

**Shan Morgan**  
Ysgrifennydd Parhaol  
Permanent Secretary



Llywodraeth Cymru  
Welsh Government

Mr N Ramsay  
Chair, Public Accounts Committee  
National Assembly for Wales  
Cardiff Bay  
CF99 1NA

30 April 2019

Dear Mr Ramsay,

### **PAC SCRUTINY OF ACCOUNTS 2017-18**

Thank you for the report following the scrutiny by the Public Accounts Committee of the 2017-18 Annual Accounts for the Welsh Government, Assembly Commission, Public Service Ombudsman and National Museum. I have considered each of the recommendation raised concerning the preparation and presentation of the Welsh Government annual accounts and responses are detailed at annexes A to C. All the recommendations have been accepted and my officials are taking the necessary action to implement as many of the recommendation as practicable in advance of the publication of the 2018-19 accounts.

Yours,

Shan Morgan

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Ysgrifennydd Parhaol/ Permanent Secretary  
Llywodraeth Cymru/ Welsh Government



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## Responses to PAC recommendations

**Recommendation 1. The Committee recommends that the Welsh Government takes the necessary measures to prevent any recurrence of officials refusing to provide information to the Public Accounts Committee (in confidence if need be) on the supposed grounds that they cannot legally do so (and in flagrant contravention of A4.12.11 of Managing Welsh Public Money.**

**Recommendation accepted.** I share the Committee's concern that the Welsh Government and its arms-length bodies should be as open and transparent as possible in their accounts and with the Committee itself, in relation to severance payments as with everything else full transparency is not always possible - as the Committee recognises, there are sometimes issues of data protection or legal obligations to be taken into account. But I think that we can do more to meet the concerns of the Committee and I am considering how we might achieve this. I will write to the Committee with an update within two months.

**Recommendation 11. The Committee recommends that the Welsh Government publishes its timetable for the production publication of its accounts and annual report on an annual basis to aid transparency and understanding of the process.**

**Recommendation accepted.** Details of the timetable for preparation of the annual accounts have been published on the Welsh Government website.

**Recommendation 12. The Committee recommends that the Welsh Government provides an update to the Committee in respect of its discussions with the Wales Audit Office, including the agreed actions to address the issues encountered during the preparation and audit of the 2017-18 accounts.**

**Recommendation accepted.** A copy of the information I shared with the Auditor General Wales on the actions agreed to address the issues encountered during the preparation of the 2017-18 is attached at annex B.

**Recommendation 13. The Committee recommends that the Welsh Government clarifies for the Committee the resources it has in place for the process, as well**



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**as explain how it ensures it has sufficient skills and capabilities for the delivery of its annual accounts.**

**Recommendation accepted.** The information at annex B provides further details of the additional resources now in place within the team responsible for preparing the core and consolidated accounts and the submission to the Whole of Government Account. All staff are suitably qualified; SEO, Grade 7 and senior civil service staff all hold a relevant professional accountancy qualification, and a number of the staff have previously worked in a central accounts team. In total I have doubled the number of qualified/part qualified staff preparing the 2018-19 accounts when compared with last year.

**Recommendation 14. The Committee recommends that the Welsh Government makes more detailed financial and performance information, such as analyses of annual expenditure within each MEG and how these programmes are delivering against planned outcomes. This should include information to allow the public to see how decisions are made and also reports about its in-year performance to increase transparency and accountability.**

**Recommendation accepted.** The annual outturn report which is issued to the Finance Committee after the annual accounts provides comprehensive details of how the Welsh Government outturn compares with the budget. The statement of resource outturn, which is a mandatory requirement for all annual accounts, details expenditure against each of the MEGs. For 2018-19 the Welsh Government will be introducing a further table comprising the 30 largest areas of expenditure. The issue of performance reporting is addressed under recommendation 17.

**Recommendation 15. The Committee recommends that the Welsh Government puts measures in place to ensure that it complies with the Welsh Language Standards to publish simultaneously its accounts in English and Welsh.**

**Recommendation accepted.** The Welsh and English versions of the 2018-19 annual accounts will be published simultaneously. GOWA 2006 specifies that the Wales Audit Office must lay the accounts with the Assembly. In the past the WAO has only laid the English version as the Welsh version is not subject to audit. To avoid any possible confusion over publication dates, I will be suggesting to the Auditor General for Wales that we forward copies of the Welsh and English versions of the accounts to his officials and that they then deliver both to the Assembly.



