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# The Welsh Government's relationship with the All Wales Ethnic Minority Association

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This report has been prepared for presentation to the National Assembly under the Government of Wales Act 2006.

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# Report presented to the National Assembly for Wales on 18 October 2012

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# Summary

## Introduction

1 On the morning of 19 December 2011, the Finance Director of the All Wales Ethnic Minority Association (AWEMA)[1] contacted Welsh Government officials to bring to their attention various allegations about governance, financial management, staffing and human resource matters and potential criminal activities. As well as bringing these matters to the Welsh Government's attention, the Finance Director (Mr Saquib Zia) raised concerns about the way in which these matters had been dealt with by AWEMA at an extra-ordinary general meeting on 16 December 2011. In advance of that meeting, AWEMA's trustees had commissioned, from Dr Paul Dunn, an investigation report into allegations made against both the Chief Executive of AWEMA (Mr Naz Malik) and AWEMA's Operations Director (Ms Tegwen Malik – Mr Malik's daughter). Mr Malik also contacted WEFO and the Welsh Government's equalities unit[2] about the allegations on the morning of 19 December 2011, having previously brought certain of these matters to the attention of a Welsh European Funding Office (WEFO) official on 29 November 2011.

2 When these concerns were raised, AWEMA was in receipt of public funding commitments from the:

- **a** *WEFO* – up to £5.1 million to support the delivery, by AWEMA and its partner organisations, of three ongoing EU Convergence Programme projects[3] (Appendix 2). This funding commitment covered the period from September 2008 to June 2014 but there were different start and/or finish dates for each project within this period.
- **b** *Welsh Government's equalities unit* – up to £326,321 over the period 2010-2013 as 'core funding' but also supporting AWEMA's match funding for the three WEFO-funded projects (Appendix 3).
- **c** *Big Lottery Fund* – £517,647 over the period 2011-2015 to provide advocacy services for older people (Appendix 4)[4].

3 In response to the allegations, the Welsh Government and the Big Lottery Fund commissioned a joint Internal Audit Services investigation. The focus of the investigation was on the adequacy of AWEMA's systems of financial control and governance in relation to 'ensuring that public money is spent in accordance with laid down terms and conditions and can be properly accounted for'. The Internal Audit Services report,

1 The All Wales Ethnic Minority Association (AWEMA) came into being in July 1999, evolving in name from an 'All Wales Black and Ethnic Minority National Assembly Consultative and Participatory Committee' with the support of the Commission for Racial Equality Wales. In November 2000, AWEMA was incorporated as a limited company. In March 2005, the Charity Commission granted AWEMA charitable status.

2 For consistency, we refer throughout this report to the Welsh Government's equalities unit. However, the unit responsible for equality policy has existed under different names since May 1999 following various restructuring exercises. The names given to the unit have been: Equality Policy Unit (May 1999 to early February 2006); Strategic Equality and Diversity Unit (early February 2006 to the end of December 2007); Equality and Human Rights Division (January 2008 to April 2009); and the Equality Diversity and Inclusion Division (since April 2009).

3 Black and Minority Ethnic Employment for All, Young Black and Minority Ethnic People Aiming High, and Minorities are Wales' Resources.

4 The figures we have quoted here relate to the total value of the ongoing grant funding commitments, including payments already made.

## Figure 1 - The joint report on AWEMA by Internal Audit Services of the Welsh Government and the Big Lottery Fund

The Internal Audit Services report, published on 9 February 2012, identified what it described as 'significant and fundamental failures in the control and governance framework within AWEMA'. In summary, the report identified that these weaknesses related to:

- governance arrangements in relation to the operation of AWEMA's Board and management;
- financial controls and processes;
- an absence of key policies and procedures; and
- an organisational structure that did not adequately support AWEMA.

The report concluded that: 'We cannot provide any assurance that there are appropriate arrangements in place to safeguard and make proper use of the Welsh Government, WEFO and the Big Lottery Funds entrusted to AWEMA. These failings permeated the whole of the organisation and suggest that the Trustees, including the CEO, had little regard to the recognised standards in public life and the full range of their statutory responsibilities under charities and companies legislation.'

*Source: Joint report by Internal Audit Services of the Welsh Government and the Big Lottery Fund, A Review of the Effectiveness of Governance and Financial Management within the All Wales Ethnic Minority Association (AWEMA), 9 February 2012.*

published on 9 February 2012, identified what it described as 'significant and fundamental failures in the control and governance framework within AWEMA' (Figure 1).

4 Based on the report's findings and conclusions, the Minister for Finance and Leader of the House (Jane Hutt) announced on 9 February 2012 that the Welsh Government was terminating all of its funding to AWEMA. The Big Lottery Fund took the same decision[5]. However, the Minister also made clear the Welsh Government's commitment to protecting participants in AWEMA's EU Convergence Programme projects as far as possible.

5 In advance of and following the Internal Audit Services report there was considerable public interest in the Welsh Government's handling of its relationship with AWEMA. Prominent within the media coverage and public commentary have been:

a questions about the possible influence of connections between AWEMA and the Labour Party;

b concerns raised, in 2010, by the former Assembly Member (Dr Dai Lloyd) with the Minister then responsible for equalities (Carl Sargeant AM) about AWEMA's delivery on the ground in the Swansea area;

c allegations of governance failings made by two former trustees of AWEMA in 2007; and

d the Welsh Government's response to an 'IMANI Consultancy Services' review of projects funded by the Welsh Government's equalities unit, regarding both AWEMA's future funding and the equalities unit's monitoring arrangements.

5 On 6 January 2012, the Welsh Government formally notified AWEMA that it was suspending funding pending the completion, and its consideration, of the Internal Audit Services investigation. The Big Lottery Fund had also previously suspended its funding.

## Wales Audit Office examination

6 In publishing the Internal Audit Services report, the Minister indicated that she and the First Minister, along with the then Permanent Secretary, considered that there needed to be a full and thorough independent review of the history of the Welsh Government's funding of AWEMA. On 8 February 2012, the Auditor General had received a formal request from the Permanent Secretary for him to undertake such a review.

7 On 9 February 2012, the Auditor General informed the Permanent Secretary that he had decided to undertake an independent value for money examination into these matters using his statutory powers. In adopting this approach, the Auditor General also took into account requests he had received for a Wales Audit Office investigation from the Chair of the National Assembly's Public Accounts Committee and two other Assembly Members. However, the Auditor General disclosed to his review team matters predating his appointment to the office of Auditor General – in relation to his previous role as a board member of the Big Lottery Fund and Chair of the Big Lottery Funds Committee for Wales – that might be construed as him having a potential conflict of interest. In order to avoid any challenges that his independence or objectivity might be impaired, the Auditor General authorised Anthony Barrett, Assistant Auditor General, to act on his behalf in relation to this examination.

8 Our review has considered whether the Welsh Government, including the Welsh European Funding Office (WEFO), has managed its relationship with AWEMA appropriately to protect and make good use of public funds[6]. We have looked at the full history of that relationship from the creation of AWEMA in 1999 to the actions taken by the Welsh Government in relation to its decision to terminate its funding for AWEMA.

9 As stated at the outset of our work, we have not examined the internal workings of AWEMA in terms of its governance, staffing matters or financial management. The responsibility for any further examination of AWEMA's governance, in particular the trustees' actions and decision making in managing the charity, rests with the Charity Commission, which has been taking forward its own inquiry. Nor have we sought to undertake our own evaluation of the work that AWEMA has delivered with the support of Welsh Government funding. We have focused instead on the way in which the Welsh Government has discharged its responsibility in satisfying itself that its grant funding to AWEMA provided good value for money, including the Welsh Government's response to any specific concerns that have come to its attention.

10 As with the Internal Audit Services report, we have also been careful not to encroach on matters that have been under investigation by South Wales Police. We have not sought to repeat work that underpinned the joint Internal Audit Services report in February 2012 or work that has since been taken forward by WEFO's Project Inspection and Verification Team.

6 Appendix 1 describes our audit methods and the evidence base that supports our findings and conclusions. Our main focus has been on the funding relationship between the Welsh Government's equalities unit and AWEMA (which spans the full period of our analysis), and between WEFO and AWEMA (which has involved the largest overall sum of funding). However, we have considered the management of grant funding to AWEMA by other Welsh Government departments. We have also considered how different parts of the Welsh Government have inter-acted in the management of their grant funding to AWEMA and in their response to specific concerns.

## The Welsh Government's and other public funders' payments to AWEMA

**11** While not clear at the outset of our work, we have established that the Welsh Government's payments to AWEMA, between 25 July 2000 and 20 December 2011, totalled £7.15 million (Appendix 2). All but £351,000[7] of this funding has related to grants approved by:

- **a** the Welsh Government's equalities unit – £1.13 million paid;
- **b** the Welsh Government's Communities First programme – £1.09 million paid; and
- **c** the Welsh European Funding Office – £4.58 million paid[8].

**12** We estimate that Welsh Government funding has comprised at least 90 per cent of AWEMA's total income with most of the remainder coming from other public bodies (Appendix 4). Taking into account payments already made from the grant-funding described in paragraph 2a-b, the Welsh Government had been committed, in principle, to providing a further £3.01 million to AWEMA for activity through to 30 June 2014. That is before the Welsh Government announced, on 9 February 2012, the termination of its funding to AWEMA.

## Conclusions about the Welsh Government's management of its relationship with AWEMA

### The Welsh Government's management and coordination of its grant funding to AWEMA between July 2000 and December 2011 had often been weak, but we have found no evidence of inappropriate political influence in funding decisions

**13** While the financial support provided to AWEMA by the Welsh Government has reflected particular policy objectives[9], we have found no evidence of inappropriate Ministerial influence – on party-political or other lines – in the Welsh Government's decisions about AWEMA's funding (paragraphs 2.3 to 2.15). Where Ministers have been involved in funding decisions, the action taken has been consistent with the formal advice provided by officials. This is the case where funding has been granted, where bids from AWEMA have been declined and where the funding provided has been less than that for which AWEMA bid. Nevertheless, the full basis of some of the Welsh Government's funding decisions remains unclear and we have concluded that the Welsh Government's management and coordination of its grant funding to AWEMA between July 2000 and December 2011 had often been weak.

**14** Appendix 3 details eight case study examples about the Welsh Government's response to specific concerns about AWEMA's governance and financial management or questions about the funding of AWEMA and the delivery of its work. In each instance, the Welsh Government has evidently taken the concerns that have been raised with it seriously. However, we have concluded that the Welsh

7 The remaining £351,000 includes funding that related to the initial setting up of AWEMA and later work on housing, carers, childcare and economic-development related issues.

8 While paid initially to AWEMA, much of the Welsh Government's funding in relation to the Communities First programme and WEFO-funded projects was passed on to cover costs claimed by AWEMA's project partners.

9 In particular, the creation and early development of AWEMA reflected a policy emphasis on equality and diversity and the Welsh Government's desire to channel its external engagement on race equality issues through a single body.

Government's response to these concerns has, overall, been too narrowly focused[10]. By narrowly focused we mean that the Welsh Government's response:

**a** has been influenced by officials' reluctance to get involved in matters where:

- they believed the issues being raised were outside the Welsh Government's remit;
- they were wary of being seen to take sides in what may have been perceived as personal disputes between particular individuals or organisations; and
- to have taken firmer action might have attracted personal or public criticism (several of the officials we have met have indicated that they were wary of being accused of discriminating in any way against AWEMA).

**b** has been characterised by weak communication and knowledge sharing between departments to help inform the Welsh Government's overall funding of AWEMA (although this has not exclusively been the case);

**c** has dealt with particular concerns on an episodic basis without reflecting on the overall history of its funding relationship, again exacerbated by weak knowledge sharing within and between departments;

**d** has not, by its design, been sufficient to pick up on or get to the heart of certain matters of concern; and

**e** has not followed up these issues, either at the time the concerns were raised or subsequently, with sufficient rigour.

**15** The issues we have raised about the response to these concerns are also reflected in certain aspects of the Welsh Government's wider appraisal and monitoring of its grant funding to AWEMA.

**16** Poor performance and a lack of stability in the Welsh Government's equalities unit have contributed significantly to overall weaknesses in the management of its funding of AWEMA[11]. In December 2003, the equalities unit commissioned 'IMANI Consultancy Services' to independently evaluate the impact of the unit's funding of AWEMA (paragraphs 2.16 to 2.25). There had, by that point, been various wider concerns about AWEMA's governance and financial management[12] but the review was not completed until January 2005 and it did not address these wider concerns despite the Welsh Government giving the impression that it would (Appendix 3, Case Study 3). The report questioned AWEMA's performance and also highlighted previously recognised weaknesses in the equalities unit's management of its grant funding.

**17** It has been suggested to us that the IMANI report may have been watered down by the Welsh Government. The fact that the report author joined the Welsh Government's equalities unit on secondment prior to the completion of the review was being completed inevitably calls into question the extent of the Welsh Government's influence. We

10 The conclusions we have drawn about these events, which span the period from April 2001 to December 2011, relate to the way in which they have been responded to by the Welsh Government. We have not commented on the extent to which these concerns were justified. These eight case studies do not include our consideration of the action taken by the Welsh Government in response to the allegations received from AWEMA's Finance Director in December 2011.

11 Since its creation in 1999, the equalities unit has been beset by problems of poor performance and high staff turnover and has undergone several reorganisations and changes in Ministerial reporting lines. This has had implications for the continuity of the unit's grant funding relationship with AWEMA and there is little evidence of the Welsh Government having put in place any formal handover arrangements between Ministers or officials to ensure the transfer of knowledge about this, or any other, relationship with the organisations that the equalities unit was funding. However, senior officials have emphasised to us that the equalities unit is now on a firmer footing and that it has delivered various strategically important pieces of work (paragraphs 2.77 to 2.86).

12 Within AWEMA's structures, it became clear to the Welsh Government at an early stage that there were difficulties between the personalities involved, with various concerns then being expressed to the Welsh Government about AWEMA's governance and financial management arrangements. Officials from the Welsh Government's Finance Department had completed a review of AWEMA's financial accountability and governance arrangements in late 2002/early 2003 (Appendix 3, Case Studies 1 and 2).

have not found any evidence of interference by the Welsh Government in the report's findings and recommendations. However, the executive summary of the final report did not include a recommendation contained in the main body of the report that, 'no further funding is provided to AWEMA for new projects until AWEMA is able to verify that it has taken a systematic approach to project and performance management'. Although the report did go on to state that 'funding should be maintained as committed'.

18 Following the completion of the IMANI report, advice to the Minister then responsible for equalities (Jane Hutt) and the then First Minister (Rhodri Morgan) in January 2005 emphasised the equalities unit's own failings, positive results from some of AWEMA's other project work, and a reputational risk to the Welsh Government were the unit to cease its funding (paragraphs 2.26 to 2.34). The advice to the Ministers sought approval for officials to explore with AWEMA the termination of the unit's project funding and to replace this with core funding for a three-year period. The precise circumstances of the equalities unit's discussions with AWEMA and its decision to continue funding beyond March 2005 – before and after the Ministers' approval of this advice in early February 2005 – remain unclear. The findings of the IMANI review do not appear to have been shared with the Welsh Government's Communities Directorate, despite its ongoing funding to AWEMA as part of the Communities First programme. In addition, the findings of the review do not appear to have informed WEFO's appraisal of AWEMA's 'Curiad Calon Cymru' project[13].

19 Between April 2005 and March 2010, the equalities unit addressed various issues to satisfy itself about AWEMA's work programme and its use of previous grant funding but it did not rigorously follow up concerns about AWEMA's governance arrangements. More specifically:

a In February 2005 and February 2006, AWEMA told the equalities unit about unspent grant funding from 2000-01 and 2005-06 respectively. However, the unit was slow to resolve the first of these matters and the Welsh Government's decisions to allow AWEMA to retain this funding were influenced by deficiencies in the equalities unit's own audit trail (paragraphs 2.35 to 2.46). While dealing with these matters, the equalities unit prepared what we have concluded was an inaccurate and incomplete response to a 'Written Assembly Question' from the former Assembly Member Dr Dai Lloyd about AWEMA's funding (Appendix 3, Case Study 4).

b The equalities unit addressed some concerns about AWEMA's work programme between April 2005 and March 2008 and held back certain payments but failed to adequately consider allegations made by the then Acting Chair and Acting Vice-Chair of AWEMA in July 2007 (paragraphs 2.47 to 2.50 and Appendix 3, Case Study 6).

c The equalities unit extended its funding to AWEMA through 2008-09 and 2009-10 while it planned wider changes to the 'Promoting Equality Fund' but did not follow up sufficiently further concerns about AWEMA's governance arrangements, including the frequency of AWEMA's Board meetings (paragraphs 2.51 to 2.64).

13 This project was funded by WEFO as part of the European Social Fund EQUAL Programme (2000-2006). Between 2005-06 and 2008-09, WEFO provided £2.33 million through AWEMA to support the project (Appendix 1).

**d** There were significant weaknesses in the processes that led to the award of AWEMA's Advancing Equality Fund grant for April 2010 to March 2013. In its subsequent management of that grant funding, the equalities unit failed to follow up sufficiently some further concerns about AWEMA's delivery. The equalities unit also had only limited contact with WEFO during this period despite the clear connection between the unit's funding and AWEMA's WEFO-funded projects (paragraphs 2.65 to 2.76 and Appendix 3, Case Study 7).

**20** We found that WEFO had not expressed any particular concerns about the progress of AWEMA's EU-funded projects against their objectives, but that WEFO's arrangements for appraising and monitoring these projects lacked sufficient rigour (paragraphs 2.87 to 2.125). While not necessarily affecting the final outcome the appraisal of these projects did not take full account, where relevant, of the experience of other Welsh Government departments or of WEFO itself.

**21** While WEFO was in regular contact with AWEMA about the three Convergence Programme projects, WEFO did not ensure full or timely compliance with certain conditions it set for the projects and its formal monitoring meetings with AWEMA were less frequent than could ideally have been the case. In early December 2011, following concerns raised with WEFO by the North Wales Regional Equality Network (Appendix 3, Case Study 8), WEFO's Project Inspection and Verification Team completed a review of AWEMA's 'Minorities are Wales' Resources' project. Weaknesses in the review process meant that it did not identify issues in relation to financial recording, ineligible expenditure and the collation of beneficiary data that have since come to light through the work undertaken by the Welsh Government's Internal Audit Services and by the Project Inspection and Verification Team itself[14].

**22** Officials in other Welsh Government departments have, mostly, been satisfied with the work supported by the funding they have provided to AWEMA[15]. However, we have identified some weaknesses in the Welsh Government's monitoring of this funding (paragraphs 2.126 to 2.150).

**23** Regarding AWEMA's funding from the Communities First programme between 2002-03 and 2006-07, we have concluded that the Welsh Government's Communities Directorate challenged plans for the Black and Ethnic Support Team partnership[16] appropriately before agreeing funding but there were weaknesses in its monitoring of the partnership's finances which AWEMA was managing on behalf of the project partners. In addition, the Communities Directorate's performance monitoring focused on the activity delivered by development workers and neglected the partnership's research activity which AWEMA led on.

**24** Welsh Government officials were closely involved in, and satisfied with, AWEMA's work in relation to housing, carers and childcare. However, during the commissioning of this work Welsh Government officials did not share with each other relevant concerns about AWEMA.

14 Further scrutiny by the Project Inspection and Verification Team of AWEMA's final and previous claims has identified ineligible project expenditure across all three of the AWEMA-led Convergence Programme projects of £169,782 although this work did not identify any evidence of systemic over-claiming. The Project Inspection and Verification Team has also concluded that: 'the processes in place to track and record the outputs across the programmes are insufficient and we were unable to completely reconcile the organisation's [AWEMA's] records to the outputs declared in their claims'. However, the team has also concluded that, across the three projects, AWEMA had under-claimed in terms of the number of participants.

15 AWEMA achieved one of its main objectives by beginning the process of securing European funding, but the Welsh Government identified that its monitoring of funding to support the work of AWEMA's Economic Development Committee between 2001-02 and 2004-05 – including the employment by AWEMA of an economic development officer – had been deficient and that it was, therefore, difficult to demonstrate value for money.

16 The Black and Ethnic Support Team partnership consisted of AWEMA, the Black Voluntary Sector Network Wales, the Minority Ethnic Women's Network Cymru and the Scarman Trust.

## The Welsh Government responded robustly to the concerns that emerged about AWEMA in December 2011, but dealing with the consequences has been time-consuming and the outcome for the public purse is not yet clear

**25** On 29 November 2011, AWEMA's Chief Executive informed a WEFO official about a range of allegations, including certain financial matters, but provided his assurance that there were no financial irregularities in relation to the WEFO-funded projects[17]. These allegations were not communicated more widely within the Welsh Government until both AWEMA's Finance Director and Chief Executive separately contacted WEFO and the Welsh Government's equalities unit on 19 December 2011 (paragraphs 3.2 to 3.7).

**26** The Welsh Government acted robustly in holding back payments to AWEMA in response to the information it received from AWEMA's Finance Director and Chief Executive on 19 December 2011. However, WEFO payments worth £529,000 were already in train and could not be stopped. Had the matters raised by AWEMA's Chief Executive on 29 November 2011 been looked into more promptly by the Welsh Government, we consider it possible that these payments would not have been authorised. However, withholding these payments would have had significant adverse implications for AWEMA's finances and the finances of AWEMA's project partners (paragraphs 3.8 to 3.12).

**27** The commissioning of an Internal Audit Services review was reasonable in the circumstances but the Welsh Government could have better managed expectations about the scope of its work. The Welsh Government has brought together key officials in an effective way to manage its response to the situation at AWEMA, although they were, to an extent, operating in uncharted territory and there has had to be some diversion of staff resources from other work (paragraphs 3.13 to 3.25).

**28** While the outcome of the liquidation process is not yet known, it is clear that the Welsh Government will not recover most of the £545,966 debt that it now believes it is owed by AWEMA. This is because the Welsh Government's claims far exceed the amounts available to reimburse creditors and, even then, there will be preferential creditors who will have first call on AWEMA's assets. These preferential creditors do not include the Welsh Government. The sum of the debt, specifically in relation to funding from the Welsh Government's equalities unit, is disputed by AWEMA. AWEMA has also made counterclaims for payments from the equalities unit worth, in total, £70,065 (paragraphs 3.26 to 3.39).

**29** WEFO has now established successor arrangements for each of AWEMA's three EU Convergence Programme projects. To ensure AWEMA's partners could sustain delivery, WEFO opted to protect them from losses arising from AWEMA's insolvency. WEFO's grant contribution towards the successor projects will also be greater than it would have been under the previous arrangements. That is because the percentage of the total project costs to be met by its grant funding is higher than previously the case for each project (paragraphs 3.40 to 3.48).

**30** In response to the situation at AWEMA, WEFO and the Welsh Government's equalities unit have taken forward a range of actions relating to due diligence in their funding to other organisations (paragraphs 3.49 to 3.53). For WEFO, this has included a review of its use of advance payments. That work

17 Dr Rita Austin has confirmed to us that she had only agreed to accept nomination to become Chair of AWEMA in December 2011 on condition that Mr Malik would bring to the attention of WEFO the allegations against him.

has demonstrated that some third-sector organisations were being paid in advance even though there was no clear financial need for advance payment[18]. In conjunction with the Welsh Government's Internal Audit Services, the equalities unit has also developed an approach to assess whether the organisations that it is funding are adhering to established principles of good governance.

## Recommendations

The history of the Welsh Government's management of its relationship with AWEMA raises a more general question about how the Welsh Government can best exercise due diligence to satisfy itself that each of the organisations it funds operates in accordance with principles of good governance, while not interfering in the running of those organisations. This is not just about being able to demonstrate regular monitoring activity. It is also about ensuring that monitoring activity is appropriately targeted, proportionate and that it leads to robust action in response to any issues of concern. The Welsh Government has been discussing with the Big Lottery Fund and the Charity Commission arrangements for a coordinated response to concerns that may arise in relation to other organisations.

Many of the weaknesses we have identified in the Welsh Government's management and coordination of its grant funding to AWEMA are consistent with issues identified in our previous audit work examining other grant funding relationships. Our November 2011 report, *Grants Management in Wales,* summarised the main findings from that extensive body of work and reported on how the Welsh Government had already been introducing some improvements to its management of grants. Specifically, the report recognised that the Welsh Government had introduced new arrangements to support the management of its business that are intended to enable greater cross-departmental working and that it has established a 'Grants Management Project' and 'Grants Centre of Excellence' to support improvement. Following the publication of that report, the National Assembly's Public Accounts Committee published its own interim report on grants management in August 2012.

1 Taking into account the issues raised by this report and in the context of its own ongoing Grants Management Project, the work of the Grants Centre of Excellence and its response to the Public Accounts Committee's recent interim report on grants management, **we recommend that the Welsh Government should:**

a **Establish and communicate to grants managers and grant recipients clear protocols for due diligence work to be built into its processes for awarding grant funding and monitoring delivery, proportionate to the scale of funding and the type of recipient body. That due diligence work should:**

- **consider all risks relating to the overall financial viability of organisations that the Welsh Government is funding (which in turn should inform any decisions on the need for advance payments);**
- **seek assurance in respect of organisations' compliance with principles of good governance including, where proportionate, testing of those arrangements;**
- **contribute to a clear risk assessment process to underpin decisions on the nature and frequency of the Welsh Government's monitoring arrangements after the award of funding.**

18 Independent of the situation with AWEMA, the Welsh Government's Grants Centre for Excellence has highlighted inconsistency in the treatment of payments in advance and has developed a template for third-sector organisations to complete in order to demonstrate need for payment in advance.

b **Give further consideration to the development of a customer relationship management system as the basis for ensuring shared knowledge across the Welsh Government of its various funding relationships with external organisations.**

c **Ensure that grants managers are required, when considering bids from potential grant recipients and in their general management of that funding, to understand the Welsh Government's overall financial relationship with those organisations.**

d **Establish clear protocols for the handover of responsibilities between senior officials and between Ministers, ensuring that those succession arrangements articulate relevant departmental and wider Welsh Government funding relationships with external organisations and, in particular, the history of any particular concerns about those organisations.**

e **Ensure that grants managers understand that all substantive contact with grant recipients about their funding should be formally recorded on file.**

2 Having already identified changes in some of its processes in response to the situation with AWEMA, **we recommend that WEFO should also:**

a **Ensure that all project officers are fully aware of the purpose and importance of their monitoring and of their responsibilities in supporting projects and verifying that projects are proceeding satisfactorily and delivering intended outcomes. We consider that such improvement could be achieved through mandated and periodic refresher training.**

b **Ensure that all current projects have been monitored regularly and documented, in accordance with WEFO's requirements.**

c **Review all special conditions which are recorded as 'open', and once their actual status has been confirmed, ensure that project officers take any necessary follow-up action promptly.**

3 Welsh Government officials have recognised that, in responding to the situation with AWEMA's insolvency they have been, to an extent, operating in uncharted territory. **We recommend that the Welsh Government should undertake a lessons learned exercise and develop internal guidance to support any future response to a similar situation.**

4 WEFO has now established successor arrangements for each of the three AWEMA-led EU Convergence Programme projects. **We recommend that, for the remaining duration of these projects, WEFO conducts quarterly monitoring meetings with the lead project sponsors, and that it maintains regular contact with the other project partners to help identify and resolve promptly any issues of concern and to generally support the delivery of these projects.**

# Part 1 – While not clear at the outset of our work, we have established that the Welsh Government's payments to AWEMA totalled £7.15 million, with a further £3.01 million having been committed in principle

**1.1** This part of our report, supported by Appendix 2, describes the full history and total value of the Welsh Government's payments to AWEMA and funding commitments through to 2014-15[19]. It also considers the contribution of the Welsh Government's funding, alongside other sources of public funding (Appendix 4), to AWEMA's total income and describes some of the plans that AWEMA had identified to diversify its income streams.

**1.2** The Welsh Government made its final payments to AWEMA on 20 December 2011. Paragraphs 3.8 to 3.12 explain why payments already in train on 19 December 2011, when the allegations from AWEMA's Finance Director were received, could not be stopped. AWEMA's Chief Executive also contacted WEFO and the Welsh Government's equalities unit about the allegations on 19 December 2011, having previously brought certain of these matters to the attention of a WEFO official on 29 November 2011 (paragraphs 3.2 to 3.7).

## Media coverage and public commentary about AWEMA has contained unclear and misleading references to AWEMA's public funding

**1.3** At the outset of our work, the full value of the Welsh Government's funding to AWEMA was not clear. Much of the recent media coverage and more general public commentary about AWEMA and its public funding has referred to a figure of £8.4 million. However, the way in which this figure has been reported and commented on has lacked clarity and consistency regarding the impression given of:

- **a** whether this sum related to the amount of public money AWEMA had received in total, or even on an annual basis;
- **b** whether this was the sum of funding that AWEMA had already received or, in part at least, was still due; or
- **c** what public funding streams the figure related to; whether from the Welsh Government (including EU funding), lottery funding, or other sources.

19 On 9 February 2012, the Minister for Finance and Leader of the House announced that the Welsh Government was terminating all of its funding to AWEMA with immediate effect.

1.4 Our first tasks were, therefore, to obtain from the Welsh Government a full breakdown of its previous payments to AWEMA, to establish the purpose of these payments and to confirm the Welsh Government's ongoing funding commitments at 20 December 2011 (Appendix 1). We also sought to confirm with other public bodies their historical and ongoing funding commitments to AWEMA (Appendix 4). This overall analysis shows that references to the figure of £8.4 million have been unclear and misleading. The £8.4 million figure appears to have been based on the originally estimated total lifetime value, including match funding, of three AWEMA-led EU Convergence Programme projects[20] (Appendix 1).

## Between 25 July 2000 and 20 December 2011, the Welsh Government's payments to AWEMA totalled £7.15 million, with the highest annual expenditure in 2006-07 of £1.24 million

1.5 While AWEMA existed in name from July 1999, the Welsh Government's records show that its first direct payment to AWEMA was made on 25 July 2000. That payment, of £8,333, represented the first of three instalments of the same amount between July 2000 and January 2001 from the Welsh Government's 'Support for Voluntary Intermediary Services' grant. This funding appears to have been intended to support some initial start-up costs and the general continuation of some of the early work undertaken under the AWEMA banner. The period of this funding overlapped the incorporation of AWEMA as a company in its own right in November 2000.

1.6 Overall, the Welsh Government's payments to AWEMA, including from European funding, have totalled £7.15 million. All but £351,000[21] of this funding has related to grants approved by:

- **a** the Welsh Government's equalities unit[22] – £1.13 million paid;
- **b** the Welsh Government's Communities First programme – £1.09 million paid; and
- **c** the Welsh European Funding Office (WEFO) – £4.58 million paid.

1.7 The amount of funding provided by the Welsh Government to AWEMA on a financial year basis has fluctuated considerably over time (Figure 2). With the exception of 2004-05, the total value of the Welsh Government's payments increased steadily from 2000-01 onwards, to a peak of £1.2 million in 2006-07. The Welsh Government's payments then fell back sharply in 2008-09[23]. This reduction in funding reflected the end of AWEMA's Communities First funding in 2007-08 and, during 2008-09, the end of AWEMA's WEFO funding under the EQUAL programme[24]. In January 2009, WEFO then approved further funding for what was to become one of the three AWEMA-led projects under the EU

20 These three projects were titled: Black and Minority Ethnic Employment for All; Young Black and Minority Ethnic People Aiming High; and Minorities are Wales' Resources (Appendix 2).

21 The remaining £351,000 includes funding that related to the initial setting up of AWEMA and subsequent work related to housing, carers, childcare and economic development-related issues (Appendix 2).

22 For consistency, we refer throughout this report to the Welsh Government's equalities unit. However, the unit responsible for equality policy has existed under four different names since May 1999 following various restructuring exercises. The names given to the unit have been: Equality Policy Unit (May 1999 to early February 2006); Strategic Equality and Diversity Unit (early February 2006 to the end of December 2007); Equality and Human Rights Division (January 2008 to April 2009); and the Equality Diversity and Inclusion Division (since April 2009).

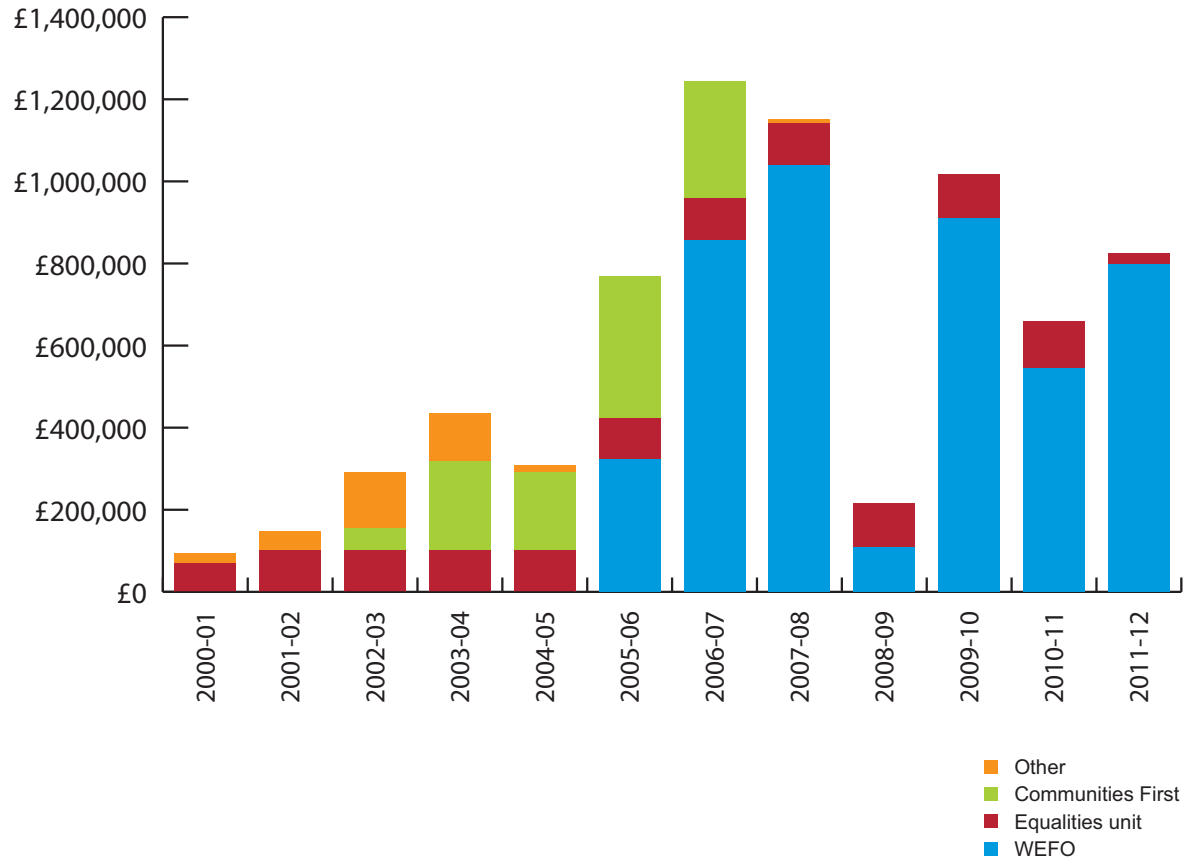
23 Evidence of an overall reduction in AWEMA's income was one of the reasons why, in July 2008, the Arts Council of Wales rejected a bid from AWEMA for £24,769 to support the delivery of a series of poetry workshops across four schools in Cardiff and four schools in Swansea (Appendix 4).

24 This funding was for AWEMA's Curiad Calon Cymru project (Appendix 2).

Convergence Programme. WEFO made its first payment for this new project work in April 2009.

**1.8** The Welsh Government's equalities unit has provided funding in every financial year including and since 2000-01. From 2001-02 onwards, the annual value of this funding has remained relatively constant at between £100,000 and £113,000 per year, although the purpose of the funding has changed over time.

**Figure 2 - High-level summary of the Welsh Government's direct payments to AWEMA, 2000-01 to 2011-12**




Note

Appendix 2 provides a full breakdown of the Welsh Government's payments on a cash basis to AWEMA in each financial year and their purpose. AWEMA's financial statements show different totals for each financial year as these transactions are recorded, for accounting purposes, on an income and expenditure basis. In addition, this analysis does not include payments to AWEMA from other public funders who may have been managing funding arrangements on behalf of the Welsh Government (Appendix 4).

*Source: Wales Audit Office analysis of Welsh Government financial records.*

## The Welsh Government's funding has served various purposes but, since the start of 2010-11 in particular, it has mainly underpinned AWEMA's core operating costs and EU Convergence Programme projects

1.9 The Welsh Government's funding to AWEMA has related to the following lead policy portfolios: equalities; education and skills; economic policy/economic development (including WEFO); housing; social care policy; and communities.

1.10 Notably, in 2002-03, five different Welsh Government departments provided funding to AWEMA (Appendix 2). While we have not sought to evaluate the quality or impact of AWEMA's work for ourselves, activities supported by Welsh Government funding have included:

- **a** The production of research and good practice guidance on issues affecting black and minority ethnic communities in Wales (whether undertaken by staff employed by AWEMA or by other research agencies).
- **b** Hosting specific events, for example to celebrate International Women's Day or to support consultation on Welsh Government policies.
- **c** The provision of specific activities/services targeted at black and minority ethnic communities – for example, homework clubs, language classes, other skills-based training.
- **d** Support for the delivery of specific Welsh Government strategies. In particular, to employ a Black and Minority Ethnic Housing Strategy Officer who supported delivery of the Welsh Government's first Black and Minority Ethnic Housing Action Plan.
- **e** Inputs to various policy consultations, reviews, or National Assembly committee inquiries.
- **f** In the early years of AWEMA's existence, the facilitation of various AWEMA subject committees, through which the Welsh Government was able to engage with representatives of black and minority ethnic communities.
- **g** Employment of development workers to engage black and minority ethnic communities as part of the Communities First programme.

1.11 Since the start of 2010-11 in particular, the main purpose of the Welsh Government's funding of AWEMA has been to support delivery of its WEFO-funded EU Convergence Programme projects. With Welsh Government approval, some of the core funding from the equalities unit was used to underpin AWEMA's operating costs and to support the delivery of project objectives that aligned with the WEFO-funded projects. Some of AWEMA's previous funding from the equalities unit, the former Department of Children, Education, Lifelong Learning and Skills and the Communities First programme, had also been used to support cash or in-kind match funding for its WEFO-funded projects.

## While paid initially to AWEMA, much of the Welsh Government's funding in relation to the Communities First programme and WEFO-funded projects was passed on to cover costs claimed by AWEMA's project partners

**1.12** In its most substantial project work, supported by WEFO funding, AWEMA was acting as lead partner, working with a range of other organisations (Appendix 2). As part of these arrangements, AWEMA was handling the overall financial management of the projects, including submitting claims on behalf of project partners and passing on Welsh Government payments[25]. Similarly, AWEMA was receiving funding from the Communities First programme – for the 'Black and Ethnic Support Team' – because, in addition to its own involvement in the delivery of the project, it was administering the overall finances on behalf of other project partners.

**1.13** For the WEFO-funded projects, AWEMA was not reimbursing partners' costs in full and was recouping a project management/ administration charge as a contribution towards certain of its own costs. We have not seen any evidence to indicate that this arrangement was formally notified to and agreed by WEFO. However, we understand that the arrangement had been discussed by AWEMA with the project partners and that WEFO would, in any case, have regarded this as a matter for the partners to resolve. We have received feedback from some of AWEMA's project partners that suggests they were not entirely content with this arrangement or clear about its application in practice.

**1.14** We do not have sufficient data available to us to confirm the amounts paid on by AWEMA to its partners from the funding provided by WEFO or as part of the Communities First programme. However, data supplied to us by WEFO shows that £0.93 million (54 per cent) of the £1.71 million of grant claimed across the three EU Convergence Programme projects to the end of August 2011 related to costs claimed by AWEMA on behalf of its project partners. Similarly, for the Curiad Calon Cymru (EQUAL programme) project, WEFO's data shows that £1.23 million (53 per cent) of the £2.33 million grant claimed related to costs claimed by AWEMA on behalf of project partners. In 2003-04, £141,140 (65 per cent) of the £217,177 of Communities First funding paid to AWEMA related to claims by project partners.

## Before announcing the termination of its funding on 9 February 2012, the Welsh Government had been committed, in principle, to providing a further £3.01 million to AWEMA for activity through to 30 June 2014

**1.15** After making its last payment to AWEMA on 20 December 2011, the Welsh Government suspended any further payments while it investigated the matters brought to its attention by AWEMA's Finance Director and Chief Executive the previous day. At that time, and subject to compliance with grant terms and conditions, the Welsh Government's ongoing funding commitments to AWEMA for activity through to 30 June 2014 totalled a further £3.01 million (Figure 3).

25 For the EU Convergence Programme, WEFO had been keen to identify a smaller number of larger projects to manage. However, because of concerns that this would exclude smaller organisations from participating in the programme, WEFO also encouraged collaborative projects. The lead-sponsor arrangement reduces WEFO's transactional costs in managing the programme, meaning that it does not have to deal directly with each individual project partner, but shifts some of this transactional cost to the lead sponsor. This lead-sponsor model was also common to projects on the EQUAL programme.

On 9 February 2012, the Minister for Finance and Leader of the House (Jane Hutt) announced that the Welsh Government was terminating all of its funding to AWEMA with immediate effect.

**Figure 3 - The Welsh Government's funding commitments to AWEMA as at 20 December 2011[1]**

| | Total grant offer (£000s) | Paid at 20 December 2011 (£000s) | Unpaid at 20 December 2011 (£000s) |
|---|---|---|---|
| WEFO – Black and Minority Ethnic Employment for All[2] | 2,095 | 1,405 | 690 |
| WEFO – Young Black and Minority Ethnic People Aiming High[3] | 1,450 | 459 | 991 |
| WEFO – Minorities are Wales' Resources[4] | 1,514 | 389 | 1,125 |
| Equalities unit – Advancing Equality Fund Core Grant (2010-11 to 2012-13)[5] | 326 | 133 | 194 |
| Equalities unit – Advancing Equality Fund Events to Celebrate Equality and Diversity, 2011-12[6] | 7 | 0 | 7 |
| **Total** | **5,392** | **2,386** | **3,007** |

Notes

1 Paragraphs 3.26 to 3.39 discuss the claim that the Welsh Government has lodged for repayment of some of the WEFO funding already paid out and all of the core funding from the equalities unit. AWEMA disputes the Welsh Government's claim for repayment of the equalities unit's core funding and is seeking further payment from the Welsh Government to cover the period from 1 July 2011 to the end of February 2012.

2 This project was due to finish on 31 December 2012. The grant offer quoted is based on the revised offer following re-profiling of the project in January 2011 (Appendix 2).

3 This project was due to finish on 30 June 2013.

4 This project was due to finish on 30 June 2014.

5 The Welsh Government had paid out its full allocation of £105,575 for 2010-11 and the first quarterly instalment of £27,186 for 2011-12. In addition to the three further instalments due for 2011-12, the Welsh Government had offered a further £112,004 of funding for 2012-13.

6 The equalities unit assessed bids from organisations for related events against set criteria, applying scores to each bid. The equalities unit confirmed its grant offer to AWEMA – of £6,830 – on 8 December 2012 and received the signed grant agreement back from AWEMA on 22 December 2012. AWEMA's bid had indicated that this funding would be shared with five other partner organisations who, with AWEMA, were each running one of six themed events. Because the equalities unit did not make any payment of this grant we have excluded it from our analysis in Appendix 2.

