

# **ANNUAL REPORT OF THE AUDIT COMMITTEE, SEPTEMBER 1999 - SEPTEMBER 2000**

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## **PREFACE BY THE CHAIR OF THE AUDIT COMMITTEE**

It gives me great pleasure to introduce the first annual report of the National Assembly's Audit Committee. The Committee plays a crucial role in assuring the people of Wales that their money has been spent properly and effectively in providing them with public services. I am proud to have been asked to lead such an important Committee in the Assembly's first year.

As the public's financial watchdogs we took an early opportunity to make a clear statement of our expectation that all public bodies in Wales, including the National Assembly itself, will operate to the highest possible standards in the management of their financial affairs. We also made it clear from the outset that we hoped our deliberations would contribute significantly to getting the best possible value for taxpayers' money.

The Committee is very grateful to the Auditor General for Wales, Sir John Bourn, and the National Audit Office Wales for their hard work which has made it possible for us to consider many important aspects of Welsh life. We are also very appreciative of the positive and constructive attitude of all of the officials who have appeared before us. In all of our work, we have been keen to acknowledge where things have been done well; and also to identify where things could be done better or differently in order to provide better value for money for the taxpayer. I am very pleased that all of our recommendations so far have been endorsed by the Assembly's Cabinet.

The Committee will continue to be vigilant and vigorous in ensuring that proper and thorough scrutiny is given to the Assembly's expenditure. The people of Wales need to be confident that their money is being spent wisely and well. I look forward to the challenges of the next year with enthusiasm.

**Janet Davies, AM**

**Chair, National Assembly Audit Committee**

## **ANNUAL REPORT OF THE AUDIT COMMITTEE, SEPTEMBER 1999 - SEPTEMBER 2000**

### **1. BACKGROUND**

1.1 This is the first annual report to the National Assembly for Wales on the work of the Audit Committee as required by Standing Order 12.2. The report sets out the Committee's responsibilities and provides information about its activities during the first year of its operation.

### **2. THE ROLE AND RESPONSIBILITIES OF THE AUDIT COMMITTEE**

#### **Role of the Audit Committee**

2.1 The role of the Audit Committee is to ensure that proper and thorough scrutiny is given to the Assembly's expenditure. Its responsibilities are set out in detail in the Government of Wales Act 1998 (Annex A) (the Act) and the Assembly's Standing Orders (Annex B). A list of the Committee's members during its first year is at Annex C.

#### **Responsibilities of the Audit Committee**

2.2 The responsibilities of the Audit Committee are set out in detail in Section 102 of the 1998 Government of Wales Act and Standing Order 12 (Annex B). In broad terms, it is the responsibility of the Audit Committee to examine the reports on the accounts of the Assembly and other public bodies prepared by the Auditor General for Wales (the Auditor General); and to consider reports by the Auditor General on examinations into the economy, efficiency and effectiveness (i.e. the value for money) with which the Assembly and other public bodies have used their resources in discharging their functions. The Committee's key purpose is to ensure that the Assembly and other public bodies operate to the highest possible standards in the management of their financial affairs.

2.3 The Committee operates on non-party political lines, not questioning the merits of policy objectives, but concentrating on whether the organisations concerned implemented their policies and programmes with due regard for regularity, propriety and value for money.

2.4 The Committee also has a responsibility to consider annually the Auditor General's estimate of his income and expenses for the following year and to lay that estimate before the Assembly. At the same time as considering the estimate, the Committee considers the Auditor General's proposed programme of value for money examinations for the next year. The Auditor General is required to take the Committee's views into account when finalising his programme.

2.5 The Committee's activities in each of these areas is considered in Chapter 3. *An Introduction to the Audit Committee* which provides more detailed information about the committee's responsibilities and procedures is available on the Assembly intranet.