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**Recommendation 16. The Committee recommends that the Welsh Government updates the Committee on the timetable for taking the Welsh Government’s policy on the internal use of the Welsh Language to the Board and shares the outcome along with any accompanying papers considered by the Board.**

**Recommendation accepted.** I have commissioned a paper to be presented to the Welsh Government’s Board at its meeting in May for discussion on the Welsh Government’s policy on the internal use of Welsh during the next few months. I have asked for the paper to consider developments in the time since an original paper on the matter and quoted in the Committee’s report, was drafted in 2017. The paper will also consider the balance between an ambitious policy based on the Welsh Language Strategy’s target on one hand, and practical matters on the other. This is clearly a sensitive issue for staff and we must carefully consider how any changes may affect the workforce. In preparing the paper we have also been considering best practice within other public sector organisations in Wales and my officials have met with Assistant Chief Constable of South Wales Police, Jeremy Vaughan, the Assembly Commission, Rhondda Cynon Taf Council and Ynys Mon Council to discuss their practices in ensuring Welsh language skills capacity within the workforce and facilitating and promoting the increased use of Welsh within these organisations. Board policy papers of this nature are not normally published, but following the Board’s discussion of the matter, the paper, taking account of the views of the Board, will be submitted to the First Minister and the Minister for the Welsh Language and International Relations for consideration. I will share with the Committee the outcome of this consideration together with any relevant papers. I hope to be able to do this by September.

**Recommendation 17. We recommend that Welsh Government considers how to comply with best practice in financial reporting by including information about its performance, and adopting this practice for the preparation of next year’s annual report and accounts, before issuing further guidance to its sponsored bodies. As a minimum, the annual report and accounts should set out how the money has been spent and what it has achieved, with reference to the targets set by Welsh Ministers and the Welsh Government, as well as performance against them. This should include an analysis of spend against the aims of “Prosperity for All” (and the subsequent programmes) and other organisational targets in the accounts, aligned to the expenditure reported in the financial statements.**

**Recommendation accepted.** I have asked Jeff Farrar in his role as a Non-Executive Director on the Welsh Government Board to lead a task and finish group to advise on a



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suitable approach to preparing an enhanced and systematic set of Key Performance Indicators (KPIs) for the Welsh Government. He has been asked to draw upon existing material and consider what additional measures we could usefully adopt to allow us to monitor progress and achievement more effectively. The terms of reference for the group are “to consider and make recommendations to the Permanent Secretary on a new suite of performance management information and KPIs in relation to her responsibilities for the running of the Welsh Government.”

Mr Farrar has begun his work and I have asked for a report by the end of June. I think it unlikely that much of this work will be ready in time to appear in our forthcoming accounts but I will be able to update the Committee on progress in the autumn. The work relates to the operational performance of the Welsh Government and those areas which fall to the responsibility of the Permanent Secretary, rather than with Ministers. However, I will discuss the potential wider implications of this particular recommendation with the First Minister and I will certainly draw his attention to the concerns which have been expressed by the Committee.

**Recommendation 18. The Committee recommends that the Welsh Government makes clear the requirements with which it aims to comply when preparing its annual report and accounts. It should also be clear about the Welsh requirements for Annual Reports and ensures that all bodies comply with this guidance, including themselves. This will help to provide sufficient and appropriate information is disclosed enabling effective scrutiny.**

**Recommendation accepted.** The Welsh Government issues an accounts direction to its public bodies which details how annual accounts should be prepared and who they can speak to if there are any questions. It also works closely with its subsidiaries to ensure that the information provided to support the preparation of the consolidated accounts is robust. All information submitted to the Welsh Government for consolidation into the accounts is independently audited by either the WAO or one of the large accountancy firms. The main source of guidance for the Welsh Government and all other organisations is the Financial Reporting Manual (FRM) which is published and updated by HMT Treasury. HM Treasury is advised on all matters relating to accounting standards by the Financial Reporting Advisory Board (FRAB). The Welsh Government has a permanent seat on the FRAB and is represented by the Finance Director.



