

THE NATIONAL ASSEMBLY FOR WALES

AUDIT COMMITTEE

Report (2) 08-05 presented to the National Assembly for Wales on 7 December 2005 in accordance with section 102(1) of the Government of Wales Act 1998

The General Report of the Auditor General for Wales 2005

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Summary

Standards of financial control in central government bodies throughout Wales remain high. The Auditor General for Wales was able to place an unqualified opinion on all of the Welsh accounts that he certified in respect of the 2003-04 financial year.

Significant challenges are being faced by financial managers across the central government sector in Wales: these include the growth in the Welsh block budget, the planned structural reform of the Welsh central government sector from 1 April 2006, and external demands such as the Treasury's requirement for bodies to bring forward the preparation of their annual accounts.

The successful implementation of these changes will depend in large measure on effective risk management processes and well-run financial systems. In this latter respect, audited bodies can make better use of accounting information to support their activities and, in particular, further enhance their systems for asset management and procurement.

The closure of half of the 1994-99 European Programmes has resulted in a financial loss to Wales of just under half a million pounds. The remaining 1994-99 Programmes are still under review by the European Commission. Audited bodies still need to do more to strengthen their financial management of European funded projects.

On the basis of the General Report of the Auditor General for Wales 2005¹, on 14 July 2005 we took evidence from Sir Jon Shortridge KCB, the Assembly's Permanent Secretary and Principal Accounting Officer, who was supported by Mr Peter Jones (Head of Accounts Branch), and Dr Emyr Roberts (Chief Executive, Welsh European Funding Office). A transcript of the evidence is at **Annex A**. We would like to take this opportunity to thank the witnesses for their constructive and helpful answers to our questions.

This report examines, in the light of the evidence we took, what further strengthening of financial and risk management procedures is necessary at the Welsh Assembly Government and its sponsored bodies. It concludes that:

¹ Auditor General for Wales: '*The General Report of the Auditor General for Wales 2005*', presented to the National Assembly for Wales on 30 June 2005.

- a) the results of the 2003-04 audits show that audited bodies have made good progress in addressing previous Audit Committee recommendations, although problems remain with prompt payment performance and the timely production of accounts;
- b) the forthcoming structural reforms of the Welsh public sector present risks, but also significant opportunities to strengthen further financial management and to make better use of accounting information;
- c) a more professional and rigorous approach to the management of physical assets is required by audited bodies;
- d) the Welsh Procurement Initiative is continuing to have a positive impact on the costs of public sector procurement, but procurement resources and expertise at public bodies need to be strengthened;
- e) the financial management of European projects remains unsatisfactory and could place the Assembly at risk of increased financial loss when the current expenditure programmes are closed.

Audited bodies have made good progress in addressing previous Audit Committee recommendations, although problems remain with prompt payment performance and the timely production of accounts

There was an improvement in the delivery of accounts for audit on a timely basis. However, three accounts were submitted late for audit, one of which (the consolidated resource account prepared by the National Assembly for Wales) also failed for the second year running to meet its statutory deadline for signature by the Accounting Officer. The National Audit Office Wales found that some accounts initially presented for audit in 2003-04 were incomplete or did not comply fully with reporting requirements.

The Assembly was, again in 2004, the last UK body to submit its Central Government Accounts return to the Treasury. The delay in submission was caused, as in the previous year, by slippage in the preparation of the Assembly's own consolidated resource account. The Treasury timetable for 2004-05 is being brought forward significantly and its faster closing initiative will also require government departments from 2005-06 to have their accounts audited and laid before Parliament by the time of its summer recess. This initiative is also being implemented in Wales by the Welsh Assembly Government.

There has been a significant reduction in the number of unresolved recommendations from previous Management Letters. This result has been helped by the action taken by the Assembly's Accounting Officer in response to a previous Audit Committee recommendation in this area, and by the role in monitoring progress being played by the bodies' own audit committees.

Around a third of bodies are still not achieving the prompt payment performance standard. But this is better than in 2002-03, when only fifty-six per cent met the standard.

Actions required to further enhance arrangements for financial and risk management need to be addressed as matters of some priority

Financial systems need to better reflect the future demands for earlier preparation of annual accounts and the key role that financial management should play in the efficient delivery of expenditure programmes. The majority of Assembly-sponsored public bodies are still relying on cash-based (rather than accruals-based) budgets and management information.

All bodies have made significant progress in developing their risk management systems. However, further work is required to ensure that the arrangements for risk management can be firmly embedded in the bodies' day-to-day operations.

Successful implementation of the proposed reforms to the Welsh public sector will depend upon the bodies concerned being able to manage successfully the risks as well as the opportunities that these significant structural changes will bring.

Asset management planning should be carried out on a more rigorous and professional basis

The overall management of assets held by the Assembly and its sponsored bodies is broadly sound, but there has been insufficient attention paid to this area in recent years across the Welsh public sector. Existing asset management plans are limited in their scope and content.