*Source: Wales Audit Office analysis of Welsh Government financial records.*

## Although AWEMA hoped to diversify its income streams, it had always been heavily dependent on the funding it received from the Welsh Government and other public bodies

### We estimate that Welsh Government funding has comprised at least 90 per cent of AWEMA's total income with most of the remainder coming from other public bodies

**1.16** We have not undertaken our own audit of AWEMA's finances. However, by reviewing AWEMA's audited financial statements, we have been able to identify various funding from public bodies in addition to payments made to AWEMA by the Welsh Government. We have also been able to confirm some, but not all, of these payments with the relevant funding bodies. The payments we have identified amounted to around £577,000 between October 2000 and December 2011 (Appendix 4). The feedback we have received from organisations making these payments has raised only one issue of concern regarding their satisfaction with AWEMA's use of this funding. This is on the part of the Big Lottery Fund, which is seeking as part of AWEMA's liquidation process to recoup £5,000 paid to AWEMA in 2011-12 under its 'Awards for All' scheme[26].

**1.17** The most significant single source of funding other than the Welsh Government was from the Home Office's Connecting Communities grant. The Home Office provided around £346,000 funding to AWEMA between 2000-01 and 2003-04[27]. The Home Office's commitment of this funding provided a firmer foundation for AWEMA to register as a company in its own right in November 2000, following which the organisation moved out of the Commission for Racial Equality's offices in February 2001. Although not part of AWEMA's original bid, we understand that the Home Office later agreed that this funding could support the employment of a Director of AWEMA[28].

**1.18** Based on information in AWEMA's audited financial statements from November 2000 to March 2010[29], we estimate that payments from the Welsh Government comprised at least 90 per cent of AWEMA's total income in that period. Most of the remaining income was also from other public funding sources and has included some payments to AWEMA from other organisations of what was, by its origin, Welsh Government funding.

### AWEMA's external auditors had frequently expressed concern about AWEMA's reliance on often short-term grant funding commitments and related cash flow issues

**1.19** AWEMA's dependence on its public funding is typical of many third sector organisations. In their audit opinions on AWEMA's published accounts to 2009-10 (no accounts having been produced for 2010-11 or 2011-12), the external auditors frequently commented on the 'fundamental uncertainty' affecting AWEMA's

26 The Big Lottery Fund had not received an end-of-project report when the concerns about AWEMA emerged in December 2011. While the Big Lottery Fund has received some evidence of related expenditure, it has concluded that this evidence is incomplete.

27 Based on information taken from AWEMA's financial statements.

28 In June 2001, Mr Naz Malik was formally appointed by AWEMA as its 'Director', following a brief period as the Acting Director (from April 2001). Based on the Welsh Government records we have reviewed, Mr Malik's description of his role changed from Director to Chief Executive at around the time that the Home Office's funding of AWEMA ended (30 September 2003). For consistency, we refer throughout our report to the role of 'Chief Executive of AWEMA'.

29 There are no audited financial statements for 2010-11 or 2011-12.

finances. These references to fundamental uncertainty reflected: the auditor's ongoing concerns about the scale and duration of future grant funding commitments; project cash flows and AWEMA's consequent dependence on prompt receipt of funding; and the relatively low reserves that AWEMA held. The auditors have told us that there was no reference to fundamental uncertainty in their reports on the 2007-08 and 2009-10 accounts because in each instance there was a guarantee of additional income in relation to AWEMA's WEFO-funded projects for the following financial year.

**1.20** Since registering as a charity in March 2005, the annual report of the trustees has consistently emphasised the need for AWEMA to build reserves to enable it to become more financially secure. However, the reports for 2005-06 to 2009-10 also emphasised that the trustees were legally obliged to apply the income received from funders for the purposes and within the period intended. For 2005-06 and 2006-07, the reports highlighted the trustees' desire to build reserves equivalent to six months' core operating costs. But for 2007-08 to 2009-10, the reports referred to the need to build reserves equivalent to 12 months' operating costs.

**1.21** As at the end of 2009-10, AWEMA's financial statements reported general reserves of £88,451, of which £18,093 was designated reserves. AWEMA's core operating costs for 2010-11 were estimated to be in the region of £230,000. The means of building the reserves had been referred to variously in the reports as other income-generation/ fundraising activities, but also management and administration charges on publicly funded projects. In 2006-07, 2007-08 and 2009-10, the trustees' report refers to AWEMA seeking, with the support of the Welsh Government, to use efficiency savings up to a maximum of five per cent of funding to help build reserves. However, we have seen no evidence of any discussions between AWEMA and Welsh Government officials to that effect.

**1.22** Cash flow issues have featured at various points in communications from AWEMA to the Welsh Government, where AWEMA has sought quicker, more regular, or advance payments from the Welsh Government. We have identified some instances where the Welsh Government, in particular during the early years of the funding from its equalities unit, had been slow to review relevant project documentation and process claims, resulting in delayed payments. However, we have also seen examples where, because of AWEMA's own failures to submit claims on a timely basis or to comply promptly with the Welsh Government's monitoring requirements, payments have been delayed.

## AWEMA had identified ambitious plans to diversify its income streams but key elements, notably establishing multicultural community centre facilities as a means of generating income, never came to fruition

**1.23** AWEMA's business plan for 2010-2015 identified its intention to: further diversify sources of grant income for project work; provide services on a commercial basis in the areas of equality, diversity and human rights to public and private bodies; generate revenue from the use of AWEMA property; and to develop a membership fee structure. As part of the WEFO-funded Curiad Calon Cymru project, AWEMA had explored the feasibility of developing multicultural community centre facilities in both Cardiff and Swansea. However, AWEMA's 2010-2015 business plan focused on proposals to set up a centre in Swansea and, potentially, in North Wales.

**1.24** The annual report of the trustees for 2008-09 refers to a bid for capital and revenue funding to the Big Lottery Fund for £1.3 million to establish a multicultural women's centre in Cardiff that had to be withdrawn because the premises identified had been sold to another party. Information supplied to us by the Big Lottery Fund indicates that the bid it received was actually for a sum of £981,596 (mostly capital costs), towards a total stated project cost of £1.47 million. In June 2009, the Big Lottery Fund rejected AWEMA's bid on the basis that planning permission had not been granted. However, the Big Lottery Fund was also aware that the intended premises were no longer available.

**1.25** In April 2010, the Big Lottery Fund received an outline application for £450,000 (including £50,000 revenue costs) towards the costs of refurbishing the YMCA Swansea offices for use as a combined office facility and multicultural community centre. AWEMA had relocated to the YMCA offices in Swansea in early 2009. The outline application was given an outcome of 'unlikely' and AWEMA did not proceed to the full application stage. Between May 2009 and February 2010, the Chief Executive of AWEMA (Mr Naz Malik) was engaged with Welsh Government officials in discussions about possible capital funding support from the Swansea Regeneration Area fund. AWEMA submitted an outline proposal in November 2009, valuing the first phase of its proposed project at just under £300,000, for which it was seeking just under £180,000 in funding from the Welsh Government. AWEMA submitted a fuller Project Initiation Document in December 2009 but the Welsh Government raised a number of queries about it, in advance of a further meeting with AWEMA staff at the end of January 2010.

**1.26** The Welsh Government's main concerns included:

- **a** the need for further clarity regarding the outputs and added value from the funding and the impact on both AWEMA and YMCA Swansea of their separate proposals for the building[30];
- **b** evidence of a lack of support from other local organisations, including Swansea Bay Racial Equality Council;
- **c** concerns about whether the results from the feasibility study, reported in February 2006, were still valid; and
- **d** doubts about the availability of match funding.

The Welsh Government officials involved in these discussions have indicated that, beyond early February 2010, they had no further contact with AWEMA about their proposal. At that point in time, the officials had advised Mr Malik that they would not be in a position to assist with funding as no action had been taken to address the concerns listed above.

**1.27** In January 2009, AWEMA received a commitment of funding of £25,000 towards the cost of the Cardiff community centre project from the Waterloo Foundation[31] (having sought £50,000). Then, following its move to Swansea, AWEMA requested permission to reallocate this funding to support its capital refurbishment programme at its new offices. In July 2009, the Waterloo Foundation made a revised grant offer of £15,000 unrestricted funding, but still with the intention of supporting the development of AWEMA's premises in Swansea as a multicultural community centre. In August 2010, AWEMA

30 YMCA Swansea was exploring with the Strategic Regeneration Area Team opportunities to develop a childcare facility – this project has since proceeded with financial support from the Welsh Government.

31 The Waterloo Foundation is an independent grant-making foundation created in 2007, and based in Cardiff, that gives grants to organisations in both the UK and worldwide. In October 2007, AWEMA applied to the Waterloo Foundation for funding of £50,000 over three years to contribute to its core operating costs. The Waterloo Foundation turned down that application.

informed the Waterloo Foundation that this funding had been used largely on legal costs to finalise lease arrangements for use of the top floor of the YMCA Swansea offices.

# Part 2 – The Welsh Government's management and coordination of its grant funding to AWEMA between July 2000 and December 2011 had often been weak, but we have found no evidence of inappropriate political influence in funding decisions

**2.1** This part of our report considers the Welsh Government's management of its grant funding to AWEMA through to December 2011. We examine:

- **a** The way in which the Welsh Government has discharged its responsibility in satisfying itself that its grant funding[32] to AWEMA provided good value for money. However, we have not undertaken our own evaluation of AWEMA's work.
- **b** The way in which the Welsh Government has responded when specific concerns about AWEMA's governance and financial management or questions about the funding of AWEMA and the delivery of its work have previously come to its attention[33]. Part 3 of our report deals separately with the Welsh Government's response to the allegations brought to its attention by AWEMA's Chief Executive and Finance Director in late 2011.

**2.2** Our main focus has been on the funding relationship between the Welsh Government's equalities unit and AWEMA (which spans the full period of our analysis), and between WEFO and AWEMA (which has involved the largest overall sum of funding). However, we have considered the management of grant funding to AWEMA by other Welsh Government departments. We have also considered how different parts of the Welsh Government have interacted in the management of their grant funding to AWEMA and in their response to specific concerns. Many of the weaknesses we have identified in the Welsh Government's management and coordination of its grant funding to AWEMA are consistent with issues identified in our previous audit work examining other grant funding relationships[34].

32 Appendix 2 describes the purpose of the Welsh Government's funding and sets out some additional factual information about how and when this funding was approved.

33 Appendix 3 details a range of case studies that we have identified and examined as part of our work. We have referred to these case studies, and our conclusions about the Welsh Government's handling of the related events, at relevant points throughout this part of our report and in summary at paragraphs 2.151 to 2.153.

34 We summarised the main findings from that extensive body of work in our November 2011 report, *Grants Management in Wales*. That report recognised that the Welsh Government had already been introducing some improvements to its management of grants.

## The financial support provided to AWEMA by the Welsh Government has reflected particular policy objectives, but we have found no evidence of inappropriate political influence in funding decisions

### The creation and early development of AWEMA reflected a policy emphasis on equality and diversity and the Welsh Government's desire to channel its external engagement on race equality issues through a single body

**2.3** Current and former Welsh Government Ministers and officials involved in the early relationship with AWEMA have emphasised to us the wider policy environment at the time. The legal framework that supported the establishment of the National Assembly for Wales in 1999 placed a duty on it to further the principle of 'equality of opportunity' for all[35]. The National Assembly established an Equality of Opportunity Committee to be chaired, initially, by the Minister responsible for equalities issues. At the time, this general equality duty was deemed to have no parallel in any other devolved legislation.

**2.4** The race equality agenda appears to have been particularly prominent due, in part, to concerns about the lack of black and minority ethnic representation among the Assembly Members elected in 1999. The former First Minister (Rhodri Morgan) made the point to us that the creation of the National Assembly was very much intended to be an exercise in Welsh democratic control over decision making, leading to greater Welsh self-confidence and nation-building. Mr Morgan emphasised that it was very important that black and minority ethnic communities felt included in that process.

**2.5** In addition, the Race Relations (Amendment) Act 2000 placed a duty on public authorities to have due regard in the conduct of their activities to the need to eliminate unlawful racial discrimination, promote equality of opportunity and promote good relations between people of different racial groups. This followed the February 1999 report of the inquiry into the death of Stephen Lawrence in 1999 – the 'Macpherson Report' – which asserted that there was evidence of institutional racism in the Metropolitan Police Service and the police service more generally.

**2.6** In advance of the May 1999 National Assembly elections, the Welsh Office had already appointed a 'Race Equality Project Leader' to develop its understanding of, and responsiveness to, race equality issues. Following the May 1999 elections, the Welsh Government established a discrete 'Equality Policy Unit' and the project leader's role evolved and expanded to become the head of that unit.

**2.7** While there were various black and minority ethnic organisations working at a grass-roots level, the Welsh Government appears to have been keen to channel its external engagement on race equality issues through a single body operating on a representative basis. The development of AWEMA, emerging out of the 'All Wales Black and Ethnic Minority National Assembly Consultative and Participatory Committee' with the support of the Commission for Racial Equality Wales, provided such an opportunity. This approach was also reflected in the Welsh Government's support for 'umbrella' organisations representing other equality strands: Disability Wales; the Wales Women's National Coalition; and the Lesbian, Gay and Bisexual Forum Cymru. It is clear that, in the

35 Sections 48 and 120 of the Government of Wales Act 1998.

early years of the National Assembly, AWEMA was promoted by the Welsh Government's equalities unit to other departments as a route through which to engage on policy issues relating to black and minority ethnic communities. In September 2000, the then head of the equalities unit also offered general endorsement to AWEMA's bid for Home Office funding (Appendix 4).

**2.8** The early support given to AWEMA by the Welsh Government does not appear to have been universally accepted. Some of the feedback we have received has included the observation that, while not unique to the race equality field, there was, in the early years of the National Assembly, a degree of in-fighting and competition between organisations for status and funding.

**2.9** Within AWEMA's structures, it became clear to the Welsh Government at an early stage that there were difficulties between the personalities involved, with various concerns then being expressed to the Welsh Government about AWEMA's governance and financial management arrangements. These difficulties included an acrimonious split in AWEMA's Economic Development Committee in 2001 (Appendix 3, Case Study 1). It is not clear what efforts the Welsh Government made to satisfy that, in light of these allegations, AWEMA was a suitable organisation to receive public funding.

**2.10** The Welsh Government then received further allegations about AWEMA during 2002. In response to those concerns, in December 2002 officials from the Welsh Government's Finance Department undertook a review of AWEMA. The review considered financial accountability issues and AWEMA's corporate governance, and the Welsh Government reported the findings back to AWEMA in April 2003. While the report identified a number of areas for improvement, these were regarded as being easily remedied and typical of a small organisation. However, we have concluded that the Welsh Government did not do enough to test how AWEMA's governance arrangements were actually working in practice. Nor did the Welsh Government conduct any follow-up work to satisfy itself as to the adequacy of the actions taken by AWEMA to address the report's recommendations.

## We have found no evidence of inappropriate political influence in the Welsh Government's decisions about funding for AWEMA, although the full basis of some of the Welsh Government's funding decisions is not clear

**2.11** Some of the recent media coverage and public commentary has questioned the Welsh Government's continued funding of AWEMA in light of concerns raised, at different points in time, about AWEMA's performance, governance and financial management. There has also been speculation that AWEMA may have been treated favourably specifically due to the involvement in the Labour Party of the Chief Executive of AWEMA (Mr Naz Malik) and members of his family. One of Mr Malik's sons had stood on the Labour Party's regional list for Mid and West Wales in the May 2011 National Assembly elections[36] and had also previously been employed by the Welsh Government between November 2000 and September 2001[37], on secondment from Swansea Bay Racial Equality Council[38].

36 In 1998, Mr Malik had put himself forward as a potential candidate to represent the Labour Party in the 1999 National Assembly elections.

37 This employment included, at the start of the period, a six-week placement as diary secretary to the then Minister for Finance and Communities (Edwina Hart) before he moved to other roles in the Welsh Government. The Minister was, during this period, responsible for both equalities and housing policy. We have not seen evidence of any declarations of potential conflicts of interest in relation to the employment of Mr Malik's son. However, his time as diary secretary to the Minister pre-dated Mr Malik's formal appointment with AWEMA and did not coincide with the Minister's approval of any funding to AWEMA.

38 Mr Malik had been the Chair of Swansea Bay Racial Equality Council before his appointment by AWEMA. As the Chair of Race Equality Council, Mr Malik had already been involved in some of AWEMA's early work, including being a member of AWEMA's Economic Development Committee.

**2.12** We have identified various weaknesses in the management of the Welsh Government's grant funding to AWEMA and in its response to specific concerns about AWEMA. In addition, the full basis of some of the Welsh Government's funding decisions is unclear. However, we have found no evidence of inappropriate Ministerial influence – on party-political or other lines – in the Welsh Government's decisions about AWEMA's funding. Where Ministers have been involved in funding decisions, the action taken has been consistent with the formal advice provided by officials, both where funding has been granted and where bids from AWEMA have been declined or where the funding provided has been less than AWEMA bid for (paragraphs 2.13 to 2.15). Ministers have, appropriately, had no direct involvement in the funding decisions relating to AWEMA's WEFO-funded projects. The WEFO-funded projects have accounted for just under two-thirds of the total value of the Welsh Government's payments to AWEMA.

## The Welsh Government has, on several occasions, declined AWEMA's approaches for financial support or offered less funding than AWEMA sought and there have been other bids that, for various reasons, did not progress

**2.13** As well as confirming the Welsh Government's payments to AWEMA and their purposes, we have sought to identify instances where the Welsh Government has turned down approaches from AWEMA for financial support. While not necessarily exhaustive, we have identified several such examples:

**a** In November 2001, the Chief Executive of AWEMA (Mr Naz Malik) approached the Minister then responsible for equalities (Edwina Hart) to explore the possibility of capital funding support for new premises. We have not seen the original letter from AWEMA to confirm whether the approach for funding detailed any particular proposals. However, the Minister responded in December 2001, noting that the Welsh Government could not offer such support.

**b** In June 2004, the Minister then responsible for equalities (Edwina Hart) declined an approach from AWEMA which had explored the possibility of additional financial support to match fund AWEMA's bid for European funding from the EQUAL programme for the Curiad Calon Cymru project (Appendix 2). However, the Welsh Government's equalities unit did, in 2005 and subsequent years, agree to its core funding being used to support AWEMA's match funding contribution to the project.

**c** While successful in its three applications to WEFO for projects funded as part of the EU Convergence Programme, two separate project bids under the East Wales Regional Competitiveness and Employment programme were rejected by WEFO at the expression of interest stage due to insufficient match funding, issues of value for money and duplication of activity already underway or planned in the region (Appendix 2).

**d** In October 2011, AWEMA submitted an application to the Welsh Government's Children and Families Branch as part of a bidding round for core funding from the Children and Families Organisation Grant. AWEMA bid for £711,718 over the following two financial years, although the bid document indicates that around half of this funding would have been distributed to four other partner organisations. On

21 December 2011, after an evaluation process which scored all the bids received, the Welsh Government notified AWEMA that its bid was not successful. The Children and Families Branch has confirmed to us that, in assessing AWEMA's bid, it did not cross-check with the equalities unit or with WEFO statements in the bid document about the funding that AWEMA was receiving from those two sources[39].

**e** While successful in other years, AWEMA was unsuccessful in its applications for small grants from the equalities unit towards events to celebrate International Women's Day in 2010 and 2012 (AWEMA bid for £2,500 funding on both occasions). The initial assessment process for bids for International Women's Day 2012 took place before 19 December 2011. However, the equalities unit reassessed all unsuccessful bids in January 2012 after identifying concerns about the initial assessment exercise and because some additional funding had become available. AWEMA's bid did not score sufficiently highly in this second round either.

**2.14** There have also been bids from AWEMA for Welsh Government funding that were not formally rejected but which, for other reasons, did not progress:

**a** In addition to its successful funding application for the Curiad Calon Cymru project, AWEMA submitted three other bids for European funding in 2004 but withdrew these applications in October 2005 (Appendix 2).

**b** As already described (paragraphs 1.25 to 1.26), AWEMA's approach to the Welsh Government's Swansea Regeneration Area Team in 2009-10 for funding to support the renovation of its Swansea offices did not proceed to the point of full appraisal. However, sufficient issues were raised by the application that officials were not minded to support the bid for funding.

**c** In 2006, AWEMA applied for funding from the Communities@One programme, which was administered on behalf of the Welsh Government by the Wales Co-operative Centre. In expressing his, and the AWEMA trustees', dissatisfaction with the Wales Co-operative Centre's handling of the application, Mr Malik suggested that the centre's processes were institutionally racist. This accusation was strongly refuted by the then Chief Executive of the Wales Co-operative Centre. AWEMA then essentially withdrew its bid for funding (Figure 4).

39 The Children and Families Branch has told us that, even where organisations were successful in their applications, it did not seek any input, where relevant, from other parts of the Welsh Government that were already funding those organisations.

**Figure 4 - AWEMA's bid for funding from the Communities@One programme, which led to an accusation by the Chief Executive of AWEMA of institutional racism**

Communities@One was a European Union and Welsh Government-funded programme. The programme sought to encourage community groups in the Communities First programme areas of Wales to embrace the benefits of information and communication technology. The Welsh Government's Communities Directorate contracted the Wales Co-operative Centre to help administer and support Communities@One.

In June 2006, AWEMA submitted a bid to the Wales Co-operative Centre which set out plans to buy equipment and employ staff to help deliver various activities including digital technology related training and workshops, such as film-making, in the Swansea area. The funding sought by AWEMA amounted to £216,483 over the period from October 2006 to March 2008. Following its usual project appraisal process, the Wales Co-operative Centre requested clarification from AWEMA on various aspects of its bid including how AWEMA's named partner organisations would be involved in the project.

In September 2006, and in further correspondence over the following two months, the Chief Executive of AWEMA (Mr Naz Malik) expressed his dissatisfaction with the Wales Co-operative Centre's processes for assessing AWEMA's bid. In particular, Mr Malik commented on what he perceived to be requests for information that had already been supplied. He also asserted that AWEMA's bid was being held back due to the influence of one of the members of the Wales Co-operative Centre's assessment panel. We believe that the individual being referred to was the then Director of the Scarman Trust. The Scarman Trust was, at that time, one of AWEMA's partners on the Curiad Calon Cymru project and as part of the Communities First-funded Black and Ethnic Support Team. In both of those projects, we are aware that there had been some issues raised about the involvement of AWEMA's partner organisations in decision making.

The Wales Co-operative Centre emphasised that it supported the principle of AWEMA's bid. However, Mr Malik appeared to believe that the Wales Co-operative Centre had no serious intention of supporting AWEMA's bid. He also indicated that AWEMA's trustees considered likewise and were not happy with the amount of time being taken up dealing with the requests for further supporting information. Mr Malik suggested that the Wales Co-operative Centre's processes were institutionally racist. This accusation was strongly refuted by the then Chief Executive of the Wales Co-operative Centre. AWEMA then essentially withdrew its bid for funding.

Some of the correspondence between the Wales Co-operative Centre and AWEMA was shared with the Welsh Government's Communities Directorate. We are not aware of any direct action taken by the Communities Directorate in response to these issues nor any communication by the Communities Directorate with the equalities unit or with WEFO. Had the bid proceeded then there would, in our view, have been further issues to consider regarding any possible duplication with the funding provided by WEFO for AWEMA's Curiad Calon Cymru project. Any further dialogue with WEFO should also have highlighted that a company that AWEMA planned to work with on the Communities@One project was one of two companies for which WEFO had identified concerns about AWEMA's procurement arrangements (Appendix 3, Case Study 5).

Note

In late 2007, AWEMA submitted a response, drawing on the views of the 'Advisory Group on Race', to a call for evidence as part of an inquiry into funding for the voluntary sector by the National Assembly's Communities and Culture Committee. In the response, AWEMA cited an example where: 'grants through Communities at One were lost to an organisation within the field of race equality, where personal vendettas and vindictiveness of Panel Members had obviously been allowed'.

*Source: Wales Audit Office analysis of documents supplied by the Wales Co-operative Centre.*

**2.15** Even when the Welsh Government has approved funding to AWEMA, the sums involved have, on several occasions, been less than AWEMA had bid for, or appears to have hoped for (Appendix 2). For example:

- **a** The Welsh Government's initial commitment of £325,768 of Communities First funding over 18 months for the Black and Ethnic Support Team project was significantly less than the initial bid for £1,449,158 over three years. The total funding committed over the period from January 2003 to March 2007 amounted to £1.09 million.
- **b** WEFO, during the appraisal process, reduced substantially the overall scale of each of AWEMA's EU Convergence Programme projects.
- **c** The funding granted to AWEMA's bid for support for its Economic Development Committee was around half the amount requested.
- **d** The funding commitment from the Advancing Equality Fund for 2010-11 to 2012-13 was consistent with the level of funding provided by the Welsh Government's equalities unit in previous years but less than AWEMA bid for. Similarly, when the equalities unit entered into a new funding arrangement with AWEMA for 2005-06, the amount of funding provided was less than it appears AWEMA had been hoping for.

## The management and coordination of grant funding to AWEMA by the Welsh Government's equalities unit, WEFO and other departments had often been weak and responses to specific concerns about AWEMA have been too narrowly focused

### Poor performance and a lack of stability in the equalities unit have contributed significantly to overall weaknesses in the management of its funding of AWEMA

In December 2003, the equalities unit commissioned 'IMANI Consultancy Services' to independently evaluate the impact of the unit's funding of AWEMA but the review was not completed until January 2005 and it did not address wider concerns about AWEMA's governance and financial management

**2.16** In September 2003, the Minister then responsible for equalities (Edwina Hart) met the Chief Executive of AWEMA (Mr Naz Malik) and noted her intention to commission a value for money review of the project funding that AWEMA had received from the equalities unit[40]. That is, the funding provided for the:

- **a** the 'Black and Minority Ethnic Identification and Development' project – funded in 2000-01;
- **b** the 'Right to Vote' project – which AWEMA had been managing since the start of 2000-01 but which had previously been managed by Cardiff Race Equality First; and

40 Welsh Government records show that the Minister had also intended to commission a similar review for the other 'umbrella' organisations bodies that the equalities unit was funding at that time (paragraph 2.7). We have seen no evidence of any such reviews being completed. In September 2004, the Minister was advised by the equalities unit that a review of the Wales Women's National Coalition had been delayed due to staff shortages. The Minister was also advised that Disability Wales was preparing fresh proposals for future funding and was not seeking an extension of its existing funding arrangement.

c the 'Promoting Equality/Capacity Building' project – which had been funded since the start of 2001-02 (Appendix 2).

**2.17** In proposing this review, it is clear that the Minister already had some concerns about possible mismanagement at AWEMA (Appendix 3, Case Study 3). This also followed other allegations about AWEMA's governance and financial management that the Welsh Government received in 2002 and which had led to a review of AWEMA by the Welsh Government's Finance Department (paragraph 2.10 and Appendix 3, Case Study 2).

**2.18** On 13 November 2003, the equalities unit sent the Minister proposed terms of reference for the review of the three projects funded by the Welsh Government's equalities unit. In sharing the terms of reference with the Minister, the equalities unit recognised that its monitoring and appraisal of AWEMA's activities had been poor and that there was insufficient evidence to show that AWEMA was playing an effective role, as well as there being concerns about AWEMA's operational practices and management. The equalities unit also pointed to evidence emerging from its consultation on the Welsh Government's second race equality scheme which was said to have highlighted some resentment of AWEMA's role. The consultation was also said to have pointed to the need for the Welsh Government to adopt a more pluralistic approach to its funding of, and engagement with, black and minority ethnic communities. Following their receipt of the proposed terms of reference, Mr Malik and the then Chair of AWEMA (Dr Rita Austin) wrote to the Welsh Government expressing their concerns about the scope of the review.

**2.19** In December 2003, the Welsh Government commissioned its review of AWEMA's equalities unit-funded projects from IMANI Consultancy Services, at a cost of £8,000[41]. The review was regarded as a high priority, to inform decisions on funding arrangements for 2004-05[42]. It also took on added importance in the wake of fresh concerns about governance and financial management at AWEMA following a Western Mail article and a BBC Dragon's Eye programme in November 2003. In early 2004, the Welsh Government was also made aware by a former AWEMA board member of further concerns about governance at AWEMA, specifically the functionality of its board arrangements and increases in staff salaries.

**2.20** The Welsh Government gave the impression that the IMANI review would look into such concerns. In fact, the review report had a relatively narrow focus on the available evidence in relation to the outputs and outcomes from the equalities unit's grant funding[43]. In light of the concerns about governance and financial management that were being raised at the time the IMANI review was commissioned, we also consider that the Welsh Government missed an opportunity to test for itself the action that AWEMA had taken in response to the Finance Department review report from April 2003 (Appendix 3, Case Study 3).

41 The Welsh Government's records indicate that, in addition to the contract with IMANI Consultancy Services, it decided in February 2003 to spend a further £1,000 on some market research to contact black and minority ethnic communities represented by AWEMA. The results of that market research do not feature explicitly in the IMANI review report. The author of the IMANI review report has told us that the strength of negative feeling in certain quarters was felt to have skewed the results. However, in email correspondence with the Welsh Government's then Director of Social Justice and Regeneration in September 2004, the report author had also noted his concern that the survey findings and a seemingly related strengths, weaknesses, opportunities and threats analysis – which did not feature in the final report and which we have not seen – gave the impression that the review was 'about AWEMA as an organisation'. In response, the Director of Social Justice and Regeneration emphasised that the final content of the report was a matter for the report author to decide on.

42 On 13 November 2003, the Minister was advised by officials that the review would commence later that month with a final report expected in February 2004. At that time, the Welsh Government's commitment of funding for AWEMA's Right to Vote and Capacity Building projects only ran until the end of 2003-04.

43 AWEMA commented on the scope of the work at the outset and, in November 2004, when commenting on the draft report. In particular, AWEMA questioned the narrow focus on funding from the equalities unit. In September 2004, Mr Malik had also noted in correspondence with the Welsh Government's then Director of Social Justice and Regeneration that there was a view more widely that the review was about AWEMA's work as a whole and its overall standing as an organisation.

**2.21** The equalities unit advised the Minister that a project management group would be established to oversee the IMANI review process. We have seen evidence of officials from the equalities unit seeking advice from colleagues with wider responsibilities for research and evaluation and procurement. But we have not seen any evidence of arrangements constituting the creation of a project management group. In fact, we have seen very little evidence of any active management of what was a relatively low-value but high-profile contract.

**2.22** The completion of the review was significantly delayed, until January 2005, during which time there were other problems with the leadership and staffing of the equalities unit (paragraphs 2.81 to 2.82). In the meantime, the Ministers responsible for equalities (firstly Edwina Hart and then, in January 2005, Jane Hutt) agreed short-term extensions of AWEMA's Right to Vote and Capacity Building project funding through to the end of 2004-05. It is clear that, from the Welsh Government's perspective, the initial draft report was not of the quality it expected and that officials were keen to ensure that its findings and conclusions were well evidenced given its potential sensitivity. Consequently, a Welsh Government research officer provided support and challenge to the report author. However, Welsh Government records suggest that the emerging findings were known at least as early as June 2004.

## The IMANI report questioned AWEMA's performance and highlighted previously recognised weaknesses in the equalities unit's management of its grant funding, but we have not found any evidence of interference by the Welsh Government or AWEMA in the report's findings and recommendations

**2.23** It has been suggested to us that the final IMANI review report was deliberately watered down. The report author joined the Welsh Government's equalities unit on secondment from Birmingham City Council prior to the completion of the review[44]. There is little reference to this arrangement on the files we have reviewed but it inevitably calls into question the extent of the Welsh Government's influence over the findings presented in the report. However, we have seen no evidence of any interference with the report, notwithstanding the action taken by the Welsh Government to improve the quality of the final product (paragraph 2.22). The report author has made clear to us that he was not put under pressure regarding his findings and conclusions. However, the report author did note that he was aware of a backdrop of in-principle Welsh Government support for AWEMA and there being a strong desire to make things work.

**2.24** On 15 October 2004, the equalities unit sent the draft report to AWEMA for comment. AWEMA responded on 11 November 2004 with comments on matters of factual accuracy and the general scope and balance of the report. AWEMA's feedback did not include any commentary on the overall recommendations in the report. The final report was not formally agreed by AWEMA.

44 The report author recalled to us that his secondment lasted from around April 2004 to December 2005, although the invoice for payment from Birmingham City Council was for services provided between 31 May 2004 and 17 January 2005. We understand that the secondment was brought to an abrupt end (having been scheduled to last one year). In January 2005, the Welsh Government's Director of Social Justice and Regeneration sought assurance that any work undertaken on the report while employed by the Welsh Government had taken place in the report author's own time.

**2.25** Figure 5 sets out the findings of the IMANI report and its key recommendations regarding future funding. The final report questioned AWEMA's performance across the three equalities unit-funded projects. However, it was equally critical of the equalities unit's own arrangements for managing its grant funding. Notably, the executive summary of the final report did not include a recommendation contained in the main body of the report that, 'no further funding is provided to AWEMA for new projects until AWEMA is able to verify that it has taken a systematic approach to project and performance management'. However, an undated draft version of the report on the Welsh Government's files did include this statement in the executive summary. Both versions of the report did go on to state that funding should be 'maintained as committed'. There was, in fact, no formal commitment of any funding from the equalities unit beyond the short-term extensions of the Right to Vote and Capacity Building funding during 2004-05.

## While advice to Ministers emphasised the equalities unit's own failings, positive results from some of AWEMA's other project work, and a reputational risk were the unit to cease its funding, the precise circumstances of the equalities unit's decision to continue funding beyond March 2005 remain unclear

**2.26** Our interviews with current and former Ministers, Welsh Government officials and representatives of AWEMA, have shed little light on the discussions that took place between the equalities unit and AWEMA about future funding in response to the IMANI review. The Welsh Government's file records are also lacking in detail. For example, records of email correspondence between Welsh Government officials, and letters to Welsh Government officials from AWEMA, refer to a series of meetings between December 2004 and February 2005 to discuss future equalities unit funding arrangements. However, we did not find any recorded meeting notes.

**2.27** In December 2004, one of the officials involved in those meetings questioned the merits of the equalities unit entering into a service level agreement with AWEMA or any other organisation. The suggested alternative was for AWEMA, and other equalities bodies, to compete for project funding with subsequent robust monitoring and review by the Welsh Government. The official indicated that fears about the reaction to any decision to cease funding to AWEMA should not drive decision making. A letter from the Chief Executive of AWEMA (Mr Malik) and the then Chair of AWEMA (Dr Rita Austin) to the Welsh Government's then Director of Social Justice and Regeneration on 1 December 2004 suggests that AWEMA had hoped to secure core funding worth £130,000 a year as well as funding to continue the Right to Vote and Capacity Building projects.

**2.28** On 25 January 2005, the equalities unit circulated the IMANI review report as part of a submission to the Minister then responsible for equalities (Jane Hutt) and the then First Minister (Rhodri Morgan). The submission did not refer explicitly to recommendations in the IMANI report about future funding to AWEMA and endorsed the principle of establishing a service level agreement for core funding. The submission highlighted the equalities unit's own failings, as emphasised by the IMANI report, and positive results from some of AWEMA's work funded by other Welsh Government departments. It also highlighted a reputational risk to the Welsh Government were the equalities unit to cease its funding (Figure 6).

**Figure 5 - Findings and recommendations in the January 2005 'IMANI Consultancy Services' review of three AWEMA projects funded by the Welsh Government's equalities unit**

Introduction

In December 2003, the Welsh Government's equalities unit commissioned 'Imani Consultancy Services' to evaluate AWEMA's performance in delivering three projects supported by its grant funding:

- the 'Black and Minority Ethnic Identification and Development' project – funded in 2000-01;
- the 'Right to Vote' project – which AWEMA had been managing since the start of 2000-01 but which had previously been managed by Cardiff Race Equality First; and
- the 'Promoting Equality/Capacity Building' project – which had been funded since the start of 2001-02 (Appendix 2).

Black and Minority Ethnic Identification and Development Project

The key objective of this project was the development of a database of the skills, experiences and functions of black and minority ethnic organisations across Wales. The review identified evidence of AWEMA having reported to the Welsh Government in March 2001 that such a database had been developed, containing details of 160 contacts who had expressed interest in participating in AWEMA's various sub-committees. However, the review found no extant evidence of any database that fulfilled the original aims of the project. AWEMA had since developed a more general mailing list database but this did not explicitly identify black and minority ethnic individuals or organisations, nor did it contain information relating to skills, experiences and functions.

At the time of the review, AWEMA staff suggested that the project was not fully progressed due to a lack of resources, but the review found no evidence of this having been reported previously to the Welsh Government and, on that basis, questioned how the funding provided had been spent.

Right to Vote Project

The review recognised that one of the difficulties in evaluating the success of this project was the lack of hard quantitative data on voter registration. The review acknowledged the formation of AWEMA's Right to Vote Project Committee, including representation from the four main political parties. It also noted that the project had supported an all Wales voter registration drive and that AWEMA had taken the initiative in commissioning research from Swansea University on 'Black and Asian Ethnic Minorities and Political Participation in Wales'. AWEMA had also been discussing with the Welsh Government the development of an Assembly Member shadowing scheme.

However, the review also concluded that there was little evidence of the project having delivered on many of the actions identified in a project initiation document that appears to have been prepared at around the start of 2001-02.

Capacity Building Project

AWEMA had identified that this project funding would support the employment of a publicity and communications officer and a capacity building officer. The principal work of the publicity and communications officer was said, in the review report, to have related to the production and distribution of the 'ÁWEMA Times' newsletter. However, the review concluded that it was not possible to determine its overall impact.

The review report identified only limited evidence of the capacity building officer providing direct support to other black and minority ethnic organisations (identifying only two specific examples[1]). Some of the capacity building officer's work appeared to have been in support of generally building the capacity and supporting the work of AWEMA's health and education subject committees. The review report indicates that AWEMA had emphasised that that work related to its funding from Learndirect Wales (Appendix 4) was also relevant to the objectives of the capacity building project[2].

Overall Conclusions and Recommendations

The review pointed to evidence that, across all three of these projects, AWEMA had not managed the projects in full accordance with the stated terms and conditions of funding. However, the review was equally critical of the role the Welsh Government's equalities unit had played given that it was not able to demonstrate compliance with its own guidance on the management of its grant funding and Welsh Government financial procedures. The review concluded that these weaknesses on the part of the equalities unit were likely to have been reflected in the unit's management of its grant funding to other organisations.

Alongside some specific recommendations relating to the proper management of any future grant funding – on the part of AWEMA and the Welsh Government's equalities unit – the executive summary of the final review report stated that: 'improvements in performance and system monitoring would provide the supportive framework for AWEMA to move forward as a representative and consultative body'. The report also recommended that 'funding should be maintained as committed' under an equalities unit-headed project board.

The main body of the report repeated these recommendations, but preceded by the statement – which has featured in some of the recent press coverage – that: 'The overall recommendation is that no further funding is provided to AWEMA for new projects until AWEMA is able to verify that it has taken a systematic approach to project and performance management'. Nevertheless, the report also noted that: 'AWEMA are appropriately placed to make a considerable impact on the role and influence of the black and minority ethnic communities in Wales and with the Assembly's support and guidance, should be encouraged to do so'.

Notes

1 One of the two organisations described as receiving assistance from the capacity building officer was the Somali Cardiff Women and Youth Association. AWEMA's financial statements suggest that, in 2004-05, AWEMA received £6,100 from this organisation in connection with funding provided to it from the Communities First Trust Fund. The financial statements indicate that this funding supported the development of a homework club.

2 We understand that the delivery of the Learndirect Wales project was also supported by two separately funded members of staff (Appendix 4).

*Source: Wales Audit Office review of the January 2005 IMANI Consultancy Services report, AWEMA: Review and Evaluation Report of Equality Policy Unit Funded Projects.*

**Figure 6 - Summary of advice to Ministers in January 2005 on the future funding of AWEMA by the Welsh Government's equalities unit following completion of the IMANI Consultancy Services review**

On 25 January 2005, the Welsh Government's equalities unit circulated the IMANI Consultancy Services review of AWEMA's equalities unit-funded projects in a submission to the Minister then responsible for equalities (Jane Hutt), and the then First Minister (Rhodri Morgan). The submission endorsed the principle of establishing a service level agreement with AWEMA for core funding over a three-year period – 1 April 2005 to 31 March 2008 – to be based on specific target outputs/outcomes and subject to quarterly monitoring meetings and satisfactory annual reviews. It was proposed that AWEMA could still bid for other Welsh Government funding if it could be clearly demonstrated that such funding would not duplicate the purpose of work supported by the core funding.

While it did not refer explicitly to the recommendations of the IMANI review about future funding to AWEMA, the submission did recognise the concerns that had been identified about the performance of AWEMA's equalities unit-funded projects. However, it also summarised the views of officials about work undertaken by AWEMA with the support of funding from other Welsh Government departments[1]. This summary commented negatively on the funding provided by the Economic Policy Division to support the employment by AWEMA of an economic development officer and the work of AWEMA's Economic Development Committee. But there was positive feedback about the funding provided from the Housing Department, the Social Care Policy Unit and the Communities First programme (Appendix 2). The views expressed in the submission are consistent with other evidence we have reviewed in relation to these funding streams (paragraphs 2.126 to 2.150).

The submission expressed concern about the possible impact on the Welsh Government's reputation among black and minority ethnic communities, were it to cease funding AWEMA and particularly if this would undermine AWEMA's existence. This concern was presented in the context of the fact that the Welsh Government was about to embark on its second Race Equality Scheme[2]. Relevant to the reputational risk, the submission also reflected concerns about any potential dispute arising from the fact that AWEMA and IMANI Consultancy Services had not reached agreement on the content of the report and because AWEMA could have justifiably highlighted the weaknesses in the equalities unit's own management of its grant funding, as set out in the IMANI report.

Based on the lack of agreement between AWEMA and IMANI Consultancy Services, the Ministerial submission recommended that the report should be published to the Welsh Government's website but badged as an independent report and not as a Welsh Government document[3].

Notes

1 AWEMA had challenged the narrow focus on the funding from the equalities unit when the IMANI review was first commissioned and again in November 2004 when providing comments on the draft report.

2 The Welsh Government had previously faced external criticism, including from AWEMA, in respect of the quality and legal compliance of its original draft scheme.

3 While there were concerns about the branding of the report, the independence of the report could have been questioned given the circumstances of the report author's secondment into the Welsh Government earlier in 2004-05 (paragraph 2.23). The Welsh Government's online catalogue indicates that the report was published to its website at some point in 2005, but there is no longer any record of the report on the website. In response to a 'Written Assembly Question' from Peter Black AM in March 2006, the Minister then responsible for equalities (Jane Hutt) confirmed that the report had been published in 2005. It is also clear that a copy of the report was deposited in the National Assembly's Members' Library.

*Source: Wales Audit Office review of Welsh Government records.*

**2.29** The level of scrutiny afforded to the submission by the two Ministers is unclear. However, the records we have seen indicate that both Ministers approved the submission and its recommendations in early February 2005.

**2.30** The equalities unit then proceeded to enter into a service level agreement with AWEMA, but the Welsh Government's records contain very little information about how and when this agreement was finalised. For instance, we have not seen a copy of the signed grant agreement for 2005-06. Electronic documents supplied by a member of staff from the equalities unit suggest that there was an exchange of correspondence between the equalities unit and AWEMA in May 2005 about an initial payment of £25,000. This amount was then paid to AWEMA on 8 July 2005. These electronic records also suggest that, in August 2005, the equalities unit had been preparing a submission for the Minister about the terms of the funding and that it went on to prepare a draft 'conditions of grant' document to send to AWEMA in September 2005. However, we have seen no evidence that the submission about the terms of the funding was actually shared with the Minister.

