns:** In some projects, of course.

**Sir Jon Shortridge:** Yes, as indeed we do for non-European money at the moment. On regional selective assistance, in the accounts every year, there are losses which we have registered because of grants that have been made and then misapplied, or the company has gone bankrupt, and we have not been able to recover them.

[48] **Alun Cairns:** All of those questions focused on the previous programme, so my final question relates to a section from paragraph 6.25 onwards, which talks about the new European programmes. This section is hardly complimentary, is it? Thirty of the 31 certificates that the Auditor General has been asked to issue have been qualified and that hardly inspires confidence. Is it fair to say that the implications are likely to be far greater, bearing in mind that the sums that we are talking about in the new programmes are much greater than those of the previous programme?

**Sir Jon Shortridge:** No, I do not think that that is necessarily a fair conclusion to draw—it is not necessarily a fair conclusion. What we are dealing with here are not account qualifications in the conventional sense. As part of our management of the structural funds, and as part of our arrangements for securing assurance that those funds are being properly applied, we use auditors—not just the Auditor General—to certify that all European grants have been properly

bron yn amhosibl adfer llawer o brosiectau, felly mae'n deg rhagdybio y byddai'n rhaid i'r Cynulliad dalu'r costau hynny.

**Syr Jon Shortridge:** Ydyw.

[47] **Alun Cairns:** Gyda rhai prosiectau, wrth gwrs.

**Syr Jon Shortridge:** Ie, fel yr ydym yn ei wneud gydag arian nad yw o Ewrop ar hyn o bryd. O ran cymorth dewisol rhanbarthol, yn y cyfrifon bob blwyddyn, mae colledion sydd wedi'u cofrestru oherwydd grantiau sydd wedi'u gwneud ac sydd wedi'u camddefnyddio, neu fod y cwmni wedi mynd yn fethdalwr, ac nad ydym wedi gallu'u hadfer.

[48] **Alun Cairns:** Yr oedd yr holl gwestiynau hynny yn canolbwyntio ar y rhaglen flaenorol, felly mae fy nghwestiwn olaf yn ymwneud ag adran o baragraff 6.25 ymlaen, sy'n trafod y rhaglenni Ewropeaidd newydd. Prin y gellid galw'r adran hon yn ganmoliaethus, oni ellid? Mae 30 o'r 31 tystysgrif y gofynnwyd i'r Archwilydd Cyffredinol eu dosbarthu yn amodol a phrin bod hynny'n ennyn hyder. A yw'n deg dweud bod y goblygiadau yn debygol o fod yn llawer mwy, o gofio bod y symiau a drafodir yn y rhaglenni newydd yn llawer mwy na rhai'r rhaglen flaenorol?

**Syr Jon Shortridge:** Nag ydyw. Nid wyf yn credu bod hynny'n gasgliad teg o reidrwydd—nid yw o reidrwydd yn gasgliad teg. Nid amodau cyfrif yn yr ystyr gonfensiynol sydd gennym yma. Fel rhan o'n dull o reoli cronfeydd strwythurol, ac fel rhan o'n trefniadau i geisio sicrwydd bod y cronfeydd hynny yn cael eu defnyddio'n iawn, yr ydym yn defnyddio archwilwyr—nid yr Archwilydd Cyffredinol yn unig—i ardystio bod yr holl grantiau o Ewrop

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applied, and that the money has been properly applied for the purposes intended. Obviously, we do not like having these audit qualifications, but they are telling us, before we have incurred all of the expenditure, that there are things that have to be done to correct the way in which this money is being spent, so that we are not in a position, when we finally audit these accounts, where the European auditors come along and say that we have misused their funds. This is a management check and device that we use to give ourselves assurance that the funds are being properly used. I am very disappointed, as I am sure the Auditor General is, that he has had to qualify so many of these things, but it is giving us some very important management information. The lessons are being learned by WEFO as to what the generic issues that have come out of issuing these certificates are. It has identified six generic issues—it has certainly given me six—and it is in the process, through disseminating bulletins to project sponsors and so on, of making sure that these lessons are being used and embedded into the new systems.