The Welsh Procurement Initiative is continuing to have a positive impact, but procurement resources and expertise need to be strengthened

The Welsh Procurement Initiative has reported actual savings of £5.5 million across the whole of the Welsh public sector for 2004, and identified further savings of £24.7 million as being deliverable in 2005. The Initiative's procurement fitness checks have identified key improvement actions for most of the bodies reviewed. The potential to achieve future efficiency savings in procurement will depend at least in part on public bodies investing sufficiently in their purchasing capacity.

Audit recommendations relating to procurement have reduced by more than a half compared to last year. The issue of non-compliance with contract and tendering procedures does, however, require particular attention by audited bodies.

The financial management of European projects remains unsatisfactory and could place the Assembly at risk of increased financial loss when the current expenditure programmes are closed

The European Commission has now approved the closure of half of the 1994-99 European Programmes, but the remainder are still under consideration. The programmes closed to date have resulted in recovery by the European Commission of some £476,000 of funding received; less than 0.2 per cent of the EU funds received by Wales for the 1994-99 programming period.

Actions taken to date by management have not yet had time to result in improvements to audit findings on EU funded projects. During the year to 31 December 2004, the National Audit Office Wales issued a total of 42 audit certificates, all but one of which was qualified. This suggests strongly to us that the Assembly is at risk of increased financial loss when the current, larger-scale, expenditure programmes in Wales are closed by the European Commission.

Recommendations

1. It is not acceptable that some annual accounts are still being submitted late for audit, and that the quality of those accounts remains inconsistent. The pressure arising from having to prepare accounts earlier could, if not well managed, result in a further deterioration in the quality of accounts. It is essential, therefore, that the implementation of the 'faster closing' initiative in Wales is underpinned by systems improvements in the accounts preparation process, and that there is adequate management ownership of that process. **The Welsh Assembly Government should strengthen the project management system that it has in place to oversee the 2005-06 accounts preparation process, including that for the Whole of Government Accounts. It should also review the adequacy of the steps being taken by individual sponsored bodies to achieve the faster closing requirements and consider what practical measures might be implemented to improve the overall quality of the accounts being prepared by those bodies.**
2. The reported improvement in payment performance has not yet gone far enough. It will be important that the Assembly has a strong process in place to handle its increased payment volumes following the forthcoming merger with a number of its sponsored bodies. This is especially so given that two of the sponsored bodies-the Wales Tourist Board and ELWa-

will be bringing with them a history of particular difficulties in this area. **The Welsh Assembly Government should implement robust procedures to ensure that all of its enlarged departments will achieve the required payment performance standard from 1 April 2006. It should also review the performance of sponsored bodies in this area and issue good practice guidance on payment processing to help raise the overall level of performance being reported.**

3. The continuing use of cash-based financial information in many bodies substantially restricts the value of financial management information available to corporate management teams, and to their operational staff in areas such as the management of grant schemes and capital projects. The efficiency of annual accounts preparation processes is also severely impaired. We welcome, therefore, the intention of the Permanent Secretary to implement resource-based systems across the Welsh Assembly Government by March 2007. **The Welsh Assembly Government should ensure comprehensive financial systems are put in place to enable resource-based information to be used within management procedures and decision making. The lessons learned from the development work being undertaken in this area as part of the merger project should be shared with the Assembly's remaining sponsored bodies, to assist them in improving their own financial and management information systems. Staff within sponsored bodies and the Assembly Government should also be given training on how to understand and use resource-based information when it becomes fully available.**
4. The sponsored bodies being merged with the Welsh Assembly Government will still need to prepare closing accounts for the 2005-06 financial year. **The Welsh Assembly Government should ensure that the key staff required for the accounts preparation process continue to give high priority to this work in the weeks following the merger on 1 April 2006, in order that the faster closing project timetable is not jeopardised.**
5. This committee is aware of the potential risk that the merging of the former sponsored bodies with the Assembly may result in a loss in accountability for their expenditure. We therefore warmly welcome the assurances provided by both the Permanent Secretary and the Auditor General in this respect and, in particular, the creation of additional sub-Accounting Officers to support the Permanent Secretary as part of the modernisation agenda for financial management within the Assembly. **The Welsh Assembly Government should establish effective governance and financial management structures to support the new sub-Accounting Officers. It should also maintain the visibility of expenditure on the**

functions of the former sponsored bodies through, for example, appropriate financial analyses within its annual resource accounts.