**2.31** The terms of the copy of the agreement we have seen were for funding on a one-year basis but renewable dependent on performance. Consistent with the January 2005 Ministerial submission, our understanding is that there was an in-principle commitment to funding over three financial years and AWEMA had mapped out a possible work programme on that basis. The funding offered for 2005-06 amounted to £100,000. This was equivalent to the combined annual funding provided previously for the Right to Vote and Capacity Building projects but less than it appears AWEMA had hoped for (paragraph 2.27). There is no evidence of the Welsh Government establishing the sort of formal governance arrangements to oversee AWEMA's funding that were proposed by the IMANI Consultancy Services review (Figure 5). Nor have we seen any evidence of AWEMA having been required by the equalities unit to demonstrate action taken in response to recommendations in the IMANI report about project management and report-writing training[45].

**2.32** Some of the activity supported by the equalities unit's funding to AWEMA after April 2005 included consultative activity and input to other National Assembly committee inquiries. However, it seems that, by this point, the Welsh Government no longer regarded AWEMA as the primary vehicle for its engagement and consultation with black and minority ethnic communities in the manner that gave rise to the creation of AWEMA. AWEMA's subject committees had, by this point, ceased to operate and AWEMA was no longer producing the 'AWEMA Times' newsletter, the costs of which had been supported by its Home Office funding. One of the stated objectives linked to the equalities unit's funding from April 2005 onwards related, instead, to the development of AWEMA's website.

**2.33** We find it surprising that the Minister for Social Justice and Regeneration (Edwina Hart) was not copied in on the submission about the IMANI report given that she had commissioned the review and had only passed on responsibility for equalities earlier in January 2005. The Minister has confirmed to us that she has no recollection of having seen the submission and that she would perhaps have expected to, given that she

45 The other AWEMA-focused recommendations in the report related mainly to suggested arrangements for the agreement, review and reporting against any future objectives related to Welsh Government funding. Mr Malik has emphasised to us that he viewed the securing of charitable status in March 2005 as part of AWEMA's wider efforts to strengthen its overall governance and management arrangements.

also retained responsibility for the funding to AWEMA from the Communities First programme.

**2.34** Welsh Government officials responsible for the Communities First funding have also confirmed to us that they do not recall the IMANI review report being shared with them at any point. Similarly, the findings of the review do not appear to have informed WEFO's appraisal of AWEMA's proposed Curiad Calon Cymru project. This was despite the then Chief Executive of WEFO being copied in on the submission that accompanied the IMANI review report. The submission had referred to the fact that a number of funding applications from AWEMA were still being reviewed by WEFO.

## Between April 2005 and March 2010, the equalities unit addressed various issues to satisfy itself about AWEMA's work programme and its use of previous grant funding but did not rigorously follow up concerns about AWEMA's governance arrangements

*In February 2005 and February 2006, AWEMA told the equalities unit about unspent grant funding from 2000-01 and 2004-05 respectively, although the unit was slow to resolve the first of these matters and decisions to allow AWEMA to retain this funding were influenced by deficiencies in the unit's own audit trail*

**2.35** In February 2005, the Chief Executive of AWEMA (Mr Naz Malik) told the Welsh Government's equalities unit about a sum of around £40,000 that he had transferred into a 'reserves account' when he became Acting Chief Executive in April 2001. Mr Malik explained that this reserve related to payments from the Welsh Government to AWEMA in 2000-01 while AWEMA was under the stewardship of the Commission for Racial Equality Wales (in 2000-01) and that all efforts to identify the purpose of these payments had been futile. Mr Malik sought agreement to retain this funding as match funding for AWEMA's European-funded work. Mr Malik has maintained to us that he had raised this matter with the equalities unit on several occasions over previous years. We have seen no evidence of notification of the underspends from 2000-01 before February 2005. Conversely, we have seen evidence of previous correspondence regarding underspends against other Welsh Government grant funding from 2001-02 and 2002-03.

**2.36** It appears that, following a submission to the Minister then responsible for equalities (Jane Hutt) and the then First Minister (Rhodri Morgan) in March 2005 which referred to an underspend of £50,069, the equalities unit advised AWEMA in April 2005 that a sum of £39,548 could be retained as match funding. It also appears that the equalities unit wrote to AWEMA again in August 2005 indicating that it would be reducing a planned quarterly payment for 2005-06 to recoup the remaining £10,520[46].

**2.37** In November 2005, Mr Malik contacted officials in the equalities unit to question why the underspend he had declared of around £40,000 had been taken as £50,069. In December 2005, officials indicated to Mr Malik that, while he had declared £40,000 in February 2005, a spreadsheet he provided at the time listed six payments totalling £50,069[47]:

46 Our description of the events described in this paragraph is based entirely on records supplied by a member of staff in the equalities unit and was not evidenced on the Welsh Government's recorded files. We have not seen any conclusive evidence that the two Ministers actually received and approved the submission about the underspend from 2000-01. When looking into this matter in 2006, the Welsh Government's Compliance Office did refer to the Ministerial submission in March 2005 but noted that there was then a gap until November 2005 when a dispute arose about the remaining £10,520.

47 We have not seen the source spreadsheet supplied by AWEMA but other Welsh Government file records confirm the details of these payments. These five payments did not represent the full sum of the Welsh Government's payments to AWEMA in 2000-01, which totalled £94,157 (Appendix 2).

a three separate payments comprising the full £25,000 of Support for Voluntary Intermediary Services grant funding in 2000-01;

b the second and final instalment, in February 2001, of £12,075 for the Black and Minority Ethnic Identification and Development project[48];

c the first payment to AWEMA, in October 2000, of £12,344 for the Right to Vote project; and

d a £650 payment, in October 2001, related to AWEMA's Economic Development Committee (Appendix 2).

**2.38** In February 2006, AWEMA's then Finance Manager (Mr Saquib Zia) confirmed to the Welsh Government that the Right to Vote and economic development funding had, in fact, been spent. Mr Zia also noted that the remaining £37,075 had already been committed as match funding for its Curiad Calon Cymru project.

**2.39** During January and February 2006, officials from the Welsh Government's Finance Department and Compliance Office expressed concern that the underspending had only just come to light. They considered that it could therefore be argued that AWEMA was in breach of the agreed grant terms and conditions. However, we would have expected these concerns to have been raised when the equalities unit was first notified of the underspend in February 2005[49]. In addition, the Welsh Government's inquiries into the underspend from 2000-01 do not appear to have confirmed that the £25,000 funding from the Support for Voluntary Intermediary Services grant was not, in fact, provided by the equalities unit.

**2.40** Following further advice from the Welsh Government's Compliance Office and the Legal Services team, the equalities unit confirmed to AWEMA in June 2006 that it would not clawback the previously disputed sum of £10,520. That decision was taken on the basis that AWEMA had confirmed this sum as having been spent on equalities unit-funded projects. In any case, the background advice from the Compliance Office and from Legal Services indicates that the equalities unit was not in a strong position to clawback this funding given that the audit trail in relation to this grant funding was deficient.

**2.41** In February 2006, Mr Zia brought to the attention of the equalities unit a further underspend of £21,787 against its £100,000 funding for the Right to Vote and Capacity Building projects in 2004-05. Again, officials from the Welsh Government's equalities unit and Compliance Division expressed concern at the late notification of this underspend. Mr Zia described this underspend as an efficiency saving. AWEMA wanted to confirm that the Welsh Government was content for this funding to be retained and again committed as match funding for its Curiad Calon Cymru project.

**2.42** In May 2006, Mr Malik indicated in a letter to the equalities unit his frustration at the time it was taking to reach a decision about the retention of the underspend from 2004-05[50]. In response, the equalities unit emphasised that AWEMA should, in accordance with grant

48 The IMANI Consultancy Services review report (Figure 5) had questioned how the funding for this project had been spent given that the original objective of the project did not appear to have been delivered.

49 The copy of the March 2005 Ministerial submission that we have seen suggests that both the Finance Department and Compliance Office were copied in.

50 AWEMA needed to confirm the position regarding this underspend in order to finalise its 2004-05 accounts and was facing a fine from Companies House for late submission of the accounts.

terms and conditions, have notified the Welsh Government as soon as it became apparent that an underspend would arise and that the unit had to take advice on how to proceed.

**2.43** The equalities unit's decision about the underspend from 2004-05 then became dependent on the outcome of WEFO's investigation of concerns about the Curiad Calon Cymru project which came to its attention during the first half of 2006 (Appendix 3, Case Study 5). In August 2006, WEFO provided assurance to the equalities unit and confirmed that there was no issue of duplication in the allocation of the £21,787 as match funding. On 16 August 2006, the equalities unit confirmed its grant offer to AWEMA for that year and its acceptance that the previous sum of £21,787 could be retained and committed as match funding. The equalities unit also confirmed that it was content for its ongoing funding to support AWEMA's match funding contribution to the Curiad Calon Cymru project[51].

**2.44** Overall, these events do not reflect well on AWEMA. However, they also reflect badly on the Welsh Government in:

- **a** not identifying properly the source of some of the underspend declared from 2000-01;
- **b** the time taken to conclude on these matters, in particular the underspend declared in February 2005; and
- **c** the deficiencies in the equalities unit's previous monitoring and record keeping which weakened the Welsh Government's position regarding any possible clawback.

**2.45** On 6 March 2006, while the Welsh Government was deciding how to deal with the underspends declared by AWEMA, the former Assembly Member, Dr Dai Lloyd, tabled a 'Written Assembly Question' to the Minister then responsible for equalities (Jane Hutt) asking for an annualised breakdown of the Welsh Government's funding of AWEMA since 1999. We have identified that the response provided by the Minister, which was prepared by the equalities unit, was inaccurate and incomplete (Appendix 3, Case Study 4). The response indicated total funding of £792,245 whereas at the point at which the question was raised the Welsh Government had made payments to AWEMA totalling £1.75 million.

**2.46** The Minister responded to Dr Lloyd's question on 16 March 2006. By that point WEFO had made a further payment to AWEMA of £265,161 on 10 March 2006. In any case, the response given excluded all of the funding that AWEMA received from WEFO and from the Communities First programme, where AWEMA was receiving funding on behalf of itself and other project partners (paragraph 1.12). We consider that this inaccurate response was symptomatic of a wider failure to coordinate and communicate across departments and to effectively manage the Welsh Government's overall funding relationship with AWEMA over previous years. Inaccuracies in the equalities unit's reporting of its own funding as part of the response are difficult to explain given that, at the same time as preparing the response, the unit had been looking into the underspends declared by AWEMA from funding in 2000-01 and 2004-05[52].

51 We have not seen any evidence to indicate that the Minister then responsible for equalities (Jane Hutt) was asked to agree to AWEMA retaining the underspend from 2004-05. A July 2006 submission from WEFO to the then Minister for Enterprise, Innovation and Networks, which was copied to Ms Hutt's offices, did refer to the underspend but gave the clear impression that AWEMA's request to retain the underspend as match funding, and to commit some of its ongoing core funding as match funding, had been refused.

52 For example, the figure of £38,333 quoted for 2004-05 did not include the £100,000 of equalities unit funding provided to AWEMA that year.

*The equalities unit addressed some concerns about AWEMA's work programme between April 2005 and March 2008 and held back certain payments but failed to adequately consider allegations made by the then Acting Chair and Acting Vice-Chair of AWEMA in July 2007*

**2.47** After consulting other Welsh Government officials who specialised in social research, the equalities unit identified concerns about the clarity and quality of some of the outputs claimed in AWEMA's end-of-year progress report for 2005-06. We have not seen any evidence to indicate that these concerns were addressed directly with AWEMA by the equalities unit. However, in discussing with AWEMA the work plan for 2006-07, the equalities unit sought clarity on the distinction between activities determined by its work plan and AWEMA's Curiad Calon Cymru project. The equalities unit also sought the views of other Welsh Government departments about how AWEMA's plans might relate to their aspects of their own work, although it is not clear to us exactly what came out of that dialogue.

**2.48** Work on black and minority ethnic public appointments, scheduled for 2005-06, was deferred until 2006-07. Even then, this work did not progress as planned. This was due, initially, to delays caused by the Welsh Government's public appointments unit. However, in late 2006 the equalities unit also had some concerns about AWEMA's research capacity and issues of data protection regarding its proposals. The equalities unit also indicated a preference for work on public appointments that would be more cross-cutting across the different equality strands and proposed that AWEMA could still complete a planned literature review and organise a seminar to promote public appointments. The equalities unit confirmed that it would not seek to clawback any of its funding if this work was undertaken. We have not seen any evidence to confirm that this work was completed and it appears that, in May 2007, the equalities unit resolved not to pursue the matter further.

**2.49** The equalities unit had concerns about the development of AWEMA's work plan for 2007-08 and temporarily withheld funding. This coincided with allegations of governance failings within AWEMA that the equalities unit received from the Acting Chair and Acting Vice-Chair of AWEMA in July 2007. We have not seen any records to confirm exactly how the concerns regarding the work plan for 2007-08 were resolved and we have concluded that the Welsh Government failed to adequately consider the specific allegations about AWEMA's governance arrangements (Appendix 3, Case Study 6). AWEMA ultimately received its full allocation of £102,500 for 2007-08.

**2.50** The Welsh Government file records that we have reviewed do not contain detailed evidence about all of the reported outputs connected with AWEMA's work plan over the 2005-2008 period. The nature of the core funding agreement essentially meant that the funding from the equalities unit underpinned all of AWEMA's work to an extent, even if this was not set out explicitly in the annual work plan and in AWEMA's progress reports. There is evidence of regular contact between the equalities unit and AWEMA during this period, and of the equalities unit seeking to address concerns about AWEMA's delivery. However, this does not appear to have been supported by formal monitoring meetings at the frequency described in the original grant agreement. The grant agreement

provided for quarterly reporting of progress and expenditure, to be followed by quarterly service review meetings. If these monitoring arrangements did take place, then they were not recorded[53].

*The equalities unit extended its funding to AWEMA through 2008-09 and 2009-10 while it planned wider changes to the Promoting Equality Fund but did not follow up sufficiently further concerns about AWEMA's governance arrangements*

**2.51** In September 2007, the Welsh Government received the report of an internally commissioned review of its arrangements for administering the Promoting Equality Fund (which supported the core funding agreement with AWEMA). Following that review and further external consultation, the Welsh Government established a new Advancing Equality Fund with the intention of opening the fund out to wider competition.

**2.52** While plans for the Advancing Equality Fund were being considered, the Minister then responsible for equalities (Dr Brian Gibbons) confirmed in February 2008 that he was content to continue core funding for AWEMA, and other organisations supported by the Promoting Equality Fund, through 2008-09. His commitment was subject to the agreement of work plans and satisfactory delivery and the Minister requested specific assurance that the equalities unit was content with AWEMA's governance and reporting arrangements.

**2.53** In response, the equalities unit drew the Minister's attention to advice it had provided in September 2007 following the allegations received from the former Acting Chair and Acting Vice-Chair of AWEMA. The equalities unit noted that it still needed to resolve other matters relating to AWEMA's reporting arrangements and compliance with requirements for funding, following the concerns raised about AWEMA's action plan during 2007 (paragraph 2.49 and Appendix 3, Case Study 6). However, the equalities unit stated that given that because it was planning to go out to consultation on the future of the Promoting Equality Fund, a notional commitment had been given to organisations in receipt of core funding that there would be an interim arrangement in 2008-09. In confirming its grant offer in 2008-09, the equalities unit asked AWEMA to provide a written statement describing its governance arrangements. AWEMA submitted an extract from its annual trustees' report which the equalities unit regarded satisfactory.

**2.54** Welsh Government officials have told us that there were regular meetings with AWEMA during 2008-09, following the receipt of quarterly progress reports. We have not seen a record of meetings of that frequency but we did see evidence of a meeting in October 2008. At the time of that meeting, the equalities unit had identified some concerns about the pace of delivery of some of AWEMA's work, specifically arrangements for some regional workshops to discuss the All Wales Convention[54] and the One Wales Agreement[55]. However, when reviewing

53 While not specific to the funding relationship with AWEMA or the equalities unit more generally, in July 2008 the Welsh Government's Internal Audit Services completed a 'Control Environment Review' of the Constitutional Affairs, Equality and Communications Department, of which the equalities unit was a part. That work considered control arrangements relating to expenditure commitments, including grant expenditure. The report concluded that the related controls provided only limited assurance over the department's expenditure commitments.

54 In 2007, the Welsh Government established the All Wales Convention to assess public views on the primary law-making powers which the National Assembly should enjoy. Recent media coverage and commentary about AWEMA has included reference to its involvement with the 'Yes for Wales' campaign and a payment of £500 that AWEMA made to the campaign in January 2011 in advance of the March 2011 referendum on the National Assembly's law-making powers. We have not sought to arrive at a conclusion on the legitimacy of AWEMA's involvement with the Yes for Wales. We have referred on to the Charity Commission correspondence that we received on this matter from the True Wales campaign group, which supported a no-vote in the referendum. This matter had also been referred to the Electoral Commission in February 2012 and the Electoral Commission concluded that, for a number of reasons, it would not have been proportionate for it to consider the matter further.

55 The One Wales Agreement was the coalition agreement between the Labour Party and Plaid Cymru in June 2007, following the May 2007 National Assembly elections.

AWEMA's delivery against its work plan at the end of 2008-09, officials from the equalities unit indicated that they were satisfied with progress. During 2008-09, the equalities unit had also approved a bid from AWEMA for £2,500 towards an event celebrating International Women's Day in March 2009[56].

**2.55** The Welsh Government had hoped to complete the main bidding round for the new Advancing Equality Fund in time for any revised funding commitments to start at the beginning of 2009-10. However, delays in the preparation of arrangements for the fund meant that the Welsh Government deferred this until 2010-11. In February 2009, the Minister considered a submission from the equalities unit which detailed plans to continue funding for 2009-10 at the same level for all those organisations already in receipt of core funding. The Welsh Government confirmed a grant offer to AWEMA in April 2009 after AWEMA had submitted a business case in relation to its planned activities for 2009-10. The activities proposed in the business case related mainly to the development and delivery of AWEMA's EU Convergence Programme projects[57]. The business case also sought to align the expected outputs from AWEMA's work with extant Welsh Government and UK Government policies and strategies.

**2.56** In May 2009, the then head of the equalities unit queried with colleagues the lack of evidenced review of AWEMA's business case. The explanation given appears to have been that the business case was not subject to a formal appraisal because a commitment to continued funding had already been given. There were also, in early 2009-10, various exchanges of correspondence between the equalities unit, AWEMA and WEFO. These exchanges were to confirm that the equalities unit was content for AWEMA's core grant funding to support AWEMA's match funding contribution to its EU Convergence Programme projects, specifically, at that time, the Black and Minority Ethnic Employment for All project.

**2.57** On 8 July 2009, the Minister's Private Office contacted the equalities unit to note a concern that AWEMA's Board had not met for over 12 months and that it followed that there had been no Annual General Meeting in that period. The equalities unit took this matter up at a monitoring meeting with AWEMA on 28 July 2009[58]. The equalities unit confirmed with AWEMA that its board had met in February 2009 and that the Annual General Meeting was scheduled for 14 August 2009. The Minister received an update to that effect on 4 August 2009 but the equalities unit also indicated that it would provide further information on the frequency of board meetings. The Minister was told that Charity Commission guidance suggested the frequency of board meetings should be determined by the organisation but that they should be at least annual and that if trustees did not meet often enough then they risk breaching their duty of care.

**2.58** The equalities unit's response to the Minister states that it had been told that the frequency of board meetings was not set down in AWEMA's constitution and that it did not appear in any other policy. They had also been told that AWEMA Board meetings usually occurred every quarter but that this was not always possible and that the Chief Executive would otherwise circulate a written report. The equalities unit's response to the Minister notes that there were other matters discussed

56 The Welsh Government processed the payment of this grant funding in both December 2008 and January 2009. It recouped the overpayment in June 2009 (Appendix 2).

57 There were, however, examples of work that AWEMA proposed to take forward which went beyond the scope of the three Convergence Programme projects. That work included AWEMA's proposed engagement with Fair Trade Wales, which led to a joint conference in November 2009.

58 The meeting being attended, on AWEMA's part, by the Director of AWEMA (Mr Naz Malik), the Operations Director (Ms Tegwen Malik) and the then Finance Manager (Mr Saquib Zia).

at the 28 July meeting with AWEMA which are relevant to some of the concerns that have been brought to light more recently. These include the separation of responsibilities, regarding Mr Malik's management role and his role as a trustee, and arrangements for the signing of cheques.

**2.59** Prior to the AWEMA Board meeting in February 2009, there had been an Annual General Meeting in July 2008 and board meetings in May 2008 and January 2008. The equalities unit's description of its meeting with AWEMA on 28 July 2009 indicates that officials had been told that the next AWEMA Board meeting would be at some point after the Annual General Meeting on 14 August 2009. The next recorded AWEMA Board meeting did not take place until January 2010. AWEMA's governing document states that AWEMA's trustees should meet at least four times a year and that AWEMA's Council of Members should meet at least twice a year. These meetings of the wider Council appear to have only been taking place, since 2008 at least, on a once-a-year basis in the form of the Annual General Meeting.

**2.60** The February 2012 report on AWEMA by the Welsh Government's Internal Audit Services also noted AWEMA's lack of compliance with its own governing document requirements for the frequency of board meetings. The report described other weaknesses in the general arrangements for these meetings and, on the basis of their findings, the Internal Audit Services could give no assurance that AWEMA's Board provided the 'necessary oversight of the general governance and management of the organisation'.

**2.61** The Minister's Private Office pursued a response about the frequency of AWEMA's Board meetings in September, October and November 2009 and also queried the level of attendance at those meetings. We have seen no evidence that this matter was ever followed up by the equalities unit, reported back to the Minister or his successor[59], or discussed by the equalities unit with WEFO.

**2.62** Following the January 2010 AWEMA Board meeting, the then Chair of AWEMA (Professor George Karani) notified Mr Malik that he wished to stand-down as Chair with immediate effect. Professor Karani, who had not been present at the January 2010 AWEMA Board meeting, told us that he took this decision for a variety of reasons. These reasons included him being increasingly uncomfortable with the principle of AWEMA employing other members of Mr Malik's family. Professor Karani had also been unhappy with other aspects of Mr Malik's conduct including, in June 2009, the handling of some correspondence from the then Assembly Member for Swansea West (Andrew Davies)[60]. Professor Karani did not, however, raise any concerns with the Welsh Government and has told us that, since stepping down as Chair, he has had no contact with Mr Malik.

**2.63** AWEMA's Board minutes confirm that Mr Ron Davies (the former Assembly Member and trustee of AWEMA) was asked to chair the next board meeting in November 2010 and it appears that, at the Annual General Meeting in December 2010, Mr Ahmud Raouf Furreed was elected as Chair. However, Mr Furreed is unclear about when exactly he took up the role of Chair but believed it to have been in around March/April 2011. Mr Furreed did not

59 In December 2010, Dr Gibbons handed on Ministerial responsibility for equalities to Carl Sargeant AM (Appendix 5).

60 Mr Davies was also, at that time, the Minister for Finance and Public Service Delivery. On 10 June 2009, Mr Davies wrote to Professor Karani to raise with him a constituency issue concerning Mr Malik's involvement in certain matters relating to the 'Castle Communities First Partnership' in Swansea. On 16 June 2009, Mr Malik responded to the Minister, noting that he was doing so because these were 'operational matters'. Professor Karani has told us that he only found out about the letter from the Minister some time later. Conversely, Mr Malik maintained to us that he had shared his response in draft with Professor Karani. Mr Davies copied his original letter to the Minister then responsible for equalities (Dr Gibbons) and the then Deputy Minister for Regeneration (Leighton Andrews). Mr Davies has told us that he did not receive a response from either Minister. We found a copy of the Mr Malik's response to Mr Davies on the records held by the Welsh Government's equalities unit.

actually attend any AWEMA meetings in his role as Chair before stepping down in October 2011. Following the Annual General Meeting in December 2010, the AWEMA Board had met in January 2011 and there had been another Annual General Meeting in July 2011.

**2.64** After the meeting on 28 July 2009, the equalities unit's contact with AWEMA during the rest of 2009-10 appears to have been largely through correspondence and by telephone. This included various exchanges with Mr Malik in relation to the bidding process for the Advancing Equality Fund 2010-2013, AWEMA's unsuccessful bid for £2,500 towards an event to celebrate International Women's Day 2010 and its ultimately successful bids[61] for small grants (totalling £6,535) to support two other one-off events. All of these bidding rounds were subject to open competition (Appendix 2).

## There were significant weaknesses in the processes that led to the award of AWEMA's Advancing Equality Fund grant for April 2010 to March 2013 and the equalities unit has since failed to address sufficiently further concerns about AWEMA's performance

*The award of AWEMA's Advancing Equality Fund grant followed a process of open competition, although the basis of the equalities unit's funding decisions is not clear and the process did not comply with timing requirements in the Welsh Government's 'Code of Practice for Funding the Third Sector'*

**2.65** AWEMA was successful in its application for further core funding from the equalities unit from the Advancing Equality Fund for the period from 2010-2013 (Appendix 2). The main purpose of this funding was to underpin AWEMA's core operating costs and support delivery of AWEMA's WEFO-funded project work. AWEMA bid for £417,472 over the three-year period but was granted £326,321.

**2.66** The Welsh Government confirmed its decisions on the allocation of the Advancing Equality Fund 2010-2013 monies in February 2010 but the overall administration of this bidding round was then the subject of a complaint under the Welsh Government's 'Code of Practice for Funding the Third Sector'[62]. A key issue was that the process breached the requirement for 'notification of grant approvals for each financial year by 31 December of the preceding year unless, in exceptional circumstances, notice has already been given of an alternative timescale'. In this case, the process for assessing bids and notifying organisations of the outcome had coincided with a period when Ministerial responsibility for equalities changed hands – from Dr Brian Gibbons to Carl Sargeant AM – and with a short gap while the role of the head of the equalities unit also changed hands. However, an official involved in the process of awarding this funding also told us that she had been unaware of the timing requirement set out in the code of practice.

**2.67** In November 2010, the Welsh Government's Internal Audit Services reported the findings of a review of the equalities unit's grant management arrangements. The Internal Audit Services report found that, with regard to the administration of the 2010-2013 Advancing Equality Fund bidding round, the applications tested were completed fully with sufficient supporting information to underpin the process. However, the report pointed to a lack of documentary evidence to show

61 The Welsh Government had initially rejected AWEMA's bids for the two one-off events. However, the Welsh Government then reconsidered these and other bids that narrowly failed to meet its criteria, and after AWEMA submitted revised bids, the Welsh Government confirmed its grant offer.

62 The complaint was investigated and reported on by the Funding and Compliance Subcommittee of the Third Sector Partnership Council.

how the successful bidders were selected. For example, there was no evidence of any scoring/ranking system[63] and no evidence of any independent involvement in the process. The report also noted that there was nothing documented to explain how decisions were made where organisations were awarded less funding than they bid for (as was the case for AWEMA). However, AWEMA had been advised by the equalities unit that, where organisations that had previously been in receipt of the transitional funding for 2009-10 were successful in their bids, they were being awarded their previous funding plus a three per cent uplift year on year. This approach is consistent with the funding offered to AWEMA.

**2.68** The Internal Audit Services report recognised that the equalities unit had already responded proactively to recommendations made by the Third Sector Partnership Council's Funding and Compliance Subcommittee. Specifically, the report pointed to the equalities unit having put in place better arrangements for the award of grants for International Women's Day 2011 and the joint Welsh Government and Equality and Human Rights Commission Capacity Build Fund[64]. AWEMA was successful in both of these bidding rounds, receiving funding in 2010-11 of £2,500 and £5,000 respectively (Appendix 2).

*During 2010-11, the equalities unit failed to follow up sufficiently some further concerns about AWEMA's delivery and the unit had only limited contact with WEFO between April 2010 and December 2011 despite the clear connection between the unit's funding and AWEMA's WEFO-funded projects*

**2.69** After the equalities unit confirmed its grant offer for 2010-2013, the Chief Executive of AWEMA (Mr Naz Malik) questioned the rationale for offering less funding than AWEMA had bid for and noted that this would be likely to affect AWEMA's plans for future project delivery in North Wales. Officials from the equalities unit emphasised on at least two separate occasions that this was a matter for AWEMA and that no further funding was available. At this point, AWEMA was still awaiting approval from WEFO for two of its three EU Convergence Programme projects. As in previous years, in May 2010 there was an exchange of correspondence between the equalities unit and WEFO regarding the use of the equalities unit funding to support AWEMA's match funding contribution to its WEFO-funded projects. However, we have not seen any evidence of discussions between the equalities unit and WEFO regarding any possible knock-on impact for the WEFO-funded projects of AWEMA being offered less funding than it had bid for[65].

**2.70** In July 2010, the equalities unit began preparing for a meeting between the Minister then responsible for equalities (Carl Sargeant) and the former Assembly Member, Dr Dai Lloyd. That meeting took place on 28 September 2010. Dr Lloyd had raised concerns about AWEMA's delivery of services on the ground in the Swansea area,

63 One of the officials involved in the process of assessing the bids told us that AWEMA's bid was of much better quality than some of the other bids received from organisations working in the field of race equality.

64 The November 2010 Internal Audit Services report concluded that it was still too early to form a judgment on the effectiveness of, or compliance with, other planned improvements to the equalities unit's grant monitoring arrangements.

65 During the second half of 2011, concerns raised by the North Wales Race Equality Network brought to WEFO's attention the slow progress that had been made in North Wales in recruiting participants to two of AWEMA's three EU Convergence Programme projects (Appendix 3, Case Study 5).

which emanated from issues raised with him by the Swansea Bay Racial Equality Council. The equalities unit does not appear to have followed through the actions agreed at the meeting between the Minister and Dr Lloyd. Those agreed actions had included convening a follow-up monitoring meeting with AWEMA and reporting back the findings to the Minister and Dr Lloyd (Appendix 3, Case Study 7). Mr Malik told us that he did not recall this matter being raised with AWEMA at the time.

**2.71** The background briefing materials for the Minister's meeting with Dr Lloyd contained a summary of plans for the two EU Convergence Programme projects – Minorities are Wales' Resources and Young Black and Minority Ethnic People Aiming High – which WEFO approved in September 2010. However, we have seen no other documentary evidence in relation to any dialogue between the equalities unit and WEFO about the issues being raised by Dr Lloyd, either before or after the meeting with the Minister.

**2.72** The briefing materials did not refer explicitly to AWEMA's WEFO-funded Black and Minority Ethnic Employment for All project. That project had been running since the start of 2009 and was, therefore, more pertinent to the issues being raised by Dr Lloyd at the time. The briefing materials also made no mention of any previous concerns about AWEMA's delivery and governance arrangements. The Minister told us that he did not recall being made aware of any historical issues relating to AWEMA, or any of the other organisations funded by the equalities unit, when he took on responsibility for the equalities portfolio. He also emphasised to us that the issues raised with him by Dr Lloyd were about service delivery on the ground and not financial management.

**2.73** The issues raised by Dr Lloyd came at a time when the equalities unit had identified some concerns of its own in relation to the way in which AWEMA was presenting performance information in its quarterly progress report, although this issue did appear to have been resolved by the end of the third quarter. As for much of 2009-10, the equalities unit's monitoring arrangements in 2010-11 appear to have been discharged through correspondence and telephone conversations with Mr Malik. We have seen no documentary evidence of any meetings between the equalities unit and AWEMA during 2010-11.

**2.74** On 29 June 2011, following a change in personnel, officials from the equalities unit visited AWEMA and requested some changes to the monitoring forms that had been used in the previous year. Those changes were intended to achieve greater clarity in some of the reported outcomes. The equalities unit expected to receive a monitoring form for the first quarter of 2011-12 in July 2011, together with a request for advance payment of funding for the second quarter. The equalities unit stated in its grant offer letters that it was the responsibility of grant recipients to provide timely reports and not for it to chase them. It was in AWEMA's interest to submit satisfactory progress reports to prompt the release of the equalities unit's quarterly payments at the earliest opportunity.

**2.75** Despite further prompting by the equalities unit, Mr Malik did not submit a monitoring form until 29 November 2011 (combined for the first two quarters of 2011-12). He then submitted a report for the third quarter on 8 December 2011 with a request for advance funding for the final quarter. The equalities unit was still considering these reports when it suspended its funding in response to the allegations brought to its attention by AWEMA's Finance

Director and Chief Executive on 19 December 2011. The equalities unit has indicated to us that, had the Welsh Government decided to continue rather than terminate its funding agreements with AWEMA, it would still have wanted to resolve certain matters arising from the progress reports. The equalities unit had also been waiting on AWEMA's 'expenditure certificate' for 2010-11, which had been due by 30 September 2011[66]. AWEMA's Finance Director submitted the 2010-11 expenditure certificate to the equalities unit on 6 December 2011.

**2.76** The officials who had taken on responsibility for monitoring the equalities unit's funding to AWEMA were clearly aware of the connection with AWEMA's WEFO-funded projects. However, we have seen no evidence of contact in either direction between the equalities unit and WEFO about AWEMA during 2011-12 until 19 December 2011[67].

Since its creation in 1999, the equalities unit has been beset by problems of poor performance and a lack of stability in its staffing, structures and Ministerial reporting lines, although senior officials have emphasised that the unit is now on a firmer footing and that it has delivered various strategically important pieces of work

**2.77** Over the past 13 years, the Welsh Government's equalities unit has been through several changes in management. There have been five different heads of the equalities unit and responsibility for the unit higher up the chain of command has changed hands even more frequently. There have been five different Ministers responsible for the equalities portfolio over the past 13 years, although the portfolio has changed hands on seven different occasions (Appendix 5). The unit has also been through several restructuring exercises, which have brought with them additional responsibilities.

**2.78** There were particular concerns about the performance and staffing of the equalities unit at around the time of and following changes in the leadership of the equalities unit in early 2003[68]. Reporting on the unit in September 2003, the Welsh Government's Internal Audit Services pointed to there being significant scope for improvement in the control environment. The Internal Audit Services noted that there was poor record keeping, no risk register for the unit, a lack of project management experience, no desk instructions, staff shortages, longstanding concerns about the unit's procurement arrangements and an overreliance on a temporary administrative officer.

**2.79** While the problems affecting the equalities unit appear to have been particularly acute, they were not unique. In July 2002, the then Permanent Secretary had written out to heads of department across the Welsh Government noting concerns about a decline in standards in the application of controls, as highlighted by the work of the Internal Audit Services. The Internal Audit Services had attributed the apparent fall in standards, at least in part, to the large influx of new staff over the previous few years and the movement of staff between departments. Consequently, many staff had

66 In November 2010, in its review of the equalities unit's overall grant management arrangements, the Welsh Government's Internal Audit Services had highlighted the need for the unit to put in place a process to ensure that certificates of final expenditure were requested to verify expenditure and confirm that grant funding had been used for the purpose intended. AWEMA did not submit a certificate of final expenditure for 2009-10 until 21 April 2011, following a specific request from the equalities unit after it had identified that it did not have a certificate on file for that period.

67 In May 2011, Ministerial responsibility for the equalities portfolio passed, once again, to Jane Hutt (also the Minister for Finance and Leader of the House). We have not seen evidence of any issues about AWEMA being raised by the equalities unit with the Minister prior to 19 December 2011. Earlier in December 2011, following a submission to the Minister, the equalities unit made a separate offer of a grant of £6,830 to AWEMA to support a series of events celebrating equality and diversity (Figure 3). These events were to be convened by AWEMA and other partner organisations but, as a result of the Welsh Government's decisions to suspend and then terminate funding to AWEMA, no grant payment was made.

68 Personal cases related to the Welsh Government's employment and treatment of the first and second heads of the equalities unit were the subject of media attention during 2004.

been doing their jobs for only a short time and so lacked experience. Increasing pressures and sometimes unrealistic timescales for work were identified as further contributory causes but the Permanent Secretary made it clear that failures to comply with basic rules of procedures were not acceptable, regardless of the pressures.

**2.80** The issues identified by the Internal Audit Services in September 2003 reinforce the conclusion of the January 2005 IMANI Consultancy Services review that weaknesses in the equalities unit's management of its funding of AWEMA were likely to have been reflected in the unit's other grant funding arrangements (Figure 5). These findings were also reflected in the deficiencies in the audit trail for AWEMA's funding from the equalities unit, which undermined the Welsh Government's ability to clawback from AWEMA in 2005-06 and 2006-07 previous underspends (paragraphs 2.35 to 2.46).

**2.81** In February 2005, the Internal Audit Services issued a further management letter on control issues within the equalities unit. The letter noted that the Internal Audit Services had not been able to complete a planned follow-up review in 2004 because of the absence from work of the then head of the equalities unit. The letter concluded that, while there had been some progress, there were still significant issues of concern with ongoing staff shortages, a reliance on temporary staff, general gaps in paperwork and a fragmented management structure, with training, supervision, quality control, workload monitoring and management reporting being neglected. There was still no clear divisional plan, risk register or business continuity plan. The Internal Audit Services identified that the staffing situation needed to be resolved before there could be a realistic prospect of improvement. One of the issues related to the absence from work of the head of the equalities unit.

**2.82** The officials we have spoken with who have worked in the equalities unit during the period since 2005 have commented on the high level of staff turnover within the unit and the various changes in reporting lines higher up the senior management chain of command and to Ministerial level. This has had implications for the continuity of the unit's grant funding relationship with AWEMA and there is little evidence of the Welsh Government having put in place any formal handover arrangements between Ministers or officials to ensure the transfer of knowledge about this, or any other, relationship with the organisations that the equalities unit was funding.

**2.83** Some of the senior officials we have met with have emphasised that, since 2005 and throughout further changes in staffing and leadership, there has been evidence of a slow but gradual improvement in the performance of the equalities unit. That progress has included a gradual strengthening of the unit's overall grant management arrangements from what appears to have been a very low base. In that respect, we note that the November 2010 Internal Audit Services report on the unit's grant management arrangements gave an assessment of 'substantial assurance'. The report recognised the improvements that the unit had already been making in response to concerns about the administration of the bidding process for the Advancing Equality Fund 2010-2013 (paragraphs 2.65 to 2.68).

**2.84** However, as recently as early 2010, the Welsh Government still had some concerns about capacity and capability within the equalities unit. The unit (known since around April 2009 as the Equality, Diversity and Inclusion

Division) has since gone through a further restructuring exercise and senior officials are confident that it is now on a firmer footing[69].

**2.85** The Welsh Government has also emphasised to us that, before and since early 2010, the equalities unit has delivered various strategically important pieces of work. Examples cited by officials include: work carried out by the 'Mainstreaming Equality Task and Finish Group'; a review of service provision for gypsies and travellers and in June 2012, publication of the framework for action and delivery plan 'Travelling to a Better Future'; the Framework for Action on Independent Living (currently out to consultation); successive equality schemes culminating in the Welsh Government's Single Equality Scheme for 31 March 2009 to 31 March 2012; and the Welsh Government's cross-departmental 'Strategic Equality Plan and Objectives 2012-2016'.

**2.86** Within the past 12 months, the equalities unit has established a new 'Wales Race Forum', which will bring together representatives of various organisations with an interest in race equality matters. This forum met for the first time on 22 February 2012 and its purpose is to provide the Welsh Government with expert support and advice to heighten its understanding of key issues and barriers relating to the integration of black and minority ethnic communities. The forum has also been established to advise Welsh Ministers in respect of their duties under the Equality Act 2010 and to contribute to a national strategic approach on race equality. AWEMA was to have been a member of the forum but, on 14 February 2012, the equalities unit notified AWEMA that its membership was being suspended.

## WEFO had not expressed any particular concerns about the progress of AWEMA's EU-funded projects against their objectives, but its arrangements for appraising and monitoring these projects lacked sufficient rigour

### While not necessarily affecting the final outcome, WEFO's appraisal of AWEMA's EU-funded projects has lacked sufficient rigour

*WEFO's appraisal of the Curiad Calon Cymru project did not take into account the experience of other Welsh Government departments and there were weaknesses in aspects of the formal approval process*

**2.87** Appendix 2 provides further details about AWEMA's Curiad Calon Cymru project which WEFO funded as part of the UK-wide EQUAL Programme between 2005-06 and 2008-09. Projects approved under the EQUAL Programme were divided into three stages, known as Actions 1, 2 and 3. Typically:

- **a** Action 1 sought to develop development partnerships and their application for grant;
- **b** Action 2 sought to deliver a project's aims and outcomes, therefore being the area requiring most financial support; and
- **c** Action 3 sought to appraise, disseminate and 'mainstream' a project's outcomes and achievements.

**2.88** In Wales, the EQUAL Programme was overseen by the Wales EQUAL Management Committee (WEMC), which comprised 13 officials from 10 organisations. The WEMC's terms of reference provided that proposals may be submitted to the WEMC for adoption by 'written procedure', rather than in formal

69 The Welsh Government recently appointed, on a permanent basis, a new Head of the Equality, Diversity and Inclusion Division. The appointee had been in post, on secondment from the Equality and Human Rights Commission Wales, since July 2011. We have not sought, within the scope of our work, to evaluate the more general performance of the equalities unit.

meetings. Under this procedure, a proposal would be deemed agreed unless any WEMC members set out any objections in writing within 10 working days. WEMC members were not required to notify WEFO of their approval of a proposal, as non-responses were deemed to constitute approval.

**2.89** At a meeting on 24 September 2004, the WEMC approved AWEMA's Curiad Calon Cymru Action 1 proposal, alongside its approval of 16 other proposals. On 16 May 2005, the WEMC considered Action 2 applications. The minutes of that meeting record that: 'There was one application not yet submitted. WEFO have agreed to extend the deadline for Curiad Calon Cymru until 1st June 2005, due to core funding issues.' The approval of the project was therefore referred for approval by written procedure. We believe that the 'core funding issues' related to the fact that AWEMA had not, at that point, had formal confirmation of its ongoing grant funding from the Welsh Government's equalities unit for 2005-06 and beyond (paragraph 2.30).

**2.90** Late in the afternoon of 13 June 2005, WEFO officials sent AWEMA's Action 2 application by email to WEMC members, asking that they respond within only four working days (by 5pm on 17 June 2005). The WEFO officials we interviewed could not recall the reason for this abbreviated timescale and we have not seen any file records that explain it. There were no written objections to the proposal, and only two written responses of any nature from WEMC members (both giving approval).

**2.91** None of the WEMC members appear to have questioned the reduced deadline for responses and we have not seen any evidence to suggest that WEMC members had objections but were unable to respond within this timescale. There is, therefore, no suggestion that a longer timescale for responses would have led to a different outcome. Nevertheless, we consider that this specific aspect of the approval process – based only on two members' positive affirmations – was weak, particularly as it was for the approval of the Action 2 grant which committed WEFO to grant funding of £2.1 million.

**2.92** In seeking their approval of AWEMA's proposal, WEFO provided the WEMC with an 'EQUAL Action 2 Approval Checks' document. This document assessed predetermined areas of the proposal, allocating risk ratings against the following criteria:

- **a** 1 – low risk, with strong potential for good practice;
- **b** 2 – low risk, with some potential for good practice;
- **c** 3 – medium risk, with points be to addressed and monitored; and
- **d** 4 – high risk, with resubmission required.

**2.93** Across seven different areas, AWEMA's proposal received one score of 1, four scores of 2, one score of 3 and one score of 4. The proposal was given an overall rating of 3. However, WEFO's email request for written approval stated that: 'the application has now been processed and achieved a score of 1 which puts it into the low risk category'. While members had the full evaluation document to refer to, this covering email was incorrect and potentially misleading. None of the WEMC members appear to have questioned the inconsistency between the overall score presented in the evaluation report and that described in WEFO's covering email.

**2.94** In addition, there is no evidence that WEFO's evaluation of the proposal took into account the experience of other Welsh Government departments that had been funding AWEMA. Notably, the findings from the January 2005 IMANI Consultancy Services review of equalities unit-funded projects do not appear to have informed WEFO's evaluation (Figure 5).