[49] **Alun Cairns:** One of the key reasons why so many of the reports were qualified is insufficient documentation. Does that documentation exist or has it been destroyed or lost in line with the old programmes? Effectively, they could never be qualified.

**Sir Jon Shortridge:** In terms of financial documentation, I would be very surprised indeed if any public body has destroyed financial information within the seven-year rule. I do not have information on that in front of me, so I cannot give you an absolute assurance. Where you have project sponsors in the private sector and the voluntary sector who are not used, in

wedi'u defnyddio'n iawn, a bod yr arian wedi'i ddefnyddio'n iawn i'r dibenion y'u bwriadwyd. Yn amlwg, nid ydym yn hoff o gael yr amodau archwilio hyn, ond maent yn dweud wrthym, cyn i ni fynd i'r holl gostau, fod pethau sy'n rhaid eu gwneud i gywiro'r ffordd y mae arian yn cael ei wario, er mwyn sicrhau nad ydym mewn sefyllfa, wrth archwilio'r cyfrifon hyn yn y pen draw, lle mae'r archwilwyr Ewropeaidd yn dweud ein bod wedi camdefnyddio eu cronfeydd. Mae hwn yn wiriad a dyfais rheoli a ddefnyddiwn i roi sicrwydd i'n hunain fod y cronfeydd yn cael eu defnyddio'n iawn. Yr wyf yn siomedig iawn, ac yr wyf yn siŵr bod yr Archwilydd Cyffredinol hefyd yn siomedig iawn, ei fod wedi gorfod amodi cynifer o'r pethau hyn, ond mae'n rhoi gwybodaeth reoli bwysig iawn i ni. Mae'r gwersi'n cael eu dysgu gan WEFO ynglŷn â beth yw'r materion generig sydd wedi deillio o gyhoeddi'r tystysgrifau hyn. Mae wedi nodi chwe mater generig—mae'n sicr wedi rhoi chwech i mi—ac mae yn y broses, drwy ledaenu bwletinâu i noddwyr prosiect ac ati, o sicrhau bod y gwersi hyn yn cael eu defnyddio a'u cynnwys yn y systemau newydd.

[49] **Alun Cairns:** Un o'r rhesymau allweddol fod cynifer o'r adroddiadau'n amodol yw nad oedd digon o ddogfennaeth. A yw'r ddogfennaeth honno'n bodoli neu a yw wedi'i dinistrio neu ei cholli yn unol â'r hen raglenni? I bob pwrpas, ni all y rhain byth fod yn rhai amodol.

**Syr Jon Shortridge:** O ran dogfennaeth ariannol, byddai'n fy synnu'n fawr pe bai unrhyw gorff cyhoeddus wedi dinistrio gwybodaeth ariannol o fewn y rheol saith mlynedd. Nid oes gennyf wybodaeth am hynny wrth law, felly ni allaf roi sicrwydd llwyr i chi. Pan fo noddwyr prosiect yn y sector preifat a'r sector gwirfoddol nad ydynt wedi arfer â

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the way that public bodies are, to the importance of maintaining good records, there could be a greater risk. However, I know that this is one of the things that WEFO, as a result of the problems with the old programmes, is being very vigilant about.

phwysigrwydd cadw cofnodion da fel y mae cyrff cyhoeddus wedi arfer gwneud, efallai y bydd mwy o risg. Fodd bynnag, gwn fod hyn yn un o'r pethau y mae WEFO, o ganlyniad i'r problemau gyda'r hen raglenni, yn cadw llygad manwl iawn arno.

[50] **Janet Davies:** I am drawing the session to a close now. However, I will ask you first, Sir Jon, whether you could send the committee a note on your main priorities for the coming 12 months.

[50] **Janet Davies:** Yr wyf yn dirwyn y sesiwn i ben yn awr. Fodd bynnag, byddaf yn gofyn i chi yn gyntaf, Syr Jon, a allwch anfon nodyn at y pwyllgor ar eich prif flaenoriaethau ar gyfer y 12 mis nesaf.

**Sir Jon Shortridge:** Certainly.

**Syr Jon Shortridge:** Yn sicr.

[51] **Janet Davies:** Thank you. I thank you and your colleagues for your helpful answers. I confirm that a draft transcript will be sent to you for you to check its factual accuracy before the committee report is published. Thank you.