6. We endorse the intention of the Welsh Assembly Government to carry out a review to examine how the Assembly estate can be better used, and the proposed creation of a single asset management plan for the Assembly. It will be important also that the weaknesses identified in asset management planning by the Auditor General's review are properly addressed. **The Welsh Assembly Government should embed effective asset management arrangements within its management procedures, supported by comprehensive training for relevant staff. It should also impose a consistent standard of asset management planning across its sponsored bodies, particularly in terms of the scope and content of asset management plans.**
7. The committee notes the excellent results being achieved by the Welsh Procurement Initiative in generating cost savings within Welsh public sector procurement, and the ongoing proposals in this area as part of the Value Wales programme. It is important, however, that public bodies have a level of procurement capacity and expertise that are adequate for, and proportionate to, the volume and complexity of their purchasing requirements. In this respect, the procurement fitness checks are now identifying a number of key improvement actions. A lack of appropriate expertise can also contribute to the failures in some cases to comply with procurement rules, as highlighted in the Auditor General's report. **The Welsh Procurement Initiative team within Value Wales should complete its programme of procurement fitness checks across all Assembly-sponsored bodies as soon as possible, and the improvement areas identified by the fitness checks completed to date should be addressed promptly. The wider lessons highlighted by the Initiative's work, and examples of best practice, should be publicised by the Welsh Assembly Government. The Welsh Assembly Government should enhance its existing training programme to provide all staff involved in procurement with the level of skills necessary to carry out their functions, including detailed knowledge of the contractual rules relating to procurement. This review of training provision should also be undertaken at the sponsored bodies.**
8. We remain concerned that the final financial loss to Wales arising from the closure of the 1994-99 European Programmes is still not known, and would ask that this Committee be informed as soon as the position is finalised by the European Commission. We are also concerned at apparent complacency in respect of the audit findings on European projects.

Whilst we acknowledge that these are often not highlighting weaknesses of a fundamental nature, the number of audit qualifications does suggest a continuing problem with the financial management of projects by grant recipients. It is imperative that these problems are rectified promptly, in order to eliminate the risk that the eventual closure of the current European Structural Funds Programmes may give rise to an even greater potential financial loss to Wales. **The Welsh Assembly Government should impress upon the senior management of all grant recipients (at Chief Executive or Accounting Officer level where applicable) the importance of ensuring compliance with all of the requirements of European funding regulations.**

Matters arising from the audits of the 2003-04 accounts

9. The Auditor General, Jeremy Colman, (who succeeded Sir John Bourn in April 2005) is responsible for the examination and certification of the annual accounts for the National Assembly for Wales and its sponsored and related bodies. For the financial year 2003-04 the Auditor General, supported by staff of the former National Audit Office Wales, audited 32 such accounts.²
10. The Auditor General publishes a General Report each year, summarising the results of his financial audit for the year. His 2005 report, covering the work of the National Audit Office Wales on the 2003-04 accounts and related matters, was published on 30 June 2005.
11. Since the publication of the 2004 General Report, the Public Audit (Wales) Act 2004 has placed the Auditor General for Wales at the head of the newly created Wales Audit Office. This Office is now responsible for the work previously undertaken by the National Audit Office Wales and the Audit Commission in Wales. A single body therefore now audits all public sector expenditure in Wales, and the Auditor General's powers have been considerably enhanced.³
12. In making this report and our recommendations, the Committee notes and welcomes the conclusion reached by the Auditor General in his 2005 report that overall standards of financial management and probity in the central government sector in Wales are high⁴. Accordingly, the Committee wishes to acknowledge the considerable efforts of officials at all levels throughout the public services in Wales for achieving this result. In view of the £12.7 billion Welsh block budget and the ever increasing demands for effective financial

² AGW General Report 2005, paragraph 1.8

³ AGW General Report 2005, paragraphs 5.1 - 5.2

⁴ AGW General Report 2005, Summary

management placed on public bodies, it is important that continuing efforts are made to improve and maintain the high standards that have been set.

13. We are also pleased to note that the Auditor General was able to publish unqualified opinions on all 32 accounts that he audited for the financial year 2003-04. The Auditor General also issued a substantive report on the Financial Health of the NHS in Wales on 31 March 2005.⁵

Timeliness of annual accounts preparation

14. There has been considerable improvement in this area during the financial year 2003-04, and we note that the vast majority of the accounts audited by the Auditor General were completed promptly and in accordance with the timetables agreed with the National Audit Office Wales. However, the Auditor General reports that three accounts were not submitted within the agreed timeframe for audit, and that, more worryingly, these accounts (including the consolidated resource account prepared by the National Assembly for Wales) failed to meet their statutory deadlines for signature. Two bodies, the Welsh Administration Ombudsman and the Health Service Commissioner for Wales, also failed to meet the statutory deadlines for the laying of their accounts before the Assembly.⁶
15. It is completely unacceptable that statutory deadlines were not met. The preparation of annual accounts is an integral part of the financial management of public bodies, and these delays may indicate a greater overall risk in the financial management of the bodies concerned. We welcome, therefore, the assurance from Sir Jon that the 2004-05 accounts of these bodies are being prepared in a format which is compatible with the electronic tabling required and, as a result, the problems that arose in respect of 2003-04 will not re-occur.⁷
16. We are also mindful of the requirements of HM Treasury's 'faster closing' initiative, which will require government departments from 2005-06 to have their accounts audited and laid before Parliament by the time of its summer recess. This initiative is also being implemented in Wales, and the Assembly Government must ensure that it is in a position to meet these new deadlines successfully.
17. Similarly, we were concerned by the Auditor General's finding that not all accounts initially presented for audit were complete and/or complied fully with reporting requirements. The areas identified for improvement included to improve the quality of documentation presented

⁵ AGW General Report 2005, paragraph 1.10

⁶ AGW General Report 2005, paragraphs 2.7 – 2.11

⁷ Annex B

in support of account figures, strengthen the process for deriving balance sheet account figures, and strengthen controls and procedures over the preparation of accounts.⁸