## **The Auditor General for Wales**

2.6 Section 102 of the 1998 Act empowers the Audit Committee to take evidence and report to the Assembly on the basis of reports laid by the Auditor General for Wales. This means that the Committee has a very close working relationship with the Auditor General for Wales, Sir John Bourn. His work is the starting point for the Committee's own work programme and helps the Assembly and associated public bodies in Wales to secure value for money from their operations and to help ensure that their financial affairs are managed in a regular and proper manner. The Auditor General provides financial and value for money reports to the Audit Committee as a starting point for their examinations.

## **The National Audit Office Wales**

2.7 The National Audit Office (NAO) is the main public sector audit body that audits the accounts of UK Government departments and many other public bodies. It may also undertake Value for Money studies on those bodies. It provides independent advice, information and assurance to Parliament on the use of public funds. NAO Wales undertakes the financial and Value for Money audit work on behalf of the Auditor General and provides him with

administrative support. NAO Wales staff work in close association with the Audit Committee, providing technical support for its evidence sessions.

## **Committee of Public Accounts**

2.8 The Audit Committee also has a close relationship with the Committee of Public Accounts (PAC) in Westminster, who perform a comparable role for the UK Parliament. The Audit Committee is very grateful to the PAC for their willingness to allow the Committee to take evidence on accounts which related to the pre-devolution period. This provided an early opportunity for the Committee to consider standards of financial management in Wales.

## **Evidence and Reports**

2.9 After considering a report from the Auditor General, the Audit Committee will normally take evidence from the Accounting Officer (i.e. the senior civil servant with personal responsibility for the relevant expenditure) of the body in question to consider areas highlighted in the report. The Audit Committee will then produce its own reports on the findings.

2.10 Audit Committee reports are laid before the Assembly and the Cabinet must respond within one month. The Committee has published five reports to date. These are detailed at Annex D.

## **3. THE COMMITTEE'S ACTIVITIES IN 1999-2000**

### **Financial Audit**

3.1 The annual accounts prepared by the National Assembly for Wales and other bodies sponsored and funded by the Assembly are audited by the Auditor General for Wales. Once audited, the accounts for 1999-2000, the Assembly's first full year of operation, will be laid before the Assembly during 2000-2001.

3.2 The 1998-99 accounts of the Welsh Office and its non departmental public bodies were prepared in 1999-2000. As they related to the pre-devolution period, they were audited by the Comptroller and Auditor General and laid before Parliament. However, the Committee of Public Accounts agreed that the Audit Committee could take evidence on two of these reports: the NHS summarised accounts; and the accounts of the National Museums and Galleries of Wales. This provided early opportunities for the Audit Committee to consider financial audit issues. The Auditor General also produced a " General Report" summarising the findings from the NAO's 1998-1999 financial audit work.

## **National Museums and Galleries of Wales Accounts 1998-99**

3.3 During the audit of the 1998--99 accounts of the National Museums and Galleries of Wales the NAO identified an irregular payment to a former Assistant Director. The amount involved was not of sufficient magnitude to warrant qualification of the audit opinion. However, the principle involved in the way the payment was made was considered worthy of examination by the Audit Committee. This provided an early opportunity for the Committee to set out the principles and standards which it expected from all public bodies in Wales.

3.4 In the light of evidence from the current and former Directors of the National Museum, the Committee's Report stated:

*" This case was the first opportunity afforded to the Audit Committee of the National Assembly for Wales to examine an issue of financial regularity and propriety. We hope that such hearings do not become a frequent occurrence.*

*We accept that this case had a number of unusual and exceptional features..... We also recognise that both the current Director of the Museum and Assembly officials have taken a number of measures to help prevent a recurrence of this unfortunate situation. However, we wish to make it quite clear from the outset that we expect all public bodies in Wales, including the Assembly itself, to operate to the highest possible standards in the management of their financial affairs and to act within their statutory powers and delegated authorities. To do otherwise would bring the organisation concerned into disrepute and would also serve to undermine the credibility and reputation of the Welsh public sector. This cannot be allowed to happen."*

3.5 The Assembly Cabinet accepted all ten of the recommendations made in the report and fully endorsed the Committee's expectations of public bodies. The Assembly proposed a number of measures to prevent a recurrence of such irregular payments, including a revision to the Financial Memoranda issued to Assembly sponsored public bodies, reinforcement of training for their accounting officers, production of a Code of Conduct for public body staff and a revision by the Museum of its own disciplinary procedures.