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**Recommendation 19. The Committee recommends that Welsh Government considers what information can be included in its accounts to promote transparency in respect of the support provided for business without deterring potential investors.**

**Recommendation accepted.** The Welsh Government publishes all the information it can without breaching agreements over commercial confidentiality. This information is reviewed every year to determine whether it remains commercially sensitive. Following the publication of the 2017-18 accounts, the PAC requested a closed session to discuss any information that could not be published and I would suggest that a similar meeting following the publication of this year accounts would be an appropriate means of ensuring transparency and facilitating scrutiny of the decisions taken by the Welsh Government.

**Recommendation 20. The Committee recommends that the Welsh Government liaises with its counterparts in the Scottish Government to enhance its understanding of the potential merits of introducing a Whole of Government Accounts for Wales and provides an update to the Committee.**

**Recommendation accepted.** I will provide an update to committee when we meet in the autumn. However, at this stage the Welsh Government has not been provided with a strong case for preparing a whole of Wales account.

**Recommendation 21. The Committee recommends that the Welsh Government shares with the Committee its action plan for reducing the gender pay gap.**

**Recommendation accepted.** The Welsh Government is working with Chwarae Teg (in Spring 2019) to develop an action plan for reducing the gender pay gap. This will be shared with the Committee once it has been finalised and agreed.

**Recommendation 22. The Committee recommends that, to aid transparency and facilitate scrutiny, the Welsh Government considers whether more information could be included in its future accounts to explain the purpose of exit packages and/or severance schemes.**

**Recommendation accepted.** The Welsh Government will include additional information on exit packages and severance schemes in future accounts. We will also be writing to our Arms-length Bodies to stress the importance of their doing likewise.



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**Recommendation 23. The Committee recommends that the Welsh Government includes in its annual report and accounts information about the efficiency activities across its organisation. This should include outturn against the targets set, with an explanation where performance goals are not met.**

**Recommendation accepted.** The work being undertaken by Jeff Farrar will inform how Welsh Government can best create an enhanced and systematic set of KPIs that will help to demonstrate how it is delivering efficiencies across the organisation. We are also considering how we will take forward the pursuit of efficiency savings in the Welsh Government, including the arrangements for measuring them and reporting on them. I will be able to update the Committee in the autumn.

**Recommendation 24. The Committee recommends that the Welsh Government provides, in advance of the Committee's scrutiny of its 2018-19 accounts, an update in respect of the work of the Improving Efficiency Board and in particular, the actions implemented as a result of the independent review of its corporate services.**

**Recommendation accepted.** I will write to committee members ahead of the scrutiny of the 2018-19 accounts with an update on the Improving Efficiency Board, including further details of the Corporate Services review.

**Recommendation 25. The Committee recommends that the Welsh Government clarifies why and how the Future-proofing initiative differs from Fit for the Future, the scheme introduced by the former Permanent Secretary. This should set out how the scheme is working not only to improve efficiency of the organisation but also advance its capacity and agility.**

**Recommendation accepted.** Future-proofing is a people-centred organisational improvement initiative which aims to equip the Welsh Government civil service to meet the complex challenges it faces in supporting Ministers to deliver its current programme while also building a confident, skilled and sustainable civil service for the future. It builds upon the excellent work of my predecessor through his change programme "Preparing for the Future" and takes account of the learning and insight from that programme.

"Preparing for the Future" looked primarily at organisational and structural ways in which the Welsh Government needed to adapt. Future-proofing now switches the emphasis



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to people-related change and the integrated and system-wide nature of the way we are approaching the behaviour change programme.

As well as introducing a new set of expectations and behaviours which capture the ways of working we encourage and value, we have made significant changes to our performance management systems, promotion systems, leadership training and wider capability-building programme to encourage and embed the expectations across the organisation.

Further information is provided in Annex C

**Recommendation 26. The Committee recommends that the Welsh Government clarifies for the Committee its position in respect of adopting the UK Civil Service's Success Profiles and how these will work in the Welsh context, including the relationship - or otherwise – between this approach and that of the standards and values for internal promotion at gateway grades developed with the input of Future Generations commissioner and which framework has pre-eminence.**

**Recommendation accepted.** The Welsh Government plans to adopt the UK Civil Service's Success Profiles recruitment framework in Autumn 2019 (subject to engagement and consultation with trade unions and staff networks within the Welsh Government).