18. The Treasury is aiming to provide published Whole of Government Accounts for the financial year 2006-07. This will be a consolidated set of accounts, including the financial results of government departments, central funds, public corporations, local authorities and NHS Trusts. At present the Treasury is preparing Central Government Accounts only, which present consolidated figures for government departments, central funds and devolved administrations. The Welsh Assembly is required to file its own consolidated figures with the Treasury to enable the Central Government Account figures to be prepared.⁹
19. For the last two financial years (2002-03 and 2003-04), the Welsh Assembly has been the last government department to supply the Treasury with its consolidated figures. The Auditor General reports that for 2003-04, the Assembly also failed to meet its deadline to submit these figures to the Treasury. The reason for this was a delay in finalising the consolidated financial results of the 22 Local Health Boards. Whilst 21 of the boards were able to present their accounts on time, there were significant delays in producing one board's set of accounts.¹⁰
20. This committee recognises that the Local Health Boards were preparing accounts in respect of their first year of operation, and in a new resource format, which explains some of the difficulties and delays. However, prior to the financial year 2002-03 the Assembly had had an exemplary record in meeting the deadlines for the submission of its returns to the Treasury. We are concerned that progress was not made during the last financial year and that the poor performance has continued. This reflects badly on the Assembly and leaves it open to external criticism.
21. Given our concern that a small percentage of accounts are still not being prepared to expected and statutory deadlines, we asked the Permanent Secretary what he was doing to ensure that this would be improved in the future. He told us that this was one area in which he was particularly disappointed and saw it as his biggest failure in terms of the areas being discussed that morning.¹¹ The preparation of accounts was now, we were told, being run on a

⁸ AGW General Report 2005, paragraph 2.12

⁹ AGW General Report 2005, paragraphs 2.33 – 2.36

¹⁰ AGW General Report 2005, paragraphs 2.37 – 2.39

¹¹ Q.72

much more formal project management basis, with a project board having been established to oversee the process.¹²

22. We were pleased also to hear that for the financial year 2004-05, the Assembly's core accounts had been submitted on time, and that local health board accounts had all been submitted in accordance with their agreed timetables.¹³ Work was also now underway to bring in further systems improvements to assist in meeting the even faster closing requirements for the 2005-06 accounts.¹⁴

Management Letter responses

23. Whilst the principal aim of the audits conducted by the Wales Audit Office, is to enable the Auditor General to form an opinion on the accounts, a secondary function is to provide constructive advice and recommendations for potential improvements that will increase the effectiveness or efficiency of individual organisations financial systems. Much of this advice will be given orally during the course of the audit; but the more significant issues each year are noted by the Wales Audit Office in a Management Letter addressed to the Accounting Officer of the audited body.
24. In his 2004 report, Sir John Bourn, the then Auditor General for Wales, undertook a review to determine how quickly and effectively audited bodies were implementing Management Letter recommendations. He found that thirteen bodies had outstanding issues. In its 2004 report, this committee recommended that action be taken to reinforce the need for sponsored bodies to implement these recommendations.¹⁵ The Auditor General has again reviewed the position as part of his audit work for the 2003-04 financial year, and notes in his 2005 report that there has been a significant improvement, with two thirds of bodies having implemented the recommendations in relation to their 2001-02 accounts. In respect of recommendations raised on 2002-03 accounts three audited bodies still had outstanding actions to be completed.¹⁶
25. We acknowledge the efforts taken by the Permanent Secretary and the relevant bodies in addressing the weaknesses in this area. Whilst we were satisfied that improvements had been made, however, we still had some concerns that this issue could reappear in future years. We therefore asked the Permanent Secretary whether adequate procedures were now in place to

¹² Q.7

¹³ Q. 7

¹⁴ Q.35

¹⁵ NAW Audit Committee Report (2) 08-04 (November 2004)

¹⁶ AGW General Report 2005, paragraphs 2.14 - 2.17

prevent the problems we had seen in the past. Sir Jon told us that some issues were still outstanding because not everything could be addressed in just twelve months. He felt that strong signals had now been given, and assured us that he would continue to be vigilant in following up any problems with chief executives if he was not satisfied with the explanations that they had provided.¹⁷

Payment performance

26. The Late Payment of Commercial Debts (Interest) Act requires that 95 per cent of all creditors should be paid within 30 days of receipt of invoices. If this target is not met, then suppliers are able to claim statutory interest payments from the public sector for all valid invoices that were paid late. The Auditor General conducted a review of all 32 audited bodies and noted in his report that 65 per cent met the required 95 per cent performance level target, this compared with 56 per cent in 2002-03.¹⁸
27. We are pleased to note that there has been a continued improvement in the level of payment performance, but we remain concerned at the number of audited bodies that are not able to meet the 95 per cent performance level. Sir Jon informed us that four bodies were achieving a performance level between 90 and 95 per cent, and there were three bodies whose performance was between 80 and 90 per cent. All of these bodies had been written to and he had made clear to each of them that this level of performance must be improved.¹⁹
28. Sir Jon added that two bodies, the National Council and the Wales Tourist Board achieved less than a 60 per cent performance level in 2003-04, and that he considered this unacceptable. He understood that the Wales Tourist Board now had new systems in place to deal with this issue, but had yet to see the extent of the improvements. As these two bodies were due to be merged into the Assembly over the next few months, Sir Jon intended to review these and other merging organisations to determine what areas of concern they had in this and other areas and what the extent of their particular problems were. He did not want overall standards of performance within the Assembly Government to have fallen because of what they had inherited.²⁰ Sir Jon commented that he did not have any reason to think that Assembly systems could not cope with the extra volume of payments and that the payment performance of each department was checked every month.²¹

