

Stocktake of value for money work since devolution

Introduction

1. In September 1999, at the first formal meeting of the Audit Committee of the newly-formed National Assembly, I presented three options to the Committee for the volume of value for money work that I might undertake in the following year. The Committee chose the highest cost option (£1 million, including VAT). This was a highly encouraging sign of the importance which the Committee, on behalf of the Assembly, attached to such work. It was also, of course, a welcome indication of the Committee's belief in our capacity to deliver it and in so doing signal the scope for administrative improvements and financial savings.
2. That was five years ago, since when the Committee, as well as conducting its own investigations with vigour, has continued to demonstrate its support for our work. The Committee's meeting on 30 September 2004, when I am presenting my budget estimate and suggested value for money programme for the following financial year, marks something of a watershed. This is because the functions of the Auditor General are increasing significantly from April 2005 following the Public Audit (Wales) Act and the creation of the Wales Audit Office which will bring together the audit of the Assembly, local government and health bodies.
3. Against that background, together with the Assembly Compliance Office, we thought that this was a good opportunity to take stock of what the Audit Committee has achieved since the Assembly was created, and also to provide the Committee with some more information about the arrangements for following up the Committee's audit recommendations after the Government has formally responded to the Committee's own reports. I have focused on our value for money work but this is not to downplay the importance of financial audit work which, as events at the National Council for Training and Education for Wales have shown, can have a significant beneficial impact (see paragraphs 18 and 19 below).

Value for money work of the Auditor General for Wales

4. The National Audit Office Wales carries out value for money work under s100(1) of the Government of Wales Act 1998 which states that the Auditor General "may carry out examinations into the economy, efficiency and effectiveness with which the Assembly [and related bodies] has used its resources in discharging its functions." Under other provisions

of s100, the Auditor General is not entitled to question the merits of policy objectives; as auditors, our interest is policy implementation rather than formulation.

5. Since the post of Auditor General was created, I have published 29 value for money reports, listed at Annex A. The choice of subjects is informed by consultation with the Audit Committee each autumn. Reports have been published across the full range of the Assembly's activities - see Figure 1 which shows the number of reports published under each of the Assembly Government's current portfolios of responsibility. (The preponderance of reports published in the health field reflects the proportion of the Assembly's total budget that it accounts for - about a third.) Within each area, a number of different organisations have been subject to audit scrutiny. For example, the three reports published in the area of Culture, Sport and the Welsh Language examined Cadw, the Arts Council of Wales and the National Museums and Galleries of Wales.

Figure 1: Number of Auditor General published reports, by topic area

<i>Portfolio</i>	<i>Assembly indicative budget 2005-06 £m</i>	<i>Number of studies</i>
Health and Social Services	4,612	9
Environment, Planning and Countryside	447	2
Education and Lifelong Learning	1,280	3
Economic Development and Transport	1,382	7
Social Justice and Regeneration	448	1
Culture, Sport and the Welsh Language	127	3
Administration of the Assembly and Other	178	4
TOTAL		29

Note: the Assembly's local government portfolio is excluded as, before the Public Audit (Wales) Act takes effect, the Auditor General has no responsibility for the audit of the local government sector

6. Our value for money work is not limited to the preparation of published reports. In addition to the support that we provide to the Audit Committee (considered in the following section), we invest resources in continuous monitoring of the audit field so that we are able to make informed decisions about where best to target our value for money efforts; I ensure that, as far as is practicable, I provide full answers to correspondents (78 letters received in 2003-04, nearly half of which were from Assembly Members and Members of Parliament) who raise issues of value for money with me; and I have prepared a number of ad hoc briefing papers and update notes for consideration by the Committee, often at its specific request and in some instances leading to evidence-taking sessions. These include:

- the audit of local authorities and local authority sponsored bodies in Wales (September 1999)
 - Auditor General for Wales's rights of access (March 2001)
 - Update note on Assembly building project (November 2001)
 - Themes in procurement (March 2002)
 - Further examination of matters arising from the disposal of the mid-Wales hospital (January 2004)
7. Just as the areas of Assembly spending and organisations that I have reported on have been varied, so have the themes of my examinations. Figure 2 below shows how I have produced some major published reports on each of the main potential areas of audit focus.