The Assessment and Development Gateway for internal promotion has piloted a number of elements of Success Profiles, including strengths based interviewing. The behaviours and strengths assessed at the Gateway were specifically chosen to be complimentary to the standards and values developed with the input of Future Generations Commissioner.

**Recommendation 27. The Committee recommends that, to ensure they are able to provide independent oversight and challenge of the Executive and avoid conflicts of interest (actual or perceived), the Welsh Government should not commission its Non-Executive Director's to undertake work beyond the scope of their non-executive roles.**

**Recommendation Accepted.** The Welsh Government will not in future commission its NEDs to take on other roles for the Welsh Government which are not undertaken as part of their NED role. In addition, the Welsh Government would only be content for its



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NEDs to undertake roles for arms-length bodies of the Welsh Government where it is convinced that there is only minimal scope for conflict of interest; where it is confident that that conflict of interest can be managed properly; and where there is a clear public benefit in the NED undertaking the additional role with an arms-length body.

**Recommendation 28. The Committee recommends the Welsh Government explains fully how it will gain documented assurances for those matters previously reported through the ‘calling in procedure’.**

**Recommendation accepted.** We are still finalising the detail of how our new approach will be applied and I will write again to the Committee once we have concluded our deliberations. I would expect to be able to do this by July.



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## Audit & Risk Committee paper - Lessons learned from the preparation of the 2017-18 annual accounts

### Background

1. The preparation of the 2017-18 annual accounts for the Welsh Government was fraught with issues primarily due to a number of difficulties with the spreadsheet tools used to consolidate the financial data and a lack of resources. As a result a short programme of improvement work was put in place. The majority of this work has completed and based on the findings the accounts team has now commenced detailed planning for the 2018-19 annual accounts.

### Improvement work streams

#### Supporting tools

2. An experienced and senior accountant from a separate team was asked to review the process and tools used by the team for consolidating the annual accounts to verify that tables and formulae were error free. The individual was well placed to undertake this type of review as her team is also reliant on large complex spreadsheets to support the preparation of the tables that underpin the Welsh Government budget and the two supplementary budgets. The overall goal was to ensure that if data was loaded into the spreadsheet tools used to compile the accounts, it would generate the correct entries for the core financial statements.
3. The work has completed and I am assured that the spreadsheet tools used by the accounts team are free of corruption and/or errors. However, the work highlighted that one of the main reasons why the team encountered problems was they did not follow appropriate procedures. This is being addressed through the improvements introduced for 2018-19.

#### Overall approach to the preparation of the annual accounts

4. Internal Audit was asked to review the overall approach being adopted by the Welsh Government for the preparation of the accounts. The final report is pending.



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## Staff resources

5. Staff resources was a critical issue during the preparation of the accounts and was in part due to the failure of temporary staff to take up post. As a result I have bolstered the number of staff within the team and removed our reliance on agency staff. Going forward the accounts team will comprise:
  - Grade 7 head of accounts
  - SEO Welsh Government Accounts
  - SEO Consolidation & Whole of Government Accounts
  - HEO (Part Qualified)
  - UK Finance Fast Streamer (Part Qualified)
6. I have also appointed a new deputy director to oversee the annual accounts along with the grants centre of excellence, governance and tax. The individual has significant experience consolidating the NHS account for Wales and has previously worked in other areas of the Welsh Government.
7. In total these changes double the number of staff dedicated to the production of the annual accounts for 2018-19.

## Workload within the accounts team

8. The annual accounts comprises three main elements; overview of the Welsh Government, accountability report and key financial statements. The overview and accountability report receive a greater degree of external scrutiny and, therefore, the accounts team have in the past had to work closely with numerous other areas of the Welsh Government to compile all the necessary information and tables. This often needs to take place in parallel with preparing the financial statements for audit.
9. For 2018-19, I have asked the head of governance (and former head of accounts) to manage the preparation of both the overview and the accountability report. This will free up the accounts team to focus on the financial data and the relationship with the WAO and should create additional time to consider how we might wish to develop or improve the overview portion of the annual accounts.