¹⁷ Q.21 – Q.23

¹⁸ AGW General Report 2005, paragraph 2.24

¹⁹ Q.24 - 26

²⁰ Q. 24 – 25 and Q.27

²¹ Q.29

Areas where there is scope to improve performance in relation to audit findings on the 2003-04 accounts

- by the Welsh Assembly Government strengthening the project management system that it has in place to oversee the 2005-06 accounts preparation process, reviewing the adequacy of the steps being taken by individual sponsored bodies to achieve the faster closing requirements and considering what practical measures might be implemented to improve the overall quality of the accounts being prepared by those bodies.
- by implementing robust procedures to ensure that all of the Welsh Assembly Government's enlarged departments will achieve the required payment performance standard from 1 April 2006, reviewing the performance of sponsored bodies in this area, and by issuing good practice guidance on payment processing to help raise the overall level of performance being reported.

Current Priorities in Financial and Risk Management

Resource-based financial management

29. Public bodies have traditionally used a cash basis to prepare financial information for management decisions, meaning that transactions are considered in the period when cash is received or paid from the bank account. However their year end accounts have to be prepared on an accruals (or 'resource') basis. This means that transactions are considered in the period that they actually occur. The difference in methods used for management information and statutory accounts purposes has always meant that increased effort is required in preparing the statutory accounts at the year end.
30. It is the Auditor General's and this committee's opinion that accounts prepared on an accruals basis provide a more comprehensive record of resources expended. Senior Managers would benefit from using accruals information in their decision making because it provides a more complete picture than cash-based information, enables performance indicators to be calculated on a comprehensive basis, can be helpful in planning and the allocation of resources, and simplifies the preparation of annual accounts²².
31. The extent to which public bodies are using resource-based information within their regular financial management procedures was assessed during the audits conducted for the financial

²² AGW General Report 2005, paragraphs 2.26 – 2.27

year 2003-04. The Auditor General reports that over half of public bodies are still using cash based financial management systems.²³

32. Given the benefits outlined by the Auditor General, we asked the Permanent Secretary what was being done to encourage the Assembly and its sponsored bodies to make more use of resource-based information. Sir Jon informed us that the Assembly did not have the systems in place to fully provide the information required for resource based reports, particularly as regards creditors. As such he felt unable to insist that sponsored bodies began using these systems until he had “put his own house in order”. He agreed that this was an important issue, and told us that he expected to have systems in place to provide resource-based information by March 2007.²⁴
33. Sir Jon added that his key risk in terms of financial management related to the need to bring four sets of financial systems together arising from the merger with the sponsored bodies. From 1 April 2006, they will all be on the Assembly’s core system. The Assembly Government was introducing a programme of training, not only for the merging staff, but also for its own staff and everyone would be given training to use the new system from 1 April. This was being provided by people within the organisation who did the work, understood the systems, and made their time available to help staff.²⁵

Risk management

34. One of the main requirements of the Treasury Guidelines on Corporate Governance is that each organisation should develop a coherent system for the identification and assessment of its key corporate and strategic risks. The Auditor General notes in his report that all audited bodies have made good progress in this area. The Auditor General is satisfied that risk registers are updated on a regular basis, and are being reviewed regularly by the audit committees. He believed however that further work was necessary to embed risk management in the day to day operations of the bodies.²⁶
35. We asked Sir Jon what benefits have been derived from the development of risk management processes. He told us that risk management was fundamental to better financial management. It had also fundamentally changed behaviours in the workplace in a way which means that the Assembly had a more robust approach to the delivery of business. Sir Jon commented

²³ AGW General Report 2005, paragraphs 2.28 - 2.29

²⁴ Q. 31

²⁵ Q.33 and Q.38

²⁶ AGW General Report 2005, paragraphs 2.18 – 2.21

that risk management was not about building risk aversion, it in fact should encourage people to be less risk-averse because systems would be in place to identify and manage the risks.²⁷

36. The committee wanted to know what key steps the Assembly and its sponsored bodies now needed to take to embed risk management into day-to-day operations, and whether the Assembly Government was taking a sufficient lead in this. Sir Jon replied that he could not speak for how this was being done in the sponsored bodies, but in the Assembly risk was being embedded via a combination of ensuring that systems are in place to take account of it, and leadership. Each new project started by the Assembly Government was subject to a proper project management methodology, part of which was a requirement to identify within a risk register the risks attached to that project.
37. In order to give leadership to this process, Sir Jon added that when his board met each quarter it reviewed what they regarded as their top dozen or so corporate risks and discussed the mitigation measures in place. Also, on a monthly basis a department head reported to the board on the management of his or her department's top ten risks.²⁸

