



WALES **AUDIT** OFFICE

SWYDDFA **ARCHWILIO** CYMRU

Stocktake of value for money work 2005

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Contents

Stocktake of value for money work 2005	
The earlier work of the Auditor General and Audit Committee has continued to deliver impact	3
Audit work in the last year has also identified the scope for broad impacts	4
Audit recommendations are followed up	5
The Audit Committee has the option of taking further evidence on an issue previously investigated	7
Appendices	
Examples of impacts from reports published in the last year	9

Stocktake of value for money work 2005

1. The Committee asked me to update the stocktake paper prepared by my predecessor in September last year. It clearly makes sense for the Committee to consider from time to time whether its work, supported by the Wales Audit Office, is likely to have the greatest possible beneficial impact on the value for money of services delivered by the Welsh Assembly Government and its Assembly Sponsored Public Bodies.
2. This report shows:
 - 2.a. The earlier work of the Committee and of the Auditor General continues to make beneficial impact;
 - 2.b. Audit work during the past year has continued to identify scope for broad impacts;
 - 2.c. Active follow-up of the Committee's recommendations by the WAO can lead to impacts going widely beyond the specific focus of its work; and
 - 2.d. There is scope for the Committee to devote some time itself to follow up audit work.

The earlier work of the Auditor General and Audit Committee has continued to deliver impact

3. The primary objective of my value for money work is, through my published reports, to help the public sector improve its use of public funds: that is, to improve the management of resources and the delivery of public services. I look forward to working closely with the public sector in Wales on what I know is a shared objective to maximise the value that is obtained from public spending. As my predecessor explained in his paper to the Committee last year, there can be a considerable time lag between the initial identification of the scope for savings through audit work, and the achievement of those savings: it can take time for recommendations to be implemented by audited bodies, and further time for the savings to be realised. Over the past year, the Welsh public sector has made further strides to implement the Committee's recommendations and to secure beneficial impact. For example:
 - 3.a. In November 2001 the Auditor General published a report on *Managing the estate of the NHS in Wales* followed, in July 2002, by *The renewal and disposal of property held by the NHS in Wales*. As a result of our work, and subsequent Audit Committee investigation, the NHS in Wales identified those elements of its estate that were surplus to requirement and realised around £25 million in disposal receipts. Furthermore, since our reports, the annual maintenance bill for the NHS estate in Wales has dropped from some £250 million to £210 million a year – a significant reduction in costs.
 - 3.b. In our report of September 2001 on *Procurement in the further education sector*, we pointed to the scope for making savings through more widespread use of the procurement consortium that had been established. In the year to July 2005, total spend on the eight areas of expenditure where the consortium had set up contracts was over £5 million and related savings were over £700,000, or 14 per cent.

4. However, one natural consequence of the time lag between audit and realisation of savings is that the circumstances in which recommendations were made can change. A good recent example of this is the Auditor General report on *The procurement of primary care medicines*. In the original report, published in March 2003, we concluded that centralised contracts, rather than reimbursement of individual primary care contractors, might save some £50 million – a finding supported by the Committee in its own report, published in August 2003. My memorandum to the Committee of June 2005 on the progress being made by the Health and Social Care Department in implementing its recommendations reported that extensive progress had been made on a UK-wide basis in controlling primary care medicine costs within the existing procurement framework – that is, savings have been made by other methods. I estimate that the savings that have accrued as a result have been in the order of £40 million. However, this has greatly reduced the scope for further savings from centralised procurement. As a result, I suggested that the Department now focus its attention on other Committee recommendations, on prescribing behaviour and medicines management.
5. In total, I estimate that the work of the Auditor General since the post was established, supported and reinforced by the Audit Committee, has contributed to actual savings of over £115 million. In addition, we have identified the scope for a further £35 million, and we will continue to track the realisation of those savings and report back to the Committee as appropriate.

Audit work in the last year has also identified the scope for broad impacts

6. Reports published over the past year by the Auditor General and the Committee have continued to have considerable impact: in some cases this is through identifying the scope for financial savings, but we have also pointed to examples where money has been poorly spent even though there may be no scope for recovery – in effect, wasted. In addition, our work continues to identify areas where improvements in service delivery, better working practices and better management are possible.
7. Some examples of specific potential impact are given in Appendix 1. These illustrate well the wide range of our work and the variety of positive influences that we can bring. But in my view focusing only on specific examples in this way underplays the full impact that good audit work can have. The deterrence effect of audit is well known: it is not uncommon for improvements in working practices to take place shortly before, or even during, an audit visit. However, the impact of our work goes wider than both the specific examples and the deterrent effect referred to. Although I am still relatively new in my post it is easy for me to discern the broader impact of the work of the Auditor General and Audit Committee in the past year. For example:
 - 7.a. Our work on **waiting times** in the NHS played its part in the sea-change that has taken place in the Assembly Government's approach to, and focus on, improving waiting times for patients in Wales. For example, the new NHS strategy, *Designed for Life*, reflects the key messages of our report, particularly in looking to provide a long-term solution for the causes of poor performance, rather than the symptoms. And our report set out clearly where Wales is currently performing in relation to the other elements of the United Kingdom - and the dangers of making such comparisons without adequate information.