**2.95** Following the approval given by the WEMC, WEFO's Financial Appraisal Team completed its financial appraisal of AWEMA and its project proposal on 3 November 2005. The financial appraisal highlighted significant financial risks, principally around the project's lack of secured match funding. The report pre-dated WEFO's formal grant offer to AWEMA for Action 2 on 12 December 2005 and WEFO required AWEMA to demonstrate, by the end of June 2006, that it had secured the available match funding for the second year of Action 2 (Appendix 3, Case Study 5)[70].

**2.96** WEFO officials approved AWEMA's Action 3 funding in May 2007. WEFO officials have explained that Action 2 approvals by the WEMC constituted in-principle approval for Action 3, given that the budget for Action 3 was identified within Action 2 applications. WEFO did not, therefore, involve the WEMC in the consideration and formal approval of specific plans for Action 3.

*WEFO's appraisal of AWEMA's Convergence Programme projects did not take full account of its own experience of the Curiad Calon Cymru project or of AWEMA's capacity to manage and deliver concurrent projects*

**2.97** In 2006, informed in part by external feedback and its own project inspection work, WEFO identified a range of concerns about AWEMA's management of the Curiad Calon Cymru project. These concerns related to: procurement processes; non-payment of partner organisations; ineligible expenditure; match funding; and project management. The issues identified were significant enough for the WEFO project development officer to request, in July 2006, a 'special investigation' by the Welsh Government's Internal Audit Services. Although, ultimately the Welsh Government and WEFO decided on a range of other actions to respond to the concerns (Appendix 3, Case Study 5).

**2.98** WEFO officials assessed the proposals submitted by AWEMA for its first Convergence Programme project, 'Black and Minority Ethnic Employment for All', between November 2008 and January 2009. In doing so, WEFO officials did give some consideration to AWEMA's record on the Curiad Calon Cymru project:

**a** A Financial Appraisal Team[71] report (December 2008) stated that: 'AWEMA and other co-sponsors have a good record of delivering grant funded projects (EQUAL project in 2005/08) and there is a negligible risk this project will fail due to cash flow difficulties'.

70 WEFO has explained to us that the WEMC approval was conditional on the completion of a Financial Appraisal Team review and that the process it was following for EQUAL programme projects, with the financial appraisal following rather than informing approval by the WEMC was consistent with the UK-wide approach. In our view, the WEMC would ideally have had the opportunity to consider for itself the results of WEFO's financial appraisals.

71 When asked to do so by project staff, and based on WEFO guidelines about the circumstances of individual projects, WEFO's Financial Appraisal Team carries out an assessment of the financial viability of the project sponsor.

**b** A Funding Decision Report[72] (January 2009) also commented that: 'The sponsor has a known track record in this field and has managed a complex ESF EQUAL funded development partnership consisting of over 20 organisations'. In addition, the report noted that AWEMA had been 'successfully audited' during the 2000-2006 programming period. This reference related to WEFO's work in response to the concerns raised about the Curiad Calon Cymru project in 2006. However, it also suggested that AWEMA had been audited by what was previously WEFO's 'Article 10' audit team[73]. WEFO could not provide us with any evidence to demonstrate that there had been an Article 10 audit of the Curiad Calon Cymru project in advance of the Funding Decision report for the Black and Minority Ethnic Employment for All project. There was then an audit by the Welsh Government's European Funds Audit Team in December 2009 (Appendix 3, Case Study 5).

**2.99** We recognise that the evaluation report that AWEMA commissioned for the Curiad Calon Cymru project presented a positive overall impression of the outputs from the work. In addition, we are not aware of WEFO having had any particular concerns about the delivery of the project's objectives, whether in relation to activity undertaken by AWEMA or its project partners. However, neither of these two WEFO documents refers to the concerns that had been identified with the management of the Curiad Calon Cymru project. While WEFO believed that these concerns had been addressed and did not therefore merit consideration in appraising the Black and Minority Ethnic Employment for All project, our view is that they did. We have seen no evidence to show that, as part of its ongoing engagement with AWEMA, WEFO had formally monitored AWEMA's progress in responding to the series of improvement actions that flowed from its intervention in 2006.

**2.100** Similar statements about AWEMA's track record on Curiad Calon Cymru were reflected in WEFO's appraisal of the later Minorities are Wales' Resources and Young Black and Minority Ethnic People Aiming High projects. However, when appraising these two projects, prior to approval in September 2010, WEFO did consider AWEMA's progress on the Black and Minority Ethnic Employment for All project. WEFO was satisfied with progress at that point. This was at around the time that the Welsh Government's equalities unit had identified concerns about over-counting in AWEMA's progress reports (Appendix 3, Case Study 7). We have not seen any evidence that this matter was raised with WEFO by the equalities unit.

**2.101** WEFO's appraisal of the three Convergence Programme projects also led to a substantial reduction in the duration and planned cost of each project (Appendix 2). Across all three projects, total projects costs were reduced from £38.2 million at the expression of interest stage to £8.4 million at the point of approval. Within these total project costs, the requirement for WEFO grant funding reduced from £20.4 million to £5.2 million. In all three cases, WEFO decided that match funding was not sufficiently certain for it to approve the originally proposed six-year projects. In early 2008, AWEMA had also presented two further applications for EU-funded projects. Neither of these projects progressed beyond the expression of interest stage. WEFO has indicated that this was because AWEMA was unable to demonstrate that it could find sufficient match funding (Appendix 2).

72 The Funding Decision report is the formal assessment of the project proposal against 12 selection criteria by the WEFO Project Development Officer.

73 The functions performed previously by the Article 10 team now sit outside of WEFO in the Welsh Government's European Funds Audit Team.

**2.102** In May 2010, WEFO officials (including WEFO's Chief Executive and other members of its senior management team) met with AWEMA to resolve a number of financial matters which WEFO staff had identified during their appraisals of the business plans for Minorities are Wales' Resources and Young Black and Minority Ethnic People Aiming High projects. WEFO project staff had identified a number of costs which were being double counted across the three AWEMA-led projects. They also identified that some staff time was allocated across the three projects, so that it equated to more than 100 per cent of the working time available. WEFO also noted that costs for the Chief Executive of AWEMA (Mr Naz Malik) and the Finance Director (Mr Saquib Zia) across the two projects equated to more than 40 per cent of their total working time. WEFO considered that Mr Malik and Mr Zia should have had to spend no more than 20 per cent of their working time across the two projects[74]. However, WEFO's appraisal documents for the Minorities are Wales' Resources and Young Black and Minority Ethnic People Aiming High projects do not question whether AWEMA had the organisational capacity and competence to deliver and match fund the three projects concurrently.

**2.103** To demonstrate its track record, the business plans for all three Convergence Programme projects highlighted that AWEMA had successfully delivered to time and budget on its work funded by the Welsh Government's equalities unit. We found no evidence that WEFO had approached the equalities unit to test the veracity of this assertion. There was, however, contact regarding the use of the equalities unit's funding as match funding for the Convergence Programme projects (paragraph 2.69).

**2.104** In seeking to encourage collaborative projects, WEFO has looked across the Convergence Programme to try to bring together organisations that had expressed interest in delivering projects of a complementary nature. For example, officials from the Welsh Government's Education Department had been put in contact with AWEMA to explore possible synergies between AWEMA's 'Young Black and Minority Ethnic People Aiming High' project (Appendix 2) and the Welsh Government-managed Minority Ethnic Language and Achievement Project (MELAP)[75]. Those officials have indicated that the possibility of AWEMA becoming a delivery partner within the scope of the MELAP was explored. However, from the Welsh Government's perspective, the MELAP was already a significant project in its own right, worth some £6 million in total and operating across nine local authority areas. In addition, AWEMA had preferred to maintain its position as the lead sponsor managing the finances for its own project[76].

**2.105** The City and County of Swansea Council, which was taking the lead on the development of the MELAP on behalf of all nine local authorities involved, has informed us that its officers had privately expressed to officials from the Welsh Government's Education Department their reluctance to collaborate with AWEMA. The officers had concerns about AWEMA's reliability, overreliance on family members to deliver activities and its specialist expertise. The officers also expressed concerns about AWEMA's apparent focus on certain ethnic minority groups in

74 In January 2011, following on from these discussions, WEFO re-profiled the finances for the Black and Minority Ethnic Employment for All project (Appendix 2).

75 The MELAP aims to expand and add value to existing local authority Minority Ethnic Achievement and Inclusion Services which support ethnic minority children and young people to achieve their full potential within mainstream education. The project started in August 2010 and is due to conclude in autumn 2013.

76 Following WEFO's approval of AWEMA's project in September 2010, there were a series of meetings variously involving AWEMA, local authority officers, WEFO and other Welsh Government officials responsible for the MELAP to discuss the activities of both projects and to address the risk of duplication. These meetings confirmed that AWEMA's project would not undertake any school-based activities and would not engage in activities assisting young people with their homework.

Swansea to the exclusion of others as well as tensions between AWEMA and other community organisations. More generally, the officers expressed concern about the use of public funding to establish separate and parallel services for members of ethnic minority communities outside of mainstream services. These concerns do not appear to have been passed on to WEFO by the Welsh Government's Education Department and do not feature in WEFO's key appraisal documents.

## While WEFO was in regular contact with AWEMA about the three Convergence Programme projects, WEFO did not ensure full or timely compliance with certain conditions it set for the projects and its formal monitoring meetings with AWEMA were less frequent than could ideally have been the case

**2.106** WEFO's guidance states that, ideally, its officers should hold inception meetings with project sponsors within three months of project approval, followed by progress meetings on either a quarterly or six-monthly basis, depending on the project's progress and the extent of any outstanding issues of concern. WEFO had the following schedule of inception and formal monitoring meetings with AWEMA in respect of the three Convergence Programme projects:

**a** In November 2009, WEFO carried out an inception visit for the Black and Minority Ethnic Employment for All project, having approved the project 10 months earlier in January 2009.

**b** In May 2011, WEFO took the logical step of carrying out a combined meeting with AWEMA to cover all three projects. This meeting acted as the inception meeting for the Minorities are Wales' Resources and Young Black and Minority Ethnic People Aiming High projects, and as a progress meeting for the Black and Minority Ethnic Employment for All project. WEFO had approved the Minorities are Wales' Resources and Young Black and Minority Ethnic People Aiming High projects in late September 2010.

**2.107** While the timing and frequency of these formal monitoring arrangements was not consistent with WEFO's own guidance, WEFO officials emphasised to us that they had also maintained regular contact with AWEMA in the context of appraising the two projects approved in September 2010 and through discussions that led to a revised financial profile for the Black and Minority Ethnic Employment for All project in January 2011 (Appendix 2). Nevertheless, we do not consider that this contact with AWEMA provided the basis for considering fully other matters that are set out by WEFO in its own guidance for project progress meetings. As noted previously (paragraphs 2.69 to 2.76), there is also little evidence of communication between WEFO and the Welsh Government's equalities unit to inform these monitoring arrangements, despite the connection between the two sources of funding.

**2.108** Where WEFO identifies the need for further information or assurance about issues that are not significant enough to hold up project approval, it applies 'special conditions' to its grant offer letter. Projects will commonly have special conditions attached and WEFO is now developing fresh guidance on their use. WEFO's recording of AWEMA's compliance of the special conditions it set out for AWEMA's three Convergence Programme projects has been weak, with many of the special conditions remaining open on WEFO's electronic monitoring system long after they had been actioned and should have been closed.

**2.109** An area of inherent risk to AWEMA's Convergence Programme projects was the allocation of match funding across the three projects. The risk to the projects was that AWEMA could, either inadvertently or intentionally, allocate the same match funding to more than one of the three projects. From the outset of the projects WEFO therefore requested evidence of an adequate match funding audit trail across the projects, which it termed a 'match funding allocation account'. While we found repeated evidence of AWEMA agreeing to provide its audit trail of the match funding across the projects, we found no evidence that AWEMA actually did so. The lack of a match funding allocation account was also reported, at times, by both WEFO's Project Inspection and Verification Team and AWEMA's external auditors.

## WEFO's 'Project Inspection and Verification' arrangements did not identify some significant issues on AWEMA's Convergence Programme projects that have come to light through additional work by WEFO and the Welsh Government's Internal Audit Services since December 2011

*There have been concerns about the quality and rigour of WEFO's Project Inspection and Verification arrangements, although WEFO made changes in 2010 to address various audit recommendations*

**2.110** The European Commission's regulations require WEFO, as the 'Managing Authority' for Wales' European funding, to inspect projects and verify their administration, financial records, and compliance with certain other project obligations. For the Convergence Programme, WEFO has been fulfilling this obligation through the work of its Project Inspection and Verification Team (previously known as the Article 4 Inspection Team).

**2.111** Concerns about the quality and rigour of WEFO's Project Inspection and Verification processes came to the fore in 2009 and 2010 following reviews by the European Commission's auditors and the Welsh Government's European Funds Audit Team[77]:

**a** In November 2009, a review by European Commission auditors highlighted a number of key deficiencies within the Project Inspection and Verification Team's processes and actions. As a result of these and other deficiencies the auditors issued a 'qualified' overall opinion on WEFO's management and control system[78].

**b** Soon after – partly in response to the European Commission auditors' November 2009 review – the Welsh Government's European Funds Audit Team undertook its own review of the Project Inspection and Verification Team. The April 2010 report on that work did identify areas of good practice but reached only a limited assurance – works partially, substantial improvements needed – conclusion.

**c** WEFO responded promptly to the findings of the two reviews and had also introduced revised Project Inspection and Verification arrangements by May 2010. In June 2010, a follow-up review by the European Funds Audit Team reached a conclusion of 'substantial assurance', confirming that the Project Inspection and Verification Team had implemented the recommendations from the April 2010 review with only minor further improvements needed[79]. Then,

77 These concerns were reinforced by several of the current and former WEFO staff we interviewed.

78 The findings of the European Commission's auditors formed part of a wider review of the design, efficiency and effectiveness of WEFO's management and control system for the Convergence Programme and the East Wales European Social Fund Regional Competitiveness and Employment Programme, and for expenditure declared between July 2007 and August 2009. The auditors qualified their overall opinion on the management and control system because of material deficiencies against eight key requirements.

79 As part of its planned programme of work, the Welsh Government's European Funds Audit Team is currently undertaking another review of WEFO's Project Inspection and Verification Team.

in July 2010, the European Commission auditors revised their report to reflect WEFO's strengthened arrangements and provided an updated 'unqualified' audit opinion.

**2.112** We consider that the process the Project Inspection and Verification Team followed – to May 2009 – to resolve issues identified for AWEMA's Curiad Calon Cymru and Black and Minority Ethnic Employment for All projects[80] was flawed. The reviews did identify and raise with AWEMA a range of eligibility concerns and potential disallowance within its financial claims. However, eligibility concerns were passed on to the relevant project officers and this action was considered enough for the team to reach a 'satisfactory' conclusion, on the presumption of resolution by the project officers.

**2.113** We consider that the Project Inspection and Verification Team should not have been concluding that matters raised by its work had been satisfactorily addressed without obtaining assurance of that itself, whether from the organisations responsible or from WEFO's project officers. This should not have delayed the production of reports, with 'not satisfactory' conclusions being applied when necessary alongside recommendations for remedial action and improvement. In 2009, the Project Inspection and Verification Team identified this flaw in its approach and changed its processes to ensure that its inspection findings were closed off more effectively.

*A review of AWEMA's Minorities are Wales' Resources project in December 2011 did not identify significant issues of financial recording, some ineligible expenditure and the collation of beneficiary data that have now come to light, although WEFO has not identified any evidence of systemic overclaiming*

**2.114** In early December 2011, WEFO's Project Inspection and Verification Team reviewed AWEMA's Minorities are Wales' Resources project. The review was undertaken in response to concerns raised with WEFO by the North Wales Regional Equality Network about the management and governance of this project and the Young Black and Minority Ethnic Aiming High project in which it was involved (Appendix 3, Case Study 8).

**2.115** The remit of the Project Inspection and Verification Team's work does not include consideration of an organisation's overall financial viability. Consideration of the types of issues considered by the Financial Appraisal Team during the project appraisal process could have increased the likelihood of WEFO becoming aware of some of the problems with AWEMA's overall financial management which have now become apparent. However, within the scope of the Project Inspection and Verification Team's work, weaknesses in the review process in December 2011 meant that WEFO did not identify certain significant issues that have since come to light through additional work undertaken in 2012 by the Welsh Government's Internal Audit Services and by the Project Inspection and Verification Team. These issues relate to:

**a** financial recording – the review confirmed that a process was in place to codify transactions into AWEMA's financial

80 The Project Inspection and Verification Team reviewed AWEMA's Curiad Calon Cymru EQUAL Programme project in May 2006 and again in August 2008. It reviewed the Black and Minority Ethnic Employment for All project in May 2009.

ledgers but did not identify that the ledger records were significantly out of date;

**b** ineligible expenditure – the review did identify some ineligible expenditure but not to the extent that is now apparent across the Minorities are Wales' Resources project and the other two AWEMA-led projects (Figure 7)[81]; and

**c** the collation and recording of beneficiary data – WEFO has now concluded that AWEMA had underclaimed in terms of the total number of participants in its projects but it has also identified some concerns about the processes in place to track and record project outputs.

**2.116** AWEMA's final WEFO claims were prepared by two accountants that the AWEMA Board contracted in late January 2012 to compile and reconcile AWEMA's financial records, retrospectively, from March 2011. To assist this process, a member of WEFO's Payments Team provided oversight and advice. WEFO's Project Inspection and Verification Team then inspected the final claims and considered AWEMA's financial records from April 2010[82]. The scope of this Project Inspection and Verification work was more comprehensive than usual, partly because it replaced the usual external audit of final claims.

**2.117** The Project Inspection and Verification Team's final report, completed on 3 May 2012, identified ineligible project expenditure of £169,782. Taking into account the match funding contribution, the identification of this ineligible project expenditure results in the disallowance of £104,091 from the grant already paid by WEFO to AWEMA (Figure 7). The report noted that AWEMA had been operating for six months since submitting its penultimate claim and three months since receiving its last payment from WEFO. The report therefore reached the obvious conclusion that, given the balance of AWEMA's bank account, AWEMA had been using WEFO advances to fund its core operating costs.

**2.118** The Project Inspection and Verification Team's report did not identify any evidence of systemic overclaiming. The report noted that some significant items of eligible expenditure had not been included in the claims AWEMA had submitted previously for the period to 31 August 2011. The Project Inspection and Verification Team also concluded that AWEMA had underclaimed in terms of the total number of participants across the three projects. However, the report did express concern that: 'the processes in place to track and record the outputs across the programmes are insufficient and we were unable to completely reconcile the organisation's records to the outputs declared in their claims'[83].

**2.119** WEFO officials have confirmed that the ineligible expenditure identified related mostly to previous claims and not the final claim. They have also acknowledged that inspection, audit and project monitoring arrangements should have identified and disallowed this expenditure sooner. Despite identifying this ineligible expenditure, and the apparent weakness in its previous controls, WEFO has not performed any further testing of AWEMA's claims for the Black and Minority Ethnic Employment for All project prior to April 2010.

81 The work reported by the Project Inspection and Verification Team in May 2012 considered all transactions since April 2010 across the three projects. It is not, therefore, surprising that, for the Minorities are Wales' Resources project, the May 2012 report identified some additional ineligible expenditure compared with the findings from the review in December 2011. However, the sample testing from the December 2011 review did not highlight some of the more significant issues of ineligible expenditure that WEFO has now identified for the Minorities are Wales' Resources project and for the other two projects.

82 April 2010 being the start point for claims relating to the Young Black and Minority Ethnic People Aiming High and Minorities are Wales' Resources projects.

83 We have not reviewed AWEMA's participant records ourselves and there had been some concerns expressed in 2010 about AWEMA's delivery on the ground and the way in which it was reporting similar performance information to the Welsh Government's equalities unit (Appendix 3, Case Study 7).

## Figure 7 - Disallowed Convergence Programme project expenditure identified in May 2012 by WEFO's Project Inspection and Verification Team

| Cost categories | Total (£'s) |
|---|---|
| Future Jobs Funding[1] | 86,469 |
| Missing timesheets | 12,296 |
| Unapproved pay rises[2] | 63,692 |
| Petty cash[3] | 5,650 |
| Volunteers | 987 |
| Gym membership | 687 |
| **Total ineligible expenditure** | **169,782** |
| **Total grant paid on ineligible expenditure and owed to WEFO[4,5]** | **104,091** |

Notes

1 The Project Inspection and Verification Team noted that a number of staff included in the claims for the three projects were part funded by the Future Jobs Fund. The team's report identifies that 'AWEMA included the total cost of the salary for these staff and did not reflect the Future Jobs Fund contribution towards the cost in the project's match funding'. The value of the subsidy received for staff on the project but not declared was £86,468. That funding had been provided to AWEMA as part of the Future Jobs Fund programme through the Wales Council for Voluntary Action (Appendix 4).

2 These figures are based on various corrections applied by the Project Inspection and Verification Team to the claimed salary rates for various staff, including AWEMA's Chief Executive, Finance Manager, Operations Manager and other project staff. These corrections were made because pay rises/promotions had not been approved in advance by AWEMA's Board and/or because the salaries were higher than WEFO guidelines. WEFO had not established a guideline salary for chief executives of third-sector organisations but still applied a correction. The Project Inspection and Verification Team's report acknowledges that the pay scales AWEMA was using had previously been agreed by the AWEMA Board.

3 Claimed petty cash expenditure that was deemed ineligible included items such as milk, water and newspapers for AWEMA's office. The Project Inspection and Verification Team's report states that 'whilst there may be some eligible expenditure included in these costs, the majority is not considered eligible for the scope of these projects and so have been declared ineligible'.

4 The grant payment owed to WEFO is less than the total ineligible project expenditure identified because it reflects the application of the 'intervention rate' applied by WEFO to each project. The intervention rate being the percentage of total project expenditure to be met by WEFO's grant funding (as opposed to match funding).

5 When we shared these findings with AWEMA's Chief Executive and Finance Director they each queried the basis of the figures on ineligible expenditure. We note that, due to the circumstances of the departure from AWEMA of the Chief Executive and Director of Finance, WEFO's Project Inspection and Verification Team did not have the opportunity to seek any further clarification on these matters from them. The ineligible expenditure that WEFO has identified forms part of the overall debt that the Welsh Government believes it is owed by AWEMA. However, the outcome of AWEMA's liquidation process is not yet known (paragraphs 3.26 to 3.39).

*Source: WEFO Project Inspection and Verification Team, Review of the AWEMA Structural Fund Claims, 3 May 2012.*

**2.120** As required by WEFO, AWEMA's external auditor had undertaken an annual examination of each of the three Convergence Programme projects and the Curiad Calon Cymru project; and reported its findings each year to WEFO. The annual audit reports on the Convergence Programme projects had covered the period to March 2011. WEFO determined that the auditors were not required for the final period up to AWEMA's cessation given the extent and scope of the work already undertaken by the Welsh Government's Internal Audit Services and by WEFO's Project Inspection and Verification Team since December 2011.

**2.121** While the annual audit reports by AWEMA's external auditor had, at times, reported ineligible expenditure, the sums involved were of a relatively low value. Given the high level of ineligibility that is now known it would be reasonable to think that the external auditor would have identified and reported to WEFO a higher rate of error and qualification, which would have alerted WEFO to the extent of AWEMA's shortcomings.

## At December 2011, the delivery of two of AWEMA's three Convergence Programme projects was significantly behind profile, although the reported position did not reflect all of the activity delivered by AWEMA's partners and, overall, WEFO was satisfied with progress

**2.122** WEFO data, based on information supplied by AWEMA, shows that, at December 2011, the delivery of the Young Black and Minority Ethnic People Aiming High and Minorities are Wales' Resources projects was significantly behind schedule (Appendix 2). The projects were some way off achieving both the forecast expenditure and, as a likely consequence, the expected outputs and outcomes by that point in time. WEFO has emphasised that, within the first 16 months, both projects had demonstrated they were successfully engaging participants, although more slowly than profiled. Compared with other projects across the EU Structural Funds programmes in Wales, the situation with AWEMA's projects was by no means unique. However, there were clearly some specific problems in terms of the progress of the two projects in recruiting participants in North Wales (Appendix 2, Case Study 8).

**2.123** Despite also being behind its expenditure profile, the Black and Minority Ethnic Employment for All project was reported to be performing to or beyond expectation in respect of three of its five performance indicators. WEFO has indicated that it regarded the number of participants entering employment as the most important indicator for this project. In that respect, AWEMA had reported 265 participants against an expected 221 by that point in time.

**2.124** In addition, the data reported by AWEMA for all three projects does not take full account of the expenditure claimed and any updated performance information provided by AWEMA's project partners since mid-September 2011. These claims are now forming part of the successor arrangements for the three projects (paragraphs 3.40 to 3.48). Nevertheless, some of the feedback we have received suggests that AWEMA was not as proactive as it could have been or, for other reasons, did not pursue opportunities to engage with other organisations to support delivery of its projects, for example by referring potential beneficiaries to the services AWEMA was providing[84,85].

**2.125** WEFO has told us that its focus, in any further monitoring and evaluation, will be on activity claimed by the successor projects. For the Black and Minority Ethnic Employment for All project, AWEMA's business plan had identified plans for a mid-term evaluation but we have not seen any evidence of any such work having been undertaken and reported to WEFO.

## Welsh Government officials in other departments have, mostly, been satisfied with the work supported by the funding they have provided to AWEMA, although we have identified some weaknesses in monitoring arrangements

### The Welsh Government's Communities Directorate was satisfied with the progress of the Communities First 'Black and Ethnic Support Team' partnership, but did not give sufficient attention to certain aspects of its funding

*The Communities Directorate recognised that it needed to provide specialist support for the Communities First programme but challenged the proposal from the Black and Ethnic Support Team partnership appropriately before agreeing funding*

**2.126** The Welsh Government's Communities Directorate recognised that it needed additional support for the Communities First programme, as the programme was being managed by relatively few of its own staff with limited community development expertise. The Communities Directorate funded two main sources of support, these being:

- **a** the Communities First Support Network – an alliance of several community development bodies; and
- **b** the Black and Ethnic Support Team – a partnership arrangement involving AWEMA, the Scarman Trust, Minority Ethnic Women's Network (MEWN) Cymru and the Black Voluntary Sector Network Wales.

84 In October 2010 and May 2011 respectively, AWEMA met with Welsh Government officials responsible for the Minority Ethnic Language and Achievement Project (paragraph 2.104) and representatives of the City and County of Swansea Council and Carmarthenshire County Council to discuss both projects. We understand that a meeting was also arranged with Neath Port Talbot County Borough Council but that the Director of AWEMA (Mr Naz Malik) failed to attend. Neath Port Talbot County Borough Council has told us that Mr Malik had, in advance of the arranged meeting, contacted council officers indicating that he would not work with any local authority that was currently engaging with organisations such as the Ethnic Youth Support Team in Swansea.

85 In July 2010, AWEMA had met with Careers Wales with a view to agreeing ways of working together. Mr Malik told us that it that he had found it difficult to engage with Careers Wales but Careers Wales told us that he did not respond to a communication following that meeting which responded positively to the principle of working together under the terms of a Memorandum of Understanding. There followed a further meeting between AWEMA and Careers Wales in May 2011. Careers Wales has told us that, following the May 2011 meeting, its officers had some concerns about the possible duplication of Careers Wales services but that they did try, without success, to make further contact with Mr Malik. However, Careers Wales has been unable to provide any documentary evidence of an email that it believes was sent to suggest a further meeting.

**2.127** Between February and December 2002, the Communities Directorate challenged the Black and Ethnic Support Team partners to demonstrate that there was a need for the services it proposed to provide and to ensure that its objectives were realistic. In December 2002, the Welsh Government confirmed funding for 18 months, with a focus on the partnership establishing itself and engaging communities to better understand the support needs (Appendix 2).

**2.128** The Communities Directorate's approach of scaling back the initial ambitions of the project was generally sound. However, the shift in emphasis meant that the community development objectives and activities of the Black and Ethnic Support Team were not entirely clear when the initial bid was approved. The revised bid indicated that decisions on the targeting of activity would follow once staff were in post and had gathered evidence of need. The initial objectives focused more on activity and outputs than intended outcomes, which reflects a wider trend identified in our July 2009 report, *Communities First*. However, over time and following discussions with Welsh Government officials, the partnership reshaped its objectives to focus more on outcomes.

*We have some concerns about the Communities Directorate's monitoring of the Black and Ethnic Support Team partnership's finances*

**2.129** Records returned by AWEMA to the Welsh Government in March 2012 show that the Scarman Trust notified the Communities Directorate in December 2002 that AWEMA would take the lead in managing the finances and general administration of the project. We did not see a copy of this letter on the Welsh Government files we reviewed and we found no evidence that the Communities Directorate actively considered whether it was content for AWEMA to receive funding on behalf of the partnership. This was despite the Communities Directorate's decisions on the award of funding, and notification that AWEMA would handle the finances, coming at a time when the Welsh Government's Finance Department was undertaking a review of financial accountability and corporate governance issues at AWEMA (paragraphs 2.9 to 2.10 and Appendix 3, Case Study 2).

**2.130** Recipients of Communities First funding were required to submit annual audit certificates. Usually these certificates would be signed off by an external auditor. However, we have identified several concerns about the certification process for the Black and Ethnic Support Team. Our key concern is that the AWEMA audit certificates we have seen were not signed and tested by an external auditor. Instead, the certificates made clear that they were signed by AWEMA's Treasurer. The Communities Directorate does not appear to have challenged this and may have placed undue reliance on the certificates as evidence that the funding was used for its intended purposes. Mr Malik has maintained to us that he had questioned with the Communities Directorate the need for the certificates to be signed by an external auditor given the additional costs involved.

**2.131** We have specific concerns about the certificates for 2002-03 and 2003-04. AWEMA was very late in submitting the first audit certificate, for 2002-03, on behalf of the partnership. In notes accompanying a certificate dated July 2004, AWEMA reported to the Welsh Government that it had put an £11,500 underspend in 2002-03 into a reserve fund. In January 2005, the Communities Directorate sought clarification from AWEMA regarding the reserve and, in March 2005, withheld any further payment until the partnership could demonstrate that all of the funding allocated to that point had been used for its intended purposes. The Communities Directorate asked each partner to provide management accounts and also introduced a requirement for each of the partners to submit its own audit certificate for each year. The management accounts and audit certificates for 2003-04 reported that the partners had overspent against their allotted funding for 2003-04, which balanced out the underspend in 2002-03. Minutes of partnership meetings show that the partners were discussing underspends shortly before the end of the 2003-04 financial year.

**2.132** The Communities Directorate took advice from the Welsh Government's Finance Department before resuming payments in late 2005. The advice from the Finance Department noted that: 'the financial information supplied [management accounts] has not been independently verified but given that it corresponds with the audit certificates I am content with its accuracy'.

**2.133** The Communities Directorate was not robust in subsequent financial monitoring. The audit certificates for 2004-05 were submitted in June 2006, around a year late. We found no certificates on file for 2005-06 and no evidence to suggest that the Communities Directorate had requested them. The certificates for 2006-07 were again late, although this was partly due to delays caused by one of AWEMA's partners.

*The Communities Directorate was satisfied with the services provided by the Black and Ethnic Support Team, but there were some gaps in its otherwise adequate performance monitoring arrangements*

**2.134** The Communities Directorate was generally satisfied with the services provided by the Black and Ethnic Support Team and its funding continued through to the end of 2006-07. However, following a wider review of national support services, the Communities Directorate concluded that it would be more effective for Communities First partnerships to directly commission support services to meet their needs. The Communities Directorate therefore ceased its funding for the both the Black and Ethnic Support Team and the Communities First Support Network.

**2.135** AWEMA submitted quarterly performance information to the Communities Directorate on behalf of the partners and alongside claims for funding. The Communities Directorate reviewed the performance information and we have seen evidence that it requested further details where necessary and provided challenge in areas where it wanted to see more progress. The Communities Directorate took account of this performance information when making its decisions to extend funding beyond the initial 18-month commitment.

**2.136** However, the Communities Directorate's monitoring tended to focus on the activity delivered by development workers employed by each of the partners, leaving a gap in its monitoring of the partnership's research activity. The Welsh Government had increased its funding from September 2004 onwards

to support research activity. Other than some early research on black and minority ethnic communities in North Wales, none of AWEMA's research reports were contained in the Welsh Government files we reviewed. We found no evidence of officials considering and responding to the research findings or challenging the value for money of this element of its funding.

**2.137** Minutes of the Black and Ethnic Support Team partnership meetings show that there were some concerns among partners about the use of this research funding. AWEMA managed this work on behalf of the partners within its allocation from the total funding. The Welsh Government does not appear to have received these meeting notes at the time and we found them in records sent back to the Welsh Government by AWEMA in March 2012. The minutes record a concern about a lack of transparency in procurement processes, particularly regarding some work involving the then Chair of AWEMA (Dr Rita Austin)[86] and a son of the Chief Executive of AWEMA (Mr Naz Malik). Partners also expressed concern at AWEMA's plans to use this pot of funding to help set up its own regional committees, rather than Black and Ethnic Support Team activity.

## AWEMA achieved one of its main objectives by beginning the process of securing European funding, but the Welsh Government identified that its own monitoring of funding towards the employment of an economic development officer had been deficient and that it was, therefore, difficult to demonstrate value for money

**2.138** The Welsh Government provided £144,000 to AWEMA between 2001-02 and 2004-05 to support the work of AWEMA's Economic Development Committee, in particular through the employment of an economic development officer. As described in Appendix 2, the Welsh Government confirmed its grant offer in November 2000 but the formal financial agreement with AWEMA was not signed off until December 2001. There had, in the intervening period, been delays in the recruitment of the economic development officer and an acrimonious split in the membership of AWEMA's Economic Development Committee (Appendix 3, Case Study 1).

**2.139** In September 2003, responsibility for managing this funding passed from the Welsh Government's Economic Policy Division to its Communities Directorate. There followed some confusion about the terms of the agreement with AWEMA. Specifically, the Communities Directorate had been passed the budget for this funding through to the end of 2003-04 but it had not been made aware that the financial agreement with AWEMA extended into 2004-05. The Communities Directorate sought legal advice to confirm its financial obligations beyond the end of 2003-04.

86 AWEMA's published financial statements for 2005-06 declare two payments to Dr Austin in 2004-05 (totalling £5,450) and a further two payments in 2005-06 (totalling £14,100). The financial statements do not specify that these payments related to the Communities First programme funding and we are aware that, in 2005-06, some of the outputs provided to the equalities unit were also drafted by Dr Austin. Dr Austin has told us that these payments were for operational work on face-to-face policy consultation, research and report writing on behalf of AWEMA and were not related to her duties as Chair. Dr Austin advised us that it was following AWEMA's acquisition of charitable status in March 2005, and immediately after a trustee training session carried out by AWEMA's solicitor, that, as advised by the solicitor, AWEMA's Board regularised these payments for the purposes of declaration in AWEMA's accounts. Dr Austin has confirmed that she did not receive any further payments. The issue of payments to Dr Austin featured in the investigation report prepared for AWEMA's trustees by Dr Paul Dunn in December 2011 in response to allegations against the Chief Executive of AWEMA (Mr Naz Malik) and AWEMA's Operations Director (Ms Tegwen Malik – Mr Malik's daughter). That report referred specifically to a payment to Dr Austin of £12,000.

**2.140** In November 2003, the former Assembly Member David Davies raised concerns about this funding, although there was an inaccurate perception at the time that the Welsh Government's funding represented only the salary costs of AWEMA's economic development officer. Whereas the funding also provided for a contribution to other overheads. Responding to the concerns raised by Mr Davies, AWEMA also emphasised to the Welsh Government that the fact that it had not, at that time, secured European funding was not inconsistent with its funding agreement. The agreement simply stated that the funding was to help AWEMA start the process of securing such funding. It is clear that AWEMA had made progress in that respect.

**2.141** In May 2004, an official within the Communities Directorate expressed the view that the economic development officer funding had been far from successful and that she had no intention of recommending any extension of the funding. However, she also noted that this funding had been poorly monitored over its lifetime[87]. In 2000-01, Welsh Government officials had emphasised the importance of establishing robust monitoring and evaluation arrangements when the funding was being discussed and approved (Appendix 2).

**2.142** The Welsh Government's records show that AWEMA had, albeit irregularly, been providing progress and expenditure reports relating to the work of the economic development officer. There were, in fact, three different staff in post during the lifetime of the agreement and, in the final few months, AWEMA notified the Welsh Government that the salary costs charged would relate mainly to time spent in relation to the economic development brief by the Chief Executive of AWEMA (Mr Naz Malik), following the departure of the third of the three economic development officers in April 2004[88].

**2.143** Having taken on responsibility for this funding, the Communities Directorate acted robustly in recouping a reported underspend against the project's funding. In January 2004, the Communities Directorate confirmed that the Welsh Government was content for AWEMA to retain a reserve from the funding provided, on condition that it would have to be committed to match fund European funding under the EQUAL programme by the end of the lifetime of the funding agreement (September 2004). In August 2004, the Communities Directorate confirmed that, because the focus of AWEMA's Curiad Calon Cymru project did not align with the general purpose for which the grant funding supporting the economic development officer was intended, it would be reducing the final payment to AWEMA – from £27,667 to £16,003 – to recoup the underspend.

## Welsh Government officials were closely involved in, and satisfied with, AWEMA's work in respect of housing, carers and childcare issues

**2.144** With the exception of the £25,000 of Support for Voluntary Intermediary Services grant funding in 2000-01[89], those elements of the Welsh Government's funding of AWEMA that have not already been examined in this part of our report relate to:

**a** housing – £120,125 between 2001-02 and 2003-04, to support the employment of a 'Black and Minority Ethnic Housing Strategy Officer';

87 In January 2005, these views were reflected in the Ministerial submission that considered the equalities unit's future funding of AWEMA in response to the findings of the IMANI Consultancy Services report (Figure 6).

88 Similarly, in January 2004, AWEMA had confirmed with the Welsh Government that it intended to charge some of Mr Malik's salary to the economic development funding following a reduction in the economic development officer's working hours.

89 We have not seen any evidence regarding the Welsh Government's management of its Support for Voluntary Intermediary Services grant funding to AWEMA in 2000-01 beyond the point of approval (Appendix 2). This funding went unspent by AWEMA at the time, although the Welsh Government appears to have only become aware of this in February 2005 (paragraphs 2.35 to 2.46).

b social care policy – £49,830 between 2002-03 and 2003-04 to employ a social worker to undertake research and produce information and good practice guidance relevant to black and minority ethnic carers; and

c childcare – a £10,000 contribution towards research commissioned by AWEMA as part of its Curiad Calon Cymru EQUAL project.

**2.145** In all three of these cases, the records we have reviewed indicate that Welsh Government officials worked closely with AWEMA in overseeing the work undertaken with the support of the funding from their respective departments. It is also clear that Welsh Government officials were satisfied with the outputs from that work.

**2.146** Work undertaken by the Black and Minority Ethnic Housing Strategy Officer was inextricably linked with the delivery of the Welsh Government's Black and Minority Ethnic Housing Action Plan although it also supported AWEMA's own Housing Committee. The officer employed by AWEMA split their time between being based at AWEMA's offices and in the Welsh Government's offices and their work was closely supervised by Welsh Government officials and was deemed to have been successful.

**2.147** A Welsh Government official, supported also by a colleague with research expertise, worked closely with AWEMA in its commissioning of research on black and minority ethnic childcare issues. This interaction included providing comments on the specification for the research, involvement in the selection process for the research contractor, and further direct contact with the contractor during their work and to provide comment on the final report. The records we have seen indicate that the lead Welsh Government official was pleased with the outcome of the work. However, it is less clear how the Welsh Government may have itself used the research to support any wider developments on childcare policy.

**2.148** Welsh Government officials from the Social Care Policy Unit worked closely with AWEMA to refine the scope of the work they funded in relation to carers. They also communicated with colleagues in other Welsh Government departments to understand their funding relationships with AWEMA. Some of the officials consulted questioned whether AWEMA was the most appropriate vehicle for the work that the Social Care Policy Unit was considering funding but the plans were endorsed by officials from the equalities unit. The plans were also considered and supported by the Welsh Government's Carers Strategy Review Panel. Welsh Government officials were then engaged in monitoring progress with the work undertaken by AWEMA and to ensure that the final products (a research report, directory of services and good practice guidance) met their requirements.

**2.149** The outputs from the carers work were launched at an event attended by the then Minister for Health and Social Care (Jane Hutt) on 10 December 2003. This event came in the wake of concerns about AWEMA highlighted by the Western Mail and the BBC's Dragon's Eye programme in November 2003 (paragraph 2.19 and Appendix 3, Case Study 3). It also followed coverage in the Western Mail of AWEMA's criticism of the Welsh Government's consultation on its draft Race Equality Scheme. In preparation for the launch event, Welsh Government officials advised the Minister that, from their perspective, the work on carers had been completed successfully.

**2.150** In each of these three examples, the Welsh Government could potentially have explored other ways of delivering the work supported by its funding to AWEMA. Nevertheless, we have not identified any specific concerns about the work that was ultimately delivered or about the Welsh Government's management of the funding relationships. We do, however, have cause to question whether Welsh Government officials communicated effectively with each other relevant concerns about AWEMA at the times when these funding arrangements were agreed. For example:

- **a** We have not seen any evidence that, in approving the housing funding on 4 March 2002, any consideration was given to the concerns being raised with the Welsh Government earlier that year. Those concerns had led the then Permanent Secretary to suggest, just a week later, the prospect of an Internal Audit review (Appendix 3, Case Study 2).
- **b** In discussing and agreeing with AWEMA its funding, the Social Care Policy Unit does not appear to have been appraised of the concerns that had been raised about AWEMA both earlier in 2002 and again in October 2002. These concerns led to a review of AWEMA by the Welsh Government's Finance Department (paragraph 2.10 and Appendix 3, Case Study 2).
- **c** The childcare research came about following an approach to Education Department officials from WEFO to explore the possibility of match funding. The Education Department officials do not appear to have been sighted of the fact that WEFO had, earlier in 2006, identified concerns about AWEMA's procurement arrangements (Appendix 3, Case Study 5). We consider that this should have been communicated. We have not identified any specific concerns about the way in which the childcare research contract was procured.

## When specific concerns about AWEMA have been brought to its attention, the Welsh Government's response has been too narrowly focused

**2.151** We have already referenced various case study examples regarding the Welsh Government's response to specific concerns about AWEMA's governance and financial management or questions about the funding of AWEMA and the delivery of its work. The conclusions we have drawn about these events (Appendix 3), which pre-date the allegations from late 2011, relate to the way in which they have been responded to by the Welsh Government. We have not commented on the extent to which these concerns were justified.

**2.152** In each instance, the Welsh Government has evidently taken the concerns that have been raised with it seriously. However, we have concluded that the Welsh Government's response to these concerns has, overall, been too narrowly focused. By narrowly focused we mean that the Welsh Government's response:

- **a** has been influenced by officials' reluctance to get involved in matters where:
  - they believed the issues being raised were outside the Welsh Government's remit;
  - they were wary of being seen to take sides in what may have been perceived as personal disputes between particular individuals or organisations; and

- to have taken firmer action might have attracted personal or public criticism (several of the officials we have met have indicated that they were wary of being accused of discriminating in any way against AWEMA).

**b** has been characterised by weak communication and knowledge sharing between departments to help inform the Welsh Government's overall funding of AWEMA (although this has not exclusively been the case);

**c** has dealt with particular concerns on an episodic basis without reflecting on the overall history of its funding relationship, again exacerbated by weak knowledge sharing within and between departments;

**d** has not, by its design, been sufficient to pick up on or get to the heart of certain matters of concern; and

**e** has not followed up these issues, either at the time the concerns were raised or subsequently, with sufficient rigour.

**2.153** The issues we have raised about the response to these concerns are also reflected in certain aspects of the Welsh Government's overall appraisal and monitoring of its grant funding to AWEMA.