Management of Structural Change

38. The Assembly Government and its sponsored bodies are about to enter a period of significant structural reform. The Welsh Development Agency, Wales Tourist Board, the Qualifications, Curriculum and Assessment Authority for Wales, Health Professions Wales and the National Council for Education and Training for Wales are all to be merged into the Assembly Government on 1 April 2006, with the Welsh Language Board potentially to follow suit by 2007. In addition, the Sports and Arts Councils for Wales are to be relieved of their strategy, policy and planning responsibilities, and the Countryside Council for Wales will pass responsibility for the Tir Gofal agri-environmental scheme to the Assembly Government.²⁹
39. There are obviously considerable risks in mergers of the type described. We asked the Permanent Secretary to explain how he was managing those risks, and what arrangements he had put in place to ensure that accountability in the merged areas would not be reduced. Sir Jon first of all explained how the project was being managed as a whole. He had created a matrix of projects to manage the transformation of the whole of two departments and parts of certain other policy departments, supported by enabling functions of finance, information services and human resources which cut across each of the new merged departments.³⁰

²⁷ Q.39

²⁸ Q.40

²⁹ AGW General Report 2005, paragraph 5.4

³⁰ Q.2

40. Sir Jon had also appointed a change director whose job was to oversee everything that was going on in each individual project to ensure that there was consistency and compatibility in terms of standards and the time when things must happen. The change director reported directly to the Permanent Secretary, and to a change board which he himself chaired. Within that process, each of the programme directors had their own risk register for their projects and it was their job to ensure that risks were properly managed and reported on. Those were essentially the governance arrangements and, Sir Jon added, good governance was an essential part of managing the risks. He also felt that accountability in the merged areas would be increased, and not reduced, as there would no longer be arms-length bodies, and therefore not a long chain of command.³¹
41. The committee was informed by the Permanent Secretary that he had also appointed his heads of department as sub-Accounting Officers. They would each have a personal responsibility for the financial management of the resources in their command and would have their own business units. These were small units, but included people with the financial, human resources and other skills required to ensure that those departments, and the heads of the departments, could perform their duties effectively. Sir Jon felt that the creation of sub-Accounting Officers represented another strengthening in accountability, although ultimately the safeguard was that he remained the Principal Accounting Officer and had all the personal responsibility associated with that role.³²
42. Sir Jon told the committee that the merging organisations would continue to produce their own accounts for 2005-06. They would need to retain their own financial systems in order to produce those accounts and the Assembly Government would seek to ensure that the key financial staff in those bodies continued to work on those accounts into 2006-07, until they were completed.³³
43. We acknowledge that the systems put in place by the Permanent Secretary to manage the merger process seem to be very thorough, and we also welcome his assurance that the proposed changes will in no way diminish this Committee's access to him.³⁴ However, we also sought assurance from the Auditor General as to whether the proposals outlined would provide an adequate audit and accountability framework. Mr Colman replied that the

³¹ Q.2 – Q.3

³² Q.3 and Q.33

³³ Q.38

³⁴ Q.5

mergers did not in any way reduce his access to the activities that the sponsored bodies had formerly been doing.

44. The Auditor General added, however, that the mergers could potentially reduce the degree of financial scrutiny that his audit staff would apply to some of the activities, because they might cease to be financially material in the context of the Assembly Government as a whole. It was, therefore, he said very welcome news that the measures that Sir Jon had described were being put in place. Mr Colman believed that they were good measures and that they would help to address the risk that he had described. He also mentioned that he would be scrutinising the merger process very carefully and, once the merger was completed, would ensure that the areas of activity formerly managed by the sponsored bodies continue to receive an appropriate level of external audit attention.³⁵

Areas where there is scope to improve financial and risk management

- by ensuring comprehensive financial systems are put in place to enable resource-based information to be used within management procedures and decision making; by sharing with the Assembly's remaining sponsored bodies the lessons learned from the development work being undertaken in this area as part of the merger project, to assist them in improving their own financial and management information systems; and by giving training to staff within sponsored bodies and the Assembly Government on how to understand and use resource-based information when it becomes available.
- by ensuring that the key staff required for the preparation of the 2005-06 closing accounts of the merged bodies process continue to give high priority to this work in the weeks following the merger on 1 April 2006, in order that the faster closing project timetable is not jeopardised.
- by establishing effective governance and financial management structures to support the new sub-Accounting Officers; and by maintaining the visibility of expenditure on the functions of the former sponsored bodies through, for example, appropriate financial analyses within the annual resource accounts.