[51] **Janet Davies:** Diolch. Diolch i chi a'ch cydweithwyr am eich atebion defnyddiol. Yr wyf yn cadarnhau y bydd trawsgrifiad drafft yn cael ei anfon atoch i chi allu gwirio ei gywirdeb ffeithiol cyn cyhoeddi adroddiad y pwyllgor. Diolch.

*Daeth y sesiwn cymryd tystiolaeth i ben am 12.37 p.m.  
The evidence-taking session ended at 12.37 p.m.*

Cynulliad Cenedlaethol Cymru  
National Assembly for Wales

Chief Executive Officers of ASPBs

CEO 14/40

Sir Jon Shortridge KCB  
Ysgrifennydd Parhaol  
Permanent Secretary

15 June 2004

*Dear Colleagues*

**AUDITOR GENERAL FOR WALES'S GENERAL REPORT 2004**

On 11 June the Auditor General for Wales published his general report, summarising his financial audit work in respect of the 2002-03 Accounts. Sir John Bourn reported that he considered that the standards of financial management and probity remained high in Wales. In the report, however, he describes a number of areas such as timeliness of accounts and the oversight of grants where improvements need to be put in place.

I am very pleased that Sir John has confirmed that overall financial standards remain high in the Assembly and its ASPBs. I would like to express my thanks to you and your colleagues for the effort and commitment which has allowed the Auditor General for Wales to reach this overall assessment. However, as Accounting Officers we do need to address very carefully the important issues to which he has drawn attention in his report as needing further improvement.

Sir John has noted that there is a growing trend for issues of regularity and propriety to be flagged up in management letters. Please involve your audit committees in looking again at the controls in place to prevent such issues occurring. In future years we need to see a decrease in the number of these recommendations occurring in management letters.

Of even more concern to me is the finding of Sir John that, in some cases, there has been a lack of action on issues raised in management letters in previous years. In the case of grants he cites 30 observations in this year's report to add to those in 2003. This is simply not acceptable. Please would you satisfy yourself that action to discharge all points raised in your latest management letter has been properly taken and that systems are in place to monitor any necessary follow-up action.

Payment is another area where our performance needs to improve. The report notes that a third of bodies did not meet the target of paying 95% of invoices within 30 days. We must all ensure that we do considerably better than this in the present year.

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Ysgrifennydd y Mewn Ffôn  
AUDITOR IN PEOPLE

Finally, Sir John has highlighted procurement as an area where, despite overall standards being good, we need to be particularly vigilant. A series of procurement fitness checks for ASPBs is being rolled out by the Welsh Procurement Initiative team and I hope that this will be of considerable help to you.

Our next meeting of Accounting Officer is scheduled for 22 October and we will put the Auditor General's report on the agenda for that meeting, so that we can review progress. The Audit Committee of the National Assembly for Wales will be taking evidence from me later this week and I will tell them that I have drawn these issues to your attention.

Yours sincerely,  


**JON SHORTRIDGE**

Sir Jon Shortridge KCB  
Ysgrifennydd Parhaol  
Permanent Secretary

Siwan Davies  
Clerk  
Audit Committee  
National Assembly for Wales  
Cardiff Bay  
CARDIFF CF99 1NA

Our Ref: FNC 21 03 029

14 July 2004

*Dear Siwan*

**Auditor General for Wales' General Report 2004 - ASPB Audit Committees**

At the hearing on 17 June 2004 I undertook to provide the committee with a note to confirm that ASPB Audit Committees tackled issues arising from both Management Letters and the recommendations of the Assembly Audit Committee and any instances where they had raised concerns about the failure of ASPB staff to take action in response to audit recommendations.

Following the meeting I consulted ASPBs and all have now responded that their Audit Committees do actively tackle such issues. Each has a process under which the material from both external and internal audit is considered, actions are requested and followed up.

None of them have reported concerns about failure of ASPB staff to take action in response to audit recommendations.

I am copying this to the Auditor General for Wales.