# Part 3 – The Welsh Government responded robustly to the concerns that emerged about AWEMA in December 2011, but dealing with the consequences has been time-consuming and the outcome for the public purse is not yet clear

3.1 This part of our report examines the action taken by the Welsh Government in response to the allegations about governance, financial management, staffing and human resource matters and potential criminal activities at AWEMA that emerged in late 2011. Specifically:

- **a** the action taken by the Welsh Government in direct response to these allegations, leading up to the announcement by the Minister for Finance and Leader of the House on 9 February 2012 that the Welsh Government was terminating its funding to AWEMA;
- **b** the financial implications of AWEMA's liquidation for the Welsh Government, notably in respect of European funding;
- **c** the work undertaken by WEFO to develop successor arrangements for AWEMA's Convergence Programme projects; and
- **d** the overall operational impact and direct costs for the Welsh Government in managing its response to the situation at AWEMA.

## On 29 November 2011, AWEMA's Chief Executive informed a WEFO official about a range of allegations, including certain financial matters, but provided his assurance that there were no financial irregularities in relation to the WEFO-funded projects

3.2 Dr Rita Austin has confirmed to us that she had only agreed to accept nomination to become Chair of AWEMA in December 2011 on condition that the Chief Executive of AWEMA (Mr Naz Malik) would bring to the attention of WEFO the allegations against him. The minutes of AWEMA's Board meeting on 16 December 2011 record Dr Austin's understanding that WEFO had indeed been kept informed of developments. In addition, the notes of a meeting on 21 December 2011 between AWEMA and its solicitors record Mr Malik as having stated that he informed WEFO on 29 November 2011 that 'allegations' had been made against him, and that he had submitted evidence to WEFO regarding his response to the allegations. WEFO has confirmed to us that it did not receive any such material from Mr Malik.

**3.3** We have established that on 29 November 2011, in the margins of a meeting between WEFO and various project sponsors including AWEMA, Mr Malik brought to the attention of the Head of WEFO's European Social Funds branch the fact that he was facing various allegations. Mr Malik indicated that these allegations included certain financial matters, although the exact details of his conversation with the head of branch are unclear.

**3.4** The head of branch has told us that he regarded the allegations as matters of internal governance for AWEMA and that he had been assured by Mr Malik that there were no financial irregularities in relation to the WEFO-funded projects. The head of branch had indicated to Mr Malik that he would want to see copies of papers that Mr Malik explained would be going to AWEMA's planned board meeting on 16 December 2011. In advance of that meeting, AWEMA's trustees commissioned, from Dr Paul Dunn, an investigation report into allegations made against both the Chief Executive of AWEMA (Mr Naz Malik) and AWEMA's Operations Director (Ms Tegwen Malik – Mr Malik's daughter).

## The matters raised by AWEMA's Chief Executive on 29 November 2011 were not communicated more widely within the Welsh Government until both AWEMA's Finance Director and Chief Executive separately contacted WEFO and the Welsh Government's equalities unit on 19 December 2011

**3.5** We have seen no evidence that the Head of WEFO's European Social Funds branch communicated any of the matters raised with him by AWEMA's Chief Executive on 29 November 2011 to any other Welsh Government officials. Had this been done, there would have been the opportunity for WEFO's Project Inspection and Verification Team to make further enquiries during its planned inspection visit to AWEMA in early December 2011 (paragraph 2.114 and Appendix 3, Case Study 8). We have received no evidence to suggest that these matters were raised by WEFO staff or by any representatives of AWEMA during that visit.

**3.6** Late in the evening of Sunday 18 December 2011, AWEMA's Finance Director (Mr Saquib Zia) sent a message to the correspondence inbox of the Minister for Social Justice and Local Government (Carl Sargeant) notifying him of the allegations[90]. This email was passed on to an official in the Welsh Government's equalities unit in the early afternoon of 19 December 2011. By this point, both the Head of the WEFO's European Social

90 The Minister had been responsible for the equalities portfolio immediately prior to, but not since, the 2011 National Assembly elections (Appendix 5).

Funds branch and the head of the equalities unit had already taken action in response to the emails they had received personally from AWEMA's Finance Director that morning. Officials from the Welsh Government's equalities unit have confirmed to us that they were unaware of any of the allegations against Mr Malik before the head of the unit received the email from Mr Zia.

3.7 Mr Malik also emailed both the Head of the European Social Funds branch and the head of the equalities unit on the morning of 19 December 2011, after the emails sent by Mr Zia. Mr Malik's email did not set out any details of the allegations against him. However, the email referred to a phone conversation that took place earlier that day with the Head of the European Social Funds branch requesting a meeting and noted that Mr Malik had previously made the head of branch aware of allegations he was facing, including in relation to financial matters.

## The Welsh Government acted robustly in holding back payments to AWEMA in response to the allegations it received on 19 December 2011 and commissioning an Internal Audit Services review, although WEFO payments worth £529,000 could not be stopped

### The Welsh Government took swift action to hold back payments to AWEMA but WEFO payments worth £529,000 were already in train and could not be stopped

3.8 Given the possibility of staff being on leave in the week before Christmas, the emails and phone-calls received by Welsh Government officials from AWEMA's Chief Executive and Finance Director on the morning of 19 December 2011 could have gone unanswered for some time. Likewise the correspondence to the Minister for Social Justice and Local Government (although the Welsh Government has assured us that Ministers' offices have appropriate cover arrangements for handling correspondence).

3.9 As it was, and taking particular account of the nature and source of the allegations, both the equalities unit and WEFO responded swiftly in escalating the matter. This included bringing the allegations to the attention of and seeking advice from colleagues in Legal Services and the Internal Audit Services. WEFO's Head of Finance contacted the Welsh Government's Central Finance Team at around 1.30pm that same day. The Central Finance Team then

contacted the bank with a view to stopping three payments that had been approved on 13 and 14 December. A payment of just under £241,000 was due on 19 December 2011 and two payments worth, in total, just over £288,000, were due on 20 December 2011.

**3.10** In order to stop payments that had already been authorised, the Welsh Government would have had to notify the bank by midday at the latest on the day before payment. These three payments were, therefore, unable to be stopped. Had the matters raised by AWEMA's Chief Executive on 29 November 2011 been looked into more promptly by the Welsh Government, we consider it possible that these payments would not have been authorised.

**3.11** We note that, if the Welsh Government had been able to hold back the payments made on 20 December 2011 then this would have made AWEMA's financial position, or that of its partners, even more precarious. WEFO had expected that AWEMA would share its advance payments with partners to assist with their own cash flow but does not appear to have been aware that this had not been happening. Issues relating to the distribution of advance payments had, in 2006, been part of concerns that WEFO identified and looked into on the Curiad Calon Cymru project. Having received the December 2011 advance payments, AWEMA subsequently paid out some £268,000 to its partners for claims covering retrospective activity through only to the end of August 2011. This situation reinforces the May 2012 conclusion of WEFO's Project Inspection and Verification Team that AWEMA had been using WEFO advances to fund its core operating costs (paragraph 2.117).

**3.12** The Welsh Government made no further payments to AWEMA after 20 December 2011, notifying AWEMA formally on 6 January 2012 that it was withholding all funding pending an Internal Audit investigation.

## While the commissioning of the Internal Audit Services review was reasonable in the circumstances, the Welsh Government could have better managed expectations about the scope of its work

**3.13** Having confirmed with AWEMA that it intended to undertake an Internal Audit Services investigation[91], the Welsh Government's investigation team moved swiftly to obtain access to relevant papers and records held by AWEMA, including a two-day on-site visit and interviews with key staff and trustees. During the following four weeks, the investigation team kept the Wales Audit Office abreast of its progress and also liaised with officers of South Wales Police and the Charity Commission.

**3.14** While the Internal Audit Services work was undertaken rapidly and in accordance with its terms of reference, publication of the report attracted significant comment from politicians, the media and members of the public. Some of those comments, particularly those that were critical of the investigation team for not having contacted Dr Paul Dunn[92] during their fieldwork, were based on a misunderstanding of the scope of review. The investigation team was not specifically tasked with reviewing the internal operations of AWEMA (a matter for the Charity Commission, rather than the public funders), or to investigate allegations of fraud against individuals within the charity (a matter for South Wales Police).

91 The First Minister and the Minister for Finance (and Leader of the House) announced this decision in the National Assembly on 10 January 2012, after the Welsh Government had notified AWEMA on 6 January 2012. The audit was conducted jointly on behalf of the Welsh Government and the Big Lottery Fund (summary paragraph 3 and Figure 1).

92 The author of the investigation report completed on behalf of AWEMA's trustees in December 2011 (paragraph 3.4).

**3.15** However, the Welsh Government did not make public the precise scope of the review until the Internal Audit Services report was published. This gave rise to inflated public expectations concerning the scope of the report, and about the breadth and depth of the work that was to be undertaken. This situation was exacerbated by the mistaken public perception that a South Wales Police investigation was proceeding in parallel with the Internal Audit Services work. In reality, the police were awaiting sight of the Internal Audit Services report before commencing any detailed investigatory work themselves.

**3.16** The resultant gap between public expectations and the actual nature of the Internal Audit Services review was unfortunate, especially given that work undertaken was sufficient in both breadth and depth to support the overall conclusions drawn in their final report. We also consider that the action taken in commissioning an Internal Audit Services review was reasonable given the nature and source of the concerns that had been raised with the Welsh Government.

**3.17** We were informed by Dr Rita Austin that although she had met with the investigation team, she had not been presented with any opportunity to comment on a draft of the Internal Audit report. Furthermore, in her view the published report contained some factual inaccuracies and lacked balance. For example, Dr Austin has expressed concern to us that there was no distinction made in the report between the conduct of trustees who had resigned and those who had stayed on and supported the Internal Audit work. The Welsh Government's Head of Internal Audit told us that the report deliberately did not distinguish between the trustees in this way as, in his view, there had been some continuing corporate failures in the governance of AWEMA. Dr Austin disputes this. The Head of Internal Audit also noted that to have included reference to these matters in the Internal Audit Services report would potentially have compromised other ongoing investigations. Dr Austin has rightly noted that some of the issues highlighted by the report, such as the employment of family members, salary levels and progression, and Mr Malik's role as both the Chief Executive of AWEMA and as a trustee were already known to the Welsh Government, or at least should have been identified and challenged previously, through other project appraisal and monitoring arrangements.

**3.18** We consider that it would have been sensible for the investigation team to have sought to reach agreement with Dr Austin, at least on factual accuracy, prior to finalising its report. This is particularly so, given the significance of the report's findings and conclusions in informing the Minister's subsequent decision to terminate all Welsh Government and WEFO funding for AWEMA. The Welsh Government's Head of Internal Audit told us that he had judged it highly unlikely that his team would be able to obtain the agreement of Dr Austin and Mr Malik to such a critical draft report, and that to seek to do so would have significantly delayed the publication of the report. Based on the conclusive evidence that the investigation team considered that it had gathered in support of its findings, the Head of Internal Audit had therefore resolved to finalise his report without the agreement of AWEMA, in the interests of providing urgent advice to funding officials within both the Welsh Government and the Big Lottery Fund.

**3.19** Both Dr Austin and Mr Malik have also questioned the fact that the Internal Audit Services report did not include any consideration of the action that could be taken to turnaround the situation at AWEMA. We do not consider that this matter needed to form part of the Internal Audit investigation but there is a perception on the part of both Dr Austin and Mr Malik that the outcome – the subsequent termination of the Welsh Government's funding to AWEMA – had been predetermined. Dr Austin has expressed particular concern to us about comments made by the then Permanent Secretary at the Public Accounts Committee meeting on 29 January 2012 which referred to AWEMA being a 'high-risk' organisation. Dr Austin told us that she considers these comments to have been 'extremely prejudicial'.

**3.20** When we put these concerns to Welsh Government officials, they told us that no decision had been taken on the termination of funding to AWEMA prior to completion of the Internal Audit Services report. Up to that point, all of the options regarding the future funding of AWEMA had remained available. The decision to terminate funding, based on the overall conclusion of the Internal Audit Services report, was taken and communicated to AWEMA on 9 February 2012. Certainly, AWEMA had little choice other than to cease operating once the Welsh Government and the Big Lottery Fund both terminated their funding. The Welsh Government did not have any dialogue with AWEMA about its response to the Internal Audit Services report before notifying AWEMA of its decision to terminate funding.

## The Welsh Government brought together key officials in an effective way to manage its response to the situation at AWEMA although they were, to an extent, operating in uncharted territory and there has had to be some diversion of staff resources from other work

**3.21** As noted in paragraph 3.9, the Welsh Government acted promptly in coordinating a cross-departmental response to the allegations received from AWEMA's Finance Director (Mr Saquib Zia) on 19 December 2011. This cross-departmental action continued through January 2012 but was formalised in early February 2012 when the then Permanent Secretary tasked the Welsh Government's Director of Governance with coordinating future action, including developing and leading a Task and Finish Group. The main objectives of the group, which met on 13 occasions between 10 February 2012 and the end of July 2012, have been to protect the delivery of services to participants in AWEMA's WEFO-funded projects as far as possible and to secure the return of the greatest amount of public funds from AWEMA.

**3.22** One of the immediate concerns of the group was to guard against further public money being issued from the AWEMA bank account and unsecured assets taken (for example, computer equipment/building keys/ chequebooks). The Welsh Government sought assurances from the Chair of AWEMA (Dr Rita Austin) who confirmed that action was being taken to secure assets and to recover a laptop and other equipment from Mr Zia. Dr Austin also confirmed that chequebooks were in the sole possession of one of AWEMA's temporary finance managers and that no cheques were missing or unaccounted for.

**3.23** Welsh Government officials have recognised that despite certain previous experience, they were also, to an extent, operating in uncharted territory. For example, while the Welsh Government has previously assumed the position of creditor in insolvency situations, it considers that this case was unusual in that the Welsh Government was seeking to recover both domestic and European grant monies (the latter having been paid in advance) and was the largest creditor by some degree. For that reason, the Welsh Government bought in the services of a lawyer specialising in commercial litigation to join the membership of its Task and Finish Group. The Welsh Government has confirmed to us that, to the end of June 2012, the costs it has incurred in relation to this external legal advice amounted to £13,170 (inclusive of VAT).

**3.24** We asked the Welsh Government to identify, if possible, the amount of staff time that had been spent in response to the situation at AWEMA. The Welsh Government has estimated that staff time spent to the end of June 2012 amounted to around 315 working days (excluding WEFO). This estimate includes time spent facilitating our own work[93]. The figure supplied by the Welsh Government relates to officials from its Strategic Planning and Equalities Division, Legal Services, Internal Audit Services and in the Permanent Secretary's Division. WEFO has indicated that it is not able to calculate a reliable enough estimate. However, the resources it has deployed, for example through its additional Project Inspection and Verification work (paragraphs 2.114 to 2.119), in its work to develop successor arrangements for AWEMA's projects (paragraphs 3.40 to 3.48) and in assisting our own audit work, have clearly been substantial. Had the Chair of AWEMA and some other trustees not stayed on to oversee an orderly winding-up of the charity, the potential demands on the Welsh Government's own resources would have been higher.

**3.25** There has been an impact on the delivery of other work by the Welsh Government. For example, the Welsh Government has identified that a planned grants review by the equalities unit and Strategic Planning Division projects relating to policy skills and policy and delivery have been delayed. WEFO has identified that the additional demands on its Project Inspection and Verification Team have led to delays in the completion of other work.

## While the outcome of the liquidation process is not yet known, it is clear that the Welsh Government will not recover most of the £545,966 that it now believes it is owed by AWEMA

### Following AWEMA's preparation of its final WEFO claims, and further work by WEFO's Project Inspection and Verification Team, the Welsh Government has concluded that it is owed £545,966 by AWEMA, although the sum of the debt is disputed by AWEMA

**3.26** In seeking to protect public funds and ensure that grant money was used only for its proper purpose, the Welsh Government's Director of Strategic Planning and Equality wrote to the Chair of AWEMA (Dr Rita Austin) on 9 February 2012 stating that grant funding should not be used to make any further payments unless authorised by the Welsh Government[94]. Dr Austin has told us that, upon receiving this letter, on 10 February 2012,

93 The Welsh Government does not operate a time-recording system and so any figures in relation to staff time are simply best estimates.

94 This letter, alongside another letter sent the same day by the Chief Executive of WEFO, also confirmed the decisions to terminate funding.

she sought clarity about what was and was not considered by the Welsh Government to be necessary expenditure, particularly as the payroll was due for processing. In a further letter, sent on 10 February 2012 and received by the Chair of AWEMA on 13 February 2012, the Director of Strategic Planning and Equality confirmed that this advice was not intended to constrain AWEMA's ability to cover normal running cost activities.

**3.27** The Welsh Government's Task and Finish Group took legal advice and agreed that the best course of action was to establish the major claim, which was in relation to WEFO funding, as soon as possible. The Welsh Government's external legal adviser wrote to Dr Austin on 22 February 2012 setting out that, at that point, WEFO had identified that it was potentially owed £564,985 in respect of the three projects it was funding.

**3.28** However, the description of the debt in the letter was not clear and, in part, inaccurate. The letter did not make clear that the sums identified as owing for each project comprised the difference between the total grant received by AWEMA and eligible claimed expenditure over the full lifetime of the projects. Instead the letter gave the impression that the debt related to specific payments for the three projects on 28 October 2011, 19 December 2011 and 20 December 2011 respectively. There was no payment in October 2011 and so the reference to such a payment was inaccurate.

**3.29** The letter asserted that AWEMA had breached grant terms and conditions, and that the monies held in respect of the WEFO grant funding were held by AWEMA on trust and should be held separately from other monies. Dr Austin did not respond to this letter, although she has told us that the designation of the WEFO funding as trust money had never been set out previously by WEFO and we have seen no records to suggest that it had been. She has also indicated that to have sought to repay any monies to WEFO at that point would have gone against the advice she was receiving about due process and that to do so would have undermined AWEMA's ability to bring its operations to an orderly end.

**3.30** The Welsh Government's Task and Finish Group took further legal advice and the external legal adviser issued another letter to AWEMA on 2 March 2012 which:

- **a** demanded the immediate return of the sum of debt of £564,985 identified in the letter of 22 February 2012;
- **b** noted that WEFO believed there to be £140,000 remaining in AWEMA's bank account and requested that this be paid to WEFO immediately as part repayment of the sum of debt; and
- **c** reiterated that none of the WEFO funding should be used for purposes other than in accordance with the grant terms and conditions.

**3.31** The demand for repayment was not met and, on 15 March 2012, the Welsh Government's legal adviser sent AWEMA's insolvency practitioners[95] a breakdown of its proof of debt in relation to both equalities unit and WEFO funding. The covering letter threatened further legal action to secure repayment, as is the usual practice of creditors in insolvency situations. This letter was sent on 15 March, in advance of a planned creditors meeting on 16 March 2012. The total debt identified by the Welsh Government at that point was £907,340[96], comprising of:

95 AWEMA confirmed the appointment of its insolvency practitioners at a board meeting on 27 February 2012.

96 This figure also includes the Welsh Government's stated claim on £180,575 that it had identified as the balance in AWEMA's bank account as at 9 February 2012.

a The previously identified figure of £564,985.

b Through the initial work of its Project Inspection and Verification Team, WEFO estimated at that point that there could be a further £201,095 of ineligible expenditure that had not been identified from previous claims.

c A sum of £140,261 in relation to funding from the equalities unit. This sum represents the entire core funding payments and other small one-off grants paid by the equalities unit to AWEMA since April 2010. The Welsh Government contended that AWEMA was in breach of contract, having failed to lodge accounts for 2010-11 by the end of 2011. WEFO's grant terms and conditions with AWEMA did not support the same argument in respect of its European funding.

**3.32** AWEMA disputes the Welsh Government's claim in relation to the equalities unit funding and has made a counterclaim for payment of its core funding for the second and third quarters of 2011-12 and through to 29 February 2012. This claim amounts to £69,065. AWEMA is also claiming that it is owed a further £1,000 by the equalities unit. This relates to a survey that the equalities unit was conducting into the experiences and barriers faced by those with 'protected characteristics' under the Equality Act 2010. AWEMA had submitted an invoice for £1,000 for its work associated with promoting the questionnaire and generating responses, shortly before the Welsh Government suspended payments following the allegations received in December 2011. The equalities unit had indicated to AWEMA that a small amount of funding would be available to cover the costs of hosting some specific events/ focus groups or potentially to cover other costs incurred in generating survey responses. While the equalities unit did receive some 50 responses via AWEMA, the unit did not receive any evidence from AWEMA regarding the costs involved in generating those responses. On that basis, the equalities unit told us that it does not deem the £1,000 eligible for payment.

**3.33** Also on 15 March 2012, Welsh Government officials met Dr Austin, the insolvency practitioners, and one of the two accountants who had been contracted by AWEMA to compile and reconcile AWEMA's financial records. From the Welsh Government's perspective, the purpose of that meeting was to[97]:

a ascertain the identity of other creditors and the possibility of brokering a deal with them;

b explore the insolvency practitioner's position regarding the Welsh Government's contention that the funds in AWEMA's bank account were essentially WEFO monies held on trust (paragraph 3.29); and

c confirm the value of the work undertaken by the insolvency practitioners to that point.

**3.34** At the meeting, the insolvency practitioners outlined their intention to ring-fence £30,000 of AWEMA funds to cover their fees. In addition, the insolvency practitioners indicated that the Welsh Government was the largest creditor and would be likely to receive £84,000 of the £142,136 still in AWEMA's bank account at that point in time.

97 The Welsh Government has told us that this meeting was originally scheduled for 12 March 2012 but was deferred by AWEMA. The Welsh Government has told us that its letter to AWEMA of 15 March 2012 was mentioned at the meeting but that it was neither the main purpose of the meeting nor the focus of discussion.

**3.35** To give time to consider the Welsh Government's proposals, the insolvency practitioners deferred the creditors meeting planned for 16 March 2012. The insolvency practitioners also agreed that the funds in AWEMA's bank account would not be used other than in respect of matters previously agreed and the costs associated with the maintenance of AWEMA's office facilities. That was until a court had determined the issues of ownership of those funds or until AWEMA and the Welsh Government reached agreement regarding the ownership of funds, whichever was sooner. In the meantime, the Welsh Government sought advice from its external legal adviser and from specialist Counsel on the question of whether WEFO monies could be said to be held on trust. That advice pointed to a positive percentage rate for the likelihood of success, but there was an obvious concern that the costs of court proceedings on both sides could outweigh the benefit of any recovery.

**3.36** Based on the cost-benefit analysis provided by the external legal adviser, on 2 May 2012 the Welsh Government's Task and Finish Group decided not to pursue its argument in respect of monies held on trust. Instead, the Welsh Government assumed the position of an unsecured creditor. Dr Austin has commented to us on the time taken to reach this decision, and the consequent impact in terms of time spent by the liquidators on this issue and the related legal costs to the Welsh Government.

**3.37** The final claims prepared by AWEMA enabled WEFO to establish that it was owed £301,614 in relation to the three Convergence Programme projects. This debt represented the difference between WEFO's grant payments, including advance payments, and AWEMA's claimed expenditure to 29 February 2012. However, the final sum of ineligible expenditure identified on completion of the Project Inspection and Verification Team's review of AWEMA's claims for the period since April 2010 (paragraphs 2.114 to 2.121 and Figure 7) has increased the debt by a further £104,091 to £405,705.

**3.38** The position in respect of the equalities unit funding remains unchanged, from the perspective of both the Welsh Government and AWEMA (paragraphs 3.31 to 3.32). Taking into account the £140,261 of equalities unit funding it believes it is owed amounts to a total debt, from the Welsh Government's perspective, of £545,966.

## The Welsh Government's claims far exceed the amounts available to reimburse AWEMA's creditors

**3.39** AWEMA's liquidation process is still ongoing and the final value of the assets available to meet creditors' claims, and the full value of those claims, is still uncertain. Whatever the outcome, it is clear that the final value of the assets available to meet creditors' claims will fall a long way short of the total value of the debt identified by the Welsh Government. Even then, there will be preferential creditors – not including the Welsh Government – who will have first call on AWEMA's assets and other unsecured creditors who will also be entitled to a share of the assets.

## WEFO has established successor arrangements for AWEMA's Convergence Programme projects and to ensure AWEMA's partners could sustain delivery WEFO opted to protect them from losses arising from AWEMA's insolvency

**3.40** In announcing, on 9 February 2012, the Welsh Government's decision to terminate its funding to AWEMA, the Minister for Finance and Leader of the House (Jane Hutt) made clear the Welsh Government's commitment to protecting participants in the Convergence Programme projects as far as possible. Reflecting this commitment, WEFO had already approached AWEMA's partners on the Convergence Programme projects to consider what alternative arrangements could be put in place in the event that funding to AWEMA was terminated. There followed a meeting with the partners on 14 February 2012 and WEFO has since worked closely with those organisations to develop successor projects (North Wales Regional Equality Network; Sova – which previously also operated under the title Supporting Others Through Volunteer Action: YMCA Wales; YMCA Swansea; Valleys Regional Equality Council; and the Minority Ethnic Women's Network Swansea).

**3.41** WEFO established a dedicated helpline to provide individual participant support and advice. WEFO has confirmed that it did not, in fact, receive any calls to the helpline from project participants[98]. WEFO has attributed this to the continued delivery of project activity through the partner organisations.

**3.42** On 12 March 2012, WEFO informed AWEMA's project partners that they had the following two options in respect of claims for payment for their activity between 1 September 2011 and February 2012:

- **a** to continue to present the claims to AWEMA to then be dealt with through the liquidation process; or
- **b** to withdraw the claims, with WEFO then offering to treat them as retrospective claims in the event of approving successor projects.

**3.43** All of the partners withdrew their claims for payment from AWEMA. WEFO had determined that this offer would increase the likelihood that the partners remained financially viable and would therefore continue to deliver the projects, albeit at their own risk in the short-term. Because the partners have not presented claims for the September 2011 to February 2012 period through AWEMA, the value of the debt that WEFO has identified it is owed by AWEMA (the difference between WEFO's grant payments and the sum of eligible grant claims) is higher than it would otherwise have been. WEFO recognises that it will not recoup all of the debt it is owed by AWEMA to help offset the claims from project partners for that period.

**3.44** WEFO's grant contribution towards the partners' claimed project costs will also be greater than it would have been under the previous arrangements. That is because the percentage of the total project costs to be met by grant funding – rather than by the partners' match funding – is higher than previously the case for each project[99].

98 The helpline had been promoted on WEFO's website and via Twitter. Otherwise, WEFO relied on the project partners to alert participants to the helpline.

99 Because of the more favourable match funding rate, WEFO has not needed to explore, on behalf of the project partners, the possibility of other Welsh Government match funding.

**3.45** WEFO has assessed proposals from YMCA Swansea, the Valleys Regional Equality Network and Sova to lead the successor projects. WEFO has hosted workshops with the purpose of building trusting and effective working relationships between the partners; to make all partners aware of their responsibilities and to help explain some of the more technical aspects of European funding, such as completing and submitting claims for payment. All three of these projects have now been formally approved (Figure 8) and the project objectives and models of delivery remain largely unchanged.

**3.46** WEFO's Financial Appraisal Team has carried out financial appraisals of each project partner. These appraisals considered the way in which project costs were being calculated and the overall financial viability of each project partner in terms of their projected cash flows across the duration of the projects. To expedite the appraisal process, the Financial Appraisal Team did not produce a formal report setting out the results of its appraisal. Instead, the Financial Appraisal Team provided its feedback to project development staff through a series of emails. The Financial Appraisal Team concluded that, for the projects to be financially viable, project sponsors (both lead and joint) will need some advance payments.

**Figure 8 - Successor arrangements for AWEMA's EU Convergence Programme projects**

| | Increasing Black and Minority Ethnic Employment, Tackling Black and Minority Ethnic Economic Inactivity[1] | Raising Skills and Aspirations of Young Black and Minority Ethnic People II[2] | Minorities are Wales' Resources (2) |
|---|---|---|---|
| Lead partner | Sova | YMCA Swansea | Valleys Regional Equality Council |
| Total grant offered | £0.9 million | £1.18 million | £1.48 million |
| Total project cost | £1.12 million | £1.40 million | £1.76 million |
| Date approved | 20 July 2012 | 5 July 2012 | 10 August 2012 |
| Project duration | September 2011 to June 2013 | September 2011 to September 2013 | September 2011 to June 2014 |

Notes

1 Succeeding AWEMA's 'Black and Minority Ethnic Employment for All' project.

2 Succeeding AWEMA's 'Young Black and Minority Ethnic People Aiming High' project.

*Source: WEFO.*

**3.47** WEFO's funding decision reports for the successor projects comment on certain project risks that did not feature – but arguably should have featured – in the equivalent documents for the original AWEMA-led projects. For example, the reports recognise the projects' reliance on volunteer time as match funding, and the need to ensure that projects are able to both secure the proposed level of volunteer time and to record the volunteer time accurately. In addition, the funding decision reports recognise that there are some uncertainties concerning the capacity of the partner organisations to deliver the projects. The reports note that the projects will need to be closely monitored by WEFO.

**3.48** WEFO officials have emphasised to us that, in developing the successor projects, they have worked more closely with the proposed project partners than would usually be the case. While we have received some positive feedback about the way in which WEFO has worked with the project partners to establish successor arrangements, some of the partners have remarked to us on the length of time this has taken and the amount of work involved which has placed its own strain on their resources.

## WEFO and the Welsh Government's equalities unit have taken forward a range of actions relating to due diligence in their funding to other organisations

**3.49** In response to the difficulties experienced with AWEMA, WEFO has undertaken a wider review of its use of advance payments for third sector organisations. That work demonstrated that some organisations were being paid in advance even though there was no clear financial need for advance payment[100]. The Welsh Government's 'Code of Practice for Funding the Third Sector' supports the principle of advance payment, but only 'where a clear financial need is established'. WEFO had been working on the assumption that third sector organisations would, by default, be in need of advance payment. Following its review, WEFO has set out a number of changes to its processes for approving advance payments. Flowing from its own 'Lessons Learnt Task and Finish Group', WEFO has also confirmed some revised arrangements for project monitoring and the processing of claims (Figure 9).

**3.50** WEFO has also identified the need to improve its communication with other Welsh Government departments. WEFO has told us that it is going to update its project appraisal checklist to ensure that, where relevant, its officers contact the department with lead responsibility for managing the Welsh Government's relationship with organisations that it is considering funding.

100 WEFO has reviewed 16 third sector organisations currently in receipt of advance payments, to assess whether they are in need of these advance payments. This review did not include the Wales Council for Voluntary Action (WCVA), which is in receipt of £8 million of the £11 million of advance made by WEFO to third sector organisations. WEFO told us that it had excluded the WCVA, in the short-term, as the Welsh Government is carrying out a wider review of its funding to the WCVA. Independent of the situation with AWEMA, the Welsh Government's Grants Centre for Excellence has reviewed all the grant schemes managed by the Welsh Government. This review highlighted inconsistency in the treatment of payments in advance. In response, the Welsh Government has developed a template that third sector organisations need to complete in order to demonstrate need for payment in advance. The Welsh Government has also been discussing with the Big Lottery Fund and the Charity Commission arrangements for a coordinated response to concerns about issues that may arise in relation to other bodies.

We note, however, that at present the Welsh Government has no mechanism for identifying which department should hold such relationship management responsibilities.

**3.51** On 29 February 2012, the Welsh Government's equalities unit outlined to the Minister for Finance and Leader of the House its plans for a wider due diligence exercise across all third sector organisations funded under its two main grant schemes (the Advancing Equality Fund and Inclusion Grant). The Minister then wrote to the chairs of the relevant organisations seeking assurances that organisations were adhering to established principles of good governance. The Welsh Government's Director of Strategic Planning and Equality followed up that letter with a request for supporting documentation.

**3.52** The equalities unit has reported good cooperation with the exercise, although we have been told that some organisations were initially reluctant to let the Welsh Government see the minutes of relevant internal meetings. Where this work has identified issues that merit further exploration, this has been followed up in conjunction with the Welsh Government's Internal Audit Services. We have been told that this work has included dialogue with other Welsh Government departments funding these organisations.

**Figure 9 - Actions identified by WEFO in respect of advance payments and general due diligence in the management of its funding to other organisations**

Advance payments:

- WEFO has revised guidance stating that where a new project wishes to claim advance payments it must be referred for an assessment of need to its Financial Appraisal Team. WEFO is also creating an additional post in the Financial Appraisal Team.
- WEFO will now require that any initial decision on the principle of paying an organisation in advance must be approved by its Deputy Director, Programme Performance and Finance, with the same in-principle approval being required where organisations are already in receipt of advance payments and can demonstrate need.
- Where organisations currently in receipt of advance payments cannot demonstrate need, WEFO intends to agree a progressive reduction in the value of advance payments, down to zero.
- Where an organisation can demonstrate the need for advance payments, it will be subject to tighter controls through the funding offer letter. For example, potentially requiring that funds be held on trust in a separate bank account.
- A new clause is being introduced in WEFO's 'offer of grant' letters, placing an obligation upon a lead sponsor to transmit funds received from WEFO to third parties without undue delay.

Project monitoring and processing of claims

- all third and private sector organisations in receipt of advance funding will now be required to submit management accounts every six months;
- the scope of work undertaken by WEFO's Project Inspection and Verification Team will be expanded to consider the operation of general financial controls, as well as the audit trails that support claims; and
- when processing claims for payment, WEFO's payments team will, on a sample basis, make additional checks on source documents, for example, requesting copies of certified invoices and bank statements to confirm defrayment.

**3.53** The approach adopted by the equalities unit was developed with assistance from Internal Audit and built on a model deployed on the Communities First programme as part of the Welsh Government's response to issues raised in our March 2010 report, *Plas Madoc Communities First.* However, senior officials responsible for the equalities unit have emphasised that the work has been very resource intensive. Issues considered by the due diligence exercise include:

- **a** governance, leadership and management;
- **b** conflicts of interest;
- **c** internal relationships and staff (and trustee/board member) recruitment;
- **d** financial viability, accountability and control, including consideration of audited accounts; and
- **e** minutes of meetings – with a particular focus on evidence of scrutiny and decision-making processes.

# Appendix 1 – Audit methods

## The scope of our work

Our review has considered whether the Welsh Government, including the Welsh European Funding Office (WEFO), has managed its relationship with AWEMA appropriately to protect and make good use of public funds. We have looked at the full history of that relationship from the creation of AWEMA in 1999 through to the actions taken by the Welsh Government in relation to its decision, on 9 February 2012, to terminate its funding for AWEMA.

As stated at the outset of our work, we have not examined the internal workings of AWEMA in terms of its governance, staffing matters or financial management. The responsibility for any further examination of AWEMA's governance, in particular the trustees' actions and decision making in managing the charity, rests with the Charity Commission, which has been taking forward its own inquiry. Nor have we sought to undertake our own evaluation of the work that AWEMA has delivered with the support of Welsh Government funding. We have focused instead on the way in which the Welsh Government has discharged its responsibility in satisfying itself that its grant funding to AWEMA provided good value for money, including the Welsh Government's response to any specific concerns that have come to its attention.

As with the Internal Audit Services report, we have been careful not to encroach on matters that have been under investigation by South Wales Police. We have not sought to repeat work that underpinned the joint Internal Audit Services report in February 2012[101] or work that has since been taken forward by WEFO's Project Inspection and Verification Team (paragraphs 2.114 to 2.121).

Our main focus has been on the funding relationship between the Welsh Government's equalities unit[102] and AWEMA (which spans the full period of our analysis), and between WEFO and AWEMA (which has involved the largest overall sum of funding). However, we have considered the management of grant funding to AWEMA by other Welsh Government departments. We have also considered how different parts of the Welsh Government have interacted in the management of their grant funding to AWEMA and in their response to specific concerns.

## Analysis of the Welsh Government's payments to AWEMA

We asked the Welsh Government to provide a full breakdown of its payments to AWEMA. By cross-checking this information against other Welsh Government records, we have been able to draw together a full picture of the chronology, volume and general purpose of these payments. That is with the exception of some low-value payments between January and November 2002 (Appendix 2).

101 Joint report by Internal Audit Services of the Welsh Government and Big Lottery Fund, *A Review of the Effectiveness of Governance and Financial Management within the All Wales Ethnic Minority Association*, 9 February 2012.

102 For consistency, we refer throughout this report to the Welsh Government's equalities unit. However, the unit responsible for equality policy has existed under different names since May 1999 following various restructuring exercises. The names given to the unit have been: Equality Policy Unit (May 1999 to early February 2006); Strategic Equality and Diversity Unit (early February 2006 to the end of December 2007); Equality and Human Rights Division (January 2008 to April 2009); and the Equality Diversity and Inclusion Division (since April 2009).

## Review of Welsh Government records

We have reviewed well in excess of 150 Welsh Government recorded files, although it transpired that some of these did not actually contain any information relevant to our work. We have also reviewed a wide range of other electronic and hard copy information supplied by individual Welsh Government departments and the officials we have contacted directly in the course of our work or held on the Welsh Government's electronic systems.

We cannot be certain that we have reviewed all of the Welsh Government files containing records relevant to its relationship with AWEMA. For example, where AWEMA may have responded to Welsh Government consultations or participated in particular working groups. However, we are confident that we have reviewed all of the key and extant records that relate directly to the management of the Welsh Government's grant funding.

The quality of some of the Welsh Government's record keeping has been poor, in particular the files relating to the relationship between the Welsh Government's equalities unit and AWEMA in the period from 1999-00 to 2005-06. For example, while file records may have referred to meetings between Welsh Government officials and/or Ministers and AWEMA, they did not necessarily include notes of those meetings. Similarly we could not always find copies of certain key Ministerial submissions or evidence, where needed, of Ministerial approval of their recommendations.

## Wider literature review

We have not undertaken a systematic wider literature review. However, to inform our work we have reviewed, where relevant, various publicly available documents. For example, previous reports to the National Assembly's Equality of Opportunity Committee or responses by AWEMA to particular Welsh Government consultations, committee inquiries and other reviews, including the Richards Commission review on the powers and electoral arrangements of the National Assembly, which reported in spring 2004.

## Interviews and correspondence

### Current/former Assembly Members

We have contacted all, and have met with most, of the current and former Ministers responsible, at the relevant times, for the departments that have provided Welsh Government funding to AWEMA (Appendix 5).

We also met with Peter Black AM and the former Assembly Member, Dr Dai Lloyd, taking into account their previous interest in matters relating to the Welsh Government's funding of AWEMA (Appendix 3, Case Studies 4 and 7). For the same reason, we also invited feedback from the former Assembly Member and now Member of Parliament, David Davies (Appendix 3, Case Studies 3 and 4).

We met with Vaughan Gething AM because of his former voluntary involvement with AWEMA as the Chair of its Right to Vote Committee (between late 2001 and late 2003). We also met with Aled Roberts AM who passed on to us concerns raised with him, including by the North Wales Regional Equality Network (NWREN).

## Current/former Welsh Government officials

We have received feedback – through correspondence, by telephone or through face-to-face meetings – from over 100 current and former Welsh Government officials. These officials had varying degrees of direct contact with AWEMA and at different levels of responsibility. We selected the individuals we wanted to try to contact based on our review of the Welsh Government's file records, by following up contacts suggested by other interviewees and taking account generally of the Welsh Government's organisational structure.

We have not been able to make direct contact with all of the former Welsh Government officials that we identified from our file review. In particular, we would have liked to discuss some of the issues described in this report with a former head of the equalities unit (February 2003 to August 2005), an acting head of the equalities unit (in early to mid-2005) and a former Head of WEFO's European Social Funds branch who, in 2006, was involved in WEFO's response to concerns about AWEMA's management of the Curiad Calon Cymru project (Appendix 3, Case Study 5).

## Current/former AWEMA staff and trustees

Taking into account our focus on the Welsh Government's management of its relationship with AWEMA, we have not sought systematically to contact AWEMA staff and trustees. However, we have discussed with the Charity Commission issues emerging from its own interviews with AWEMA trustees and staff and we have conducted our own face-to-face or telephone interviews with:

- three former chairs of AWEMA (Dr Rita Austin, Professor George Karani and Mr Ahmud Raouf Furreed);
- the former Chief Executive (Mr Naz Malik)[103];
- the former Finance Director (Mr Saquib Zia);
- the former Vice-Chair (Cllr Dr Sibani Roy) who contacted us directly;
- the former Treasurer (Mr Steve Matthews); and
- Mr Ron Davies (former Assembly Member) – also a former trustee of AWEMA and former Director of the Valleys Regional Equality Council.

To gain a better understanding of the work supported by certain Welsh Government or other public funding we also made contact with AWEMA's former housing strategy development officer (Appendix 2), a former AWEMA Company Secretary and one of two former NHS race equality advisers employed by Bro Taf Health Authority but based at AWEMA (Appendix 4).

## AWEMA's partner organisations

We invited feedback from AWEMA's partner organisations, specifically those organisations working with AWEMA in the delivery of its WEFO-funded projects and on the Communities First programme. In contacting the various partner organisations, our main aim was to identify whether there was evidence of the partners having ever raised concerns about AWEMA with the Welsh Government. For the partners on AWEMA's EU Convergence Programme projects, we also invited views on the way in which WEFO had handled the impact of recent events and discussions about the ongoing funding and delivery of these projects. We met representatives of NWREN in person to explore specific concerns that they had discussed with WEFO in 2011 (Appendix 3, Case Study 8).

103 Mr Malik's daughter, Ms Tegwen Malik, was also in attendance at that meeting. Ms Malik had been employed as AWEMA's Operations Director. In June 2001, Mr Malik was formally appointed by AWEMA as its 'Director', following a brief period as the Acting Director (from April 2001). We understand that this post was supported, initially, by AWEMA's Home Office funding (Appendix 4). Based on the Welsh Government records we have reviewed, Mr Malik's description of his role changed from Director to Chief Executive at around the time that the Home Office's funding of AWEMA ended (30 September 2003). For consistency, we refer throughout our report to the role of 'Chief Executive of AWEMA'.

## Other public funders of AWEMA

By reviewing AWEMA's financial statements, we were able to identify various other sources of public funding to AWEMA. Where possible, we sought confirmation from these funders as regards the sum and purpose of their funding. We also asked for confirmation that the funders were satisfied with the work delivered by AWEMA with the support of their funding (Appendix 4).

## Other organisations and individuals

We invited feedback from various other organisations, in order to follow up issues raised by our file review and in other interviews and correspondence. Some of these organisations confirmed simply that they had no specific or additional information to bring to our attention. We received feedback, in writing or through face-to-face meetings, from representatives of the City and County of Swansea Council; Carmarthenshire County Council; Swansea Council of Voluntary Services; Neath Port Talbot County Borough Council; Swansea Bay Regional Equality Council (formerly the Racial Equality Council); Careers Wales; the Arts Council of Wales; and the Wales Co-operative Centre.

We have also met with:

- one of the two insolvency practitioners appointed by AWEMA;
- two officers engaged by AWEMA in January 2012 to assist with the management of financial records, one of whom was a former Treasurer of AWEMA and former Welsh Government employee; and
- AWEMA's external auditor (Hodge Bakshi Ltd).