³⁵ Q.4

Securing Improvements in the Management of Assets

45. As part of the Assembly's initiative to improve asset management planning in the public sector, during 2004-05 it asked the National Audit Office Wales to undertake a review of asset management arrangements within the Assembly Government and its sponsored-bodies. The review was to consider the extent to which asset management formed part of overall governance arrangements, and the nature and overall quality of the information contained within existing asset management plans.
46. The report found that the overall management of assets held was sound, but that existing asset management plans were limited in scope and that there was considerable room for improvement. The auditors noted that there was also scope for comprehensive and integrated management systems to be introduced, strengthening the guidance on asset management for Assembly sponsored bodies, and in improving communications between the Assembly Government and its sponsored bodies for planning and asset management. To assist in addressing this area, the Wales Audit Office also reported key actions that bodies could introduce to strengthen their governance arrangements and systems. The Auditor General was pleased to note that all of the reviewed bodies had accepted these recommendations and were keen to enhance their asset management practices.³⁶
47. Following the Auditor General's report, we asked the Permanent Secretary whether he was satisfied with the progress that has been made in this area, and how he was addressing the recommendations made. Sir Jon acknowledged that asset management was an area that had been neglected over recent years across the Welsh public sector, and that there was much more that could and should be done.³⁷
48. Sir Jon went on to outline two main initiatives, to address the recommendations made: firstly, in establishing Value Wales, which was going to be one of the main instruments for delivering the £600 million a year value-for-money improvements required by 'Making the Connections'. This will require a much more professional approach to asset management across the Welsh public sector and will include an estates review, to see how the enlarged Assembly Government estate could be better managed. In addition, a single asset management plan would be constructed for the whole of the Assembly's public service in Wales.³⁸

³⁶ AGW General Report 2005, paragraphs 3.6 – 3.9

³⁷ Q.45

³⁸ Q.45

Areas where there is scope to improve asset management

- by embedding effective asset management arrangements within the Assembly Government's management procedures, supported by comprehensive training for relevant staff.
- by imposing a consistent standard of asset management planning across all sponsored bodies, particularly in terms of the scope and content of asset management plans.

Achieving Effective Procurement Arrangements

49. We are pleased to note that, on procurement, the Auditor General reported that audit recommendations made have reduced by half compared to those made last year. However, we are concerned to note that there were a number of findings regarding non-compliance with contract and tendering procedures, and that this area still requires improvement.³⁹
50. Sir Jon was asked why he thought that non-compliance with contract and tendering procedures, was causing particular difficulties within the procurement framework. He believed that the problems could be put down to poor training and added that non-compliance with contractual regulations was one of the biggest financial management risks, not least because EU requirements around procurement were very demanding and people did not necessarily fully understand them. Sir Jon did add, however, that at least some of the reported errors were not major issues, and that he did not think that the identified mistakes were systemic ones.⁴⁰
51. The Permanent Secretary then responded to our query as to how training was to be improved. He mentioned that within the Assembly Government, they had a full and thorough programme of training, including a set of training events, on procurement, which were put on by their procurement unit. Sir Jon required his heads of department to have satisfied themselves that people in their departments who were undertaking procurement had had the necessary training. In the case of the sponsored bodies, he had to rely on the accounting officers of those bodies to take the necessary measures. In the light of the Auditor General's

³⁹ AGW General Report 2005, paragraph 4.10

⁴⁰ Q. 57

findings, he said that he would write to the chief executives to draw their attention to the particular issues identified.”⁴¹

52. The Auditor General reported that the Welsh Procurement Initiative has continued to have a beneficial financial impact on the costs of public sector procurement. We are delighted to note that the Initiative has reported savings of £5.5 million across the whole of the Welsh public sector for 2004. It has also identified further savings of £24.7 million as being deliverable in 2005, against a target of £24 million. These savings are mainly in the areas of telecommunications, stationery, and car hire.⁴² The Permanent Secretary informed us that these savings were sustainable, subject to putting in the required effort and capacity to do this, but that they were “just a drop in the ocean” in terms of what could be achieved. The objective of Value Wales is to ensure that by 2010, a total of £120 million worth of savings should be made through improved procurement.⁴³
53. Sir Jon added that the concept of the Welsh purchasing card was an important example of the sorts of areas in which the Assembly was looking to make savings. This was essentially a credit card used for making payments, and its benefits included the fact that it overcame the prompt payment problem at a stroke and represented a simplified way of procurement in the frequent cases where small amounts of money were involved, thus reducing financial control overheads. Certain local authorities have taken it up and are getting real value from it. A lot more could be done with the purchasing card and through greater collaboration between public bodies in Wales, which would enhance their negotiating position and the value that they could get.⁴⁴
54. The Permanent Secretary commented that there was also a need to have adequate purchasing capacity in place within the public sector bodies, and many of them had not yet invested sufficiently in this area. However, once they did so, this would help to deliver value for money.⁴⁵ We noted in this respect that there had been a 28 per cent increase in the number of procurement professionals across the public sector in Wales since September 2004.⁴⁶
55. We raised with Sir Jon that, whilst we all want to ensure that the greatest savings possible are achieved, there is a certain tension between this aim and also at the same time looking to

⁴¹ Q. 58

⁴² AGW General Report 2005, paragraph 4.3

⁴³ Q 47

⁴⁴ Q.48

⁴⁵ Q.48

⁴⁶ Annex B

support local suppliers, and thereby the local economy.⁴⁷ He told us that, although Value Wales Procurement was tasked with delivering efficiencies through smarter procurement, this did not mean automatically consolidating all expenditure into large national contracts and awarding these to large national or international suppliers. Public procurement must consider the potential role of local businesses, and be aware that smaller suppliers can often provide better value for money. In practice, therefore, the aim was to seek ways of removing barriers to small suppliers through, for instance, making contracts more accessible and educating suppliers on public sector needs.⁴⁸