## **NHS (Wales) Summarised Accounts 1998-99**

3.6 The National Assembly is responsible for preparing summarised accounts of the NHS bodies in Wales for audit by the Auditor General for Wales (Comptroller and Auditor General for 1998-99 and earlier years). The NHS bodies themselves are audited by appointees of the Audit Commission. The Comptroller and Auditor General's report on the 1998-99 summarised Accounts covered the overall financial health of the NHS in Wales, the financial health of the five Welsh health authority areas, clinical negligence, NHS fraud and asset management and

the rising costs of primary care drugs.

3.7 The Audit Committee took evidence from the Director of the NHS in Wales. The Committee's subsequent report concluded in summary that:

*"The National Health Service is our most precious institution. Its reputation has suffered in recent years, and this has been due in no small part to poor financial performance. This cannot be allowed to continue.*

*The National Health Service must rebuild its reputation by delivering high standards of healthcare for the people of Wales within the resources made available to it by the National Assembly. We therefore urge the Assembly's NHS Directorate and health service managers, clinicians and staff to do all they can to promote good financial management, including taking more proactive steps to minimise the incidence and cost of clinical negligence, reduce the level of fraud, and secure value for money. In particular, we expect to see a swift end to the continuing spiral of financial deficits that have been reported by health authorities and NHS trusts in recent years."*

3.8 The Assembly Cabinet welcomed the report and agreed to take action on the Committee's recommendations regarding strategic management and leadership, financial management, the prompt payment of bills, resource allocation, the management of clinical negligence cases, cases of fraud, and controlling the costs of primary care drugs, as well as specific matters regarding individual health bodies. Staff of the National Audit Office Wales will be monitoring the completion of these actions closely.

### **General Report of the Auditor General for Wales: Financial Audit of 1998-99 Accounts**

3.9 This Report summarised the results of the NAO's financial audit work in Wales for 1998-99, the last full year before the National Assembly was established. The Report highlighted the main features of the financial control environment inherited by the Assembly including financial management and control, the role of internal audit, corporate governance, and progress with the implementation of resource budgeting and accounting. The Audit Committee evidence session with the Permanent Secretary focussed on resource budgeting and accounting, (the three-month account prepared for the Welsh Office up to the date of transfer of functions on 1 July 1999 was the first resource account of a UK Government department to be formally audited and published) and the monitoring of grant schemes.

3.10 The Audit Committee's report noted the Permanent Secretary's confidence in the robustness of the 1999-2000 resource accounts under the new accounting system and looked forward to the successful consolidation of the accounts of the Welsh health authorities into the Assembly's 2000-2001 accounts. It also stated that the Committee expected the Assembly to

be a role model for its sponsored bodies in the adoption of best practice in information systems procurement. The Assembly Cabinet's response indicated that action had already been taken to address the recommendations. The Committee will return to this issue when it examines the Assembly's resource Account for the period ended 31 March 2000.

## **Value for money reports**

3.11 The Audit Committee published the following value for money reports in 1999-2000:

- Protecting and Conserving the Built Heritage of Wales;
- Further Education in Wales;

The detailed recommendations made in these reports can be found at Annex E. Committee Reports are being prepared on the following topics:

- Welsh Development Agency: Managing the creation of the enlarged Agency and looking for future savings;
- Welsh Development Agency: Support for Indigenous Businesses in Wales;
- Coleg Gwent (following up the Treasury minute to the Committee of Public Accounts' Report on Financial Management and Governance at Gwent Tertiary College);
- Cardiff Bay Barrage.