- 7.b. *Energy and water management in the higher education sector* picked up on an area that tends not to receive much management attention, but one which, as well as offering the scope for financial savings, also has implications for Wales' public commitment to sustainable development. That report was the first to examine the management of utilities. We are now translating the lessons to be learnt, for both audited bodies and ourselves, from that experience into studies on that topic in the areas of the NHS – where I will be publishing my report later this year – and local government. These later reports will be all the better as a consequence.
- 7.c. Similarly, *The management of sickness absence in further education institutions in Wales* was the second report (after the NHS) on this important theme that has also been highlighted in the Assembly Government's Making the Connections strategy. We shall continue to build on the expertise we have developed in this area in our current and future work on sickness absence in the Assembly and within local government. In addition, at a practical level, staff from what was then still the National Audit Office were able to present the main findings from this audit to a meeting of further education human resources officers who reported that it had been very useful for them in terms of addressing the issues that they faced at their own institutions.
- 7.d. The disposal of waste can be an emotive issue. On the one hand nobody likes to see piles of waste where they should not be as a result of fly-tipping. On the other, Wales is fast running out of landfill sites and there is widespread anxiety about one of its main alternatives, incineration. Tighter regulations governing the disposal of waste, particularly hazardous waste, has further added to the challenges facing a range of public sector bodies in Wales – especially the Assembly Government, local authorities and Environment Agency Wales. Our report on *Environment Agency Wales: regulation of waste management* set out these issues. Together with the Audit Commission in Wales report of February 2005 which focused on activity at the local government level, and the recent Subject Committee report on this subject (to which I gave oral evidence), our work has helped significantly to raise the value for money aspects of an issue which affects us all directly.
- 7.e. Our examination of the *contract for the provision of out-of-hours GP services in Cardiff* was, on the face of it, relatively narrow in scope. But its potential impact is very wide. It is directly relevant to Cardiff LHB, of course, because the mistakes we highlighted there should not now be repeated. Since all LHBs in Wales are entering into similar contracts, the lessons of the report apply equally to them. And, indeed, there are messages in the report which are relevant to all those public bodies in Wales which contract with anyone on a risk-sharing basis.

Audit recommendations are followed up

- 8. Of course, the Audit Committee's reports and recommendations are not the end of the process. The Committee, like ourselves, are rightly concerned that audit recommendations:
 - 8.a. be accepted as necessary by the audited body;
 - 8.b. be implemented rigorously;
 - 8.c. have the intended impact in improving performance in the audited body; and
 - 8.d. be applied, where appropriate, to wider audiences – similar bodies or even the entire Welsh public sector.

I consider each of these points below.

Whether audit recommendations are accepted

9. Members will be familiar with the processes by which the Committee's own reports and recommendations require a response from the Government within 30 days. This includes a clear statement of whether each recommendation has been accepted or not. I then advise the Committee on the adequacy of that response – the extent to which the Committee's concerns have been recognised and remedial action promised. In many instances there is no need for any further action. In total, I calculate that, since the Committee's first report in 2000, over 97 per cent of its recommendations have been accepted by the Government. In some cases, however, the Auditor General might advise some form of follow up.
10. Members might recall that in two recent instances, *Environment Agency Wales: regulation of waste management* and *NHS Waiting times in Wales*, the Government responses, in respect of a small number of recommendations, were not, in my view, entirely internally consistent: that is, the accompanying text has not always justified the initial assertion of "accepted", "partially accepted" or even, on one occasion, "not accepted". We have been in discussions with the Assembly Government to ensure that the scope for any future ambiguity or misinterpretation is minimised. In the case of the report on waste management, the Chair of the Committee wrote to the Minister after the Government response had been received – a good example of the potential for the Committee to be tenacious in ensuring that responses properly address its recommendations.

Whether audit recommendations are implemented

11. My predecessor set out in the equivalent memorandum last year the procedures the Permanent Secretary has put in place for monitoring the implementation of audit recommendations. The Assembly's Corporate Governance Committee is provided at each quarterly meeting with information on all ongoing Audit Committee recommendations, stating whether they have been discharged (fully implemented) or not; if they remain outstanding, a target date for implementation is required.
12. The Assembly Compliance Office is responsible for collating the information for the Corporate Governance Committee. It does this by liaising directly with each relevant audited body each quarter, requesting updates on every recommendation not yet discharged. This system should ensure that the Committee's recommendations remain as action points for audited bodies until such time as they have been fully implemented. According to the Compliance Office's monitoring, of the 373 recommendations made by the Committee on value for money topics (it has also made 111 recommendations in relation to financial audit), 280 have been discharged to date – 75 per cent.
13. We in the Wales Audit Office also observe how the Government reports that it intends to implement recommendations. Our detailed knowledge of the areas we have investigated means that we are well placed to judge whether the spirit, as well as the letter, of the recommendation is being addressed – to establish the extent to which audited bodies are actually doing what they should.