56. The Procurement Initiative has continued to perform procurement fitness checks and these have now been completed for eight sponsored bodies in Wales.⁴⁹ A check is also underway at the Welsh Assembly Government.⁵⁰ The checks are designed to help organisations recognise their procurement strengths as well as identify areas for improvement.⁵¹ We asked Sir Jon what the main findings of the reports were. He provided a note to us which showed that the majority of sponsored bodies had received a “bronze” grading from their fitness checks, although one body, the Environment Agency Wales, had achieved a “gold” rating in every category of assessment. Sir Jon also highlighted the key improvements actions arising from the reviews, which included the need to focus on a number of areas, such as the establishment of credible procurement resources and expertise within the organisation, creation of a procurement planning framework and development of a procurement systems strategy.⁵²

⁴⁷ Q.55

⁴⁸ Annex B

⁴⁹ Annex B

⁵⁰ Q.51

⁵¹ AGW General Report 2005, paragraph 4.8

⁵² Annex B

Areas where there is scope to improve procurement

- by the Welsh Procurement Initiative Team completing its programme of procurement fitness checks across all Assembly-sponsored bodies as soon as possible, and the improvement areas identified by completed fitness checks being addressed.
- by disseminating the wider lessons highlighted by the Initiative's work and examples of best practice; and by enhancing the Assembly Government's existing training programme to provide all staff involved in procurement with the level of skills necessary to carry out their functions, including detailed knowledge of the contractual rules relating to procurement.

Management of Expenditure Financed by European Structural Funds

57. The closure process of the European Programmes 1994–99 is still ongoing, however the Assembly's Head of Internal Audit had quantified specific problems with incurred expenditure totalling £476,110, and had recommended that closure of the programmes should be accepted after deducting this amount. The European Commission has accepted this recommendation in respect of half of the eighteen programmes, but has yet to complete its deliberations on the remaining programmes.⁵³
58. Dr. Roberts was unable to quantify for us the final amount that might be repayable, as work was still underway with the European Commission. However, he informed the committee that if any ineligible expenditure was identified and it had arisen as a result of a fault of a project sponsor, then the money would be recovered wherever possible from that body, rather than impacting on the Assembly's budget.⁵⁴
59. The Auditor General reported that, during the year to 31 December 2004, the National Audit Office Wales audited 42 claims for European funding. Of these, all but one was qualified with an average of five separate audit observations made on each claim. This represents a similar level to 2003, with the auditors reporting that there has been very little change in the nature of their reported findings. These included expenditure incurred before the project commencement date, costs derived from incorrect information, financial details on claim forms not being consistent with project agreements, and failures to conduct monitoring

⁵³ AGW General Report 2005, paragraph 4.14

⁵⁴ Q.64 – Q.65.

visits⁵⁵. Nonetheless, the Auditor General acknowledged the work undertaken by the Assembly Government to address these problems, and noted that he would expect this to result in improvements in the future⁵⁶.

60. We asked Sir Jon if he felt the actions he had taken to date were sufficient, given the level of qualified audit reports. He replied that his officials were continually improving their guidance in light of the problems highlighted by audit reports and that, now that he had more monitoring staff, these would be used to ensure that lesson would be learnt and transferred to other projects.⁵⁷
61. Dr Roberts told us that WEFO had significantly strengthened its monitoring team, which went out to verify that a project was taking place and running smoothly. That team was now fully functional and was undertaking a large number of project reviews, which was helping to improve processes in terms of project sponsors' understanding of what they needed to do in terms of completing claim forms to ensure, for example, that they did not put in ineligible claims. Dr Roberts confirmed that they were also constantly learning the lessons from more formal audits and conveying these to project sponsors.⁵⁸
62. He added that over half of the 41 qualified audits referred to in the Auditor General's report were for what he considered to be fairly minor transgressions, such as putting the expenditure under the wrong headings and which could be rectified fairly easily. In 22 of the 41 cases, WEFO had concluded that there was no need to adjust the expenditure incurred and Dr Roberts thought it important to consider the issue in proportion in terms of the amount of money and the number of actual transactions that were being undertaken by the organisations.⁵⁹ We nevertheless expressed our concern at the large numbers of qualified audit opinions and observations made by the auditors. In response, Dr Roberts noted that EU structural funding was fairly complex, and it needed finance officers within the organisations who understood the processes quite thoroughly.⁶⁰

⁵⁵ AGW General Report 2005, paragraph 4.18

⁵⁶ AGW General Report 2005, paragraph 4.17

⁵⁷ Q.69

⁵⁸ Q.70

⁵⁹ Q.70 – Q.71

⁶⁰ Q.71

Area where there is scope to improve the management of European projects

- by the Welsh Assembly Government impressing upon the senior management of all grant recipients (at Chief Executive or Accounting Officer level where applicable) the importance of ensuring compliance with all of the requirements of European funding regulations.