# Appendix 2 – Welsh Government direct payments to AWEMA and their purpose[1]

| Welsh Government funding stream[2] | 2000-01 | 2001-02 | 2002-03 | 2003-04 |
|---|---|---|---|---|
| Equalities unit – Black and Minority Ethnic Identification and Development | 24,075 | | | |
| Equalities unit – Right to Vote[3] | 44,432 | 51,804 | 50,000 | 50,000 |
| Equalities unit – Promoting Equality/Capacity Building | | 50,000 | 50,000 | 50,000 |
| Equalities unit – Core Funding[4] | | | | |
| Equalities unit – Small One-Off Grants | | | | |
| Voluntary Sector – Support for Voluntary Intermediary Services | 25,000 | | | |
| Economic Policy Division – Economic Development Committee/Economic Development Officer[5] | | 27,667 | 50,000 | 50,000 |
| Housing – Black and Minority Ethnic Housing Strategy Development Officer | | 15,750 | 51,900 | 52,475 |
| Social Care Policy – Black and Minority Ethnic Carers[6] | | | 34,881 | 14,949 |
| Communities First – Black and Ethnic Support Team | | | 54,295 | 217,177 |
| Children, Education, Lifelong Learning and Skills – Black and Minority Ethnic Childcare Research | | | | |
| WEFO – EQUAL Programme: Curiad Calon Cymru | | | | |
| WEFO – EU Convergence Programme: Black and Minority Ethnic Employment for All | | | | |
| WEFO – EU Convergence Programme: Young Black and Minority Ethnic People Aiming High | | | | |
| WEFO – EU Convergence Programme: Minorities are Wales' Resources | | | | |
| Miscellaneous[9] | 650 | 1,275 | 133 | |
| **Total** | **94,157** | **146,496** | **291,209** | **434,601** |

**Notes**

1 AWEMA's financial statements can show different totals for each financial year as these transactions are recorded, for accounting purposes, on an income and expenditure basis. In addition, this analysis does not include payments to AWEMA from other public funders who may have been managing funding arrangements on behalf of the Welsh Government (Appendix 4).

2 Some of the funding provided by the equalities unit and the Communities First programme has supported AWEMA's match funding contribution to its WEFO-funded projects. The £10,000 funding in 2007-08 for research on black and minority ethnic childcare issues was also provided as match funding for work commissioned by AWEMA as part of the WEFO-funded Curiad Calon Cymru project. On its WEFO-funded projects, and in respect of the Communities First programme, AWEMA was managing the overall project finances on behalf of its partners. The Welsh Government's payments went directly to AWEMA, but much of this funding was for claims made by project partners, with the funding then to be passed on by AWEMA (paragraphs 1.12 to 1.14).

3 This project funding to AWEMA was for the continuation of a project managed previously by Cardiff Race Equality First. The total project funding provided to Cardiff Race Equality First through to April 2000 was £45,095.

4 Promoting Equality Fund (2005-06 to 2009-10) and Advancing Equality Fund (2010-11 and 2011-12).

| 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 | Total |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | | **24,075** |
| 50,000 | | | | | | | | **246,236** |
| 50,000 | | | | | | | | **200,000** |
| | 100,000 | 102,500 | 102,500 | 102,500 | 102,500 | 105,575 | 27,185 | **642,760** |
| | | | | 2,500[7] | 6,535 | 7,500 | | **16,535** |
| | | | | | | | | **25,000** |
| 16,003 | | | | | | | | **143,670** |
| | | | | | | | | **120,125** |
| | | | | | | | | **49,830** |
| 191,826 | 344,619 | 286,576 | | | | | | **1,094,493** |
| | | | 10,000 | | | | | **10,000** |
| | 323,213 | 855,216 | 1,038,451 | 109,525[8] | | | | **2,326,405** |
| | | | | | 909,515 | 100,788 | 394,756 | **1,405,059** |
| | | | | | | 237,788 | 221,361 | **459,149** |
| | | | | | | 206,908 | 182,042 | **388,950** |
| | 10 | | | | | | | **2,068** |
| **307,829** | **767,842** | **1,244,292** | **1,150,951** | **214,525** | **1,018,550** | **658,559** | **825,344** | **7,154,355** |

5 In September 2003, responsibility for managing this grant funding moved from the Welsh Government's Economic Policy Division to its Communities Directorate.

6 The Welsh Government's Social Care Policy Unit was responsible for managing the funding in relation to carers but the payments were made under the terms and conditions of the Promoting Equality Fund (managed by the equalities unit). The funds required to support the work were transferred to the equalities unit by the Social Care Policy Unit.

7 The equalities unit had made two separate payments of £2,500 in December 2008 and January 2009. In May 2009, AWEMA confirmed with the equalities unit that there had been a double payment for the same purpose and AWEMA repaid £2,500 to the Welsh Government in June 2009.

8 WEFO had made four payments to AWEMA in May and June 2008 totalling £212,762. However, two of the June 2008 payments, for £103,237, were duplicate payments, having been processed originally by WEFO in January 2008. AWEMA informed WEFO of this overpayment on 28 July 2008 but, despite further prompting by AWEMA, it took WEFO until 16 February 2009 to confirm that there had been an overpayment, at which point AWEMA repaid the money. WEFO officials have acknowledged their failure to act promptly on AWEMA's notification of this overpayment.

9 We believe that the payment of £650 in 2000-01 related to a contribution to a launch event for AWEMA's Economic Development Committee. We have not confirmed the purpose of the other payments. The £133 in 2002-03 comprised two payments of £15 and £117.50.

# Welsh European Funding Office funding

## The EQUAL Programme (2000-2006)

For the period 2000-2006, the UK Government led Great Britain's involvement in the European-wide EQUAL Community Initiative Programme (EQUAL Programme). Supported by the European Social Fund, the EQUAL Programme funded activities carried out by strategic partnerships, known as 'development partnerships'.

Projects approved under the EQUAL Programme were divided into three stages, known as Actions 1, 2 and 3. Typically:

- Action 1 sought support to develop development partnerships and their application for grant;
- Action 2 sought to deliver a project's aims and outcomes, therefore being the area requiring most financial support; and
- Action 3 sought to appraise, disseminate and 'mainstream' a project's outcomes and achievements.

Within the framework of the UK's Community Initiative Plan, in Wales the EQUAL Programme was overseen by the Wales EQUAL Management Committee (WEMC), a sub-group of the UK Monitoring Committee. Under this arrangement the WEMC had autonomy to consider and approve EQUAL projects submitted for Wales. A senior WEFO official chaired the WEMC and WEFO officials provided its secretariat. The WEMC had 13 representatives, comprising the Chair and 12 representatives from the:

- Wales TUC (two representatives)
- Business Wales (two representatives)
- Commission for Racial Equality
- Disability Rights Commission
- Equal Opportunities Commission
- Wales Council for Voluntary Action
- Welsh Development Agency
- Wales Local Government Association
- Education and Learning Wales
- National Assembly for Wales

AWEMA led the creation of the 'Curiad Calon Cymru' Development Partnership, involving and supporting some 20 different organisations (including AWEMA)[104]. The three phases of the project covered the period from October 2004 to December 2007 (Figure 10), although WEFO's payments were made between September 2005 and June 2008. This time lag reflects the EQUAL application and funding process which required further financial appraisal work to be undertaken to confirm the grant offer for projects approved by the WEMC. A project sponsor under EQUAL could only prepare and submit a first claim once confirmation of grant had been received. Delays in payments after the formal end of the project reflected the timescales required in the preparation, submission and processing of final claims.

The Curiad Calon Cymru Partnership's overall aim was to improve the employment prospects of black and minority ethnic and migrants by combating racism and xenophobia in Welsh society. The partnership planned to deliver on this aim through activities designed to address the barriers to employment faced by black and minority ethnic people so that they would be able to gain sustainable employment and progress along their chosen career path.

104 AWEMA also submitted three other and smaller European Social Fund project applications in 2004 but withdrew these applications in October 2005. All three applications were for Objective 3 funding, which focused on East Wales.

**Figure 10 - Timeline and key facts in relation to WEFO's approval of AWEMA's EQUAL Programme 'Curiad Calon Cymru' project**

| | Action 1 | Action 2 | Action 3 |
|---|---|---|---|
| Application submitted | 1 July 2004 | 3 June 2005 | See note |
| Total grant requested in original application (and total project value including match funding) | £58,000 (£117,000) | £2.1 million (£4.1 million) | £225,000 (£449,000) |
| Project approved by the Wales EQUAL Management Committee | 24 September 2004 | 17 June 2005 | See note |
| Grant offer letter sent | 29 July 2005 | 12 December 2005 | 31 July 2007 |
| Total grant offered (and total project value including match funding) | £58,000 (£117,000) | £2.1 million (£4.1 million) | £225,000 (£449,000) |
| Project duration | 1 October 2004 to 30 June 2005 | 1 July 2005 to 31 December 2007 | 1 May 2007 to 31 December 2007 |

Note

For Action 3, the 'application' constituted submission of a 'mainstreaming partnership agreement' and associated documentation. These were supplied by AWEMA on 4 April 2007 and quality checked by WEFO officials on 24 May 2007. WEFO officials have explained to us that Action 2 approvals by the WEMC constituted in principle approval for Action 3, given that the budget for Action 3 was identified within Action 2 applications. WEFO did not, therefore, involve the WEMC in the consideration and formal approval of specific plans for Action 3.

*Source: WEFO.*

The UK's EQUAL Programme had eight themes, known as Themes A to H. The Curiad Calon Cymru project was approved under 'Theme B' which sought to improve employability and combat racism and discrimination in relation to the world of work. More specifically, Theme B sought to:

- deliver focused activities to black and minority ethnic people to empower them to gain and retain sustained employment and make an active contribution to the Welsh economy;
- empower community organisations to overcome inequalities;
- improve links between community organisations, the voluntary sector and mainstream public/ private providers by promoting greater collaboration; and
- fill gaps in the black and minority ethnic labour market intelligence to inform and enhance provision.

The strategic aims of the Curiad Calon Cymru Partnership were to:

- improve the situation of black and minority ethnic women in the labour market;

- support the inclusion of dispersed European economic migrants, refugees and contract workers;
- combat the isolation of isolated households and individuals;
- enable black and minority ethnic people to gain and progress in employment; and
- build the capacity of black and minority ethnic community groups.

## The EU Convergence Programme (2007-2013)

For the programming period 2007-2013, Wales qualifies for European Structural Funds support for three sources of funding:

- Convergence
- Regional Competitiveness and Employment
- Territorial Co-operation

AWEMA delivered projects under the European Social Fund Convergence Programme (Figure 11). AWEMA also made two, ultimately unsuccessful, applications under the East Wales Regional Competitiveness and Employment ESF Programme. Expressions of interest for the unsuccessful bids were submitted in 2008 and were based on delivery through partners. WEFO has told us that neither bid progressed into the detailed development stage, due to insufficient match funding and duplication of activity already underway or planned in the region. At the expression of interest stage, AWEMA had identified total project costs of £4.5 million and £3.8 million. The amount of grant funding sought was £1.8 million and £1.5 million respectively.

The West Wales and the Valleys European Regional Development Fund and European Social Fund Convergence Programmes cover 15 local authorities in the Valleys region and in North and West Wales. The programmes aim to accelerate the economic development of those regions of the European Union where Gross Domestic Product per capita is below 75 per cent of the European Union average.

The European Social Fund Convergence Programme aims to raise levels of employment and increase skill levels across the region by:

- helping people into work, especially those suffering the greatest disadvantage in the labour market;
- helping employers and employees adapt to changing economic demands by encouraging innovation in the workplace and supporting employee progression by enhancing work-based skills; and
- combating discrimination in the job market and workplace by helping those traditionally disadvantaged (for example, women and migrants) to achieve their full potential.

**Figure 11 - Timeline and key facts in relation to WEFO's approval of AWEMA's EU Convergence Programme projects**

| | Black and Minority Ethnic Employment for All | Minorities are Wales' Resources | Young Black And Minority Ethnic People Aiming High |
|---|---|---|---|
| Expression of interest submitted | 6 February 2008 | 13 February 2008 | 3 March 2008 |
| Total grant requested at initial expression of interest (*and total project value including match funding*) | £9.6 million (*£16.5 million*) | £5.4 million (*£9.8 million*) | £5.4 million (*£11.9 million*) |
| Expression of interest approved | 7 July 2008 | 14 September 2009 | 8 July 2008 |
| Grant agreed in-principle at expression of interest stage (*and total project value including match funding*) | £4.6 million (*£8.3 million*) | £4.0 million (*£6.1 million*) | £4.8 million (*£8.8 million*) |
| Original business plan submitted | 16 November 2008 | 21 December 2009 | 8 September 2008 |
| Total grant requested in original business plan (*and total project value including match funding*) | £4.5 million (*£8.2 million*) | £4.2 million (*£6.4 million*) | £4.8 million (*£8.8 million*) |
| Project approved | 16 January 2009 | 20 September 2010 | 20 September 2010 |
| Grant offer letter sent | 28 January 2009 | 20 September 2010 | 20 September 2010 |
| Total grant offered (*and total project value including match funding*)[1] | £2.2 million (*£3.9 million*)[2] | £1.5 million (*£2.3 million*) | £1.5 million (*£2.2 million*) |
| Project duration | September 2008 to December 2012 | April 2010 to June 2014 | April 2010 to June 2013 |

Notes

1 The reduction in the financial scale of these three projects followed, in part, a shortening in the proposed duration of each project. Initially, AWEMA had proposed that each project would last six years.

2 The figures for the Black and Minority Ethnic Employment for All project represent the grant offer and total project value at the time of the original grant offer letter. However, in January 2011, WEFO confirmed with AWEMA a revised total project value of £3.8 million and corresponding grant offer of £2.1 million. However, the expected outcomes from the project remained unchanged. This re-profiling followed work by WEFO's Financial Appraisal Team which had considered the allocation of certain overhead costs across the three projects (paragraph 2.102).

*Source: WEFO.*

**Figure 12 - Project objectives and activities agreed by WEFO for AWEMA's EU Convergence Programme projects**

| | Project objectives | Project activities |
|---|---|---|
| Black and Minority Ethnic Employment for All | The project aimed to enhance the employment prospects of people from black and minority ethnic backgrounds and help them gain jobs.<br><br>WEFO and AWEMA agreed the following targets over the lifetime of the project:<br><br>• engage 1,050 participants;<br>• support 263 participants to enter employment;<br>• support 215 participants to enter further learning;<br>• support 743 participants to achieve a positive outcome; and<br>• and support 225 participants to gain a qualification. | AWEMA was the lead sponsor, but the project partners were: the Valleys Regional Equality Council (VALREC); the Young Men's Christian Association (YMCA) Swansea; Sova (which previously also operated under the title Supporting Others through Volunteer Action); and the Minority Ethnic Women's Network (MEWN) Swansea.<br><br>The business plan agreed between WEFO and AWEMA committed the project partners to four main areas of activity:<br><br>• Outreach: using existing networks to raise the awareness of black and minority ethnic people about employment opportunities. To include liaison with statutory bodies, such as Job Centre Plus, and to facilitate surgeries and drop-in services at different venues. The project partners would also provide advice, basic counselling and assistance with registering on training courses and would make referrals, where appropriate, to other programmes, such as the New Deal and Pathways to Work.<br>• Active labour market measures: participants to be assigned a development officer/mentor to guide and support them in identifying and developing skills to move closer to and into employment. For example, support with job searches, application forms and interviewing skills and the gaining of experience through volunteering.<br>• Skills development (from basic skills upwards): signposting to mainstream agencies providing appropriate training; direct provision of training and tendering for new provision where gaps are found in existing provision. Including specialist training on ICT; literacy; numeracy; UK work experience; English for speakers of other languages; empowerment and confidence building.<br>• Employer engagement and support strategies: supporting employers to take volunteers on placements and make links between employers and appropriately skills unemployed black and minority ethnic people. |

| | Project objectives | Project activities |
|---|---|---|
| Minorities are Wales' Resources | The project aimed to deliver training and support to black and minority ethnic people and European economic migrants in employment, to raise skill levels, maintain jobs and assist career progression.<br><br>WEFO and AWEMA agreed the following targets over the lifetime of the project:<br>• engage 2,950 participants;<br>• support 825 participants into further learning;<br>• support 550 participants to gain qualifications;<br>• assist 60 employers; and<br>• support 30 employers to adopt or improve equality and diversity strategies and monitoring systems. | AWEMA was the lead sponsor, but the project partners were: VALREC; YMCA Wales; Sova; and the North Wales Regional Equality Network (NWREN).<br><br>The business plan agreed between AWEMA and WEFO committed the project partners to three main areas of activity:<br>• Initial contact with employers and employees to recruit participants. Each participant to have an individualised action plan, involving the employer to the fullest extent.<br>• The provision of training in relation to generic and basic work skills. For example, numeracy, literacy, English for speakers of other languages and ICT training.<br>• Vocational sector-specific training – where possible by signposting to existing providers, but otherwise contracting training. Participants to be given the option of: enrolment on a course provided locally and the provision of support while on that course; training on the employer's premises with the support of the employer and subject to a call for tenders; or training provided for a group of participants managed through the project but also subject to a call for tenders.<br><br>The business plan also committed the partners to:<br>• Working with employers to: enable access to training for employees; raise awareness of equality and diversity practices; and support them in developing equality and diversity strategies.<br>• Providing long-term skills and career development assistance, beyond the duration of participants' formal training. For example, by facilitating group sessions to improve language skills and confidence; enable networking and allow for 1-2-1 advice.<br>• Conducting research projects. For example, to examine the needs of people arriving in Wales or to consider the use of business support services and training by black and minority ethnic run businesses. |

**Figure 12 - continued**

| | Project objectives | Project activities |
|---|---|---|
| Young Black and Minority Ethnic People Aiming High | The project aimed to assist young black and minority ethnic people and European economic migrants to enhance their learning and gain qualifications.<br><br>WEFO and AWEMA agreed the following targets over the lifetime of the project:<br><br>• engage 1,600 participants;<br>• support 900 participants to achieve positive outcomes;<br>• support 300 participants to enter further learning;<br>• assist 60 employers to collaborate with learning providers; and<br>• support one project to adopt soft outcome measurement systems. | AWEMA was the lead sponsor, but the project partners were: VALREC; YMCA Swansea; Sova; YMCA Wales; and NWREN.<br><br>The business plan agreed between WEFO and AWEMA committed project partners to: support and mentoring; coaching; confidence building; work placements; pre-employment training (such as assistance with curriculum vitaes, interview techniques and online applications); language support; after-school support; volunteering; employer visits and job shadowing.<br><br>The package of support was intended to be unique to each participant, underpinned by a personal action plan. The project aimed to recruit participants through Careers Wales and through liaison between project officers and schools, colleges, youth and community groups and the youth service. |

**Figure 13 - Comparison of actual and expected expenditure and project performance for AWEMA's EU Convergence Programme projects against forecast performance, to December 2011[1]**

| Indicator | Forecast | Actual | Variance to forecast (per cent)[2] |
|---|---|---|---|
| Black and Minority Ethnic Employment for All | | | |
| Total project cost (including match funding) | £2,798,995 | £2,278,628 | -19 |
| Participants | 919 | 1,008 | +10 |
| Participants entering employment | 221 | 265 | +20 |
| Participants entering further learning | 165 | 168 | +2 |
| Participants achieving a positive outcome | 553 | 392 | -29 |
| Participants gaining a qualification | 120 | 47 | -61 |
| Young Black and Minority Ethnic People Aiming High | | | |
| Total project cost (including match funding) | £885,711 | £569,699 | -36 |
| Participants | 671 | 475 | -29 |
| Participants achieving positive outcomes | 246 | 33 | -87 |
| Participants entering further learning | 82 | 1 | -99 |
| Participants collaborating with learning providers | 28 | 0 | -100 |
| Projects adopting soft outcome measurement systems | 1 | 0 | -100 |

**Figure 13 - continued**

| Indicator | Forecast | Actual | Variance to forecast (per cent)[2] |
|---|---|---|---|
| Minorities are Wales' Resources | | | |
| Total project cost (including match funding) | £710,533 | £484,942 | -32 |
| Participants | 891 | 438 | -51 |
| Participants entering further learning | 228 | 1 | -100 |
| Participants gaining qualifications | 144 | 0 | -100 |
| Employers assisted | 16 | 0 | -100 |

Note

1 The expenditure figures quoted are based on claimed eligible expenditure and not advance payments. However, they include the ineligible project expenditure identified by WEFO's Project Inspection and Verification Team in May 2012 (paragraphs 2.114 to 2.121 and Figure 7). This disallowance amounts to £169,782 of total project expenditure across the three projects and a reduction in the eligible grant claimed of £104,901. In addition, the 'actual' data reported by AWEMA for all three projects does not take account of expenditure claimed and any updated performance information provided by AWEMA's project partners since mid-September 2011. These claims are now forming part of the successor arrangements for the three projects (paragraphs 3.40 to 3.48).

2 WEFO has explained to us that the rate of progress against the agreed performance indicators and expected expenditure for the Young Black and Minority Ethnic People Aiming High and Minorities are Wales' Resources projects reflects the generally slower rates of delivery than forecast during the early stages of project implementation. WEFO approved the two projects in September 2010 and has emphasised that, within the first 16 months, both projects had demonstrated they were successfully engaging participants, although more slowly than profiled. Compared with other projects across the EU Structural Funds programmes in Wales, the situation with AWEMA's projects was by no means unique.

*Source: WEFO (based on data supplied/claims made by AWEMA)*

# Equalities unit funding

## Black and Minority Ethnic Identification and Development

AWEMA submitted its project bid to the Welsh Government's equalities unit in June 2000, for a one-year project. The principal aim of this project was to identify and develop a database of the skills, experiences and functions of black and minority ethnic individuals and organisations across Wales. The bid, authorised on behalf of AWEMA by the then Director of the Commission for Racial Equality (Wales), sought funding of £24,075 towards total estimated project costs of £48,150. The bid identified that it would support the employment of a researcher and that the work would deliver the following broader aims:

- to identify the black and minority ethnic peoples and organisations across Wales;
- to develop a database of the skills, experiences and functions of black and minority ethnic individuals and organisations;
- to identify appropriately skilled peoples to consult on all National Assembly policies affecting black and minority ethnic communities;
- to enable interaction between black and minority ethnic organisations and agreement of the way forward; and
- through better understanding of black and minority ethnic issues by policymakers, to improve the quality of life for black and minority ethnic peoples across Wales.

The Minister then responsible for equalities (Edwina Hart) approved the award of funding to AWEMA in July 2000. This was at the same time as the Minister's approval of a similar level of grant (between £20,000 and £25,000) for projects developed by Disability Wales, the Wales Women's National Coalition and the Minority Ethnic Women's Network Cymru. The equalities unit had invited bids for projects that, in general terms, would improve its dialogue with disadvantaged groups with the aim of contributing to policy development and to generally raise the profile of groups identified at that time as being underrepresented. The funding provided was from the Welsh Government's Promoting Equality 'Project Development Fund'.

The equalities unit expected organisations to identify their own match funding for these projects, rather than it meeting the full cost. The match funding contributions identified in AWEMA's bid were said to represent contributions from grants from other sources, such as the Commission for Racial Equality and the Race Equality Councils, alongside the contribution of core overhead costs arising from the fact that the project would be based at the Commission for Racial Equality's offices.

## Promoting Equality/Capacity Building

As part of its 2000 budget planning round, the Welsh Government's equalities unit identified that it would be making available in 2001-02 a fund of £250,000 for initiatives to promote equality. The provision of this funding was a continuation and expansion of the Project Development Fund provision for 2000-01 which supported AWEMA's Black and Minority Ethnic Identification and Development project. The equalities unit also identified that this funding commitment would run through to the end of 2003-04.

In May 2001, AWEMA bid for £50,000 per year over three years (although the detailed breakdown of project costs in its bid document came to £153,500). The bid document was limited in its detail although the main costs related to the employment of a publicity and communications officer and a capacity building officer, alongside some contribution to overheads. The bid document did not contain specific objectives, but amounted to a request for support to continue the work AWEMA had already started to seek to develop and empower community networks to engage effectively with the National Assembly across its various policy areas and related subject committees.

AWEMA's bid was approved by the Minister then responsible for equalities (Edwina Hart) in July 2001. The Welsh Government's file records indicate that this approval followed a meeting between the Minister, an official from the equalities unit, and the Chief Executive of AWEMA (Mr Naz Malik). We have not seen any note of that meeting. The Minister agreed an identical level of funding to Disability Wales, the Wales Women's National Coalition, and the Minority Ethnic Women's Network Cymru over three years. The Minister also agreed a grant of £25,000 for 2001-02 to support the newly founded Lesbian, Gay and Bisexual Forum, with a view to further funding if its project was deemed to be successful. For 2002-03 and 2003-04, the equalities unit increased its funding to the Lesbian, Gay and Bisexual Forum to £50,000 per year.

The equalities unit expected organisations to demonstrate an equivalent commitment of cash or in-kind match funding. AWEMA's bid was less explicit in this respect than the bids from the other organisations that secured funding. However, it did note that the main overhead costs would be met through AWEMA's core funding from the Home Office. It also referred to, but did not detail, estimated in-kind contributions valued at in excess of £30,000. The bid document noted that the Home Office funding (Appendix 4) had, at that point, only been committed to the end of 2002-03.

In February 2002, the equalities unit provided the Minister with an update on the progress made by each of the four equality organisations in receipt of funding, with the recommendation, which was accepted, of continued funding supported by annual progress reporting and a final report in April 2004. Paragraph 2.22 explains the extension of this funding through 2004-05.

## Right to Vote Project

The Right to Vote project was concerned with:

- reducing non-registration to vote among the black and minority ethnic community;
- increasing black and minority ethnic voter participation;
- increasing the number of black and minority ethnic people standing for elected office in local government;
- increasing the number of black and minority ethnic people joining, or being active within, political parties; and
- working towards securing an Assembly Member from the black and minority ethnic population.

The project had originally been overseen by the Race Equality Councils and housed in Cardiff Race Equality First. The Welsh Government's Devolution Unit had made provision for £50,000 of funding for March to December 1999. The equalities unit took over responsibility for the Welsh Government's oversight of the project in October 1999, after the Devolution Unit was disbanded. In March 2000, the then Chair of Cardiff Race Equality First, submitted a proposal to the Welsh Government for a further three years of funding from April 2000, to the total estimated value of £166,000. We have not seen a copy of that proposal.

The Minister then responsible for equalities (Edwina Hart) asked the Welsh Government's equalities unit why the approach for extended funding had not been made as part of the previous budget process. The equalities unit advised the Minister that the need for continued funding had not been fully apparent at that time, that Right to Vote was a worthwhile project and that to not proceed would undermine the benefit of the work undertaken to that point. We have also seen correspondence between officials in mid-February 2000 in which the then head of the equalities unit noted that the former First Secretary (Alun Michael) had previously acknowledged publicly the need for continued support. The head of the equalities unit noted that 'there were therefore some real downside risks in ruling out further support'.

The Minister approved funding in April 2000 and the equalities unit sent a letter of formal confirmation to AWEMA in June 2000. At some point between April and June 2000, the project had transferred from Cardiff Race Equality First to AWEMA (the then Director of Race Equality First also being the Chair of AWEMA at that time). The total project funding provided to Cardiff Race Equality First through to April 2000 was £45,095.

In committing up to £55,000 for 2000-01 – AWEMA only claimed £44,432 – the equalities unit emphasised that funding for 2001-02 and 2002-03 was subject to satisfactory performance. The equalities unit contacted AWEMA in May 2001 to note that payment of the first instalment for 2001-02 would require a progress report and budget for 2001-02. We have not seen evidence of any formal assessment of the project's performance in 2000-01, although the equalities unit appears to have been closely engaged with the project during the period. Nor have we seen any formal assessment or Ministerial submissions to confirm continued annual funding of £50,000 for 2002-03 and 2003-04. Paragraph 2.22 explains the extension of this funding through 2004-05.

In December 2001, following the departure of its original Right to Vote project officer, AWEMA set up a new project committee. Until late 2003, this committee was chaired on a voluntary basis by Vaughan Gething (a Labour Party Assembly Member since May 2011). Mr Gething has emphasised to us that the project committee included representation from each of the four main political parties in Wales.

## Core Funding – Promoting Equality Fund, 2005-06 to 2009-10

Paragraphs 2.26 to 2.64 consider the management of the Welsh Government equalities unit's funding to AWEMA beyond the end of 2004-05. The full background to the equalities unit's decision to continue funding AWEMA beyond 2004-05 is not clear. However, the funding provided for 2005-06 (£100,000) – which continued at a similar level in subsequent years – was less than AWEMA had been hoping for. In December 2004, the Chief Executive of AWEMA (Mr Naz Malik) and the then Chair of AWEMA (Dr Rita Austin) wrote to the Welsh Government's then Director of Social Justice and Regeneration (responsible at that time for the equalities unit) indicating their desire to secure future funding to continue the Right to Vote and Capacity Building projects. The letter from Mr Malik and Dr Austin also suggested that they wanted to agree a service level agreement totalling £130,000 a year to cover core operating costs.

During this period of funding, AWEMA agreed a work programme with the equalities unit on an annual basis. However, the equalities unit also recognised that some of its funding would be used to cover core operating costs as well as, at different points in time, providing match funding to support the delivery of AWEMA's WEFO-funded projects. The equalities unit's initial in-principle funding commitment had been for the first three financial years of this period. As for other equalities organisations in receipt of core funding from the Promoting Equality Fund, the equalities unit continued its funding on a transitional basis through 2008-09 and 2009-10 while it made arrangements to introduce the new Advancing Equality Fund.

## Core Funding – Advancing Equality Fund, 2010-11 and 2011-12

Paragraphs 2.65 to 2.76 consider the management of this funding in more detail. In 2009, the Welsh Government's equalities unit invited organisations to bid competitively for one, two or three-year funding for the 2010-11 to 2012-13 period from a total funding pot worth £1 million per year. AWEMA had bid for £417,272 over the three years but the equalities unit awarded, in principle, £326,321. Nevertheless, this was, by the sum of at least £30,000 per year, the highest level of grant awarded to any of the 12 organisations that were successful in this bidding round.

The equalities unit's funding represented core funding for staff costs and associated overheads but also to support AWEMA's match funding contribution to its WEFO-funded projects. AWEMA submitted its Advancing Equality Fund application in November 2009. At that point, WEFO had approved only one of AWEMA's three EU Convergence Programme projects (Black and Minority Ethnic Employment for All). However, it is clear that the equalities unit's commitment of this funding was also a key factor in enabling AWEMA to demonstrate match funding towards this project and towards the other two projects that WEFO approved in September 2010 (Figure 11).

While the equalities unit agreed certain performance indicators connected with its funding, these, and the objectives they related to, were directly connected to AWEMA's WEFO-funded projects. Unlike the previous arrangement under the Promoting Equality Fund, the equalities unit did not set out any specific and separate expectations of its own. The objectives identified by the equalities unit were for AWEMA to:

- support black and minority ethnic people to enhance their employment prospects and gain jobs;
- increase the rate of economic activity among the black and minority ethnic communities;
- enhance employment prospects through outreach, active labour, market measures, skills training, job search and employment and engagement with employers;
- complement and add value to statutory provision and extend services to groups currently not able, or empowered, to take advantage of this provision;
- tackle underachievement among young people who are also at risk of becoming NEET (not in education, employment or training); and
- support black and minority ethnic and European economic migrant people in low levels of employment but with high-level skills.

## Small One-Off Grants

### International Women's Day, March 2009 (*£2,500*)

AWEMA organised one of a range of events to celebrate International Women's Day (the Welsh Government's equalities unit had been supporting International Women's Day events on an annual basis since 2004). The theme of the event, which took place in a hotel in Swansea, was 'Bridging the Generation Gap'. AWEMA provided the equalities unit with a report on the content of the event and the menu. Bids for funding were ranked and the outcomes approved by the then Deputy Minister for Regeneration (Leighton Andrews). The Minister then responsible for equalities (Dr Brian Gibbons) delegated approval because some of the organisations bidding for support were from his constituency.

### International Women's Day, March 2011 (*£2,500*)

AWEMA organised one of a range of events to celebrate International Women's Day. Bids for funding (from a total funding pot of £30,000) were scored by an assessment panel and the outcomes approved by the Minister then responsible for equalities (Carl Sargeant). AWEMA identified that its event would celebrate black and minority ethnic women from around the world who have made a significant contribution, with the evening dinner event incorporating film clips and open microphone sessions. We have not seen any evidence of the equalities unit having received, as required and set out in its grant offer letter, a report on the outcomes from the event from AWEMA. Nor have we seen any evidence of the equalities unit having followed up with AWEMA the reporting requirement.

### Joint Welsh Government/Equality and Human Rights Commission Capacity Building Fund (*£5000*)

In February 2011, the Welsh Government's equalities unit confirmed to AWEMA that it had been successful in its bid for £5,000 from this fund. AWEMA's bid set out plans for workshops with nine other partner organisations to raise awareness of the equality and human rights agenda in Wales, along with a final pan-Wales event. AWEMA's bid also referred to the provision of a dedicated page on the AWEMA website and the provision of training for people to encourage active participation on management committees. Bids for funding were scored by an assessment panel and the outcomes approved by the Minister then responsible for equalities (Carl Sargeant). While the bid document describes the expected outputs/outcomes from this grant funding, which was paid in February 2011 shortly after the equalities unit sent AWEMA its grant offer letter, we have not seen any evidence of the equalities unit having received a follow-up report, as requested when it made its grant offer.

### One-Off Events 2009-10 (*£2,625 and £3,610*)

In 2009-10, the Welsh Government's equalities unit invited one-off bids for small projects/events to: 'address the needs of people who face multiple discrimination in their everyday lives; enable everyone to achieve their potential through the reduction and/or removal of barriers; and, through participation in policymaking, enable them to access services which they would otherwise have difficulty reaching'. In late October 2009, the equalities unit rejected two separate bids from AWEMA, having also rejected that month a bid from AWEMA for an event to celebrate International Women's Day 2010. The Chief Executive of AWEMA (Mr Naz Malik) contacted the equalities unit to question the criteria for assessment for all three

bids, also suggesting that he might write to the Minister then responsible for equalities (Dr Brian Gibbons) on the matter. Mr Malik was concerned about the precedent this might set for AWEMA's planned Advancing Equality Fund bid for 2010-11 to 2012-13 and affect AWEMA's ability to secure WEFO funding.

At the start of November 2009, the equalities unit informed AWEMA that it was giving further consideration to bids that only narrowly failed to meet the criteria. AWEMA submitted revised bids for events in North Wales and Swansea. The funding sought for each event was £2,925 and £3,610 respectively and the equalities unit sent AWEMA a grant offer letter on 23 November 2009, with the payments made in mid-December 2009. We have seen no further file records relating to the use of the grants, for example any specific project reports submitted by AWEMA. However, AWEMA's trustees' report for 2009-10 states that this funding supported awareness-raising activities in respect of AWEMA's proposals for a multicultural community centre in Swansea and its EU Convergence Programme projects.

## Other Welsh Government funding

### Voluntary Sector Division – Support for Voluntary Intermediary Services grant

The Welsh Government's records show that its first direct payment to AWEMA was made on 25 July 2000. That payment, of £8,333, represented the first of three instalments of the same amount between July 2000 and January 2001 from the Welsh Government's 'Support for Voluntary Intermediary Services' grant. We have seen only limited documentary evidence in relation to this grant funding, which appears to have been intended to support some initial start-up costs and the general continuation of some of the early work undertaken under the AWEMA banner. This was in the period when AWEMA was being established as a company in its own right.

This grant programme was designed to support voluntary organisations of a generalist or intermediary nature, and which covered the whole of Wales, providing a wide range of services to the voluntary sector at large or a significant part of it. The grant was intended to fund organisations who would then contribute to wider capacity building across other voluntary sector bodies.

We have not seen AWEMA's bid document, but a submission to the then Secretary for Health and Social Services (Jane Hutt) in March 2000 noted that AWEMA had bid for £50,000 of support but the Welsh Government decided to offer half of this sum because to have offered more would have meant that another new applicant to the programme would not have been funded or that existing grant recipients would not see any increase in their funding.

In May 2000, a submission to the Minister then responsible for equalities (Edwina Hart) indicated that the Secretary for Health and Social Services had not been satisfied that this grant programme was suitable for AWEMA and wanted other sources of funding to be explored. The submission indicated that Mrs Hart had shared that concern. The submission described the make-up of AWEMA and some of its early work. It also indicated that the Welsh Government's Finance Department and Compliance Office had been consulted and were content. In early June 2000, Mrs Hart confirmed that she was content to offer funding.

## Economic Policy Division – Support for AWEMA's Economic Development Committee/ Economic Development Officer

On 5 October 2000, the Chair of AWEMA's Economic Development Committee wrote to the Welsh Government requesting £340,169 as a development budget to support the work of that committee. That was with regard to the committee's aim of playing a meaningful role in the debate on the Welsh Government's evolving economic policies and of furthering the economic interests of black and minority ethnic communities. The request for funding detailed costs associated with the employment of three officers, alongside contributions to other overheads, for a three-year period to the end of November 2003. It did not provide specific details about the work that these officers would undertake.

On 13 October 2000, the Welsh Government's Economic Policy Division sent a submission to the then First Minister (Rhodri Morgan) and the then Finance Minister (Edwina Hart) who was also responsible for the equalities portfolio. The submission recommended that, at a launch event the next day at which she was speaking, the Finance Minister should announce that the committee would be assisted. However, the submission also noted that, because of the authority under which the payments were intended to be made, the proposal would require the First Minister's approval (relating to his responsibility at that time for the economic development portfolio).

The submission indicated that officials had identified plans for a lower level of financial support, worth £166,000 over three years. That revised proposal appears to have been based, without reference back to AWEMA, on the scope to accommodate that level of commitment within the Welsh Government's budgets. However, the revised proposal also took account of a view from the Commission for Racial Equality that AWEMA was not yet in a position to take full advantage from the employment of three staff for the intended purpose.

During early November 2000, officials within the Welsh Government's Finance Department and Economic Policy Division raised a number of concerns about the proposed funding of AWEMA. The concerns of officials included:

- a lack of clarity regarding the purpose of AWEMA and specifically whether it was a lobbying group or a consultation group;
- whether AWEMA would represent all ethnic minorities and why AWEMA should be funded as opposed to funding other groups;
- how AWEMA's performance and success would be measured; and
- whether funding the employment of an economic development officer was the most cost-effective way of providing support to AWEMA's Economic Development Committee.

Following further exchanges, including input from the Welsh Government's equalities unit, it appears that these concerns were resolved. However, the extent to which the First Minister was appraised of the concerns expressed by some officials when he approved the funding on 12 November 2000 is not clear from the records we reviewed. On 16 October 2000, the First Minister had passed on Ministerial responsibility for economic development to the new Deputy First Minister and Minister for Economic Development (Mike German). However, Welsh Government officials indicated to the First Minister's Private Office that the relevant statutory authority under which the grant was to be awarded had changed since the 13 October 2000 submission and that, as a result, they still required the First Minister's approval. We have seen no evidence of Mr German having been asked to approve the funding.

Officials had identified the need to prepare a Rationale, Objectives, Appraisal, Monitoring, Evaluation (ROAME) statement for the project and to ensure a proper evaluation process. While the records we have seen indicate that a ROAME statement was prepared, we have not seen a final version, nor evidence of plans for evaluation.

On 20 November 2000, the Economic Policy Division wrote to the Chair of AWEMA's Economic Development Committee confirming an in-principle commitment of £32,000 for 2000-01, £50,000 for 2001-02, £50,000 for 2002-03 and £34,000 for 2003-04. The Welsh Government then continued with the preparation of a formal 'Financial Assistance Agreement' for the employment of an economic development officer. Legal advice on the preparation of that agreement expressed concern about the vague description of the project and the lack of measurable outputs. In response, an official from the Economic Policy Division confirmed that he was content with the description in the agreement and that there were 'no real targets in this case'.

On 19 January 2001, the Economic Policy Division wrote to the then Director of the Commission for Racial Equality Wales (at that time still the Secretary of AWEMA) enclosing a Financial Assistance Agreement for signing. However, the signed agreement held on the Welsh Government's files is dated 17 December 2001. There was an initial administrative delay in AWEMA's putting in place arrangements to recruit an economic development officer. There then followed, in April/May 2001 an acrimonious split in AWEMA's Economic Development Committee which may also have contributed to the delay in the signing of the agreement, although this issue appears to have been resolved in September 2001 (Appendix 3, Case Study 1).

The Welsh Government's records indicate that AWEMA appointed an economic development officer in May 2001, with them taking up post at some point between then and early September 2001. Prior to the appointment of the economic development officer, the Welsh Government had also loaned an official to AWEMA on a short-term and part-time basis to support AWEMA's response to the Welsh Government's consultation on its draft economic development strategy 'A Winning Wales'.

The signed agreement was still for a maximum contribution of £166,000 but the period to which the funding related was stated as 3 September 2001 to 3 September 2004. In any event, the Welsh Government did not make its first payment, of £26,667, until 18 January 2002.

Paragraphs 2.138 to 2.143 discuss the arrangements for monitoring this grant funding including, in September 2003, the change in responsibility from the Economic Policy Division to the Welsh Government's Communities Directorate.

## Communities First programme – Black and Ethnic Support Team

As part of its Communities First programme, the Welsh Government's Communities Directorate funded the Black and Ethnic Minority Support Team (BEST) project. The BEST project consisted of a partnership of four organisations: AWEMA; the Black Voluntary Sector Network Wales; the Minority Ethnic Women's Network (MEWN) Cymru; and the Scarman Trust. The Black Voluntary Sector Network Wales and then the Scarman Trust initially led the application for funding. However, in December 2002, the Scarman Trust notified the Communities Directorate that the partners had agreed that AWEMA would handle the overall financial management and administration of the project, submitting claims and receiving payments on behalf of the other partners.

The assistance that the BEST project provided, working with local black and minority ethnic communities and groups, included:

- writing constitutions;
- developing business plans;
- preparing funding applications;
- offering Management Committee Skills training; and
- advice on the development of new community groups.

Other activities included:

- mapping existing black and minority ethnic community involvement and research;
- developing a website – to seek views and provide information;
- encouraging links with policymakers and mainstream organisations; and
- developing the capacity of Communities First coordinators and working with Communities First partnership boards on black and minority ethnic issues.

The initial funding bid, which the Communities Directorate received from the Black Voluntary Sector Network Wales in February 2002, was for £1,449,158 over three years. However, the Communities Directorate sought further clarification and, in June 2002, made a submission to the Minister then responsible for the Communities First programme (Edwina Hart) recommending approval in principle but to reduce substantially the number of funded posts proposed (from 11 down to two or three). A further Ministerial submission in September 2002 following a revised bid, submitted on this occasion by AWEMA, recommended three-year funding of £1,025,610 but recognised that the project was still very ambitious and would need monitoring. The Minister expressed concern about the resources available to the Communities Directorate to monitor the project and wanted greater certainty over the outcome.

The Communities Directorate then accepted a smaller bid for £305,768 for the period from January 2003 to June 2004, which would fund four posts, and also offered a further £20,000 to fund a post in North Wales. The Minister approved this funding in November 2002 and, subsequently:

- in June 2004, the Minister approved further 'bridge funding' for the period from July to September 2004, resulting in a payment of £64,807 in August 2004;
- in September 2004, the Minister approved a further £347,787 over 15 months, including an increase to fund an additional development worker in Swansea and to carry out additional research;
- in November 2005, the Minister approved further 'bridge funding' to the end of the financial year, resulting in a payment of £71,300 on 26 January 2005; and
- in February 2006, the Minister approved a final commitment of £286,576 for 2006-07.

On 13 October 2006, the Minister wrote to all Communities First support bodies indicating that there would be no more funding for all-Wales arrangements and that, in future, local partnerships would procure their own advice and support.

## Social Care Policy – Black and Minority Ethnic Carers

This funding stemmed from discussions between AWEMA representatives (the Chief Executive and the Chair of AWEMA's Social Services Committee) and officials from the Welsh Government's Social Care Policy Unit. The purpose of those discussions had been to explore AWEMA's possible involvement in support of the delivery of the Welsh Government's 'Carers Strategy'. Following a meeting with AWEMA in April 2002, the Social Care Policy Unit prepared an outline specification for a project to appoint a project/development worker, based at AWEMA, to provide advice on black and minority ethnic issues in relation to carers policy. The option of a direct secondment into the Welsh Government had been ruled out and the Social Care Policy Unit sought advice from colleagues on the possibility of a single-tender agreement with AWEMA rather than going through competitive procurement.