Figure 2: Audit focus - examples of published reports

<i>Audit focus</i>	<i>Report examples</i>
Delivery of programmes and services	<p><i>Protecting and conserving the built heritage in Wales</i></p> <p><i>Clinical negligence in the NHS in Wales</i></p> <p><i>European Union Structural Funds: maximising the benefits for Wales</i></p> <p><i>Renewal of private sector housing in Wales</i></p> <p><i>Compensating farmers for bovine tuberculosis in Wales</i></p> <p><i>NCETW: financial management of partnership and innovation and development projects</i></p> <p><i>The management of sickness absence by NHS trusts in Wales</i></p>
Procurement of assets and services	<p><i>Accommodation arrangements for the National Assembly for Wales</i></p> <p><i>Procurement in the further education sector in Wales</i></p> <p><i>Osiris: the PFI contract for information technology in the National Assembly for Wales</i></p> <p><i>The procurement of primary care medicines</i></p>
Asset management	<p><i>Managing the estate of the NHS in Wales</i></p> <p><i>The management and delivery of hospital cleaning services in Wales</i></p> <p><i>Collections management at the National Museums and Galleries of Wales</i></p>
Redeployment and disposal of assets and resources	<p><i>The renewal and disposal of property held by the NHS in Wales</i></p> <p><i>The disposal of the mid-Wales hospital</i></p>

Audit Committee examinations

8. A major strength of the arrangements for securing value for money in audited organisations is the ability of the Audit Committee to take oral evidence from witnesses, in public, on the basis of the agreed findings set out in the Auditor General’s report, and the legislative requirement for the Assembly Government to respond formally to the Committee’s own subsequent reports.

9. The meeting on 30 September 2004 will be the 45th time that the Assembly’s Audit Committee has met. It has taken evidence on all of the value for money reports published and listed in Annex A, with the exception of the second, on the Millennium threat to IT. On some reports it has taken evidence at more than one meeting, particularly when conducting investigations in the health and education sector where it has proved informative to pursue issues from the perspective of both those at the centre working to deliver the Assembly’s

strategic aims - such as the NHS Wales Department - as well as those at the sharp end of delivery - such as NHS trusts.¹

10. In carrying out its examinations, the Committee has taken evidence from a wide range of witnesses. In the main, witnesses have been Accounting Officers from public bodies, such as the Assembly's Permanent Secretary, the Director of NHS Wales and Chief Executives from Assembly-sponsored public bodies such as the Welsh Development Agency, ELWa and the Arts Council of Wales. In addition, the Committee has questioned representatives from the pharmaceutical industry and, in three instances², has taken evidence from people who had played a significant role in the matters under examination but who had since moved on or retired.
11. The Committee's investigations have so far led to 38 published reports, on financial audit matters as well as value for money. In its reports the Committee has made 414 recommendations; of the 387 recommendations to which the Assembly Government has hitherto responded, 383 have been accepted and the remaining four partially accepted.

Tracking the implementation of recommendations

12. Under the Assembly's standing orders, the Assembly Government is required to respond to the Committee's reports within six weeks (30 days) of their publication. These responses focus on the Committee's recommendations. The Committee's practice is to ask my advice on the adequacy of the response - whether it addresses the spirit as well as the letter of the recommendations - and I am happy to do this.
13. This does not mark the end of the process, however, as the Permanent Secretary has put in place a system for monitoring the subsequent implementation of audit recommendations. Progress on implementation is a standing item at each of the quarterly meetings of the Assembly's Corporate Governance Committee, chaired by a non-executive director of the Assembly. Attendees include the Permanent Secretary and representatives from internal audit and the National Audit Office Wales. Based on monitoring carried out by the Assembly Compliance Office, the Corporate Governance Committee is provided with information on all ongoing Audit Committee recommendations, stating whether they have now been discharged (ie fully implemented) or not; if they remain outstanding, a target date for implementation is required.