## Accounts preparation for 2018-19

10. Longer term we have an aspiration to sign off the accounts in July. However, in light of the issues encountered while preparing the 2017-18 annual accounts, this year we will continue with the existing sign off date in mid August.



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## Consolidation tools

11. In the medium term the Welsh Government needs to address the fact that it is reliant on complex spreadsheets to consolidate large volumes of data. This will become more of a factor as we consolidate additional public sector organisations. Unfortunately, it was not possible to take this forward for 2018-19. Nevertheless, our finance fast streamer is addressing the problem as part of his final year project. His conclusions and recommendations will be available by September this year.

## **In conclusion**

12. I am confident that the steps taken following the difficulties encountered during the preparation of the 2017-18 annual accounts will address the key issues of resources and the suitability of the consolidation tools. There were a number of issues raised by the WAO in the ISA260; including quality assurance, supporting information and inconsistencies in data, the causes of which can also be directly linked to these wider difficulties.

13. The focus for the 2018-19 annual accounts will be on ensuring that the accounts remain unqualified and are produced to the desired timescales. Nevertheless, the actions taken in response to the difficulties encountered last year will enable the Welsh Government to continue to develop and improve aspects of the annual accounts. In particular we would like to work with the Audit, Risk and Assurance Committee (ARAC) to address some of the challenges raised by the PAC in respect of the overview of the Welsh Government.



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### The Future-proofing programme focuses on four main themes

#### Future-proofing how we lead

This theme is about embedding a culture of collaborative, distributed leadership across the organisation; supporting managers to motivate, develop and empower teams and individuals to deliver high-quality work as efficiently as possible. Over the past 18 months this has introduced **Future-Engage-Deliver** training to support and develop leaders at all levels.

#### Future-proofing how we learn

This element of the change programme is focused on building capability and developing an adaptable and resilient workforce that is equipped for the future as well as the roles we need today. Over the past 18 months we have run three engaging and inspiring **TEDx events** on the themes of innovative policy-making, digital innovation and inclusive leadership as well as a programme of individual **TED Talks** to share learning. We have introduced new ways to broaden experience and build networks within the organisation and across the public and third sectors through a new **Short Term Experience Programme (STEP)**. We have also redirected our corporate **Learning & Development investment** to address critical skills gaps including immediately offering training to prepare for EU transition activity. This year we will introduce a new **Learning Lab** for all staff to provide online access to a new, blended learning and development offer, including a new policy curriculum that will fully integrate the Well-being of Future Generations principles in our approach to developing policy capability.

#### Future-proofing how we perform

As part of Future-proofing we have introduced a new, strengths-based, 'coaching-style' approach to performance management that focuses on development and wellbeing as well as performance and delivery. More than 3500 senior and middle managers attended training sessions on the new approach which is based on Future-Engage-Deliver principles. Alongside this, we have also introduced a more transparent and robust progression system that explicitly seeks to test those who apply for promotion against the standards and expectations we have set – including inclusive leadership. The introduction of these new progression gateways has now started with two Grade 7 Assessment and Development Centres held in the past year and a more rigorous approach to assessment procedures for Senior Civil Service roles.



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Those who are successful in passing the G7 Development and Assessment Centre are matched into priority roles (this flexibility is an explicit expectation of those who apply for promotion). Similarly, a new G7 Talent Programme has been opened to experienced managers where those who are successful will be matched to two priority posts during the three year programme. Talent Programme participants take part in a structured programme of development designed to equip them for Senior Civil Service roles. These changes mean that the organisation has a cadre of people at G7 level who expect to be posted rather than self-managing their own moves around the organisation, increasing our ability to align resources to critical priorities in a more agile and efficient way.

### **Future-proofing how we work**

To ensure workforce and development planning is aligned to the Cabinet's priorities and as is as agile and responsive as possible, we supported every Division in the organisation to hold a **future proofing development day** to look at current and longer-term priorities, assess team and individual capability gaps and agree team development plans. These sessions also considered how well the **Well-being of Future Generations** five ways of working are being adopted within teams and allowed staff to feed back on where further work is needed to ensure the WFG principles are embedded in our corporate systems, processes and learning and development programmes.



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