In looking to engage AWEMA in this work, and in refining the scope of the project, the Social Care Policy Unit worked with officials from the Welsh Government's equalities unit. In the course of those discussions, the equalities unit agreed with the Social Care Policy Unit that the project could be supported from the Promoting Equality Grant. The funds required to support the work were transferred to the equalities unit by the Social Care Policy Unit. The Social Care Policy Unit retained responsibility for managing the project. The Welsh Government's records indicate that its 'Carers Strategy Review Panel' was supportive of the final proposal and the equalities unit confirmed the grant offer to AWEMA in October 2002.

The secondee who joined AWEMA was a professional social worker from the City and County of Swansea Council who was the Chair of AWEMA's Social Services Committee and who, in 2009, became a trustee of AWEMA. The core outputs from the work were a research report, a directory of statutory, voluntary and other organisations providing community services for black and minority ethnic carers and good practice guidelines. These outputs were launched at an event attended by the then Health Minister (Jane Hutt) in December 2003.

## Children, Education, Lifelong Learning and Skills – Black and Minority Ethnic Childcare Research

In October 2006, WEFO officials approached the Welsh Government's Department for Children, Education, Lifelong Learning and Skills to explore on behalf of AWEMA the possibility of match funding to support some childcare research as part of the WEFO-funded Curiad Calon Cymru project. This proposal was received favourably by the department because it provided an opportunity to work in partnership to deliver on a commitment to research on black and minority ethnic childcare issues in the Welsh Government's November 2005 childcare strategy 'Childcare is for Children'.

Initially, WEFO anticipated a £5,000 commitment from its funding and £5,000 in match funding but officials from the department indicated they would be content to expand the work, offering £10,000 of match funding towards anticipated project costs of £20,000. The funding paid for research commissioned by AWEMA to a private consultancy firm following a competitive tender and the department confirmed its offer of grant funding in April 2007. We have not seen any evidence that this grant offer was, or needed to be, the subject of Ministerial approval. The grant offer was confirmed to AWEMA during the period of dissolution ahead of the May 2007 National Assembly elections

## Housing – Black and Minority Ethnic Housing Strategy Development Officer

We have been unable to explore in detail the basis for the agreement of this funding and the work supported with it because a number of seemingly related files were destroyed in November 2011 in accordance with the Welsh Government's file retention and disposal policy. These files were titled: national black and minority ethnic housing action plan; black and minority ethnic housing strategy development officer grant; and black and minority ethnic housing review group.

However, records that we have seen on other Welsh Government files show that, on 4 March 2002, the Welsh Government's Housing Department confirmed a grant offer to AWEMA of £114,125 through to the end of 2003-04 (although we have identified total payments of £120,125). The core purpose of the post was to support the employment and work of a black and minority ethnic housing strategy development officer (including both direct employment costs and contributions to overheads).

We understand that the Welsh Government looked to AWEMA to employ this housing officer both through a desire to link in with work AWEMA was already engaged with and because it was keen to fund the post externally through programme funding rather than appoint someone itself to fulfil this role. That was because of a wider pressure at the time to limit departmental running costs. Nevertheless, it is clear that the post-holder split their time between work based out of AWEMA' s offices, and work specifically directed and managed by other Welsh Government officials, having effectively been seconded back to the Welsh Government. This work included:

- Supporting the work of AWEMA's Housing Committee.
- Involvement in a feasibility project that the Welsh Government had established in 2001 to explore the establishment of a specific black and minority ethnic-led housing organisation. This project reported its findings in March 2003 and led to the creation of Tai Pawb, which became fully operational in April 2005. We understand that the Chief Executive of AWEMA had been keen for the new organisation to be part of AWEMA but that Welsh Government officials, and other representatives from the housing sector, favoured the creation of a standalone organisation.
- Supporting the delivery of the Welsh Government's black and minority ethnic housing action plan. In April 2001, the Welsh Government consulted on its first black and minority ethnic housing strategy. This strategy was then taken forward through the formal launch, in September 2002, of the Welsh Government's 'Black Minority Ethnic Housing Action Plan for Wales'. The work that flowed from that action plan included support and guidance to social landlords in the development of their own black and minority ethnic housing strategies.

# Appendix 3 – Case studies summarising the Welsh Government's response to specific concerns raised by external parties about AWEMA before December 2011

Since the creation of AWEMA in 1999, there have been several points in time when specific concerns about AWEMA's governance and financial management or questions about the funding of AWEMA and the delivery of its work have been raised with the Welsh Government. The eight case studies that follow describe the key events that we have reviewed and the Welsh Government's response to them. We do not form a view on the extent to which the concerns raised were justified but we do set out our view on the adequacy of the Welsh Government's response in each case. Several of the matters described here have already been the subject of media coverage[105].

Paragraphs 2.151 to 2.153 summarise our overall view on the Welsh Government's response to these concerns over time, set alongside our conclusions on the general stewardship of its grant funding to AWEMA. Paragraphs 3.2 to 3.25 discuss the Welsh Government's response to the fresh allegations about governance, financial management, staffing and human resource matters and potential criminal activities that emerged in late 2011.

The eight case studies relate to:

- Case Study 1 – allegations relating to an acrimonious split in AWEMA's Economic Development Committee in 2001 and the establishment of another company, EDC-AWEMA Ltd (later re-named EBSP Ltd).
- Case Study 2 – concerns about financial accountability and governance that were raised by representatives of the Asian community and some AWEMA Board members during 2002.
- Case Study 3 – concerns about AWEMA's financial management and governance that featured in media coverage in November 2003 and concerns that were raised with the Welsh Government by another AWEMA Board member in early 2004.
- Case Study 4 – an inaccurate and incomplete response, in March 2006, to a 'Written Assembly Question' from the former Assembly Member, Dr Dai Lloyd, regarding the Welsh Government's previous funding of AWEMA.
- Case Study 5 – concerns that WEFO looked into in 2006 about procurement processes, payments to partner organisations, ineligible expenditure, future match funding and general project management for AWEMA's Curiad Calon Cymru project.
- Case Study 6 – allegations about governance failings made by a former Acting Chair and former Acting Vice-Chair of AWEMA in July 2007.

105 These case studies do not include reference to questions raised with the Welsh Government's equalities unit, in 2009, by the Minister then responsible for equalities (Dr Brian Gibbons) about the frequency of and attendance at AWEMA's Board meetings (paragraphs 2.57 to 2.61). In addition, while Case Study 3 refers to the commissioning by the Welsh Government's equalities unit of an 'IMANI Consultancy Services' evaluation of AWEMA projects funded by the equalities unit, it does not explore the findings of that work and the equalities unit's subsequent decisions on AWEMA's funding. Paragraphs 2.16 to 2.34 and Figures 5 and 6 explore those matters in detail.

- Case Study 7 – concerns raised, in mid-2010, by the former Assembly Member, Dr Dai Lloyd, about AWEMA's delivery on the ground in the Swansea area.
- Case Study 8 – concerns raised with WEFO, in 2011, by the North Wales Regional Equality Network about the management of the two of AWEMA EU Convergence Programme projects in which it was involved.

**Case Study 1 - During 2001, AWEMA experienced an acrimonious split in its Economic Development Committee related to the establishment of another company, EDC-AWEMA Ltd. Various allegations and counter-allegations were made by the rival groups to the Welsh Government. It is not clear what efforts the Welsh Government made to satisfy that, in light of these allegations, AWEMA was a suitable organisation to receive public funding.**

In March 2001, the Chair and some members of AWEMA's Economic Development Committee established a separate company, EDC-AWEMA, in order to participate as a partner in a European Objective One-funded project (Support Programmes for Underrepresented Groups). The project was being led by the Welsh Development Agency (WDA). The details of the project and the setting up of the new company, were presented to the AWEMA Economic Development Committee at a meeting in late April 2001.

The actions of members of AWEMA's Economic Development Committee resulted in a major disagreement within AWEMA. The then Chair (also the Chair of Cardiff Race Equality First) and the then Acting Chief Executive (Mr Naz Malik) were both outspoken in their concerns about the actions of members of the Economic Development Committee. Mr Malik had been the Acting Chief Executive of AWEMA since April 2001. This followed another temporary arrangement after the then Director of the Commission for Racial Equality Wales stepped down as AWEMA's Secretary in February 2001.

There followed an acrimonious split between AWEMA and those involved in the establishment of EDC-AWEMA and, over the course of the following few months, both sides made complaints to the Welsh Government regarding each other's governance, conduct, representation and legitimacy. The WDA had already paid out £40,000 in early April 2001 to EDC-AWEMA towards 'start-up and setting-up costs' although this sum was then paid back to the WDA in June 2001. In May 2001, a new company – EBSP Ltd – was established, to take forward the proposed project work with the WDA. In October 2001, EDC-AWEMA made a request to Companies House for voluntary dissolution.

The Welsh Government's records show that, on 2 May 2001, the then Minister for Finance, Local Government and Communities (Edwina Hart) asked the then Permanent Secretary to find out more about the circumstances of the creation of EDC-AWEMA. In following up these issues, the Welsh Government's records also indicate that there were different views between some Welsh Government and WDA officials as regards the legitimacy of EDC-AWEMA, although both organisations were trying to resolve matters.

Earlier in 2001, but then overlapping with the concerns that emerged about the creation of EDC-AWEMA, the Welsh Government had loaned an official to AWEMA on a short-term and part-time basis to support AWEMA's response to the Welsh Government's economic development strategy, 'A Winning Wales' (Appendix 2).

On 15 May 2001, the Permanent Secretary and the Minister met the Director of the Commission for Racial Equality Wales who expressed his, and the Commission for Racial Equality's, backing for the creation of EDC-AWEMA and EBSP. In a follow-up meeting on 24 May 2001, not involving the Minister, the Director of the Commission for Racial Equality Wales complained that the WDA had told him that the then Head of the Welsh Government's Economic Policy Division had put a block on payments. On 29 June 2001, the Permanent Secretary responded to confirm that, after investigating this matter, he was satisfied that the Head of the Economic Policy Division had acted properly and in accordance with his, and the Minister's, instruction. The Permanent Secretary noted that: 'we must both now hope that the project will get underway successfully and achieve all its objectives'.

The Permanent Secretary also met two commissioners of the Commission for Racial Equality Wales on 11 June 2001 to discuss the Welsh Government's approach to equality issues and to talk about AWEMA. The note of that meeting records that: 'the Commission for Racial Equality had originally received good reports of AWEMA but now alarm bells were ringing …… The Permanent Secretary said his impression, which did not come from direct involvement, and so might be inaccurate, was that AWEMA had become dysfunctional. It seemed to have divided on ethnic lines on key issues, and it was unclear from where its authority derived. There were apparently only two board members, one of whom had been abroad for some time.'

## Case Study 1 - continued

On 21 June 2001, Mr Malik wrote to the Minister to inform her that he had been appointed formally as the Chief Executive of AWEMA with effect from 1 June 2001. Mr Malik's letter to the Minister followed a meeting with the Permanent Secretary the previous day. The Welsh Government's note of that meeting – which was also attended by the senior official responsible at that time for the Welsh Government's equalities unit – records that Mr Malik expressed his concerns about the formation of EDC-AWEMA and his mistrust for the motivation of the Director of the Commission for Racial Equality Wales. The note states that the Permanent Secretary indicated that his officials had already carried out due diligence processes following the concerns raised about the creation of EDC-AWEMA and that, given AWEMA was being funded by the Home Office, and that it was intended to be a representative body not under the supervision nor sponsored by the Welsh Government, there was a limit to the extent to which the Welsh Government could become involved. The note also records the Permanent Secretary as having suggested that if there were difficulties between AWEMA and the Commission for Racial Equality, it was important that these were taken up bilaterally.

The statement about the Home Office funding appears to have been misinformed given that, by this point, the Welsh Government's payments to AWEMA had already amounted to just under £100,000 with further funding under discussion (Appendix 2). In addition, the Welsh Government's initial funding of AWEMA pre-dated the Home Office funding. We have found no evidence to demonstrate that these events had any bearing on the advice offered to the Minister, or the Minister's decision, to agree three-year funding for the Promoting Equality/Capacity Building project in July 2001. We are, however, unable to confirm the basis of a meeting between the Minister, an official from the equalities unit, and Mr Malik, in advance of the award of this funding (Appendix 2). In addition, in July 2001, Mr Malik wrote to the Permanent Secretary to request a 12-month secondment of an administrative officer and an administrative support officer, to help establish AWEMA's office systems and procedures. The Welsh Government's file records indicate that it agreed to support one post (as a loan rather than a secondment) but that, when advertised to staff, this opportunity did not attract any interest.

In the event, the Welsh Government continued to provide financial support to AWEMA and the WDA entered into partnership with EBSP. However, through July, August and early September 2001 there was further correspondence and communication variously involving the Permanent Secretary, other Welsh Government and WDA officials, the Director of the Commission for Racial Equality Wales, and representatives of both AWEMA and some of the individuals involved in the creation of EDC-AWEMA and EBSP.

In response to some of this correspondence, the Permanent Secretary repeated his desire to avoid the Welsh Government being drawn into matters considered internal to AWEMA. Nevertheless, on 7 September 2001, the Permanent Secretary requested assurances from colleagues responsible for the management of the equalities unit that AWEMA was fulfilling whatever accountability relationship the Welsh Government had established with it, requesting that they bring to his attention anything which was: 'of sufficient concern to the Assembly (and especially me as Accounting Officer) which needs to be pursued formally with them'.

We have not seen any evidence constituting a direct response to the Permanent Secretary's query. However, referring to the Permanent Secretary's query, on 12 September 2001 the Head of the Economic Policy Division advised colleagues in the equalities unit that, in relation to the work EBSP was involved in, and as regards the Welsh Government's proposed funding of an economic development officer, he did not have any concerns at that time. He also indicated that the situation would continue to be monitored closely.

The events of the previous few months do not appear to have caused the Economic Policy Division to give further consideration to its commitment to fund an economic development officer to support the work of AWEMA's Economic Development Committee. However, it is not clear whether some of the delay in finalising the related financial assistance agreement (Appendix 2) was connected to these events.

## Case Study 1 - continued

**Supplementary**

We have restricted the scope of our work to reviewing the Welsh Government's relationship with AWEMA. However, because of its origins, we sought further information from the Welsh Government in respect of its, and the WDA's, financial relationship with EBSP. We confirmed with the Welsh Government that the WDA made payments to EBSP totalling £2.99 million between June 2001 and March 2006. The WDA ceased to exist from 1 April 2006 when it was merged into the Welsh Government. The Welsh Government then made payments to EBSP totalling £1.2 million between June 2006 and May 2009.

In reviewing historic WDA records, we also learnt that, over time, further concerns were expressed and allegations levelled against EBSP in relation to:

- internal governance;
- probity of some of the directors;
- late filing of accounts;
- ethnic representation;
- project performance; and
- accuracy of outcome reporting.

The situation surrounding the creation of EBSP was the subject of adverse media attention in early 2004, when it had come to light that the Managing Director of EBSP had not declared to the WDA that he had been bankrupt. In or around September 2004, the WDA commissioned an internal audit review. The audit reported in September 2005 and made several recommendations relating to the governance of EBSP, including:

- greater transparency in board appointments;
- demonstrating competitiveness in procurement;
- the need for adequate separation of duties in certifying travel and subsistence claims; and
- establishing clear delegations between the board and officers.

Case Study 2 - During 2002, a number of concerns were raised with the Welsh Government regarding governance at AWEMA. In response to those concerns officials from the Welsh Government's Finance Department undertook a review of AWEMA, although the findings of that review were not reported back to AWEMA until April 2003. The review considered both financial accountability issues and AWEMA's corporate governance. While the review documented AWEMA's governance arrangements, we have seen no evidence that the review tested whether those arrangements worked in practice. Nor did the Welsh Government conduct any follow-up work to satisfy itself as to the adequacy of the actions taken by AWEMA to address the report's recommendations.

On 28 January 2002, the then Permanent Secretary met with a number of representatives of the Asian community at their request to discuss concerns regarding the way AWEMA was operating. These individuals included some of those involved in the creation of EDC-AWEMA and EBSP Ltd in 2001 (Case Study 1). The concerns raised related to:

- the extent to which AWEMA represented all ethnic and religious minorities;
- the transparency and accountability of AWEMA, which included the way in which AWEMA Board members and staff had been appointed; and
- the role of the then head of the equalities unit in the appointment of Mr Naz Malik as Chief Executive of AWEMA.

On 19 February 2002, the Permanent Secretary wrote to the senior Welsh Government official with overall responsibility at that time for the equalities unit stating: 'I shall need advice on how I should best address the criticisms of the corporate governance arrangements at AWEMA and the threat that any deficiencies might present to public funds'.

On 14 March 2002, the Permanent Secretary met with the then head of the equalities unit to discuss the allegations that had been made against him. In respect of the concerns which had been raised regarding the governance of AWEMA, the Permanent Secretary indicated that he was minded to: 'ask the [Welsh Government's] Internal Audit unit to review the corporate governance arrangements at AWEMA, since [the Welsh Government] part-funded them and therefore had a responsibility to assure [itself] that the resources were being properly handled'. We have found no evidence that the suggested review was initiated at this stage.

The notes of the 14 March 2002 meeting record that the head of the equalities unit rejected the allegations and questioned the motivations of those making them. In response, the Permanent Secretary made it clear that he accepted that the allegations were unsubstantiated. However, records from July 2003 show that the Permanent Secretary was, at that point, of the view that the, by then, former head of the equalities unit had become too strongly associated with those leading AWEMA.

Between August 2002 and October 2002, Welsh Government officials were copied into several letters from one of AWEMA's Board members who made further allegations about the corporate governance of AWEMA. These allegations included:

- AWEMA did not have a democratic structure;
- accounts had not been audited or submitted to Companies House;
- poor practice in the recruitment and appointment of staff;
- lack of accountability, openness and transparency processes; and
- abuse of position.

In response, senior Welsh Government officials came together to discuss what action the Welsh Government should take. On 21 October 2002, the Head of the Financial Accountability Division wrote to the Principal Finance Officer indicating that it would be appropriate for the Welsh Government to exercise its right of access to AWEMA's books of accounts under grant funding conditions. The purpose of the proposed exercise was to obtain assurance that proper books of account were being kept and that the accounts were being properly audited. In a further memorandum, the Head of the Financial Accountability Division stated that the review, carried out by his team, would: 'look at whether the structure and corporate governance arrangements within AWEMA are adequate to properly utilise and safeguard the public funds that have been and are due to be paid to AWEMA'.

On 26 November 2002, Welsh Government officials met AWEMA representatives to discuss the review and put to them the allegations relating to corporate governance. The allegations were refuted.

## Case Study 2 - continued

The review was completed and a report issued to AWEMA in April 2003. While the report described AWEMA's documented corporate governance arrangements, in our view it did not address the fundamental question of whether the arrangements were operating in practice. The report provides no evidence that compliance with the arrangements was tested. We therefore do not consider that the allegations made were properly investigated. The focus of the report was primarily on financial systems and controls. In view of the concerns that had been expressed relating to AWEMA's corporate governance since its establishment as a limited company, we consider that the Welsh Government failed to grasp the opportunity it had to satisfy itself that AWEMA was an appropriate organisation to receive public funding. The review did not examine allegations in relation to specific officers and members of AWEMA on the basis that this was not considered, by those leading the work, to have been an area that the Welsh Government, in the context of its responsibilities, was competent to comment on.

Nonetheless, the report identified a number of deficiencies in respect of financial systems and controls and made a number of recommendations for improvement. The Permanent Secretary was advised, in March 2003, that while the report detailed what might appear significant weaknesses, the issues identified were typical of a small organisation and should have been easily remedied.

Although not until 10 October 2003, Mr Malik responded to the report setting out the actions that AWEMA would take to address the recommendations made. On 28 May 2004, Mr Malik wrote again to the Welsh Government attaching a schedule indicating that almost all of the actions required to address the recommendations had been achieved. AWEMA's auditors have confirmed to us that they were satisfied that the recommendations had been actioned.

In response to this update from AWEMA, the Welsh Government's then Director of Social Justice and Regeneration (responsible at that time for the equalities unit) wrote to the Head of the Financial Accountability Division stating that, in order to verify AWEMA's assessment of its progress, a 'site visit' would be needed. This was considered particularly important because AWEMA had submitted a bid for EQUAL funding (Appendix 2) and would be seeking match funding from the Welsh Government. There does not appear to have been any consideration at this point of the potential relevance of follow-up work in light of fresh allegations that had emerged at the end of 2003 and in early 2004 and the opportunity to link up with the IMANI Consultancy Services review of AWEMA's equalities-unit funded projects that was ongoing at that time (Case Study 3).

The Minister then responsible for equalities (Edwina Hart) declined an initial request from AWEMA for match funding in June 2004. This decision was taken for reasons unconnected with the findings of the previous review by the Finance Department and we have found no evidence that a follow-up review was undertaken before or after this decision. The follow-up work then appears to have been postponed indefinitely.

Case Study 3 - In late 2003 and early 2004, further concerns and allegations were raised regarding the governance and propriety of AWEMA. The Welsh Government indicated that these matters would be dealt with as part of a consultancy review that it commissioned in December 2003 but which was not completed until January 2005. The terms of reference for the review were narrowly defined and the review did not cover the governance and propriety of AWEMA. The concerns and allegations were therefore not addressed.

On 12 November 2003, the Western Mail featured an article which raised concerns about value for money and staff salaries at AWEMA, following inquiries made by the former Assembly Member David Davies. This was followed, on 20 November 2003, by a BBC Dragon's Eye programme. The concerns and allegations featured in this coverage included:

- the value of the contribution of AWEMA given the amount of public funding being received;
- transparency over staff pay;
- AWEMA engaging in politics whilst receiving public funds;
- the amounts and timing of invoices submitted by AWEMA to the Welsh Government; and
- allegations of racism against the Chief Executive of AWEMA (Mr Naz Malik).

Earlier that month, in response to a 'Written Assembly Question' from the former Assembly Member David Davies, the Minister then responsible for equalities (Edwina Hart) had stated that there would be a review and assessment of the contribution that AWEMA had made in light of the funding it had received. In response to a separate question from Mr Davies about the ability of AWEMA's senior management to deliver the objectives set for them by the Welsh Government, the Minister indicated that the role of AWEMA's senior management would be assessed as part of the wider review. According to a memo sent by the then Permanent Secretary to a colleague on 2 July 2003, the Minister had already stated to the Permanent Secretary in a meeting the previous day that she was 'very concerned about mismanagement within AWEMA' and that she 'would like a review to be undertaken'.

On 13 November 2003, the Welsh Government's equalities unit sent the Minister a terms of reference for the proposed review. The accompanying submission referred to some of the concerns that had been raised and also referred to responses to the Welsh Government's consultation on its second race equality scheme. It was said that these responses had: 'highlighted resentment of AWEMA's role and the need for a more pluralistic approach to funding, developing and engaging diverse minority ethnic communities'.

In March 2004, the Permanent Secretary met with a former AWEMA Board member who had, at the end of January 2004, raised various concerns with an official from the Welsh Government's Communities Directorate regarding the corporate governance of AWEMA. That board member had been involved in a disagreement at an AWEMA Board meeting in December 2003, which was witnessed by a senior official responsible for the Welsh Government's equalities unit. The concerns raised by this former board member included matters related to;

- the functionality of the AWEMA Board;
- clarity over who was on the board; and
- increases in staff salaries.

The Permanent Secretary noted that he had to be careful not to interfere with the internal governance of AWEMA, but that the Welsh Government had commissioned an independent review of AWEMA's operations.

The equalities unit commissioned its review of AWEMA in December 2003, to IMANI Consultancy Services. Paragraphs 2.16 to 2.25 and Figure 5 explore the circumstances and findings of this review, and its recommendations with regard to future funding, in more detail.

Notwithstanding the time taken to finalise the review report (until January 2005), the scope of the review was very narrow and did not address the sorts of concerns that had been raised regarding corporate governance, financial management and probity. Nor did the review consider the role of AWEMA's senior management. The review also focused solely on evidence in relation to outputs and outcomes from the funding AWEMA had received from the equalities unit, without reference to other historic or ongoing Welsh Government funding to AWEMA (Appendix 2).

AWEMA commented on the scope of the work at the outset. In particular, AWEMA questioned the narrow focus on funding from the equalities unit. AWEMA repeated this concern when commenting, in November 2004, on the draft report. In September 2004, Mr Malik had also noted in correspondence with the Welsh Government's then Director of Social Justice and Regeneration that there was a view more widely that the review was about AWEMA's work as a whole and its overall standing as an organisation.

**Case Study 4 - In March 2006, the response provided by the Minister then responsible for equalities (Jane Hutt) to a 'Written Assembly Question' about the total amount of Welsh Government funding provided to AWEMA, as prepared by the Welsh Government's equalities unit, was inaccurate and incomplete. We consider that this inaccurate response was symptomatic of a wider failure to coordinate and communicate across departments and to effectively manage the Welsh Government's overall funding relationship with AWEMA over previous years.**

In March 2006, two Assembly Members, Dr Dai Lloyd and Mr Peter Black tabled 'Written Assembly Questions' to the Minister then responsible for equalities (Jane Hutt). These questions related to the funding of AWEMA. The Assembly Members have told us that they cannot recall exactly what prompted their questions. Dr Lloyd has told us that, for several years, concerns relating to AWEMA had been voiced by representatives of black and minority ethnic communities within his constituency. He considered it likely that his question was linked to these concerns. Mr Black indicated that he may have asked his question by way of a follow-up to Dr Lloyd's question, also reflecting his shadow role for the equalities portfolio.

Dr Lloyd asked the Minister to detail the funding made available from the Welsh Government to AWEMA for each year since 1999. On 16 March 2006, the Minister responded to the question, providing a breakdown of funding by financial year. The total disclosed amounted to £792,245, comprising:

- 2000-01: £24,075
- 2001-02: £148,417
- 2002-03: £206,900
- 2003-04: £234,972
- 2004-05: £38,333
- 2005-06: £139,548

Our analysis shows that, at the point at which the question was lodged (6 March 2006), the Welsh Government had made payments to AWEMA totalling £1.75 million. On 10 March 2006, WEFO made a further payment of £265,161 for the Curiad Calon Cymru project and, on 21 March 2006, the equalities unit made a further payment of £25,000 in relation to AWEMA's core funding. These two payments brought the final total to the end of 2005-06 to £2.04 million (Appendix 2).

The response given excluded all of the funding AWEMA had received from WEFO, as described above, and from the Communities First programme (£807,917 for the period 2002-03 to 2005-06). The response also excluded the £2,068 of miscellaneous payments shown in Appendix 2. Why the WEFO and Communities First funding was excluded is not clear, although it is possible that officials did not see this funding as being specific to AWEMA because AWEMA was receiving these funds on behalf of itself and a range of other project partners (Appendix 2 and paragraphs 2.35 to 2.46).

We have reconciled some of the figures quoted for individual financial years with certain Welsh Government payments, but the figures quoted did not take full account of the funding to AWEMA from other Welsh Government departments. In addition, some of the sums quoted for individual financial years included payments that were actually made in a different period. Despite the response being prepared by the equalities unit, the figure quoted for 2004-05 did not include its own payments to AWEMA that year. In addition, the equalities unit's funding for the Right to Vote project was excluded from the calculation for 2000-01 and included at the level of £55,000 for 2001-02, 2002-03 and 2003-04 (the sums actually paid out in those three years being £51,804, £50,000 and £50,000 respectively). For 2005-06, the response appears to have included a sum of £39,458 which the equalities unit had indicated AWEMA could retain as match funding for its WEFO-funded project work. The Welsh Government did not pay this money to AWEMA in 2005-06. It had simply allowed AWEMA to retain this funding after, in February 2005, AWEMA had brought to the attention of the equalities unit unspent funding from 2000-01 (paragraphs 2.35 to 2.46). The inaccuracies in the equalities unit's reporting of its funding are difficult to explain given that, at the same time as preparing the response, it had been looking into the underspend declared by AWEMA from 2000-01 as well as a separate underspend against its funding in 2004-05.

The response provided by the Minister was consistent with the information provided by her officials and we have not seen any evidence of a deliberate attempt to mislead. In our view, the failure of Welsh Government officials to identify correctly the total funding to AWEMA was symptomatic of a wider failure to coordinate and communicate across Welsh Government departments and to effectively manage the Welsh Government's overall relationship with AWEMA over previous years.

In November 2003, in a response to a 'Written Assembly Question' from the former Assembly Member David Davies, the Minister then responsible for equalities (Edwina Hart) indicated that AWEMA had received around £759,303 from the Welsh Government. The figure quoted on that occasion is consistent with our analysis of the Welsh Government's payments to AWEMA by that point in time, including payments from the Communities First programme and any miscellaneous payments.

Case Study 5 - In 2006, WEFO became aware of and looked into concerns about procurement processes, payments to partner organisations, ineligible expenditure, future match funding and general project management for AWEMA's Curiad Calon Cymru project. WEFO responded promptly to these concerns and agreed a range of improvement actions with AWEMA, taking into account AWEMA's own response to some of these issues. However, there was some lack of clarity about responsibilities within WEFO, and we could not find any evidence that WEFO systematically monitored compliance with the agreed improvement actions.

Across the spring and summer of 2006, WEFO became aware of and looked into various concerns about the finances and management of the Curiad Calon Cymru project. These concerns had arisen from a combination of WEFO's own monitoring and inspection arrangements and issues raised by project partners. In summary, the key concerns related to:

- **Procurement processes.** Specifically where WEFO identified that AWEMA had failed to follow correct and adequate procurement practices when tendering for external evaluators and for a media expert to publicise and raise awareness of the project.
- **Non-payment of partner organisations.** There were concerns that AWEMA had refused a request from the project partners to receive a share of a £265,161 advance payment made by WEFO in February 2006. There were concerns that partner organisations were incurring expenditure and then waiting between two and six months to receive payments from AWEMA which, given their small size, was creating cash flow difficulties. Although WEFO confirmed that partners had received their share of the £116,909 advance payment to AWEMA in May 2006.
- **Ineligible expenditure.** Including alcohol and claims for the expenses of organisations and individuals during a transnational visit that were not part of the Curiad Calon Cymru Partnership. WEFO also sought assurances from AWEMA that other items of potentially ineligible expenditure it had identified would not be claimed from AWEMA's European funding.
- **Match funding.** AWEMA had failed to provide evidence, by the specified deadline, that it had secured the available match funding for the second year of 'Action 2' of the project and there were concerns about the possible implications of having to reduce the scale of the project if the match funding was not confirmed.
- **Project management.** A range of concerns including: an inadequate recruitment process to replace a project manager; an issue relating to the behaviour of the Chief Executive of AWEMA (Mr Naz Malik); and the extent to which AWEMA's partner organisations were engaged in decision making about the project.

In May 2006, WEFO's 'Article 4' Team (now known as the Project Inspection and Verification Team) undertook an inspection of the project. WEFO put its payments to AWEMA on hold while this work was completed and until AWEMA could evidence that it had sufficient match funding to support the project. The purpose of the inspection was to verify that the project was complying with a range of criteria, including European Commission regulations, grant conditions and rules on eligible expenditure. However, the remit of this work was such that it did not examine matters relating to the payment of partner organisations or project management arrangements. Nor did this work resolve the question of future match funding.

On 19 June 2006, the Article 4 Team reported that, in all of the areas it examined, it was 'satisfied', although in keeping with the reporting arrangements at the time, this could simply mean that issues had been referred on to other WEFO staff to resolve with AWEMA (paragraphs 2.112 to 2.113). For example, there had been some uncertainty within WEFO about responsibilities for investigating AWEMA's procurement arrangements. The then Head of the European Social Funds branch had requested that, as part of its work, the Article 4 Team investigate AWEMA's procurement arrangements. However, the Article 4 Team responded that this was outside its remit and the procurement-related recommendations in its final report simply passed responsibility on these issues back to other WEFO staff to take up with AWEMA. We do not know why the Article 4 Team did not see it as part of its role to investigate AWEMA's procurement practices.

On 12 June 2006, WEFO officers met with colleagues from the Welsh Government's Compliance Office and Internal Audit Services to discuss the various concerns that had been identified. This meeting did not involve the Welsh Government's equalities unit but the concerns were brought to the attention of the equalities unit the following day and the equalities unit was kept informed of subsequent developments. The equalities unit had, at that time, identified concerns of its own in relation to the quality of some of AWEMA's work and underspends against its previous grant funding (paragraphs 2.35 to 2.47). The equalities unit was waiting on assurances from WEFO before agreeing that its funding could be counted by AWEMA, in part, as match funding for the Curiad Calon Cymru project.

## Case Study 5 - continued

It appears that, as a result of the meeting, WEFO decided that it would write to AWEMA to request a formal response to the various concerns that it had identified. That proposed course of action was outlined in a submission to the then Minister for Enterprise, Innovation and Networks (Andrew Davies) on 10 July 2006. The submission was also sent to the Minister then responsible for equalities (Jane Hutt).

While not mentioned in the Ministerial submission, records we have seen indicate that, by this point, the WEFO project officer responsible for the Curiad Calon Cymru project had already been preparing a briefing note to send to the Welsh Government's then Head of Internal Audit requesting that a 'special exercise' be carried out. The request had been discussed with and supported, in principle, by the equalities unit and the Welsh Government's Compliance Office. The request was sent to the Head of Internal Audit on 18 July 2006. The Head of Internal Audit responded noting that, in his view, there was a relationship management and monitoring responsibility that WEFO needed to fulfil before considering the involvement of Internal Audit. Specifically, that the concerns that had been identified did not, at that stage, appear to have been raised formally with AWEMA's management. He also noted that an Internal Audit review could attract with it a certain stigma which might not have been warranted. The then Chief Executive of WEFO agreed with the assessment of the Head of Internal Audit and, on 24 July 2006, WEFO wrote to Mr Malik setting out the various concerns and requesting a response.

On 2 August 2006, Mr Malik responded in writing to each of the concerns. That response included reference to actions that had already been taken to address some of the concerns, for example regarding partner engagement, and noted that the issue of payments to partners arose from a lack of clarity about WEFO guidance and that AWEMA had acted in accordance with advice from its external auditor. Before sending this formal response, AWEMA had also been providing further information to WEFO about ongoing match funding.

There followed, on 8 August 2006, a meeting between WEFO officials, representatives of AWEMA (including Mr Malik and the then Chair, Dr Rita Austin) and AWEMA's external auditor. This meeting largely resolved the matters of concern that WEFO had previously identified although, in September 2006, AWEMA agreed with WEFO a number of related improvement actions for the future management of the project.

We have not found any evidence that WEFO systematically monitored AWEMA's progress in relation to these action points. However, a December 2009 audit of the project by the Welsh Government's European Funds Audit Team revisited the procurement-related issues and concluded that all costs incurred from the original contracts had been declared ineligible and removed from AWEMA's claims, with the contracts then being re-let through a proper and formal tender process. This audit also looked specifically at expenditure on transnational visits and concluded that all the costs that were finally claimed were eligible.

On the basis of the meeting on 8 August 2006, the Head of the European Social Funds branch also provided assurance to other Welsh Government departments (the equalities unit and the Communities Directorate) in respect of AWEMA's intention to allocate some of the funding from those departments to help match fund the Curiad Calon Cymru project.

On 25 September 2006, the Head of the European Social Funds branch received an anonymous letter alleging that:

- Mr Malik was misusing public funds, as he was awarding Welsh Government funds to organisations, in return for the organisation supporting the claim of a failed asylum seeker;
- one of the partner organisations had withdrawn from the project when Mr Malik refused to alter his conduct in regard to the failed asylum seeker; and
- expenses had been claimed on an overseas trip to Brussels for people who were not actually in attendance and that, on the same trip, public money had been used to purchase shoes and handbags.

WEFO considered the allegations contained in the anonymous letter and shared its conclusions with the Welsh Government's Compliance Office and the then head of the equalities unit. WEFO took assurance from the action it had already taken in response to the concerns identified earlier in 2006 and the fact that, on the trip to Brussels, one of its project officers had been in attendance and could demonstrate that there were many more representatives of the Curiad Calon Cymru partnership present than had been suggested by the correspondent. WEFO also noted that the correspondent had not provided any supporting evidence and that they stated that they had never spoken personally to Mr Malik. On 29 September 2006, WEFO's Chief Executive noted that, on the basis of WEFO's recent engagement and ongoing monitoring arrangements, the allegations did not warrant specific further action at that time. We have not seen any evidence to suggest that Ministers were informed of this particular issue, nor that they were informed in writing about the outcome from WEFO's previous investigations.

## Case Study 5 - continued

In commenting on WEFO's ongoing monitoring arrangements, WEFO's Chief Executive noted plans for a visit by WEFO's then 'Article 10' audit team, the functions of which are now performed by the Welsh Government's European Funds Audit Team. The only evidence we have seen of any work of this kind was the audit completed by the European Funds Audit Team in December 2009, 18 months after WEFO's final payments to AWEMA for the Curiad Calon Cymru project. We understand that the audit work in 2009 resulted from the European Funds Audit Team needing to increase its historical audit coverage. WEFO's Chief Executive had indicated, in 2006, that plans for an Article 10 visit were based on WEFO's risk assessment of AWEMA's project.

**Supplementary**

WEFO's response to issues of actual or potential ineligible expenditure on the project was to require AWEMA to remove these costs from its claims or to ensure they were not included in future claims. However, neither the Welsh Government's equalities unit nor the Communities Directorate – which were both funding AWEMA at this time – appear to have questioned how, if not from WEFO funding, these ineligible costs were being met. The request from the WEFO project officer to the Head of Internal Audit for a 'special exercise' to be undertaken had noted the risk that AWEMA might find itself unable to return money that had already been paid or that it would not have enough money in its reserves to cover the cost of items paid for but not yet claimed.

**Case Study 6 - In July 2007, the Welsh Government received correspondence from the then Acting Chair and Acting Vice-Chair of AWEMA making serious allegations about governance failings within AWEMA. These concerns were, in our view, of fundamental importance to the question of whether AWEMA was a fit organisation to receive public funding and this was at a time when the Welsh Government's equalities unit had its own concerns about the development of AWEMA's 2007-08 action plan in relation to its core funding. In our view, the Welsh Government failed to adequately consider these allegations, which it regarded essentially as matters internal to AWEMA but also potentially for the Charity Commission to consider. The Welsh Government's response relied on written assurances from AWEMA and does not appear to have followed up certain matters.**

On 2 July 2007, the then Acting Chair of AWEMA wrote to the equalities unit raising several significant concerns about the governance of AWEMA. The Acting Chair stated that he, the Acting Vice-Chair and another board member were intending to resign over these matters, which included allegations about:

- increases to the pay and pension of the Chief Executive of AWEMA (Mr Naz Malik) without approval of the AWEMA Board;
- a lack of oversight of Mr Malik; and
- Mr Malik 'hand-picking' personal friends to be board members in order to control the board.

The then Acting Vice-Chair of AWEMA wrote to the equalities unit on 6 July 2007 reiterating the concerns of the Acting Chair. That letter also expressed concerns that a sub-group of the board (the Personnel Committee) had been formed with a hand-picked membership to enable proposals for increases to pay to be approved and a staff bonus scheme to be introduced.

On 13 July 2007, the equalities unit responded and noted that the issues being raised appeared to be internal AWEMA matters, referring also to the role of the Charity Commission in the regulation of charities. However, the letter also noted that the equalities unit would be considering what further action needed to be taken to ensure that grant funding terms and conditions were being met. Appropriately, the equalities unit went on to seek advice throughout its subsequent consideration of these allegations from the Welsh Government's Compliance Office and Legal Services. The concerns were also shared with WEFO officials, recognising the relative value of the WEFO funding to AWEMA and in light of concerns that WEFO looked into in 2006 (Case Study 5).

On 19 July 2007, Ministerial responsibility for the equalities portfolio had moved from Jane Hutt to Dr Brian Gibbons. Ms Hutt has confirmed to us that she was not briefed on these matters and there is no evidence to suggest that she was.

Separate to the issues being raised by the Acting Chair and Acting Vice-Chair of AWEMA, the equalities unit had concerns about AWEMA's proposed action plan for 2007-08 regarding its core funding from the Promoting Equality Fund (Appendix 2). Equalities unit officials met AWEMA representatives on 19 July 2007 to discuss the action plan. The note of that meeting indicates that the concerns raised by the Acting Chair and Acting Vice-Chair were not discussed at that stage. AWEMA submitted a revised draft action plan on 26 July 2007.

Also on 26 July 2007, the equalities unit wrote to Mr Malik setting out the concerns expressed by the Acting Chair and Acting Vice-Chair. The letter sought assurance that AWEMA, being in receipt of public funds, was properly constituted and being managed effectively. The letter sought feedback on the broader governance issues and concerns highlighted by the allegations and indicated that the allegations about salary increases and bonus payments were of particular concern. The letter noted that any expenditure on bonus payments would not have been eligible to be claimed from AWEMA's WEFO funding. Nor would such costs have been able to be counted in any declared match funding. The letter sought an explanation of how any performance bonuses had been calculated, approved and awarded to staff, including the Chief Executive. The equalities unit sent a similar letter to the Acting Chair of AWEMA on the same day. Both letters noted that the Welsh Government was considering whether it was appropriate to refer the matter to the Charity Commission and attached guidance issued by the Charity Commission.

On 1 August 2007, Mr Malik responded to the equalities unit, rebutting the concerns raised by the Acting Chair and Acting Vice-Chair. On 8 August 2007, the Acting Chair and Acting Vice-Chair wrote again to the equalities unit rejecting the explanations given by Mr Malik and reiterating their concerns. In particular, they highlighted their concerns about the way in which Mr Malik's salary had been increased.

## Case Study 6 - continued

On 9 August 2007, the equalities unit received advice from the Welsh Government's Compliance Office, which included the following statements:

- 'One of the concerns ….was whether or not the issues were having a negative impact on delivery of [AWEMA's] business plan. It's clear this may be the case and in the light of that and the continuing concerns over corporate governance within the organisation, we are of the view that you would be perfectly justified in withholding further payments until these matters have been before the board and addressed to our satisfaction.'
- 'We also feel that it is time to brief your Minister about these ongoing concerns. There is likely to be political fallout if payments have to be suspended and it would be wise to give your Minister a heads-up.' In response, the equalities unit noted that senior management and the Minister had already been made aware of the issue and that the Minister would continue to be updated (as was the case over the following few weeks).

Also on 9 August 2007, the equalities unit wrote to Mr Malik setting out ongoing concerns about AWEMA's proposed action plan for 2007-08. These concerns included the cost of proposed consultation events, geographical coverage of activity and AWEMA's declared intention to charge other Welsh Government departments separately for consultation work that the equalities unit considered should have been covered by its own funding.

On 13 August 2007, the equalities unit wrote again to Mr Malik expressing concern at the continuing lack of agreement between the trustees on the issues previously raised and the potentially negative impact on delivery of AWEMA's work plan. That letter requested that the matter be considered by AWEMA's full Board and noted that the equalities unit did not feel able to approve any further payments until the issue had been resolved satisfactorily. By this point, Mr Malik had asserted that the Acting Chair and Acting Vice-Chair had, in effect, resigned from the board by virtue of their non-attendance at the AWEMA Annual General Meeting in July 2007 and because neither had sought nomination to be re-elected. This was subsequently disputed by the Acting Chair and Acting Vice-Chair.

On 17 August 2007, the equalities unit provided a written briefing to the Minister setting out the allegations that had been made but also noting that they were essentially internal matters for AWEMA. The briefing stated that the equalities unit would be writing to AWEMA reiterating the concerns and seeking evidence-based reassurances from AWEMA. The briefing was also sent to the offices of the then Deputy First Minister and Minister for Economy and Transport (Ieuan Wyn Jones), the then Minister for Finance and Public Service Delivery (Andrew Davies) and the then Health and Social Services Minister (Edwina Hart). We have seen no further evidence of contact with the offices of those three Ministers on this matter.