## **Protecting and Conserving the Built Heritage of Wales**

3.12 This report considers the operations and responsibilities of Cadw/Welsh Historic Monuments. Following an evidence session with the Chief Executive of Cadw and the National Assembly's Permanent Secretary, the Audit Committee produced recommendations which were intended to help Cadw fulfil its responsibilities more efficiently and effectively in the areas of protecting the built heritage, grant conditions and financial support for Chirk Castle.

3.13 The Assembly Cabinet's response to the Committee's report was positive. Cadw and the Assembly Cabinet felt that, in the medium term, the implementation of the conclusions and recommendations identified in the report would involve minimal costs and would achieve a significant net increase in value for money. They will be implemented in 2000-2001. The Auditor General estimates that implementation will result in one-off savings in the nature of £58,000 and recurrent savings of £70,000.

## **Further Education in Wales**

3.14 The Committee's report covered various aspects of the performance of the further education sector in Wales: its financial health; monitoring by the Further Education Funding Council; governance of institutions; strategic planning and financial management; and the



procurement of goods and services. The Audit Committee held two evidence sessions, one with the Assembly and the Funding Council; and one with representatives from two colleges, Carmarthenshire College of Technology and Art and Coleg Ceredigion.

3.15 The Committee concluded that:

*"..... the Funding Council needs to take a tighter grip of the sector and to make sure that failings in governance and management at individual institutions are dealt with. All the institutions in the sector need to take forward the National Audit Office's recommendations on governance, strategic planning, financial management and procurement to improve their overall levels of management and control.*

*The Committee is particularly disappointed at the failings which were exposed in the way most institutions approach the procurement of goods and services. Significant amounts of money could be saved in this area which could be ploughed back into education .....*"

3.16 The Committee requested a report from the Funding Council within six months of its report being issued on the progress that the sector has made in implementing the National Audit Office's recommendations on governance and management. The Committee also sought a report from the Auditor General for Wales in 12 months time on the progress the sector had made in improving its procurement of goods and services and the savings that have been generated and are in prospect.

3.17 The Assembly Cabinet, in its response, advised that the Further Education Funding Council was determined to ensure that governance and management are of the highest quality and that any weaknesses are addressed. A number of steps had already been taken to strengthen control and monitoring procedures, such as the introduction of the Governance and Management Development Programme (GMDP), tightening the audit follow up process and reviewing the overall risk in every institution each term. The Funding Council is also working with the sector on value for money issues, including procurement and preparing for the next phase of GMDP. Other work proposed by the detailed recommendations would be addressed over the next year.

3.18 The sector spends in the order of £70 million a year on goods and services and a modest two per cent saving would generate £1.5 million a year for use elsewhere in the sector.

**Welsh Development Agency: Managing the creation of the enlarged Agency and looking for future savings and Support for Indigenous Businesses in Wales**

3.19 The Committee took evidence in May 2000 from the Assembly's Permanent Secretary,

Jon Shortridge, and the Chief Executive of the Agency, Brian Willott on both of these reports. The merger report included: planning and managing the merger process; controlling the cost of the merger and securing financial savings from it; and, securing additional financial savings in running the enlarged Agency. Although the Audit Committee has not yet produced its report, the Auditor General has identified areas of potential financial savings; : energy - £30,000, space management - £125,000 and storage - £27,000. These amounts are in addition to the planned £2.25 million savings in running costs which the Agency was on track to achieve as a result of the merger.

3.20 The report on Support for Indigenous Businesses considered the Agency's main approaches to and activities for supporting indigenous businesses and its processes for appraising, monitoring and evaluating the effectiveness of its support. The Audit Committee's report will be published in the autumn.