*Yours sincerely*  
*Jon Shortridge*

**JON SHORTRIDGE**

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Sir Jon Shortridge KCB  
Ysgrifennydd Parhaol  
Permanent Secretary

Siwan Davies  
Clerk  
Audit Committee  
National Assembly for Wales  
Cardiff Bay  
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14 September 2004

*Deas Siwan*

**FINANCIAL OBJECTIVES - 2004-06**

When I attended the Audit Committee in June to give evidence on the Auditor General for Wales' General Report 2004 the Chair asked me to submit a note on my Financial Objectives, as Accounting Officer, for the present financial year.

I hope the attached note is the sort of thing she had in mind, and that the Committee will find it helpful.

*Yours sincerely*  
*Jon Shortridge*

**JON SHORTRIDGE**

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## FINANCIAL OBJECTIVES

At the Audit Committee hearing in June on the General Report by the Auditor General for Wales, the Chair asked me to provide a note for the Committee on my priorities for financial management over the coming year.

During the term of the First Assembly, my main objective was to establish the Assembly's reputation for sound financial management and to improve its standards of governance generally. I considered this to be essential given the scale of change that the organisation was going through – not just as a result of the establishment of the National Assembly itself, but also because during this period all or part of some 14 organisations (over 600 jobs) were merged into the Assembly.

My main objective for the Second Term is to strengthen further the Assembly's reputation for sound financial management and to help improve the governance of those public sector organisations for which the Assembly has direct responsibility.

My specific objectives for this year are to:

- **Further improve the standards of financial management within the Assembly.** Key to this will be the action I am taking further to embed risk management in everything that we do, and to continue the much more comprehensive and systematic approach to financial training, for all key personnel across the Assembly, that I introduced last year. My main training priorities for the year are: programme and project management, risk management, and administrative procedures. With the impending mergers of certain sponsored bodies with the relevant Assembly sponsor Departments I am also looking to appoint some of my Heads of Department as Sub Accounting Officers. I believe that giving more policy directors the personal responsibility that goes with being an Accounting Officer will drive up standards of performance and compliance, and help to

embed a stronger financial management ethos within the Departments for which they have responsibility.

- **Improve efficiency and value for money.** As a result of the successful conclusion of the Merlin negotiations, we now have the means at our disposal to make far better and imaginative use of our ICT platform both to deliver savings and to improve the quality of the services we provide. I am determined that we should take full advantage of this potential. Later this year we shall be producing, with our partners, a business change plan which will define clearly how we will be using the Merlin contract to help modernise and streamline the way in which the Assembly Government in particular operates.
- **Ensure that all the accounts for which I am directly responsible are prepared on time and without qualification.** I am very conscious that, last year, there were delays in the completion of some accounts. I am determined that there should be no repetition of such delays this year.
- **Ensure that the high-risk projects for which I have responsibility are managed effectively and well,** and in such a way as to enhance – rather than damage – the Assembly’s reputation. Top of my list here are the successful completion of the New Assembly Building and the successful merger of the WDA, the WTB and ELWa into the Assembly by April 2006.

None of this can be done without robust systems and suitably qualified and trained staff. I rely heavily on my Corporate Governance Committee - which is chaired by one of my Non Executive Directors, Sir Adrian Webb – to provide me with the challenge and assurance that I need to achieve and maintain the necessary standards of financial management.

**JON SHORTRIDGE**

## **The Audit Committee**

The National Assembly's Audit Committee ensures that proper and thorough scrutiny is given to the Assembly's expenditure. In broad terms, its role is to examine the reports on the accounts of the Assembly and other public bodies prepared by the Auditor General for Wales; and to consider reports by the Auditor General for Wales on examinations into the economy, efficiency and effectiveness with which the Assembly has used its resources in discharging its functions. The responsibilities of the Audit Committee are set out in detail in Standing Order 12.

The membership of the Committee as appointed on 3 June 2003:

Janet Davies (Plaid Cymru) - Chair  
Leighton Andrews (Labour)  
Mick Bates (Liberal Democrat)  
Alan Cairns (Conservative)  
Jocelyn Davies (Plaid Cymru)  
Christine Gwyther (Labour)  
Denise Idris-Jones (Labour)  
Mark Isherwood (Conservative)  
Val Lloyd (Labour)  
Carl Sargeant (Labour)

Further information about the Committee can be obtained from:

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