On 20 August 2007, the equalities unit wrote again to Mr Malik requesting a corporate response from AWEMA's Board to the allegations that had been raised. A response was sent by AWEMA on 22 August 2007, following a meeting of AWEMA's Board that day which was said to have been attended by seven of 11 board members. The equalities unit had turned down an invitation to attend that meeting on the basis of it not being appropriate given that the meeting was essentially about AWEMA internal matters. The AWEMA response was signed by the new Chair of AWEMA who was also a newly appointed trustee (Professor George Karani), a former Chair (Dr Rita Austin) and the Treasurer (Mr Stephen Matthews). The response indicated that AWEMA's Board had agreed that those signatories would send the response on their behalf.

The response from AWEMA expressed serious concern that the equalities unit had, allegedly, withheld AWEMA's grant funding on the basis of the unsubstantiated concerns raised by the Acting Chair and Acting Vice-Chair. In fact, the equalities unit had not withheld any funding at that point. AWEMA had already received its core funding from the equalities unit for the first two quarters of the financial year. In addition, email correspondence between Welsh Government officials indicates that the primary concern in relation to the funding was the lack of a satisfactory and agreed action plan.

The response from AWEMA also expressed concern that the equalities unit had contacted WEFO about the allegations. Making WEFO aware was, in our view, entirely appropriate, not least because some of the correspondence from the Acting Chair and Acting Vice-Chair included specific reference to concerns about AWEMA's WEFO-funded Curiad Calon Cymru project. We have not seen any evidence of WEFO taking forward any action of its own in response to the concerns raised by the Acting Chair and Acting Vice-Chair. While we have not seen any documents to confirm this, a member of staff working in the equalities unit during 2007-08 has told us that WEFO officials seemed broadly content with arrangements in respect of their funding to AWEMA. The official told us that, given the larger sums of WEFO funding involved, the concerns identified by the equalities unit regarding AWEMA's governance and its action plan for 2007-08 seemed to be outweighed.

## Case Study 6 - continued

On 3 September 2007, the equalities unit provided a further written briefing to the Minister. That briefing stated that: 'Following receipt of a further letter provided by the Director of AWEMA, a meeting of senior officers took place where it was agreed that this letter does appear to address our concerns, subject to the Promoting Equality Fund grant monitoring meeting in October. To pursue the concerns of the former Acting Chair and Acting Vice-Chair further may be regarded as overly heavy-handed scrutiny on our part. The issues about the board are for the board to resolve. It would be for the Charity Commission to pursue further if they felt this necessary.'

We have not seen a note of the meeting between senior officers that arrived at the conclusion set out in the 3 September 2007 briefing to the Minister. However, an email from her line manager to the then head of the equalities unit, dated 29 August 2007, stated that: 'for the record, we have discussed this today and agreed that we should accept the information given, and move on'. Also on 3 September 2007, the equalities unit wrote to AWEMA's external auditors requesting details about any bonuses or performance-related payments made by AWEMA. We are not clear why this letter did not also request details of increases to Mr Malik's salary given that this was one of the key concerns raised by the Acting Chair and Acting Vice-Chair of AWEMA. AWEMA's auditors confirmed that no bonuses or performance-related payments had been made by AWEMA.

The Charity Commission has confirmed to us that it was notified of the allegations through correspondence received directly from the Acting Chair and Acting Vice-Chair. The Welsh Government was aware of this direct referral and there is evidence that, during August 2007, equalities unit officials spoke with officers from the Charity Commission about the concerns that were being raised. However, there is no record of the Welsh Government having confirmed with the Charity Commission what action it was intending to take or the outcome of any investigations. We understand from the Charity Commission that it responded and provided advice to the two former trustees and that no further action was taken.

On 5 September 2007, an official from the Welsh Government's Compliance Office noted that there were still some issues of possible concern arising from the draft minutes of an AWEMA Personnel Committee meeting on 9 July 2007. The compliance officer suggested that the equalities unit might want to seek assurance on arrangements for managing conflicts of interest given that Mr Malik was one of the members of AWEMA's Personnel Committee. It was further suggested that the equalities unit should seek further information with regard to AWEMA's proposals for implementing a new salary structure (including the suggestion that a new structure might be introduced on a retrospective 18-month basis). On 10 September 2007, the equalities unit advised the compliance officer that senior management was content with the position as it stood and that the unit had requested further supporting documentation before sending a substantive response to AWEMA.

The response provided by AWEMA on 22 August 2007 had indicated that documents relating to Mr Malik's performance appraisals would be made available for viewing at AWEMA's offices if required. The response also indicated that further supporting evidence would be supplied when available, including an annual report of salaries paid for 2006-07. We have not seen any evidence that these matters were followed up by the equalities unit. Similarly, we have not seen any specific evidence in relation to the request made for supporting documentation that was referred to by the equalities unit in email correspondence with the Compliance Office on 10 September 2007. It is not clear from the email correspondence whether or not that request related to the supporting documentation promised by AWEMA on 22 August 2007 or the issues raised with the equalities unit by the Compliance Office on 5 September 2007. We have not seen a copy of any letter sent by the equalities unit seeking further supporting documentation other than the letter sent on 3 September 2007 to AWEMA's external auditors.

The 3 September 2007 briefing to the Minister had referred to a monitoring meeting with AWEMA in October 2007. We have not seen a record of any such meeting either in October 2007 or soon thereafter, whether in relation to the Welsh Government's response to the allegations raised by the Acting Chair and Acting Vice-Chair of AWEMA or the concerns the equalities unit had about AWEMA's work plan.

On 1 November 2007, Mr Malik sent the equalities unit a revised action plan for 2007-08 and described in his covering letter a number of the activities that AWEMA was engaged in, including various responses to Welsh Government consultations and National Assembly committee inquiries and participation in a conference organised by the Welsh Government's Education Department. However, officials were still not satisfied that AWEMA had addressed sufficiently the issues raised by the equalities unit over the previous few months. In advance of and following receipt of the updated action plan, the equalities unit discussed with the Welsh Government's Compliance Office and Legal Services a briefing to the Minister setting out plans to suspend AWEMA's funding until the concerns about the action plan for the year were resolved.

## Case Study 6 - continued

On 9 November 2007, and again on 26 November 2007, the equalities unit sent the briefing to the Minister, but we have not seen any evidence of a reply and it is not clear precisely how these concerns were resolved. On 25 February 2008, an email from the equalities unit to the Minister's Private Office noted the lack of a formal response to the submission from November 2007. The Minister's Private Office had, on 11 February 2008, questioned the inclusion of AWEMA in a list of organisations that the equalities unit intended to fund for 2008-09. The equalities unit noted that the Minister had received, in September 2007, the submission indicating that its inquiries into the allegations received in July 2007 had been satisfactorily resolved. However, the email noted that the equalities unit still needed to meet with AWEMA to 'iron out the issues regarding their reporting arrangements and their compliance with the Promoting Equality Fund requirements for funding'. We have not seen any evidence of that meeting having taken place. However, on 26 February 2008, Mr Malik sent the equalities unit a 'pre-end-of-year' progress report and, in doing so, he expressed concern about AWEMA not having received its funding from the equalities unit for the third and fourth quarters of the financial year. AWEMA received this funding in a single payment from the Welsh Government on 19 March 2008.

On 16 November 2007, the equalities unit notified Mr Malik that, having considered the allegations raised in July 2007 by the Acting Chair and Acting Vice-Chair, it could see no basis to support their claims. That message was conveyed by Mr Malik to the AWEMA Board at its meeting in January 2008. We have not seen any records to show whether or how this outcome was communicated directly by the Welsh Government to the Acting Chair and Acting Vice-Chair who had initially raised the concerns.

Case Study 7 - In September 2010, the former Assembly Member (Dr Dai Lloyd) met with the Minister then responsible for equalities (Carl Sargeant) to pass on concerns about the activities of AWEMA raised by representatives of the Swansea Bay Racial Equality Council (now the Regional Equality Council). The Welsh Government's equalities unit does not appear to have followed through the actions agreed at that meeting.

As noted in Case Study 4, the former Assembly Member Dr Dai Lloyd has told us that, for several years, concerns relating to AWEMA had been voiced by representatives of black and minority ethnic communities within his constituency, in particular by members of SBREC. Specifically, during 2010, Dr Lloyd was approached by the Director of SBREC who raised a number of concerns relating to AWEMA. In particular, the Director of SBREC was concerned that AWEMA was being publicly funded to provide services across Wales but did not appear to be undertaking these activities in the Swansea area (see supplementary text below).

In view of these concerns, Dr Lloyd requested a meeting with Carl Sargent, the Minister then responsible for equalities. Dr Lloyd met with Carl Sargent on 28 September 2010 with staff from the equalities unit also present (but not including the then head of the equalities unit, who was unavailable, nor the staff member who had been leading on the oversight of AWEMA's grant funding but who was off work at that time). Dr Lloyd told us that he had the impression from the meeting that the Minister was already very aware of concerns regarding AWEMA. However, the Minister also told us that it was not unusual for concerns about organisations in the equalities field to be raised with him.

The notes of the 28 September 2010 meeting record three action points:

- officials to collate the information from AWEMA's quarterly reports for presentation to the Minister;
- the Minister to write to Dr Lloyd to share details of AWEMA's achievements; and
- officials to make a monitoring visit to AWEMA in the very near future to substantiate AWEMA's actions against their commitments.

Dr Lloyd has told us that at the meeting he was given the impression that the concerns would be looked into and he was satisfied that this would take place. However, we have seen no evidence to indicate that these action points were subsequently followed up within the Welsh Government. The Minister told us that he would have expected his officials to implement any action points without reference back to him, albeit that one of the stated action points should have seen him provided with further information.

As regards the proposed monitoring visit, there is evidence to show that the principle of a visit was discussed with AWEMA in October 2010. It is also clear that, at that point, officials from the equalities unit were still concerned about the way in which AWEMA was reporting its achievements. This was after having identified earlier in the financial year some concerns about over-counting of service users in the way that AWEMA had reported progress. These concerns appear to have been resolved to the Welsh Government's satisfaction by January 2011, but the official who reviewed AWEMA's progress report for the third quarter of the 2010-11 financial year still recommended a future monitoring meeting. Time constraints were said to have made this impossible to achieve in the third quarter of the financial year. The only documented evidence of any further monitoring meeting by equalities unit staff with AWEMA is from June 2011. This meeting followed a change in personnel and roles/ responsibilities within the equalities unit and the purpose of the meeting appears largely to have covered discussions about the work plan for 2011-12 and revised arrangements for quarterly reporting.

**Supplementary**

The Director of SBREC has repeated to us the concerns raised with Dr Lloyd and recounted other historic concerns which he stated that he had, in the course of other discussions, raised with various Assembly Members. He had appeared in the Dragon's Eye programme on AWEMA in November 2003 (Case Study 3), having been one of AWEMA's directors following its registration as a company in November 2000 and through to mid-2001. The Director of SBREC told us that he came to be involved with AWEMA by default, as an extension of the SBREC role he took on in November 2000 (the Chair of SBREC at that time was Mr Naz Malik). The Director of SBREC told us that he left his role with AWEMA after Mr Malik became the full-time Chief Executive in June 2001 and that he had become uncomfortable with the culture of the organisation.

## Case Study 7 - continued

These connections through SBREC were noted in the briefing that officials prepared for the Minister for his meeting with Dr Lloyd. Officials also noted that they were: '...aware that there are tensions between some of the race equality organisations and they have found it difficult to work with each other and AWEMA. However, AWEMA have delivered successful projects in partnership with other race equality organisations in the past...'. The briefing referred to a complaint received by the former Minister responsible for equalities (Dr Brian Gibbons) in respect of SBREC having to compete to secure grant funding from the Equality and Human Rights Commission. The briefing also noted that SBREC had been unsuccessful in its own bid for three-year funding from the Advancing Equality Fund for 2010-11 to 2012-13 totalling £229,685.

Case Study 8 - In August 2011, the North Wales Regional Equality Network (NWREN) contacted WEFO with concerns about the two AWEMA EU Convergence Programme projects in which it was involved. WEFO responded promptly to these concerns leading, in time, to a Project Inspection and Verification Team review of the Minorities are Wales' Resources project in early December 2011. However, from NWREN's perspective, several of the issues of concern were still unresolved when the Welsh Government confirmed, on 9 February 2012, that it was terminating all of its funding to AWEMA. Moreover, WEFO's response to these concerns, and in particular the inspection visit in December 2011, did not identify various issues highlighted by the Welsh Government's Internal Audit Services in February 2012 and further Project Inspection and Verification work reported in May 2012.

NWREN was a joint sponsor on two of AWEMA's three EU Convergence Programme projects: Minorities are Wales' Resources; and Young Black and Minority Ethnic People Aiming High. In June 2010, in advance of the formal approval of these projects by WEFO, AWEMA told NWREN that it had decided to take responsibility for managing the delivery of the two projects in North Wales, albeit based out of NWREN's offices. NWREN told us that it had since had ongoing difficulties with AWEMA, particularly related to NWREN's ability to commit match funding to the project. NWREN believes that AWEMA's concerns about NWREN's contribution heightened when NWREN started asking difficult questions about the project's finances. NWREN has told us that it had received assurances from AWEMA that it could take back ownership of the delivery in projects in North Wales when it could identify sufficient match funding. In the meantime, NWREN still had a role to play in promoting the project, for example by referring potential beneficiaries.

It was AWEMA rather than NWREN that first brought to WEFO's attention the difficulties between the two organisations. AWEMA's Finance Director telephoned WEFO on 8 July 2011 to inform it about the possible termination of NWREN's role in the two projects. That contact followed a meeting between AWEMA and NWREN the previous day (AWEMA's Finance Director had not attended that meeting). We have been unable to confirm what action, if any, WEFO took as a result of this telephone call. On 1 August 2011, AWEMA wrote to NWREN stating that NWREN would no longer be a partner on the two projects.

On 9 August 2011, NWREN contacted WEFO about AWEMA's letter of 1 August, sending a copy of the letter to WEFO the following day and asking WEFO to clarify its position on NWREN's involvement in the two projects. WEFO's equalities adviser noted to colleagues that for NWREN not to continue its involvement in the projects would be: 'very worrying as NWREN are a key organisation working in North Wales with black and minority ethnic individuals and groups and have a degree of respect in the field', adding 'I am not sure how the project sponsor [AWEMA] could deliver in the north without NWREN'.

On 16 August 2011, WEFO officers met with NWREN. At this meeting, NWREN detailed its concerns about: the way in which AWEMA had used financial information supplied by NWREN; the governance arrangements for the projects; and NWREN's role in the projects and AWEMA's attempt to remove NWREN from the projects. NWREN also alleged that, on 12 July 2011, AWEMA had asked it to sign amended timesheets for two members of NWREN staff to show a different project, a higher number of hours and to include non-project time. NWREN provided WEFO with hard copies of the original timesheets submitted by NWREN to AWEMA and an allegedly amended timesheet. NWREN's perspective is that, at that meeting, the WEFO officers were predominantly concerned about delivery against the agreed project activities in North Wales and that they appeared less interested in the governance arrangements for the project. WEFO's perspective is that it was the AWEMA's role, as the lead sponsor, to manage delivery of the project through the other partners and that it was not for WEFO to micromanage these arrangements.

In preparing for its meeting with NWREN, WEFO had identified that neither of the two projects had, at that point, reported any participants in North Wales. NWREN told WEFO that, to its knowledge, very little had been delivered in North Wales at that point for either project. Following the meeting with NWREN, WEFO:

- reviewed the supporting documentation for the projects;
- agreed to meet with AWEMA (on 9 September) to address the concerns raised;
- sent to NWREN a copy of the Memorandum of Understanding agreed between AWEMA and NWREN, asking that NWREN consider the document and in particular the conditions relating to the governance of the projects; and
- carried out an initial review of the allegations made in relation to finance, particularly regarding timesheets.

## Case Study 8 - continued

The initial review of the financial information found that AWEMA had claimed for the allegedly inaccurate number of hours. AWEMA subsequently withdrew all claims relating to activity by NWREN for the period from June to August 2011. WEFO reviewed a report from AWEMA's auditor regarding the NWREN costs and the reasons why they were removed. The stated reason was double counting of the costs. However, WEFO's Payments Team was of the view that this could not have been the case for all of the costs. Therefore WEFO telephoned AWEMA's Finance Director (on 26 August 2011) for further detail on why NWREN's costs had been removed. WEFO's records of this conversation state that he told WEFO that there was an insufficient audit trail for the costs and there are 'some delivery and finance issues with NWREN' which AWEMA are trying to resolve.

On 6 September 2011, in light of continuing concerns about the financial information, WEFO decided to set up an inspection visit. This visit was arranged to take place on 6 and 7 December 2011 and concentrated only on the Minorities are Wales' Resources project. WEFO has told us that the scheduling of the visit reflected the fact that it regarded the visit as 'routine' and that it did not, therefore, take priority over other planned work. WEFO has also told us that it focused on the Minorities are Wales' Resources project as the allegation about the amended timesheet related only to that project. In our view, there were sufficient grounds for WEFO to have extended the scope of the visit to cover both of the projects in which NWREN was engaged.

At the 9 September 2011 meeting, WEFO instructed AWEMA that NWREN could not be removed from the project and that AWEMA would be required to confirm this in writing with NWREN. However, NWREN was not informed of this until it received an email from the head of WEFO's European Social Funds branch on 7 October 2011. NWREN only received a letter from AWEMA to this effect on 1 November 2011. In the meantime, following consideration of the Memorandum of Understanding sent by WEFO on 17 August 2011, NWREN raised a number of further concerns with WEFO on 27 September 2011. These concerns included:

- that AWEMA had altered the Memorandum of Understanding after it was signed by NWREN;
- a lack of clarity about whether all joint sponsors had signed the same Memorandum of Understanding;
- the fact that AWEMA had not set up a steering committee, as set out in the Memorandum of Understanding (or if it had that NWREN must therefore have been deliberately excluded from any such meetings); and
- that the grounds given by AWEMA for removing NWREN from the partnership did not reflect the conditions for termination, as set out in the Memorandum of Understanding.

In his 7 October 2011 email, the Head of WEFO's European Social Funds branch told NWREN that it would support it in ensuring that steering committee meetings were held, but also that joint sponsors needed to agree in consultation with the lead sponsor and other joint sponsors, who was responsible for delivering different aspects of the projects.

On 24 October 2011, NWREN wrote to WEFO to note that, as far as it was concerned, there were still outstanding issues. These were particularly in relation to: the timesheets; the alleged alterations to the Memorandum of Understanding; the general governance arrangements for the project which meant that the only reporting route to AWEMA's Board was through AWEMA's Chief Executive; and the apparently limited access by the partners to basic project information, such as business plans. NWREN did not receive a reply from WEFO to that letter.

WEFO's Project Inspection and Verification Team undertook its inspection of the Minorities are Wales' Resources project on 6 and 7 December. The draft report on that work does not make any specific reference to the allegations made by NWREN, which formed the impetus for the inspection. However, the Head of the Project Inspection and Verification Team told us that team members had spoken to AWEMA about the issues raised with WEFO by NWREN. The draft report on this work also demonstrates that the Project Inspection and Verification Team followed up some of the issues of concern. For example, the team:

- asked AWEMA to provide it with the Memorandum of Understanding that it had signed with each of the project partners;
- discussed and requested additional evidence in relation to the project's reporting structure;
- tested samples of timesheets and the costs allocated to the project; and
- viewed evidence of the match funding received from the Valleys Regional Equality Council, another of the project partners (this included a visit to the Valleys Regional Equality Council).

## Case Study 8 - continued

The report concluded that AWEMA's processes for managing the project, and for monitoring and controlling the project's finances, were substantively in order. The remedial actions proposed were small in scale. The team identified one item of ineligible expenditure of £113, relating to a pension contribution, and other small amounts of ineligible expenditure on office water, milk, coffee and newspapers. The report also identified the need for AWEMA to update its document retention policy in line with WEFO requirements and to make some changes to the wording of the match funding confirmation letters used by its partners.

There are some clear concerns about the robustness of the work undertaken in December 2011 by the Project Inspection and Verification Team. Consistent with its usual remit, the team's work did not consider AWEMA's overall financial viability. However, within the scope of the team's work, weaknesses in the review process meant that WEFO failed to identify issues in relation to financial recording, ineligible expenditure and the collation of beneficiary data that have since come to light through the work of the Welsh Government's Internal Audit Services (summary paragraph 3) and further work by the Project Inspection and Verification Team itself (paragraph 2.114 to 2.121). The report on the December 2011 inspection remains in draft form. WEFO's procedures require it to release the report to the project sponsor (and AWEMA has since ceased to operate). In addition, the Head of the Project Inspection and Verification Team told us that the report was superseded by the team's more recent work.

# Appendix 4 – Other public funding for AWEMA

Where we have been able to confirm the amount and/or purpose of the funding provided by other public funding bodies, the feedback we have received has, with one exception of £5,000 of Awards for All funding from the Big Lottery Fund, not highlighted any particular concerns about value for money. Nor has it highlighted any instances of specific concerns being raised with the Welsh Government. The sums of funding quoted are based on information we have taken from AWEMA's financial statements and, in some but not all cases, confirmed by the funding bodies concerned. We also note examples of bids for other funding that were rejected by these funders, or bids for similar projects rejected by other funders.

**Home Office**

**Period - 2000-01 to 2003-04**

**£345,735**

**Purpose**

In May 2000, the Home Office launched its Connecting Communities scheme. The launch of this scheme followed the Stephen Lawrence Inquiry Report (the MacPherson Report) in 1999 and was part of a wider effort to demonstrate the UK Government's commitment to the race equality agenda. The Home Office announced in October 2000 that AWEMA was one of a number of Wales-based organisations that had been successful in their funding applications and that it was offering funding worth £283,654 (covering the remainder of 2000-01, 2001-02 and 2002-03).

AWEMA's funding bid identified its project aims as being to: develop a database of organisational needs; enable the preparation of funding bids by member groups; increase availability of funds for black and minority ethnic organisations; increase the ability of organisations to engage in proactive strategic financial planning; develop the consultative mechanism, design communications strategy to inform key stakeholders; conduct management and systems audit of member organisations; and develop and deliver an executive management training programme to build the member's managerial effectiveness. AWEMA's bid implied that the funding would support the employment of a fund development officer, communications officer, and capacity building officer. We believe that, subsequent to its original bid, there were further discussions with the Home Office which allowed AWEMA to alter the use of its funding, notably to support the employment of a Director (with Mr Naz Malik taking up that post on a temporary basis in April 2001 and a permanent basis in June 2001). Salaries for the capacity building and communications officers then featured separately in the Capacity Building project funding approved by the Welsh Government in July 2001 (Appendix 2).

We have been unable to obtain any records in relation to the Home Office's funding from the UK Government. However, information in AWEMA's financial statements indicates total income from the Home Office of £345,735. Records supplied to us by a member of staff from the Welsh Government's equalities unit (not seen on recorded files) indicate that, in February 2003, the Welsh Government Minister then responsible for equalities (Carwyn Jones) wrote to the then UK Home Secretary to support the principle of continued funding. The Minister noted that AWEMA received core funding for accommodation and staff costs and that the organisation played an important role acting as a vehicle for effective consultation, participation and communication between black and minority ethnic communities and the National Assembly.

The Home Office confirmed to the Welsh Government in April 2003 that it was extending funding until 30 September 2003, after which point AWEMA could reapply for the next round of this funding. We understand that AWEMA did reapply with a total bid worth some £960,000. The records supplied to us suggest that, in September 2003, the Welsh Government Minister then responsible for equalities (Edwina Hart) had requested advice on the involvement of officials from the Welsh Government's equalities unit in the decision-making process. This appears to have followed correspondence from the Home Office which had referred to the Welsh Government's involvement in the process. These records also suggest that Mr Malik had expressed concern to the Home Office after it decided not to support AWEMA's bid, the value of which exceeded the total value of grants offered to Wales-based organisations in the first round of Connecting Communities. Welsh Government officials appear to have advised the Minister that, while they were invited to provide feedback on the bids, their comments did not include an endorsement of AWEMA's bid. Also that they informed the Home Office that the Welsh Government had undertaken a review of AWEMA's financial procedures and that, while suggesting improvements, this work had fundamentally given AWEMA a clean bill of health (Appendix 3, Case Study 2). In response to questions from the Home Office, it also appears that Welsh Government officials noted that AWEMA would have been likely to strongly contest the decision if unsuccessful.

### Bro Taf Health Authority

**Period - 2000-01 to 2002-03**

**£44,748**

**Purpose**

We have based the figure of £44,748 on information in AWEMA's financial statements. We believe that this funding was connected with the work of two NHS race equality advisers funded by the Welsh Government and based in AWEMA. We have spoken with one of the two former NHS race equality advisers who has told us that their employment contract was with Bro Taf Health Authority and not AWEMA. However, invoices we found on Welsh Government files suggest that the payments to AWEMA represented contributions to AWEMA's general overheads and additional costs incurred by AWEMA to continue the work of the race equality adviser for secondary care when that individual left their post prematurely. We believe that Bro Taf Health Authority was acting as the paymaster for what was, in fact, a Welsh Government-sponsored initiative, reflecting the fact that the health authority hosted the NHS Centre for Equality and Human Rights.

### Cardiff Community Housing Association

**Period - 2001-02**

**£5,565**

**Purpose**

We believe that this payment related to AWEMA's participation in a project funded by the Welsh Government to explore the feasibility of establishing a black and minority ethnic housing organisation. Cardiff Community Housing Association led the project but AWEMA was one of a number of project partners. The project laid the foundations for the creation of 'Tai Pawb' (Appendix 2).

### [Former] South Wales Probation Board

**Period - 2002-03**

**£4,750**

**Purpose**

We have confirmed with the Wales Probation Trust that AWEMA received this income from the former South Wales Probation Board. Given the time that has since passed, and the subsequent reorganisation of the four former probation boards in Wales to create the Wales Probation Trust, we have not been able to confirm any details about the work that this funding supported.

### Learndirect Wales

**Period - 2002-03 to 2004-05**

**£29,356**

**Purpose**

Learndirect Wales supported the employment of two part-time basic skills and 'English for Speakers of Other Languages' coordinators based at AWEMA.

The coordinators managed basic skills activities within the Cardiff area to raise awareness and support delivery of Learndirect services to black and minority ethnic groups in the Cardiff area. The coordinators also supported the work of UFI Cymru in promoting basic skills in Swansea, Pembrokeshire and by working with Careers Wales. In addition, the coordinators developed links with national support projects run by the Basic Skills Agency Wales.

Learndirect Wales appears to have been satisfied with the outcomes from its funding and had explored with AWEMA opportunities for further project work. Work similar to some of the activity delivered through this funding continued as part of AWEMA's WEFO-funded Curiad Calon Cymru project.

### Connections for Development

**Period - 2004-05**

**£15,814**

**Purpose**

Connections for Development was formed in 2003 as a membership-based network of black and minority ethnic civil society, voluntary and community organisations. The network was supported financially by a 'Strategic Grant Agreement' from the UK Government's Department for International Development. AWEMA was a member of the network and, between December 2003 and May 2005, Mr Malik was registered as one of the company directors of Connections for Development. We have not been able to confirm with Connections for Development the exact purpose of this funding to AWEMA but we are aware that, in November 2004, Connections for Development hosted a conference in Cardiff with input from AWEMA.

### Heritage Lottery Fund

**Period - 2007-08 to 2009-10**

**£24,900**

**Purpose**

This funding supported AWEMA's 'Mwana Watu Kwa Abertawe' project. The aim of the project was to provide young people from Swansea with the opportunity to learn more about their cultural heritage and celebrate the multicultural diversity within the city.

The Heritage Lottery Fund has indicated to us that it was satisfied that the funding was used for the purpose intended and that the outputs and outcomes for the project were acceptable. AWEMA required some support in order to report expenditure correctly, but these issues were regarded as minor and were resolved satisfactorily. Due to having moved to temporary accommodation, Heritage Lottery Fund staff did not have easy access to their hard copy archive records to confirm any further details, for example based on project reports.

**Big Lottery Fund[1]**

**Period - 2007-08**

**£5,000**

**Purpose**

Linked with AWEMA's WEFO-funded Curiad Calon Cymru project, this 'Awards for All' funding supported the publication of work produced by young people at poetry workshops and the hosting of an event to showcase the work. The Big Lottery Fund has indicated that the project proceeded as planned with 200 copies of the book published. Although the costs incurred in publishing the book and hosting the dissemination event were higher than anticipated, the contribution of the Big Lottery Fund was as originally anticipated. We understand that a copy of the book was sent to every Assembly Member and Member of Parliament in Wales[2].

**Period - 2010-11**

**£3,980**

**Purpose**

This 'Awards for All' funding for a project entitled 'Giving Black and Minority Ethnic Elders a Voice' involved a series of consultation workshops to help AWEMA to develop services that meet the current and future needs of black and minority ethnic older people. AWEMA had sought £5,000 but the award of £3,980 followed a reduction in refreshment costs for these workshops. The Big Lottery Fund has confirmed that the project went ahead as planned, with AWEMA submitting a full breakdown of expenditure, supported by invoices.

**Period - 2011-12**

**£5,000**

**Purpose**

This 'Awards for All' funding was for a project intended to undertake pan-Wales research to develop a strategy identifying the needs of young people in transition and to build capacity to ensure engagement in planning and running services. The full amount had already been paid out, but the Big Lottery Fund had not received an end-of-project report when the concerns about AWEMA emerged in December 2011. While the Big Lottery Fund has received some evidence of related expenditure, it has concluded that this evidence is incomplete. Consequently, the Big Lottery Fund has made a claim for repayment as part of AWEMA's liquidation process.

**Period - 2011-12 to 2014-15**

**£517,647 *(committed)* £4,000 *(paid)***

**Purpose**

This 'AdvantAGE' programme funding was for a four-year project to enable older peoples of black and ethnic minority communities to better access services in their localities by providing an advocacy service delivered by trained volunteer advocates. The project was approved in March 2011. Before deciding, in February 2012, to terminate its funding, the Big Lottery Fund had paid out only £4,000 of this funding to AWEMA. The Big Lottery Fund has confirmed that it is satisfied that this £4,000 represented worthy expenditure and that it is not seeking repayment as part of AWEMA's liquidation process.

### Open University

**Period - 2008-09**

**£6,030**

**Purpose**

The Open University (Wales) has confirmed to us that this payment related to the production of a report on the engagement of black and minority ethnic people with the Open University and the barriers faced in accessing lifelong learning courses.

### Equality and Human Rights Commission

**Period - 2008-09 to 2009-10**

**£35,000**

**Purpose**

This funding was provided as part of the commission's 'Interim Funding Programme'. The intended outcomes were to: ensure that services and opportunities experienced by black and minority ethnic communities are fair, meeting their needs, respecting their cultural identity and providing choice; and to ensure that relevant organisations are recognisably committed to promoting equality and human rights for the benefit of European migrant employees and the organisations realise the economic benefits of effectively implementing the Human Rights Act.

The activities conducted through AWEMA's project, the '10/60 Human Rights Partnership', included: the creation of a human rights partnership/steering group; literature reviews; a needs analysis exercise; production of a good practice guide poster and interactive DVD; a service planning workshop in North Wales; development of a referral mechanism to signpost people to appropriate service providers; training and awareness-raising workshops; a project evaluation report; and an end-of-project consultation event to launch the good practice guide. AWEMA reported that the project engaged with some 140 people, of which 110 actively participated.

The commission has indicated that, after considering AWEMA's end-of-project report and relevant supporting documentation, it was satisfied and duly released the final instalment of 10 per cent of its total funding commitment.

### Wales Council for Voluntary Action

**Period - 2008-09**

**£5,000**

**Purpose**

As part of its involvement in the Communities First programme, the WCVA managed the distribution of the Communities First Trust Fund[3] on behalf of the Welsh Government. The WCVA has explained that this payment from the fund supported the development of the South Asian Women Association (SAWA) in Cardiff but that the funding was provided through AWEMA as SAWA was not formally constituted at the time. The WCVA provided a similar level of support from the fund direct to SAWA in 2009-10 and 2011-12.The WCVA has indicated that it has no reason to doubt the money was used for the purpose intended.

**Wales Council for Voluntary Action - continued**

**Period - 2010-11 to 2011-12**

**£86,468**

**Purpose**

The Future Jobs Fund, led by the UK Department for Work and Pensions, operated between October 2009 and March 2011. It was designed to support the creation of jobs, lasting for up to six months, for young jobseekers and disadvantaged older jobseekers. The funding was distributed through 'lead accountable bodies', who were then able to make their own decisions on how to disburse that funding. The funding provided through the WCVA supported around 2,500 jobs across Wales including support for 16 posts at AWEMA.

The jobs were advertised through Jobcentre Plus in Swansea. Four of the posts, commencing in February 2011, were for part-time (25 hours a week) premises maintenance assistants. The main duties for these roles were advertised as being painting and decorating, general maintenance, office cleaning, kitchen and toilet hygiene and care of office environment. The remaining 12 posts were for office assistants employed either for 25 or 30 hours a week. The specific tasks to be performed were not defined in the job adverts, which referred to: 'Must have reasonable reading and writing abilities, some knowledge of computers and word processing advantageous. Full training and supervision provided in improving computer and office skills.' AWEMA filled these posts on a staggered basis between October 2010 and February 2011.

The WCVA has told us that it was not aware of any particular problems in relation to these post-holders at the time. Since December 2011, some of the post-holders have made public concerns about their treatment while working for AWEMA.

Notes

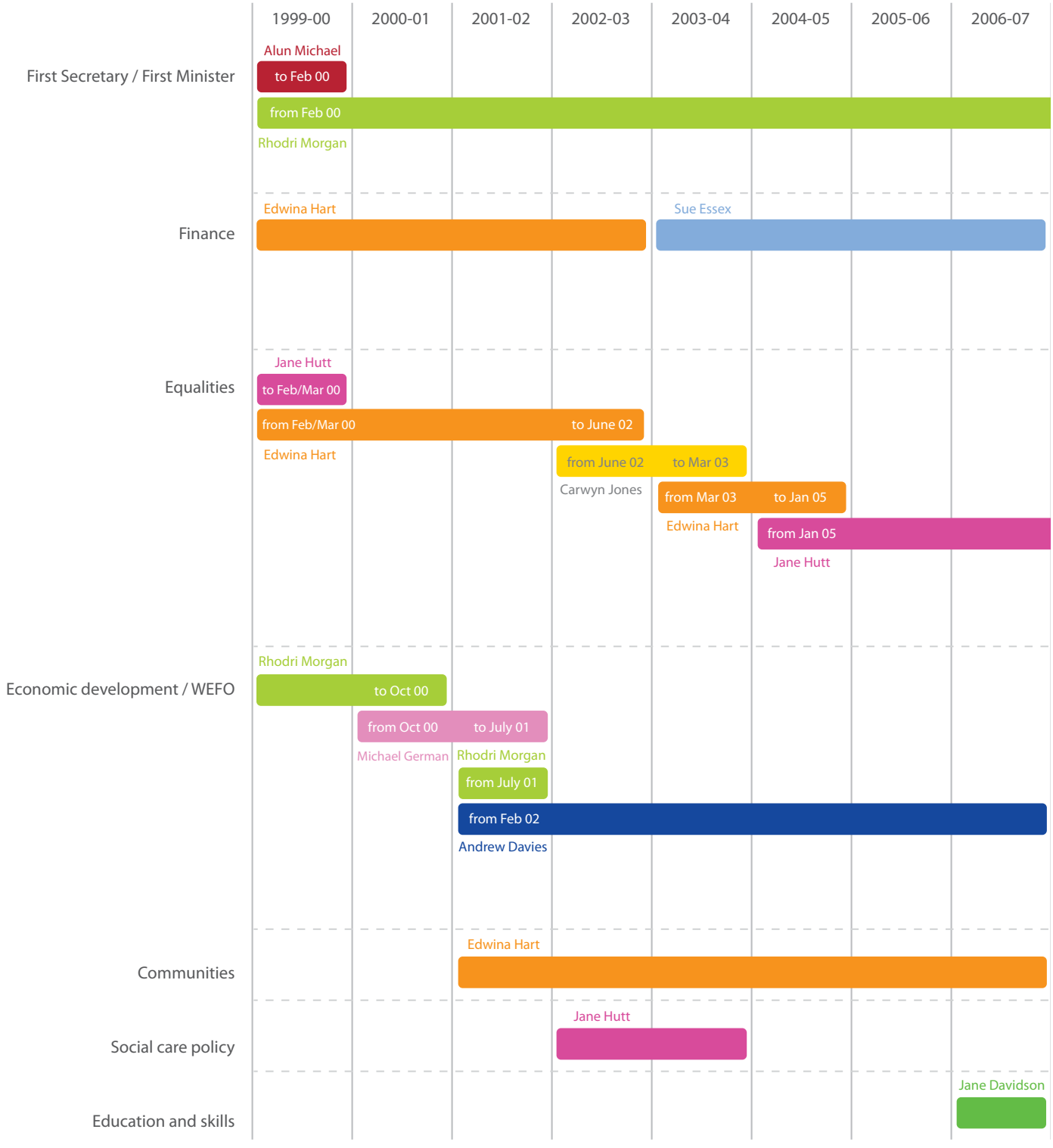
1 The Big Lottery Fund has provided information about several other approaches from AWEMA for financial support that it rejected, or that did not proceed to the point of formal appraisal. These included:
- a bid for £468,627, rejected in April 2011, for a five-year project to improve the physical and mental well-being of immigrants;
- a bid for £999,860, rejected in March 2011, for a four-year project to enable older people from black and minority ethnic communities across Wales to reduce their loneliness and social isolation by participation in activities and events within their local communities and further afield;
- a bid of £450,000, in April 2010, for refurbishment of the YMCA premises in Swansea for use as a combined office facility and multicultural community centre, with which AWEMA did not progress to full application stage (paragraphs 1.25 to 1.26);
- a bid for £305,000, over three years, to employ a Volunteer Coordinator, Publicity and Communications Officer, and Finance Assistant and to also contribute to other management and overhead costs (this bid did not proceed to full application as the Big Lottery Fund confirmed in May 2010 that the terms were outside of its funding policy);
- a bid for £5,000, rejected in September 2009, to part-fund the publication of a tenth anniversary commemorative publication;
- a bid of £981,596, rejected in June 2009, to establish a multicultural community and enterprise centre in Cardiff (paragraph 1.24);
- a bid of £4,985, rejected in November 2008, to support a PRINCE2 staff training course; and
- a bid for £4,947 towards costs associated with hosting an Eisteddfod stand to promote the multicultural heritage of Swansea, rejected in June 2006 because the event had already taken place.

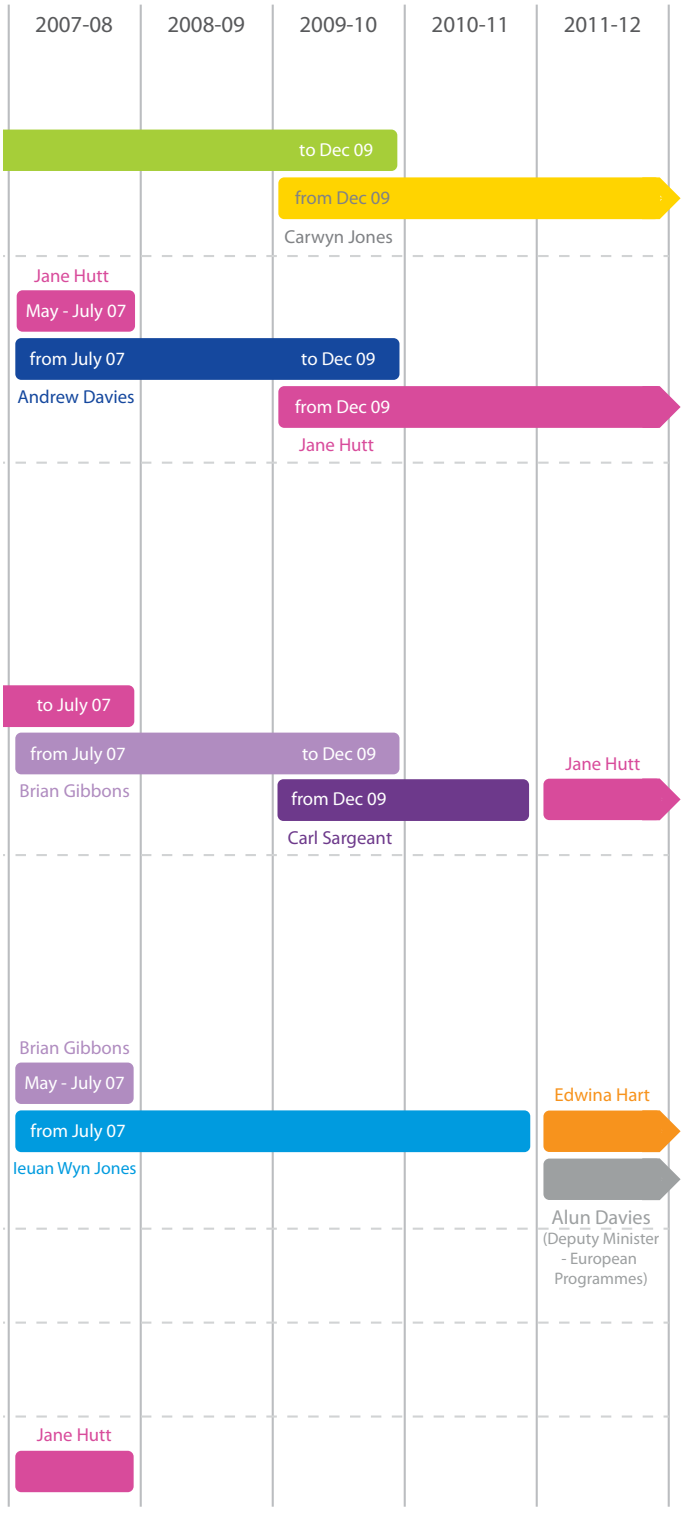
2 In July 2008, the Arts Council of Wales rejected a bid from AWEMA for £24,769 to support the delivery of a series of poetry workshops across four schools in Cardiff and four schools in Swansea. The Arts Council rejected the bid on the grounds that: the financial information submitted did not meet its requirements in terms of demonstrating the financial viability of the organisation (the Arts Council was concerned by the evidence of dwindling income in 2008-09); it was not convinced about the evidence of demand for the project as submitted by AWEMA; the projected project budget contained some ineligible costs.

3 AWEMA's financial statements indicate that, in 2004-05, AWEMA received £6,100 from the Somali Cardiff Women and Youth Association. This income was described as being related to funding received by the Somali Cardiff Women and Youth Association from the Communities First Trust Fund. AWEMA's financial statements indicate that this income related to support for the development of a homework club.

*Source: Evidence provided by funding organisations, interviews with other current/former AWEMA staff and Welsh Government officials, Welsh Government file records and AWEMA's financial statements.*

# Appendix 5 – Timeline of relevant Welsh Government Ministerial responsibilities






This diagram sets out relevant Welsh Government Ministerial responsibilities in relation to the policy portfolios that have provided financial support to AWEMA since the creation of the National Assembly. Also included here are details of the First Secretary/First Minister responsibilities and the Ministers responsible for finance, although these Ministers did not necessarily have any direct involvement in particular funding decisions.

Note

We have not been able to confirm with the Welsh Government the exact timing of the handover of responsibility for the equalities portfolio between Jane Hutt AM and Edwina Hart AM in 1999-00. We believe that the handover took place at some point between 9 February 2000 and 8 March 2000.

*Source: Wales Audit Office.*