¹ The Committee has adopted this approach in examining, for example, *Further education in Wales*; *Clinical negligence in the NHS in Wales*; and *Management of sickness absence by NHS trusts in Wales*

² *The Cardiff Bay Barrage*, *The Arts Council of Wales: Centre for Visual Arts*, and a financial audit report on an irregular payment made to a former Assistant Director of the National Museums and Galleries of Wales

14. As Auditor General, I, too, have a keen interest in following up the implementation of audit recommendations - and whether this has contributed to better public services in Wales. On my behalf, therefore, staff of the National Audit Office Wales liaise with the Compliance Office in assessing whether the quarterly information requested from audited bodies on progress with implementation is sufficient - in particular, whether enough information has been provided for recommendations to be considered discharged. The National Audit Office Wales also uses the information collected regularly in this way as the basis for judging whether any areas merit follow up work. This follow up work can lead to further published reports, such as my reports on *Procurement in the further education sector in Wales*, which followed the Committee's examination of a report by the Comptroller and Auditor General (published shortly before the inception of the Assembly) on a range of issues affecting this sector, and on *European Union Structural Funds: progress on securing the benefits for Wales*, published earlier this year. Work that the National Audit Office Wales will start later this year will cover whether the Arts Council of Wales has learnt the lessons, and implemented audit recommendations, from its previous financial support for the Centre for Visual Arts.

Impact of audit work

15. A major aim of my work is to add value to those I audit. To that end, like the Committee, I aim to make recommendations to help audited bodies to improve their performance and secure better value for money, including the scope for securing financial savings. In the five years that I have served as Auditor General for Wales, my work, supported and reinforced by the Audit Committee, has achieved actual savings so far of some £36 million and identified further potential savings of over £110 million.
16. There are a number of ways in which my work has had a financial impact. Some have come in the form of direct cash savings where audits have identified scope for improved financial management or where increased revenue can be achieved. In other cases, the financial impact reflects efficiency improvements, such as delivering the same service for less or to a shorter time scale. Figure 3 illustrates the range of financial impacts my reports have made.

Figure 3: Examples of financial impacts from the Auditor General for Wales' Reports

<i>Type of financial impact</i>	<i>Details</i>
Spending less	<p><i>Compensating farmers for bovine tuberculosis in Wales [July 2003]</i> found that the Assembly paid an estimated £2.6 million more in compensation payments than it would have done had valuation been more consistent with market value.</p> <p><i>Accommodation arrangements for the National Assembly for Wales [November 2000]</i> identified potential savings in the long term of £350,000 if the Assembly were to purchase the long leasehold of the Pierhead building rather than continue to pay rent. The Assembly subsequently adopted the recommended course of action.</p>
Better buying	<p><i>The Procurement of primary care medicines [March 2003]</i> highlighted that savings of up to £50 million could have been achieved through centralised contracts for some 300 medicines purchased in 2001.</p> <p><i>Procurement in the Further Education Sector [September 2001]</i> found that while improved procurement practices had led to savings of £600,000 there remained scope for significantly higher recurrent cash savings, of at least £2.5 million per year. In December 2003 ELWa reported a cumulative cash saving for the two years to August 2003 of £3.65 million.</p>
Preventing/reducing waste	<p><i>Managing the estate of the NHS in Wales [November 2001]</i> where it was found that a fifth of the estate is underused and three per cent is actually empty. I estimated that around £25 million a year could be saved through better management of under-utilised properties.</p> <p><i>The renewal and disposal of property held by the National Health Service in Wales [July 2002]</i> estimated that £30 million worth of under-used and unsuitable property could be sold and a further £1 million could be saved through improvements to the disposal process. In March 2004 the NHS Wales Department reported receipts of nearly £26 million, with a further £4 million estimated.</p>
Increasing income/ recovery of funds due	<p>Financial audit work at the <i>Welsh Development Agency</i> highlighted some £1.7 million which could be recovered for works not carried out but paid for.</p> <p><i>Maximising income from prescription charges [November 2000]</i> estimated that £15 million a year was lost as a result of allowing exemption from prescription charges to individuals who do not meet the relevant criteria. My report on <i>The Finances of NHS Wales 2004</i> showed that there had been progress in reducing pharmaceutical fraud from £15 million to £7 million.</p>