Whether recommendations, once implemented, had their intended impact

14. The requirement for the Government to respond to the Committee's recommendations, together with my own advice to the Committee, provide the Committee with an immediate insight into the likely action by the Government. The follow up work of the Wales Audit Office is designed to give longer term assurance as to what actually transpires subsequently – whether recommendations are fully implemented and the resulting benefit, if any. We do this by monitoring individual recommendations on a selective basis, using the work of the Assembly Compliance Office as a starting point.
15. Follow up work of this kind can extend to undertaking full reports. Indeed, this has been an ongoing feature of our value for money programme. For example, we are currently working on a follow up to our earlier report on the Arts Council of Wales and the closure of the Cardiff Centre for Visual Arts, although this will be a more rounded examination of capital funding in its entirety rather than limiting itself to whether the lessons of the Centre for Visual Arts have been learned. And my proposed programme of value for money studies, also being considered by the Committee at its October meeting, includes suggestions for studies following up earlier work – on waste management, collections management at the National Library and disability access at education institutions.

Whether the beneficial impact of recommendations was spread widely

16. The other angle to our follow up work is the active spreading of good practice: identifying it, promulgating it and helping people to do it. This is an aspect of our work that I am keen to develop further. The box below provides a good example of how we are taking active steps to encourage good practice in the local government field.

Spreading best practice – Wales Programme for Improvement

We look now to achieve better balance in our inspection work under the Wales Programme for Improvement by also covering areas that were performing well. Each inspection report now includes some examples of good practice, together with contact names – aiding inter-authority learning.

We have also been running workshops for senior authority officials and members designed to facilitate the spreading of good practice within authorities.

17. I shall take every opportunity to put these principles in place in other areas of our work. It is already our practice to distribute our reports widely, and to respond actively to further requests for more information and advice. But this is an area of activity where I consider there is scope for our impact to be wider still.

The Audit Committee has the option of taking further evidence on an issue previously investigated

18. There may be occasions when the Committee would welcome the chance to probe the implementation of its recommendations more closely – to find out exactly what the audited body did to fulfil the recommendation, whether it addressed the spirit as well as the letter and whether it has had the desired action.

19. One way that the Committee can do this, of course, is through consideration of full-scale follow up reports by the Auditor General, as outlined above. Another way in which the Committee can monitor implementation of certain recommendations is to request updates from the audited body or Assembly Government. For example, by the end of this calendar year the Committee is due to receive updates in relation to compliance with disability legislation in the further education sector, the collections of the National Museums and Galleries of Wales and two of its recommendations on waste management.
20. When the Committee considered my update note on the procurement of primary care medicines, referred to above, it chose to take further evidence from the Accounting Officer – Mrs Lloyd in this case – on the grounds that reports are no substitute for the direct perspective of those charged with implementing action. If there are other areas of its previous work where the Committee might welcome additional information and, perhaps, the chance to take further evidence, I would be happy to discuss these.

Jeremy Colman
Auditor General for Wales
29 September 2005

Examples of impacts from reports published in the last year

<i>NHS Waiting times in Wales (January 2005)</i>	<p>One of the major problems in outpatient departments has been the failure of patients to attend appointments – Did Not Attend, “DNAs”. We found that a reduction of only one per cent in the DNA rate across Wales might generate an efficiency gain of about £3 million a year.</p> <p>This report also pointed to the poor value for money offered by the Assembly Government’s funding of waiting time initiatives, some £36 million in the two years to 2003-04.</p>
<i>Energy and water management in the higher education sector (March 2005)</i>	<p>Based on what we found at the four institutions we visited, we found scope for significant financial savings, partly from simple housekeeping measures such as turning off unused equipment and setting thermostats at a lower level. Further savings require some investment, such as updating light fittings. We estimated an initial investment of around £800,000 would make savings of at least £500,000 a year possible across the entire higher education sector.</p>
<i>The management of sickness absence in further education institutions in Wales (May 2005)</i>	<p>We found that if further education institutions in Wales reduced their average levels of sickness absence by one day a year – in line with the example given in the Assembly Government’s Making the Connections initiative – the sector as a whole would benefit from the additional staff time and savings from reduced replacement staff costs to the value of £900,000 a year.</p>
<i>Contract for the provision of the out-of-hours GP service in Cardiff (August 2005)</i>	<p>Our report set out that an additional £59,000 awarded to the contractor, CSUK, by Cardiff LHB for out-of-hours services did not offer good value for money. It represented payment for a risk – relating to weekend demand for services – that CSUK had already accepted under the terms of the contract.</p> <p>As a result of our work in this area, the Assembly Government has invited WAO staff to sit on the sub-group responsible for letting out of hours contracts for dental services across Wales</p>
<i>Environment Agency Wales: regulation of waste management</i>	<p>The Government response to the Audit Committee recommendation on this topic set out a number of ways in which public bodies were keeping businesses informed about arrangements for disposing of hazardous waste</p>

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