### **Coleg Gwent: (Treasury Minute to the Public Accounts Committee's Report on Financial Management and Governance at Gwent Tertiary College**

3.21 The Audit Committee was granted permission by the Committee of Public Accounts to consider this Treasury Minute which was the Government's response to the previous investigation by the PAC into this subject. The Audit Committee wished to examine the progress which had been made at the College since the PAC's highly critical report had been published in January 2000. The Permanent Secretary, the Chief Executive of the Funding Council and the Principal of the College, now renamed Coleg Gwent, gave evidence to the Committee on the problems that arose at the college; what went wrong; steps taken to put matters right; and the wider implications for the sector in Wales. The Committee's report will be published in the autumn.

### **Cardiff Bay Barrage**

3.22 This report was the subject of an evidence session in July with the Permanent Secretary and Mr Michael Boyce, the former Chief Executive of the Cardiff Bay Development Corporation as witnesses. The Auditor General's report covered the following areas: the cost of constructing the barrage and the creation of the freshwater lake; bringing the barrage into operation and the succession arrangements put in place for Cardiff Bay following the wind-up of the Development Corporation; and, the arrangements in place to identify and manage the environmental obligations and potential liabilities linked to the project. It is anticipated that the Audit Committee's report on this topic will be published in the autumn.

### **Budget and programme of the Auditor General for Wales for 2000-2001**

3.23 At its first meeting in September 1999, the Audit Committee agreed that the budget for the Auditor General's value for money examinations for 2000-2001 should be £1,000,000, within

total expenses of £2,175,000. It was felt that this would ensure the widest coverage and depth of activity and would demonstrate that the Committee regarded this expenditure as an investment for the longer term. The Auditor General advised that this level of funding had the potential to deliver high savings, although they might take two or three years to feed through. Any estimates of savings would be tentative, given that the scope of Wales-only examinations had yet to be tested and the fact that 2000-2001 would be the first full year of the Auditor General's operations in Wales.

3.24 Members requested that the Auditor General consider including the following items in his programme of value for money examinations for 2000-2001:

- the effectiveness of the Welsh Development Agency in encouraging the development of indigenous industry
- the effect of the spend on the LG project on total expenditure in Wales
- the report on the Assembly's accommodation arrangements to include consideration of the new Assembly building
- consideration of housing renovation grants in the context of the proposed report on homelessness
- examination of drugs prescribed by the NHS which are not approved by the Formulary
- financial implications for the Assembly in being required to take financial responsibility for water quality in Cardiff Bay
- the financial effect of private medical care (excluding nursing homes) on the NHS
- waste management in the context of sustainable development and the Best Value programme
- the reconfiguration of the NHS and NHS trusts

Some of these items featured in the programme for 2000-2001. Others will be undertaken in future years.

#### **4. FUTURE WORK OF THE AUDIT COMMITTEE**

4.1 The Audit Committee's programme of work for 2000-2001 is likely to be as varied as that for its first year. Amongst the issues which it expects to consider are:

- the Assembly's accommodation arrangements;
- arrangements for the wind up of the Cardiff Bay Development Corporation;
- the handling of clinical negligence claims;
- prescribing of drugs by General Practitioners; and

- the management of the further education estate in Wales.

In addition, the Auditor General for Wales intends to report on the 1999-2000 accounts of the National Assembly and the NHS (Wales) Summarised accounts, as well as issuing a General Report on his financial audit work for that year. He will also report if his work raises any specific issues of regularity or propriety.

4.2 The October 2000 meeting of the Audit Committee will consider the Auditor General's estimate of income and expenses for 2001-2002, together with his proposed programme of value for money examinations. The Committee will also agree its own programme for the autumn term.

## **5. SUMMARY**

5.1 The National Assembly Audit Committee has taken evidence and reported on a broad range of issues during its first year of operation. These matters have related to many areas of the National Assembly's activities and have provided lessons which are relevant for the whole of the public sector in Wales. We look forward to a busy year of helping the Assembly and other public bodies in Wales to spend their money wisely and well.

### **Audit Committee**

#### **October 2000**