17. My role is to identify the scope for savings and recommend how they might be achieved when endorsed and enhanced by the Committee's reports and the Assembly's responses. Responsibility for delivering those savings lies with the audited body and the full savings may take time to build up. In many cases recommendations cannot be implemented overnight and the realisation of savings may take even longer. In some instances, it may take some time for financial gains to be realised. For example, as set out in my report on *Clinical Negligence in the NHS* [February 2001], there can be a substantial gap between incidents of alleged negligence and subsequent financial settlement; there will be a corresponding delay between the implementation of my recommendations designed to reduce the likelihood of negligent incidents and the resulting impact on NHS finances. Nevertheless, based on the monitoring work of the Assembly Compliance Office, reports received by the Committee from audited bodies and our own further audit work, audited

bodies have, as noted above, thus far delivered some £35 million of financial savings, and arrangements are in hand to deliver much more in future years.

18. Audit can often have significant positive impact of the sort that does not lend itself to quantification in financial terms. Our financial audit work has led to numerous improvements in clients' financial management and control systems. For example following our audit and report on the opening accounts of the National Council for Education and Training for Wales, the Council took a range of measures to rectify the significant weaknesses in procurement practices we had identified. My published work also makes recommendations that lead to improvements in service delivery, better working practices and better management. For example:
- *The Arts Council for Wales: The Centre for Visual Arts* [November 2001] highlighted a number of key lessons relating to the way in which the Arts Council could improve its assessment of risk and strengthen its monitoring of Lottery projects, such as the importance of being alert to key risks (visitor numbers in this case) and having adequate contingency plans in place in the event that risks materialise;
 - *Protecting and conserving the built heritage in Wales* [October 1999] led to recommendations on improving the information available to the public on grant-aided properties they can visit; and
 - *Osiris: The PFI Contract for Information Technology in the National Assembly for Wales* [October 2002] investigated the first PFI contract for an IT infrastructure in the United Kingdom. It found that, for a number of reasons (including the creation of the Assembly itself), the projected total cost of the contract was significantly higher than originally forecast. The report underlined the importance of managing risks properly when dealing with private finance initiatives. (The report that the National Audit Office Wales have recently started on the Merlin project, the successor to Osiris, will consider the progress made by the Assembly on this topic.)
19. Our impacts are often not just limited to the organisation audited. Reports on individual issues often lead to wider change as many recommendations have application and relevance across a number of organisations. For example, reports arising from my financial audit work on the National Council for Education and Training in Wales found serious weaknesses in governance and control. The lessons and recommendations identified are applicable to a broad range of public bodies sponsored by the Assembly. The Committee's report on an irregular payment of £30,000 to a departing member of staff from the National Museums and Galleries of Wales drew out the lessons to be learnt from the incident and made a number of recommendations to the Museum, the Assembly and the wider public sector. And my work

on *Compensating farmers for bovine tuberculosis* has clear implications for the Defra/ Assembly review of the operation of compensation arrangements for all species and diseases.

Conclusion

20. To sum up: the Audit Committee's work, based on our value for money examinations, has produced agreed savings of some £36 million since 1999, with the potential for a further £110 million identified. This is money released for other Assembly Government services. And many other improvements in service provision have been introduced as a consequence of the recommendations of the Committee and the Auditor General for Wales. This has been achieved for the £15 million estimated total cost of the Auditor General from July 1999 to March 2005, and the work of the National Audit Office Wales under his direction.

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Auditor General for Wales

20 September 2004

Value for money reports published by the Auditor General for Wales

Report	Date published
<i>Protecting and conserving the built heritage in Wales</i>	October 1999
<i>The Millennium Threat: Is Wales ready?</i>	December 1999
<i>Welsh Development Agency: Managing the creation of the enlarged agency and looking for future savings</i>	May 2000
<i>Welsh Development Agency: Support for indigenous businesses in Wales</i>	May 2000
<i>The Cardiff Bay Barrage</i>	July 2000
<i>Accommodation arrangements for the National Assembly for Wales</i>	November 2000
<i>Maximising income from prescription charges</i>	November 2000
<i>Clinical negligence in the NHS in Wales</i>	February 2001
<i>Educating and training the future health professional workforce for Wales</i>	March 2001
<i>Securing the future of Cardiff Bay</i>	June 2001
<i>Procurement in the further education sector in Wales</i>	September 2001
<i>The Arts Council of Wales: Centre for Visual Arts</i>	November 2001
<i>Managing the estate of the NHS in Wales</i>	November 2001
<i>Continuing the regeneration of Cardiff Bay</i>	May 2002
<i>European Union Structural Funds: maximising the benefits for Wales</i>	June 2002
<i>The renewal and disposal of property held by the NHS in Wales</i>	July 2002
<i>The disposal of the mid-Wales hospital</i>	October 2002
<i>Osiris: the PFI contract for information technology in the National Assembly for Wales</i>	October 2002
<i>The National Assembly's new building: update report</i>	November 2002
<i>Management of the further education estate in Wales</i>	February 2003
<i>The procurement of primary care medicines</i>	March 2003
<i>The management and delivery of hospital cleaning services in Wales</i>	May 2003
<i>Renewal of private sector housing in Wales</i>	June 2003
<i>Compensating farmers for bovine tuberculosis in Wales</i>	July 2003
<i>ELWa - National Council for Education and Training for Wales: financial management of partnership and innovation & development projects</i>	September 2003
<i>Late payments to farmers in Wales</i>	November 2003
<i>The management of sickness absence by NHS trusts in Wales</i>	January 2004
<i>Collections management at the National Museums and Galleries of Wales</i>	April 2004
<i>European Union Structural Funds; progress on securing the benefits for Wales</i>	July 2004

Note: the Auditor General has also published a number of substantive reports arising from his financial audit work, listed below

<i>Financial audit of 1998-99 accounts: General Report</i>	March 2000
<i>Welsh Development Agency: 1999-2000 accounts</i>	July 2000
<i>National Assembly for Wales: 1999-2000 account</i>	January 2001

<i>Forestry Commission Wales and Forest Enterprise Wales: 1999-2000 accounts</i>	January 2001
<i>The General Report of the AGW: financial audit of 1999-2000 accounts</i>	March 2001
<i>NHS (Wales) Summarised Accounts 1999-2000</i>	March 2001
<i>Report on the consolidated resource account of the National Assembly for Wales for 2000-01</i>	January 2002
<i>Summarised Account of the Health Authorities in Wales for 2000-01</i>	February 2002
<i>The Finances of the NHS Wales 2002</i>	March 2002
<i>General Report on the financial audit work of the AGW: 2000-01</i>	March 2002
<i>Summarised Account of the Health Authorities in Wales for 2000-01</i>	January 2003
<i>Report on National Council for Education and Training for Wales 2001-02 accounts</i>	January 2003
<i>The Finances of the NHS Wales 2003</i>	May 2003
<i>The 2003 General Report on the financial audit work of the AGW</i>	July 2003
<i>Report on the 2002-03 accounts of the Higher Education Funding Council for Wales</i>	January 2004
<i>Report on the 2002-03 accounts of ELWa - the National Council for Education and Training for Wales</i>	January 2004
<i>The Finances of the NHS Wales 2004</i>	April 2004
<i>The General Report of the AGW 2004</i>	June 2004